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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 2010

FINANCIAL HIGHLIGHTS

- **Revenue: HK$570.4 million, up 26.5% (2009: HK$450.9 million)**
- **Gross profit: HK$84.6 million, down 7.5% (2009: HK$91.4 million)**
- **Profit attributable to equity holders of the Company: HK$10.0 million, down 55.4%**
- **(2009: HK$22.5 million)**
- **Basic earnings per share: HK2.45 cents (2009: HK5.64 cents)**
- **Interim dividend (per share): HK3.0 cents (2009: HK3.0 cents)**
- **Special interim dividend (per share): HK1.0 cent (2009: HK1.0 cent)**

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 2010.

The interim results have been reviewed by the Company's Audit Committee and independent auditor in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

** for identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Unaudited Six months ended 30 September **2010** ***HK$'000***	 2009 *HK$'000*
Revenue	*2*	**570,417**	450,924
Cost of sales		**(485,820)**	(359,488)
Gross profit		**84,597**	91,436
Other gains - net		**130**	301
Distribution and selling expenses		**(12,065)**	(8,907)
General and administrative expenses		**(58,367)**	(53,942)
Operating profit	*3*	**14,295**	28,888
Finance income		**1,319**	847
Finance costs		**(1,367)**	(335)
Profit before income tax		**14,247**	29,400
Income tax expenses	*4*	**(2,197)**	(5,011)
Profit for the period		**12,050**	24,389
Other comprehensive income:			
Currency translation differences		**7,891**	463
Fair value gains on available-for-sale financial assets		**181**	295
Release of reserves upon disposal of a subsidiary		**(1,683)**	-
Other comprehensive income for the period, net of tax		**6,389**	758
Total comprehensive income for the period		**18,439**	25,147
Profit attributable to:			
Equity holders of the Company		**10,027**	22,502
Non-controlling interests		**2,023**	1,887
		12,050	24,389
Total comprehensive income attributable to:			
Equity holders of the Company		**15,885**	23,236
Non-controlling interests		**2,554**	1,911
		18,439	25,147
Dividends	*5*	**16,405**	15,968
Earnings per share for profit attributable to the equity holders of the Company during the period			
- Basic (HK cents per share)	*6*	**2.45**	5.64
- Diluted (HK cents per share)	*6*	**2.45**	5.61

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 September 2010 HK$'000	Audited As at 31 March 2010 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**201,618**	203,891
Investment properties		**1,600**	1,600
Land use rights		**10,050**	23,090
Available-for-sale financial assets		**7,816**	7,513
Total non-current assets		**221,084**	236,094
Current assets			
Inventories		**150,662**	104,978
Trade receivables	*7*	**250,579**	163,723
Other receivables		**17,150**	24,006
Derivative financial instruments		**106**	171
Other financial assets at fair value through profit or loss		**77,302**	73,885
Current income tax recoverable		**3,122**	720
Fixed deposits		**3,476**	6,810
Cash and cash equivalents		**341,108**	385,407
Total current assets		**843,505**	759,700
LIABILITIES			
Current liabilities			
Trade payables	*8*	**155,935**	96,786
Accruals and other payables		**83,209**	80,872
Current income tax liabilities		**19,695**	16,776
Bank borrowings		**40,556**	26,107
Total current liabilities		**299,395**	220,541
Net current assets		**544,110**	539,159
Total assets less current liabilities		**765,194**	775,253
Non-current liabilities			
Deferred income		**1,912**	1,986
Deferred income tax liabilities		**714**	1,132
Total non-current liabilities		**2,626**	3,118
Net assets		**762,568**	772,135
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		**41,014**	40,639
Other reserves		**196,340**	186,060
Retained earnings			
- Proposed dividends		**16,405**	32,803
- Others		**462,310**	468,688
		716,069	728,190
Non-controlling interests		**46,499**	43,945
Total equity		**762,568**	772,135

NOTES

1. Basis of preparation and accounting policies

The accounting policies adopted are consistent with those of the Group's annual financial statements for the year ended 31 March 2010, except as mentioned below.

