

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2014**

HIGHLIGHTS

- Consolidated turnover increases 59.3%
- Sales of photographic instant products increase 17.4%
- New business segments introduced since August 2013 contribute 56% of consolidated turnover
- Interim dividend of HK1 cent per share declared

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2014

		For the six months ended 30 September	
		2014	2013
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	520,975	327,074
Cost of sales		(397,908)	(245,243)
Gross profit		123,067	81,831
Other income and gains, net	3	6,705	7,688
Selling and distribution costs		(70,454)	(37,244)
Advertising and marketing expenses		(17,145)	(16,445)
Administrative expenses		(35,808)	(31,007)
Other operating expense, net		(63)	(14)

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30 September 2014

	Notes	For the six months ended 30 September	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Operating profit		6,302	4,809
Share of results of an associate		(625)	—
Profit before tax	4	5,677	4,809
Income tax expense	5	(1,524)	(2,741)
Profit for the period		4,153	2,068
Profit attributable to:			
Owners of the Company		4,179	1,873
Non-controlling interests		(26)	195
		4,153	2,068
Earnings per share attributable to owners of the Company	7		
Basic		HK0.35 cent	HK0.16 cent
Diluted		HK0.35 cent	HK0.16 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2014

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Profit for the period	4,153	2,068
Other comprehensive income		
Item that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	540	216
Total comprehensive income for the period	4,693	2,284
Total comprehensive income/(loss) attributable to:		
Owners of the Company	4,719	2,089
Non-controlling interests	(26)	195
	4,693	2,284

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2014

	<i>Notes</i>	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		82,074	77,877
Investment properties		168,805	168,720
Goodwill		80,085	80,085
Trademarks		14,784	15,173
Interest in an associate		–	125
Deposits		16,805	14,164
Deferred tax assets		948	67
Total non-current assets		363,501	356,211
Current assets			
Inventories		201,790	163,957
Trade receivables	8	50,592	52,212
Prepayments, deposits and other receivables		32,965	37,373
Tax recoverable		–	96
Cash and bank balances		280,801	360,070
Total current assets		566,148	613,708
Current liabilities			
Trade and bills payables	9	44,733	60,594
Accrued liabilities and other payables		52,779	56,955
Tax payable		11,212	9,485
Total current liabilities		108,724	127,034
Net current assets		457,424	486,674
Total assets less current liabilities		820,925	842,885
Non-current liabilities			
Accrued liabilities		6,114	9,615
Deferred tax liabilities		24,841	24,287
Total non-current liabilities		30,955	33,902
Net assets		789,970	808,983
EQUITY			
Equity attributable to owners of the Company			
Share capital		118,532	118,532
Reserves		659,383	666,517
Proposed final dividend		–	11,853
Proposed final special dividend		–	11,853
Proposed interim dividend		11,853	–
		789,768	808,755
Non-controlling interests		202	228
Total equity		789,970	808,983

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2014 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

1.1 Changes in accounting policies and disclosures

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2014, as described in those annual financial statements.

China-Hongkong Photo Products Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) has adopted the following new and revised HKFRSs for the first time for the current period’s financial information.

HKAS 27 (2011), HKFRS 10 and HKFRS 12 (Amendment)	Investment Entities
HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKAS 39 (Amendment)	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC) – Int 21	Levies

The adoption of these new standards, amendments and interpretation to existing standards does not have any significant impact to the results and financial position of the Group’s condensed consolidated interim financial information.

1.2 Issued but not yet effective Hong Kong Financial Reporting Standards

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

New or revised standards		Effective for accounting periods beginning on or after
Amendment to HKAS 19	Defined Benefit Plans	1 July 2014
Amendment to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 cycle	1 July 2014
Amendment to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 cycle	1 July 2014
Amendment to HKFRS 7 and HKFRS 9	Mandatory Effective Date and Transition Disclosures	1 January 2015
Amendment to HKFRS 11	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operation	1 January 2016
Amendment to HKAS 27	Equity Method in Separate Financial Statements	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2017
HKFRS 9	Financial Instruments	1 January 2018

The Group is in the process of making an assessment of the impact of these new or revised standards and amendments upon initial application and is not yet in a position to state whether these new or revised standards and amendments have any significant impact on the Group's result of operations and financial position.

