



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)

**ANNOUNCEMENT OF AUDITED RESULTS FOR
THE YEAR ENDED 31 MARCH 2005**

HIGHLIGHTS

- 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)

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 March	
		2005	2004
	Notes	HK\$'000	HK\$'000
TURNOVER	3	1,232,828	1,395,111
Cost of sales		<u>(987,325)</u>	<u>(1,249,892)</u>
Gross profit		245,503	145,219
Other revenue	3	21,409	29,969
Selling and distribution expenses		(70,379)	(69,595)
Advertising and marketing expenses		(17,795)	(35,461)
Administrative expenses		(76,779)	(88,011)
Other operating expenses		<u>(57,049)</u>	<u>(39,089)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	44,910	(56,968)
Finance costs	5	<u>–</u>	<u>(395)</u>
PROFIT/(LOSS) BEFORE TAX		44,910	(57,363)
Tax	6	<u>195</u>	<u>(4,329)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		45,105	(61,692)
Minority interests		<u>240</u>	<u>45</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>45,345</u></u>	<u><u>(61,647)</u></u>

	<i>Notes</i>	Year ended 31 March	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
DIVIDENDS			
Interim		11,638	N/A
Interim special		–	11,638
Proposed final		23,277	N/A
Proposed final special		93,106	116,383
		128,021	128,021
EARNINGS/(LOSS) PER SHARE			
Basic	7	3.9 cents	(5.3 cents)
Diluted	7	N/A	N/A

NOTES:

1. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2005. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company’s subsidiaries.

3. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, net of trade discounts and allowances for returns, and income from the rendering of film processing and photo finishing services.

An analysis of the Group's turnover and other revenue is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover:		
Sale of goods	1,100,182	1,259,352
Income from rendering film processing and photo finishing services	132,646	135,759
	<u>1,232,828</u>	<u>1,395,111</u>
Other revenue:		
Interest income	5,432	1,762
Rental income, net	1,739	2,028
Subsidies received from a supplier	12,196	24,155
Others	2,042	2,024
	<u>21,409</u>	<u>29,969</u>

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost of inventories sold	923,603	1,091,906
Cost of services rendered	70,156	67,739
Auditors' remuneration	1,400	1,400
Depreciation	25,500	29,010
Amortisation of goodwill*	2,197	2,198
Minimum lease payments under operating leases on land and buildings	38,781	37,382
Loss on disposal of fixed assets**	1,549	555
Provision for subsidies***	–	79,493
Provision/(reversal of provision) for slow-moving inventories***	(6,434)	10,754
Provision for bad and doubtful debts**	53,201	33,878
Impairment losses on fixed assets**	1,989	4,656
Provision for other receivable**	310	–
Staff costs (including directors' remuneration, but excluding benefits in kind):		
Wages and salaries	71,905	75,035
Pension scheme contributions	2,360	3,099
Less: Forfeited contributions****	(182)	(289)
Net pension scheme contributions	<u>2,178</u>	<u>2,810</u>
Total staff costs	<u>74,083</u>	<u>77,845</u>
Exchange losses, net	178	1,985
Gross rental income	(1,841)	(2,151)
Less: Outgoings	102	123
Net rental income	<u>(1,739)</u>	<u>(2,028)</u>

* The amortisation of goodwill for the year is included in “Administrative expenses” on the face of the consolidated profit and loss account.

** Items are included in “Other operating expenses” on the face of the consolidated profit and loss account.

*** Items are included in “Cost of sales” on the face of the consolidated profit and loss account.

**** As at 31 March 2005, the Group had no forfeited contributions available to reduce contributions to the pension schemes in future years (2004: Nil).

5. FINANCE COSTS

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest expenses on trust receipt loans wholly repayable within one year	<u>–</u>	<u>395</u>

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year, after offsetting certain amounts of the tax losses carried forward by certain subsidiaries of the Group. Taxes on profits assessable in Mainland China have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Group:		
Current:		
Hong Kong:		
Charge for the year	4,009	4,380
Overprovision in prior years	(485)	(154)
Mainland China:		
Charge for the year	<u>106</u>	<u>103</u>
Deferred	<u>3,630</u> (3,825)	<u>4,329</u> –
Total tax charge/(credit) for the year	<u>(195)</u>	<u>4,329</u>

A reconciliation of the tax expense/(credit) applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

