Fujikon Industrial Holdings Limited

富士高實業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 927)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

FINANCIAL HIGHLIGHTS

- **Turnover: HK$482 million, up 0.7%**
- **Gross profit: HK$106 million, up 4.6%**
- **Profit attributable to equity holders of the Company: HK$30 million, up 2.8%**
- **Basic earnings per share: HK7.9 cents (2004: HK7.8 cents)**
- **Interim dividend (per share): HK3.0 cents**

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of Fujikon Industrial Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("Fujikon" or the "Group") for the six months ended 30 September 2005.

The interim results have been reviewed by the Company's Audit Committee and auditors in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Six months ended 30 September 2005** *HK$'000* **(Unaudited)**	2004 *HK$'000* (Unaudited) (As restated)
Turnover	*2*	**481,945**	478,812
Cost of goods sold		**(376,216)**	(377,685)
Gross profit		**105,729**	101,127
Other revenues		**1,158**	553
Distribution and selling expenses		**(12,224)**	(16,255)
General and administrative expenses		**(55,194)**	(47,645)
Operating profit	*3*	**39,469**	37,780
Finance costs		**(1,178)**	(532)
Profit before taxation		**38,291**	37,248
Taxation	*4*	**(6,301)**	(7,173)
Profit for the period		**31,990**	30,075
Attributable to:			
Equity holders of the Company		**29,511**	28,715
Minority interest		**2,479**	1,360
		31,990	30,075
Earnings per share for profit attributable to the equity holders of the Company during the period	*5*		
– basic		**HK7.94 cents**	HK7.78 cents
– diluted		**HK7.82 cents**	HK7.78 cents
Dividends	*6*	**11,331**	9,222

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 September 2005 HK$'000 (Unaudited)	As at 31 March 2005 HK$'000 (Audited) (As restated)
Non-current assets			
Property, plant and equipment		**199,728**	168,514
Investment properties		**1,122**	–
Leasehold land and land use rights		**21,365**	22,046
Interest in jointly controlled entity		**241**	354
Long-term investments		**–**	23,858
Available-for-sale financial assets		**8,469**	–
Other financial assets at fair value through profit or loss		**13,492**	–
Other long-term assets		**–**	600
Deferred tax assets		**1,697**	1,555
Total non-current assets		**246,114**	216,927
Current assets			
Inventories		**125,615**	104,299
Trade receivables	*7*	**155,383**	144,996
Other receivables		**10,716**	8,971
Cash and bank deposits		**102,707**	93,821
Total current assets		**394,421**	352,087
Current liabilities			
Trade payables	*8*	**150,934**	105,610
Other payables		**55,195**	51,740
Current tax liabilities		**15,222**	10,972
Bank borrowings		**36,836**	38,185
Total current liabilities		**258,187**	206,507

	Note	As at 30 September 2005 HK$'000 (Unaudited)	As at 31 March 2005 HK$'000 (Audited) (As restated)
Net current assets		**136,234**	145,580
Total assets less current liabilities		**382,348**	362,507
Non-current liabilities			
Bank borrowings		**12,677**	3,733
Deferred tax liabilities		**2,850**	2,226
Total non-current liabilities		**15,527**	5,959
Net assets		**366,821**	356,548
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**37,332**	36,889
Other reserves		**63,891**	57,681
Retained earnings			
– Proposed dividend		**11,200**	27,830
– Others		**238,584**	220,813
		351,007	343,213
Minority interest		**15,814**	13,335
Total equity		**366,821**	356,548

NOTES:

1. **Basis of preparation and accounting policies**

These unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA.