2 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments as follows:

- (a) the merchandise segment engages in the marketing, distribution of photographic developing, processing and printing products and the sale of photographic merchandises, skincare products, consumer electronic products and household appliances;
- (b) the service segment engages in the provision of technical services for photographic developing and processing products, professional audio-visual advisory and custom design and installation service;
- (c) the investment segment comprises the Group's business in investment properties; and
- (d) the corporate and other segment comprises the Group's corporate income and expense items and other investment businesses.

The chief operating decision maker of the Group has been identified as the Board of Directors. The Board of Directors monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income and share of results of an associate are excluded for such measurement.

The following table presents revenue and profit/(loss) of the Group's segments for the six months ended 30 September 2014 and 2013.

	Unaudited											
	Merchandise		Service		Investment		Corporate and other		Eliminations		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	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	451,141	265,945	69,834	61,129	-	-	-	-	-	-	520,975	327,074
Inter-segment sales	15,089	14,629	1,631	1,669	-	-	-	-	(16,720)	(16,298)	-	-
Other income and gains, net	472	732	-	-	4,166	4,160	-	-	-	-	4,638	4,892
Total	466,702	281,306	71,465	62,798	4,166	4,160	-	-	(16,720)	(16,298)	525,613	331,966
Segment results	6,451	2,780	307	3,098	1,847	2,710	(4,370)	(6,575)	-	-	4,235	2,013
Interest income											2,067	2,796
Share of results of an associate											(625)	-
Profit before tax											5,677	4,809
Income tax expense											(1,524)	(2,741)
Profit for the period											4,153	2,068

3 OTHER INCOME AND GAINS, NET

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Gross rental income	4,135	4,569
Interest income on bank deposits	2,067	2,796
Others	503	323
	<u>6,705</u>	<u>7,688</u>

4 PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss on disposals of equipment (<i>note (a)</i>)	63	14
(Write back of provision)/provision for inventories (<i>note(b)</i>)	(1,724)	219
Cost of inventories sold (<i>note (b)</i>)	362,893	215,580
Cost of services provided (<i>note (b)</i>)	36,739	29,444
Professional and legal expenses	840	5,415
Depreciation and amortisation	9,897	5,268
	<u>9,897</u>	<u>5,268</u>

Notes:

- (a) Included in "Other operating expense, net" on the face of the condensed consolidated income statement.
- (b) Included in "Cost of sales" on the face of the condensed consolidated income statement.

5 INCOME TAX EXPENSE

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current income tax:		
– Hong Kong:		
Charge for the year	1,857	2,508
Over-provision in prior years	(414)	–
– Mainland China:		
Charge for the year	444	233
	<u>1,887</u>	<u>2,741</u>
Deferred tax	(363)	–
	<u>1,524</u>	<u>2,741</u>
Total tax charge for the period	<u><u>1,524</u></u>	<u><u>2,741</u></u>

Hong Kong profits tax has been provided for at the rate of 16.5% (six months ended 30 September 2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxation on profits assessable for the period in the People's Republic of China ("PRC") has been calculated at the rates of tax prevailing in the location in which the Group operates.

6 DIVIDEND

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim – HK1 cent (six months ended 30 September 2013: Nil) per ordinary share	11,853	–
Interim special – Nil (six months ended 30 September 2013: HK2 cents) per ordinary share	–	23,706
	<u>11,853</u>	<u>23,706</u>
	<u><u>11,853</u></u>	<u><u>23,706</u></u>

At a meeting of the board of directors held on 26 November 2014, the directors resolved to pay on 22 January 2015 (Thursday) an interim dividend of HK1 cent per ordinary share to shareholders whose names appear on the register of members of the Company on 9 January 2015 (Friday).

