



Fujikon Industrial Holdings Limited

富士高實業控股有限公司*

(incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

UNAUDITED INTERIM RESULTS

The board of directors (the “Directors”) 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 2003. The interim results have been reviewed by the Company’s auditors in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Society of Accountants (“HKSA”). The interim results have also been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
		30 September	
		2003	2002
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			As restated –
			<i>Note 1</i>
		(Unaudited)	(Unaudited)
Turnover	2	264,436	248,994
Cost of sales		(202,524)	(173,353)
Gross profit		61,912	75,641
Other revenue		60	60
Distribution and selling expenses		(11,391)	(9,117)
General and administrative expenses		(37,915)	(39,457)
Profit from operations	3	12,666	27,127
Interest income		1,357	1,501
Interest expense		(1,222)	(577)
Profit before taxation		12,801	28,051
Taxation	4	(1,064)	(4,436)
Profit after taxation but before minority interests		11,737	23,615
Minority interests		(1,229)	(701)
Profit attributable to shareholders		10,508	22,914
Dividends		9,217	8,990
Earnings per share	5		
– Basic		HK2.9 cents	HK6.4 cents
– Diluted		HK2.8 cents	HK6.3 cents

Notes:

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim accounts (“interim accounts”) are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) Number 25 issued by the HKSA and the disclosure requirements set out in Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

These interim accounts should be read in conjunction with the annual accounts as at and for the year ended 31 March 2003. These interim accounts have been prepared in accordance with the principal accounting policies set out in the Company’s audited accounts as at and for the year ended 31 March 2003 except that effective 1 April 2003, the Group adopted SSAP 12 (revised), Income taxes, issued by the HKSA. The adoption of the SSAP12 (revised) 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.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained earnings at 1 April 2002 and 2003 have been increased by approximately HK\$639,000 and HK\$655,000, respectively and opening property revaluation reserve at 1 April 2002 and 2003 have been reduced by approximately HK\$1,501,000 and HK\$1,513,000, respectively, which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax liabilities at 31 March 2003 by approximately HK\$858,000. There was no significant effect on the Group’s results for the six months ended 30 September 2002.

2. Turnover and segment reporting

a. Primary segment

The Group is principally engaged in design, manufacture, marketing and trading of audio products, communication products, multimedia products, electro-acoustic parts and electronic products and accessories. An analysis by business segment is as follows:

	Six months ended 30 September 2003 (Unaudited)						Total HK\$'000
	Audio products HK\$'000	Com- munication products HK\$'000	Multimedia products HK\$'000	Electro- acoustic parts HK\$'000	Electronic products, accessories and others HK\$'000	Elimination HK\$'000	
Turnover							
Sales to external customers	123,158	26,653	22,191	15,228	77,206	–	264,436
Inter-segment sales	–	–	–	497	25,387	(25,884)	–
Total revenue	<u>123,158</u>	<u>26,653</u>	<u>22,191</u>	<u>15,725</u>	<u>102,593</u>	<u>(25,884)</u>	<u>264,436</u>
Operating results							
Segment results	<u>8,647</u>	<u>3,174</u>	<u>718</u>	<u>1,036</u>	<u>3,270</u>	<u>–</u>	16,845
Unallocated corporate expenses							(4,239)
Other revenue							60
Interest income							1,357
Interest expense							(1,222)
Taxation							(1,064)
Profit after taxation but before minority interests							11,737
Minority interests							(1,229)
Profit attributable to shareholders							<u>10,508</u>

Six months ended 30 September 2002 (Unaudited)

	Audio products <i>HK\$'000</i>	Com- munication products <i>HK\$'000</i>	Multimedia products <i>HK\$'000</i>	Electro- acoustic parts <i>HK\$'000</i>	Electronic products, accessories and others <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover							
Sales to external customers	132,252	27,562	19,274	11,927	57,979	–	248,994
Inter-segment sales	–	–	–	651	30,835	(31,486)	–
Total revenue	<u>132,252</u>	<u>27,562</u>	<u>19,274</u>	<u>12,578</u>	<u>88,814</u>	<u>(31,486)</u>	<u>248,994</u>
Operating results							
Segment results	<u>16,864</u>	<u>6,060</u>	<u>2,050</u>	<u>2,016</u>	<u>4,005</u>	<u>–</u>	<u>30,995</u>
Unallocated corporate expenses							(3,928)
Other revenue							60
Interest income							1,501
Interest expense							(577)
Taxation							(4,436)
Profit after taxation but before minority interests							23,615
Minority interests							(701)
Profit attributable to shareholders							<u>22,914</u>

b. *Secondary segment*

Turnover and results by geographical location are determined mainly on the basis of the location where merchandise is delivered. An analysis by geographical location is as follows:

