



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 2005

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 and its subsidiaries (collectively the “Group”) for the period ended 30 September 2005.

These condensed interim financial statements have not been audited, but have been reviewed by the Company’s audit committee. These interim financial statements have also been reviewed by external auditors in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 September	
		2005	2004
		(Unaudited)	(Restated)
		HK\$’000	HK\$’000
REVENUE			
Sale of goods		638,004	591,768
Income from the rendering of film processing and photo-finishing services		61,264	64,618
Total revenue		699,268	656,386
Cost of sales		(584,423)	(503,957)
Gross profit		114,845	152,429
Other income and gains	3	8,130	9,413
Selling and distribution costs		(33,205)	(34,696)
Advertising and marketing expenses		(7,092)	(13,047)
Administrative expenses		(33,793)	(35,128)
Other expenses		(1,018)	(56,110)
Share of profit of an associate		348	–
PROFIT BEFORE TAX	4	48,215	22,861
Tax	5	(3,405)	(1,773)
PROFIT FOR THE PERIOD		44,810	21,088
ATTRIBUTABLE TO:			
Equity holders of the Company		44,750	21,194
Minority interests		60	(106)
		44,810	21,088
EARNINGS PER SHARE	6		
Basic		3.85 cents	1.82 cents
Diluted		N/A	N/A
DIVIDEND – Interim	7	25,604	11,638

CONDENSED CONSOLIDATED BALANCE SHEET

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Restated) HK\$'000
NON-CURRENT ASSETS		
Fixed assets:		
Property, plant and equipment	116,575	126,795
Investment properties	35,747	35,850
Goodwill	35,878	35,878
Rental deposits	6,211	6,268
Interest in an associate	8,928	8,580
Deferred tax assets	5,018	4,133
Time deposits	54,579	54,579
Total non-current assets	<u>262,936</u>	<u>272,083</u>
CURRENT ASSETS		
Inventories	115,985	194,684
Trade and bills receivables	141,527	96,381
Prepayments, deposits and other receivables	25,704	27,890
Cash and cash equivalents	523,883	540,976
Total current assets	<u>807,099</u>	<u>859,931</u>
CURRENT LIABILITIES		
Trade and bills payables	47,755	46,209
Accrued liabilities	82,691	78,933
Interim dividend payable	25,604	–
Tax payable	8,274	4,233
Total current liabilities	<u>164,324</u>	<u>129,375</u>
NET CURRENT ASSETS	<u>642,775</u>	<u>730,556</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>905,711</u>	<u>1,002,639</u>
NON-CURRENT LIABILITIES		
Provision for long service payments	2,195	2,195
Deferred tax liabilities	557	308
Total non-current liabilities	<u>2,752</u>	<u>2,503</u>
	<u>902,959</u>	<u>1,000,136</u>
CAPITAL AND RESERVES		
Equity attributable to equity holders of the Company		
Share capital	116,383	116,383
Other reserves	480,845	485,290
Retained profits	289,598	266,007
Proposed final dividend	–	23,277
Proposed final special dividend	–	93,106
	<u>886,826</u>	<u>984,063</u>
Minority interests	16,133	16,073
	<u>902,959</u>	<u>1,000,136</u>

Notes:

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted 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 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Other than the adoption of HKASs 1, 27, 36, 40 and HKFRS 3, the adoption of the HKFRSs had no material effect on the Group’s accounting policies. The impact of adopting the other HKFRSs is summarized as follows:

(a) *HKAS 1 – Presentation of Financial Statements and HKAS 27 – Consolidated and Separate Financial Statements*

Minority Interests

Upon the adoption of HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the profit or loss for the period between the minority interests and the equity holders of the Company. The presentation of minority interests in the condensed consolidated balance sheet as at 31 March 2005 and in the condensed consolidated income statement and condensed consolidated statement of changes in equity for the comparative period ended 30 September 2004 has been restated accordingly.

