

# INDUSTRY OVERVIEW

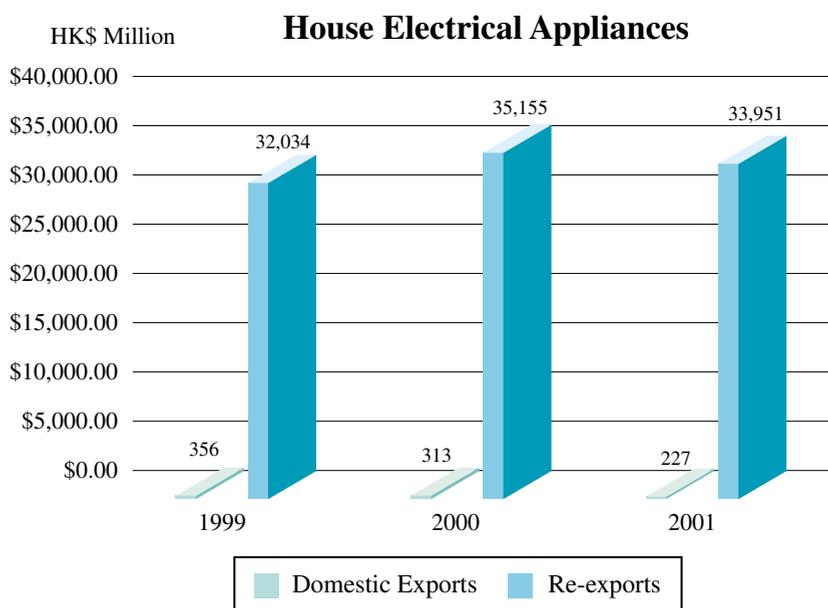
## INTRODUCTION

The Group is principally engaged in the design, manufacture and sale of household electrical appliances mainly sold to overseas trading companies and retailers under its customers' brand names or under the Group's brand name, *REGENT*. The Group believes that companies and individuals have not only placed increasing emphasis on their quality of life but also become more cost-conscious. As such, market acceptance of each household electrical appliance strongly depends on its performance, energy saving capabilities, durability and pricing.

### Overview of household electrical appliances market

Hong Kong's household electrical appliances industry is dominated by manufacturers of small sized items. Most of the manufacturers produce on an OEM and/or ODM basis and do not usually possess their own brand names. According to the information published by the Hong Kong Trade Development Council ("HK TDC"), there was about HK\$227 million worth of household electrical appliances exported to the rest of the world from Hong Kong in 2001. In order to maintain cost competitiveness, most manufacturers have relocated their production facilities to the PRC.

Sales to the U.S., constituting almost half of the total exports, were facilitated by increases in demand for household electrical appliances such as electric fans and hair dryers of competitive prices in the first seven months of 2001.

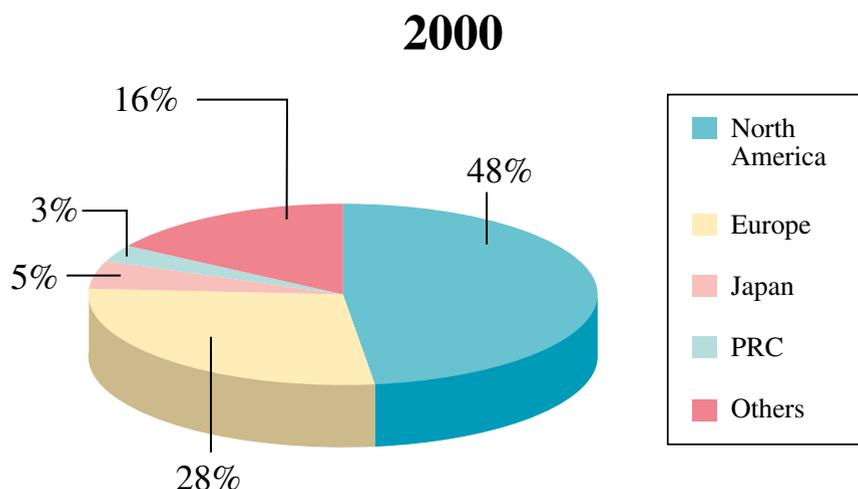


Source: HK TDC

The majority of Hong Kong's exported household electrical appliances are in the form of re-exports from the PRC to the rest of the world, which accounted for about 98.9%, 99.1% and 99% of the total exports of household electrical appliances in each of the three years ended 31st December, 2001 respectively.

