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)

CHKP

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 MARCH 2006

HIGHLIGHTS

- **Net profit attributable to shareholders recorded a dramatic growth of 167% to HK$120 million**
- **Surge in demand for digital prints drove rising sales of photographic paper**
- **Wholesale businesses benefited from positive impact of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA)**
- **Two new brands, "Fun2Print" and "FotoPress", have been established to further capitalise on the trend towards digital imaging**

CONSOLIDATED INCOME STATEMENT

Year ended 31 March 2006

	Notes	**2006** *HK$'000*	2005 *HK$'000*
REVENUE	2	**1,250,595**	1,232,828
Cost of sales		**(1,003,439)**	(987,325)
Gross profit		**247,156**	245,503
Other income	2	**24,550**	21,409
Selling and distribution expenses		**(66,155)**	(70,379)
Advertising and marketing expenses		**(16,036)**	(17,795)
Administrative expenses		**(67,367)**	(76,779)
Other operating expenses		**(2,676)**	(57,049)
Share of profit of an associate		**1,027**	–
PROFIT BEFORE TAX	3	**120,499**	44,910
Tax	4	**100**	195
PROFIT FOR THE YEAR		**120,599**	45,105
Attributable to:			
Equity holders of the Company		**120,496**	45,345
Minority interests		**103**	(240)
		120,599	45,105
DIVIDENDS	5		
Interim		**25,604**	11,638
Proposed final		**48,881**	23,277
Proposed final special		**–**	93,106
		74,485	128,021
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	6		
Basic		**10.35 cents**	3.90 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 March 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**98,176**	116,306
Investment properties		**35,958**	35,850
Prepaid land lease payments		**9,109**	9,799
Goodwill		**35,878**	35,878
Rental deposits		**5,907**	6,268
Interest in an associate		**9,607**	8,580
Time deposits		**38,785**	54,579
Deferred tax assets		**11,720**	4,133
Total non-current assets		**245,140**	271,393
CURRENT ASSETS			
Inventories		**143,546**	194,684
Trade and bills receivables	*7*	**86,697**	96,381
Prepayments, deposits and other receivables		**27,360**	28,580
Cash and cash equivalents		**617,420**	540,976
Total current assets		**875,023**	860,621
CURRENT LIABILITIES			
Trade and bills payables	*8*	**49,836**	46,209
Accrued liabilities		**82,682**	78,933
Tax payable		**7,089**	4,233
Total current liabilities		**139,607**	129,375
NET CURRENT ASSETS		**735,416**	731,246
TOTAL ASSETS LESS CURRENT LIABILITIES		**980,556**	1,002,639
NON-CURRENT LIABILITIES			
Provision for long service payments		**2,810**	2,195
Deferred tax liabilities		**2,088**	308
Total non-current liabilities		**4,898**	2,503
Net assets		**975,658**	1,000,136
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**116,383**	116,383
Reserves		**794,218**	751,297
Proposed final dividend		**48,881**	23,277
Proposed final special dividend		**–**	93,106
		959,482	984,063
Minority interests		**16,176**	16,073
Total equity		**975,658**	1,000,136

NOTES:

1. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year'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 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
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 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
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

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 27, 28, 31, 32, 33, 37, 39 and 39 Amendment has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases and HK-Int 4 – Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17 and HK-Int 4 the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the leasehold land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 March 2005 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

(b) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the investment properties revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. In accordance with the transitional provisions of HKAS 40, the opening balance of retained profits and the investment properties revaluation reserves as at 1 April 2004 have been restated to reflect this change and comparative amounts have not been restated.

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 March 2005, but had not yet vested as at 1 April 2005, the adoption of HKFRS 2 has had no impact to the Group's financial statements.

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

In prior years, goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(e) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior years, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

The adoption of HK(SIC)-Int 21 has had no material impact to the Group's financial statements.

2. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and the income from the rendering of film processing and photo finishing services.

