CHKP

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 2018

HIGHLIGHTS

- Group recorded year-on-year growth in consolidated turnover of 4.9% for the period under review
- Group recorded loss of HK$7.4 million, which was mainly due to an exchange loss and increased investment in brand-building
- Board of Directors does not recommend payment of any interim dividend

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

		For the six months ended 30 September	
		2018	2017
		(Unaudited)	(Unaudited)
	Note	***HK$'000***	*HK$'000*
Revenue	*3*	**478,942**	456,431
Cost of sales		**(367,380)**	(347,611)
Gross profit		**111,562**	108,820
Other income and gains	*4*	**8,771**	7,470
Selling and distribution costs		**(69,940)**	(67,371)
Advertising and marketing expenses		**(14,696)**	(9,024)
Administrative expenses		**(42,499)**	(35,544)
Operating (loss)/profit		**(6,802)**	4,351
Share of results of an associate		**–**	–
(Loss)/profit before tax	*5*	**(6,802)**	4,351
Income tax expense	*6*	**(625)**	(702)
(Loss)/profit for the period		**(7,427)**	3,649
(Loss)/profit attributable to:			
– Owners of the Company		**(7,645)**	3,578
– Non-controlling interests		**218**	71
		(7,427)	3,649
(Loss)/earnings per share attributable to owners of the Company	*8*		
Basic (loss)/earnings per share		**HK(0.64) cent**	HK0.30 cent
Diluted (loss)/earnings per share		**HK(0.64) cent**	HK0.30 cent

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss)/profit for the period	**(7,427)**	3,649
Other comprehensive (loss)/income		
Item that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(4,794)**	2,064
Total comprehensive (loss)/income for the period	**(12,221)**	5,713
Total comprehensive (loss)/income attributable to:		
– Owners of the Company	**(12,439)**	5,642
– Non-controlling interests	**218**	71
	(12,221)	5,713

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2018

	Note	30 September 2018 (Unaudited) HK$'000	31 March 2018 (Audited) HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**79,977**	81,712
Investment properties		**226,469**	227,235
Deposits		**14,647**	12,753
Deferred tax assets		**194**	114
Total non-current assets		**321,287**	321,814
Current assets			
Inventories		**233,018**	192,301
Contract assets		**4,681**	–
Trade receivables	*9*	**53,357**	47,669
Amount due from an associate	*11*	**32,053**	29,105
Prepayments, deposits and other receivables		**36,611**	31,972
Tax recoverable		**2**	10
Cash and bank balances		**154,206**	219,486
Total current assets		**513,928**	520,543
Total assets		**835,215**	842,357
EQUITY			
Equity attributable to owners of the Company			
Share capital		**118,532**	118,532
Reserves		**560,114**	571,777
		678,646	690,309
Non-controlling interests		**1,686**	1,136
Total equity		**680,332**	691,445
LIABILITIES			
Non-current liabilities			
Accrued liabilities		**875**	1,021
Deferred tax liabilities		**27,886**	28,135
Total non-current liabilities		**28,761**	29,156
Current liabilities			
Trade and bills payables	*10*	**64,703**	60,133
Contract liabilities		**15,353**	–
Accrued liabilities and other payables		**34,995**	50,758
Tax payable		**11,071**	10,865
Total current liabilities		**126,122**	121,756
Total liabilities		**154,883**	150,912
Total equity and liabilities		**835,215**	842,357

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 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual financial statements of the Company for the year ended 31 March 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

1.1 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2018, as described in those annual financial statements.

New and amended standards adopted by the Group

The Group has adopted the following new and revised HKASs and HKFRSs for the first time for the current period's condensed consolidated interim financial information.

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK (IFRIC) 22	Foreign currency transactions and advance consideration
HKAS 28 (Amendment)	Investments in associates and joint ventures
HKAS 40 (Amendments)	Transfers of investment property
HKFRS 1 (Amendment)	First time adoption of HKFRS

The impact of adoption of HKFRS 9, "Financial instruments" and HKFRS 15 "Revenue from contracts with customers" are discussed in Note 2.

Apart from the aforementioned HKFRS 9 and HKFRS 15, the adoption of other new and amended HKASs and HKFRSs does not have any significant impact on the Group's results and financial position nor any substantial change in the Group's accounting policies, and presentation of condensed consolidated interim financial information.

2 EFFECTS OF THE ADOPTION OF HKFRS 9 AND HKFRS 15

This note explains the impact of the adoption of HKFRS 9 and HKFRS 15 on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 April 2018, where they are different to those applied in prior period.

