

CHINA-HONGKONG PHOTO ANNOUNCES ANNUAL RESULTS

- Profitability impacted by SARS, as the Group incurred a one-time provision for subsidies
- Substantial growth in turnover for medical imaging systems and graphic arts products
- Substantial increase in cash and bank balances due to effective cost-control measures
- Special dividend of HK10 cents per share proposed to celebrate the 10th Anniversary of the Group's listing on the Hong Kong Stock Exchange

China-Hongkong Photo Products Holdings Limited today (15 July, 2004) announced that consolidated turnover for the financial year ended 31 March 2004 was HK\$1,395 million compared to HK\$1,735 million last year, while it recorded a net loss attributable to shareholders of HK\$62 million. The loss per share was HK5.3 cents. The Board of Directors has declared a special dividend of HK10 cents per ordinary share (2002/03:HK3 cents).

The year's results were primarily affected by the outbreak of SARS (Severe Acute Respiratory Syndrome) in Hong Kong in 2003. Most notably, the sudden and dramatic drop in consumer demand led to excess stock and cut-throat price competition. The Group's revenue and profitability were impacted as it dealt with subsidies to customers and obsolete inventories. Despite this, some of the Group's business areas, such as medical imaging and graphic arts, managed to grow and the worst of the downturn appears to be over.

"It has been another difficult year for the Group as the full impact of the SARS outbreak on tourism and leisure businesses in Hong Kong and China made itself felt. The camera and D&P services businesses were directly affected by fierce competition resulting from price cuts, and a return to steady sales growth in the third quarter was not enough counter the impact of SARS." said Dr. Dennis Sun, Chairman and Managing Director of China-Hongkong Photo.

"In the long-term, however, I remain very confident about the potential of the China market for both traditional and digital photographic products, and we have seen encouraging progress in the graphic arts and medical imaging systems businesses during the year under review. The Group will stick with its strategy for moving beyond photography and into the broader imaging field, largely on the back of Fujifilm's cutting-edge new technologies." Dr. Sun added.

The Imaging Systems segment, which includes businesses related to photographic films, motion picture films, digital cameras, electronic imaging equipment and magnetic audiovisual media products, saw total turnover decrease by 32% compared to the previous year. This was largely as a result of the impact of SARS on consumer demand. Sales of photographic films decreased due to the growing popularity of digital imaging, although digital camera sales were also down due to the delayed launch of new digital camera models by Fujifilm Japan and severe price competition subsequent to the outbreak of SARS.

On the positive side, growth in sales of professional movie films in China grew by 24% during the period as a result of the commencement of CEPA (Closer Economic Partnership Arrangement) this year and a continuing boom in the film and advertising industry in China. The Group believes this steady growth in demand for movie films will continue.

Total sales for the Photo-finishing Products segment, which includes photographic paper, chemicals and photo-finishing equipment decreased by 25% compared to the previous year. The sales from this segment were adversely affected by the outbreak of SARS and its impact on tourism, and the overall drop in retail activity in Hong Kong and China during the SARS period. In the longer term, however, sales of photographic paper and chemicals have been less affected by the growth of digital imaging than expected. Demand for digital output services has grown steadily as they become cheaper, more convenient and more efficient

To facilitate the more dynamic expansion of the Fujifilm Digital Imaging (FDi) network throughout China, Hong Kong and Macau, the Group plans to launch two new Frontier 355/375 models in the coming fiscal year to meet the growing demand for digital output. The new models have enhanced image processing functions for red-eye correction and scratch removal as well as better operating capabilities. It is anticipated that the installation of Frontier will grow and replace the old models of traditional minilabs as digital cameras become ever more widely adopted, and as China and Hong Kong continue to experience steady economic growth. Initial response to the new Frontier 355/375 models has been positive and several units had been installed in Hong Kong by the end of June 2004.

Activities in the Information Systems segment include medical imaging systems, graphic art products and data storage media. During the year under review, turnover for the information systems segment increased by 19% compared to the previous year. This was driven largely by demand for medical imaging products as a result of the SARS outbreak in Hong Kong and China, as surging demand for X-ray films generated stronger sales. In addition, the digitization of medical systems saw sales increase by more than 56% compared to the previous year. Fuji graphic art products recorded a 17% growth in sales during the year. Given the continued demand for quality graphic art products, the Group has plans to expand further in the China market.

Fotomax recorded 16% sales growth compared to the first half of the year, reflecting a quick recovery from the impact of SARS. Substantial growth was achieved in the second and third quarters as the Hong Kong economy gradually recovered.

The Fotomax chain benefits from a clear position as Hong Kong's premium, high-quality photo and digital imaging retail chain. During the year under review, Fotomax expanded strategically from 63 shops to 80 in Hong Kong. It launched a new digital photo kiosk service which allows customers to process their digital images in store and can handle digital imaging input from mobile phones as well as digital cameras. Meanwhile, online digital printing services were also introduced in July 2003 to enhance the convenience of digital output service for customers.

The Group continued to invest in brand building to support its business development during the year under review. To sustain brand awareness, it continued to sponsor and participate in different kinds of public activities, including photo contests, tournaments, exhibitions, trade shows, TV programs and joint promotions to reach target customers in China, Hong Kong and Macau.

"I remain very confident about the long-term outlook for the China market, and believe that the high quality and state-of-the-art technology behind Fujifilm products, as well as the commencement of CEPA (Closer Economic Partnership Arrangement) place the Group in a good position to exploit this potential. Strong tourism growth in China and the "Individual Visit Scheme" which allows individual mainland visitors to flock to Hong Kong are positive factors for the Group. Our businesses are expected to continue to ride this growth momentum, particularly the information systems, digital products and services, and retail operations," said Dr. Sun.

About China-Hongkong Photo

China-Hongkong Photo has been the major distributor of Fujifilm products in Hong Kong and Macau since its establishment in 1968 and in China since 1980. The Group currently operates an extensive distribution network in China, Hong Kong and Macau.

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Full text of this and other Group announcements can be accessed through the Internet at "www.chinahkphoto.com.hk".

Issued by: China-HongKong Photo Products Holdings Ltd
Jessica Yeung (Tel: 2408-8663, Fax: 2407-0695)

Through: Golin/Harris Forrest International Limited