



CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED
中港照相器材集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1123)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

The board of directors of China-Hongkong Photo Products Holdings Limited (the “Company”) is pleased to present the unaudited interim financial statements of the Company for the period ended 30 September 2004.

These condensed interim financial statements have not been audited, but have been reviewed by the Company’s audit committee. These interim financial statement have also been reviewed by external auditors in accordance with the Statement of Auditing Standard 700 & Engagements to review interim financial reports issued by the Hong Kong Institute of Certified Public Accountants.

HIGHLIGHTS

- Net profit attributable to shareholders of HK\$21 million and turnover of HK\$656 million
- Surge in demand for prints from digital cameras
- Sustained marketing effort to support retail service expansion
- Interim dividend of HK1 cent per share declared

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Six months ended 30 September	
		2004	2003
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
TURNOVER	3	656,386	678,458
Cost of sales		(489,605)	(651,639)
Gross profit		166,781	26,819
Other revenue	3	9,413	14,114
Selling and distribution expenses		(49,048)	(48,222)
Advertising and marketing expenses		(13,047)	(20,907)
Administrative expenses		(35,128)	(41,781)
Provision for bad and doubtful debts		(56,110)	(1,949)
PROFIT/(LOSS) BEFORE TAX	4	22,861	(71,926)
Tax	5	(1,773)	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		21,088	(71,926)
Minority interests		106	(85)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		21,194	(72,011)
DIVIDEND			
– Interim	6	11,638	–
– Interim Special	6	–	11,638
EARNINGS/(LOSS) PER SHARE	7		
Basic		HK1.82 cents	(HK6.19 cents)
Diluted		N/A	(HK6.19 cents)

Notes:

1. PRINCIPAL ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2004.

2. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- the wholesale segment engages in the marketing and distribution of photographic film, developing and processing products;
- the retail segment engages in the provision of film processing and photo-finishing services and the sale of photographic merchandises through retail outlets; and
- the corporate and other segment comprises the Group’s investment property business and the Group’s management services business, which provides management and security services to residential and commercial properties, together with corporate income and expense items.

In determining the Group’s geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at cost.

Business segments

The following tables present revenue and operating profit/(loss) for the Group’s business segments.

Group	Six months ended 30 September									
	Wholesale		Retail		Corporate and other		Eliminations		Consolidated	
	2004 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)	2004 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)	2004 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)	2004 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)	2004 HK\$’000 (Unaudited)	2003 HK\$’000 (Unaudited)
Segment revenue:										
Sales to external customers	561,378	588,867	95,008	89,591	-	-	-	-	656,386	678,458
Intersegment sales	50,293	14,805	-	-	-	-	(50,293)	(14,805)	-	-
Other revenue	10,429	16,319	921	1,923	719	788	(3,858)	(5,443)	8,211	13,587
	<u>622,100</u>	<u>619,991</u>	<u>95,929</u>	<u>91,514</u>	<u>719</u>	<u>788</u>	<u>(54,151)</u>	<u>(20,248)</u>	<u>664,597</u>	<u>692,045</u>
Interest income									1,202	527
Total revenue									665,799	692,572
Segment results	<u>30,076</u>	<u>(52,043)</u>	<u>(4,275)</u>	<u>(17,949)</u>	<u>(4,142)</u>	<u>(2,461)</u>	<u>-</u>	<u>-</u>	<u>21,659</u>	<u>(72,453)</u>
Interest income									1,202	527
Profit/(loss) before tax									22,861	(71,926)
Tax									(1,773)	-
Profit/(loss) before minority interests									21,088	(71,926)
Minority interests									106	(85)
Net profit/(loss) from ordinary activities attributable to shareholders									<u>21,194</u>	<u>(72,011)</u>
Additional segment information:										
Provision for bad and doubtful debts	56,110	1,949	-	-	-	-	-	-	56,110	1,949
Provision/(write-back of provision) for obsolete inventories	(6,177)	29,734	-	-	-	-	-	-	(6,177)	29,734
Amortisation of goodwill	-	-	1,098	1,098	-	-	-	-	1,098	1,098

Geographical segments

The following table presents revenue and operating profit/(loss) for the Group's geographical segments.

Group	Six months ended 30 September							
	Hong Kong		Elsewhere in the PRC		Corporate and other		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue sales to external customers	<u>509,350</u>	<u>562,871</u>	<u>147,036</u>	<u>115,587</u>	<u>-</u>	<u>-</u>	<u>656,386</u>	<u>678,458</u>
Segment results	<u>23,277</u>	<u>(68,256)</u>	<u>2,524</u>	<u>(1,737)</u>	<u>(4,142)</u>	<u>(2,460)</u>	<u>21,659</u>	<u>(72,453)</u>

3. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, net of trade discounts, allowances for returns and income from the rendering of film processing and photo-finishing services. An analysis of the Group's turnover and other revenue is as follows:

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover:		
Sale of goods	591,768	606,556
Income from the rendering of film processing and photo-finishing services	<u>64,618</u>	<u>71,902</u>
	<u>656,386</u>	<u>678,458</u>
Other revenue:		
Interest income	1,202	527
Net rental income	927	1,063
Subsidies received from a supplier	7,184	11,682
Others	<u>100</u>	<u>842</u>
	<u>9,413</u>	<u>14,114</u>

During the period ended 30 September 2004, sales returns of HK\$47 million (period ended 30 September 2003: Nil) were noted and had been net off with the current period's turnover. The respective cost of sales and provision for subsidies have been reversed in the current period's profit and loss account accordingly.

4. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Cost of inventories sold	539,508	588,704
Cost of inventories reversed	(30,235)	-
Cost of services rendered	23,116	33,201
Provision/(write-back of provision) for subsidies	(36,607)	74,089
Provision/(write-back of provision) for obsolete inventories	<u>(6,177)</u>	<u>29,734</u>
Cost of sales	<u>489,605</u>	<u>725,728</u>
Amortisation of goodwill	1,098	1,098
Depreciation	12,837	16,691
Staff costs:		
Wages and salaries	35,930	38,751
Retirement benefits scheme contributions	<u>1,346</u>	<u>1,477</u>
	<u>37,276</u>	<u>40,228</u>
Provision for bad and doubtful debts	56,110	1,949
Net rental income	<u>927</u>	<u>1,063</u>

5. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period after offsetting certain amounts of the tax losses carried forward by certain subsidiaries of the Group. No overseas profits tax has been provided because no assessable income was generated from the Group's overseas operation during the period.

	Six months ended 30 September	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Group:		
Current – Hong Kong Charge for the period	2,653	–
Deferred	2,653 (880)	–
Total tax charge for the period	<u>1,773</u>	<u>–</u>

6. DIVIDEND

An interim dividend of HK1 cent (2003: interim special dividend HK1 cent) per ordinary share was declared by the directors in respect of the period ended 30 September 2004.

7. EARNINGS/(LOSS) PER SHARE

The calculations of basic and diluted earnings/(loss) per share are based on the following:

	Six months ended 30 September	
	2004 (Unaudited)	2003 (Unaudited)
<i>Earnings:</i>		
Net profit/(loss) from ordinary activities attributable to shareholders, used in the basic and diluted earnings per share calculations	<u>HK\$21,194,000</u>	<u>(HK\$72,011,000)</u>
<i>Shares:</i>		
Number of ordinary shares in issue during the period used in basic earnings per share calculation	<u>1,163,828,377</u>	1,163,828,377
Number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all share options outstanding during the period (<i>Note</i>)		–
Number of ordinary shares used in diluted earnings per share calculation		<u>1,163,828,377</u>

Note: During the period, all share options originally granted to a director and certain employees lapsed. Accordingly, the Company had no dilutive instrument at the balance sheet date. In the prior period, the share option exercise price was higher than the average market price of the Company's ordinary share. Accordingly, no shares were assumed to have been issued at nil consideration on deemed exercise of the share options outstanding during that period.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated turnover for the six months ended 30 September 2004 was HK\$656 million, a slight decrease of 3.3% compared to the corresponding period last year. Net profit attributable to shareholders was HK\$21 million, compared to a net loss of HK\$72 million for the same period last year. Profit per share was HK1.82 cents, with an interim dividend of HK1 cent declared.

Wholesale Business

Imaging Solutions

The imaging solutions segment includes businesses related to photographic films, motion picture films, digital cameras, electronic imaging equipment, magnetic audiovisual media products, photographic paper, chemicals and photo-finishing equipment. It accounted for 56% of the Group's total turnover during the period under review.

Total segment turnover decreased by 2% compared with the corresponding six months last year. Sales of photographic films improved slightly by 4.6%, but still lag behind the sales performance before SARS (Severe Acute Respiratory Syndrome). Revenue from sales of digital cameras was more or less the same as the corresponding period last year, although sales volume rose considerably by 65%, mainly due to cut-throat price competition and the growing popularity of phone cameras.

With the commencement of CEPA (Closer Economic Partnership Arrangement) in January 2004, the demand for movie films has continued to grow. Sales of professional movie films were up by 11% compared with the same period last year. The booming film and advertising industry in China is expected to drive further sales growth in professional movie films.

Sales of Fujifilm's Frontier digital minilab series in Hong Kong showed signs of gradually leveling off in the period under review. However, the unprecedented high quality output from both film and digital media, along with the increasing popularity of digital cameras and camera phones, has seen a substantial rise in the volume of prints from digital cameras. As a result, total sales of paper grew by 27% during the period under review, compared to the same period last year.

Information Solutions

Activities in this segment include medical imaging systems, graphic art products and data storage media. This segment accounted for 29% of the Group's total turnover.

During the period under review, the overall turnover for the information solutions segment was up 11% compared to the same period last year. Sales of the DryPix series recorded 15% growth due to a successful promotional campaign by the Group's wholly-owned subsidiary, Fuji Medical Products Ltd. A successful tender for the supply of radiographic films and processing chemicals to the Hospital Authority of Hong Kong further accelerated the sales of films during the period under review. Fuji Medical Products Ltd has pursued business expansion through strategic alliances with dominant market players in China, Hong Kong and Macau in order to provide comprehensive after-sales service.