7 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic earnings per share

The calculations of the basic earnings per share for the six months ended 30 September 2014 and 2013 are based on:

	For the six months ended 30 September	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings:		
Profit attributable to owners of the Company, used in the basic earnings per share calculation	<u>4,179</u>	<u>1,873</u>
Shares:		
Weighted average number of ordinary shares in issue during the period, used in the basic earnings per share calculation	<u>1,185,318,349</u>	<u>1,169,551,250</u>

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2014 and 2013 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2014 and 2013.

8 TRADE RECEIVABLES

The Group's trading terms with its customers are either on a cash basis or on credit. For credit sales, the credit period is generally 15 to 30 days, except for certain well-established customers where the terms are extended to 120 days.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Current to 3 months	47,251	50,783
Over 3 months	<u>3,341</u>	<u>1,429</u>
	<u>50,592</u>	<u>52,212</u>

9 TRADE AND BILLS PAYABLES

An ageing analysis of the Group's trade and bills payables as at the end of the reporting period, based on the date of goods purchased and services rendered, is as follows:

	30 September 2014 (Unaudited) HK\$'000	31 March 2014 (Audited) HK\$'000
Within 3 months	42,938	59,529
Over 3 months	<u>1,795</u>	<u>1,065</u>
	<u>44,733</u>	<u>60,594</u>

10 RELATED PARTY TRANSACTIONS

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

	For the six months ended 30 September	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Short term employee benefits	3,574	3,371
Post-employment benefits	<u>35</u>	<u>30</u>
Total compensation paid to key management personnel	<u>3,609</u>	<u>3,401</u>

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2014, the Group generated consolidated turnover of HK\$521 million and net profit of HK\$4 million. Earnings per share was amounted to HK0.35 cent.

BUSINESS REVIEW

Merchandising

Photographic Products

The trend for instant photography remained strong during the period under review, and helped push sales of instant cameras and films up by 17.4% compared to the same period last year.

Sales of digital products fell 16% year on year due to fewer new high-end digital camera models being launched during the period under review and frequent shortfalls in supply for popular existing models. Increasing photographic capabilities of mobile phones and similar devices have also reduced demand for low-end compact cameras. The Group is maintaining close communication with Fujifilm Japan to ensure steady supply that meets market expectations. During the first six months of the year, the Group also reviewed its product offerings and offered privilege promotion packages, which allow customers to mix and match different cameras and lenses to cater to their individual needs.

Skincare Products

Competition in the skincare market has become even fiercer in recent years. To address this challenge, the Group decided to retain its competitive edge by focusing on online sales, thus eliminating most of its running costs. Although turnover dropped 35.4% compared to the same period last year following the closure of the Group's retail outlets, the savings in running costs amounted to 36.4%, improving its overall earnings.

Consumer Electronic Products and Household Appliances

As at 30 September 2014, the Group operated 17 retail outlets for the sales of consumer electronic products and household appliances. Among the variety of products offered, televisions contributed 60.7% of total sales in this segment. Seeing the rising demand for B2B sales in professional audio and visual products, the Group continued to devote resources to attracting prestigious international AV brands for public address systems, sound systems, electronic solutions, AV system integration devices, projectors and displays.

Servicing

Photofinishing and Technical Services

Demand for traditional film processing and photo developing services continued to drop, falling 8.6% compared to the same period last year. However, sales of imaging gift items increased by 9.1% year on year, while sales from ID photo-taking increased by 10.1%. The Group's bundled document handling and printing service also recorded satisfactory growth of 4.2% compared to the same period last year. In addition, the Group saw a significant increase in online transactions for photo developing and imaging services of 80.8%.