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Demands for household electrical appliances from countries in North America and Western Europe have been substantial. The following chart illustrates the geographic distribution of the value of total exports of household electrical appliances from the PRC for the year 2000.



Source: HK TDC

As competition is becoming more and more intense among the PRC enterprises and other Asian suppliers in recent years, manufacturers of household electrical appliances in Hong Kong have not only focused on maintaining their OEM production, but also extended to ODM business which allows them to render value-added services to overseas customers.

### **Electric fan as a popular and cost effective air ventilation apparatus**

For decades, electric fans have served as a popular, effective and economical air ventilation apparatus for consumers and business users all over the world. Despite the advent of the air-conditioning system and its popular adoption in most household and business buildings, electric fans remain an affordable means of air ventilation. The growing awareness of environmental issues and concern for energy preservation are also factors supporting the use of electric fan as a ventilation apparatus, even as an alternative equipment in communities where the use of air-conditioners is prevalent.

As standards of living improve, electric fan designs are becoming increasingly sophisticated in order to meet rising product expectation among users. Manufacturers are now offering models designed with different materials (plastic, steel or copper), colours (metallic, pastel and others), specifications and features (table set, upright set, ceiling-mounted, wall-mounted, hand held, decorative and child-safety devices) to meet the changing demands of customers.

### **Intensive competition amongst household electrical appliances exporting countries**

According to the statistics published by HKTDC in December 2000, there were over 7,000 establishments of various sizes which were engaged in the manufacture and distribution of small household electrical appliances, including electric fans in Hong Kong. The Directors believe that apart from Hong Kong, there are a substantial number of manufacturers and distributors of small household electrical appliances operating in the PRC and other South East Asian countries. Many of these establishments manufacture their products on an OEM or ODM basis for branded customers distributing products in the U.S. and Europe.

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The existence of such a large number of manufacturers of small household electrical appliances suggests that there is a significant demand for household electrical appliances. It also underlines the highly competitive environment of the industry among its numerous participants (including manufacturers, marketing firms and brands). In order to stay competitive, market participants must seek to maintain a comparative advantage in terms of product quality, product design, service and innovation.

### **Implications for the admission of the PRC as a full member of the WTO**

The PRC is currently a major manufacturing base for many U.S. and European based brand names in small household electrical appliances, which are mainly for the export market. With the success of the economic reform in the PRC and the growing affluence of the population, PRC brands of small household electrical appliances manufactured domestically are also increasing their sales significantly, both domestically as well as for export to overseas markets. With the PRC's accession to the WTO, the Directors expect that foreign branded goods would, in time, flow into the PRC consumer market and would pose new competition to the PRC domestic brand manufacturers. In particular, foreign-owned manufacturers in the PRC (such as DGKL) that traditionally export their products to overseas markets would be able to explore the possibility of selling their products in the PRC domestic market.

### **Concerns on air pollution issues and the related demand for air-ventilation and air cleaning devices**

In today's world, most people typically spend a significant amount of their time indoor in a temperature-controlled environment. As a result, they are exposing to certain indoor air pollution hazards, including (i) respirable-size particles generated from cigarette smoke, (ii) gases and organic chemicals like carbon monoxide, (iii) airborne viruses and similar health impairing particles and (iv) radioactive pollutants which originate from natural sources including building materials. According to a study conducted by the Hong Kong government in 1995 based upon the standards set by World Health Organisation, it was estimated that up to 30% of modern commercial buildings may suffer from sub-standard indoor environments due to a variety of reasons. It also concluded that the poor quality of indoor air has led to lower productivity as the inhabitants suffer from sub-optimal health under such environment.

There are three measures (in order of effectiveness) for reducing pollutants in indoor air, namely source control, ventilation and air cleaning.

Source control refers to the elimination of individual sources of pollutants or reduction of their emission. However, not all pollutant sources can be identified and practically eliminated or reduced. Thus, the alternative solution would be to bring in outside air via ventilation systems or alternative equipment (e.g. the use of electric fan to ventilate airflows). Air cleaners or purifiers may serve as an adjunct to source control and air ventilation. However, the use of air cleaning or purifying devices cannot assure adequate air quality, particularly where significant sources of air pollution hazards are present and ventilation is inadequate.

The Directors are of the view that the increasing awareness of air pollution issues would create continuing demand for air ventilators, such as electric fans or air cleaning devices or new devices that can address the air pollution issues effectively.