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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

HIGHLIGHTS

- Consolidated turnover increased by 9.4% to HK$176 million and a net loss of HK$12.83 million
- Steady growth in instant products, Fun2Print and FotoPress businesses leads to reasonable operating profit
- Interim dividend of HK1 cent and interim special dividend of HK1 cent per share declared

Condensed Consolidated Income Statement
For the six months ended 30 September 2008

		For the six months ended 30 September	
	Notes	**2008**	2007
		(Unaudited)	(Unaudited)
		HK$'000	*HK$'000*
REVENUE	*3*	**176,367**	161,169
Cost of sales		**(120,029)**	(107,679)
Gross profit		**56,338**	53,490
Other income and gains		**11,217**	19,751
Fair value gain/(loss) on financial assets at fair value through profit or loss		**(21,426)**	6,134
Selling and distribution costs		**(28,787)**	(27,843)
Advertising and marketing expenses		**(5,540)**	(3,921)
Administrative expenses		**(23,238)**	(27,373)
Other operating income, net		**796**	2,467
PROFIT/(LOSS) BEFORE TAX	*4*	**(10,640)**	22,705
Tax	*5*	**(2,186)**	(4,170)
PROFIT/(LOSS) FOR THE PERIOD		**(12,826)**	18,535
Attributable to:			
Equity holders of the Company		**(12,651)**	18,535
Minority interests		**(175)**	–
		(12,826)	18,535
DIVIDENDS	*6*		
Interim		**11,638**	11,638
Interim special		**11,638**	32,587
		23,276	44,225
EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*7*		
Basic		**(1.09 cents)**	1.59 cents
Diluted		**N/A**	N/A

Condensed Consolidated Balance Sheet

30 September 2008

	Notes	30 September 2008 (Unaudited) *HK$'000*	31 March 2008 (Audited) *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**40,572**	41,907
Investment properties		**124,194**	124,194
Prepaid land lease payments		**2,958**	3,062
Goodwill		**35,878**	35,878
Rental deposits		**5,598**	6,110
Deferred tax assets		**4,235**	6,392
Total non-current assets		**213,435**	217,543
CURRENT ASSETS			
Inventories		**30,414**	27,339
Trade and bills receivables	*8*	**14,522**	13,005
Prepayments, deposits and other receivables		**16,254**	16,936
Financial assets at fair value through profit or loss		**215,366**	236,792
Tax recoverable		**1,669**	2,355
Cash and cash equivalents		**617,305**	680,619
Total current assets		**895,530**	977,046
CURRENT LIABILITIES			
Trade and bills payables	*9*	**14,205**	21,334
Accrued liabilities and other payables		**64,114**	64,319
Interim dividend payable		**11,638**	–
Interim special dividend payable		**11,638**	–
Total current liabilities		**101,595**	85,653
NET CURRENT ASSETS		**793,935**	891,393
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,007,370**	1,108,936
NON-CURRENT LIABILITIES			
Accrued liabilities		**20,030**	23,994
Deferred tax liabilities		**10,073**	11,054
Total non-current liabilities		**30,103**	35,048
Net assets		**977,267**	1,073,888
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**116,383**	116,383
Reserves		**845,137**	881,064
Proposed final dividend		**–**	10,474
Proposed final special dividend		**–**	50,045
		961,520	1,057,966
Minority interests		**15,747**	15,922
Total equity		**977,267**	1,073,888

Notes To Interim Condensed Consolidated Financial Statements

30 September 2008

1. ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of China-Hongkong Photo Products Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group") for the six months ended 30 September 2008 have been prepared in accordance with Hong Kong Accounting Standard 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 2008, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) as disclosed in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

2.1 Impact of new and revised HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs which are generally effective for accounting periods beginning on or after 1 April 2008. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material impact on these interim condensed consolidated financial statements.

