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DESCRIPTION OF BUSINESS

The Group is principally engaged in the design, manufacture and sale of household electrical appliances such as electric fans, convector heaters, fan heaters, air cleaners, ovens, vacuum cleaners and other electrical products such as scooters and motors. These products are mainly sold to overseas trading companies and retailers under the customers' brand names or under the Group's brand name, *REGENT*. During the Track Record Period, about 99% of the Group's products were sold under the customers' brand names, while about 1% were sold under the Group's brand name. Sales of electric fans accounted for about 68%, 60% and 63% of the Group's turnover for each of the three years ended 30th April, 2002 respectively. At present, the Group produces more than 45 types of electric fans including remote-control slide fans, high velocity floor/stand fans, tower fans and other featured electric fans. In addition, the Group also manufactures other electrical products, including heaters, air cleaners, ovens and vacuum cleaners.

The major market for the Group's products is Europe which accounted for approximately 62%, 59% and 48% of the Group's turnover for each of the three years ended 30th April, 2002 respectively. The Group also distributes its products to Asia (excluding the PRC), North America, South America, the PRC, Australia, New Zealand and other countries. The PRC is currently the second largest market for the Group's products which accounted for approximately 5%, 6% and 23% of the Group's turnover for each of the three years ended 30th April, 2002 respectively.

As at the Latest Practicable Date, the Group had more than 90 active customers which include overseas trading companies and retailers of household electrical appliances. The five largest customers of the Group accounted for approximately 26%, 22% and 24% of the Group's turnover for each of the three years ended 30th April, 2002 respectively.

The manufacture of the Group's products involves the use of a variety of materials including steel roll, copper wire and plastic resin which are either procured in the PRC or imported from overseas such as Thailand, Korea and Taiwan. For the three years ended 30th April, 2002, the percentage of materials imported from overseas was approximately 97%, 82% and 50% respectively, with the remaining portion procured inside the PRC. Purchases from the five largest suppliers of the Group accounted for approximately 35%, 32% and 24% of the Group's purchases for each of the three years ended 30th April, 2002 respectively.

The Group's current production plants are located in Changping Town, Dongguan City, Guangdong Province, the PRC with a total gross floor area of approximately 55,645 sq.m.. As at the Latest Practicable Date, the Group employed approximately 1,035 full-time workers stationed in the PRC for its production operation.

The Group has consistently put great emphasis on the quality of products and was certified for the ISO 9002 accreditation in November 1997 from TÜV Anlagentechnik GmbH for establishing and maintaining a qualified system for the manufacture of electric fans, convector heaters and fan heaters. Recently, the Group was certified for ISO 9001 for establishing and applying a quality management system for the design and manufacture of electric fans and oil-filled radiators and manufacture of fan heaters and convector heaters.

The Directors consider that the success of the Group is primarily attributable to the following factors:

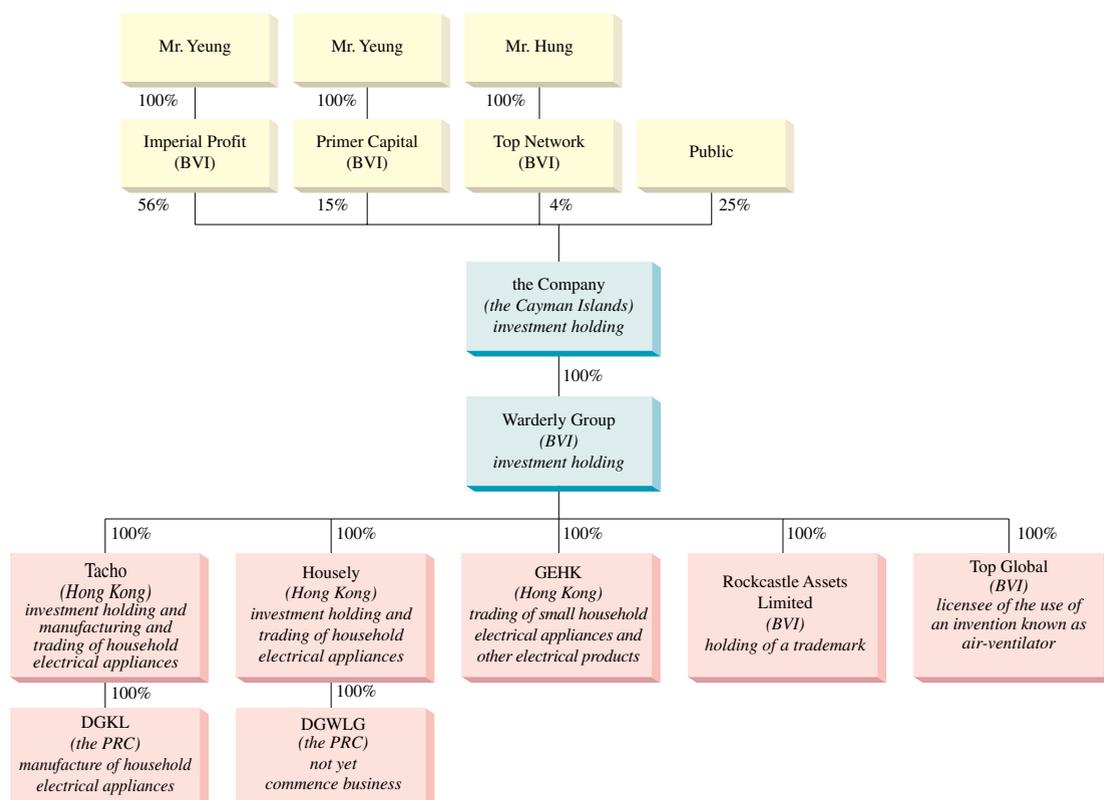
- its accumulated expertise in the design, production and sale of household electrical appliances;

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- its effective control over the production process as a result of the technical know-how possessed by the Group;
- its continual efforts on research and development resulting in innovative product design, protection of which is sought by applying for registered designs in various countries;
- the vertically integrated production process which comprises production facilities and labour for the manufacture of various basic components such as motors and switches in order to capture additional production premium as compared with those manufacturers who have to source basic components from other suppliers;
- its dedication to safety, product variety, product quality, cost control and environmental impact control;
- its goodwill in the household electrical appliances industry and customers' loyalty;
- its strict compliance with ISO 9002, ISO 9001 and other safety requirement quality assurance standards; and
- its well-established relationship with its suppliers and customers, most of whom have established business relationship with the Group for more than 4 years.

