

## CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of Huabao International Holdings Limited (the "Company"), I am pleased to present to our shareholders the annual results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2006.

For the year ended 31 March 2006, the Group recorded a turnover of HK\$18,563,000, representing a decrease of 25% as compared with HK\$24,703,000 of the previous year. The decrease of the Group's turnover was mainly due to the gradual scale-down of its trading business in consumer electronic products. On the other hand, the fine chemicals businesses, which include the provision and sale of flavours and fragrances, rendered better performance, recording a 28% increase in turnover for the year. The Group's operating loss before finance costs decreased from HK\$416,000 of the last year to HK\$296,000 of the current year, while the loss for the year increased from HK\$6,423,000 of the last year to HK\$7,048,000 of the current year, indicating that the Group's loss for the year was mainly affected by the finance costs, which then reflected the interests expenses in relation to the liability component of the preference shares of the Company calculated by applying the fair dividend rate under the new Hong Kong Financial Reporting Standards (the "HKFRS").

During the past year, the Group concentrated in the development of its fine chemicals businesses and has primarily established a market platform. In addition, the fundamental fit-out of the Group's plant in Shanghai was completed and put into service in December 2005. As the Group's businesses in the mainland of the People's Republic of China (the "Mainland") are still at the start-up stage, there may be some time before it can yield satisfactory results. However, the management is full of confidence on the fine chemicals market in the Mainland, and believes that it will bring new perspective to our shareholders in the near future as we stick to the present development direction.

### 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, the management and the staff of the Company for their loyalty, diligence and hard work in the past year.

**Chu Lam Yiu**

*Chairman*

Hong Kong, 30 May 2006