Group – 2005

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit/(loss) before tax	<u>58,439</u>		<u>(13,529)</u>		<u>44,910</u>	
Tax at the statutory tax rate	10,227	17.5	(4,464)	33.0	5,763	12.8
Adjustments in respect of current tax of prior years	(485)	(0.8)	–	–	(485)	(1.1)
Adjustments in respect of deferred tax of prior years	(3,221)	(5.5)	–	–	(3,221)	(7.2)
Income not subject to tax	(1,054)	(1.8)	–	–	(1,054)	(2.3)
Expenses not deductible for tax	1,421	2.4	4,719	(34.9)	6,140	13.7
Tax losses utilised from prior years	(16,364)	(28.0)	(1,435)	10.6	(17,799)	(39.6)
Tax losses not recognised	–	–	285	(2.1)	285	0.6
Deferred tax assets not recognised	9,175	15.7	1,001	(7.4)	10,176	22.7
Tax charge/(credit) at the Group's effective rate	<u>(301)</u>	<u>(0.5)</u>	<u>106</u>	<u>(0.8)</u>	<u>(195)</u>	<u>(0.4)</u>

Group – 2004

	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loss before tax	<u>(26,118)</u>		<u>(31,245)</u>		<u>(57,363)</u>	
Tax at the statutory tax rate	(4,571)	17.5	(10,311)	33.0	(14,882)	25.9
PRC tax on deemed income	–	–	101	(0.3)	101	(0.2)
Adjustments in respect of current tax of prior years	(154)	0.6	–	–	(154)	0.3
Income not subject to tax	(38)	0.1	(330)	1.1	(368)	0.6
Expenses not deductible for tax	2,359	(9.0)	49	(0.2)	2,408	(4.2)
Tax losses utilised from prior years	(11,961)	45.8	–	–	(11,961)	20.9
Tax losses not recognised	15	(0.1)	10,594	(33.9)	10,609	(18.5)
Deferred tax assets not recognised	18,576	(71.1)	–	–	18,576	(32.4)
Tax charge at the Group's effective rate	<u>4,226</u>	<u>(16.2)</u>	<u>103</u>	<u>(0.3)</u>	<u>4,329</u>	<u>(7.6)</u>

7. EARNINGS/(LOSS) PER SHARE

The calculations of basic and diluted earnings/(loss) per share are based on:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings		
Net profit/(loss) from ordinary activities attributable to shareholders, used in the basic and diluted earnings/(loss) per share calculations	<u>45,345,000</u>	<u>(61,647,000)</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings/(loss) per share calculation	1,163,828,377	1,163,828,377
Weighted average number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all share options outstanding during the year (note)	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares used in diluted earnings/(loss) per share calculation	<u>1,163,828,377</u>	<u>1,163,828,377</u>

Note: The exercise price of share options was higher than the average market price of the Company's ordinary share during the year. Accordingly, no shares were assumed to have been issued at nil consideration on deemed exercise of the share options outstanding during the year.

SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the wholesale segment engages in the marketing and distribution of photographic developing, processing and printing products;
- (b) the retail segment engages in the provision of film processing, photo finishing services and the sale of photographic merchandises through retail outlets; and
- (c) the corporate and other segment comprises the Group's investment property business together with corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted at cost plus mark up of approximately 2%.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group	Wholesale segment		Retail segment		Corporate and Other		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	1,036,370	1,198,861	196,458	196,250	-	-	-	-	1,232,828	1,395,111
Intersegment sales	96,381	36,162	-	-	-	-	(96,381)	(36,162)	-	-
Other revenue	14,623	25,462	304	514	1,876	2,231	-	-	16,803	28,207
	1,147,374	1,260,485	196,762	196,764	1,876	2,231	(96,381)	(36,162)	1,249,631	1,423,318
Unallocated interest income									4,606	1,762
Total revenue									1,254,237	1,425,080
Segment results	40,170	(39,526)	1,119	(16,108)	(985)	(3,096)	-	-	40,304	(58,730)
Unallocated interest income									4,606	1,762
Profit/(loss) from operating activities									44,910	(56,968)
Finance costs									-	(395)
Profit/(loss) before tax									44,910	(57,363)
Tax									195	(4,329)
Profit/(loss) before minority interests									45,105	(61,692)
Minority interests									240	45
Net profit/(loss) from ordinary activities attributable to shareholders									45,345	(61,647)

Group	Wholesale segment		Retail segment		Corporate and Other		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	403,053	647,985	210,812	234,212	53,114	51,098	666,979	933,295
Unallocated assets							465,035	297,815
Total assets							1,132,014	1,231,110
Segment liabilities	74,711	98,542	44,933	38,432	7,693	7,526	127,337	144,500
Unallocated liabilities							4,541	3,508
Total liabilities							131,878	148,008

