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HUAFENG  
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**HUAFENG TEXTILE INTERNATIONAL GROUP LIMITED**  
**華豐紡織國際集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**ANNOUNCEMENT**

The Company would like to clarify the sequence of events in relation to the disposal of the Sale Shares held by the Persons as disclosed in the Previous Announcements.

**The 1st Announcement**

The Persons confirmed that they were not aware of the disposal of the Sale Shares when the Company approached and verbally confirmed with each of them at about 2:00 p.m. on 23 July 2003 on the accuracy and completeness of the contents of the 1st Announcement.

**The 2nd Announcement**

The Company stated in the 2nd Announcement that due to the delay of the broker in notifying the Persons on 24 July 2003 in respect of the disposal of the Sale Shares on 23 July 2003, the Persons only notified the Company on 25 July 2003 of such disposal, pursuant to which the Company issued the 2nd Announcement stating the above.

**This Announcement**

The Persons clarify that they made an inadvertent mistake on the date on which they confirmed the disposal of the Sale Shares with the broker, which should be at about 5:00 p.m. on 23 July 2003, as opposed to 24 July 2003 as mentioned in the 2nd Announcement, and would further clarify the sequence of events in this announcement.

Each of the two independent Directors, Mr. Lawrence Gonzaga and Ms. Choy So Yuk, is in the opinion that the new control measures adopted by the Company are appropriate; the Chairman's and the Persons' mistake in this incident is inadvertent; as a result, he/she does not expect the incident to affect their ability to properly discharge their duties as Directors going forward.

The Stock Exchange is concerned about the accuracy and completeness of the Previous Announcements made by the Company which each Director have individually and jointly accept responsibility, and is looking into the matter and reserves the right to take appropriate action.

At the request of the Company, the Shares were suspended from trading on the Stock Exchange from 9:30 a.m. on 29 July 2003 pending publication of this announcement and an application has been made to the Stock Exchange for resumption of trading of the Shares from 9:30 am on 1 August 2003.

This announcement (the "Announcement") is made by Huafeng Textile International Group Limited (the "Company") and together with its subsidiaries (the "Group") to clarify the announcements made by the Company on 23 July 2003 (the "1st Announcement") and 25 July 2003 (the "2nd Announcement") (together the "Previous Announcements") in respect of the price and trading volume movements of the shares of the Company (the "Shares" and each a "Share") on 23 July 2003.

### **The 1st Announcement**

On 23 July 2003, the Company noted movement in price and increase in trading volume of the Shares. In ascertaining whether any of the Company's directors (the "Directors") had any dealings in the Shares and whether any of them was aware of any reason for such movement and increase, the Company had sought and obtained verbal confirmation from each of the Directors on dealing in Shares and on the accuracy and completeness of the contents of the 1st Announcement before it was made.

### **The 2nd Announcement**

Subsequently, the Company clarified in the 2nd Announcement that due to the delay of the broker in notifying Mr. Cai Zhen Yao, Mr. Cai Zhen Ying and Mr. Cai Yang Bo, all executive Directors, and Ms. Su Li Yuan, wife of Mr. Cai Zhen Rong (an executive Director and Chairman) who is an associate of Mr. Cai Zhen Rong for the purpose of the Listing Rules

(together the “Persons”) on 24 July 2003 in respect of the disposal of shares held by each of the Persons on 23 July 2003 (the “Sale Shares”), the Persons only notified the Company on 25 July 2003 of such disposal. In this event, the Company and the Persons did not double check with the broker on 25 July 2003 on disposal of the Sale Shares. The Persons (other than Mr. Cai Yang Bo) had authorized Mr. Cai Yang Bo as their representative in handling the disposal of the Sale Shares. The Persons inadvertently forgot to mention the instruction given to the broker through Mr. Cai Yang Bo when the Company asked for the confirmation from them as to the accuracy of the 1st Announcement. Mr. Cai Yang Bo was heavily engaged in the promotion of the Company and business activities, which included, among other matters, attending business meetings with customers in Xiamen and Jiujiang, and was out of Hong Kong from the afternoon of 22 July 2003 up to 27 July 2003 except during the morning of 24 July 2003. As a result, when the Company approached him to confirm the accuracy of the information stated in the Previous Announcements, Mr. Cai Yang Bo was in a hurry and inadvertently forgot the instruction given to the broker in relation to the Sale Shares. The Company and the board of Directors (the “Board”) relied on the individual Directors to disclose the information to the public in a timely manner.