GROUP STRUCTURE

The shareholding and corporate structure of the Group immediately after completion of the Share Offer and the main business activities of the members of the Group are as follows:



HISTORY AND DEVELOPMENT

The business of the Group commenced in 1989 when Housely was established by Mr. Yeung to engage in the production and sale of electric fans. Prior to establishing his own business, Mr. Yeung had been involved in the industry of household electrical appliances for more than 15 years. In 1990, Mr. Yeung expanded the business of the Group by acquiring the entire issued share capital of Tacho from the then shareholders at a consideration equivalent to the par value of all the then issued shares of Tacho, which in turn held 25% of the registered capital of DGKL at that time.

DGKL was established as a Chinese-foreign equity joint venture enterprise in the PRC by 東莞市常平鎮農工商聯合公司 (Dongguan Chang Ping Agriculture Industry United Company), 東莞市風扇總廠 (Dongguan Fan General Factory), 廣東外貿開發公司東莞市分公司 (Guangdong Foreign Trade Development Company Dongguan branch) and Tacho to engage in the production and sale of electric fans in September 1989. The joint venture was owned as to 26%, 24%, 25% and 25% by Dongguan Chang Ping Agriculture Industry United Company, Dongguan Fan General Factory, Guangdong Foreign Trade Development Company Dongguan branch and Tacho respectively. Each of Dongguan Chang Ping Agriculture Industry United Company, Dongguan Fan General Factory and Guangdong Foreign Trade Development Company Dongguan branch is independent of, and not connected with, the directors, chief executive and substantial shareholders of the Company and its subsidiaries and their respective associates. The initial term of DGKL was 10 years from 30th September, 1989 to 29th September, 1999 with a registered capital of HK\$20,000,000. According to the then articles of association of DGKL, the joint venture partners were given six months from the date of the business licence to fully pay up the registered capital.

In November 1989, Dongguan Fan General Factory withdrew from the joint venture and DGKL was then held as to 40% by Dongguan Chang Ping Agriculture Industry United Company, 30% by Guangdong Foreign Trade Development Company Dongguan branch and 30% by Tacho. In April 1991, 中國機械設備進出口總公司廣東公司 (China Machinery and Equipment Import and Export Corporation Guangdong Company) joined the joint venture. After adjustment, DGKL was held as to 26% by Dongguan Chang Ping Agriculture Industry United Company, 25% by Guangdong Foreign Trade Development Company Dongguan branch, 24% by Tacho and 25% by China Machinery and Equipment Import and Export Corporation Guangdong Company. The four joint venture partners had fully paid up the registered capital of HK\$20,000,000. The production workshop of DGKL at that time was located at the leased premises at Chang Pang, 5 Chung Xing Road, Dongguan City, Guangdong Province, the PRC, with a gross floor area of approximately 3,300 sq.m. and a monthly production capacity of approximately 60,000 units.

The Group began to manufacture electric fans under its own brand name *REGENT* in 1991. The electric fan (model KYRT9-30 300m) under brand name *REGENT* was nominated as a High Quality Product (優質產品) in October 1991 in the PRC.

To cope with the continuous expansion of the Group's business, a self-owned new factory with a total gross floor area of approximately 14,000 sq.m. was built in 1994. The production lines of DGKL were improved as a result of the establishment of the new factory and the Group's production capacity was increased accordingly. Currently, all of the manufacturing processes of the Group are carried out in this self-owned factory. In March 1994, capitalising on the Group's technical know-how in the production of electric fans, the Group started to develop various types and models of fans.

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On 26th April, 1994, Dongguan Chang Ping Agriculture Industry United Company, Guangdong Foreign Trade Development Company Dongguan branch, Tacho and China Machinery and Equipment Import and Export Corporation Guangdong Company entered into an exclusive management agreement (承包經營東莞嘉利電器有限公司協議), pursuant to which Tacho was given the right to manage and operate DGKL. On 29th April, 2002, the same parties entered into a supplemental exclusive management agreement to confirm various terms of the original exclusive management agreement. According to the provisions of the exclusive management agreement, during the period from 1st January, 1994 to 31st December, 2000, all the assets of DGKL should be operated and managed by Tacho and the remaining three joint venture partners would not participate in the making of the decisions on the operation of DGKL and the day to day management of DGKL. In return, Tacho was entitled to all the profit of DGKL and was at the same time solely responsible for the losses of DGKL. When entering into the exclusive management agreement in 1994, the joint venture partners also intended to transfer their respective equity interests in DGKL to Tacho and the consideration for such transfers would be paid by instalments. The exclusive management agreement provided that Tacho should pay to the other three joint venture partners an agreed total sum of HK\$8,235,500 by 14 instalments over a 7-year period commencing from 1994. The agreed sum was calculated based on the joint venture partner's agreed valuation of DGKL together with interest thereon at the rate of 20% per annum. Out of the said sum of HK\$8,235,500, HK\$3,685,500 represented interest and the whole sum of HK\$8,235,500 had been fully settled by Tacho. As Tacho's acquisition of the remaining equity interests in DGKL was not completed until 4th April, 2000, Tacho treated DGKL as an associate from 1st May, 1999 to 3rd April, 2000 but shared the entire results of DGKL. DGKL became a wholly-owned subsidiary of Tacho from 4th April, 2000.

As confirmed by Guangxin Lawyers, the legal advisers to the Company as to the PRC laws, the exclusive management agreement as supplemented, in terms of its form and substance, does not fall within the scope of the relevant PRC regulations which require registration of the same with the relevant PRC authorities and the arrangements as contemplated by the exclusive management as supplemented are valid, legal and binding on the four joint venture partners.

In 1996, to cope with the increasing demand of the Group's products, the Group's second production plant with a gross floor area of approximately 42,000 sq.m. was built to accommodate the increased production facilities and additional employees required for the production of the Group's products. To widen the Group's product range, the Group developed additional kinds of household electrical appliances such as heaters in 1997, ovens in 1999, vacuum cleaners in 2000 and air cleaners in 2001.