These condensed consolidated financial statements should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 April 2005 and relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements. The changes in accounting policies with material impact to the financial statements are summarised below:

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at valuation less accumulated depreciation and accumulated impairment. In addition, land and building was stated at valuation previously. The increase in fair value was credited to the revaluation reserve. Decrease in fair value was first set off against increases on earlier valuations in respect of the same property and thereafter expensed in the income statement. The adoption of cost method for the six months ended 30 September 2005 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. The current policy is adopted as it is considered more appropriate. These changes result in a decrease in net opening reserves by approximately HK$70,687,000 at 1 April 2005 and an increase of profit for the six months ended 30 September 2005 of approximately HK$78,000.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the measurement and classification of long-term investments and other long-term assets. As a result, other investment of approximately HK$13,492,000 is now classified as "Other Financial Assets at Fair Value through Profit or Loss" while certain range notes and other investments of approximately HK$8,469,000 are now classified as "Available-for-Sale Financial Assets". Gains and losses arising from change in fair value of "Other Financial Assets at Fair Value through Profit or Loss" are charged to income statement while gains and losses arising from changes in fair value of "Available-for-Sale Financial Assets" are charged to investment reserve. During the period, changes in fair value of Available-for-Sale Financial Assets and Other Financial Assets at Fair Value through Profit or Loss of approximately HK$511,000 and HK$203,000 are charged to investment reserve and income statement respectively.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 March 2005, the provision of share options to employees did not result in an expense in the income statement. Effective 1 April 2005, the Group expenses the cost of share options granted to employees in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 April 2005 was expensed retrospectively in the income statements of the respective periods. This change results in a decrease of profit by approximately HK$1,011,000 for the six months ended 30 September 2005 and impacts to equity as at 30 September 2005 as follows:

1) an increase in share option reserve by approximately HK$5,176,000;

2) an increase in share premium by approximately HK$1,044,000; and

3) a decrease in retained earnings of approximately HK$6,220,000.

2. Turnover and segment reporting

a. Primary reporting format – business segments

	Six months ended 30 September 2005						
	Audio products *HK$'000* (Unaudited)	**Communication products** *HK$'000* (Unaudited)	**Multimedia products** *HK$'000* (Unaudited)	**Electro-acoustic parts** *HK$'000* (Unaudited)	**Electronic products, accessories and others** *HK$'000* (Unaudited)	**Elimination** *HK$'000* (Unaudited)	**Total** *HK$'000* (Unaudited)
Segment turnover							
External turnover	**153,863**	**115,766**	**23,367**	**56,058**	**132,891**	**–**	**481,945**
Inter-segment turnover	**–**	**–**	**–**	**–**	**74,914**	**(74,914)**	**–**
	153,863	**115,766**	**23,367**	**56,058**	**207,805**	**(74,914)**	**481,945**
Segment results	**18,234**	**8,400**	**2,034**	**6,723**	**8,181**	**–**	**43,572**
Unallocated corporate expenses							**(5,261)**
Other revenues							**1,158**
Finance costs							**(1,178)**
Taxation							**(6,301)**
Profit for the period							**31,990**
Minority interests							**(2,479)**
Profit attributable to equity holders of the Company							**29,511**

	Six months ended 30 September 2004						
	Audio products	Communication products	Multimedia products	Electro-acoustic parts	Electronic products, accessories and others	Elimination	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	(As restated)	(As restated)	(As restated)	(As restated)	(As restated)	(As restated)	(As restated)
Segment turnover							
External turnover	142,606	93,902	23,028	104,754	114,522	–	478,812
Inter-segment turnover	–	–	–	–	42,008	(42,008)	–
	142,606	93,902	23,028	104,754	156,530	(42,008)	478,812
Segment results	20,538	5,124	2,574	9,166	5,511	–	42,913
Unallocated corporate expenses							(5,686)
Other revenues							553
Finance costs							(532)
Taxation							(7,173)
Profit for the period							30,075
Minority interests							(1,360)
Profit attributable to equity holders of the Company							28,715

b. Secondary reporting format – geographical segments

The following table provides an analysis of the Group's sales by geographical location determined mainly on the basis of the location where merchandise is delivered.

