

CHAIRMAN'S STATEMENT

I am pleased to report the annual results of Huabao International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st March, 2005 to our shareholders.

The Group's financial position has improved since the introduction of a new controlling shareholder in the previous financial year. During the year under review, the Group proactively reviewed and fine-tuned its operating strategies and business development directions, and took a pragmatic approach to further enhance its strength, with an aim to lay a solid foundation for future development. With joint efforts of the management and staff, the Group has made progress in broadening its sources of income and reducing expenditure.

RESULTS

For the year ended 31st March, 2005, the Group recorded a turnover of HK\$24,703,000, representing a decrease of 8% as compared with HK\$26,723,000 of the previous year. Such decrease mainly came from the trading of consumer electronic products. The loss recorded for the year amounted to HK\$474,000, representing a decrease of 94% as compared with HK\$7,502,000 of the previous year.

In order to reverse the prolonged loss-making position, the Group no longer relied only on the trading of consumer electronic products as a major segment of its trading business, but diversified to the trading of fine chemicals in Hong Kong in August 2004. After making initial progress, the Group established two new subsidiaries in Shenzhen and Shanghai respectively. The Shenzhen subsidiary is engaged in the trading of fine chemicals and other products in the domestic market while the Shanghai subsidiary will be engaged in the R&D and production of fine chemicals in Shanghai. The Shenzhen subsidiary successfully commenced sales operation by the end of the year. It is encouraging that these operations recorded an aggregated turnover of HK\$11,634,000 in the first eight months while segmental results also contributed a profit of HK\$385,000. Apart from further development of the trading operation in Hong Kong, the management has confidence that the subsidiaries established in the Mainland of the People's Republic of China (the "Mainland") will sustain growth in the enormous Mainland market, and bring a long term fruitful return for shareholders.

Segmental results of the trading of consumer electronic products also improved from a loss of HK\$589,000 in the previous year to a profit of HK\$87,000. In face of intense competition, lower margin and rising operating and credit risks, the Group had to maintain a prudent operating strategy in order to manage the business risks. As a result, sales volume had decreased. The management will keep on monitoring the market situation and take appropriate steps accordingly.

In the aspect of cost saving, the Group had successfully slimmed its operating costs through proactive cost-cutting measures and thus reduced the loss for the year.

CHAIRMAN'S STATEMENT

PROSPECTS

The management believes that the Group has much space to improve and great potential to develop, though the Group had made some remarkable improvements this year. As to future prospects, the Group currently needs to affirm the direction of development and deploy its existing resources (including the revolving loan facility granted by the ultimate holding company) in profitable business in order to generate a greater return for its shareholders. In view of the smooth development of the Group's fine chemicals trading business, and the management's focus on the vast business development opportunities in the Mainland market, the Group will continue to strengthen its good relationship with customers and suppliers, and consolidate and expand its existing sales channels and customer base in both Hong Kong and the Mainland. Furthermore, we shall also speed up the preparation work for R&D and production of fine chemicals. At the same time, the management will consider to seek related business and investment opportunities for long-term benefits and development of the Group. Based on the extensive experience and specialized knowledge of the management in the fine chemicals industry, I remain optimistic about the future development of the Group.

APPRECIATION

I would like to take this opportunity to thank our shareholders, customers and suppliers for their continuous support, and to express my sincere appreciation to the directors, management and staff for their loyalty, diligence and hardwork in the past year.

Chu Lam Yiu

Chairman

Hong Kong, 8th July, 2005