The information contained in this section and elsewhere in this prospectus have been derived from various official government publications and other publications generally believed to be reliable and the market research report prepared by Frost & Sullivan which we commissioned. We believe that the sources of such information and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. None of our Company, the Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or their respective directors, advisers (which, for the purpose of this paragraph, excludes Frost & Sullivan) and affiliates has independently verified such information and statistics and none of them gives any representation as to the accuracy of such information and statistics. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the electrothermic household appliance market in the PRC and Europe. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the F&S Report. We agreed to pay Frost & Sullivan a fee of HK$440,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practises advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the F&S Report in this prospectus because we believe this information facilitates an understanding of the electrothermic household appliance market in the PRC and Europe for the prospective investors. The F&S Report includes information of the electrothermic household appliance market in the PRC and Europe as well as other economic data, which have been quoted in this prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the electrothermic household appliance market in the PRC and Europe. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the F&S Report, various official government publications and other publications.

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the steady development of the electrothermic household appliance market in the PRC and Europe.

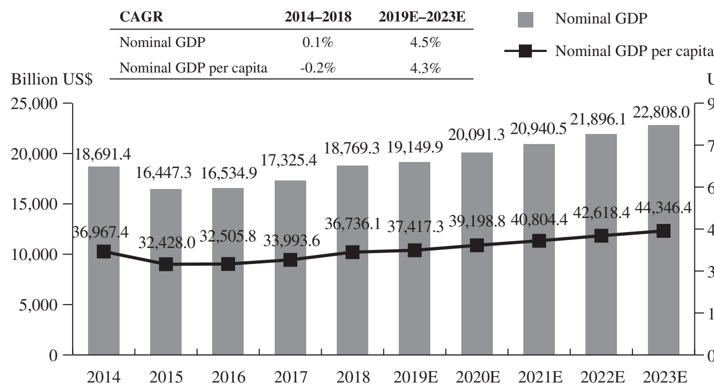
OVERVIEW OF MACROECONOMIC ENVIRONMENT IN EUROPE

Nominal GDP and nominal GDP per capita

Due to Eurozone crisis and unstable economic environment in certain countries, the nominal GDP in Europe has witnessed a mild growth from approximately US$18,691.4 billion in 2014 to approximately US$18,769.3 billion in 2018, representing a CAGR of 0.1%. The negative growth in 2015 was primarily due to high unemployment, deflation as well as weak investment resulted in decline of domestic demand. With the growing domestic demand, recovery of trade performance and economy in global level, the nominal GDP in Europe is estimated to increase at a CAGR of 4.5% during 2019 to 2023E.

The nominal GDP per capita in Europe has recorded a moderate decline from approximately US$36,967.4 in 2014 to approximately US$36,736.1 in 2018, representing a CAGR of -0.2%. The nominal GDP per capita in Europe is expected to increase during 2019 to 2023 at a CAGR of 4.3%. The economic growth as indicated by the nominal GDP and nominal GDP per capita underpins the expansion of vertical industries including retail and trade industries.

Nominal GDP and nominal GDP per capita (Europe), 2014–2023E



Note: Data covers EU countries (EU-28) only

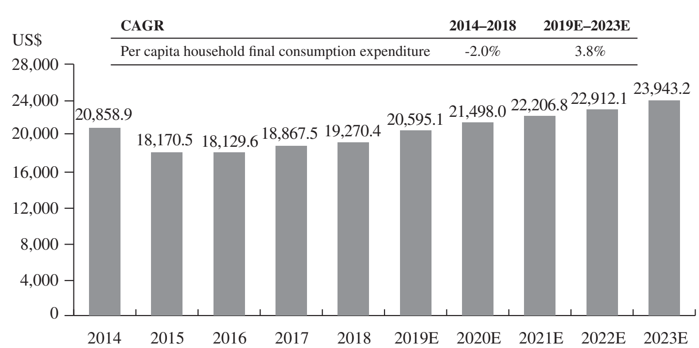
Source: International Monetary Fund, Frost & Sullivan

Household consumption expenditure

The per capita household final consumption expenditure in Europe registered a decline from US$20,858.9 in 2014 to US$19,270.4 in 2018, representing a CAGR of -2.0%. As there was a rise in spending on prioritised households' basic needs such as electricity, gas and fuel, as well as housing rent and transport, spending on non-essentials such as luxury goods, restaurants and hotels declined, as a squeeze on real incomes may affect consumer spending.

With the anticipated economic recovery and growing domestic demand, the household expenditure, in line with the nominal GDP per capita, in Europe is expected to increase at a CAGR of 3.8% during 2019 to 2023.