An analysis of revenue and other income is as follows:

	2006	2005
	HK$'000	*HK$'000*
Revenue:		
Sale of goods	**1,123,222**	1,100,182
Income from the rendering of film processing and photo finishing services	**127,373**	132,646
	1,250,595	1,232,828
Other income:		
Interest income	**14,666**	5,432
Gross rental income	**2,506**	1,841
Subsidies received from a supplier	**5,265**	12,196
Others	**2,113**	1,940
	24,550	21,409

3. PROFIT BEFORE TAX

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

	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold	**934,397**	923,603
Cost of services rendered	**64,513**	70,156
Auditors' remuneration	**1,200**	1,400
Depreciation	**21,492**	24,809
Recognition of prepaid land lease payments	**690**	690
Amortisation of goodwill*	**–**	2,197
Minimum lease payments under operating leases on land and buildings	**32,691**	38,781
Loss on disposal of items of property, plant and equipment**	**1,198**	1,550
Provision/(reversal of provision) for inventories***	**4,529**	(6,434)
Provision for bad and doubtful debts**	**578**	53,201
Impairment losses on items of property, plant and equipment**	**–**	1,989
Changes in fair value of investment properties**	**900**	–
Provision for other receivables**	**–**	310
Employee benefits expense (including directors' remuneration)		
Wages and salaries	**72,652**	71,905
Pension scheme contributions	**2,754**	2,360
Less: Forfeited contributions****	**–**	(182)
Net pension scheme contributions	**2,754**	2,178
	75,406	74,083
Gross rental income	**(2,506)**	(1,841)
Direct expenses (including repairs and maintenance) arising on rental-earning investment properties	**383**	102
Net rental income	**(2,123)**	(1,739)
Foreign exchange differences, net	**(2,568)**	178

* *Included in "Administrative expenses" on the face of the consolidated income statement.*

** *Included in "Other operating expenses" on the face of the consolidated income statement.*

*** *Included in "Cost of sales" on the face of the consolidated income statement.*

**** *As at 31 March 2006, the Group had no forfeited contributions available to reduce contributions to the pension schemes in future years (2005: Nil).*

4. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year, after offsetting certain amounts of tax losses carried forward by certain subsidiaries of the Group. Taxes on profits assessable in the People's Republic of China (the "PRC") have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong		
Charge for the year	**7,191**	4,009
Overprovision in prior years	**(1,722)**	(485)
Current – Mainland China	**238**	106
	5,707	3,630
Deferred	**(5,807)**	(3,825)
Total tax credit for the year	**(100)**	(195)

5. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim – HK2.2 cents (2005: HK1 cent) per ordinary share	**25,604**	11,638
Proposed final – HK4.2 cents (2005: HK2 cents) per ordinary share	**48,881**	23,277
Proposed final special – Nil (2005: HK8 cents) per ordinary share	**–**	93,106
	74,485	128,021

An interim dividend of HK2.2 cents per share (2005: HK1 cent per share) was paid on 22 February 2006. The directors recommend the payment of a final dividend of HK4.2 cent per ordinary share. The proposed dividend for the year are subject to the approval of the Company's shareholders at the forthcoming annual general meeting on 18 August 2006 and the dividend will be payable on 30 August 2006 upon approval.

6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share is based on:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Net profit attributable to ordinary equity holders of the Company	**120,496,000**	45,345,000
Shares		
Weighted average number of ordinary shares in issue during the year	**1,163,828,377**	1,163,828,377

(b) Diluted earnings per share

There was no diluting event that existed during the year ended 31 March 2006. During the year ended 31 March 2005, all share options originally granted under the share option scheme of the Company lapsed subsequent to the expiry of the exercise period. The exercise price of share options was higher than the average market price of the Company's ordinary share during that year. Accordingly, no shares were assumed to have been issued at nil consideration on deemed exercise of the share options outstanding during that year. Accordingly, diluted earnings per share amounts for the years ended 31 Mach 2006 and 2005 have not been disclosed.

7. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 days, except for certain well-established customers where the terms are extended to 120 days. Each customer has a maximum credit limit pre-approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the payment due date and net of provision, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current to 3 months	**80,311**	94,274
4 to 6 months	**4,128**	298
7 to 9 months	**357**	1,308
Over 9 months	**1,901**	501
	86,697	96,381

The Group's trade and bills receivables are non-interest-bearing and their carrying amounts approximate to their fair values.

8. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the date of goods purchased and services rendered, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Current to 3 months	**45,401**	41,336
Over 3 months	**4,435**	4,873
	49,836	46,209

The Group's trade and bills payables are non-interest-bearing and are normally settled on 30-day terms, and their carrying amounts approximate to their fair values.

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 the other business segments. Summary details of the business segments are as follows:

(a) the wholesale segment engages in the marketing and distribution of photographic developing, processing and printing products;

(b) the retail segment engages in the provision of film processing, photo-finishing services and the sale of photographic merchandises through retail outlets; and

(c) the corporate and other segment comprises the Group's investment property business together with corporate income and expense items.

In determining the Group's geographical segments, revenues 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 plus mark-up of approximately 18%.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

	Wholesale segment		Retail segment		Corporate and Other		Eliminations		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers and service income	**1,070,916**	1,036,370	**179,679**	196,458	**–**	–	**–**	–	**1,250,595**	1,232,828
Intersegment sales	**48,317**	96,381	**–**	–	**–**	–	**(48,317)**	(96,381)	**–**	–
Other revenue	**6,326**	14,098	**1,052**	3	**2,506**	1,876	**–**	–	**9,884**	15,977
	1,125,559	1,146,849	**180,731**	196,461	**2,506**	1,876	**(48,317)**	(96,381)	**1,260,479**	1,248,805
Unallocated interest income									**14,666**	5,432
Total revenue									**1,275,145**	1,254,237
Segment results	**106,002**	41,526	**3,010**	818	**(4,206)**	(2,866)	**–**	–	**104,806**	39,478
Unallocated interest income									**14,666**	5,432
Share of profit of an associate	**1,027**	–	**–**	–	**–**	–	**–**	–	**1,027**	–
Profit before tax									**120,499**	44,910
Tax									**100**	195
Profit for the year									**120,599**	45,105
Segment assets	**376,650**	428,531	**156,164**	176,080	**55,219**	53,788			**588,033**	658,399
Interest in an associate	**9,607**	8,580	**–**	–	**–**	–			**9,607**	8,580
Unallocated assets									**522,523**	465,035
Total assets									**1,120,163**	1,132,014
Segment liabilities	**94,446**	76,681	**27,638**	42,694	**13,244**	7,962			**135,328**	127,337
Unallocated liabilities									**9,177**	4,541
Total liabilities									**144,505**	131,878
Other segment information:										
Depreciation, recognition of prepaid land lease payments and amortisation of goodwill	**5,686**	5,294	**13,890**	20,016	**2,606**	2,386			**22,182**	27,696
Impairment losses on items of property, plant and equipment	**–**	–	**–**	1,989	**–**	–			**–**	1,989
Capital expenditure	**2,154**	2	**5,254**	14,571	**34**	390			**7,442**	14,963
Deficit on revaluation of investment properties recognised directly in equity	**–**	–	**–**	–	**–**	50			**–**	50
Changes in fair value of investment properties	**–**	–	**–**	–	**900**	–			**900**	–
Provision for bad and doubtful debts	**578**	53,201	**–**	–	**–**	–			**578**	53,201
Provision/(reversal of provision) for inventories	**4,865**	(6,434)	**(336)**	–	**–**	–			**4,529**	(6,434)
Provision for other receivables	**–**	310	**–**	–	**–**	–			**–**	310

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2006 and 2005.