(a) Effect of adopting amendments to standards and interpretations

In 2010, the Group adopted HKAS 17 (Amendment), "Leases", which is mandatory for accounting periods beginning on or after 1 January 2010.

HKAS 17 (Amendment), "Leases", deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

HKAS 17 (Amendment) has been applied retrospectively for annual periods beginning 1 April 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 April 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance leases retrospectively. As a result of the reassessment, the Group has reclassified the leasehold land from operating lease to finance lease.

As the property interest is held for own use, the land interest is accounted for as property, plant and equipment and is depreciated over the shorter of the useful life of the asset and the lease term.

	As at 30 September 2010 HK$'000	As at 31 March 2010 HK$'000	As at 1 April 2009 HK$'000
Increase in property, plant and equipment	10,546	10,689	10,976
Decrease in land use rights	10,546	10,689	10,976

The adoption of this amendment also resulted in an increase in depreciation of property, plant and equipment of HK$143,000 and a decrease in amortisation of land use rights of HK$143,000 for the six months ended 30 September 2009 and 2010.

The following amendments to standards and interpretation are also mandatory for the Group's financial year beginning on 1 April 2010:

- HKFRSs (Amendments) — Improvements to HKFRSs 2009 (excluding HKAS17 (Amendment) "Leases")
- HKFRS 1 (Revised) — First-time adoption of HKFRSs
- HKFRS 1 (Amendment) — Additional exemptions for first-time adopters
- HKFRS 2 (Amendment) — Group cash-settled share-based payment transactions
- HKFRS 3 (Revised) — Business combinations
- HKFRS 5 (Amendment) — Non-current assets held for sale and discontinued operations
- HKAS 27 (Revised) — Consolidated and separate financial statements
- HKAS 32 (Amendment) — Classification of right issues
- HKAS 39 (Amendment) — Eligible hedged items
- HK (IFRIC) – Int 17 — Distribution of non-cash assets to owners

The adoption of these amendments to standards and interpretation did not result in a significant impact on the results and financial position of the Group.

1. **Basis of preparation and accounting policies (Continued)**

(b) New standard, amendments to standards and interpretations that have been issued but are not effective

The following new standard, amendments to standards and interpretations have been issued, but are not effective for the Group's financial year beginning on 1 April 2010 and have not been early adopted.

- HKFRSs (Amendments) — Improvements to HKFRSs 2010[2]
- HKFRS 9 — Financial instruments[3]
- HKAS 24 (Revised) — Related party disclosures[2]
- HK (IFRIC) – Int 14 (Amendment) — Prepayment of a minimum funding requirement[2]
- HK (IFRIC) – Int 19 — Extinguishing financial liabilities with equity instruments[1]

1 Effective for financial years beginning on or after 1 July 2010.
2 Effective for financial years beginning on or after 1 January 2011.
3 Effective for financial years beginning on or after 1 January 2013.

The directors anticipate that the adoption of these new standard, amendments to standards and interpretations will not result in a significant impact on the results and financial position of the Group.

2. **Segment information**

The chief operating decision-maker ("CODM") has been identified as the executive directors. CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

CODM assesses the performance of the business from a product perspective, i.e. by headsets and headphones, and accessories and components.

CODM assesses the performance of the operating segments based on segment results before corporate expenses, other gains and losses, finance income and costs.

Revenue between segments is carried out in accordance with the terms mutually agreed by the respective parties. The revenue from external parties is derived from numerous external customers and is measured in a manner consistent with that in the condensed consolidated statement of comprehensive income.