Per capita household final consumption expenditure (Europe), 2014–2023E



Note: Data covers EU countries (EU-28) only

Source: World Bank, Frost & Sullivan

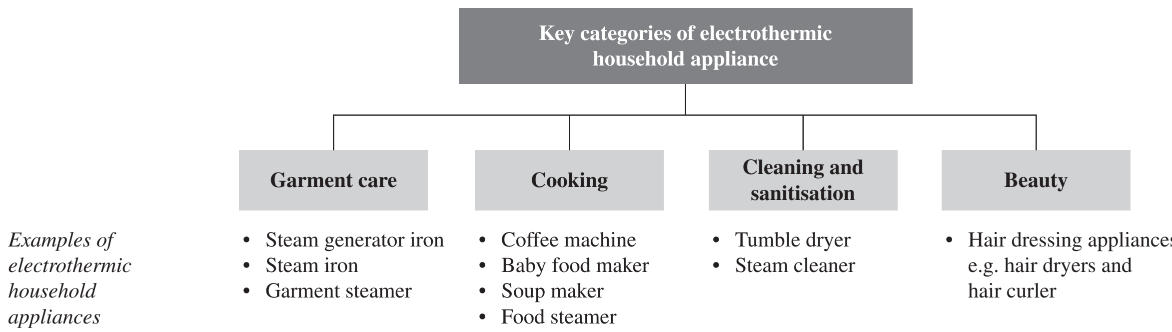
OVERVIEW OF ELECTROTHERMIC HOUSEHOLD APPLIANCE MARKET IN EUROPE

Definition and classification

Electrothermic household appliance generally refers to household appliance that converts electrical energy to thermal energy, which can be broadly classified into, for example, several major categories such as garment care, cooking, cleaning and sanitisation, and beauty.

In general, electrothermic household appliances serve various functions based on thermodynamics which involves the measurement and physics of converting thermal energy to and from other forms of energy and the way it affects the state of matter (e.g. water and steam). Specifically, certain electrothermic household appliances for garment care, such as steam iron and steam generator irons, operate based on generation of steam as a heat carrier through transfer of thermal energy for vaporisation of water upon reaching the boiling point. The application of such kind of electrothermic household appliance is comparatively safer with lower risk of explosions, as steam is used as heat carrier.

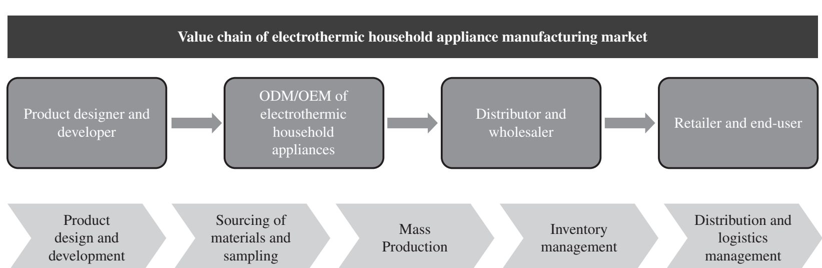
Our Group mainly engages in the development and manufacture of electrothermic household appliances mainly for garment care and cooking purposes, such as steam generator irons, steam irons, coffee machines, food steamers, soup makers and baby food makers.



Source: Frost & Sullivan

Value chain analysis

Development of electrothermic household appliance is generally undertaken by in-house designers and developers or together with the brand owners. Prior to manufacturing of product, conceptual design and sample product will be developed, tested and approved by brand owners. Materials used in electrothermic household appliance are primarily electrical parts, components such as integrated circuits, transistors, and motor supplied by third party. Certain ODM of electrothermic household appliance may source raw materials such as metal (such as copper, lithium and aluminium), plastic and chemicals to develop their own parts with better and consistent quality, as well as demonstrate high level of research and development capabilities with strong focus on product innovation through in-house development of product.