The Group applied the modified retrospective approach to adopt HKFRS 9 and HKFRS 15 without restating comparative information. The reclassifications and the adjustments arising from the new accounting policies are therefore not reflected in the restated consolidated statement of financial position as at 31 March 2018, but are recognised in the opening consolidated statement of financial position on 1 April 2018.

(a) HKFRS 9 – impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

(i) Classification and measurement of financial instruments

The adoption of HKFRS 9 did not have a significant impact on the classification and measurement of the Group's financial assets. Trade receivables, deposits and other receivables as well as amount due from an associate are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under HKFRS 9. Therefore, reclassification for these instruments is not required. These financial assets continue to be measured at amortised cost and are subsequently measured using effective interest rate method.

There is no impact on Group's accounting for financial liabilities, as the new requirement under HKFRS 9 only affect the accounting for financial liabilities that are designated at fair value through profit or loss of which the Group does not have any.

(ii) Impairment of financial assets

The Group has the following types of assets that are subject to HKFRS 9's new expected credit loss model ("ECL model"):

- Trade receivables
- Contract assets
- Deposits and other receivables (excluding prepayments)
- Amount due from an associate

The Group applies the simplified approach to provide expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables from third parties and contract assets. For deposits and other receivables and amount due from an associate, the impairment provision was limited to 12 months expected losses. Management considered these financial assets to be of low credit risk.

Based on the assessment performed by the Group, the impact of adopting the ECL model under HKFRS 9 was not significant. Therefore, the Group made no adjustment to the opening balance of retained earnings at the date of initial application.

(b) HKFRS 9 – accounting policies applied from 1 April 2018

(i) Classification

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

(iii) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income and gains.

(iv) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognised as other income and gains in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at fair value through other comprehensive income are not reported separately from other changes in fair value.

(v) Impairment

From 1 April 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Impairment losses are presented in "administrative expenses". For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. For the other financial assets, expected credit losses are assessed according to change in credit quality since initial recognition.

(c) HKFRS 15 – impact of adoption

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 April 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail in notes (d) and (e) below.

	31 March 2018	**Reclassification under HKFRS 15**	**Recognition of sales under HKFRS 15**	**1 April 2018** (Restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
		(Note (d)(ii), (e))	*(Note (d)(iv))*	
Consolidated statement of financial position (extract)				
Current assets				
Inventories	192,301	–	(3,966)	188,335
Trade receivable	47,669	–	5,074	52,743
Total assets	842,357	–	1,108	843,465
Current liabilities				
Contract liabilities	–	15,162	–	15,162
Accrued liabilities and other payables	50,758	(15,162)	–	35,596
Total liabilities	150,912	–	–	150,912
Net assets	691,445	–	1,108	692,553
Retained earnings	49,301	–	776	50,077
Non-controlling interests	1,136	–	332	1,468
Total equity	691,445	–	1,108	692,553

(d) HKFRS 15 – accounting policies applied from 1 April 2018

(i) Sales of goods

The Group engages in the wholesales and retail of photographic developing, processing and printing products, photographic merchandises, consumer electronic products and household appliances and online sales of skincare products. These products are sold on their own in separately identified contracts with customers.

The Group's contracts with customers for the sale of products generally include one performance obligation. The Group has concluded that revenue from the sale of products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. Therefore, the adoption of HKFRS 15 did not have an impact on the timing of revenue recognition.

(ii) Sales of goods – customer loyalty programmes

The Group operates loyalty points programmes, which allow customers to accumulate points when they purchase products. The points can be redeemed for free products, subject to a minimum number of points obtained. Prior to the adoption of HKFRS 15, the loyalty programmes offered by the Group resulted in the allocation of a portion of the transaction price to the loyalty programme using the fair value of points issued and recognition of the accrued liabilities in relation to points issued but not yet redeemed or expired. The Group concluded that under HKFRS 15 the loyalty points give rise to a separate performance obligation because they provide a material right to the customers and allocated a portion of the transaction price to the loyalty points awarded to customers based on the relative stand-alone selling price. The accrued liabilities related to these loyalty points programmes were reclassified to contract liabilities.

(iii) Rendering of services – provision of technical services for photographic developing and processing products

Under HKFRS 15, the Group concluded that revenue from the provision of the above services will continue to be recognised over time when the services have been rendered. Therefore, the adoption of HKFRS 15 did not have significant impact on the timing of revenue recognition of these services.