	Six months ended 30 September (Unaudited)							
	Headsets and headphones		Accessories and components		Elimination		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Total segment revenue	**324,855**	314,709	**245,562**	136,215	**-**	-	**570,417**	450,924
Inter-segment revenue	**-**	-	**50,425**	52,218	**(50,425)**	(52,218)	**-**	-
Revenue	**324,855**	314,709	**295,987**	188,433	**(50,425)**	(52,218)	**570,417**	450,924
Segment results	**917**	21,069	**15,391**	9,364	**-**	-	**16,308**	30,433
Corporate expenses							**(2,143)**	(1,846)
Other gains - net							**130**	301
Finance income							**1,319**	847
Finance costs							**(1,367)**	(335)
Profit before income tax							**14,247**	29,400

3. Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited Six months ended 30 September **2010** ***HK$'000***	 2009 *HK$'000* (Restated)
Amortisation of land use rights	**211**	285
Depreciation of property, plant and equipment	**16,493**	21,493
Gain on disposal of a subsidiary	**(1,841)**	-
Losses on disposal of property, plant and equipment	**43**	2,114
Provision for impairment of inventories	**3,042**	498
Staff costs	**131,948**	101,366

4. Income tax expenses

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the period. The Group's subsidiaries in Mainland China are subject to the China Corporate Income Tax ("CIT") at a rate of 25% (2009: 25%) on the estimated assessable profits, except that certain subsidiaries are eligible for a preferential CIT rate of 15% under the New and High Technology Enterprises status, or 50% reduction in income tax under the grandfathering provisions during the period. Accordingly, the CIT for such subsidiaries has been provided after taking into account of these tax concessions.

	Unaudited Six months ended 30 September **2010** ***HK$'000***	 2009 *HK$'000*
Current income tax		
- Hong Kong profits tax	**2,049**	3,087
- Mainland China corporate income tax	**566**	2,264
Deferred income tax	**(418)**	(340)
	2,197	5,011

5. Dividends

The Board has resolved to declare an interim dividend of HK3.0 cents per ordinary share (2009: HK3.0 cents), and a special interim dividend of HK1.0 cent per ordinary share (2009: HK1.0 cent) for the six months ended 30 September 2010. The interim dividend and the special interim dividend are expected to be paid on or around 30 December 2010 to shareholders whose names are registered in the books of the Company on 13 December 2010.

6. Earnings per share

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

	Unaudited Six months ended 30 September 2010 HK$'000	2009 HK$'000
Profit attributable to equity holders of the Company (HK$'000)	**10,027**	22,502
Weighted average number of ordinary shares used in calculating basic earnings per share (in thousands)	**409,887**	399,189
Adjustment for potential dilutive effect in respect of outstanding share options (in thousands)	**55**	1,798
Weighted average number of ordinary shares used in calculating diluted earnings per share (in thousands)	**409,942**	400,987

7. Trade receivables

The Group grants credit terms to its customers ranging from 7 to 120 days. As at 30 September 2010, the ageing analysis of the trade receivables by past due date is as follows:

	Unaudited As at 30 September 2010 ***HK$'000***	Audited As at 31 March 2010 *HK$'000*
Current	**207,583**	121,855
1 to 30 days	**26,862**	24,176
31 to 60 days	**14,700**	13,421
61 to 90 days	**3,141**	3,696
Over 90 days	**4,116**	5,655
	256,402	168,803
Less: Provision for impairment of trade receivables	**(5,823)**	(5,080)
Trade receivables, net	**250,579**	163,723

8. Trade payables

As at 30 September 2010, the ageing analysis of the trade payables by past due date is as follows:

	Unaudited As at 30 September 2010 ***HK$'000***	Audited As at 31 March 2010 *HK$'000*
Current	**122,182**	73,177
1 to 30 days	**28,924**	16,031
31 to 60 days	**3,287**	3,173
61 to 90 days	**1,299**	2,295
Over 90 days	**243**	2,110
Current		
	155,935	96,786

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 13 December 2010 to Tuesday, 14 December 2010 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend and the special 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 4:30pm on Friday, 10 December 2010 for registration.

