



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)

Press Release

8 December 2005

China-Hongkong Photo Announces 2005 Interim Results

- Net profit rose dramatically by 111% to HK\$44.7 million
- Total revenue recorded steady growth of 6.5% to HK\$699 million
- Strong performance from digital imaging business
- CEPA further accelerates the scope for digital business
- Interim dividend of HK2.2 cents per share declared

China-Hongkong Photo Products Holdings Limited (“China-Hongkong Photo” or the “Group”, HKSE Stock Code:1123) today (8 December, 2005) announced its results for the six months ended 30 September 2005. The Group’s consolidated revenue for the period was HK\$699 million, reflecting steady growth of 6.5% compared to the corresponding period last year. Net profit attributable to shareholders rose dramatically by 111% to HK\$44.7 million, compared to a net profit of HK\$21.1 million for the same period last year. Earnings per share were HK3.85 cents, with an interim dividend of HK2.2 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 high evaluations from the market. This was coupled with effective inventory management and cost control measures undertaken by the Group and resulted in a profit of HK\$44.7 million for the period under review.

Dr. Dennis Sun, Chairman of China-Hongkong Photo said: “We remain optimistic about future business development and we are confident that the two certificates granted by the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA), as Hong Kong Service Supplier for both wholesale and retail services, will become the major pillars of China-Hongkong Photo Products’ future operations.”

Wholesale Business

Imaging Solutions

The imaging solutions segment includes businesses related to photographic films, motion picture films, digital cameras, electronic imaging equipment, magnetic audiovisual media products, photographic paper, chemicals and photo-finishing equipment. It accounted for 64% of the Group’s total revenue during the period under review.

Total segment revenue increased by 4% compared with the corresponding six months last year. Affected by the popularity of digital cameras, sales of photographic film were down 30%, although this decline was more than offset by the impressive performance of digital products. A remarkable growth of 32% in the sales of digital cameras and accessories was recorded, compared with the corresponding period last year.

The demand for movie films in China has continued to surge for the third consecutive year. With the commencement of CEPA (Closer Economic Partnership Arrangement) this year, sales of professional movie films remained robust and grew by 23% compared with the same period last year. As the third biggest global movie maker, the film industry in China is expected to grow significantly and to further augment sales of professional movie films in the future.

Demand for installing new Frontier System digital minilabs showed signs of levelling off during the period under review. This was due to the high capacity and efficiency of the Frontier Systems' digital printing capability. It has three times the capacity of traditional printing systems and can easily absorb any increase in demand for digital output. The increasing popularity of digital cameras, accompanied by aggressive promotion campaigns and high evaluations from the market resulted in a large rise in the volume of digital prints. As a result, total sales of paper grew considerably by 61% during the period under review, compared to the same period last year.

Information Solutions

Activities in this segment include medical imaging systems, graphic art products and data storage media. This segment accounted for 24% of the Group's total revenue.

During the period under review, the total sales of film and chemicals for medical products recorded 39% growth due to the successful tender for the supply of radiographic films and processing chemicals to the Hospital Authority of Hong Kong, which was obtained by the Group's wholly-owned subsidiary, Fuji Medical Company Ltd. in June 2004. Fuji Medical Company Ltd has pursued business expansion through strategic alliances with dominant market players in China, Hong Kong and Macau in order to strengthen its distribution channels.

In response to the rising demand for imported medical products in China, a joint venture company, Fujifilm Medical System (Shanghai) Co., Ltd was established with Fujifilm Japan in February 2005 to increase both the market penetration and revenue of medical products. Despite the increasingly keen competition among foreign and local brands during the period under review, substantial revenue has been generated from China. The Group anticipates that Fujifilm's advanced digital technologies and expertise in the field of medical imaging will further enhance the medical business in China in the coming year.

In the graphic art products business, 2% growth was recorded in sales during the period under review. Following the successful introduction of the new recording film 'Benefi' last year, total sales of recording film increased by 31%. 'Benefi' continued to be well received and its sales and volume grew by 28% and 52% respectively compared with the corresponding period last year. Meanwhile, sales of Printed Circuit Board (PCB) film remained robust and rose by 29% due to a leap in demand for high-end electrical products from the manufacturing industry in China. Fuji Graphic Arts Products Ltd has worked to respond to the rising demand by boosting the efficiency of its distribution process and keeping abreast of customers' increasingly diverse and advanced needs.

Retail Operations

The retail businesses accounted for 12% of the Group's total revenue during the period under review. In Hong Kong, the performance for the retail segment was seriously dampened by the slump in traditional imaging products and the increasing operating cost compared with the same period last year. Sales of film and film cameras decreased by 34% and 67% respectively. In spite of the pressure of rising rental costs in Hong Kong, Fotomax strengthened its network strategically from 84 shops to 89 during the year under review. High-quality digital imaging D&P service is still the core business of Fotomax, and sales of D&P service maintained the same level, while the total print volume rose slightly by 1.4% compared with the same period last year. Sales volume of digital printing grew by 30% and sales of PC accessories also recorded slight growth of 2%. The increase was principally driven by the increasing popularity and sophistication of digital cameras and phone cameras, as well as the continuing success of the "Digital Kiosk" installation plan - a compact computer terminal which allows customers to order digital prints by themselves, at the touch of a kiosk screen, in less than a minute. During the period under review, the number of kiosks increased by 16% to 101 units throughout Hong Kong.

Brand Management

For the six months ended 30 September 2005, the Group has utilised its integrated resources and expertise from various fields to create synergy in terms of sales promotion and advertising campaigns. To sustain brand awareness, the Group has continued to step up its marketing campaigns and sponsorship events. A powerful D&P sales promotion featuring the popular Japanese comic, Fullmetal Alchemist, was launched during the summer holidays to boost the sales of photofinishing products. The promotion was well received by the public and a 20% sales increase for photofinishing products was recorded during the campaign period. The Group also continued to sponsor the Community Chest's "Greening for the Chest" and Hong Kong Squash's "Fujifilm Mini-Squash Promotional Campaign" to promote a healthy lifestyle to Hong Kong's children and youth and to instil in them a positive attitude, as well as to build a good image for the overall brand. Meanwhile, the Group continued to carry out tactical alliances for trade promotion campaigns by means of joint promotion with other brands of consumer products and several leading dealers in the market.

To raise the brand awareness of Fotomax and stimulate greater demand for digital printing and photo-related services, a new shop display campaign was launched during the summer in conjunction with the Looney Tunes character "Tweety". With the positive impact of the opening of Hong Kong Disneyland, sales of D&P service grew considerably by 14% in September compared with the corresponding month last year. It is anticipated that the total sales of D&P service will be further accelerated provided that the Hong Kong economy remains on a steady growth track.

Prospects

Dr. Sun said: "Looking ahead, the Group will continue to implement comprehensive measures to accelerate growth of both the wholesale and retail businesses. The Group will also reinforce its leadership position in the digital imaging arena with Fujifilm's advanced imaging and information solutions technology, and further strengthen the market share of Fotomax as the most outstanding, reliable and innovative photofinishing network in Hong Kong."

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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