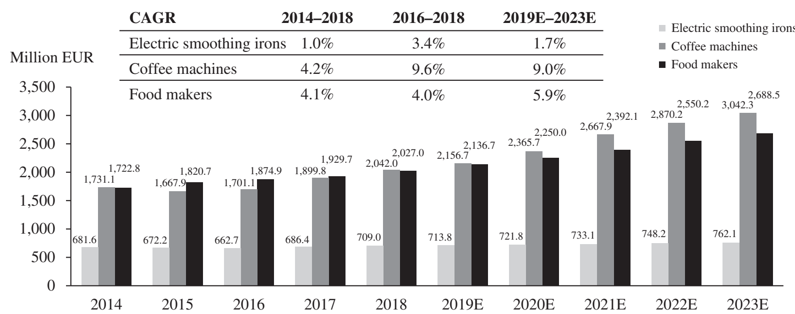
Source: Frost & Sullivan

Retail sales value of selected electrothermic household appliance in Europe

With the further development of open markets and the removal of trade barriers, the retail sales value of electrothermic household appliance witnessed a growth in the past five years. Specifically, according to Frost & Sullivan, the retail sales value of electric smoothing irons, coffee machine and food makers recorded a steady growth at a CAGR of 1.0%, 4.2% and 4.1% respectively during 2014 to 2018. With the growth in population base that creates higher domestic demand for household appliances, the retail sales value of electric smoothing irons, coffee machine and food makers in Europe is expected to increase at a CAGR of 1.7%, 9.0% and 5.9% respectively during 2019 to 2023.

According to Frost & Sullivan, our Group's major customers generally demonstrate a deep market penetration with wide range of product portfolio and broad consumer reach in their respective local retail markets. For example, Customer A is a home and kitchen appliance brand established in 1936, specialising in toasters, hair dryers, bread makers, kettles and sandwich toasters and other appliances with strong presence in the United Kingdom. Customer B is renowned for baby care products including feeding utensils and baby cooking appliances developed in France. Customer C is a multinational electronic conglomerate principally engaged in provision of healthcare solutions, personal health and lighting solutions globally and currently hired approximately 74,000 employees across 100 countries worldwide, which has been recognised as a key brand of consumer healthcare electronics. Customer D, being headquartered in Turkey, is the largest manufacturing centre of white goods in Europe and had been considered as a key player in Turkish white goods, built-in appliances and air-conditioners markets. Customer G is a key German coffee retailer with over 600 retail stores in Germany and over 300 retail stores in the rest of the world.

Retail sales value of selected electrothermic household appliance, Europe, 2014–2023E



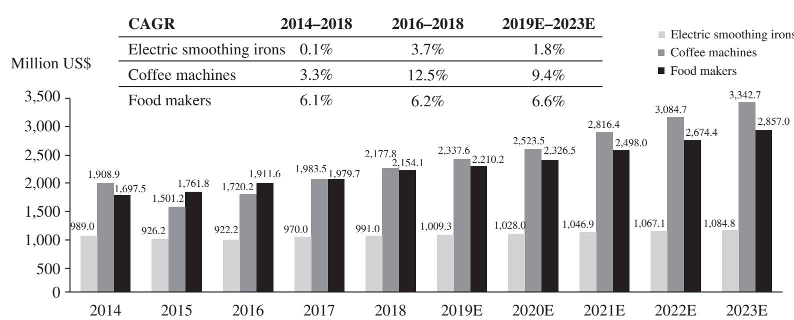
Note: Food makers includes food steamers, soup makers and baby food makers; electric smoothing irons include steam generator irons and steam irons.

Source: Frost & Sullivan

Import value of selected electrothermic household appliance in Europe

Driven by the demand from consumers on electrothermic household appliances and in line with the trend of retail sales, according to Frost & Sullivan, the import value of electric smoothing irons, coffee machine and food makers registered an overall growth at a CAGR of 0.1%, 3.3% and 6.1% respectively. Going forward, with the increase in popularity and adoption of electrothermic household appliances (e.g. coffee machines and food makers for steam cooking) in Europe, the import value of electric smoothing irons, coffee machine and food makers are expected to maintain the growing trend at a CAGR of 1.8%, 9.4% and 6.6% respectively during 2019 to 2023.

Import value of selected electrothermic household appliance, Europe, 2014–2023E



Note: Food makers include food steamers, soup makers and baby food makers; electric smoothing irons include steam generator irons and steam irons.

Source: Frost & Sullivan

Outlook of electrothermic household appliance market in Europe

European market demand of electrothermic household appliance is driven by new model of products with advanced technology and innovative features. With the expected growth in purchasing power of consumers in the European market and increase in health awareness (e.g. Steam cooking is considered the healthiest amongst other cooking methods and the key benefits include (i) retaining nutrients (e.g. vitamin and minerals) in food and (ii) oil-free cooking), demand for premium and advanced electrothermic household appliances is expected to increase. Accordingly, electrothermic household appliance brand owners in the European market puts high emphasis in research, development and product innovation with strong marketing activities in order to appeal to customers' demand in enhancement in their quality of life and sustain in the competitive market environment.

The PRC is expected to continue to be the major source of electrothermic household appliance supplying to Europe, primarily due to (i) high production cost in European countries, (ii) established industry structure and supply chain of electrothermic household appliance manufacturing in the PRC; and (iii) strong trade relationship between the PRC and European countries. In general, brand owners in Europe prefer working with a limited number of approved manufacturers in the PRC to ensure consistent product quality.