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
United States of America	**144,140**	169,918
Canada	**2,137**	5,584
Europe	**95,980**	79,243
Asian countries (other than Mainland China & Japan)	**104,066**	61,315
Mainland China	**91,504**	97,744
Japan	**32,279**	57,402
Others	**11,839**	7,606
	481,945	478,812

3. Operating profit

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
		(As restated)
Crediting		
Net gain on disposal of other financial assets at fair value through profit or loss	**327**	–
Net gain on disposal of long-term investments	**–**	1,477
Charging		
Depreciation of property, plant and equipment	**14,483**	13,871
Amortisation of leasehold land and land use rights	**255**	267
Staff costs	**84,738**	64,374

4. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax		
– Hong Kong profits tax	**5,034**	6,292
– Overseas taxation	**1,087**	1,076
Deferred income tax	**180**	(195)
	6,301	7,173

5. Earnings per share

The calculation of basic and diluted earnings per share is based on the following:

	Six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
		(As restated)
Profit attributable to equity holders of the Company	**HK$29,511,000**	HK$28,715,000
Weighted average number of ordinary shares for basic earnings per share	**371,542,000**	368,890,000
Adjustments for share options	**5,902,000**	–
Weighted average number of ordinary shares for diluted earnings per share	**377,444,000**	368,890,000

6. Dividends

The Board has resolved to declare an interim dividend of HK3.0 cents per share for the six months ended 30 September 2005 (2004: HK2.5 cents). The interim dividend will be paid on 29 December 2005 to shareholders whose names are registered in the books of the Company on 19 December 2005.

7. Trade receivables

The Group's granted credit terms to its customers ranging from 7 to 120 days. At 30 September 2005 and 31 March 2005, the ageing analysis of the trade receivables were as follows:

	As at 30 September 2005 *HK$'000* **(Unaudited)**	As at 31 March 2005 *HK$'000* (Audited)
0 – 30 days	**147,253**	125,982
31 – 60 days	**7,097**	14,248
61 – 90 days	**2,569**	6,779
91 – 180 days	**4,164**	2,846
	161,083	149,855
Less: provision for impairment of receivables	**(5,700)**	(4,859)
	155,383	144,996

8. Trade payables

At 30 September 2005 and 31 March 2005, the ageing analysis of the trade payables were as follows:

	As at 30 September 2005 *HK$'000* **(Unaudited)**	As at 31 March 2005 *HK$'000* (Audited)
0 – 30 days	**138,771**	94,234
31 – 60 days	**5,180**	7,458
61 – 90 days	**3,443**	3,199
91 – 180 days	**3,540**	719
	150,934	105,610

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 16 December 2005 to Monday, 19 December 2005 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificate must be lodged with the Company's Hong Kong branch share registrar, Hong Kong Registrars Limited at Rooms 1712-16, 17/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:00 p.m. on Thursday, 15 December 2005 for registration.

BUSINESS REVIEW

Surrounded by unfavourable factors including the increase in raw material cost, labour shortage and pressures on general expenses exerted by RMB appreciation, operating conditions were very tough for the manufacturing sector in the first half of FY2005/06. Against such a backdrop, the Group managed to persevere and attained satisfactory results during the period. For the six months ended 30 September 2005, the Group's total turnover increase from HK$479 million in the same period last year to HK$482 million. Gross profit went up 4.6% from last year's HK$101 million to HK$106 million this year, and gross margin from 21.1% to 21.9%. The increase was largely thanks to the Group's increased efforts in cost control, which bore fruit in the period.

Profitability was sustained with modest increase in net margin from 6.0% to 6.1%. Net profit increased 2.8% to HK$29.5 million, compared with last year's HK$28.7 million. Overall business was a bit slower than expected in the first quarter, but momentum gradually gathered during the second quarter. Business outlook for the second half, and hence the full year, remains very positive.

Product Analysis

Mobile communication products continued to be the number one growth driver for the Group, again recording growth in contribution to overall turnover. For the six months ended 30 September 2005, sales of audio products, communication products, multimedia products, electro-acoustic parts, electronic products and accessories, accounted for 31.9%, 24.0%, 4.8%, 11.6% and 27.7% respectively of the Group's total turnover.

During the period under review, the Group's audio products registered a healthy organic growth of 8% from HK$143 million last year to HK$154 million this year. The audio product segment remained the largest revenue contributor with an increasing portion of the business contributed by products with unique features, like headphones with noise-cancelling and wireless audio capabilities.

Powered by increased orders for communication headsets from a leading European handset manufacturer, the communication product segment demonstrated a substantial growth of 23% to HK$116 million. There was an equally strong increase in demand from other Asian manufacturers.