Six months ended 30 September 2003 (Unaudited)

	North America			Asia Pacific			Total <i>HK\$'000</i>
	United States of America <i>HK\$'000</i>	Canada <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Asian countries (other than Japan) <i>HK\$'000</i>	Japan <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Turnover	<u>107,335</u>	<u>5,306</u>	<u>43,586</u>	<u>90,382</u>	<u>6,668</u>	<u>11,159</u>	<u>264,436</u>
Segment results	<u>6,837</u>	<u>338</u>	<u>2,776</u>	<u>425</u>	<u>5,757</u>	<u>712</u>	<u>16,845</u>

Six months ended 30 September 2002 (Unaudited)

	North America			Asia Pacific			Total <i>HK\$'000</i>
	United States of America <i>HK\$'000</i>	Canada <i>HK\$'000</i>	Europe <i>HK\$'000</i>	Asian countries (other than Japan) <i>HK\$'000</i>	Japan <i>HK\$'000</i>	Others <i>HK\$'000</i>	
Turnover	<u>112,637</u>	<u>17,679</u>	<u>41,239</u>	<u>60,909</u>	<u>9,401</u>	<u>7,129</u>	<u>248,994</u>
Segment results	<u>14,021</u>	<u>2,201</u>	<u>5,133</u>	<u>7,582</u>	<u>1,170</u>	<u>888</u>	<u>30,995</u>

3. Profit from operations

Profit from operations has been arrived at after charging the following:

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation of property, machinery and equipment	13,508	11,755
Less: Amounts included in research and development expenditures	(2,474)	(2,265)
	<u>11,034</u>	<u>9,490</u>
Staff cost	51,990	50,317
Loss on disposal of investment	–	162
	<u>–</u>	<u>162</u>

4. Taxation

Taxation consisted of:

	Six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current taxation		
– Hong Kong profits tax	2,032	3,755
– Mainland China enterprise income tax	–	681
	<u>2,032</u>	<u>4,436</u>
Deferred taxation relating to the origination and reversal of temporary differences	(968)	–
	<u>1,064</u>	<u>4,436</u>

The Company is exempt from taxation in Bermuda until March 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Mainland China enterprise income tax has been calculated at tax rates prevailing in Mainland China.

5. Earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$10,508,000 (2002: HK\$22,914,000) and on the weighted average number of 368,170,000 shares (2002: 359,600,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2003 is based on the consolidated profit attributable to shareholders of approximately HK\$10,508,000 (2002: HK\$22,914,000) and on the weighted average number of 371,234,000 shares (2002: 362,624,000 shares) in issue, after adjusting for the effects of all dilutive potential shares.

INTERIM DIVIDEND

The board of Directors has resolved to declare an interim dividend of HK2.5 cents per share for the six months ended 30 September 2003 (2002: HK2.5 cents). The interim dividend will be paid on 30 December 2003 to shareholders whose names are registered in the books of the Company on 17 December 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Friday, 12 December 2003 to Wednesday, 17 December 2003 (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 pm on Thursday, 11 December 2003 for registration.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2003, the Group had cash and bank deposit of approximately HK\$101 million (As at 31 March 2003: HK\$134 million) of which HK\$38 million (As at 31 March 2003: HK\$32 million) were pledged to banks for short-term loans granted to the Group. About 87.5% of the total cash and bank deposits were denominated in US dollars and Hong Kong dollars. The Group's net current assets amounted to approximately HK\$99 million (As at 31 March 2003: HK\$108 million). These indicate that the Group is able to meet future obligations without any difficulties.

Following the review of the need of working capital and funds for expansion in the near future, the Group has decided to invest surplus cash to the extent up to US\$6 million in securities and investment funds for the purpose of earning high yield return. As at 30 September 2003, the securities held for long-term purpose amounted to approximately HK\$46 million (As at 31 March 2003: HK\$38 million).

