

**FUJIKON INDUSTRIAL HOLDINGS LTD :  
A WINNING MANUFACTURER : A BUY ON FUNDAMENTALS**

If it had not been for the requirement to make a Provision for Bad and Doubtful Debts and another Provision for Obsolete and Slow-Moving Inventories, Fujikon Industrial Holdings Ltd would have made record profits for the 1999 Financial Year, ended March 31, 1999.

This is not easily discernable by looking cursorily at the trading records of this new addition to the ranks of The Stock Exchange of Hongkong Ltd and one has to scan the Accountants' Report at Page 117 of the Company's Prospectus in order to come to such a determination.

But those are the facts, nevertheless.

Fujikon Industrial is Issuing and Placing a total of 89.90 million, 10-cent Par Value Shares at a Premium of 90 cents per share, raising a total of \$HK79 million, net of expenses.

This Company is in the business of designing, manufacturing and selling, what is known in the parlance, these days, as electro-acoustic products, such as headphones, microphones speakers systems, etc.

This Company is, what one might describe as, a member of the '*bread-and-butter brigade*'.

These are Hongkong manufacturers of audio-visual products, or simply the old, 8-transister radio, or wigs, or plastic flowers, or garments, all those manufactured goods that made the old Hongkong the envy of the manufacturing world; and, bringing the 416 square miles that represents, today, the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) to the attention of the 1976 Nobel Prize Winning economist, Mr Milton Friedman.

This Company is, clearly, a winner, and has a winning formula for making money as the following table indicates:

	Year Ended March 31			
	1997	1998	1999	Seven Months to October 31, 1999
	<i>(All Figures are Denominated in \$HK'000)</i>			
Turnover	503,715	469,252	352,643	245,733
Cost of Sales	(367,321)	(342,568)	(247,927)	(168,610)
Gross Profit	136,394	126,684	104,716	77,123
Other Revenue	180	498	180	105
Distribution and Selling Costs	(22,010)	(21,841)	(17,184)	(10,568)
Administrative Expenses	(39,529)	(50,299)	(40,908)	(22,378)
Other Operating Expenses	(6,374)	(1,138)	(8,942)	(2,114)
Profit from Operations	68,661	53,904	37,862	42,168
Interest Income	5,941	7,041	2,562	803
Interest Expense	(407)	(7)	(2)	(1)
Profit before Taxation	74,195	60,938	40,422	42,970
Taxation	(9,046)	(10,334)	(5,178)	(6,576)
Profit Attributable to Shareholders after Taxation and Minority Interests	62,988	50,142	34,638	34,851

The above table appears to indicate declining Net Profits between 1997 and 1999, but Page 117 of the Prospectus, which gives a breakdown of the Profit Before Taxation, indicates that the Company bit the bullet to the extent of about \$HK11.13 million, that sum of money, being a Provision for Bad and Doubtful Debts.

There was no such Provision in the 1998 Year.

In addition, the Company made a Provision for Slow-Moving and Obsolete Inventories to the extent of about \$HK7.04 million.

In the 1998 Year, it took the same 'hit' to the extent of about \$HK7.53 million.

So, if one added back the Provision for Bad and Doubtful Debts, only, the Bottom Line would have been boosted to about \$HK45.77 million, minus any and all tax assessment considerations.

And, if one wrote back the Provision for Slow-Moving and Obsolete Inventories -- which is possible -- then the Profit Attributable to Shareholders would come back to more than \$HK52 million.

This would indicate that the Net Profits for the 1999 Year had hit a record level. The reason for the decrease in interest income from the 1998 Financial Year, on, was due to the fact that Management decided to start paying out hefty dividends to itself, thus depriving the Company of income from interest on its deposits.

In 1997, dividends, paid to the then shareholders, amounted to \$HK60 million. It rose to about \$HK61.62 million in the following year, and, then, blossomed into \$HK96.40 million in the 1999 Financial Year.

For the 7 months to October 31, 1999, Management paid itself another \$HK60.56 million.

This must have just about cleaned out the cash cupboard, just prior to going public on The Stock Exchange of Hongkong Ltd.

And it does raise the question: For what reason, therefore, is this Company coming to the marketplace for some cash?

The official reason, in answer to this question, is stated on Page 87 under the heading, 'Use of Proceeds'. It is stated that the Net Proceeds, amounting to about \$HK79 million, will be applied:

1. \$HK25 million to beef up production facilities with a view to becoming more vertically integrated;
2. \$HK13 million to improve production facilities;
3. \$HK10 million to develop Bluetooth\* products;
4. \$HK6 million for research and development;
5. \$HK5 million for the promotion of Fujikon Industrial's own branded products; and,
6. \$HK20 million to be tipped into the General Working Capital Account.

(\* Bluetooth technology is a specification which utilises a short-range radio link for exchange of digital information, enabling users to connect a wide range of devices easily and quickly without the need of wires and cables, thereby expanding communication capabilities for mobile telephones, notebook personal computers, handheld personal computers, etc. This technology has been in existence since May 1988)

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