CHAIRMAN'S STATEMENT

RESULTS

On behalf of the board of directors (the "Board") of Huafeng Textile International Group Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to announce that the Group's consolidated turnover for the year ended 30 September 2004 was approximately HK$380,409,000, an increase of approximately 12% from the corresponding period last year. Profits attributable to shareholders amounted to approximately HK$66,897,000 or 8.65 cents per share, representing a 27% decrease over the same period in 2003. The surge in turnover was attributable to the thriving and massive market in the People's Republic of China (the "PRC"), and the management's foresight to undertake timely capacity expansions; while the decrease in profit was a result of recent capital investments where contributions are not yet to be realized in the near future.

DIVIDENDS

The Board recommended the payment of a final dividend of HK1.00 cent per share to shareholders on the register at the close of business on 21 February 2005. The proposed final dividend for the year is subject to the shareholders' approval at the forthcoming annual general meeting of the Company and will be paid on or around 22 March 2005.

BUSINESS REVIEW

Building on its already established business foundation, the Group successfully secured additional production facilities and turnover through strategic acquisitions of related business operations during the year - a significant move in sync with the management's strategies to fortify its future business growth.

Huafeng Knitting Co., Ltd. Shishi City, Fujian ("Huafeng Knitting") underwent a restructuring programme during the year, which involved the disposal of old machinery and procurement of new ones. Such programme implied an additional capital investment and a loss in production volume; hence, adversely affected the business results for the year. Prior to the restructuring, annual production capacity for knitted fabrics was approximately 56,100 tonnes. The annual capacity declined to approximately 50,200 tonnes during the interval of restructuring and has currently restored to a higher level of approximately 62,400 tonnes. Annual capacity for woven fabrics remained at approximately 50 million meters.

The Group's 53.6%-owned subsidiary, Shenyang Huafeng Dyeing & Printing Co., Ltd ("Shenyang Huafeng") performed satisfactorily since its commencement of operation in March 2004. Specializing in sourcing and fabric processing of corduroy; and fabric processing and printing of muslin, annual processing capacity of this sector amounted to approximately 20 million meters.

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On 27 September 2004, the Group acquired Lingfeng Dyeing & Weaving Co., Ltd., Shishi (“Lingfeng”) for a cash consideration of HK$78 million. Lingfeng, principally engages in dyeing, weaving and manufacturing of high quality fabrics, has an estimated processing capacity of approximately 36,000 tonnes per year for knitted fabrics. Adding to Huafeng Knitting’s processing capacity of approximately 62,400 tonnes per year, the aggregate annual processing capacity for knitted fabrics reached approximately 98,400 tonnes. In addition, the overall processing capacity for woven fabrics, corduroy and muslin reached approximately 70 million meters per year. Inevitably, the Group has emerged as one of the leading fabric processing operators in China.

The Group commenced two yarn spinning operations during the year: (1) Fujian Fenghua Textile Co., Ltd. (“Fenghua Textile”) engages in cotton yarn spinning (65,000 spindles) with an annual capacity of approximately 12,000 tonnes, and (2) Huafeng Textile (Lianyungang) Co., Ltd. (“Lianyungang Huafeng”) specializes in cotton processing and cotton yarn spinning (40,000 spindles) with an annual capacity of approximately 7,000 tonnes. Operated since March 2004, the two plants are only at their break-even stage. Both operations are expected to bring forth contributions in 2005, as a result of additional market demand and higher utilization rate. At present, the two operations offer sufficient raw materials for the Group’s fabric manufacturing business, and the Group will initiate timely capacity expansion to meet its future business needs.

On 31 May 2004, the Group entered into a joint venture agreement with Manifattura di Valle Brembana S.p.A. (“MVB”), a celebrated shirting fabrics processor in Italy. Principally engages in the production of premium shirting fabrics, the Joint Venutre (“JV”) will initially focus on the European markets, and make a gradual penetration into the Asian markets during the next phase. The JV is at the final stage of obtaining approval of the land use right from The State Administration of Land & Resources. Capitalizing on MVB’s goodwill, advanced technologies and far-flung sales network, coupled with the Group’s production facility offerings, the JV promises exciting opportunities into the future. Moreover, with the advances in processing technologies brought about by the alliance, we are geared up to meet the more stringent demands of customers, putting the Group on solid ground to international expansion.

The Group saw lucrative opportunities arising from the booming economy in China and its escalating growth in consumer markets. Adding to our sales offices in Guangzhou and Shanghai which have achieved promising results, the Group has further set up three sales offices in Chengdu, Dalian and Ningbo during the year, to accelerate the sale of its products and services, including the Group’s premium brand of fabric “Fentex”.

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PROSPECTS

Owing to the soaring prices in oil and raw materials, and the volatile currency market in 2004, the Group confronted an adverse business environment during the year under review. Fortunately, despite the unfavorable market sentiments, management had made perceptive decisions to acquire two plants specializing in yarn spinning and cotton processing, and increased the procurement of raw materials from local sources. These strategic moves made the Group less dependent on overseas supply, hence successfully minimized the increase in production costs; on the other hand, the capacity expansion also made up for the reduction in profit margin.

Looking ahead, the abolishment of textile quotas amongst the WTO member countries in 2005 will certainly boost the garment exports from the PRC. Concurrently, other textile and garment related businesses, such as fabric processing, yarn spinning and fabric manufacturing will continue to prosper with the surging local demand.

The Group believes that its expansion strategies over the years are on track and meticulously carried out. On the horizontal expansion front, the capacity for fabric processing and manufacturing is gradually increasing as planned, and we possess sufficient facilities to meet further changing market demand. For our vertical business expansion, the Group is well-poised to increase its presence and clientele in the European markets, as our premium shirting fabric manufacturing operation with MVB becomes fully operative. Though the coming year will be full of challenges for the textile industry, the Directors are confident that the Group's comprehensive and quality service offerings will continue to bring stable and significant contributions to the Group.

CAI ZHEN RONG
Chairman

Hong Kong, 17 January 2005