INDEBTEDNESS

Borrowings

At the close of business on 30th September, 2002, being the latest practicable date for this indebtedness statement, the Group had outstanding borrowings of approximately HK$22.7 million, comprising secured bank borrowings of approximately HK$8.1 million, trust receipt loans of approximately HK$7.3 million and bank overdrafts of approximately HK$0.8 million, other unsecured borrowings of approximately HK$1.0 million and loan from director of approximately HK$5.5 million.

Contingent liabilities

At the close of business on 30th September, 2002, the Group had contingent liabilities in respect of bills discounted with recourse in the form of letters of credit discount to the banks of approximately HK$7.3 million.

Capital commitments

At the close of business on 30th September, 2002, the Group had no significant capital commitments.

Securities and guarantees

As at 30th September, 2002, the Group's banking facilities were secured by:

(i) fixed bank deposits of approximately HK$1.1 million;

(ii) the Group's property, plant and equipment with a net book value of approximately HK$1.5 million; and

in addition to the above, as at the date of the report, the leasehold land and building of Madam Chan Yuk, wife of Mr. Yeung was mortgaged to a bank to secure the banking facilities of the Group. Mr. Yeung has also given personal guarantees and fixed deposit pledges to various banks to secure the banking facilities granted to the Group. Such mortgages, guarantees and pledges of deposits will be fully released prior to the listing of the Shares on the Stock Exchange.

Release from securities and guarantees

The Group has received consents in principle from the relevant banks to the effect that shortly upon the listing of the Shares on the Stock Exchange, the personal guarantees and securities given by Mr. Yeung will be released and replaced by corporate guarantees from the Company.

Disclaimers

Save as disclosed herein and apart from intra-group liabilities, the Group did not have any outstanding loan capital, bank overdrafts, liabilities under acceptance or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30th September, 2002.

The Directors have confirmed that there has not been any material change in the indebtedness, commitments and contingent liabilities of the companies comprising the Group since 30th September, 2002.

DISCLOSURE UNDER PRACTICE NOTE 19 TO THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, the Group was not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings and banking facilities

The Group generally finances its operations with internally generated cashflows and banking facilities provided by its principal bankers in Hong Kong.

As at 30th September, 2002, the Group had outstanding borrowings of approximately HK$22.7 million, comprising secured bank borrowings of approximately HK$8.1 million, secured bank overdrafts of approximately HK$0.8 million, trust receipt loans of approximately HK$7.3 million, other unsecured borrowings of approximately HK$1.0 million and loan from a Director of approximately HK$5.5 million.

Net current asset position

As at 30th September, 2002, being the latest practicable date for the purpose of this statement, the Group had net current assets of approximately HK$13.5 million. Current assets of the Group comprised cash on hand and at banks of approximately HK$1.8 million, inventories of approximately HK$44.1 million, trade and other receivables of approximately HK$46.5 million, amount due from a related company of approximately HK$0.5 million and pledged bank deposits of approximately HK$1.1 million. The current liabilities of the Group comprised bank and other borrowings of approximately HK$15.0 million, tax payable of approximately HK$17.4 million, amount due to a Director of approximately HK$5.5 million and trade and other payables of approximately HK$42.6 million.

Working capital

The Directors are of the opinion that, taking into consideration the financial resources available to the Group including the internally generated funds, the available unutilised banking facilities and the estimated net proceeds of the New Issue, the Group has sufficient working capital for its present requirements.

TRADING RECORD

Summary of combined results of the Group

The following table summarises the Group's combined turnover and results for the Track Record Period prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

		Year ended 30th April,		
		2000	**2001**	**2002**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*(1)*	184,871	187,548	207,553
Cost of sales		(121,130)	(111,475)	(118,392)
Gross profit		63,741	76,073	89,161
Other revenue		569	1,658	1,610
Administrative expenses		(19,966)	(22,534)	(21,301)
Distribution expenses		(12,223)	(9,576)	(8,473)
Profit from operations		32,121	45,621	60,997
Finance costs		(2,380)	(2,903)	(1,581)
Share of results of an associate		(1,518)	–	–
Impairment loss recognised on property, plant and equipment		–	–	(1,558)
Profit before taxation		28,223	42,718	57,858
Taxation		(2,698)	(6,715)	(6,658)
Net profit for the year		25,525	36,003	51,200
Dividends	*(2)*	18,600	25,000	10,000
Earnings per Share – basic	*(3)*	8.2 HK cents	11.5 HK cents	16.4 HK cents

Notes:

(1) Turnover represents the amount received and receivable for goods sold to outside customers less returns and allowances.

(2) The source of fund for the payment of dividends was generated from internal resources.

(3) The calculation of the basic earnings per Share is based on the profit attributable to Shareholders for the period under review and on the basis of 312,375,000 Shares in issue and to be issued, comprising 1,000,000 Shares in issue as at the date of this prospectus and 311,375,000 Shares to be issued pursuant to the Capitalisation Issue.

The Directors are aware of the requirement of Rule 8.06 of the Listing Rules which states that the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of this prospectus.