BUSINESS REVIEW

Against the backdrop of a gradually recovering global economy which drove up market demand for electro-acoustic products, the Group recorded revenue of HK$570.4 million for the six months ended 30 September 2010, representing a rise of 26.5% from HK$450.9 million in the corresponding period of last year. However, owing to higher costs associated with labour, raw materials and utilities, as well as increased development cost arising from a greater number of new projects secured, gross profit slipped to HK$84.6 million, down 7.5% from HK$91.4 million year on year. Accordingly, profit attributable to equity holders was HK$10.0 million (2009: HK$22.5 million). Basic earnings per share were HK2.45 cents (2009: HK5.64 cents).

BUSINESS SEGMENT ANALYSIS

Headsets and Headphones

Revenue of headsets and headphones was up by 3.2% to HK$324.9 million from HK$314.7 million a year earlier, accounting for 57.0% of overall revenue. Despite the modest growth, this segment actually recovered markedly with a substantial number of new projects secured from the start of calendar year 2010. Due in part to the ripple effect of the financial crisis, the launch schedule for many of these products was postponed until October and their revenue contributions will therefore be reflected in the second half of the financial year. The Group is also working with several clients on the co-development of new products, including ongoing cooperation with a leading European mobile phone manufacturer, hence, revenue contributions from such activities have yet to be realised.

Moreover, the Group did receive increased orders from leading audio and multimedia companies from the US, Europe, Japan and South East Asia, launching more than 20 new models for these audio and multimedia brands in the past few months. What is more, the Group introduced more products catering for the mass market during the period, as well as continued pursuing cooperative arrangements with top names in the communications products industry. Consequently, the Group successfully attracted a new client involved in hands-free communications solutions, and delivered new products during the period.

Accessories and Components

Contributing to 43.0% of the Group's overall revenue, accessories and components achieved significant growth during the period, up by 80.3% to HK$245.6 million (2009: HK$136.2 million). While this segment is essential for the Group's vertical integration effort, its exceptional performance was driven by strong external sales, specifically from clients electing to stock up on packaging materials and replacement parts in view of a recovering consumer electronics market, as well as the increasing popularity of electronic audio accessories. The segment is expected to continue maintaining healthy growth, benefiting from solid market uptake.

PROSPECTS

As the world economy has started to rebound from the trough reached in the first quarter of calendar year 2010, bolstering consumption sentiment, the consumer electronics market has begun to make a gradual recovery. With more new product launches expected by the Group's clients in the second half of the financial year, the management is cautiously optimistic about the Group's performance in the upcoming six months.

With "music on the go" continuing to be a popular trend, and which includes products that deliver a combination of sophisticated design and outstanding sound quality, the Group will enrich its product mix, catering for clients in the high-end market by developing a larger variety of wireless and armature headphones. Already, the Group will have more new audio products at higher selling prices launched in the second half year which, in addition to helping bolster profitability, allows the Group to absorb rising production costs in its pricing. While developing the highest quality products for its clients, the Group will at the same time complement such products with superior service, in that way an increasingly strong and lasting bond is created.

Aside from addressing the needs of clients in the high-end audio segment, the Group will also seek to make progress on the multimedia front. Leveraging its blossoming relationship with a global manufacture of multimedia products, the Group expects to make further steps forward in this important area of business in the near future.

Also mindful of the mass market's significance, having seen increasingly greater revenue contributions from this segment, the Group will look to capture a larger share of the market by capitalising on its successful experience in working with a trendy US headphone brand. Towards this goal, the management will seek to establish more joint research opportunities that lead to the development of stylish, desirable products that are in step with the latest trends.

The Group's strength in research and development (R&D) was certainly highlighted when it was entrusted with a record number of product development projects from its clients over the past six months. In the light of R&D playing an increasingly important role in securing new orders for the Group, efforts will be placed on enhancing this capability, including expanding the R&D team to nurture partnerships with top-tier clients and utilising the team to broaden its own product offerings.

The management is well aware that to become a leading electro-acoustic company calls for improving every aspect of operation. Hence, controlling costs and developing new business with world-class companies are among the concerns that will be conscientiously addressed. In doing so, the Group can also better withstand market uncertainties, which is paramount for long-term sustainable growth.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group maintained at strong financial position. Net current assets as at 30 September 2010 amounted to approximately HK$544.1 million (31 March 2010: HK$539.2 million). The Group's current and quick ratios were approximately 2.8 times (31 March 2010: 3.4 times) and 2.3 times (31 March 2010: 3.0 times), respectively.

