Management Discussion and Analysis

The following discussion provides information on contribution to revenue, operating profit, profit after tax, financial condition, liquidity and capital expenditures of the Group.

Results of Operations

The Group's turnover for the year ended 31st March 2001 was HK$281,564,000, representing a decrease of 4.3% as compared to last year, the decrease was mainly due to the decrease of sales of our products to property development projects (6% decrease in sales over last year) which was highly affected by the slowdown of the property market and overall economic environment during the year.

The gross profit margin decreased by 1.5% compared with last year mainly due to the provision for slow moving inventories in the sum of HK$4,857,000 made during the year.

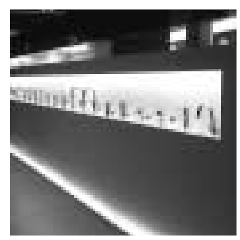
There is an increase of selling and administrative expenses by approximately 36.9%, the increase was contributed by several factors including:

- Rental payment for the total sum of HK$2,736,000 for the leasing of office and major warehouses and also for the 2 new retail outlets which were set up during the year, which involved additional HK$1,300,000 of rental expenses.
- Increase by 105%, compared to last year in promotion and marketing expenses through enhancement of advertisement in various media, increase in printing of promotion materials and supplying promotion light boxes to local distributors.
- Increase of staff costs of HK$8,436,000 over last year including discretionary bonuses to certain directors and staff.

It is noted that the profit after tax attributable to shareholders has dropped by 64.4% to HK$15,205,000.








With regard to the case referred to in the company's announcements dated 27th April 2001 and 7th June 2001, the directors advise that there has been no further development on that case and the directors are of the view that the case will have no material impact on the group's operations.

Sales to Property Development Projects

During the year, the supply of architectural builders hardware and bathroom collection to property development projects in Hong Kong was still the main stream of principal business of the Group, representing over 68% of turnover, the downturn of the property market has affected the sales of the aforesaid products to the property development sector for the year 2000 which has dropped approximately 6%.

The confusing Housing Policy in Hong Kong in recent years, has affected the confidence of the potential buyers who would adopt the wait and see policy while those who own the negative asset would not have any financial resource and confidence to enter into the property market now, together with the slowdown of global economy and the increasing unemployment rate, all contribute to the sluggish sale of the property and most of the development projects were inevitably delayed in response to the demand situation. As at 31st March 2001, the Group has outstanding sales contracts of approximately HK$57 million for supplying products to the property development projects.

At this stage, no sign of recovery in local property market could have been noted.

Wholesales and Retails

The sales from wholesaling business represented approximately 16% of total turnover, the major customers include dealers, traditional hardware stores and department stores. The sales from wholesaling dropped by 6.2% for the year ended 31st March 2001, which is also affected by the unfavourable economic environment.

In response to the new difficult business environment, with the housing and building industry get the hardest hit, we have formulated a new strategic direction as mentioned in the Chairman's Statement. Upon entering into a sole and exclusive agency and distribution agreement, a wholly owned subsidiary, Bonco Ironmongery Limited, was established in May 2001 exclusively for the distribution of all Bonco products and products bearing the mark "Bonco" for the Territory of Mainland China, Hong Kong SAR and Macau SAR. We will continue to form a separate wholly owned subsidiary for the purpose of distributing hardwares for any particular brand products which the Company has been granted a sole and exclusive distributing rights.

In addition, expanding the retail network is one of the major strategic plans of the Group, two H2O (Pro) retail outlets have been set up during the year and some existing retails shop have been refurnished, the sales from retailing therefore increased by 22.9%. However, the initial set up cost incurred and the increase of refurnishing costs and overhead were not totally absorbed by the increase of retail sales during the year, the management expects that the profitability from such expansion will be reflected when those retail outlets have established their image and become well known to customers.

Financial Resources and Liquidity

To facilitate a swift response to investment opportunities, a significant level of liquidity is retained. The current ratio and quick ratio were 3.56 and 2.86 respectively as at 31st March 2001, both marked an increase compared to last year. As at 31st March 2001, the Group had cash and bank balance of HK$65 million.

As a result of decrease of bank borrowings during the year, the gearing ratio was 27.68% as at 31st March 2001, which is calculated on the basis of the Group's total bank borrowings over shareholders' funds.