Group	Wholesale segment		Retail segment		Corporate and Other		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:										
Depreciation and amortisation	1,984	7,972	23,595	22,476	2,118	760			27,697	31,208
Impairment losses on fixed assets	-	1,906	1,989	2,750	-	-			1,989	4,656
Capital expenditure	2	555	14,571	8,663	390	139			14,963	9,357
Deficit/(surplus) on revaluation of investment properties recognised directly in equity	-	-	-	-	50	(3,375)			50	(3,375)
Provision for bad and doubtful debts	53,201	33,804	-	74	-	-			53,201	33,878
Provision/(reversal of provision) for slow-moving inventories	(6,434)	9,975	-	779	-	-			(6,434)	10,754
Provision for subsidies	-	79,493	-	-	-	-			-	79,493
Provision for other receivable	310	-	-	-	-	-			310	-

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Consolidated	
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	<u>990,470</u>	<u>1,189,006</u>	<u>242,358</u>	<u>206,105</u>	<u>1,232,828</u>	<u>1,395,111</u>
Other segment information:						
Segment assets	<u>939,144</u>	<u>1,027,526</u>	<u>192,870</u>	<u>203,584</u>	<u>1,132,014</u>	<u>1,231,110</u>
Capital expenditure	<u>14,667</u>	<u>7,379</u>	<u>296</u>	<u>1,978</u>	<u>14,963</u>	<u>9,357</u>

DIVIDENDS

An interim dividend of HK1 cent per share (2004: HK1 cent per share (special)) was paid on 24 February 2005. The directors recommend the payment of a final dividend of HK2 cents per ordinary share and a final special dividend of HK8 cents per ordinary share (2004: HK10 cents per share (special)) in respect of the year ended 31 March 2005. The dividend will be payable on 22 September 2005.

MANAGEMENT DISCUSSION ANALYSIS

Turnover

The Group's consolidated turnover for the year ended 31 March 2005 was HK\$1,233 million, a slight decrease of 12% compared with 2004. Net profit attributable to shareholders was HK\$45 million, compared to a net loss of HK\$62 million last year. Earnings per share was HK3.9 cents.

Wholesale Business

Imaging Solutions

The imaging solutions segment, including businesses related to photographic products and equipment, saw total turnover decreased 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 due to the film and advertising industry continued to prosper in China. The technology transfer and the over-supply of digital minilabs systems manufactured in China seriously affected the revenue of digital photo equipment, sales of Fujifilm's Frontier digital minilab series dropped dramatically during the fiscal year under review. However, we have seen 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 Business

Total sales for the retail segment increased by 3.4% compared to 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 digital photo prints was recorded during the promotion period, especially digital photos with character borders.

Financial Resources

The Group's cash and bank balances as at 31 March 2005 has recorded a growth of 12% to HK\$596 million (2004: HK\$531 million) with a zero gearing ratio. The Group continued to take every measure to extend work efficiency and cost control. During the fiscal year, advertising and marketing expenses were significantly reduced by 50% to HK\$18 million and administrative expenses decreased by 13% to HK\$77 million, due to effective cost-control measures. Trade receivables also decreased by 62% to HK\$96 million for the period, while inventory was slightly up 10% to HK\$195 million because of prudent management of trade receivables and inventory. The Group had 540 employees (2004: 654), remunerated largely based on industry practice, including provident funds, insurance and medical benefits. The Group also adopted a discretionary bonus programme determined annually based upon the performance of the Group and the employee.

Prospects

Driven by the positive impact of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA) and the influx of visitors from China, continued growth of consumer spending and investment has already been seen during the year under review. The Group remains confident about business development prospects and will leverage the two certificates granted by CEPA to create another new business segment in the coming year. 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.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 (which was in force prior to 1 January 2005) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong throughout the year end 31 March 2005, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the by-laws of the Company.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 23 August 2005 (Tuesday) to 26 August 2005 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final and final special dividends, all transfers accompanied by the relevant share certificates must be lodged with Tengis Limited, the Hong Kong Branch Registrars of the Company, at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 22 August 2005 (Monday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

AUDIT COMMITTEE

The Company has an audit committee (the “Committee”) which was established in accordance with the Rules 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Committee comprises five independent non-executive directors of the Company. The Group’s audited financial statements for the year ended 31 March 2005 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

MEMBERS OF THE BOARD

As of the date of this announcement, Dr. Sun Tai Lun, Dennis is the Chairman, Mr. Tang Kwok Tong, Simon and Ms. Ng Yuk Wah, Eileen are the executive directors and Mr. Au Man Chung, Malcolm, Ms. Chiang Yun, Rachel, Mr. Li Ka Fai, David, Mr. Liu Hui, Allan, and Dr. Wong Chi Yun, Allan are the independent non-executive directors.

On behalf of the Board

Sun Tai Lun

Chairman

HKSAR, 14 July 2005

<http://chinahkphoto.com.hk>

Please also refer to the published version of this announcement in The Standard.