On 16th November, 1999, to realise its intention of acquiring the entire equity interests of DGKL from the remaining 3 joint venture partners in 1994, Tacho entered into a share transfer agreement with 東莞市常平鎮經濟發展總公司 (Dongguan Chang Ping Economic Development Corporation (formerly known as Dongguan Chang Ping Agriculture Industry United Company)), 廣東省東莞市外貿開發公司 (Guangdong Dongguan Foreign Trade Development Company (formerly known as Guangdong Foreign Trade Development Company Dongguan branch)) and 廣東省機械設備進出口集團公司 (Guangdong Machinery and Equipment Import and Export Holding Company (formerly known as China Machinery and Equipment Import and Export Corporation Guangdong Company)). On 2nd April, 2000, 東莞市對外經濟貿易委員會 (Foreign Trade and Economic Cooperation Commission of Dongguan City) granted the approval for DGKL to change from a joint venture to a wholly foreign-owned enterprise. On 4th April, 2000, DGKL obtained the 中華人民共和國台港澳僑投資企業批准證書 (certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macau and Overseas Chinese in the People's

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Republic of China) from 廣東省人民政府 (the People's Government of the Guangdong Province). Subsequently, the business licence of DGKL which stated that DGKL was a wholly foreign-owned enterprise was issued by 中華人民共和國國家工商管理管理局 (State Administration for Industry and Commerce) on 30th April, 2000. The current term of DGKL is 30 years commencing from 30th September, 1989 and ending on 29th September, 2019. DGKL is currently indirectly wholly-owned by the Company with a registered capital of HK\$43,150,000 and a paid-up capital of HK\$23,821,489.

The foreign enterprise income tax ("FEIT") rates applicable to the three types of foreign investment enterprises, which include wholly foreign-owned enterprise, sino-foreign equity joint venture and sino-foreign co-operative joint venture, are the same. The applicable FEIT rate for DGKL during the Track Record Period was 24% prior to the year of 2000, which has been increased to 27% with effect from the year of 2000.

In May 1999, GEHK was incorporated and principally engaged in the trading of small household electrical appliances and other electrical products designed by the Group since 2001.

During the development of the business of the Group, Mr. Yeung has registered or has applied for the registration of a number of patents and designs in various countries. In February 2002, Rockcastle Assets Limited and Top Global were established to hold the intellectual property rights of the Group.

On 14th March, 2002, DGWLG, a wholly foreign-owned enterprise incorporated in the PRC, was established by Housely with a registered capital of HK\$4,800,000 for a term of 12 years commencing from 14th March, 2002 and ending on 13th March, 2014. DGWLG will be responsible for the manufacture and sale of air-ventilators and oil-filled radiators. However, it has not commenced any business since its incorporation. According to the provisions of its original articles of association, the initial payment of 15% of such registered capital in the sum of HK\$720,000 should be made within three months from the issue date of the business licence of DGWLG, i.e. 14th March, 2002 and the balance in the sum of HK\$4,080,000 should be paid up within twelve months from 14th March, 2002. The provisions of the articles of association of DGWLG have been amended on 27th September, 2002 to the effect that the time limit for making the initial payment has been extended to 30th November, 2002 and the balance to eighteen months from 14th March, 2002. Such amendments have been approved by the original approving authority of DGWLG. As at the Latest Practicable Date, the Group has not made any contribution towards the registered capital of DGWLG. The Group has undertaken to the relevant authority in the PRC that before the said registered capital of DGWLG in the sum of HK\$4,800,000 has been fully paid up, it will not include the assets held by, and the profits generated by, DGWLG in the consolidated accounts of the Group.

The Group received numerous accreditation and recognition for the quality of its products, including:

- In 1997, the Group was awarded the ISO 9002 certification by TÜV Anlagentechnik GmbH for its achievements in quality system for the manufacture of electric fans, convector heaters and fan heaters.
- In August 1998, the Group was named as a High Quality Product Enterprise (產品質量優良企業) by 東莞市技術監督局 (Dongguan Municipal Bureau of Quality and Technical Supervision).

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- In March 1999, one model of the electric fans manufactured by the Group was ranked in the top tier among the 28 different brands in the safety test conducted by the Consumer Council of Hong Kong.
- On 13th December, 2000, the Group was named as a Grade A quality supplier by SGS Hong Kong Ltd., an independent organisation which provides verification, testing and certification to assure the quality of products.

In 2001, the Group further developed new products such as coffee makers, electronic toasters, etc. to widen its product spectrum.

PRODUCTS

The Group is principally engaged in the design, manufacture and sale of various types of electric fans. Capitalising on the Group's technical know-how in the production of electric fans, the Group further develops other household electrical appliances to cater for the need of its customers. At present, there are 6 major types of household electrical appliances manufactured by the Group, namely electric fans, heaters, air cleaners, ovens and vacuum cleaners, and other electrical products. Turnover generated from the sales of household electrical appliances apart from electric fans accounted for approximately 32%, 40% and 37% of the Group's total turnover for each of the three years ended 30th April, 2002 respectively.

Electric fans

Sales of electric fans accounted for about 68%, 60% and 63% of the Group's turnover for each of the three years ended 30th April, 2002 respectively. At present, the Group produces more than 45 models of electric fans including remote-control slide fans, high velocity floor/stand fans, tower fans and other featured electric fans.

Twelve, sixteen and six models of electric fans of the Group have obtained safety standard certificates issued by GS, UL and CCEE respectively. The Group has also registered the designs of its electric fans in the U.K., particulars of which are set out in the sub-paragraph headed "Intellectual property rights of the Group" under the paragraph headed "Further information about the business" in Appendix IV to this prospectus.

Heaters (convector heaters and fan heaters)

Second to electric fans, heaters are the major products manufactured by the Group. The Group's turnover generated from the sales of heaters accounted for approximately 30%, 25% and 30% of total turnover for each of the three years ended 30th April, 2002 respectively.

Eight and three models of heaters of the Group have obtained safety standard certificates issued by GS and CCEE respectively. The Group has also registered the designs of its heaters in the U.K. and the PRC, particulars of which are set out in the sub-paragraph headed "Intellectual property rights of the Group" under the paragraph headed "Further information about the business" in Appendix IV to this prospectus.

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Air cleaners

Two models of air-cleaners of the Group have obtained safety standard certificates issued by GS and UL.

Vacuum cleaners

One model of vacuum cleaners of the Group has obtained the safety standard certificate issued by GS and two models of vacuum cleaners of the Group have also obtained registration of design in the U.K. and Hong Kong respectively.