### **This Announcement**

Subsequent to the 2nd Announcement, the Persons notified the Company on 28 July 2003 that they had inadvertently mistaken the date on which the representative of the Persons, Mr. Cai Yang Bo confirmed with the broker on the disposal of the Sale Shares to be 24 July 2003 when the correct date should be 23 July 2003. The Persons also clarified that it was Mr. Cai Yang Bo who approached the broker at about 5:00 p.m. on 23 July 2003 to confirm the disposal of the Sale Shares instead of the broker initiating the notification. Mr. Cai Yang Bo had been heavily engaged with the promotion of the Company and business activities and was out of Hong Kong from the afternoon of 22 July 2003 up to 27 July 2003 except during the morning of 24 July 2003, including attending business meetings with customers in Xiamen and Jiujiang. It therefore slipped his mind and confused as to whether the broker or him initiated the notification and the date of the confirmation.

The Persons through Mr. Cai Yang Bo as their representative made an instruction to the broker on 22 July 2003 that the Sale Shares were to be disposed at a price of about HK\$1.00 on the following day. Based on such instruction, further confirmation by the Persons was not required by the broker for the actual disposal of the Sale Shares at the anticipated price. The Persons excluding Mr. Cai Yang Bo confirm that they were not aware of the disposal of the Sale Shares and omitted to check with Mr. Cai Yang Bo whether the disposal instruction placed on 22 July 2003 had been executed or not before replying to the Company when the Company

approached them at about 2:00 p.m. on 23 July 2003 and verbally confirmed with each of them on the accuracy and completeness of the contents of the 1st Announcement. On 28 July 2003, when the representative of the Persons, Mr. Cai Yang Bo came back to the Company's office and opened the statements to the Persons which were addressed to Mr. Cai Yang Bo from the broker, they became aware of the above mistake and clarify that they made an inadvertent mistake on the date on which their representative Mr. Cai Yang Bo confirmed with the broker about the disposal of the Sale Shares, which should be at about 5:00 p.m. after the trading hours on 23 July 2003, as opposed to 24 July 2003 as mentioned in the 2nd Announcement.

Recently the Company was undergoing a placing activity and construction of a new cotton yarn spinning plant, details of which were disclosed in an announcement of the Company dated 22 July 2003. As the Persons were fully engaged in the Company's promotion and business expansion activities, they overlooked the instruction given to the broker to dispose the Sale Shares held by them at the price of about HK\$1.00 at about 7:00 p.m. on 22 July 2003. The Sale Shares were allotted and issued to the Persons pursuant to the exercise of options granted to Directors and employees of the Group on 29 January 2003. The Persons notified the Company of the exercise of the options on 17 July 2003. Due to the closure of the book of the Company from 16 July 2003 to 22 July 2003, the Sale Shares were allotted and issued on 23 July 2003. If there were no closure of the book of the Company, the Sale Shares could have been allotted and issued on the next day following the Board's approval. The allotment and issue of the Sale Shares were approved by the Board on 18 July 2003 and the Persons were notified by the Company that the Sale Shares would be available on 23 July 2003. The disposal of the Sale Shares was only the personal decision of each of the Persons. Mr. Cai Yang Bo notified the Chairman of the Company at about 5:00 p.m. on 23 July 2003 after he, acting as the representative of the Persons, confirmed with the broker of the disposal of the Sale Shares. However, as Mr. Cai Yang Bo was engaged in a meeting with customers, it was only afterwards (at about 6:30 p.m.) that he tried to notify the company secretary of the Company of the disposal and failed as it was after office hour. Mr. Cai Yang Bo could not reach the company secretary of the Company by mobile phone either. As Mr. Cai Yang Bo was fully occupied with business activities and meetings in Jiujiang on 24 July 2003, he inadvertently forgot to contact the Company on that day. He finally notified the Company of the disposal of the Sale Shares on 25 July 2003. The Chairman did not know the disposal of the Sale Shares when the Company enquired him at about 2:00 p.m. on 23 July 2003 but had inadvertently omitted to inform the Company of the disposal of the Sale Shares when notified by Mr. Cai Yang Bo at about 5:00 p.m. on 23 July 2003. The Chairman noticed that he should have informed the Company but inadvertently omitted to do so.

The Company would like to clarify that the range of disposal price of the Sale Shares then held by the Persons of HK\$1.14 to HK\$1.21 as disclosed in the 2nd Announcement referred to the range of the average disposal price of the Persons, but was erroneously referred to as the range of the price of disposal by missing the word “average” in the 2nd Announcement by the Company. The Company further clarifies that the overall price range of disposal of the Sale Shares then held by the Persons was between HK\$1.13 and HK\$1.25. As only the average disposal price of each Person was given to the Company by the broker on 25 July 2003, the Company mistakenly prepared the 2nd Announcement based on such figures. The range of the average disposal price of the Persons and the overall price range of the Sale Shares were provided by the broker.