(iv) Rendering of services – provision of professional audio-visual advisory and custom design and installation services

The Group provides installation services. These services are sold in bundle together with the sale of audio visual equipment to customers. The installation services can be obtained from other providers and do not significantly customise or modify the products. Under HKAS 18, revenue is only recognised upon completion of the services bundles. Under HKFRS 15, the Group concluded that revenue from the sale of audio visual equipment is recognised at a point in time upon delivery of the product, and revenue from installation service is recognised over time when the services have been rendered.

(v) Rental income is recognised on a straight line-basis over the term of the lease.

(e) HKFRS 15 – presentation of assets and liabilities related to contracts with customers

The Group has also changed the presentation of the following amounts in the statement of financial position to reflect the terminology of HKFRS 15:

- Contract liabilities in relation to receipts in advance from customers were previously presented in accrued liabilities and other payables (HK$14,646,000 as at 1 April 2018).

- Contract liabilities in relation to customer loyalty programmes were previously recognised in accrued liabilities and other payables (HK$516,000 as at 1 April 2018, see above Note (d)(ii).

3 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 and 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 services;

(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 (loss)/profit, which is a measure of adjusted (loss)/profit before tax. The adjusted (loss)/profit before tax is measured consistently with the Group's (loss)/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 (loss)/profit of the Group's segments for the six months ended 30 September 2018 and 2017.

	Unaudited											
	Merchandise		Service		Investment		Corporate and other		Eliminations		Consolidated	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	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	**395,953**	384,137	**82,989**	72,294	**–**	–	**–**	–	**–**	–	**478,942**	456,431
Inter-segment sales	**16,115**	17,974	**1,558**	1,277	**–**	–	**–**	–	**(17,673)**	(19,251)	**–**	–
Other income and gains	**4,527**	4,598	**–**	–	**6,946**	6,246	**1,065**	1,009	**(5,145)**	(5,724)	**7,393**	6,129
Total	**416,595**	406,709	**84,547**	73,571	**6,946**	6,246	**1,065**	1,009	**(22,818)**	(24,975)	**486,335**	462,560
Segment results	**(7,879)**	1,996	**3,701**	2,680	**2,287**	1,930	**(6,289)**	(3,596)	**–**	–	**(8,180)**	3,010
Interest income											**1,378**	1,341
Share of results of an associate											**–**	–
(Loss)/profit before tax											**(6,802)**	4,351
Income tax expense											**(625)**	(702)
(Loss)/profit for the period											**(7,427)**	3,649

4 OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Gross rental income	**5,169**	4,206
Interest income on bank deposits	**1,378**	1,341
Others	**2,224**	1,923
	8,771	7,470

5 (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss/(gain) on disposals of equipment	**6**	(16)
Provision/(reversal of provision) for inventories *(Note(a))*	**257**	(1,340)
Cost of inventories sold *(Note (a))*	**327,033**	314,688
Cost of services provided *(Note (a))*	**40,090**	34,263
Foreign exchange differences, net	**4,575**	(1,620)
Professional and legal expenses	**517**	316
Depreciation	**9,562**	9,357

Note:

(a) Included in "Cost of sales" on the face of the condensed consolidated income statement.

6 INCOME TAX EXPENSE

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current income tax:		
– Hong Kong:		
Charge for the period	**298**	389
Over-provision in prior years	**(168)**	(128)
– Mainland China:		
Charge for the period	**508**	394
	638	655
Deferred tax	**(13)**	47
Total tax charge for the period	**625**	702

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. For the six months ended 30 September 2018, only one subsidiary of the Group is entitled to this tax benefit. The profits of other Group entities incorporated in Hong Kong not qualifying for the two-tiered profits tax regime are continued to be taxed at the flat rate of 16.5%.

For the six months ended 30 September 2017, Hong Kong profits tax was calculated at the flat rate of 16.5%.

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.

7 DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 September 2018 (2017: Nil).

8 (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic (loss)/earnings per share

The calculations of the basic (loss)/earnings per share for the six months ended 30 September 2018 and 2017 are based on:

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss)/profit:		
(Loss)/profit attributable to owners of the Company, used in the basic (loss)/earnings per share calculation	**(7,645)**	3,578
Shares:		
Weighted average number of ordinary shares in issue during the period, used in the basic (loss)/earnings per share calculation	**1,185,318,349**	1,185,318,349

(b) Diluted (loss)/earnings per share

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the six months ended 30 September 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2018 and 2017.