Toaster ovens

One and two model(s) of toaster ovens of the Group have obtained safety standard certificates issued by GS and UL respectively.

Others

Some models of other products such as coffee makers, toasters and scooters have obtained safety standard certificates issued by GS.

RELATED PARTY TRANSACTIONS

During each of the financial years ended 30th April, 2001 and 30th April, 2002, the Group had conducted transactions with a related party, Goodstar, of which Mr. Yeung is the director and substantial shareholder. Goodstar sold goods to the Group pursuant to the Group's price list in the year 2001 with an amount of HK\$311,000 and nil for the years ended 30th April, 2001 and 30th April, 2002 respectively. The Group also paid Goodstar an annual rental expense of HK\$244,000 and HK\$104,000 during the financial years ended 30th April, 2001 and 30th April, 2002 respectively. The Directors are of the opinion that the above transactions are conducted in the ordinary course of business of the Group during the Track Record Period and are not expected to continue after the listing of the Shares on the Stock Exchange.

CONNECTED TRANSACTIONS

The following transactions have been and are expected to continue to be carried out between the Group and a connected person of the Company (as defined in the Listing Rules) following the listing of the Shares on the Stock Exchange.

On 18th February, 2002, an exclusive licence deed was entered into between the Group as licensee and Mr. Yeung as licensor, pursuant to which Mr. Yeung agreed to license to the Group the use of an invention relating to an air-ventilating device having a thermal exchanger and an air filter at a licence fee of US\$1.00 and the reproduction of the design entitled "ventilator" registered in Hong Kong in the name of Mr. Yeung and with registration number 0111515.7 at a licence fee of US\$1.00 (the "Licence Deed"). The Directors (including independent non-executive Directors) are of the opinion that the licence arrangement under the Licence Deed is on terms better than normal commercial terms and is favourable to the Group and to the Shareholders. Based on the documents and information provided by the Company and having made reasonable and necessary enquiries, the Sponsors are of the view that the Licence Deed are on terms that are favourable to

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the Shareholders and in the interest of the Company having regard to the circumstances in which the Licence Deed was entered into. The Group and Mr. Yeung have decided and agreed to enter into a licensing arrangement instead of an assignment arrangement in respect of the patent applications for the new air-ventilators made under the name of Mr. Yeung because if an assignment was made, all the applicants of the patent applications would have to be changed from Mr. Yeung to the Group which both the Group and Mr. Yeung believe would delay the process of the patent applications. As a result, the Group decided to adopt a licensing arrangement.

Rule 14.23(1)(a) of the Listing Rules defines a connected transaction as any transaction between a listed company or any of its subsidiaries and a connected person. A connected person in relation to a company includes a director, chief executive or substantial shareholder of such company or any of its subsidiaries or an associate of any of them. Mr. Yeung is the ultimate substantial shareholder of the Company and is also a Director. Accordingly, the transactions between Mr. Yeung and the Group will constitute connected transactions under the Listing Rules immediately after the Shares are listed on the Stock Exchange.

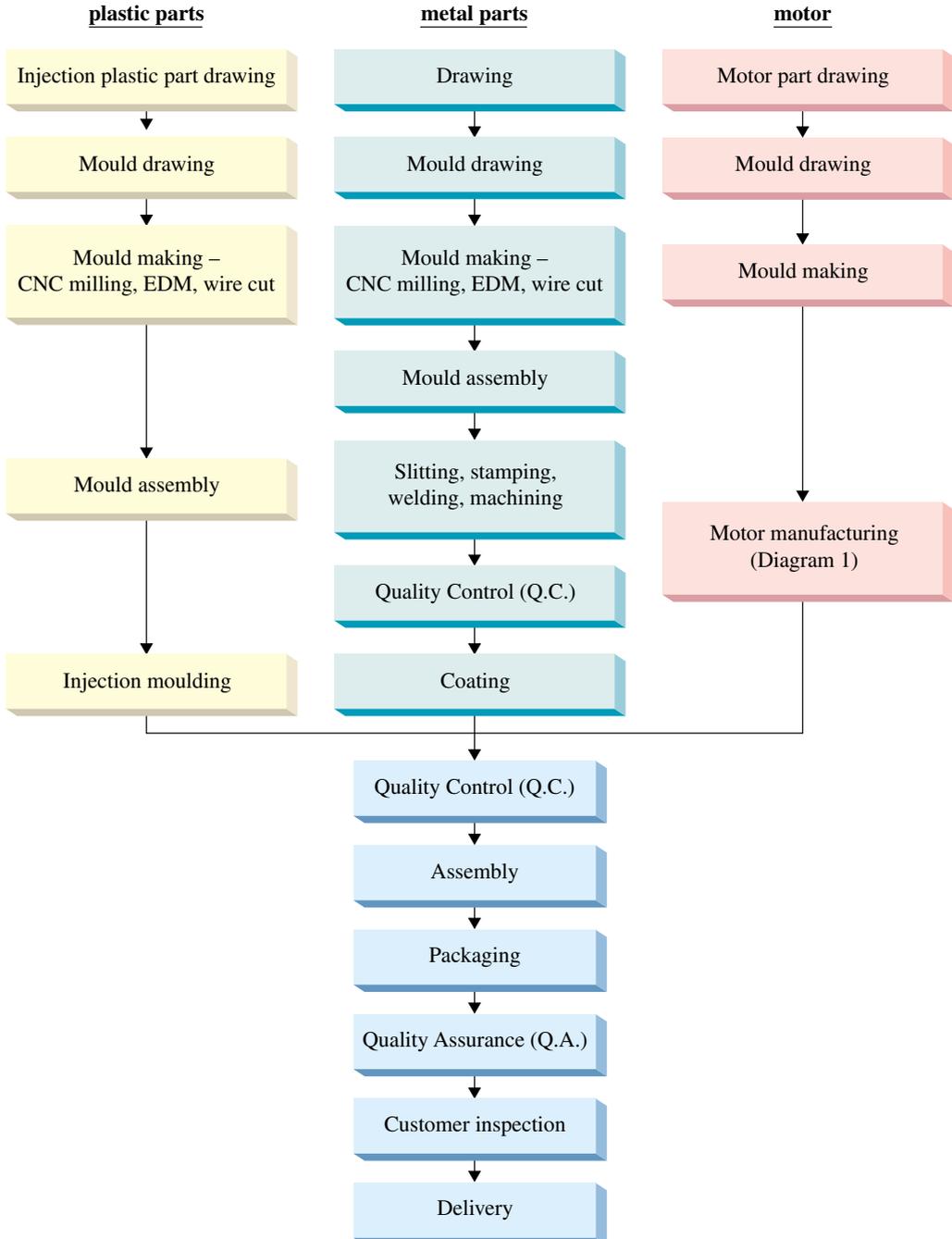
Since the licence fee payable by the Group under the Licence Deed is less than the higher of either HK\$1,000,000 or 0.03% of the book value of the net tangible assets of the Company as at 30th April, 2002 as disclosed in the accountants' report set out in Appendix I to this prospectus, the Licence Deed falls within rule 14.24(5) of the Listing Rules and the above connected transactions are exempted from the disclosure and shareholders' approval requirements under the Listing Rules.

