

RISK FACTORS

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS ASSOCIATED WITH THE GROUP

Reliance on key management

The Group's success is attributable to, among other things, the strategy and vision of Mr. Yeung and his experience in the industry of household electrical appliances. Like other executive Directors, Mr. Yeung has entered into a service contract with the Company for an initial fixed term of three years. However, there is no assurance that his service contract will be renewed after the expiry of the initial fixed term. There may be an adverse impact on the Group's future prospects and profitability should Mr. Yeung cease to be involved in the Group's management and operations.

Non-inclusion of a profit forecast for the year ending 30th April, 2003

A profit forecast for the year ending 30th April, 2003 has not been included in this prospectus since the Directors and the Sponsors are of the view that it is not possible to predict with certainty the turnover of the Group. The reasons for this include: (i) the Group's products are marketed and sold to various continents throughout the world and the total volume of goods sold is subject to the prevailing market conditions specific to each continent; (ii) the varying ordering time placed by customers of the Group; and (iii) the global competition in the household electrical appliances industry.

Given the above factors, the Directors and the Sponsors are of the view that there is no adequate and reliable basis to accurately estimate the turnover of the Group for the year ending 30th April, 2003. Accordingly, a profit forecast of the Group for the year ending 30th April, 2003 is not included in this prospectus. As there is no assurance that the Group could maintain or increase its historical revenue or profitability, prospective investors should be aware that the historical financial results of the Group should not be relied upon as an indication for the future performance of the Group.

Sustainability of gross and net profit margins

For each of the three years ended 30th April, 2002, the gross profit margin achieved by the Group was approximately 34%, 41% and 43% respectively and the net profit margin achieved by the Group was approximately 14%, 19% and 25% respectively. There is no assurance that the gross and net profit margins of the Group could continue to be maintained at similar levels in the coming years. In the event that the Group's gross or net profit margin decreases, the Group's profits may be adversely affected.

Credit risks

Most of the sales of the Group are made on an open account basis with credit terms being offered to customers depending on their creditworthiness and their business relationship with the Group. Accordingly, the Group faces credit risks in collecting sales receivables due from its customers. Trade receivables accounted for approximately 41%, 25% and 37% of the Group's current assets for the three years ended 30th April, 2002 respectively. There is no assurance that

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the Group's customers will settle their accounts with the Group fully or in a timely manner and if they fail to do so, the performance and profitability of the Group may be adversely affected.

Concentration on a single product category

For each of the three years ended 30th April, 2002, sales of the Group's electric fans accounted for approximately 68%, 60% and 63% respectively of the Group's turnover. 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. Potential investors should note that the proportion of the sales of the Group's electric fans to the Group's total turnover has continuously reduced due to the successful diversification of its product range to include other household electrical appliances. However, in the event that there is a reduction in demand for the Group's electric fans and the sales of the Group's other products cannot compensate the shortfall, the Group's profits may be adversely affected.

Dividend policy

For each of the three years ended 30th April, 2002, the Group recorded turnover of approximately HK\$184.9 million, HK\$187.5 million and HK\$207.6 million respectively. During the same period, profits after taxation of the Group were approximately HK\$25.5 million, HK\$36 million and HK\$51.2 million respectively. For each of the three years ended 30th April, 2002, the Group declared and paid dividends in the amount of HK\$18.6 million, HK\$25 million and HK\$10 million respectively, representing approximately 72.9%, 69.4% and 19.5% of the respective year's profits after taxation of the Group.

There is no assurance that future amount or rates of dividends will be similar to those in the past and potential investors should note that the above dividend payment should not be used as a reference for the determination of the Company's future dividend policy and that there can be no assurance that dividends will be paid in the future. Further details of the dividend policy of the Company are set out in the paragraph headed "Dividends" under the section headed "Financial information" of this prospectus.

Reliance on major customers

For each of the three years ended 30th April, 2002, the five largest customers of the Group accounted for approximately 26%, 22% and 24% respectively of the Group's turnover. There is no long-term sales agreement entered into by the Group with any of its customers. In the event that those customers cease their business relationship with the Group or reduce their orders with the Group substantially and the Group is unable to find new customers, the Group's business and profitability may be adversely affected.

Environmental liability exposure

The Group's production activities in its production facilities located in the PRC may, due to its business nature, produce certain amount of solid waste materials and noise in its production process. The relevant laws and regulations in relation to environmental protection in the PRC provide for the fees payable to the relevant government authorities. The local governments are also empowered to impose penalties on companies which fail to comply with the relevant requirements. In the event that new requirements are promulgated in the PRC which require the Group to incur additional expenses in relation to environmental protection, the Group's profitability may be adversely affected.

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Product liability

The Group may face claims arising from defective products. Although the Group has taken out an insurance policy of up to US\$2 million in aggregate to cover any potential 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 is no assurance that the insured amount will be sufficient to cover the Group's liability in these aspects. Thus, any claim which may be brought against the Group for products manufactured by it could have a material adverse effect on the profitability of the Group.

Unproven track record on production of the Group's new air-ventilators

To improve its profitability and to enhance its product range, the Group has obtained an exclusive licence to use an invention relating to an air-ventilating device having a thermal exchanger and an air filter on 18th February, 2002 and it is expected that the production of the new air-ventilators will commence in 2003. However, there is no assurance that the Group will not encounter any significant technical difficulties at the initial stage of its production of such new product. The occurrence of any significant technical difficulties may render the Group failing to meet its customers' orders or quality requirements, which in turn may adversely affect the Group's reputation and business.