(b) *HKAS 40 – Investment Property*

Upon the adoption of HKAS 40, gains or losses arising from changes in fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal. The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained earnings rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated interim financial statements. The effect of the above changes was the investment property revaluation reserve as at 1 April 2005 of HK\$4,445,000 was derecognised by way of a corresponding adjustment credited to the opening retained profits as at 1 April 2005.

(c) *HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets*

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period. The Group adopted the transitional provisions of HKFRS 3 which required the Group to eliminate the carrying amounts of accumulated amortisation as at 1 April 2005 with a corresponding entry to the cost of goodwill. The effects of these changes are that the accumulated amortisation of goodwill arising on the acquisition of the Group's subsidiaries as at 1 April 2004 and 1 April 2005 of HK\$5,861,000 and HK\$8,058,000, have been eliminated against the corresponding cost of goodwill of HK\$43,936,000 at 1 April 2004 and 1 April 2005 respectively.

2. SEGMENT INFORMATION

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.

The following table presents revenue and results for the Group's primary segments.

	For the six months ended 30 September									
	Wholesale		Retail		Corporate and other		Eliminations		Consolidated	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	612,084	561,378	87,184	95,008	-	-	-	-	699,268	656,386
Intersegment sales	35,712	50,293	-	-	-	-	(35,712)	(50,293)	-	-
Other income and gains	758	10,429	666	921	1,153	719	-	(3,858)	2,577	8,211
Total	648,554	622,100	87,850	95,929	1,153	719	(35,712)	(54,151)	701,845	664,597
Segment results	47,096	28,069	(3,523)	(4,275)	(1,259)	(2,135)	-	-	42,314	21,659
Unallocated income									5,553	1,202
Share of profit of an associate	348	-							348	-
Tax									(3,405)	(1,773)
Profit for the period									44,810	21,088

3. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Other income:		
Interest income	5,553	1,202
Gross rental income	1,153	719
Subsidies received from a supplier	949	7,184
Others	475	308
	8,130	9,413

4. PROFIT BEFORE TAX

Profit before tax was determined after charging/(crediting) the following:

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	13,519	12,837
Amortisation of goodwill	–	1,098
Write-back of provision for subsidies	–	(36,607)
Net realisable value provision for inventories	6,743	–

5. TAX

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong profits tax	4,041	2,653
Deferred	(636)	(880)
Total tax charge for the period	3,405	1,773

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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.

Share of tax attributable to an associate amounting to HK\$171,000 (2004: Nil) is included in “Share of profit of an associate” on the face of the condensed consolidated income statement.

6. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share for the six months ended 30 September 2004 and 2005 are based on:

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Earnings:</i>		
Profit attributable to equity holders of the Company for the purpose of basic calculating the earnings per share	<u>44,750</u>	<u>21,194</u>

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
<i>Number of shares:</i>		
Number of ordinary shares in issue during the period used in calculation of the basic earnings per share	<u>1,163,828,377</u>	<u>1,163,828,377</u>

Note: In the prior period, all share options originally granted to the directors and certain employees lapsed. No share options have been granted to any director or employee during the current and prior periods. Accordingly, the Company had no dilutive instrument as at 30 September 2004 and 2005 for diluted earnings per share calculation purpose.

7. DIVIDEND

At a meeting of the Board of Directors held on 8 December 2005, the directors resolved to declare an interim dividend of HK2.2 cent (2004: HK1 cent) per ordinary share for the six months ended 30 September 2005 to shareholders on the register of members on 6 February 2006. The dividend will be payable on or before 22 February 2006 (Wednesday). This recommendation has been incorporated in the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit and Revenue

The Group's consolidated revenue for the six months ended 30 September 2005 was HK\$699 million, reflecting a steady growth of 6.5% compared to the corresponding period last year. Driven by the popularity of digital products, accompanied by aggressive promotion campaigns and high evaluations from the market, net profit rose considerably during the period under review. This was coupled with effective inventory management and cost control measures undertaken by the Group and resulted in net profit attributable to shareholders rose dramatically by 111% to HK\$44.7 million, compared to a net profit of HK\$21.1 million for the same period last year. Earnings per share was HK3.85 cents, with an interim dividend of HK2.2 cents declared.