9 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 2018 (Unaudited) ***HK$'000***	31 March 2018 (Audited) *HK$'000*
Current	**33,929**	30,617
1 to 3 months	**18,419**	16,071
Over 3 months	**1,009**	981
	53,357	47,669

10 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 2018 (Unaudited) ***HK$'000***	31 March 2018 (Audited) *HK$'000*
Within 3 months	**63,527**	27,240
Over 3 months	**1,176**	32,893
	64,703	60,133

11 AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate is unsecured, interest bearing at 5% per annum on balances as at each month-end and repayable on demand. During the six months ended 30 September 2018, the Group received nil management fee (six months ended 30 September 2017: HK$403,000) and HK$622,000 of interest income from its associate (six months ended 30 September 2017: HK$466,000), respectively. These transactions were carried out at a rate mutually-agreed between the parties involved in the transactions.

The carrying amount of the amount due from an associate approximates its fair value.

12 RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the condensed consolidated interim financial information, the Group has the following significant related party transactions carried out in the normal course of the Group's business during the period.

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

	For the six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short term employee benefits	**3,771**	3,502
Post-employment benefits	**36**	36
Total compensation paid to key management personnel	**3,807**	3,538

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue and Results

The Group recorded year-on-year growth in consolidated turnover of 4.9% for the period under review. However, due to the significant depreciation of the renminbi, which led to an exchange loss for the Group of HK$4.6 million compared to an exchange gain of HK$1.6 million during the first six months of the last financial year; and the increased investment in brand-building, the Group resulted in a loss of HK$7.4 million for the period under review. The Board of Directors does not recommend payment of any interim dividend.

Merchandising

Photographic Products

The introduction of a range of new high-end digital cameras and lenses during the period, supported by vigorous brand-building efforts, led to renewed consumer interest and strong associated sales in the Photographic Products category. Sales of digital products increased 4.7% over the same period last year. On the other hand, sales of instant products fell 30.5% year-on-year due to the strengthening of the Hong Kong dollar and intensified competition from parallel products imported into Hong Kong which caused the Group to adjust downwards the sale prices of some of its instant products. There were also relatively few new products launched in the period under review, leading to an expected comparative downturn in sales.

Skincare Products

The Group continued to operate its Skincare Products segment mainly as an online business. During the period under review, sales showed a promising year-on-year increase of 34.4%, which was partly due to efforts to continually expand and diversify the product range. 30.5% of this increase was attributable to sales of new products. Perfect UV Protectors delivered a 53.9% increase in sales due to higher public awareness of the need for UV protection, while other products recorded steady sales growth. Star products included Collagen Drink 10000 and Jelly Aquarysta, which contributed 23.2% and 12.5%, respectively, to total segment sales.

Consumer Electronic Products and Household Appliances

This segment performed well during the period under review, with sales increasing 10.1% year-on-year. As at 30 September 2018, there were 14 AV Life and Wai Ming Electrical stores in total, down from 16 as at 30 September 2017. In addition to focusing on TV sales, the Group also had a strong performance in audio products and systems such as home theatres, hi-fi systems, amplifiers and speakers, total sales of which rose by 47.4% in comparison with the same period last year. This was partly a result of the introduction of more high-end audio equipment, and partly due to the established reputation of the segment's professional sales teams as well as the provision of dedicated audio system demonstration areas at stores.

B-to-B Commercial and Professional Audio and Visual Products

The Group's B-to-B Commercial and Professional Audio and Visual Products segment, which operates as a wholesaler, also performed well, increasing its total sales by 31% compared to the same period last year. Various distributorship agreements signed in the last financial year brought additional sales to this segment during the period under review.

Servicing

Photofinishing and Imaging Services

Fotomax, the Group's Photofinishing and Imaging Services brand, enjoyed a solid performance in photofinishing, document solution services and personalised imaging gifts services over the first six months of the financial year, with total sales increasing 6.3% year-on-year. As at 30 September 2018, the number of Fotomax outlets stood at 66 compared to 63 at the same date last year.

Professional AV Advisory and Custom Design and Installation Services

The Group was involved in several custom design and installation projects for universities, schools, hospitals, Government departments and hotels during the period. Its busy pipeline saw total sales increase by 84.7% over the previous period, mainly due to the winning of a number of large-scale hotel television installation contracts.

