

CHAIRMAN'S STATEMENT

FINAL RESULTS

On behalf of the board of directors (the "Board") of Huafeng Textile International Group Limited (the "Company") and its subsidiaries (the "Group"), I have pleasure in presenting the Group's audited consolidated results for the year ended 30 September 2005. The Group's consolidated turnover for the period grew 36.0% to HK\$ 517.7 million as compared to the corresponding period last year. Profits attributable to shareholders amounted to HK\$ 71.5 million or 9.2 cents per share, representing a year-on-year increase of 6.9%. Fueled by the robust economic growth in the PRC and the corresponding strong demand for yarn spinning, fabric manufacturing and processing products and services in the territory, the Group recorded an encouraging increase in its turnover. Satisfactory growth in earnings and margins was also evident as the Group's capital investments in the past two years has begun to yield positive contributions.

BUSINESS REVIEW

The Group continued fostering business growth through a host of expansion initiatives in 2004 and 2005. Such accomplishments included horizontal business integration: extended production capacity to complement growth in production volume; and vertical business integration: synergized acquisitions, enlarged sales network and enhanced brand awareness etc. Such proactive strategies and the Group's unwavering efforts yielded remarkable business progress in turnover.

The Group's production plants are strategically located in Fujian's Shishi city – the "City of casual and sportswear". Among which Huafeng Knitting Co., Ltd. Shishi City, Fujian ("Huafeng Knitting"), specializing in fabric manufacturing and processing, has recently upgraded its production facilities, remodeled its product structure and launched new products to fortify its market positioning. At present, annual production capacity of Huafeng Knitting reached 51,600 tonnes, and timely capacity expansion could be initiated to complement future growth. Commenced operation since March 2004, Huafeng Textile (Lianyungang) Co., Ltd. ("Lianyungang Huafeng") and Fujian Fenghua Textile Co., Ltd. ("Fenghua"), focusing on cotton processing and cotton yarn spinning, have secured abundant supply of raw materials for the Group's fabric manufacturing business. Annual capacity of the two plants reached 21,000 tonnes.

Lingfeng Dyeing & Weaving Co., Ltd. ("Lingfeng") has gained huge momentum since the Group's acquisition in September 2004. Benefiting from the management's prudent expansion strategies, Lingfeng delivered tangible results during the period. Sales turnover reached HK\$77.3 million with a gross profit margin of 15.4%. Core clientele of this sector are mainly from Shishi city, Fujian province. In synergy with other business operations of the Group, Lingfeng has made inevitable and valuable contributions to boost future growth.

The Group's 53.6% owned Shengyang Huafeng Dyeing & Printing Co., Ltd. ("Shengyang Huafeng") is principally engaged in sourcing and fabric processing of corduroy, fabric processing and printing of muslin. Annual processing capacity of this sector reached approximately 36.0 million metres.

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On 9 June 2005, the Group terminated the joint venture agreement with Italian shirting fabrics processor, Manifattura di Valle Brembana S.p.A. ("MVB"). Hindered by a recent change in land policies imposed by the PRC government, the Group was unable to obtain the land use right in Shishi city for the joint venture within the agreed timeframe. As the operation of the joint venture had not actually commenced, such termination has no adverse impact on the Group's business and financial standing. Despite the temporary suspension of business alliance with MVB, the Group will continue to seek further opportunities to extend its global reach.

As a pioneer and one of the leading fabric processors in the PRC, the Group remains committed to offering top-notch and one-stop services to its clients across the globe. In line with such commitment, the management has made unceasing efforts in achieving business diversification and acquiring quality enterprises with synergy. The Group's premium fabric brand "Fentex" has also gained widespread popularity and solidified its visibility among clients. In addition, the Group has initiated progressive marketing and sales efforts, extending its network of sales offices into strategic points including Dalian, Shanghai, Guangzhou, Ningbo and Chengdu. The Group also actively participates in major textile trade fairs in the PRC and continues to recruit quality sales staff.

The Group saw lucrative opportunities in the buoyant PRC economy, and undertook prompt expansion in the region during the period under review. Examining the Group's turnover in terms of geographical region, sales to customers located in the Greater China region, for the first time, surpassed that of the Philippines market, and accounted for 54.3% of the aggregate sales. The Philippines market accounted for 37.0% of the Group's turnover. Customers from North America, Australia and Africa contributed to the remaining 8.7%. The Group believes that the PRC market will remain as the key driver to the Group's business for the foreseeable future.

The year 2005 was another challenging year for the Group. We experienced instability in the global trading environment, and price fluctuations in oil and raw materials, all of which, affected the major economies around the world. Despite the unfavorable market sentiments, the visionary management has significantly increased the Group's competitiveness by enhancing the quality of products and services, and upgrading its production facilities in the past years. The Group is well-gearred to withstand economic volatility and achieve sustainable business growth.

The fabric processing services remain as the key contributor to the overall sales turnover and earnings of the Group. Building on the Group's uncompromising service and product quality, we have established an extremely loyal client base, adding to the Group's competitive edge over its counterparts.

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PROSPECTS

The Group strives to achieve three major goals this year to boost sales and earnings :

- (1) Penetrating into new markets
- (2) Launching new products
- (3) Enhancing production technologies

Concurrently, the Group will continue to explore further investment opportunities in the PRC, including: fabric manufacturing and processing projects; or business acquisitions of enterprises in the PRC with synergy, to maintain solid business performances.

In line with the Group's long-term policies, we will continue to enhance the production facilities, maximize the utilization rate of the plants and increase the overall productivity. Procurement of new machineries are estimated at not less than HK\$10 million for the year. Buoyed by the flourishing PRC economy, we saw an escalating demand for quality services in the territory. Capitalizing on the Group's ability to respond in full to swift market changes, we are uniquely well placed to meet the requirements of the discerning clients. Barring unforeseeable circumstances, the Group remains prudently optimistic of the future business growth.

Cai Zhen Rong

Chairman

Hong Kong, 25 January 2006