The Company has sought and obtained a waiver from strict compliance with such requirement from the Stock Exchange. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th April, 2002, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

Profit margins of the Group

For the three years ended 30th April, 2002, the Group recorded gross profit margin of 34.5%, 40.6% and 43.0% respectively and net profit margin of 13.8%, 19.2% and 24.7% respectively. The Directors attributed the high margins principally to the vertically integrated production process adopted by the Group. As stated in the section headed "Business" of this prospectus, the production process of the Group is vertically integrated. Rather than relying on the supply of basic components from third parties, the Group possesses production facilities and labour for the manufacture of those basic components such as motors. Only basic raw materials, such as steel roll, copper wire and plastic resin, are purchased by the Group. As a result of the vertical integration, the Group can control its production cost more effectively. This has put the Group in an advantageous position to enjoy a higher profit margins as compared with those manufacturers who have to source basic components from other suppliers. Further details in relation to the reasons for the increase in gross profit margin and net profit margin during the Track Record Period are set out in the following paragraphs.

Year ended 30th April, 2000

For the year ended 30th April, 2000, the Group recorded a turnover of about HK$184.9 million. Sales to Europe and North America accounted for about 62% and 12% of the Group's total turnover respectively.

The gross profit for this year was about HK$63.7 million, representing a gross profit margin of approximately 34.5%. The Group achieved a profit attributable to shareholders of about HK$25.5 million for the year and the net profit margin was about 13.8%.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year ended 30th April, 2000 were 47 days, 49 days and 146 days respectively.

During the year, the Group's gearing ratio was approximately 18.3%.

Year ended 30th April, 2001

For the year ended 30th April, 2001, the Group recorded a turnover of approximately HK$187.5 million, representing an increase of approximately 1.5% in comparison to the corresponding year in 2000.

The gross profit for this year increased to HK$76.1 million, representing an increase of about 19% from the previous financial year. The gross profit margin of the Group increased from approximately 34.5% in 2000 to approximately 40.6% in 2001. The increase in gross profit margin was attributable to the increased sales of scooter which had a gross profit margin over 50%.

The Group achieved a profit attributable to shareholders of about HK$36.0 million for the year, representing an increase of about 41.0% from the previous financial year. During the year, net profit margin increased from about 13.8% to 19.2%. The increase was attributable to the strong demand for scooters which had a high profit margin and the reduction in distribution expenses. Distribution expenses decreased for the year ended 30th April, 2001 as more and more of the freight charges are now borne by the customers instead of the Group.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year ended 30th April, 2001 were 36 days, 74 days and 203 days respectively.

The decrease in debtors' turnover period from 47 days in 2000 to 36 days in 2001 was due to stringent financial control procedures implemented by the Group by closely monitoring the receivable and paying more attention to the accounts. The Group applies a stringent credit control system over its customers.

The increase in inventory turnover period from 49 days in 2000 to 74 days in 2001 was due to the increased inventory level in preparation for the increased sales and production of heaters.

The increase in creditors' turnover period from 146 days in 2000 to 203 days in 2001 was due to the increased inventory level and longer payment and credit terms were obtained by the suppliers from 90-120 days to 120-180 days.

The Group's gearing ratio dropped to approximately 9.2% due to repayment of packing loan as at the financial year end.

Year ended 30th April, 2002

The Group's turnover and net profit after tax for the year were approximately HK$207.6 million and HK$51.2 million respectively.

The gross profit margin of the Group increased from about 40.6% in the previous year to 43.0% for the year ended 30th April, 2002. Such increase was primarily attributable to the Group's continuous effort in cost control and improving operation efficiency in production. In addition, a higher proportion of turnover from heaters, which had a relatively higher margin compared with fans, was recorded for the year ended 30th April, 2002 when compared to the last financial year. In view of the market conditions, the Group has also recognised an impairment loss of approximately HK$1.6 million for its leasehold land and building situated in Hong Kong.

The Group's net profit attributable to shareholders for the year was approximately HK$51.2 million and the net profit margin for the year was approximately 24.7%. Net profit margin increased from approximately 19.2% in 2001 to approximately 24.7% in 2002 as a result of the improvement in the Group's operation efficiency and the proper control of operating costs. The overhead and fixed costs remained at a similar level due to the stringent cost control and the spread of such costs over a larger volume of output.

Debtors' turnover period, inventory turnover period and creditors' turnover period for the year ended 30th April, 2002 were 64 days, 67 days and 124 days respectively.

The increase in debtors' turnover period from 36 days in 2001 to 64 days in 2002 was due to the increase in credit terms to certain PRC open accounts customers from 60 days to 90 days.

The Group's inventory turnover period was 67 days for the year ended 30th April, 2002 and was considered to be consistent with the Group's operation for the year.

The decrease in creditors' turnover period from 203 days in 2001 to 124 days in 2002 was due to competitive price offered by the supplier with a shorter payment and credits term about 120 days.

The Group's gearing ratio was approximately 6.4% for the year ended 30th April, 2002, which was generally in line with that for the last financial year end.