The Group had cash and cash equivalents and fixed deposits of approximately HK$344.6 million as at 30 September 2010, representing a decrease of approximately 12.1% against approximately HK$392.2 million as at 31 March 2010. Approximately 76.1%, 16.8% and 6.4% of the total cash and cash equivalents and fixed deposits were denominated in US dollars, Renminbi and Hong Kong dollars, respectively and the remainder in other currencies. As at 30 September 2010, the Group had aggregated banking facilities of approximately HK$266.4 million (31 March 2010: HK$264.3 million) from several banks for loans and trade financing, with an unused balance of approximately HK$225.8 million (31 March 2010: HK$238.2 million).

FINANCIAL REVIEW (Continued)

Capital Structure

As at 30 September 2010, the total bank borrowings of the Group were approximately HK$40.6 million (31 March 2010: HK$26.1 million), which were several secured short-term bank loans, denominated in Renminbi and due within one year.

Approximately HK$42.6 million of certain properties and land use right have been pledged for several secured short-term bank loans (31 March 2010: HK$42.4 million). During the period under review, the Group's borrowings bear interest rate at 5.3% (2009: 5.3%) per annum.

The Group's gearing ratio as at 30 September 2010 was approximately 5.7% (31 March 2010: 3.6%), which was measured on the basis of the total bank borrowings as a percentage of total equity attributable to the equity holders of the Company. If the balance of cash and cash equivalents as at 30 September 2010 was taken into account, the Group was in a net cash position.

Foreign Exchange Exposure

The Group mainly operates in Hong Kong and Mainland China with most transactions settled in Hong Kong dollars, Renminbi and US dollars. The Group is mainly exposed to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities denominated in currencies other than the functional currency of the group entities to which they relate. The Group entered into foreign currency forward contracts to manage such exposure.

Employee Information

As at 30 September 2010, the Group employed a total of over 7,500 (31 March 2010: over 5,500) employees. The staff costs (including the directors' emoluments) accounted for approximately HK$131.9 million during the six months ended 30 September 2010 (2009: HK$101.4 million).

The Group has developed its human resources policies and procedures based on performance and merit. Employees are rewarded on a performance-related basis within the general framework of its salary and bonus system. 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 statesponsored retirement plans for employees in Mainland China. The Group has also developed training programs to its management and employees to ensure they are properly trained.

Financial Guarantee

As at 30 September 2010, the Company had provided corporate guarantees of approximately HK$155.7 million (31 March 2010: HK$155.7 million) to several banks to secure banking facilities of its subsidiaries. The facilities utilised by a subsidiary as at 30 September 2010 approximately HK$40.6 million (31 March 2010: HK$26.1 million).

DEALING IN COMPANY 'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period.

CORPORATE GOVERNANCE

Throughout the period, the Company has complied with the code provisions of the "Code on Corporate Governance Practices" (the "Code") as set out in Appendix 14 to the Listing Rules, save the deviation from the code provision A.2.1 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 announcement, the Board has not appointed any individual to the post of chief executive officer. The responsibilities 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 is proper and beneficial to the Group as the stability and efficiency of the Company's operations, as well as the continuity of the Company's policies and strategies, can be maintained. Going forward, the Board will periodically review the effectiveness of this arrangement and consider appointing an individual as the chief executive officer when it thinks appropriate.

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, Mr Yuen Chi King, Wyman, Mr Yeung Siu Chung, Ben and Ms Chow Lai Fung as executive directors and Dr Chang Chu Cheng, Mr Che Wai Hang, Allen and Mr Lee Yiu Pun as independent non-executive directors.

By Order of the Board
Fujikon Industrial Holdings Limited
Yeung Chi Hung, Johnny
Chairman

Hong Kong, 25 November 2010.