Custom Design and Installation Service

This segment includes professional audio-visual advisory services as well as custom design and installation services, mainly for commercial customers and the public and non-profit-making sectors. Although it only contributed a modest amount to the Group's turnover during the period, the low starting point implies huge potential to grow in the existing market. The Group will continue to devote sufficient resources to this segment for future growth.

BRAND MANAGEMENT

The Group's brand management focuses on brands where it acts as distributor for Fujifilm Japan, as well as the Group's retail outlets under Fotomax, AV Life, Life Electric and Life Digital. During the period under review, the Group continued to engage in effective 360-degree brand management, including creative advertising campaigns, attractive promotional offers, diversified product offerings and shop image enhancements.

For photography-related Fujifilm products, the Group carried out promotions for new cameras and accessories during the first six months of the year, with strong advertising campaigns in newspapers, TV commercials and various outdoor sites.

Under the ASTALIFT skincare product line, the Group put marketing efforts into newly introduced products in order to raise awareness among target customer groups.

Fotomax introduced a new photo developing and processing service called "Fotogram", which has been popular particularly among certain social media photo-sharing networks. Fotomax also continued to increase the variety of its product offerings to meet customer needs; featured products with popular licensed cartoon character images; launched special promotions during the Easter and the summer vacation periods, including a lucky draw for customers to win special-edition premiums; offered promotional packages at shops, online and through group buying campaigns; and offered special discounts to senior citizens, demonstrating the Group's continuous commitment to social responsibility.

In the customer electronic products and household appliances, professional audio-visual advisory services as well as custom design and installation services segments, the Group launched a TVC highlighting AV Life's professionalism in audio and visual products. It also collaborated with suppliers to introduce technologically advanced products such as the world's first curved ultra-high-definition TV, helping consolidate AV Life's position as a pioneer audio and visual specialty store. Another initiative was adding modern, stylish design to new shops and upgraded existing shops with trendy new facades and interior renovations. In order to enhance the customer shopping experience, the Group provided an e-catalogue in each shop to help customers select from the full product range. It also introduced a new concept shop, AV Life Home, which provides both audio and visual products as well as home appliances.

FINANCIAL RESOURCES

The financial position of the Group remained sound and healthy during the period under review. As at 30 September 2014, the Group's cash and bank balances were approximately HK\$281 million with a zero gearing ratio. Trade receivables of HK\$51 million were recorded for the period, while inventory was HK\$202 million.

OUTLOOK

The new business segments of consumer electronic products and household appliances, professional audio-visual advisory services, and custom design and installation services have successfully diversified the Group's revenue streams.

The Group understands that high rental and labour costs as well as understaffing have always been the main challenges for Hong Kong retailers. Besides, slow global economic growth and the recent political turmoil in Hong Kong may cause consumer uncertainty and weaken consumption in the marketplace.

However, by adopting proactive revenue diversification, maintaining stringent cost management and adding synergies from new acquisitions, the Group will certainly be more adaptable to market challenges, leaving an optimistic future growth.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 7 January 2015 (Wednesday) to 9 January 2015 (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. In order to qualify for the proposed interim 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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 6 January 2015 (Tuesday).

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 under review.

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 six months ended 30 September 2014 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. In addition, Messrs PricewaterhouseCoopers, have also reviewed the aforesaid unaudited interim financial information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company had complied with the code provisions as set out in Appendix 14 of the Main Board Listing Rules throughout the six months ended 30 September 2014.

MEMBERS OF THE BOARD

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Dr SUN Tai Lun, Dennis (*Chairman*)

Mr SUN Tao Hung, Stanley (*Deputy Chairman*)

Ms NG Yuk Wah, Eileen

Mr TANG Kwok Tong, Simon

Independent Non-executive Directors:

Mr AU Man Chung, Malcolm

Mr LI Ka Fai, David

Mr LIU Hui, Allan

Dr WONG Chi Yun, Allan

On behalf of the Board

Sun Tai Lun

Chairman

HKSAR, 26 November 2014

<http://www.chinahkphoto.com.hk>