Intellectual property rights

The preservation of the Group's intellectual property rights in the design of its products is crucial to the Group's success. Applications for patent made by Mr. Yeung for registration of the new air-ventilators with high efficiency thermal exchanger and air filter in U.S., Hong Kong and the U.K. (pursuant to the Patent Cooperation Treaty and the European Patent Convention) have been licensed for the exclusive use of the Group as more particularly set out in the paragraph headed "Intellectual property rights of the Group" under the section headed "Further information about the business" in Appendix IV to this prospectus. However, there is no assurance that such applications will not be opposed by any third party or parties who claim(s) to have proprietary right to such patent.

Absence of any legal title to a piece of land in Dongguan City, the PRC for the Group's future development

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. In the event that the local land administration authority does not grant the right to use the Undeveloped Land to the Group, the Group's future development may be adversely affected.

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Capital contribution towards the registered capital of DGWLG has not been made

The Group set up DGWLG in Dongguan City, the PRC on 14th March, 2002. The registered capital of DGWLG is HK\$4,800,000. 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. As 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 and in light of the fact that the Group intends to manufacture and sell its new air-ventilators and oil-filled radiators through DGWLG, the Group's profits may be adversely affected should the Group be unable to fully pay up the registered capital of DGWLG within the extended time limit mentioned aforesaid.

RISKS ASSOCIATED WITH THE INDUSTRY

Technological changes

The market for the household electrical appliances is subject to rapid technological advancement and introduction of new models. The Group's ability to maintain its competitiveness in the market depends largely on its ability to develop new and technologically advanced or innovative appliances to meet its customers' requirements. Though the Group has successfully adapted to technological changes in the past through its own research and development team, it may encounter difficulties in moving in tempo with the rapid technological changes to meet its customers' requirements in the future. The Group's profits may be adversely affected should the Group be unable to respond promptly to technological advancement and to introduce new models to the market.

Competition

The Group faces considerable competition from a large number of household electrical appliances manufacturers. The entry barrier to the household electrical appliances industry is relatively low as the application of advanced technology and substantial capital investment are not required. Any increase in the level of competition could dilute the Group's market share and may lead to price reductions of the Group's products which may adversely affect the Group's profitability.

RISKS ASSOCIATED WITH THE PRC

As all of the Group's products are manufactured in the Group's production facilities located in the PRC, the Group's results of operations and financial position are therefore subject to a significant degree to the economic, political and legal developments in the PRC.

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PRC's admission as a member of the WTO

The PRC has successfully entered into the WTO. It is anticipated that the competition in the household electrical appliance market and industry will be intensified. If the Group fails to maintain its competitive advantage against such significant increase in competition, the Group's performance and profitability may be adversely affected.

Political and economic considerations

Since late 1970s, the PRC government has undertaken substantial economic reform measures in order to transform the PRC economy into a more market-oriented "socialist market economy". These reforms have resulted in rapid economic growth in the PRC and an increased emphasis on the utilisation of market forces. However, there can be no assurance that all the economic reform measures will continue or will continue to be effective. In addition, many of the reforms are unprecedented or experimental and are expected to be refined and improved upon. This refinement and re-adjustment process may not always have a positive effect on the operations and business of the Group.

The business of the Group may also be adversely affected by changes in the PRC political and social conditions and by changes in the policies of the PRC government such as changes in laws and regulations (or their interpretation), taxation policies and foreign exchange controls.

Legal and regulatory considerations

Since 1979, many laws and regulations governing economic matters have been promulgated in the PRC. However, the PRC system of laws is still not comprehensively established. The interpretation of PRC laws may be influenced by policy changes reflecting domestic political and social changes. It may also be difficult to enforce a foreign judgement in the PRC. In addition, as the legal system in the PRC is subject to further development, foreign investors in a position similar to that of the Group may face uncertainties as a result of any introduction of new laws and changes in the existing legislation. There is no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the Group.

Government control of currency conversion and exchange rate

With effect from 1st January, 1994, the PRC government has abolished its two-tier exchange rate system and has replaced it with a unified floating exchange rate system based largely on supply and demand. Financial institutions authorised to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorised range above or below the exchange rate published by the People's Bank of China according to market condition. However, despite such developments, RMB is still not a freely convertible currency.

Pursuant to the Foreign Exchange Control Regulations of the PRC issued by the State Council which came into effect on 1st April, 1996 and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment of the PRC which came into effect on 1st July 1996, foreign investment enterprises are permitted to convert their after-tax dividends and profits into foreign exchange and remit such foreign exchange from their foreign exchange bank accounts in the PRC.

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If foreign investment enterprises require foreign exchange for transactions relating to current account items, they may, without approval of the State Administration of Foreign Exchange, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof. If they need foreign exchange for the distribution of profits to their shareholders, they may, on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

However, convertibility of foreign exchange in respect of capital account items, like direct investment and capital contributions, is still subject to restriction, and prior approval from the State Administration of Foreign Exchange or its relevant branches must be sought.

There is no assurance that RMB may not be subject to devaluation which may have a negative impact on the Group's financial position. In addition, there is no assurance that legislative intervention by the PRC government or adverse market movements, or that shortages in the availability of foreign currency will not develop. The value of income generated from the Group's operations in the PRC may be adversely affected by any fluctuation in the exchange rates of RMB against foreign currencies.