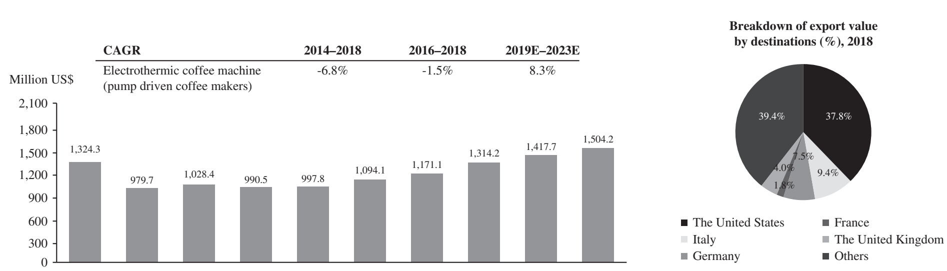
OVERVIEW OF ELECTROTHERMIC HOUSEHOLD APPLIANCE MANUFACTURING MARKET IN THE PRC

Export value of coffee machine in the PRC

The PRC has been the world's largest household appliance manufacturer due to its competitive advantages in production and labour costs. According to Trade Map and Frost & Sullivan, from 2014 to 2018, the export value of electrothermic pump driven coffee machine in the PRC recorded a decline at a compound annual rate of 6.8% which was mainly attributable to weak global demand and economic uncertainties during 2014 to 2015 which resulted in the significant decline of export value of coffee machine from US$1,324.3 million in 2014 to US$979.7 million in 2015. Furthermore, the retail sales value and import value of coffee machines in Europe has also seen a decline at a year-on-year rate of 3.7% and 21.4% respectively during 2014 to 2015. According to Frost & Sullivan, the expected growth of export value of electrothermic pump driven coffee machines in the PRC during 2019 to 2023 is primarily driven by the increase in market demand for coffee globally and the growing consumers' demand for high quality coffee and emergence of specialty coffee which puts high emphasis on the value and quality of coffee made with skills, which results in the growth of overall coffee related industries including the coffee machines market. According to International Coffee Organisation, the global coffee consumption increased from approximately 151.5 million 60kg bags in 2014 to approximately 161.4 million 60kg bags in 2018. Furthermore, according to United States Department of Agriculture, the global coffee production is expected to achieve a record high of 174.5 million 60kg bags in 2019 with a strong year-on-year growth of approximately 9.8%. To cope with the market demand and rising sophistication of consumers for coffee machine, brand owners had expanded their product portfolio and developed affordable models with varieties instead of typical types (e.g. single-served and capsule-based). Furthermore, subsequent to the recovery of European economic environment, the domestic demand for coffee machines in Europe has seen a growth as indicated by (i) strong growth of retail sales value of coffee machines in Europe with a significant CAGR of 9.6% during 2016 to 2018; (ii) strong growth of import value of coffee machines in Europe with a significant CAGR of 12.5% during 2016 to 2018 and (iii) increasing penetration of coffee machines in certain European markets (i.e. United Kingdom). According to Frost & Sullivan, the penetration rate of coffee machines in the United Kingdom by ownerships of households has seen a moderate growth from approximately 28% in 2014 to 30% in 2016, and subsequently at a fast pace to 36% in 2018. Going forward, the penetration rate is expected to increase continuously and reach 43% by 2023. The increasing coffee consumption, coupled with the increasing coffee machine retail and trade performance, is indicative to the expected rebound of the market demand for coffee machines in European market as well as export from the PRC as a global leading exporter of coffee machine with a share of over 40% in terms of export value. In view of the established supply chain and adoption of core technology of coffee machine by OEMs, the PRC is expected to maintain the role as the leading exporting country of coffee machine globally and the export value of electrothermic pump driven coffee machine in the PRC is expected to grow at a CAGR of 8.3% during 2019 to 2023.

In 2018, the United States, Italy, Germany, the United Kingdom and France were the major destinations for pump driven coffee machine in the PRC, accounted for approximately 37.8%, 9.4%, 7.5%, 4.0% and 1.8% of the total export value respectively.

Export value of electrothermic coffee machine in the PRC, 2014–2023E



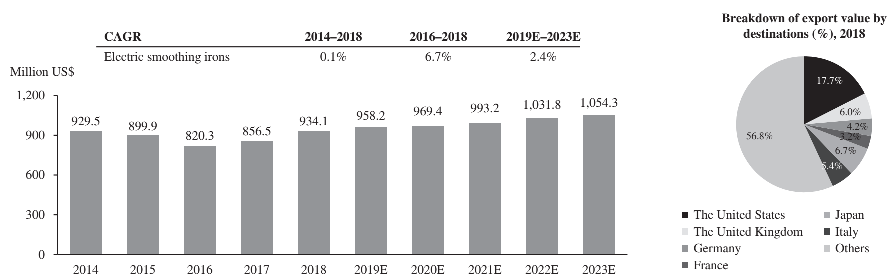
Note: Data refers to HS code 85167130 pump driven coffee machines.