BRAND MANAGEMENT

In the first six months of 2018/19, the Group carried out extensive promotional and advertising activities such as placing eye-catching advertisements on Facebook and YouTube, at bus terminals, in MTR stations, on cinema screens and on TVs in commercial buildings to support the newly launched FUJIFILM X-T100, FUJIFILM XF10, FUJIFILM X-T3 cameras, and FUJINON MKX18-55mm and MKX50-135mm lenses. During the period, FUJIFILM also introduced the new retro-style Instax SQUARE SQ6 camera through a global collaboration with pop icon Taylor Swift, further boosting sales of instant products among young consumers.

To keep the FUJIFILM brand visible, the Group continued its corporate alliance sponsorship with Hong Kong Disneyland and conducted various promotional activities. In August 2018, FUJIFILM joined with Magnum Photos to hold a photo exhibition themed on the concept of "HOME" that was well received by the public.

During the period, ASTALIFT launched a new White Series of skincare products and the ASTALIFT "Scalp Focus" series which extended its product range to include haircare. Promotional activities included joint promotions with a beauty magazine, updates and sharing on social media platforms, and invitations for bloggers and YouTubers to trial new products and share their experiences on their own platforms.

Brand management activities and initiatives in support of the Group's photofinishing and imaging services segment included the launch of a new version of Year Album software (V.4) at the end of March 2018. In addition, the Group carried out monthly in-store offers and online Flash Offers through Facebook and eDMs to boost sales.

The Group's AV Life retail brand continued to employ proactive promotional strategies to draw in new customers and burnish its reputation as a leading player in the market. In addition to holding a number of product promotions, AV Life stores also introduced 47" touchscreen monitors as e-catalogues to showcase items that can be purchased in store, an initiative that added new excitement to the shopping experience while reducing the amount of display space needed for individual physical items. AV Life also expanded its promotional programmes to offer discounts to new residents of housing estates and advertised widely in magazines and on social media.

FINANCIAL RESOURCES

The financial position of the Group remained sound and healthy during the period under review. As at 30 September 2018, the Group's cash and bank balances were approximately HK$154 million with a zero gearing ratio. Trade receivables of HK$53 million were recorded at the end of the period, while inventories were HK$233 million.

OUTLOOK

The Group is highly conscious of the potential effects of the escalating trade war between China and the United States, which has the potential to impact the global economy negatively. Already, consumer spending sentiment has softened across the board since July 2018, and prospects for 2019 and 2020 are unpredictable. In this environment, the Group believes solid inventory control is absolutely essential. The Group is already looking at better ways to clear fast-moving items while maintaining inventory levels that can meet customer demand. Also, given current macroeconomic uncertainties, shopping centre and street shop rents have begun to flatten, which the Group will seek to leverage to manage costs. On the other hand, the Group will continue with its budget plan, focusing on selling high-margin products and expanding its e-commerce options to reach customers across different segments.

Nevertheless, the Group sees a number of positives in the market outlook. Over the next few years, districts development and new housing supply in Hong Kong, together with the plans being outlined in the 2018 Government Policy Address to increase the supply of convention and exhibition venues and facilities in Hong Kong, hold great opportunity for the Group's sales of home electrical appliances, B-to-B Commercial and Professional Audio and Visual Products business as well as its Professional AV Advisory and Custom Design and Installation segment.

In summary, although storm clouds may be gathering on the global horizon, the Group believes that opportunities in the Hong Kong environment for its various business segments remain promising. The Group has a clear business plan in place, and it has proven its ability to respond flexibly and speedily to market changes. Its newer business segments have laid down strong foundations and are building up strong project pipelines. Given all this, the Group is confident that its efforts will continue to contribute towards a stable base for future development.

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 Rule 3.21 of the Main Board 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 and one non-executive director of the Company. The Group's financial statements for the six months ended 30 September 2018, approved by the Board of Directors on 23 November 2018, 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, the Company's auditors, have also reviewed the aforesaid unaudited interim financial information in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the directors of the Company, 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 2018.

Full details on the subject of corporate governance are set out in the Company's 2018 Interim Report.

INTERIM DIVIDEND

The Board of Directors does not recommend payment of any interim dividend for the six months ended 30 September 2018.

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 and Chief Executive Officer)*
Ms. NG Yuk Wah, Eileen
Mr. SUN Tao Hsi, Ryan

Independent Non-executive Directors:
Mr. AU Man Chung, Malcolm
Mr. LI Ka Fai, David
Mr. LIU Hui, Allan
Mr. WONG Chi Yun, Allan

Non-executive Director:
Mr. FUNG Yue Chun, Stephen

By order of the Board
China–Hongkong Photo Products Holdings Limited
SUN Tai Lun, Dennis
Chairman

HKSAR, 23 November 2018
http://www.chinahkphoto.com.hk