Trading development from 1st May, 2002 to the Latest Practicable Date

During the period from 1st May, 2002 to the Latest Practicable Date, the Group recorded a steady increase of turnover and net profit compared with the same period in 2001. A higher proportion of the turnover were derived from heaters, which had a relatively higher profit margin compared with that of fans. After the Group's trial production of the oil-filled radiators in July 2002, the Group has commenced the commercial sale of this product. One of the reasons for the increase in turnover during the period was the commencement of sale of the oil-filled radiators. The production of this product has utilised the surplus production capacity of the Group during this period, which is usually a low season for the production of fans. Europe remained the principal market of the Group during this period.

TAX

For the three years ended 30th April, 2002, the Group's income was subject to Hong Kong and the PRC tax. Provision for Hong Kong profits tax had been calculated at the applicable rate on the estimated assessable profits for each of the relevant periods. Provision for taxation of profits of subsidiaries of the Company operating in the PRC have been calculated at the rates applicable in the respective jurisdiction, based on the existing law and practices, during each of the three years ended 30th April, 2002.

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.

The effective tax rate applicable to the Group was approximately 9.6%, 15.7% and 11.5% for each of the three years ended 30th April, 2002 respectively. For the year ended 30th April, 2001, DGKL temporarily suspended its operation and Tacho took up the Group's manufacturing process. Accordingly, the Group's manufacturing costs were entirely reflected in Tacho's account instead of sharing with DGKL. Hence, the assessable profit of Tacho, which is entitled to claim 50:50 reduction basis for Hong Kong profits tax, decreased, thus increasing the overall effective tax rate of the Group.

Tacho was involved in the manufacturing of household electrical appliances in the manufacturing plant owned by the Group in the Guangdong Province, the PRC by providing the necessary raw materials and machinery. As a result, Tacho should be entitled to claim 50:50 basis of Hong Kong Profits Tax in accordance with the Department Interpretation & Practice Notes Revised No. 21 issued by the Inland Revenue Department's practice.

PROPERTY INTERESTS

Hong Kong

The Group's head office in Hong Kong is located at Unit 1901, 19th Floor, Hong Kong Worsted Mills Industrial Building, Nos. 31-39 Wo Tong Tsui Street, Kwai Chung, New Territories, Hong Kong. Such property interest comprising a total gross floor area of approximately 378.48 sq.m. is currently owned and occupied by the Group as warehouses, ancillary offices and other ancillary uses.

The PRC

The Group's owned industrial complex in the PRC is located at Shahukou Administrative District, Changping Town, Dongguan City, Guangdong Province, the PRC. The property has a total gross floor area of approximately 55,644.76 sq.m. and is currently occupied by the Group as workshops, warehouses, dormitory, ancillary offices and other ancillary uses.

Property valuation

The property interests of the Group have been valued at 31st October, 2002 by DTZ Debenham Tie Leung Limited, an independent property valuer. The texts of the letter with a summary of valuation and a valuation certificate of these property interests prepared by DTZ Debenham Tie Leung Limited are set out in Appendix II to this prospectus.

DIVIDENDS

The amount of any dividends to be declared in the future will depend on, among other things, the Company's results of operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends will be paid in around January and September each year respectively, and that the interim dividend will normally represent approximately 30% of the expected total dividends for the full year.

WORKING CAPITAL

Taking into account the financial resources available to the Group, including internally generated funds, the available banking facilities and the estimated net proceeds of the New Issue, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

DISTRIBUTABLE RESERVES

As at 30th April, 2002, the Company had no reserve available for distribution to the Shareholders.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 30th April, 2002 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	HK$'000
Audited combined net assets of the Group as at 30th April, 2002	97,088
Unaudited combined profit for the five months ended 30th September, 2002	18,632
Final dividend declared in October 2002 *(Note 1)*	(10,000)
	105,720
Estimated net proceeds of the New Issue *(Note 2)*	43,000
Adjusted net tangible assets	148,720
Adjusted net tangible asset value per Share *(Note 3)*	39.7 HK cents

Notes:

1. On 18th October, 2002, final dividend of HK$10,000,000 has been declared by the directors of Housely.

2. The estimated net proceeds of the issue of the New Shares (excluding the Over-allotment Shares) under the Share Offer is based on the Offer Price of HK$0.80 per Share, and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares described in the paragraph headed "Written resolutions of all the shareholders of the Company dated 26th November, 2002" in Appendix IV to this prospectus.

3. The adjusted net tangible asset value per Share and the adjusted net asset value per Share is arrived at after the adjustment referred to this section and on the basis of 375,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or which may be allotted and issued or purchased by the Company pursuant to the general mandates for the allotment and issue or purchase of Shares described in the paragraph headed "Written resolutions of all the shareholders of the Company dated 26th November, 2002" in Appendix IV to this prospectus.

4. A surplus of approximately HK$8.2 million arises at the revaluation of the Group's leasehold land and building, which represents properties in the PRC as set out on the paragraph headed "Production facilities" under the section headed "Business" of this prospectus. This surplus will not be included in the Group's account for the financial year ending 30th April, 2003. The open market valuation was performed under the depreciated replacement cost approach by DTZ Debenham Tie Leung limited, an independent valuer, details of which are set out in Appendix II to this prospectus.

NO MATERIAL CHANGE

The Directors confirm that since 30th April, 2002 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.