The Company would further clarify that the statement in the 2nd Announcement that Ms. Su Li Yuan did not hold any Shares in the Company before and after the disposal of the Sale Shares is inappropriate as Ms. Su Li Yuan is the wife of Mr. Cai Zhen Rong, an executive director and Chairman of the Company, and Ms. Su Li Yuan is the associate of Mr. Cai Zhen Rong for the purpose of the Listing Rules. Therefore the shareholding of Mr. Cai Zhen Rong and his associates before and after the disposal of the Sale Shares should be 413,200,000 Shares and 406,800,000 Shares respectively. The Company did not fully consider the associate relationship of Ms. Su Li Yuan and Mr. Cai Zhen Rong when preparing the 2nd Announcement. Ms. Su Li Yuan disposed the Sale Shares which arose from the exercise of options granted to her as an employee of the Group under the Company’s share option scheme on 29 January 2003 and allotted on 23 July 2003.

In view of the present incident, the Company has appointed a compliance officer, Mr. Mak Shiu Chung who is selected from the existing executive Directors and is familiar with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange” and together the “Listing Rules”), other than any of the Persons, to ensure the future timely disclosure of all price sensitive events known to the Directors and their compliance with Appendix 10 of the Listing Rules. His role and responsibility are also to strengthen the communication channel between the Directors and the Company and to ensure the Company’s compliance with the Listing Rules in the future. He has reviewed the content of this Announcement and obtained confirmation from each of the Directors that all the information contained in this Announcement is accurate in all material respect. In addition, he has gone through this incident with the Directors and fully explained to the Directors the importance and serious nature of this event. The Directors fully understand their duty to make appropriate timely disclosure of price sensitive information in the future.

Currently, every Director has a handbook regarding the disclosure requirements of all price sensitive information known to them. The Company has reminded Directors from time to time during the Directors' meetings on the disclosure requirements under the Listing Rules. The Directors are required to inform the Company immediately by whatever way most convenient to them when they become aware of any price sensitive events. The existing requirements imposed by the Company in general is that when the Director deals in any securities of the Company, he should notify the Chairman verbally first then to be followed by written notice.

In addition to this, the Company has implemented the following new measures. The Directors should not deal in any securities of the Company until a dated written acknowledgement has been received by the Chairman. In his own case, the Chairman should notify the Board at a board meeting, or alternatively notify the Director appointed for the purpose, Mr. Mak Shiu Chung and receiving a dated written acknowledgement. Furthermore, the new compliance officer, Mr. Mak Shiu Chung, will handle all future disclosures and to ensure the future timely disclosure of all price sensitive events known to the Directors and to comply with Appendix 10 of the Listing Rules. Appropriate disclosure will be made by the Company if the Company is in receipt of such information.

The Board is in the opinion that this event is only an inadvertent mistake made by the Chairman and the Persons. Each of Mr. Cai Zhen Rong, Mr. Cai Zhen Yao, Mr. Cai Zhen Ying and Mr. Cai Yang Bo is capable of fulfilling duty of care and fiduciary duty as required of them as directors of a listed issuer.

Each of the two independent Directors, Mr. Lawrence Gonzaga and Ms. Choy So Yuk, is in the opinion that the new control measures adopted by the Company are appropriate; the Chairman's and the Persons' mistake in this incident is inadvertent; as a result, he and she do not expect the incident to affect their ability to properly discharge their duties as Directors going forward.

Save as disclosed in this Announcement and the Previous Announcements, the Board is not aware of any other reason for the share price and trading volume movements on 23 July 2003 and following the new control measures in place, the Board confirms the accuracy of this Announcement.

The Stock Exchange is concerned about the accuracy and completeness of the Previous Announcements made by the Company which each Director individually and jointly accept responsibility and is looking into the matter and reserves the right to take appropriate action.

At the request of the Company, the Shares were suspended from trading on the Stock Exchange from 9:30 a.m. on 29 July 2003 pending publication of this Announcement and application has been made to the Stock Exchange for resumption of trading of the Shares from 9:30 a.m. on 1 August 2003.

By order of the Board

**CHOI WING TOON**

*Executive Director*

Hong Kong, 31 July 2003

Please also refer to the published version of this announcement in The Standard.