As the Group's borrowings and cash balances are primarily denominated in Hong Kong Dollars, the Group has no significant exposure to foreign currency fluctuations. In addition, the Group adopts hedging policies to minimize unfavourable exchange risk.

As 31st March 2001, the Group had capital commitments contracted but not provided for in respect of the purchase of computer software amounting to HK$900,000.

In August 2001, a subsidiary of the Company sued one of its customers (the "Defendant") for recovery of an amount of approximately HK$5,333,000 in respect of goods sold and delivered to the Defendant. In September 2001, the Defendant filed a counter-claim in a sum of approximately HK$6,148,000 (the "Counter-claim") on that subsidiary for the alleged losses and damages as a result of the alleged breach of the supply agreement entered into between the Defendant and that subsidiary. The proceedings are still in an early pleadings stage and the directors of the Company, on the basis of independent legal advice obtained, consider the subsidiary has a good arguable case against the Defendant for the Counter-claim and accordingly no provision in respect of the amount of the Counter-claim has been made in the accounts of the Group.

As at 31st March 2001, the Group had indemnities in respect of performance bonds amounting to approximately HK$2,926,000 given to certain customers in respect of commitments for the supply of goods to such customers.

Apart from the above, the Group had no material contingent liabilities as at 31st March 2001.

People

As part of group restructuring, Mr Wong Tin Cheung, Ricky and Mr Mak So have been appointed as executive directors in April 2001, both of them have been members of senior management of the Group and they have substantial experiences in the trading of building materials.

In June 2001, Mr Wong Wah, Dominic was appointed as a non-executive director of the Company, and regrettably Dr Chan Nai Keung, Kenneth has subsequently retired as a non-executive director of the Company. The management sincerely thanks Dr Chan for his support and contribution to the Group in the past year and welcome Mr Wong to join the Company.

During the year, there was no significant turnover of employees within the Group, it has employed 134 employees at 31st March, 2001. Remuneration packages are reviewed annually with reference to the prevailing market employment practices and legislation. The management believes that the employees who have the experience to cope with the various challenges are the major assets of the Group.

Group Structure

As part of the new initiatives to the restructuring of our Group's business in response to the difficult business environment, we have been looking for the business opportunities in Mainland China. A wholly owned subsidiary, Shanghai Tech Pro International Trading Co., Ltd., has been established in Shanghai which is the first and an important step to expand the Group's operations in Mainland China.

Furthermore, the Group has streamlined its business by differentiating its product lines into 4 individual subsidiaries by the end of May 2001, the new structure will assist the Group to identify new business opportunity.

Future Prospects

It is undeniable that the sluggish economy with recovery not yet in sight in Hong Kong would affect the performance of the most of the reputable and good managed companies in Hong Kong for the years to come and our company would not be an exception. The Group has been taking steady and pragmatic approach to maintain its market position despite the current difficult business environment and would strike its best effort to provide high quality products and services to the market places. The management has confidence that this approach and attitude will help us ride through this unprecedented difficult period which we are all facing.

With the obligation of joining the World Trade Organisation and also of Beijing Olympic Games 2008 imposed on Mainland China, there is no doubt that large numbers of construction and infrastructure projects will be launched in the coming years in Mainland China. In the meantime, the emerge of the middle class in China generates the higher demand for quality products in order to meet with the expectation of higher life style commensurate to their image. The demand for high quality living environment and public facilities create a tremendous market opportunity in Mainland China. The Group will expand the business network in Mainland China.

Use of Proceeds from the public offering

The Company raised approximately HK$62 million ("Net Proceed") from the new issue and placing of shares in early April 2000. During the year, the application of the net proceed by the Group is in compliance with the intended use of proceeds set out on the Company's prospectus dated 28th March 2000, details of utilization up to 31st March 2001 are as follows:

