

The directors of Huabao International Holdings Limited (the "Company") present their annual report together with the audited financial statements of the Company and its subsidiaries (collectively known as the "Group") for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of the Company's subsidiaries are set out in note 27 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in note 6 to the financial statements.

RESULTS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 18 of the annual report.

The directors do not recommend the payment of a dividend.

RESERVES

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 21 and in note 22 to the financial statements, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital and share options of the Company are set out in notes 19 and 21 to the financial statements, respectively.

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.

FIVE YEAR 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 50.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

DIRECTORS

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

Executive Directors:

Ms. CHU Lam Yiu (*Chairman*)

Mr. CHEN Yong Chang

Mr. POON Chiu Kwok⁽¹⁾

Mr. WANG Guang Yu

Independent Non-executive Directors:

Mr. LEE Luk Shiu (appointed on 1 May 2006)

Ms. MA Yun Yan

Mr. MAK Kin Kwong, Peter

Note:

⁽¹⁾ Re-designated from Independent Non-executive Director to Executive Director on 1 May 2006.

In accordance with Bye-law 86(2) of the Company's bye-laws, Mr. Lee Luk Shiu retires at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

In accordance with Bye-law 87(1) of the Company's bye-laws, Messrs. Chen Yong Chang and Poon Chiu Kwok retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than disclosed in note 26 to the financial statements, no contracts of significance in relation to the Group's business 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.

DIRECTORS' REPORT (Cont'd)

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 March 2006, 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 contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions

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

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued ordinary share capital of the Company
Chu Lam Yiu	Held through a controlled corporation*	173,219,445	70.04%

(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	Percentage of the issued preference shares of the Company
Chu Lam Yiu	Held through a controlled corporation*	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*	49,000,000	49,000,000

* 173,219,445 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. Ms. Chu Lam Yiu is the sole beneficial owner of Mogul Enterprises Limited.

Save as disclosed above, at 31 March 2006, 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 subsidiaries or associated corporations as defined in the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than disclosed in notes 20 and 21 to the financial statements, 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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, underlying shares and debentures", the Company has not been notified of any substantial shareholders' interests and short positions in the issued share capital of the Company.

PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report and within the knowledge of the directors, there was a sufficiency of public float of the Company's securities as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of turnover attributable to the Group's five largest customers accounted for approximately 76% and the largest customer contributed approximately 23% to the turnover of the Group, and the percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 99% and the largest supplier contributed approximately 56% to the purchases of the Group.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

AUDITORS

Messrs. Deloitte Touche Tohmatsu, who were the auditors of the Company for the year ended 31 March 2005, resigned on 22 March 2006 and Messrs. PricewaterhouseCoopers were appointed as auditors of the Company to fill the casual vacancy pursuant to a resolution passed at the special general meeting held on 18 April 2006.

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

On behalf of the Board

Chu Lam Yiu

Chairman

Hong Kong, 30 May 2006