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PRODUCTION PROCESS AND FACILITIES

Production process of electric fans

Electric fans (Diagram 1)

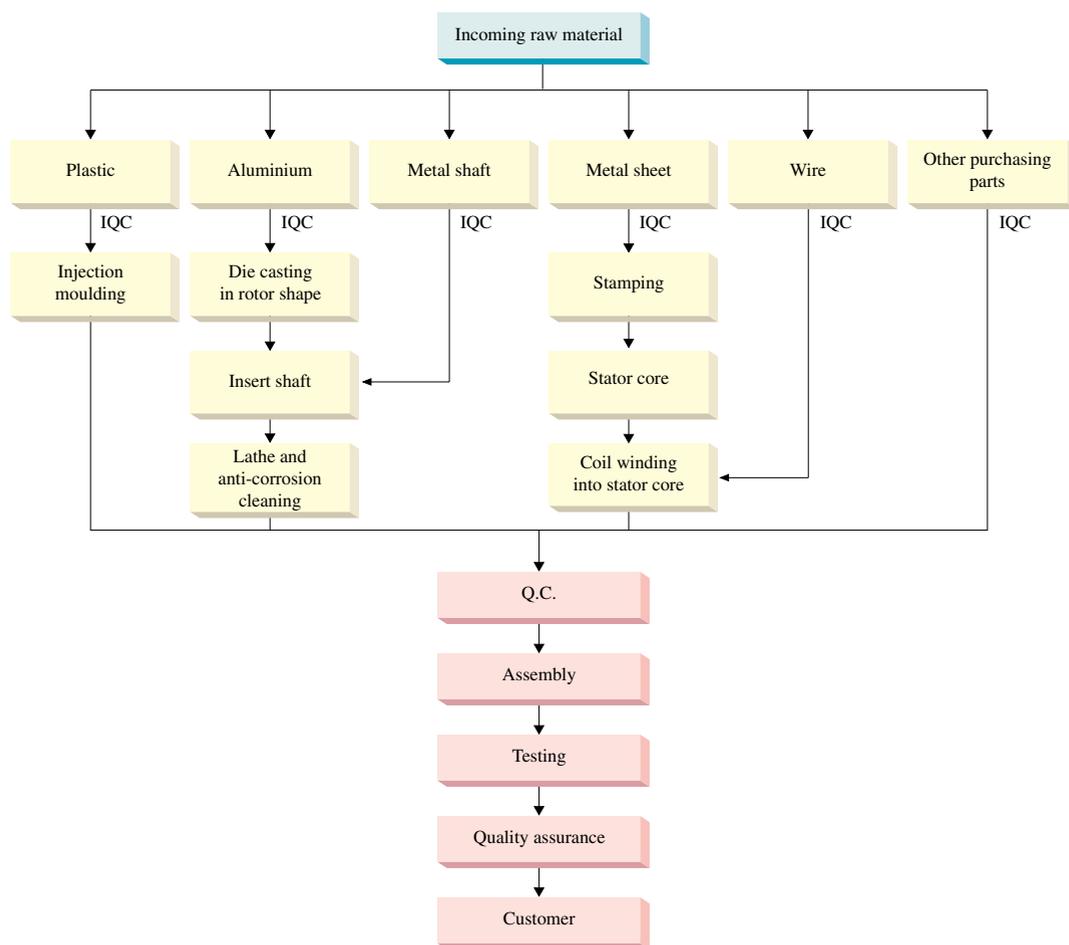


Notes:

- CNC – Computer Numerical Control
- EDM – Electrode Discharge Machining

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Motor manufacturing (Diagram 2)



Notes:

- IQC – Incoming Quality Control
- QC – Quality Control

Production facilities

The Group's production facilities, occupying a total gross floor area of approximately 55,645 sq.m., comprise an industrial complex located at Shahukou Administrative District, Changping Town, Dongguan City, Guangdong Province, the PRC and are currently occupied by the Group as workshops, warehouses, staff quarters, ancillary offices and other ancillary uses. The Directors confirmed that no major accidents or production overhauls had happened during the Track Record Period.

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Set out below is a summary of the Group's real estate title of land use rights and the buildings erected thereon.

Property	Location	Expiry date for the land use rights	Real Estate Title Certificate
<p>The property comprises an industrial complex erected upon two plots of land which together formed a roughly trapezoid-shaped site having a total site area of approximately 36,051 sq.m. (<i>Note</i>)</p> <p>The industrial complex of the property comprises four blocks of 5 to 7-storey workshop building and two blocks of 6-storey dormitory having a total gross floor area of approximately 55,645 sq.m. together with some additional ancillary building structures</p>	<p>Shahukou Administrative District, Changping Town, Dongguan City, Guangdong Province, the PRC</p>	<p>Due to expire on 2nd June, 2052</p>	<p>Yes</p>

Note:

In addition, the Group has entered into a land grant contract with the Dongguan Changping Town Shahukou Economic United Association (the "United Association") in April 1998 for the use of a piece of land with a total site area of approximately 9,200 sq.m. in Shahukou Village, Changping Town, Dongguan City, Guangdong Province, the PRC (the "Undeveloped Land"). The Group has not constructed any building on the Undeveloped Land and intends to retain the same for the Group's future development. As advised by Guangxin Lawyers, the legal advisers to the Company as to the PRC Laws, the United Association does not have the capacity to grant any land use right in respect of the Undeveloped Land and accordingly, the Group has not obtained any legal title to the Undeveloped Land. The Group has already paid a sum of RMB524,400 to the United Association for the Undeveloped Land and an indemnity has been given by the Controlling Shareholders in relation to the Undeveloped Land, further details of which are set out in the paragraph headed "Estate duty and tax indemnity" under the section headed "Other information" in Appendix IV to this prospectus.