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HK(IFRIC)-Int 12 "Service Concession Arrangements"

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group had no service concession arrangements, the interpretation has had no impact on the financial position on results of operation of the Group.

(b) *HK(IFRIC)-Int 14 " HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"*

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 "Employee Benefits", on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group had no defined benefit scheme, the interpretation has had no impact on the financial position on results of operation of the Group.

2.2 Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these interim condensed consolidated financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 and HKFRS 7 Amendments	Reclassification of Financial Assets[3]
HKFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellation[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[4]

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 October 2008

The Group has not early adopted these new and revised HKFRSs in the financial statements for the period ended 30 September 2008. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on its results of operations and financial position.

3. SEGMENT INFORMATION

Segment information is presented on a primary segment reporting basis, by business 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 merchandise segment engages in the marketing and distribution of photographic developing, processing and printing products and sale of photographic merchandises;

(b) the service segment engages in the provision of film processing, photo-finishing services and technical services for photographic developing and processing products; and

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

The following table presents revenue and results for the Group's business segment for the six months ended 30 September 2008 and 2007.

	Merchandise		Service		Corporate and others		Eliminations		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	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	**114,491**	97,423	**61,876**	63,746	**–**	–	**–**	–	**176,367**	161,169
Intersegment sales	**15,370**	11,583	**2,397**	2,439	**–**	–	**(17,767)**	(14,022)	**–**	–
Other income and gains	**–**	37	**–**	109	**(17,995)**	8,282	**–**	–	**(17,995)**	8,428
Total	**129,861**	109,043	**64,273**	66,294	**(17,995)**	8,282	**(17,767)**	(14,022)	**158,372**	169,597
Segment results	**2,541**	(302)	**2,920**	5,634	**(23,887)**	(84)	**–**	–	**(18,426)**	5,248
Interest income									**7,786**	17,457
Profit/(loss) before tax									**(10,640)**	22,705
Tax									**(2,186)**	(4,170)
Profit/(loss) for the period									**(12,826)**	18,535

4. PROFIT/(LOSS) BEFORE TAX

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

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**(7,786)**	(17,457)
Gain on disposal of items of property, plant and equipment^	**(765)**	–
Cost of inventories sold*	**91,918**	79,904
Cost of services provided*	**29,690**	27,770
Depreciation	**7,672**	8,414
Recognition of prepaid land lease payments	**104**	104
Provision/(write-back of provision) against inventories*	**(1,579)**	5
Write-off of receivables and prepayments^	**–**	3,037
Write-back of payables and accrued liabilities^	**–**	(5,096)

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

^ Included in "Other operating income, net" on the face of the condensed consolidated income statement.

5. TAX

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current – Hong Kong	**824**	1,916
Current – Mainland China	**186**	148
Deferred	**1,176**	2,106
Total tax charge for the period	**2,186**	4,170

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 September 2007: 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. Taxes on profits assessable in the Mainland China have been calculated at the rates of tax prevailing in the location in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

On 26 June 2008, the Government of the Hong Kong Special Administrative Region approved the Hong Kong profits tax rate to be reduced from 17.5% to 16.5% from the year of assessment 2008/2009 onwards. According to HKAS 12 "Income taxes", deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and therefore the Group's deferred tax has been adjusted accordingly. The effect on the change of tax rate is not material to the Group for the six months ended 30 September 2008.

6. DIVIDENDS

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim – HK1 cent (six months ended 30 September 2007: HK1 cent) per ordinary share	**11,638**	11,638
Interim special – HK1 cent (six months ended 30 September 2007: HK2.8 cents) per ordinary share	**11,638**	32,587
	23,276	44,225

At a meeting of the board of directors held on 4 December 2008, the directors resolved to pay on 30 January 2009 an interim dividend of HK1 cent (six months ended 30 September 2007: HK1 cent) per ordinary share and an interim special dividend of HK1 cent (six months ended 30 September 2007: HK2.8 cents) per ordinary share to shareholders whose names appear on the register of members of the Company on 16 January 2009 (Friday).