During the review period, performance of the multimedia segment was stable, with slight increase in turnover. With shipment of video-gaming headsets to Microsoft – for bundling with its new Xbox 360 gaming console – commenced at the end of the second quarter, the Group foresees a rebound in its multimedia segment. This will represent a major revival of this long-dwindling business segment.

For the electro-acoustic parts segment, business dropped 47% to HK$56 million, a result of the decrease in sales of both micro-speakers and FM transmitters. The former was attributed to a brief spell of capacity constraint during the review period, while the production resources for micro-speakers were reallocated for the manufacturing of higher margin headsets; whereas the decrease in the shipment of FM transmitters is believed to be temporary.

Sales of the Group's electronic products and accessories recorded a 16% growth during the review period. This rise reflected the significant increase in demand for components. Packaging materials in particular contributed a significant measure to the segment growth.

Market Analysis

The Group's business coverage remained geographically diverse. For the six months ended 30 September 2005, North America, Europe, Asian Countries (other than Mainland China and Japan), Japan and Mainland China accounted for 30.3%, 19.9%, 21.6%, 6.7% and 19.0% of the Group's total turnover respectively.

With one of the Group's major customers changing its mode of operation during the period under review, a significant portion of the business with this customer was redirected from Mainland China to Asian Countries (other than Mainland China and Japan). This contributed significantly to the increase in the turnover from Asian Countries (other than Mainland China and Japan) and at the same time a decrease in that from Mainland China.

In Europe, the Group's sales saw a healthy growth of 21% to HK$96 million this year because of increased sales to a leading European handset manufacturer. In Japan and North America, however, the Group's sales dropped because of the respective decrease in the shipment of micro-speakers and FM transmitters.

PROSPECTS

Fujikon has built up an upward growth momentum during the second quarter of the financial year. Strong performance was anticipated in the second half driven by the scheduled mass shipment of a number of new products in the pipeline.

Outlook for the mobile communications market remains very positive. It is estimated that global sales of handsets will reach 760 million units in 2005, translating into a more vigorous demand for hands-free headsets. With increasing popularity of MP3-enabled mobile phones, demand for high quality communication headsets is stronger than ever. The well-established relationship with a leading European handset manufacturer will allow the Group to capitalize on this trend with increased production volume and market share. In addition, starting from the third quarter of the financial year, the Group will commence volume shipment to additional tier-one market players. This is expected to give a further boost to the Group's turnover in the second half of the year. Moreover, business prospect with other Asian mobile phone manufacturers is also promising.

In terms of audio products, the market for noise-cancelling headphones is maturing with more widespread awareness and acceptance for the product among frequent air travellers. The Group is optimistic about the continual success of its product lines in this niche market segment. For wireless audio products, the Group is confident about the sustained growth in the in-car infrared (IR) headphone business. Moreover, in addition to infrared (IR) and radio frequency (RF) headphones, Bluetooth Stereo and 2.4 GHz digital audio products offer promising potentials within the wireless category.

Regarding multimedia products, the Group was appointed by Microsoft as its hardware supplier to develop and manufacture wired headsets for inclusion with selected Xbox 360 and Xbox Live packages. Shipment of the new Xbox 360 headset has commenced at the end of the second quarter of this financial year. Leveraging Microsoft's established position, the Group is making significant inroad into the video-gaming market. With the increasing popularity of the Voice-over-IP (VoIP) phone applications, the Group is seeing this as another potential growth area.

As for the Group's electro-acoustic parts, the slowdown in the shipment of FM transmitters is believed to be a brief digestion period for the first generation of the product. With demand building up for line extensions, the sale of FM transmitters is expected to pick up again in the fourth quarter of the financial year.

It is anticipated that global market conditions will remain highly competitive. In the foreseeable future, raw material costs are likely to maintain at a high level; the upward trend in labour costs is expected to persist; and general operating costs in Southern China will continue to rise. In view of all these challenges, the Group will maintain its vigilance to further tighten its cost control measures and enhance its production efficiency, which are keys to its continual success. Looking ahead, Fujikon will strive to sustain its profitability, bearing in mind the commitment of bringing the best returns to its shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

Net current assets as at 30 September 2005 amounted to approximately HK$136 million (As at 31 March 2005: HK$146 million). The Group's current and quick ratio (excluding inventories) were 1.53 times (As at 31 March 2005: 1.70 times) and 1.04 times (As at 31 March 2005: 1.20 times) respectively.

