

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st March, 2004.

CHANGE OF BOARD OF DIRECTORS

Pursuant to a meeting of the board of directors (the "Board") of Huabao International Holdings Limited (formerly known as Leaptex Limited) (the "Company"), five new directors were appointed on 29th March, 2004 (the "Current Directors").

The Current Directors have taken all reasonable steps and have used their best endeavors to prepare the financial statements for the year as well as to disclose all the relevant information of the Group as required by the Hong Kong Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

Given the fact that the Current Directors are unable to access the books and records of certain subsidiaries of the Company which have been disposed of during the year by the former directors of the Company, the Current Directors are unable to ensure they have all the records necessary to prepare accurate and complete financial statements of the Group and the Company, and have all the claims, commitments and contingent liabilities been fully disclosed in the financial statements, in respect of the affairs before their appointment.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed at a special general meeting (the "SGM") held on 19th March, 2004, the name of the Company was changed from "Leaptex Limited" to "Huabao International Holdings Limited" and the Chinese name was changed from "力特有限公司" to "華寶國際控股有限公司" for identification purposes only.

The new name became effective on 30th April, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 27 to the financial statements.

RESULTS

The results of the Group for the year ended 31st March, 2004 are set out in the consolidated income statement on page 15 of the annual report.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 18 of the annual report and in note 20 to the financial statements, respectively.

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FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 38 of the annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 18 to the financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Madam Chu Lam Yiu (<i>Chairman</i>)	(appointed on 29th March, 2004)
Mr. Chen Yong Chang	(appointed on 29th March, 2004)
Mr. Zhang Yong	(appointed on 29th March, 2004)
Mr. Chan Kam Kwan, Jason	(resigned on 17th April, 2004)
Mr. Ho Te Hwai, Cecil	(resigned on 17th April, 2004)
Mr. Yuen Wai Ho, Dominic	(resigned on 17th April, 2003)

Non-executive director:

Mr. Wilton Timothy Carr Ingram (<i>non-executive Chairman</i>)	(resigned on 17th April, 2004)
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Independent non-executive directors:

Mr. Mak Kin Kwong	(appointed on 29th March, 2004)
Mr. Poon Chiu Kwok	(appointed on 29th March, 2004)
Mr. Ha Shu Tong, Albert	(resigned on 17th April, 2004)
Mr. Lau Kwok Kuen	(resigned on 17th April, 2004)

In accordance with Bye-law 86(2) of the Company's Bye-laws all the directors shall hold office until the forthcoming annual general meeting and Madam Chu Lam Yiu, Mr. Chen Yong Chang, Mr. Mak Kin Kwong and Mr. Poon Chiu Kwok being eligible, offer themselves for re-election.

The directors proposed for re-election at the forthcoming annual general meeting do not have any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SHARES

At 31st March, 2004, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

Long positions

(a) Ordinary shares of HK\$0.10 each in the Company

Name of director	Capacity	Number of ordinary shares held	Percentage of issued ordinary share capital of the Company
Chu Lam Yiu	Held through a controlled corporation (note)	173,100,000	70%

(b) Convertible cumulative non-voting preference shares of HK\$0.10 each in the Company

Name of director	Capacity	Number of preference shares held	Number of underlying ordinary shares held under equity derivatives	Percentage of issued preference share capital of the Company
Chu Lam Yiu	Held through a controlled corporation (note)	526,900,000	526,900,000	100%

(c) Warrants

Name of director	Capacity	Number of warrants held	Number of underlying ordinary shares held under equity derivatives
Chu Lam Yiu	Held through a controlled corporation (note)	49,000,000	49,000,000

Note: 173,100,000 ordinary shares, 526,900,000 convertible cumulative non-voting preference shares and 49,000,000 warrants in the Company are held by Mogul Enterprises Limited. Madam Chu Lam Yiu is the sole beneficial owner of Mogul Enterprises Limited.

Save as disclosed above, at 31st March, 2004, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO.

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SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 19 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Based on the information available to the Current Directors, at no time during the year was the Company, its ultimate holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

On 22nd March, 2004, the Company, Excel Advance Limited ("Excel Advance"), a wholly-owned subsidiary of the Company, and the ultimate holding company of the Company entered into a loan agreement (the "Loan Agreement") which had been approved by the shareholders at the SGM on 19th March, 2004. Pursuant to the Loan Agreement, the ultimate holding company agreed to grant a revolving loan facility of up to HK\$15 million (the "Loan Facility") to the Company and Excel Advance at an interest rate of 2% over the six-month Hong Kong Interbank Offered Rate. Repayment of the loan and the relevant interests are guaranteed by the Company (limited to HK\$15 million) and secured by a first legal fixed charge on the Company's entire shareholding interests in Excel Advance and a first floating charge on all the assets of Excel Advance. During the year, the Group did not make any drawdown under the Loan Facility.