7. EARNINGS/(LOSSES) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of the basic and diluted earnings/(losses) per share for the six months ended 30 September 2008 and 2007 are based on:

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Earnings/(losses):		
Profit/(loss) attributable to ordinary equity holders of the Company for the purpose of basic earnings/(losses) per share calculation	**(12,651)**	18,535

	For the six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
Shares:		
Weighted average number of ordinary shares in issue during the period for the purpose of basic earnings/(losses) per share calculation	**1,163,828,377**	1,163,828,377

Diluted earnings/(losses) per share amounts for the six months ended 30 September 2008 and 2007 have not been disclosed as there were no diluting events existing during the six months ended 30 September 2008 and 2007.

8. 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 30 days, except for certain well-established customers where the terms are extended to 120 days.

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

	30 September 2008 (Unaudited) *HK$'000*	31 March 2008 (Audited) *HK$'000*
Current to 3 months	**14,461**	12,721
4 to 6 months	**19**	52
7 to 9 months	**25**	66
Over 9 months	**17**	166
	14,522	13,005

9. TRADE AND BILLS PAYABLES

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

	30 September 2008 (Unaudited) *HK$'000*	31 March 2008 (Audited) *HK$'000*
Current to 3 months	**11,359**	18,697
Over 3 months	**2,846**	2,637
	14,205	21,334

10. RELATED PARTY TRANSACTIONS

The Group's compensation of key management personnel are as follows:

	For the six months ended 30 September	
	2008 (Unaudited) *HK$'000*	2007 (Unaudited) *HK$'000*
Short term employee benefits	**2,812**	3,680
Post-employment benefits	**24**	24
Total compensation paid to key management personnel	**2,836**	3,704

11. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorised for issue by the board of directors on 4 December 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover for the period ended 30 September 2008 increased from HK$161 million to HK$176 million, up by 9.4%. Despite this, in common with many global businesses, the Group suffered a net loss of HK$12.83 million due to its low-risk investment portfolio that was hard-hit by the recent financial crisis.

Business Review

Merchandising

During the period under review, the sales of digital products remain one of the Group's strongest revenue-earning areas. The sales of digital products grew by 7.9% compared to the same period last year. Increasing numbers of customers are shifting their mode of consumption in image output from soft copies to hard copies. In addition, the sale of instant products has seen a dramatic increase of 128.5% compared to the same period last year.

However, the market for traditional imaging products has continued to shrink which has seen the sales of colour film drop by 33.8% compared to same period last year.

To strengthen market share and to further boost demand, the Group has taken significant steps to upgrade the Fuji Digital Imaging (FDi) service. In addition, the Group is constantly upgrading its imaging software, improving its frontline staff service and devising multi-faceted marketing strategies to sustain its performance in the digital imaging business.

Photofinishing And Technical Services

The overall performance of Fotomax remains stable, with sales holding up well, recording a 3.5% increase compared with the same period last year.

To reduce costs and maintain its sustainability, the Group has terminated the operation of non-profitable shops upon lease expiry, which has seen the number of outlets decrease from 86 to 84. On the other hand, the Group has focused on expanding its popular digital kiosks. In the six-month period under review, the number of digital kiosks increased from 188 to 230 units, an increase of 22.3%.

Fotomax's key business remains its high-quality digital output services. Over 95% of print orders are requested from digital files. Another strong source of revenue for Fotomax is the Fun2Print which includes paper items, gift items and other album services that are welcomed by consumers. The sale of Fun2Print in the six months under review had increased by 57% compared with the previous year. In addition, sales of FotoBook saw an increase of 439.7% compared with the same period last year.

As social networks grow in size and popularity, and consumers become more accustomed to buying online, the Group is well placed to position itself as one of the leading photographic imaging operators in Hong Kong. The Group expects the increase in online sales to offset the losses from the decline in film sales, and believes that online sales will become a pillar of the retail business in the future.