As at 30 September 2003, the Group had aggregate banking facilities of approximately HK\$543 million (As at 31 March 2003: HK\$536 million) from several banks for overdrafts, loans, and trade financing, with an unused balance of approximately HK\$445 million (As at 31 March 2003: HK\$428 million).

CAPITAL STRUCTURE

As at 30 September 2003, the total borrowings of the Group were approximately HK\$81 million (As at 31 March 2003: HK\$75 million), of which about 94.9%, 4.0% and 1.1% were due within one year, in the second year and from the third to fifth year, respectively. During the period, the Group's borrowings bore interest at rates ranging from 2.1% to 5.8% (As at 31 March 2003: ranging from 2.4% to 7.0%).

GEARING RATIO

The Group's gearing ratio as at 30 September 2003 was approximately 27.0% (As at 31 March 2003: 24.6%), which was measured on the basis of total borrowings as a percentage of total shareholders' equity. If the net borrowings of approximately HK\$43 million (As at 31 March 2003: HK\$43 million), being netted off the pledged bank deposits of approximately HK\$38 million (As at 31 March 2003: HK\$32 million), were applied, the Group's net gearing ratio would be approximately 14.3% (As at 31 March 2003: 14.2%).

FOREIGN EXCHANGE EXPOSURE

Most of the Group's transactions, including borrowings, were conducted in US dollars, Hong Kong dollars or Chinese Renminbi. To mitigate 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

As at 30 September 2003, the Group's operations engaged a total of over 5,600 staff and workers. The Group has also developed its human resources policies and procedures based on performance and merit. Discretionary bonus is linked to the performance of the Group as well as individual performance. Benefits include staff accommodation, medical schemes, share option scheme, Mandatory Provident Fund scheme for employees in Hong Kong, and state-sponsored retirement plans for employees in the PRC.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 September 2003, the Group had total outstanding capital commitments, operating lease commitments and foreign exchange contracts of approximately HK\$2 million (As at 31 March 2003: HK\$0.4 million), HK\$4 million (As at 31 March 2003: HK\$6 million) and HK\$16 million (As at 31 March 2003: HK\$31 million) respectively. In view of the Group's high level of liquid funds, it is confident to fulfil all these commitments without any difficulty. As at 30 September 2003, the Company had provided guarantees of approximately HK\$142 million (As at 31 March 2003: HK\$142 million) to several banks to secure banking facilities of its subsidiaries.

BUSINESS REVIEW

Despite the steadily improving market sentiment after the war in Iraq, further challenges brought about by the SARS outbreak and the macro environment changes in the review period posed an adverse effect to the Group's business development and operations. Several project rollouts among the Group's customers were delayed due to SARS. However, building on its investments made last year, the Group has been able to capture the opportunities in the PRC market during the period. For the six months ended 30 September 2003, the Group's turnover increased slightly by 6.2% from HK\$249 million to HK\$264 million which was mainly attributable to the increase in sales of electronic parts and accessories in the PRC. As these products have relatively low margins, coupled with the increase of raw material costs during the period, the Group's margins were adversely affected. Besides, one of its major communication customers changed its buying patterns and reduced orders to the Group. As a result, gross profit margin dropped from 30.4% in 2002 to 23.4% for the period. Net profit attributable to shareholders also decreased from HK\$22.9 million to HK\$10.5 million for the review period.

Geographically, sales from the Asia Pacific region jumped 48.4% from HK\$61 million to HK\$90 million. The increase was mainly driven by the influx of foreign investments and the flourishing consumer market in the PRC. With the establishment of Ningbo Fusion Electrical Materials Co., Ltd. and Full-Sound (Dongguan) Electrical Products Ltd., the Group was well-positioned to capture these opportunities and obtained a number of orders from an international mobile phone accessories manufacturer and one of the largest computer manufacturers in the region. As a result, sales in the PRC market surged 98.9% to HK\$44 million during the review period. In addition, the Group was also delighted to see that orders for its innovative Sound Bag, which combines a CD case with speaker function by means of the patented NXT technology, has received overwhelming responses worldwide. The Group believes that this growth momentum will continue in the second half of the year.

With the commencement of shipment orders for several sizeable customers, sales in Europe improved from HK\$41 million to HK\$44 million during the review period. The Group is expecting continuous growth in this market after the commencement of mass production of communication headsets for a leading European mobile phone manufacturer in the second quarter of the review period.