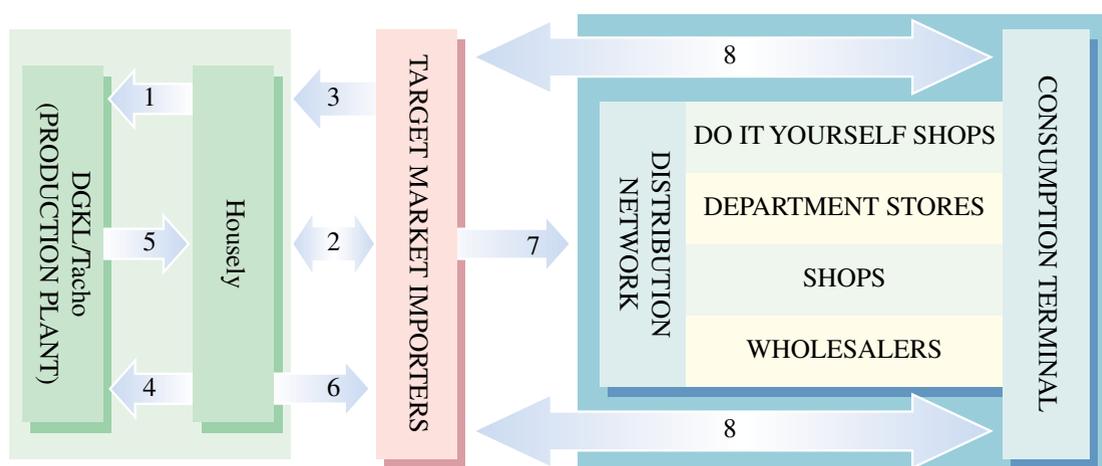
The full capacity of the Group's production facilities amounted to 5,400,000 units, 5,400,000 units and 6,000,000 units for each of the three years ended 30th April, 2002 respectively. During the Track Record Period, the Group had manufactured 4,200,000 units, 4,300,000 units and 4,800,000 units for each of the three years ended 30th April, 2002 respectively, representing a utilization rate of 80% for each of the three years ended 30th April, 2002.

The employment of machinery and equipment plays a significant role in maintaining the efficiency of the Group's business. The Directors believe that the Group's commitment to efficiency and product quality can be illustrated by its considerable capital investment. For the three years ended 30th April, 2002, an aggregate of over HK\$3.8 million was spent on the acquisition of

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machinery and equipment. Machinery owned by the Group was either purchased in the PRC or imported from overseas, including Taiwan and Japan. The downtime for preventive maintenance conforms to ISO 9002 requirements. The Group's maintenance work is carried out based on ISO 9002 procedures and is mainly carried out by the Group's technical staff including 118 production and industrial engineers, 25 quality engineers and the maintenance department. The head of production department and the 118 production and industrial engineers inspect the production process daily before production begins. The Directors believe that no major machinery or equipment currently used by the Group faces obsolescence. It is the Group's intention to periodically upgrade its machinery to cope with the production of new products to suit the anticipated market demand in the future. The factory is operating on two shifts of eight-hours each per day, first shift from 8:00 a.m. to 5:00 p.m. and second shift from 8:00 p.m. to 8:00 a.m.

OPERATION FLOW CHART



Notes:

1. Technical information of products developed by Housely is transferred to DGKL production plant for commercial production.
2. Housely enters into long term production contracts with importers of targeted markets.
3. Importers issue letters of credit and purchase invoices to Housely.
4. Housely accepts the letters of credit issued by various importers and arranges for production to match the purchase invoices.
5. DGKL/Tacho commences production and arranges delivery in accordance with the production plan. Tacho was involved in the manufacturing of household electrical appliances by actively taking part in and managing the manufacturing plant owned by the Group in the Guangdong Province, the PRC by providing the necessary raw materials, machinery and staff to supervise the manufacturing activities in the PRC.
6. Based on importers' purchase invoice, Housely arranges for product delivery.
7. After product inspection conducted by importers, products manufactured by the Group are distributed to the importers' distribution channels.
8. Importers provide after sales services to product end-users if and when necessary.

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SALES AND MARKETING

Markets

In light of the high quality of the Group's products, the market demand for the Group's products has been strong in Europe. This can be shown by the fact that Europe has been the largest market for the Group's products. In addition, the Group also sells its products to Asia (excluding the PRC), North America, South America, the PRC, Australia, New Zealand and other countries. Set out below is a breakdown of the Group's turnover by geographical area for the three years ended 30th April, 2002:

	Year ended 30th April,					
	2000		2001		2002	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Europe	114,710	62	110,113	59	98,994	48
North America	21,541	12	16,236	8	14,497	7
South America	10,687	6	11,047	6	1,375	1
Asia (excluding the PRC)	15,917	9	34,097	18	36,173	17
PRC	10,505	5	10,703	6	47,188	23
Australia and New Zealand	10,062	5	3,079	2	6,671	3
Others*	1,449	1	2,273	1	2,655	1
	<u>184,871</u>	<u>100</u>	<u>187,548</u>	<u>100</u>	<u>207,553</u>	<u>100</u>

* Others include various countries in Africa

Set out below is a breakdown of the Group's sales by product for the three years ended 30th April, 2002:

	Year ended 30th April,					
	2000		2001		2002	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Sales by Products						
Fan	125,333	68	113,049	60	130,165	63
Heater	54,835	30	47,202	25	61,567	30
Oven	3,253	1	4,073	2	3,821	2
Vacuum	260	0	777	1	0	0
Scooter	0	0	20,770	11	2,921	1
Motor	0	0	0	0	7,234	3
Others*	1,190	1	1,677	1	1,845	1
	<u>184,871</u>	<u>100</u>	<u>187,548</u>	<u>100</u>	<u>207,553</u>	<u>100</u>
Total Sales	<u>184,871</u>	<u>100</u>	<u>187,548</u>	<u>100</u>	<u>207,553</u>	<u>100</u>

* Others include the selling of air air-purifiers, tooling, spare parts and moulds

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Seasonality

The Group's turnover and profit after tax for the year ended 30th April, 2002 were approximately HK\$207.5 million and HK\$51.2 million respectively. The peak sale season of the Group is from January to April each year and the turnover of the Group generated during such season represented approximately 43%, 40% and 46% of the Group's turnover for each of the three years ended 30th April, 2002 respectively.

