



CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED
中港照相器材集團有限公司

Press Release

28th June 2007

CHINA-HONGKONG PHOTO ANNOUNCES ANNUAL RESULTS

- Net profit attributable to shareholders recorded phenomenal growth of 81.6% to HK\$219 million
- Online sales recorded strong growth of 33%
- Strong performance from Fun2Print business
- The Board of Directors recommended a final dividend of HK5.2 cents per share

China-Hongkong Photo Products Holdings Limited today announced that consolidated turnover for the financial year ended 31 March 2007 was HK\$827million compared to HK\$1,251 million last year. Net profit attributable to shareholders was HK\$219 million, an 81.6% increase over the previous year. The Group's successful introduction of new distribution channels and products, combined with the corporate restructuring undertaken during the year contributed significantly to these positive results. Earnings per share was HK 18.8 cents. The Board of Directors has proposed a final dividend of HK5.2 cents per ordinary share (2005/06 final dividend: HK 4.2 cents per ordinary share).

“The emergence of digital technology during the past few years has completely re-shaped the global imaging industry,” said Dr Dennis Sun, Chairman of China-Hong Kong Photo. “Indeed, if we take a broader view, few other industries have faced such a significant transformation. In the course of less than a decade, the industry has experienced a revolution from analogue and traditional film imaging to entirely new modes of digital imaging technology,” he said.

“To ensure that our business adapts successfully to this new environment and continues to generate profitable revenue growth from the digital imaging market, the Group has made important strategic adjustments to its business model. These results announced today are testament to this strategy which will ensure that the Group stays ahead of the global shift in demand for new imaging technologies.”

“Looking forward to the next year, the Group plans to further broaden its retail programmes, placing strong emphasis on digital imaging services. We are also planning to strengthen the technological capabilities of our front-line staff to accommodate new digital products and servicing. Through these initiatives, we expect to see sustainable business growth into the future.” Dr. Sun added.



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Wholesale

With the transformation of imaging from analogue to digital, total sales of film continued to fall, recording a decrease of 34.4% compared to the previous fiscal year. However, instant products recorded a strong growth of 28.2%. Aggregate sales of digital cameras were up by 9.1% due to the quality and superior functions of the Group's products, such as ultra-high sensitivity and quick-shooting response features.

During the fiscal year, increased consumer demand for printing with photographic paper and digital minilabs contributed to a 5.4% growth in total sales of photofinishing products. Building on our commitment to quality and leveraging off the brand equity of the Group's photofinishing and equipment offerings, we foresee continued growth in this area.

Retail

In the past fiscal year, the Group added one outlet to the Fotomax shops network, bringing the total number of shops in Hong Kong to 91. Total sales of the retail segment decreased by 4.8%, reflecting the reduced demand for traditional film products. As the market moves towards high-quality digital prints, the core business of Fotomax has undergone a transition from film to digital printing. Sales and quantity of digital output have overtaken that of film products. In the year under review, we saw a 10% total growth in the volume of digital printing. We expect to see continued growth of sales in digital printing over the next year, reflecting the overall market transition from film to digital printing.

The new Digital Kiosk, a compact and smart computer-assisted terminal, allows customers to order digital prints themselves with just a few touches on a touch-screen monitor. During the year, the Group installed 66 new Digital Kiosks, bringing the total number to 180. Print orders received from Digital Kiosks increased by 50% and they have become the preferred method of photographic printing.

A re-launched online scheme in 2005 offered a one-stop platform for digital photos and gift items. Since then, the number of member registrations has continued to grow. In the year under review, online sales grew by 33%. We expect to see this trend continue in coming years as increasing numbers of customers use the online platform.

The Group actively looks for market expansion and has identified a number of new growth areas targeting specific customer segments such as schools, commercial corporations and associations. We actively promoted one-stop photography services to these new customer clusters, which resulted in a sales increase of 24% in the past fiscal year. Total sales of Fun2Print also increased by 153% compared with the previous year.



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Brand Management

Strong brand management drives continuous growth by building and reinforcing long-term customer loyalty. During the year under review, strategic campaigns through public relations, advertising and promotional activities were implemented which delivered high impact images and messages to our targeted audiences.

The Group successfully leveraged Fujifilm's sponsorship of the 2006 FIFA World Cup Germany™, which provided unparalleled exposure of our brand globally through the world's most-watched sports event of the year. In Hong Kong, wholesale promotions featuring premiums with the FIFA World Cup logo proved to be highly popular. To stimulate the sales of photographic paper, locally-created cartoon characters "Panchi and Nana" were featured in the summer promotion.

In addition, seasonal promotions were undertaken during Christmas and Chinese New Year to boost sales of photofinishing products as well as digital cameras and services. To increase market share and draw attention to our digital cameras, eye-catching advertisements were placed in various formats including print advertisements, outdoor billboards and MTR panels. Outdoor media panels, over 23,000 square feet, were displayed in prime areas across Hong Kong to raise brand awareness of our digital cameras. Effective trade promotions in collaboration with several leading dealers in the Hong Kong retail market were also undertaken.

As a leader of photofinishing retail chain stores, Fotomax plays a major role in helping customers capture and preserve their most memorable moments, positioning itself as a caring and sensitive photo services provider. Several popular cartoon characters including Pingu, Keroro, Hello Kitty and Hanadeka were adopted during the year under review to stimulate the sales of digital photographic printing. A thematic promotional campaign featuring a photographic competition was launched to further strengthen its leading position in the digital business. More than 20,000 pieces of the *Fotomax Photo Tips* booklets were distributed to customers during the campaign.

Outlook

Dr. Sun said: "Positive signals of economic growth in China and the continual influx of tourists from Mainland China have been very encouraging signs for the photo imaging business. In view of the 2008 Olympic Games in China which will bring worldwide attention to the region and draw significant numbers of additional visitors, we remain optimistic about continued business prospects. The Group will continue to leverage the opportunities created by the boom in tourism to Hong Kong."



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About China-Hongkong Photo

China-Hongkong Photo Products Holdings Limited (Stock Code: 1123) has a solid business partnership with Fujifilm Japan as the sole authorised distributor of Fujifilm products in Hong Kong and Macau since 1968. 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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