



Press Release

7th December 2006

CHINA-HONGKONG PHOTO ANNOUNCES INTERIM RESULTS

- Net profit attributable to shareholders of HK\$69.37 million and revenue of HK\$559 million
- Strong performance from online printing business
- Interim dividend of HK3.8 cents per share declared

China-Hongkong Photo Products Holdings Limited (“China-Hongkong Photo” or the “Group”, HKSE Stock Code:1123) today (7 December, 2006) announced its results for the six months ended 30 September 2006. The Group’s consolidated revenue for the period was HK\$559 million, down by 20% compared to the corresponding period last year. Net profit attributable to shareholders rose considerably by 55% to HK\$69.37 million, compared to a net profit of HK\$44.75 million for the same period last year. Earnings per share were HK5.96 cents, with an interim dividend of HK3.8 cents declared.

Net profit rose considerably during the period under review, primarily driven by the popularity of digital products, and accompanied by aggressive promotion campaigns and positive response to new products. This was coupled with effective inventory and cash flow management undertaken by the Group and resulted in a profit of HK\$69.37 million for the period under review.

“We remain optimistic about business prospects and will continue to take advantage of the special privileges granted by CEPA and the boom in tourism in Hong Kong to develop more opportunities in our rapidly growing digital and online printing businesses” said Dr. Dennis Sun, Chairman of China-Hongkong Photo.

Wholesale Business

During the period under review, the total sales of traditional imaging products continued to decline and dropped by 28% compared to the same period last year. Aggregate sales of digital cameras were also down slightly due to keen competition in the local market and the delayed launch of professional digital camera models by Fujifilm Japan.

However, with the ongoing popularity of digital devices, the volume of prints from digital cameras continued to surge and drove sales of photographic paper up by 2% in Hong Kong during the period under review. This, coupled with strong economic growth and a boom in tourism, accelerated the demand for our quality photofinishing services in Hong Kong.



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During the period under review, demand for digital minilabs reached saturation point and installations of new Frontier minilabs slowed. Despite this, sales of photographic paper showed robust growth. With its the state-of-the-art technology, high quality digital imaging and effective distribution channels, the Fuji Digital Imaging (FDi) service is well placed to capitalise on the rising demand for quality imaging products and services. During the past six months we have undertaken various initiatives to strengthen the FDi networks and expand market share. These include upgrading imaging software, keeping track of changes in the market and providing better training for frontline staff in the photofinishing industry. We have also built on our ongoing trade promotions to sustain growth in the sales of digital prints.

Retail Business

In Hong Kong the decline of the traditional imaging market coupled with price competition saw total sales for the retail segment decrease by 4%, compared to the same period last year. The network of Fotomax outlets remained stable at 91 shops, although higher rental costs and keen market competition put heavy pressure on profitability.

Fotomax's core business is now its high-quality digital output services. Over 80% of print orders received are from digital rather than film, and both sales and volume of digital output surpassed film output for the second consecutive period. Total sales and volumes of digital print continued to grow significantly, rising by 13.9% and 9.8% respectively compared with the same period last year.

Over the past three years Fotomax has been building its position in the digital imaging space by making ordering digital photos simpler through its Digital Kiosks and an online platform. Fotomax recorded encouraging growth of 22% in members' registrations and average monthly sales grew dramatically by 58.6% compared with the corresponding period last year.

Brand Management

The Group has utilised its integrated resources and expertise in various fields to create synergies in sales promotions, advertising campaigns and corporate sponsorship. To sustain brand awareness, the Group has continued to step up advertising campaigns and sponsorship events in China, Hong Kong and Macau.

In the wholesale business, two powerful D&P sales promotions featuring 2006 FIFA World Cup GermanyTM and the local cartoon characters "Panchi & Nana" were launched during the Easter and summer holidays to boost sales of photofinishing products. The promotions were well received and resulted in 2.14% increase in sales of photographic paper in Hong Kong.



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In its retail business, the Group has allocated substantial resources to raising the brand awareness of Fotomax and encouraging greater demand for digital photo printing. Fotomax demonstrated its strength in sales promotion through several popular cartoon character promotions such as “Pingu” and “Keroro”. Significant growth of 27% and 13% in the volume of digital photo prints was recorded during the Easter and summer promotion periods.

Outlook

Dr. Sun said: “In the year ahead, we intend to expand our established digital imaging services as well as foster emerging businesses, such as our new digital printing services, and to increase revenues and profits in both the wholesale and retail businesses. The Group will also continue to strengthen its profitability and growth by actively seeking out new targets suitable for acquisition and investment.”

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 photofinishing network in the name of “Fotomax” in Hong Kong.

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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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