Both the US and the Japanese markets experienced declines during the period with sales decreased by 4.7% to HK\$107 million and by 29.1% to HK\$7 million respectively. However, the Group has secured one of the top automobile manufacturers in the US as a customer for its wireless audio headphones, with shipments commencing in the end of 2003. The Group believes that it will be a major growth driver for the coming few years when the trend of in-car AV entertainment system is about to take off. On the other hand, the Group was selected by a leading Japanese electronics company as its strategic manufacturing partner for high-end micro speakers in June 2003. The majority of these speakers are for mobile phone uses. It has indeed opened up a new business segment for the Group. Mass production of these high-end micro speakers has commenced in the second quarter of the fiscal year. The Group believes this business will become an important contributor to overall sales in the future.

In the Group's product mix, audio headphones remained the largest business during the period, representing 46.6% of total turnover. However, the SARS epidemic delayed the rollout of some of its new projects and, as a result, sales from audio products decreased from HK\$132 million to HK\$123 million for the six months ended 30 September 2003 while sales of communication products fell slightly by 3.3% to HK\$27 million. On a positive note, sales from multimedia products improved slightly to HK\$22 million while sales from electronic products and accessories jumped 32.2% to HK\$92 million during the period.

PROSPECTS

Despite the challenging market conditions during the review period, the Group sees ample growth potential along with the rollout of a number of exciting projects in the next few months. The Group expects its sales and profits in the second half of this fiscal year to benefit from its satisfactory business performance.

The Group's European mobile phone customer will continue to be the main growth driver. In addition to retail handsfree headsets, demands from the bundling side will further boost growth of the Group's communication products. To fulfill the growing demand, the Group plans to significantly ramp up its production volume starting from the fourth quarter of the fiscal year. The Group believes that this European customer will become one of its largest customers in next fiscal year. Sales from the communication business are expected to reach about 30% of total turnover by the end of fiscal 2004/05. Together with orders for audio headphones from the newly acquired European customers, sales from Europe are expected to make a substantial contribution to the Group's total turnover of around 30-35% by the end of fiscal 2004/05.

The growth of the mobile phone industry has also provided the Group with tremendous opportunities as it became a strategic supplier of high-end micro speakers for its new Japanese customer. Not only does the Group obtain the technology know-how from the customer, these products will become an important income source, contributing around 15% of the Group's total turnover in about two years' time. The Group has started shipment in the second quarter of the fiscal year and is in the process of ramping up production volume.

The Group believes that the innovative Sound Bag will continue to generate satisfactory sales for the Group in the second half of the year. Sales volume in the first four months has already surpassed the Group's initial sales target for the entire year. Sales are estimated to be about 10% of total turnover for the fiscal year.

Fiscal 2003/04 is proving to be an important year for the Group as it successfully explores opportunities in the fast growing AV entertainment systems in the automobile industry. The Group is proven a first mover to the industry with the provision of wireless audio headphones to a top US automaker, in which the first shipment is due to start in December 2003. Statistics show that 19 million new cars were sold in the US last year. As manufacturers compete for market share with value-added features, the Group is sure that demand for wireless audio headphones will be robust, creating strong growth impetus for its business in the years ahead.

Looking forward, Fujikon believes the projects and products to be rolled out in the next few months will allow the Group to achieve significant revenue and profit growth. Nevertheless, the Group will remain cautiously optimistic and will closely monitor changes in external market conditions. Leveraging its continuous improvements in production efficiency, commitment to R&D and aggressive marketing strategies, the management believes Fujikon will emerge as a stronger market contender as it consolidates its leading position in the electro-acoustic industry.

DEALING IN COMPANY'S LISTED SECURITIES

During the period ended 30 September 2003, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 30 September 2003, save that non-executive director and independent non-executive directors of the Company are not appointed for a fixed term but are 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.

PUBLICATION OF DETAILED INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All the information of the interim results of the Group for the period ended 30 September 2003 required by paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited before 31 December 2003.

APPRECIATION

I would like to express my appreciation to our board of Directors, management and staff for their ongoing contribution and hard work. I would also like to thank our shareholders for their continuing support. Looking to the future, the Group will continue to adopt a proactive strategy to generate fruitful returns for our valued shareholders.

On behalf of the board of Directors,
YEUNG CHI HUNG, JOHNNY

Chairman

Hong Kong, 27 November 2003.

* *for identification purpose only*