



Press Release

14th July 2005

CHINA-HONGKONG PHOTO ANNOUNCES ANNUAL RESULTS

- Net profit attributable to shareholders of HK\$45 million and turnover of HK\$1,233 million
- Dramatic surge in demand for prints from digital cameras
- Effective marketing effort to support retail service expansion
- Enhanced business opportunities from two certificates granted under the Closer Economic Partnership Arrangement (CEPA)

China-Hongkong Photo Products Holdings Limited today announced that consolidated turnover for the financial year ended 31 March 2005 was HK\$1,233 million compared to HK\$1,395 million last year. A net profit attributable to shareholders of HK\$45 million was recorded, primarily due to positive results from effective cost-controls. The profit per share was HK3.9 cents. The Board of Directors has proposed a final dividend of HK2 cents per ordinary share and final special dividend of HK 8 cents per ordinary share (2003/04 final special dividend:HK10 cents).

With the evolution of digital technology and growing prevalence of digital imaging products, the imaging industry has encountered a revolution in recent years. In response to tremendous changes in the market, China-Hongkong Photo Products has established several strategies to facilitate its business development and maintain stable revenue in a digital era.

“One of the highlights of the year has been the remarkable surge in the volume of digital prints. Compared to the previous year, a 76% increase has been recorded from our wholly owned subsidiary, Fotomax, and its cumulative total digital output volume is believed to be more than 100 million prints since April 2002,” said Dr. Dennis Sun, Chairman of China-Hongkong Photo. “We have also been impressed by the sales results for our new digital cameras in the Hong Kong market. Going forward, we will continue to build on the foundations we have laid in order to achieve significant growth for the digital imaging business, particularly through our extensive retail platform.”

“Profitability during the year was directly and positively affected by successful cost control initiatives. These focused on effective management of distribution costs and cautious inventory monitoring. We aim to maximize profitability in the future by diversifying our products and services and enhancing our price competitiveness, such as offering tailor-made digital imaging products and services to all business sectors, schools, associations and organizations by fully utilizing our current expertise and corporate assets.” Dr. Sun added.

Wholesale Business

Imaging Solutions

The imaging solutions segment, which includes businesses related to photographic products and equipment, saw total turnover decrease slightly by 4% compared with last year. Aggregate sales of digital cameras were up by 39% and sales volume also recorded 8% growth as a result of effective marketing campaigns and trade promotions with business partners in the Hong Kong market. Sales of professional movie film saw 24% growth as the film and advertising industry continued to prosper in China. The technology transfer and the over-supply of digital minilab systems manufactured in China seriously affected the revenue from digital photo equipment, and sales of Fujifilm's Frontier digital minilab series dropped dramatically during the fiscal year under review. However, there has been a substantial rise in the volume of prints from digital cameras due to the high quality output and efficient processing capabilities from both film and digital media, along with the increasing popularity of digital cameras and phone cameras. As a result, total sales of paper grew by 6.4% during the year under review.

Information Solutions

Activities in the information solutions segment include medical imaging systems, graphic art products and data storage media. The overall turnover for the information solutions segment was slightly down by 2.5% because of intense competition and the technological advancement of medical products. Fuji Medical Company Ltd. has continued to explore the most effective solutions for new business development. In February 2005, a joint venture company, Fujifilm Medical Systems (Shanghai) Co., Ltd. was established with Fujifilm Japan to promote the full line of medical products and services in China. In the graphic art products business, 1% growth was recorded in sales during the fiscal year. Total sales of graphic arts film recorded 8% growth and a new recording film 'Benefi' was introduced specifically for the China market with a competitive price and was so popular that the sales of recording film increased considerably by 149% during the fiscal year. Sales of Printed Circuit Board (PCB) Film also rose dramatically by 138% due to strong demand from factories manufacturing electrical products with advanced technology.

Retail Operations

Total sales for the retail segment increased by 3.4% compared to the last fiscal year. In Hong Kong, the Fotomax chain expanded strategically from 79 shops to 90 and its total store size has grown from 31,572 sq. ft to 36,893 sq. ft. High-quality digital imaging D&P service has become the core business of Fotomax, with sales of D&P service up by 15% and print volume up by 20%. Sales volume for digital prints also increased significantly to 76%. This was driven by the increasing popularity and sophistication of digital cameras and phone cameras, as well as the success of the Digital Kiosk. The Digital Kiosk installation plan was actively implemented during the year to support the continued surge in digital photo service. The total number of Kiosks increased from 18 to 93 units and sales orders from Kiosks rose by 610%. The revamping of the Fotomax website also accelerated the online printing business, which increased by 621%. The prevalence of digital imaging has also driven the sales of PC and digital related accessories up by 12% compared with last year.

Brand Management

The Group has undertaken a more aggressive brand building strategy to support its business development during the year under review. For the wholesale business, a successful Lab-Show Campaign was launched to boost the sales of photofinishing products during the year

under review. A 31% sales increase was recorded during the campaign period. A generation advertising campaign featuring Japanese actor, Yutaka Takenouchi, was conducted during the summer to promote Finepix F440/450/455 digital cameras. Outdoor advertisements such as MTR panels, bus and banners were placed in prime areas. The Group also launched an effective tactical alliance trade promotion campaign by means of joint promotion with several leading dealers in the retail market in Hong Kong.

In the retail business, The Group has allocated substantial resources to raising the brand awareness of Fotomax and encouraging greater demand for digital photo printing. A new TV commercial featuring the young and energetic Hong Kong actor, Mr. Ron Ng, was launched and was well received by young people in Hong Kong. The TV commercial campaign was run in conjunction with an extensive campaign of print and outdoor advertising and shop displays to boost the total sales of the chain. In addition, Fotomax demonstrated its expertise in loyalty programs through several popular cartoon character redemption services such as Hello Kitty, Moomin and McDull. Significant growth in the volume of digital photo prints was recorded during the promotion period, especially digital photos with character borders.

Prospects

Dr. Sun said: "In the coming year, we plan to establish a new business segment in the digital imaging arena. In addition, the Group has been granted two certificates by the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), as Hong Kong Service Supplier for both wholesale and retail services. These certificates will enable China Hongkong Photo Products to further expand its wholesale and retail services network with special privileges in China. Looking ahead, the Group will continue to take comprehensive measures to accelerate growth of both the wholesale and retail businesses through tight control over operating expenses and maintaining the profitability of its core business. The Group will reinforce its leadership position in the digital imaging arena with its imaging and information solutions technology, and further strengthen the brand awareness of Fotomax as the most unique and reliable photofinishing retail chain."

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".

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