Customers

The Directors believe that the Group has established good business relationships with its customers and has developed good relationship in the household electrical appliances industry primarily through quality of its products. The Group currently has more than 90 active customers, which include trading companies and overseas retailers. The Group generally grants 30 to 60 days credit to its customers during the Track Record Period. The Group has been dealing with the major customers for more than 4 years and the Directors consider that the Group has maintained good business relationship with these customers.

The five largest customers of the Group accounted for approximately 26%, 22% and 24%, all of which were less than 30% of the Group's total turnover, for each of the three years ended 30th April, 2002 respectively. The largest customer of the Group accounted for approximately 11%, 8% and 6% of the Group's total turnover for each of the three years ended 30th April, 2002 respectively. The provision for bad and doubtful debts for each of the three years ended 30th April, 2002 was approximately HK\$293,000, HK\$1,130,000 and nil respectively. The Group makes provision for bad and doubtful receivables as and when they are identified.

To the best knowledge of the Directors, none of the Directors, their respective associates or any Shareholder holding more than 5% of the issued share capital of the Company has any interests in any of the five largest customers of the Group during the Track Record Period.

The Group regularly reviews the financial status and settlement record of its customers to determine the credit terms to be offered to them in order to minimise the Group's credit risk. The Group applies a stringent credit control system over its customers and continuously sends monthly reminders to the overdue customers.

In May 2000, a sales promotion scheme was launched by the Group, which aimed at enhancing its relationship with customers. The sale deposit received by the Group under that scheme amounted to HK\$10.8 million as at 30th April, 2001. Under that scheme, certain large customers who has the long term relationship with the Group were selected and were offered a special discount. The amount of discount was calculated according to certain percentage of their total purchase amount during a specific period. The customers would be informed of the discounted amount which would be set off from their future purchase from the Group. There were subsequent sales to these customers after 30th April, 2001. The sales promotion scheme has already been terminated, as the result of the scheme was not satisfactory.

During the Track Record Period, sales of the Group were mainly denominated in US\$. For each of the three years ended 30th April, 2002, approximately 92%, 93% and 77% respectively of the Group's sales were settled in US\$ while approximately 6%, 6% and 23% respectively were settled in RMB and approximately 3%, 2% and 0% respectively were settled in HK\$.

BUSINESS

Most of the Group's customers settle their balances on time and the Directors are not aware of any litigation or disputes encountered by any member of the Group during the Track Record Period. Customers' accounts of the Group settled by letters of credit of 30 to 60 days accounted for approximately 92%, 93% and 77%, amongst which 18%, 12% and 21% was by cash and the remaining 82%, 88% and 79% was settled through the discounted bills to the banks, for each of the three years ended 30th April, 2002 respectively. It is the practice of the Group to discount the bills to the banks for early receipt of cash. Customers' accounts of the Group are settled by open account up to 30 to 60 days against delivery accounted for the remaining 8%, 7% and 23% of the sales of the Group for each of the three years ended 30th April, 2002. The amount of discounted bills were HK\$138.7 million, HK\$152.5 million and HK\$126.9 million for the three years ended 30th April, 2002 respectively.

Marketing and promotion

The Group has a sales and marketing team of 4 members based in Hong Kong. One of the main responsibilities of the Group's sales and marketing team is to foster business relationships with its customers. The Group's sales and marketing team enables the Group to obtain the latest market information and market trends of the household electrical appliances industry and to capture business opportunities.

The Group regularly participates in trade fairs and exhibitions in Hong Kong and other countries. The Group also attends trade fairs on a regular basis. For instance, the Group has attended the DOMOTECHNICA in Germany, the HOME TECH in Germany, the HK Electronic Fair in Hong Kong and the Chicago houseware show in the U.S. At these trade fairs, members of the Group's sales and marketing team will promote the Group's products and identify potential customers of the Group. Apart from attending trade fairs, the Group also makes use of other marketing media such as magazines, promotional brochures and posters to promote its products.

The Group operates two websites for marketing and promotion of its products and they are www.housely.com and www.housely.com.hk.

PURCHASES

The principal materials used by the Group in its production are procured in the PRC, Taiwan, Thailand, South Korea and other overseas countries. Such principal materials include steel roll, copper wire and plastic resin. The Group has built up a business relationship with its major suppliers for over three years. Purchases from the Group's top five suppliers accounted for about 35%, 32% and 24% of the Group's purchases for each of the three years ended 30th April, 2002 respectively while the largest supplier of the Group accounted for approximately 10%, 9% and 8% of the Group's purchases for each of the three years ended 30th April, 2002 respectively.

The Group has not encountered any material disruption in its production concerning the shortage of material supply despite the fact that the Group has not entered into long-term procurement contracts with any of its suppliers. The Group has never experienced any difficulties in obtaining supplies from its existing major suppliers. Given the Group's good relationship with its major suppliers which has been built up for over four years, the Directors do not expect that the Group will experience any significant difficulties in obtaining supplies from its existing major suppliers.

BUSINESS

Purchases of the Group are settled by letters of credit and open account up to 90 to 120 days against delivery. Since 2001, the Company has obtained a longer credit term granted by its suppliers which is from 120 to 180 days. The letters of credit accounted for about 40%, 31% and 38% of the Group purchases for each of the three years ended 30th April, 2002 respectively. The open account accounted for about 60%, 69% and 62% of the Group's purchases for each of the three years ended 30th April, 2002 respectively.

During the Track Record Period, purchases of the Group were denominated in US\$, RMB and HK\$. For each of the three years ended 30th April, 2002, approximately 47%, 29% and 16% respectively of the Group's purchases were settled in US\$ while approximately 3%, 18% and 62% respectively were settled in RMB and approximately 50%, 53% and 22% respectively were settled in HK\$.

To the best knowledge of the Directors, none of the Directors, their respective associates or any Shareholder holding more than 5% of the issued share capital of the Company has any interests in any of the five largest suppliers of the Group during the Track Record Period.