Source: Trade Map, Frost & Sullivan

Export value of electric smoothing irons in the PRC

According to Trade Map and Frost & Sullivan, from 2014 to 2018, the export value of electric smoothing irons in the PRC recorded a slight growth at a CAGR of 0.1%, increased from US$929.5 million to US$934.1 million in 2018. It was due to stable global market demand for electric smoothing irons and the export trade in the PRC, which was partially affected by weakened demand in European countries during 2014 to 2016. In 2018, the export value of electric smoothing irons saw a significant growth of 9.1% from 2017 as driven by recovery of global economy and market demand. The export value of electric smoothing irons is expected to further recover at a CAGR of 2.4% from 2019 to 2023, reaching US$1,054.3 million by 2023, driven by regular replacement of old steam irons by consumers. In 2018, the United States, Japan, Italy, Germany, the United Kingdom and France are the major export destinations for electric smoothing irons from the PRC.

Export value of electric smoothing irons in the PRC, 2014–2023E



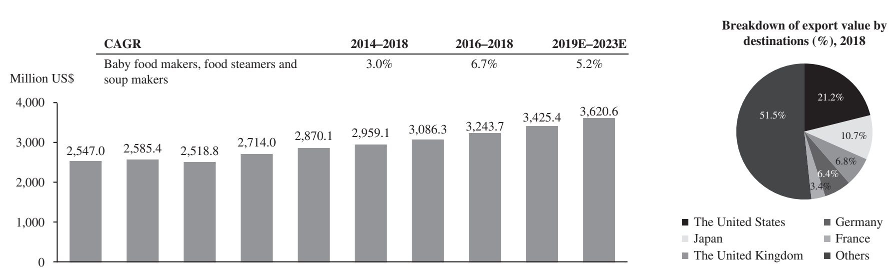
Note: Data refers to HS code 851640 for electric smoothing irons; electric smoothing irons include steam generator irons and steam irons, and the export value of electrothermic steam generator irons in the PRC is not available based on the public source data obtained.

Source: Trade Map, Frost & Sullivan

Export value of baby food makers, food steamers and soup makers in the PRC

According to Trade Map and Frost & Sullivan, the export value of baby food makers, food steamers and soup makers in the PRC recorded a growth from approximately US$2,547.0 million in 2014 to US$2,870.1 million in 2018, representing a CAGR of 3.0%. The growth was primarily driven by the increasing global demand for advanced and innovative cooking appliance. From 2019 to 2023, the export value of baby food makers, food steamers and soup makers is expected to grow at a CAGR of 5.2%, reaching US$3,620.6 million by 2023. The growth is likely driven by the increasing demand and requirements for these household appliances. In 2018, the United States, Japan, the United Kingdom are the major export destinations for baby food makers, food steamers and soup makers from the PRC.

Export value of baby food makers, food steamers and soup makers in the PRC, 2014–2023E



Note: Data refers to HS code 85167990 for baby food makers, food steamers and soup makers, etc. Due to limited availability of information, breakdown of value by respective product type is not available.

Source: Trade Map, Frost & Sullivan

Market drivers and opportunities

Technology innovation and portfolio extension — The major product innovations introduced in the electrothermic household appliance market are in terms of core technology, product performance, features, and design. The electrothermic household appliance manufacturing industry in the PRC will benefit from the growing global demand for innovative products resulted from purchasing power in overseas markets such as

Europe and United States. In addition, manufacturers and brand owners are increasing effort and investment in research and development of advanced products to cater for requirements from different consumers. With the heightening brand awareness by consumers, more emphasis is being placed on product design, functions and features, medium to high-end electrothermic household appliances becomes mainstay of the consumer market. It is also seen that premium and innovative brands have reaped high profits, indicating that Chinese manufacturers that possess technologies and know-how, and are capable to deliver innovative designs will have advantageous position for capture the market opportunities.