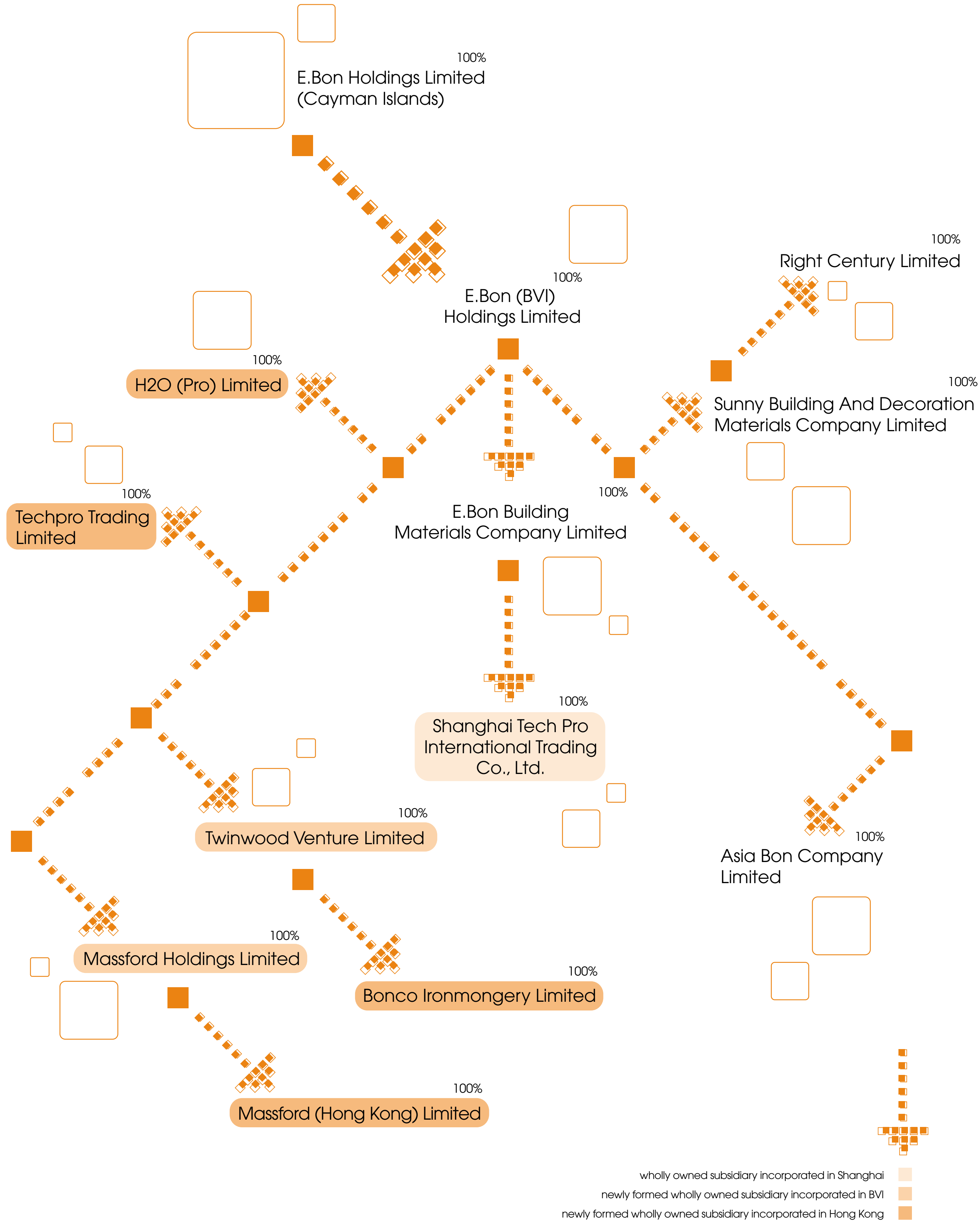
(a) Approximately HK$6.69 million was used for expansion of retail network, it mainly represents cost for establishment of 2 new retail outlets during the year;

(b) Approximately HK$2.13 million was used to enhance existing computer system and software application;

(c) Approximately HK$2.87 million was used for securing new distributorships; and

(d) The remaining balance has been placed with banks in Hong Kong as short-term deposits for working capital.

Group Chart



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E.Bon Holdings Limited
(Cayman Islands)
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E.Bon (BVI)
Holdings Limited
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Right Century Limited
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H2O (Pro) Limited
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Sunny Building And Decoration
Materials Company Limited
100%
Techpro Trading
Limited
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E.Bon Building
Materials Company Limited
100%
Shanghai Tech Pro
International Trading
Co., Ltd.
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Twinwood Venture Limited
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Asia Bon Company
Limited
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Massford Holdings Limited
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Bonco Ironmongery Limited
100%
Massford (Hong Kong) Limited
wholly owned subsidiary incorporated in Shanghai
newly formed wholly owned subsidiary incorporated in BVI
newly formed wholly owned subsidiary incorporated in Hong Kong