Business review

Wholesale business

During the period under review, total segment revenue of imaging solution increased by 4% compared with the corresponding six months last year. Affected by the popularity of digital cameras, sales of photographic film were down 30%, although this decline was more than offset by the impressive performance of digital products. A remarkable growth of 32% in the sales of digital cameras and accessories was recorded, compared with the corresponding period last year. Due to the increasing popularity of digital imaging, a large rise in the volume of digital prints was recorded. As a result, total sales of paper grew considerably by 61% during the period under review, compared to the same period last year. Meanwhile, the demand for movie films in China has continued to surge for the third consecutive year. With the commencement of CEPA (Closer Economic Partnership Arrangement) this year, sales of professional movie films remained robust and grew by 23% compared with the same period last year. In the information solution segment, the total sales of film and chemicals for medical products recorded 39% growth due to the successful tender for the supply of radiographic films and processing chemicals to the Hospital Authority of Hong Kong, which was obtained by the Group's wholly-owned subsidiary, Fuji Medical Company Ltd. in June 2004. In the graphic art products business, 2% growth was recorded in sales during the period under review. Following the successful introduction of the new recording film "Benefi" last year, total sales of recording film increased by 31%. "Benefi" continued to be well received and its sales and volume grew by 28% and 52% respectively compared with the corresponding period last year. In addition, sales of Printed Circuit Board (PCB) film remained robust and rose by 29% due to a leap in demand for high-end electrical products from the manufacturing industry in China.

Retail Operations

In Hong Kong, the performance for the retail segment was seriously dampened by the slump in traditional imaging products and the increasing operating cost compared with the same period last year. Sales of film and film cameras decreased by 34% and 67% respectively. In spite of under the pressure of rising rental costs in Hong Kong, Fotomax strengthened its network strategically from 84 shops to 89 during the year under review. High-quality digital imaging D&P service is still the core business of Fotomax, and sales of D&P service maintained the same level, while the total print volume rose slightly by 1.4% compared with the same period last year. Sales volume of digital printing grew by 30% and sales of PC accessories also recorded slight growth of 2%. The increase was principally driven by the increasing popularity and sophistication of digital cameras and phone cameras, as well as the continuing success of the “Digital Kiosk” installation plan. During the period under review, the number of kiosks increased by 16% to 101 units throughout Hong Kong.

Financial Resources

The Group’s cash and bank balances as at 30 September 2005 were approximately HK\$578 million with a zero gearing ratio. The Group has proactively taken initiatives in accordance with our vision to extend work efficiency and cost control to maintain the revenue. During the six-month period, advertising and marketing expenses were significantly reduced by 46% to HK\$7 million, selling and distribution costs and administrative expenses were also slightly decreased by 4% to HK\$33 million and HK\$34 million respectively, due to effective cost-control measures. Trade receivables of HK\$142 million were recorded for the period, while inventory was HK\$116 million.

Prospects

Going forward, the Group remains optimistic about the future business development and is confident that the two certificates granted by the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA), as Hong Kong Service Supplier for both wholesale and retail services, will become the major pillars of the Company’s future operations. Looking ahead, the Group will continue to implement comprehensive measures to accelerate growth of both the wholesale and retail businesses. The Group will also reinforce its leadership position in the digital imaging arena with Fujifilm’s advanced imaging and information solutions technology, and further strengthen the market share of Fotomax as the most outstanding, reliable and innovative photofinishing network in Hong Kong.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 7 February 2006 (Tuesday) to 10 February 2006 (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 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 6 February 2006 (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.

AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established in accordance with the Rules 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises of two non-executive directors and three independent non-executive directors of the Company. The Group's interim financial statements for the period ended 30 September 2005 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions as set out in Appendix 14 of the Main Board Listing Rules (the "Code") throughout the accounting period covered by the interim report, except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the bye-laws of the Company.

In compliance with the code provisions of the Corporate Governance ("CG Code") which came into force on 1 January 2005, the Company has set up a Remuneration Committee with terms of reference which are in line with the CG Code. The Remuneration Committee comprises of one Executive Director, Dr. Sun Tai Lun, Dennis and two Independent Non-executive Directors, Mr. Au Man Chung, Malcolm and Mr. Wong Chi Yun, Allan. Mr. Au Man Chung, Malcolm is the chairman of the Remuneration Committee.

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

The interim report of the Company for the six months ended 30 September 2005 containing all information required by Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

RE-DESIGNATION OF DIRECTORS

The board of directors (the "Board") of China-Hongkong Photo Products Holdings Limited (the "Company") is pleased to announce that Mr. Liu Hui, Allan ("Mr. Liu") and Ms. Chiang Yun, Rachel ("Ms. Chiang") the independent non-executive directors of the Company, have been re-designated as non-executive directors of the Company with effect from 8th December 2005.

Mr. Liu, aged 49, is the president and board member of The China Retail Fund LDC, an international direct investment fund sponsored by American International Group ("AIG") in cooperation with the former Ministry of Internal Trade ("MOIT") of the People's Republic of China ("PRC").

Prior to initiating and raising the fund, Mr. Liu had had 14 years of experience in advising and assisting multinational corporations' entries into China. From the early 1980's, after receiving education in the UK, he had served as an official or an advisor to several PRC ministries. During 1984-1987, Mr. Liu served as Deputy Director of Ministry of Foreign Trade & Economic Corporation's Center ("MOFTEC") for Market and Trade Development, one of the first ministerial organizations established to advise and assist foreign investors in China which have been involved in making over US\$1 billion direct foreign investment into China. From 1987, Mr. Liu founded and served as President of the New York based China United Resources Corporation, on behalf of MOFTEC, engaging in consulting and direct investment services for major US corporations investing in China.

Mr. Liu was appointed as an independent non-executive director of the Company on 18 July 2000 and has not held directorships in any other listed public companies in the last three years.

Mr. Liu has no relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the date of this announcement, Mr. Liu does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance.

Mr. Liu has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company. He will be entitled to a director's fee of HK\$90,000 per annum, which is determined with reference to his duties and responsibilities with the Company.

Ms. Chiang, aged 38, is the vice president of AIG Global Investment Corporation (Asia) Ltd., the Chief Investment Officer of the China Retail Management LDC. and a board member of the China Retail Fund, LDC, a direct investment fund sponsored by American International Group ("AIG") in cooperation with Ministry of Internal Trade ("MOIT") of the People's Republic of China ("PRC"). Ms. Chiang holds a Bachelor of Science degree from the Virginia Polytechnic Institute and State University and a Master of Business Administration degree from the Kellogg Graduate School of Management at the Northwestern University in the US.

Ms. Chiang was appointed as an independent non-executive director of the Company on 18 July 2000 and has not held directorships in any other listed public companies in the last three years.

Ms. Chiang has no relationship with any directors, senior management or substantial or controlling shareholders of the Company. As at the date of this announcement, Ms. Chiang does not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Future Ordinance.

Ms. Chiang has not entered into any service contract with the Company and she is subject to retirement by rotation and re-election in accordance with the Bye-laws of the Company. She will be entitled to a director's fee of HK\$90,000 per annum, which is determined with reference to her duties and responsibilities with the Company.

The Board is not aware of any other matters that need to be brought to the attention of shareholders of the Company in relation to Mr. Liu's and Ms. Chiang's re-designation as non-executive director.

MEMBERS OF THE BOARD

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

ON BEHALF OF THE BOARD

Dennis Sun Tai Lun

Chairman

Hong Kong, 8 December 2005

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