Changing lifestyle in key end-markets — Changing lifestyle in Europe provides great opportunities for designers and manufacturers to come up with conceptual design for new product, which is favourable for ODMs in the PRC with strong product development capabilities as the PRC has been a major source of electrothermic household appliances for European market and European brand owners of electrothermic household appliances typically prefer sourcing product from the ODMs with proven track record, strong industry knowhow and R&D capacities. The demand for coffee machine is expected to continue to grow in the future as the demand increases rapidly with higher spending propensity. Opportunities for coffee machine market also abound in the region owing to the rising disposable incomes, increased adoption of Western consumption habits, and growing preference of youngsters. Particularly, the growing adoption of Western consumption habits amongst Chinese population and other Asian countries has driven the demand for electrothermic household appliances under the overseas brand owners (e.g. European brands) which are well-recognised in respect of product design, quality and function, and such factor will likely benefit the ODMs of electrothermic household appliances for renowned overseas brands in the PRC. In the overseas market such as the European countries, changing life style with growing preference towards machine-made coffee featured with easy and quick preparation over handmade coffee resulted from faster pace of life, as well as increasing for demand and tendency to make premium coffee at home have favoured the PRC manufacturing and export market. More user-friendly and enhanced product features such as one-touch and compact design have been in the trend to meet evolving customer needs.

Market challenges and threat

Requirement of capital — In view of rising labour cost, increasing complexity of product and shorten production cycle, manufacturers are addressing the productivity gap by adopting a three-pronged strategy targeting automated manufacturing, improving education, and imported expertise. More investment is expected to be made for the robotic machines, which will further stimulate automated production in various applications. The adoption of automated production enables manufacturers to (i) deliver product in higher quality, precision level and consistency, (ii) minimise defective products and (iii) reduce labour cost and overall operation cost in a long run. Manufacturers will face pressure to obtain funding to finance their capital expenditure in order to maintain their competitiveness in the industry.

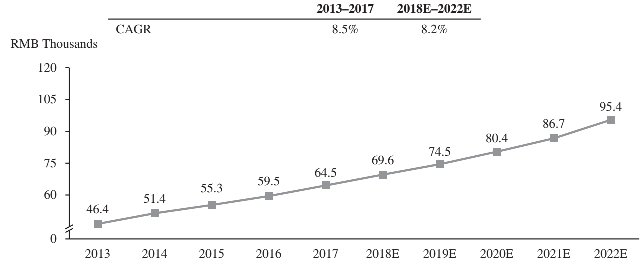
Rising operation costs — Rising cost of operation is one of the key constraints for electrothermic household appliance manufacturing industry, including the rising labour cost as the industry is considered labour intensive. Given the limited pool of product designers and engineers, electrothermic household appliance manufacturers are required to raise the wage level for such kinds of professional staff. It is expected that the increasing operation cost may become a financial constraint of manufacturers in the PRC.

MAJOR COSTS FOR ELECTROTHERMIC HOUSEHOLD APPLIANCES MANUFACTURERS IN THE PRC

Labour cost

According to National Bureau of Statistics of China and Frost & Sullivan, the average wage of employed persons in urban areas in the manufacturing industry in the PRC has witnessed rapid growth from RMB46,431 in 2013 to RMB64,452 in 2017, representing a CAGR of 8.5%. From 2018 to 2022, the average wage of employed persons in urban areas in the manufacturing industry is expected to increase significantly, mainly attributable to inflation in the PRC and increased demand for skilled labour in the manufacturing industry.

Average annual wage of employed persons in urban areas in manufacturing industry, the PRC, 2013–2022E



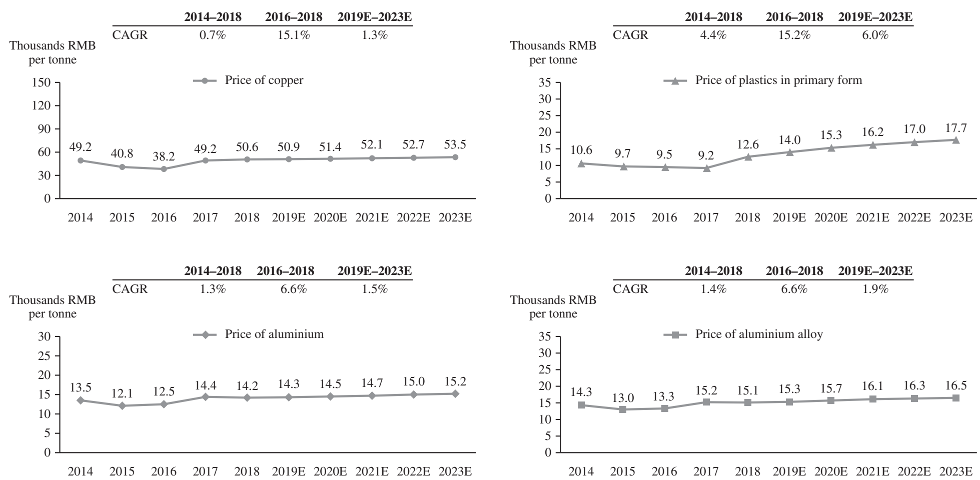
Note: Latest available figures were recorded in 2017.