	Hong Kong		**Mainland China**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers and service income	**1,036,597**	990,470	**213,998**	242,358	**1,250,595**	1,232,828
Other segment information:						
Segment assets	**906,491**	939,144	**213,672**	192,870	**1,120,163**	1,132,014
Capital expenditure	**7,180**	14,667	**262**	296	**7,442**	14,963

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and Profit

The Group's total revenue for the year ended 31 March 2006 was HK$1,251 million, a slight increase of 1% compared with 2005. A net profit attributable to shareholders of HK$120 million was recorded, a 167% increase over the previous year. Earnings per share was HK10.35 cents.

Wholesale Business

Imaging Solutions

The imaging solutions segment includes businesses related to photographic products and equipment. Total segment revenue remained the same as last year even though the total sales of film slumped 41%. Aggregate sales of digital cameras were up by 17.5% and sales volume also recorded 8% growth due to the superb quality and outstanding functions of our products, especially ultra high sensitivity and quick shooting response. With the popularity of digital devices, the continuing surge in the volume of prints from digital cameras drove sales of photographic paper, which grew by an encouraging 51% during the year under review. This, coupled with stable economic growth and booming inbound tourism accelerated the demand for our quality photofinishing service.

Information Solutions

Activities in this segment include medical imaging systems and graphic art products. During the year under review, the overall revenue for the information solutions segment increased by an impressive 26% as a result of effective implementation of business strategies throughout our distribution channels and the positive impact of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA). In the Hong Kong market, the successful tender for the supply of radiographic films and processing chemicals to the Hospital Authority of Hong Kong has, since June 2004, stimulated the sales growth in these categories, which rose by 15% for the fiscal year. In the graphic art products business, 8% growth in sales was recorded during the fiscal year. Total sales of graphic arts film achieved a robust growth of 36% and sales of recording film grew by 46.5%. Sales of the most popular recording film, 'Benefi', continued to increase considerably, rising by 146%. Meanwhile, sales of Printed Circuit Board (PCB) Film rose dramatically by 165% due to the boom in advanced electric products in the global market.

Retail Business

In Hong Kong, owing to a plunge in film sales coupled with decreasing Developing and Processing sales generated from film, total sales for the retail segment decreased by 8% compared to the last fiscal year. The network of Fotomax outlets remained stable at 90 shops, although the climbing rentals and keen market competition put heavy pressure on profitability. High-quality digital output services have become the core business of Fotomax. Over 80% of print orders are now from digital instead of film and both sales and volume of digital output surpassed film output for the second consecutive year. Total sales and volumes of digital print continued to exhibit significant growth, rising by 19% and 20% respectively over the previous fiscal year. This growth has been accelerated by the popularity of digital cameras and the success of the "Digital Kiosk". The total number of Kiosks increased from 93 to 114 units and volume received from Kiosks rose by 114% as they gradually became the most fashionable and easiest way to process digital photo orders. The total volume of the online digital photo business also saw a considerable increase of 120%, reflecting the popularity of the online ordering service following the website revamp.

Brand Management
The Group has utilised its integrated resources and expertise in various fields to create synergies in sales promotions, advertising campaigns and corporate sponsorship. To sustain brand awareness, the Group has continued to step up its advertising campaigns and sponsorship events to reach its target customers in China, Hong Kong and Macau.

In the wholesales business, two powerful D&P sales promotions featuring a popular Japanese comic, "Fullmetal Alchemist" and the local character "Kapo", were launched during the summer and winter seasons to boost the sales of photofinishing products. The promotions were well received and accelerated the sales of photographic paper in Hong Kong. To boost sales of digital cameras, eye-catching outdoor advertisements such as billboards, MTR panels and bus displays were placed in high traffic areas. Nearly 10,000 square feet of outdoor billboard advertisements have been placed to raise the brand awareness of the digital cameras. This is the first year that outdoor billboard advertisements have been frequently used to promote new digital cameras in Hong Kong and the result has been encouraging from the perspective of both sales and customer comments. The Group also launched an effective tactical alliance trade promotion campaign by means of joint promotion with several leading dealers in the Hong Kong retail market.

