



Management Discussion and Analysis

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

Results of Operations

We are pleased to announce an operating profit of HK\$11.3 million, turning from an operating loss of HK\$14.7 million in 2004. The Group's turnover for the year ended 31 March 2005 was HK\$199 million representing an increase of 29% as compared to last year with 54% and 27% increase in sales over the last year of our retail business and property development projects respectively which is due to the active real estate market as a result of the appropriate policy on land supply and of the economic recovery. During this year, we have managed to reduce our administrative costs by 12% down to HK\$20.2 million while we have been able to maintain our effort in expanding our operations.

Despite the unfavourable foreign exchange rate for our import products, the Group was managed to improve its gross profit margin from 32% to 40% by the change in sales of product mix contributed mainly by the significant increase in our retail business which has a higher profit margin and a relatively higher rate of inventory turnover.

Wholesales/Retails

The increasing pace of economic recovery in Hong Kong experienced since the last half of 2004 results in the increase in the volume of sales both in the wholesale and retail operations. In September 2004 and February 2005 we expanded 2 further outlets for sales of bathroom accessories and kitchenware. In our project sale operation, we have been supplying our high end products to prestige projects including the Arch, Grand Promenade etc.. The Group will also supply the high end products to projects such as the Legend, Canary West in Hong Kong and La Baie Du Noble of Macau. We are pleased to report that the turnover from China operation jumped from about HK\$1 million last year to HK\$9 million this year. We will continue to expand our China operation sagaciously.

Financial Resources and Liquidity

The Group remains prudent in its financial management, we obtain our supplies mainly by trading on open accounts or documents against acceptance. The current ratio and quick ratio are 5.85 (2004: 5.76) and 3.82 (2004: 3.94) respectively, while the cash and bank balances amounted to HK\$29 million as at 31 March 2005 (2004: HK\$33 million). The Group's gearing ratio (the ratio of total liabilities to the sum of total liabilities and owners' equity) increases slightly to 15.3% as of 31 March 2005 (2004: 15.1%). In addition, the Group had no bank borrowing as at 31 March 2005 (2004: nil).

The Group's exposure to foreign currency fluctuation is not material as cash balances are primarily denominated in Hong Kong Dollars while the Group continues to adopt prudently a hedging policy against any foreign exchange risk.

People

As at 31 March 2005, our workforce increased to 125 (2004: 110 employees) as a result of the expansion of our retail operations. In July 2004, We are pleased to appoint Mr. YICK Kai Chung as an executive director of the Company, Mr. YICK who joined the Group in 1979 and has been responsible for overseeing major accounts and wholesale business of the Group and products sourcing and technical support. In addition, our executive director Mr. MAK So aged 65 was re-designated as a non executive director. The Board would like to thank Mr. MAK for his contribution to the success of the Group and is pleased to have his continue support as non-executive director.





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In September 2004, we have appointed Mr. Wan Sze Chung, who has experience in corporate and personal training, as a member of the Board as an independent non-executive director. Mr. Wan is the Hong Kong Chapter Leader of International Coach Federation (USA).

The Board would like to thank PricewaterhouseCoopers who have been our Auditors for five years since we listed in the Stock Exchange, and for the purpose of good corporate governance, PricewaterhouseCoopers resigned at the Board's request and on 18 March 2005, Messrs. Moores Rowland Mazars were appointed as the auditors of the Group to fill this casual vacancy until the conclusion of the forthcoming annual general meeting. PricewaterhouseCoopers stated that there were no circumstances connected with their resignation which they considered should be brought to the attention to the holders of securities or creditors of the Group.

Future Prospects

The economic recovery of Hong Kong is expected to hold on in 2005, with the opening of Disney Theme Park in September this year and the change of the Chief Executive of Hong Kong Special Administrative Region, we share with the sentiments of most of the businessmen in Hong Kong that with the strengthened administrative leadership in the Public sector, the territory remains competitive with other cities in the region for the next few years.

The upholding of the housing policy recently introduced by the Hong Kong Government results in a gradual increase in the property price caused by the increase in demand in the next three years. We are optimistic that the market demand for our products will be on the upward trend.

We continue to expand our business in China, and Macau, we have now generated more sales in Macau and expand further our customer base includes La Baie Du Noble, meanwhile we are now working on other Macau's development projects. In China, we have secured approximately 75 local dealerships for our products since last year, and we are happy to record a large increase in our China sales resulted from the high annual growth rate of economic development in China. We remain optimistic in the continue development of China economy and the potential business that may be brought in by the 2008 Olympic games in Beijing and the 2010 World Expo in Shanghai.

Use of Proceeds from the public offering

The company raised approximately HK\$62 Million ("Net Proceeds") from the new issue and placing of shares in early April 2000. During the year the application for net proceeds by the Group was in compliance with the intended use of proceeds as set out in the Company's prospectus dated 28 March 2000 and the subsequent amendment on 5 August 2002, details of the utilization up to 31 March 2005 are as follows:—

- a) Approximately HK\$19.56 million was used for the expansion of distribution network, it mainly represents cost of establishment of new retail outlets and offices in China.
- b) Approximately HK\$2.33 million was used to enhance existing computer system and software application.
- c) Approximately HK\$2.87 million was used for securing new distributorships.
- d) Approximately HK\$13 million was used for working capital including expansion of product range.

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