Fotomax continues to improve its software designs and to offer increasing numbers of value-added programmes. In addition to offering an even wider range of gift items for consumers, the Group has also added onsite production services at selected locations and introduced "Image Intelligence Specialists" that offers instant professional advice on required imaging services.

In the period under review, Fotomax also established a new website linked with a membership program.

The Group's Octopus Reward Dollars scheme remains very popular and was extended during the period under review. With joint promotion of this scheme, Fotomax recorded a redemption of 20,352 pieces of 5R photos and 64,551 pieces of 6R photographs during this period.

BRAND MANAGEMENT

The Group holds firmly to the view that at times of economic turmoil, greater discipline as well as extra effort are required to reinforce long-term customer loyalty and to identify and open up new market segments. During the period under review, the Group had adopted a comprehensive approach to upgrade its internal and external strategies, aimed at ensuring a consistent and positive brand equity amongst its target customers.

To reinforce the Group's core values, its branding strategies have led to the development of thematic campaigns aimed at encouraging digital consumption based on cultural values. This included enhancing personalized imaging such as the application of Cool Print, new easy-to-order software, as well as new membership programs.

The Group's digital products continued to rank high amongst world-class photographic technology. FinePix S100FS won the European TIPA (The Technical Image Press Association) Best Superzoom D-Camera Award for 2008 and the EISA (European Imaging and Sound Association) Super Zoom Camera Best Product Award for 2008-2009. New digital cameras FinePix J10, FinePix S8100fd and S1000fd were launched and promoted through print advertising and television commercials which expanded both sales and market share.

In addition, the Group continued its advertising campaigns and sponsorship events in Hong Kong and Macau. The Group also undertook joint promotions with several big dealers in the Hong Kong retail market.

On the retail level, the Group believes that it is important to understand and anticipate the needs of its target consumers. A large majority of consumers enjoy Fotomax because of the successfully-branded Fun2Print and FotoPress products.

Fotomax launched the Hello Kitty and Cinnamoroll gift promotional packages which met with a very positive response from the marketplace. Related gift items including puzzles, creative posters, montage photos, playing cards, bookmarks and crystal glass stands were all welcomed by customers.

The Group believes that with greater variations in album design and graphics, consumers will be more closely engaged through their ability to personalize imaging products and will find “added value” in customizing their photographs.

FINANCIAL RESOURCES

The financial position of the Group remained sound and healthy during the period under review. As at 30 September 2008, the Group’s cash and bank balances were approximately HK$617 million with a zero gearing ratio. Trade receivables of HK$15 million were recorded for the period, while inventory was HK$30 million. The Group had no significant contingent liabilities as at 30 September 2008.

OUTLOOK

The Group has come through a very difficult half-year which has seen a downward spiral of global financial markets. Despite this, the Group is pleased to have secured a reasonable profit during the period under review from its wholesales and retail businesses. Although it is believed that these difficult circumstances will persist for some time, with stimulus and support from Mainland China and other governments worldwide, the Group remains optimistic about business prospects and will continue to trust its vision in servicing the imaging industry. The Group will continue to watch the global digital industry to explore new products and look forward to potential new ventures that would foster increased demand for digital printing services.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 13 January 2009 (Tuesday) to 16 January 2009 (Friday), both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining who is entitled to the interim dividend and the interim special dividend. In order to qualify for the proposed interim dividend and interim special dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 12 January 2009 (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 a total of four independent non-executive directors of the Company. The Group’s financial statements for the period ended 30 September 2008 have been reviewed by the Committee, which is 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 “CG Code”) throughout the period ended 30 September 2008, 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 person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

(2) The independent 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.

MEMBERS OF THE BOARD

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

On behalf of the Board
Sun Tai Lun
Chairman

HKSAR, 4 December 2008
http://www.chinahkphoto.com.hk