In its retail business, The Group has allocated substantial resources to raising the brand awareness of Fotomax and encouraging greater demand for digital photo printing. Fotomax demonstrated its strength in sales promotion through several popular cartoon character promotion services such as "Tweety", "Hello Kitty", "Astro Boy" and "Miffy". Significant growth in the volume of digital photo prints was recorded during the promotion period, especially digital photos with character borders.

In November 2005, two new brands, "Fun2Print" and " FotoPress", have been established to meet the growing demand for digital imaging products and one-stop digital printing services respectively. "Fun2Print" is a personalised imaging products and services channel that offers tailor-made and unique digital imaging products such as personal bookmarks, notebooks, postcards, memo packs, calendar cards, mouse pads, mugs and cushions. "FotoPress" focuses on offering digital printing services for ad hoc company events or in response to special requests from businesses. We anticipate that the digital imaging products and one-stop digital printing service will expand and become a gateway to more lucrative revenue streams within the retail business.

Financial Resources
The Group's cash and bank balances as at 31 March 2006 has recorded a growth of 10% to HK$656 million (2005: HK$596 million) with a zero gearing ratio. The Group continued to take every measure to extend work efficiency and cost control. During the fiscal year, advertising and marketing expenses were significantly reduced by 10% to HK$16 million and administrative expenses decreased by 12% to HK$67 million, due to effective cost-control measures. Trade and bills receivables also decreased by 10% to HK$87 million for the year, while inventories decreased remarkably by 26% to HK$144 million because of prudent management of trade and bills receivables and inventories. The Group had 477 employees (2005: 540), remunerated largely based on industry practice, including provident funds, insurance and medical benefits. The Group also adopted a discretionary bonus programme determined annually based upon the performance of the Group and the employees.

Outlook
Supported by the positive impact of CEPA and the influx of visitors from Mainland China, the Group has achieved continued growth in profitability during the year under review. We remain optimistic about business prospects and will continue to leverage the special privileges granted by CEPA and the boom in tourism in Hong Kong to develop more opportunities in our rapidly growing digital businesses. Although the pace of technological change continues to accelerate, the Group will take advantage of the synergies in our digital business and maximize their positive impact by expanding related business networks and exploring market opportunities. To forge ahead despite the tough business environment and increase revenues and profits at both the wholesale and retail businesses, the Group will foster the expansion of its established digital imaging services as well as foster emerging businesses, such as our new digital printing services. Meanwhile, the newly established brands will become a source of long-term earnings for the Group.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 March 2006 except that:–

(1) The roles of Chairman and Chief Executive Officer have not been separated. Dr. Sun Tai Lun, Dennis is the Chairman/Chief Executive Officer of the Company. The Board believes that vesting the role of both Chairman and Chief Executive Officer in the same personal provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

(2) The non-executive directors have not entered into any service contract with the Company and are not appointed for a specific term but are subject to retirement by rotation at the Company's annual general meeting; and

(3) No written guidelines have been established for employees in respect of their dealings in the securities of the Company as only the directors are likely to be in possession of unpublished price-sensitive information of the Company.

Full details on the subject of corporate governance are set out in the Company's 2006 Annual Report.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 15 August 2006 (Tuesday) to 18 August 2006 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividends, 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 14 August 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 year.

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 three independent non-executive directors and 2 non-executive directors of the Company. The Group's audited financial statements for the year ended 31 March 2006 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.

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 and Mr. Sun Tao Hung, Stanley are the executive directors. Ms. Chiang Yun, Rachel and Mr. Liu Hui, Allan are the 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
Sun Tai Lun
Chairman

HKSAR, 29 June 2006

http://chinahkphoto.com.hk

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