Other than as disclosed above, and based on the information available to the Current Directors, the Current Directors are not aware of any contracts of significance to which the Company, its ultimate holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2004, the register of substantial shareholders maintained by the Company under Section 336 of the SFO showed that other than the interests disclosed in the section "Directors' interests in shares", the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Long positions

Ordinary shares of HK\$0.10 each in the Company

Name of shareholder	Capacity	Number of ordinary shares held	Percentage of issued ordinary share capital of the Company
Ace Smart Assets Limited	Corporate (note 1)	15,904,909	6.43%
Mr. Yeung Wing Sang	Beneficial owner (note 1)	15,904,909	6.43%
Super China Development Limited	Corporate (note 2)	12,728,930	5.15%
Universal Holdings Limited ("UHL")	Corporate (note 2)	12,728,930	5.15%

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SUBSTANTIAL SHAREHOLDERS *(continued)*

Notes:

1. The interests in the Company are directly held by Ace Smart Assets Limited. Mr. Yeung Wing Sang is the sole beneficial owner of Ace Smart Assets Limited.
2. The interests in the Company are directly held by Super China Development Limited, which is an indirect wholly-owned subsidiary of UHL, whose shares are listed on the Stock Exchange.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31st March, 2004.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Based on the information available to the Current Directors, during the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Current Directors, after they were appointed, have used their best endeavours to prepare the financial statements for the year ended 31st March, 2004.

Due to the inability to ensure the completeness of the books and records of certain subsidiaries of the Company prior to 29th March, 2004, the date the Current Directors were appointed, the Current Directors were unable to satisfy themselves whether the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the period from 1st April, 2003 to 28th March, 2004. Based on the information available to the Current Directors and apart from the subsidiaries disposed of during the year, the Current Directors are of the opinion that the Company has complied with the Code of Best Practice during the year.

AUDIT COMMITTEE

On 24th June, 2002, the Company established an audit committee with written terms of reference based on the guidelines set out in "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants. The audit committee previously comprised the non-executive Chairman, Mr. Wilton Timothy Carr Ingram and two independent non-executive directors, namely Mr. Ha Shu Tong, Albert and Mr. Lau Kwok Kuen. All of these directors have resigned on 17th April, 2004, following the appointment of Mr. Mak Kin Kwong and Mr. Poon Chiu Kwok as audit committee members on 29th March, 2004.

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MAJOR CUSTOMERS AND SUPPLIERS

Based on the information available to the Current Directors and except for any transactions relating to the subsidiaries disposed of during the year, the Group had business with four suppliers and five customers, representing all of the Group's purchases and sales respectively carried out by the Group during the year. None of the Current Directors or their associates or any shareholder (which to the best knowledge of the Current Directors owns more than 5% of the Company's share capital) had an interest in the suppliers and customers.

CONNECTED TRANSACTIONS

During the year, UHL agreed to waive an amount of HK\$1,677,000 owed by the Company to UHL under a subscription agreement approved at the SGM on 19th March, 2004 (the "Subscription Agreement"). Pursuant to the Subscription Agreement, the Company agreed to settle and repay certain expenses and debts owed to certain creditors and UHL by using the proceeds from the issue of shares of not more than approximately HK\$7.5 million. In the event the sum is insufficient to repay or settle all outstanding debts owed to UHL, UHL agreed to waive any remaining outstanding debts after payment. Immediately before and after the completion of the Subscription Agreement, UHL had interests of 17.15% and 5.15% respectively in the issued ordinary share capital of the Company.

Other than as disclosed above and in the section "Directors' interests in contracts of significance", and based on the information available to the Current Directors and except for any transactions relating to the subsidiaries disposed of during the year, the Group did not entered into any connected transactions as defined in the Listing Rules during the year.

AUDITORS

Messrs. PricewaterhouseCoopers acted as auditors of the Company for the year ended 31st March, 2001, retired and did not seek for re-appointment.

Messrs. KPMG, who were appointed as auditors of the Company for the six months ended 30th September, 2001, resigned subsequently after the issuance of the Company's interim report and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company to fill the vacancy.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chu Lam Yiu

Chairman

Hong Kong, 5th July, 2004