The Group had cash and bank deposits of approximately HK$103 million (As at 31 March 2005: HK$94 million). About 20.9%, 10.9%, 53.7% and 0.3% of the total cash and bank deposits were denominated in Chinese Renminbi, Japanese Yen, US dollars and EURO respectively and the remainder in Hong Kong dollars.

The financial assets held for long-term purpose as at 30 September 2005 accounted for approximately HK$22 million (As at 31 March 2005: HK$24 million), of which about 34.1% and 61.4% were several structural notes issued by banks and investment funds managed by overseas investment companies respectively.

CAPITAL STRUCTURE

As at 30 September 2005, the total borrowings of the Group were approximately HK$50 million (As at 31 March 2005: HK$42 million), an increase of 18% and of which about 74.4% and 25.6% were due within one year and between two to five years, respectively.

The Group's gearing ratio as at 30 September 2005 was approximately 14.1% (As at 31 March 2005: 12.2%), which was measured on the basis of total borrowings of approximately HK$50 million (As at 31 March 2005: HK$42 million) as a percentage of capital and reserves attributable to the Company's equity holders of approximately HK$351 million (As at 31 March 2005: HK$343 million).

FOREIGN EXCHANGE EXPOSURE

Most of the Group's transactions, including borrowings, were conducted in US dollars, Hong Kong dollars or Chinese Renminbi. To mitigate the risks due to fluctuations in foreign currency exchange rates, the Group had used forward foreign exchange contracts to hedge against major currency exposures during the period.

EMPLOYMENT, TRAINING AND REMUNERATION POLICY

The Group has developed its human resources policies and procedures based on performance and merit. Discretionary bonus is linked to the profit performance of the Group as well as individual performance. Benefits include staff accommodation, medical schemes, share option scheme, Mandatory Provident Fund for employees in Hong Kong, and state-sponsored retirement plans for employees in the PRC.

As at 30 September 2005, the Group's operations engaged a total of over 10,700 staff and workers. The employment costs (including the directors' emoluments) accounted for approximately HK$85 million (2004: HK$64 million).

COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 September 2005, the Group had total outstanding capital commitments and operating lease commitments of approximately HK$4 million (As at 31 March 2005: HK$23 million) and HK$8 million (As at 31 March 2005: HK$3 million) respectively.

As at 30 September 2005, the Company had provided guarantees of approximately HK$212 million (As at 31 March 2005: HK$202 million) to several banks to secure banking facilities of its subsidiaries.

DEALING IN COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in the Appendix 14 "Code of Corporate Governance Practices" of the Listing Rules (the "Code") throughout the period, save the deviations from the code provisions A.2.1 and A.4.1 of the Code.

According to the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Up to the date of this interim report, the Board has not appointed an individual to the post of chief executive officer. The roles of the chief executive officer have been performed collectively by all the executive directors, including the chairman, of the Company. The Board considers that this arrangement allows contributions from all executive directors with different expertise and is beneficial to the continuity of the Company's policies and strategies. Going forward, the Board will periodically review the effectiveness of this arrangement and considers appointing an individual as chief executive officer when it thinks appropriate.

According to the code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. One of the independent non-executive directors of the Company is not appointed for a fixed term but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of the Company comprises Mr Yeung Chi Hung, Johnny, Mr Yuen Yee Sai, Simon, Mr Chow Man Yan, Michael, and Mr Ng Kwong Hing as executive directors and Dr Chang Chu Cheng, Mr Che Wai Hang, Allen and Mr Lee Yiu Pun as independent non-executive directors.

On behalf of the Board
YEUNG CHI HUNG, JOHNNY
Chairman

Hong Kong, 30 November 2005

* *For identification purposes only*

Please also refer to the published version of this announcement in The Standard.