Source: National Bureau of Statistics of China, Frost & Sullivan

Raw materials cost

The raw materials used for manufacturing of electrothermic household appliances and its components are similar, which are mainly metals (e.g. copper and aluminium) and plastics. According to Frost & Sullivan, the price of copper in the PRC generally experienced a slight growth at a CAGR of 0.7% during 2014 to 2018. Fluctuations in aluminium prices were recorded in the from 2014 to 2018. During the same period, price of plastics in primary form recorded a growth at a CAGR of 4.4%, driven by the recovery of downstream industrial sector. From 2019 to 2023, the prices of aluminium and aluminium alloy are expected to increase at a CAGR of 1.5% and 1.9% respectively, due to consumption outstripping production outside of the PRC. Fiscal stimulus from the Chinese government to spur infrastructure projects could provide a boost to copper demand, leading to a moderate recovery of copper prices in the coming years.

Price trend of selected raw materials, the PRC, 2014–2023E



Source: Frost & Sullivan

PRICE TREND OF SELECTED ELECTROTHERMIC HOUSEHOLD APPLIANCE IN THE PRC

Export unit price of pump driven coffee machine, electric smoothing irons and baby food makers, food steamers and soup makers in the PRC

The following table sets out the export unit price of selected electrothermic household appliances in the PRC:

Product	Export unit price 2014		2015		2016		2017		2018		CAGR (2014–2018)
	US$	*HK$*	*US$*	*HK$*	*US$*	*HK$*	*US$*	*HK$*	*US$*	*HK$*	
Pump driven coffee machine	51.7	404.8	48.3	378.2	48.7	381.3	49.9	390.7	50.2	393.1	–0.6%
Electric smoothing irons	8.9	69.7	8.9	69.7	8.5	66.6	8.3	65.0	8.2	64.2	–1.6%
Baby food makers, food steamers and soup makers	6.0	47.0	5.9	46.2	6.1	47.8	5.9	46.2	6.2	48.5	0.7%

Source: Frost & Sullivan

Unit price of the major electrothermic household appliances sold by our Group is generally higher than the export unit price of respective types of products in the market. Our Directors believe that our products are considered as mid-to-high end products in the industry because:

i. we provide advanced design and functions on our products with our strong research and development capability;

ii. our major customers are mainly reputable and internationally recognised brand companies headquartered in Europe, which have stringent requirements on quality and safety; and

iii. the market position of our major customers are mid-to-high end; therefore, our products are considered as mid-to-high end products in the industry.

For details of the average selling price per unit of our products under different categories, please refer to the section headed "Business — Our products" in this prospectus.

According to Frost & Sullivan, mid-to-high end electrothermic household appliance is featured with relatively higher export unit price and thus retail price over the low-end ones and is typically sold by renowned brand owners in overseas markets (e.g. Europe) with better product quality and performance. The export unit price of mid-to-high end electrothermic household appliance could be double or even triple of the export unit price of the low-end ones due to the higher quality requirement by the brand owners and fulfilment of international standards. Thus, in terms of export unit price, the prices of our Group's products are of mid-to-high end.

Impact of U.S.-Sino trade war and Brexit on electrothermic household appliance manufacturing market in the PRC

Effective from 1 September 2019, the U.S. Government announced the imposition of additional 15% import tariffs for another batch of Chinese products with an annual trade value of approximately US$300 billion, which covers coffee machines, electric smoothing irons, and baby food makers, food steamers and soup makers. On 13 August 2019, the United States Trade Representative announced that certain products were being removed from the tariff list while tariffs on some other products, such as electric smoothing irons, and baby food makers, food steamers and soup makers, would be delayed to 15 December 2019. Such new tariffs may result in potential risk to the business performance of electrothermic household appliance manufacturers in the PRC in a long term.

However, given that (i) the PRC is a leading manufacturing and exporting country for electrothermic household appliance in the world with well-established supply chain, technology and facilities; and (ii) there is a significant number of local manufacturers serving overseas brand owners and customers on an OEM and ODM basis with in-depth understanding of customer requirement and product specification, brand owners, and customers are difficult to source the product from manufacturers in alternative countries in a short period of time. In addition, the effects of additional tariffs imposed on Chinese electrothermic household appliance for manufacturers in the PRC could potentially be mitigated given the depreciation of RMB against U.S. dollars. Therefore, the impact of such proposed modification on the electrothermic household appliance manufacturers in the PRC is considered minimal in short-term.