PRODUCT DEVELOPMENT

The market for electric fans is not a rapidly changing market in terms of technology. However, the configuration and functional design of household electrical appliances may change from time to time due to changes in market trends.

The Group's product development team is principally responsible for developing new products and enhancing the Group's existing products so as to cater for the changing market trends. During the Track Record Period, the Group had appointed designers from overseas countries for product design and configuration. The design and configuration of a product generally takes approximately 2 months. Afterwards, the draft design will be handed over to the engineering department of the Group for product moulding, circuit design and engineering which usually take 2 months. Then, the production process itself and application for safety standard take another 2 months. As such, it usually takes approximately 6 months before a new product can be launched in the market. As at the Latest Practicable Date, the Group had 52 and 118 staff engaging in the research and development department and the engineering department respectively, all of whom were stationed either in Hong Kong or in the PRC.

INVENTORY CONTROL

As at the end of each of the three years ended 30th April, 2002, the value of the Group's inventories, (including raw materials, work-in-progress and finished goods) worth about HK\$24.9, HK\$38.1 and HK\$37.8 million respectively. The inventory turnover of the Group for each of the three years ended 30th April, 2002 was about 49 days, 74 days and 67 days respectively. The principal materials used by the Group are steel roll, copper wire and plastic resin, etc.. It is the policy of the Group to keep sufficient stock of major raw materials enough for two months' consumption to ensure a smooth production schedule. The Directors believe that the Group has established a sound and reliable internal control system to ensure that inventory records are properly and accurately kept to reflect the actual movements of inventories. The Group maintains an up-to-date inventory record for inventory quantities and movements. Furthermore, the adequate segregation of duties in the Group's operations enables it to closely monitor its inventory quantities and movements. There was no provision made against the Group's inventories during the Track Record Period. The Group makes provision for obsolete inventories as and when they are identified.

QUALITY CONTROL

The Directors consider that the Group's commitment to quality control of its products, which can be demonstrated by one of the Group's electric fans being ranked in the top tier among the 28 different brands in a safety test conducted by the Consumer Council of Hong Kong in March 1999, is critical for gaining customers' loyalty.

The quality control and assurance functions are performed by the Group's quality control team which consisted of 25 members as at the Latest Practicable Date.

Components and raw materials inspection

The incoming components and materials are inspected by the Group's quality control staff on a random sampling basis to ensure that the quality of the components and materials are in compliance with the specifications and standards required by the Group before they are used for production. The components and/or materials that fail to meet the Group's standards and requirements will not be accepted.

Work-in-progress inspection

The quality control staff of the Group closely monitor every stage of the production process. Semi-finished products would be inspected on a random sampling basis. Those semi-finished products that fail to meet the quality standards and requirements would be reprocessed or disposed of.

Finished products quality assurance

Samples of finished goods are inspected by the quality control team to ensure that the finished goods comply with the quality standards before they are packed for delivery.

The Group is committed to producing high-quality products through the implementation of stringent quality control procedures. The Directors consider that the success of the Group's quality control system is evidenced by a low sales return rate of defective products of approximately 0.1%, 0.07% and 0.03% respectively for each of the three years ended 30th April, 2002.

Quality control is of fundamental concern to the Group and in 1997, the Group was awarded ISO 9002 certificate by the TÜV Anlagentechnik GmbH for its achievement in quality system for manufacture of electric fans, convector heaters and fan heaters. The Group has been consistently recognized and complemented by its customers for the quality of its services and products. The Group is able to secure such recognition in the household electrical appliances industry because of its consistency in good workmanship, good quality control and maintenance of high standards of safety system on its production facilities.

INTELLECTUAL PROPERTY RIGHTS

Trademark

In order to enhance the Group's corporate image and market recognition, the Group has registered the trademark "REGENT" in Hong Kong since 1997 and the PRC since 1999, further details of which are set out in the paragraph headed "Intellectual property rights of the Group" in the section headed "Further information about the business" in Appendix IV to this prospectus.

The Group's trademark "REGENT" has been registered in Hong Kong since 1997. The Group has also registered the trademark "REGENT" in the PRC since 1999.

Registered designs

It is the Group's policy to register their original designs to protect themselves from infringement. The Group has registered three designs of fans with the Patent Office in the U.K.. The Group has also registered two designs of heaters and a design of vacuum cleaner with the Patent Office in the U.K..

Furthermore, the Group has also registered the designs of 對流式加熱器 (convector heater) and 對衡式暖風機 (convector heater) with the State Intellectual Property Office of the PRC.

In Hong Kong, the Group has registered a design of a vacuum cleaner with the Designs Registry, Intellectual Property Department of Hong Kong.

COMPETITION

The Directors consider that there are many electric fan manufacturers in the market with different scales of operation producing different types of electric fans targeted at different market segments. The Directors do not consider that there is significant entry barrier to the manufacturing of household electrical appliances. In view of the absence of significant entry barrier in the household electrical appliances industry, it has been the Group's strategy to innovate in product appearance and functional design to meet the changing market demand and maintain its price competitiveness by stringent cost control and vertically integrated operation whereby the Group has the capability to manufacture most of the components needed for its finished products, thus enhancing the timely production of its household electrical appliances and the quality of such appliances. Such strategy is considered by the Directors to be successful as evidenced by the Group's steady growth in turnover and net profit during the Track Record Period.

BUSINESS

INSURANCE

The Group has taken out insurance policies over its production facilities and inventories. The total insured amount is approximately HK\$66 million to cover any damage to its facilities or inventories.

The Group has also taken out an insurance policy of up to US\$2 million in aggregate to cover any product liability in respect of electric fans, heaters, ceiling fans, ovens, vacuum cleaners, air-purifiers, oil-filled radiators, toasters and hair dryers sold by the Group. There was no third party liability claim or material accident compensation claim filed against any member of the Group during the Track Record Period. The Directors are of the view that the Group's insurance coverage over its production facilities and inventories, and product liability is adequate.

ENVIRONMENTAL PROTECTION

The Group has imposed stringent rules in controlling the production activities in its production facilities located in the PRC to minimise the creation of certain solid waste materials and nuisance in its production process. The Group has paid an annual environmental protection fee of RMB12,000.00 during each of the three years ended 30th April, 2002. As at the Latest Practicable Date, no penalty has been imposed on the Group in relation to the relevant environmental protection laws and regulations.