In the graphic art products business, 11% growth was recorded in sales during the period. PS Plate was well received by the publishing industry in Hong Kong and boosted sales of printing materials by 23% compared with the corresponding period in the previous year. Meanwhile, a new recording film 'Benefit' was introduced specifically for the China market with a competitive price and was so popular that the sales of recording film increased considerably by 100%. Computer-to-plate (CTP) systems will become more popular as the demand for high quality graphic art products grows in China. Accordingly, Fuji Graphic Arts Products Ltd is taking steps to boost its sales through effective promotional campaigns at the trade level.

Retail Operations

The retail businesses accounted for 15% of the Group's total turnover during the period under review.

Total sales for the retail segment increased by 6% compared to the same period last year. In Hong Kong, the Fotomax chain expanded strategically from 76 shops to 84. High-quality digital imaging D&P service has become the core business of Fotomax, with sales of D&P service up by 25.5% and print volume up by 32.4% compared to the same period last year. Sales volume for digital prints rose 112.8% and CD-Rom recording and film digitization service also recorded steady growth of 6.1%. This was driven by the increasing popularity and sophistication of digital cameras and phone cameras, as well as the success of the "Digital Kiosk" – a compact computer terminal which allows customers to order digital prints themselves in just one minute, at the touch of a screen. The prevalence of digital imaging has also driven the sales of PC and digital related accessories up by 30% compared with the same period last year.

Marketing

For the six months ended 30 September 2004, the Group has engaged its brand building strategy to support business expansion. To sustain brand awareness, the Group has continued to sponsor and participate in various public activities, including photo contests, tournaments, nationwide seminars, professional talks, exhibitions, trade shows, product training, TV programs and joint promotions to reach our target customers in China, Hong Kong and Macau. During the period under review, a successful Lab-Show Campaign was launched to boost the sales of photofinishing products. A 31% sales increase was recorded during the campaign period. The Group also launched an effective tactical alliance trade promotion campaign by means of joint promotion with several leading dealers in the market.

To raise brand awareness of Fotomax and encourage greater demand for digital photo printing, a new TV commercial featuring the young and energetic local actor, Mr. Ron Ng, was launched and was well received by many young people in Hong Kong. The TV commercial campaign was run in conjunction with an extensive campaign of print and outdoor advertising and shop displays to boost the total sales of the chain.

FINANCIAL RESOURCES

The Group's cash and bank balances as at 30 September 2004 were approximately HK\$492 million with a zero gearing ratio. The Group continued to take every measure to extend work efficiency and cost control. During the six-month period, advertising and marketing expenses were significantly reduced by 38% to HK\$13 million and administrative expenses decreased by 16% to HK\$35 million, due to effective cost-control measures. The Group had 603 employees (2003: 971). Remunerated largely based on industry practice, including provident funds, insurance and medical benefits. The Group also adopted a discretionary bonus programme determined annually base upon the performance of the Group and the employee.

During the period under review, a provision for bad and doubtful debts of HK\$56 million was recorded according to the accounting policies, trade receivables of HK\$169 million were recorded for the period, while inventory was HK\$203 million (including sales returns of HK\$4,700).

OUTLOOK

As a result of the CEPA and the influx of visitors from China, the Hong Kong economy has exhibited a solid upturn and an upsurge in consumer spending and investment during the period under review. The Group remains cautiously optimistic about business development and will continue to pursue the business opportunities arising from CEPA in the coming year. Looking ahead, the Group will continue to implement comprehensive measures to accelerate growth of both the wholesale and retail business through different channels. Most importantly, the Group will reinforce its leadership position in the digital imaging arena with Fujitilan's advanced imaging and information solutions technology, and further strengthen the brand awareness of Fotomax as the most outstanding and reliable photofinishing retail chain in Hong Kong.

DIVIDENDS

The directors declared the payment of an interim dividend of HK1 cent per ordinary share in respect of the period ended 30 September 2004 to shareholders on the register of members on 4 February 2005 (Friday). The dividend will be payable on or before 24 February 2005 (Thursday). This declaration has been incorporated in the financial statements.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 1 February 2005 (Tuesday) to 4 February 2005 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Tengis Limited, the Hong Kong Branch Registrars of the Company, at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 31 January 2005 (Monday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period for the six months ended 30 September 2004 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that the independent non-executive directors were not appointed for specific terms.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises five independent non-executive directors of the Company.

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

A detailed interim result announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

ON BEHALF OF THE BOARD
Sun Tai Lun, Dennis
Chairman and Managing Director

Hong Kong, 8 December 2004

www.chinahkphoto.com.hk

As of the date of this announcement, Dr. Sun Tai Lun, Dennis is the Chairman & Managing Director, Mr. Tang Kwok Tong, Simon and Ms. Ng Yuk Wah, Eileen are the executive directors and Mr. Au Man Chung, Malcolm, Ms. Chiang Yun, Rachel, Mr. Liu Hui, Allan, Mr. Li Ka Fai, David and Dr. Wong Chi Yun, Allan are the independent non-executive directors.

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