Similarly, business operations of electrothermic household appliance manufacturers in the PRC have not been adversely impacted by Brexit due to the fact that the process of Brexit has been delayed with a six-month extension until 31 October 2019 since its announcement in 2016 and the actual timeline for implementation still remains uncertain. In addition, the retail sales value of electrothermic household appliance, including coffee machines, electric smoothing irons, and baby food makers, food steamers and soup makers in United Kingdom has seen a growth during 2016 to 2018. Meanwhile, the export value of the aforesaid products in the PRC also demonstrated a significant growth during the same period of time.

COMPETITIVE LANDSCAPE OF ELECTROTHERMIC HOUSEHOLD APPLIANCE MANUFACTURING MARKET IN THE PRC

Overview of market competition

The electrothermic household appliance manufacturing market in the PRC is highly fragmented, comprising more than 5,000 small and medium enterprises and large enterprises principally engaging in the manufacture of different types of electrothermic household appliances in 2018. Majority of local manufacturers in the PRC operate as an OEM basis focusing on domestic markets while some manufacturers with proven product development capability may also serve as ODM for overseas customers. Going forward, the electrothermic household appliance manufacturers in the PRC may focus on value-adding products and enhance service level, as well as developing overseas business for better profit level. Meanwhile, the market is expected to undergo consolidation given the financial constraints of manufacturers resulted from escalating operation cost.

According to Frost & Sullivan, in view of the fragmented nature of industry and market participants generally specialised in certain types of electrothermic household appliances, there is no single participant dominating the overall electrothermic household appliances market in the PRC. Some of the participants in the electrothermic household appliance market in the PRC are Joyoung Co., Ltd. (九陽股份有限公司), Xinbao Electrical Appliances Holdings Co., Ltd. (廣東新寶電器股份有限公司), Ningbo Kaibo Group Co., Ltd. (寧波凱波集團有限公司), Cuori Electrical Appliances (Group) Co., Ltd. (卓力電器集團有限公司) and our Group. The aforesaid market participants may focus on different types of electrothermic household appliances with different target end-markets. For example, some of them specialise in the cooking appliances while others specialise in cleaning appliances and serve domestic or overseas customers. In addition, as electrothermic household appliances market in the PRC is highly fragmented and respective products may carry distinctive features, the market shares and ranking of market participants are therefore not available.

In 2018, the Group's revenue generated from electrothermic household appliances was equivalent to US$47.9 million (approximately HK$373.5 million), including the export of garment care appliances such as electric smoothing irons and cooking appliances such as coffee machines, food steamers, baby food makers and soup makers. It is estimated that our Group had a market share of approximately 2.3% in terms of export value of electric smoothing irons, approximately 1.5% for pump driven coffee machines and approximately 0.4% for baby food makers, soup makers and food steamers in the PRC in 2018.

Factors of market competition

Product quality and service level — Established electrothermic household appliances manufacturers generally offer high quality of products and demonstrate outstanding service capability in respect of product design and development, manufacturing and delivery. In addition, manufacturers of electrothermic household appliances with proven track record in offering innovative products and achieving stringent quality control (e.g. through adoption of quality management system) with minimum defects in products are more advantageous in securing orders from and maintain business relationship with brand owners.

Industry reputation and recognition — Electrothermic household appliances manufacturers with strong market presence and industry reputation is more preferred by brand owners. In particular, manufacturers with long-established history, compliance with internationally-recognised quality management system (e.g. ISO) and industry standards (e.g. Waste Electrical & Electronic Equipment (WEEE) Directive, Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and International Electrotechnical Commission (IEC)) are competitive in developing business with customers in European markets, which generally put high emphasis on quality and technical requirements for their manufacturers.

Entry barriers

Capital requirement — Electrothermic household appliance manufacturing is considered a capital-intensive business. Apart from expenditure for setting up production facilities with machinery and equipment, capital reserve is also required to support major operation from product development, procurement, production and distribution. As such, new entrants without sufficient funding are difficult to maintain their business operations.

Established customer relationship — In general, established electrothermic household appliance manufacturers had maintained a strong business relationship with key customers which are mostly the brand owners. Brand owners may face the quality and service risks associated with switching their existing OEMs and ODMs of electrothermic household appliance to new and inexperienced ones. As a result, the high switching cost for brand owners may become a key barrier for new entrants in electrothermic household appliance manufacturing market.

Industry know-how and development capabilities — Established market participants generally possess strong industry know-how and demonstrate capabilities in manufacturing. Specifically, ODMs generally exhibit strong capacity in design and product development and even own patents for self-invented products. Thus, industry and technical knowledge may serve as a key entry barrier.

DIRECTORS' CONFIRMATION

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information therein.