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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 INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012**

HIGHLIGHTS

- Sales of instant products soar 83.2%
- Collagen Drink 10000 sales increase 78.6%
- Sales of imaging gift items up 22%
- Interim special dividend of HK2 cents declared

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2012

	<i>Notes</i>	For the six months ended 30 September	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	3	236,074	231,671
Cost of sales		(165,061)	(160,615)
Gross profit		71,013	71,056
Other income and gains	4	8,572	36,196
Fair value loss on financial assets at fair value through profit or loss		-	(4,379)
Selling and distribution costs		(31,724)	(30,656)
Advertising and marketing expenses		(13,777)	(18,239)
Administrative expenses		(24,726)	(22,925)
Other operating expense, net		(5)	(132)

CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)

For the six months ended 30 September 2012

		For the six months ended 30 September	
		2012	2011
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Profit before tax	5	9,353	30,921
Income tax expense	6	<u>(3,525)</u>	<u>(26,709)</u>
Profit for the period		<u>5,828</u>	<u>4,212</u>
Attributable to:			
Ordinary equity holders of the Company		5,828	4,336
Non-controlling interests		<u>-</u>	<u>(124)</u>
		<u>5,828</u>	<u>4,212</u>
Earnings per share attributable to ordinary equity holders of the Company	8		
Basic		<u>HK0.50 cent</u>	<u>HK0.37 cent</u>
Diluted		<u>HK0.50 cent</u>	<u>HK0.37 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

		For the six months ended 30 September	
		2012	2011
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Profit for the period		<u>5,828</u>	<u>4,212</u>
Other comprehensive loss			
Exchange differences on translation of foreign operations		<u>(117)</u>	<u>(1,373)</u>
Other comprehensive loss for the period		<u>(117)</u>	<u>(1,373)</u>
Total comprehensive income for the period		<u>5,711</u>	<u>2,839</u>
Attributable to:			
Ordinary equity holders of the Company		5,711	2,963
Non-controlling interests		<u>-</u>	<u>(124)</u>
		<u>5,711</u>	<u>2,839</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2012

	Notes	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		31,641	31,031
Investment properties		169,570	169,690
Goodwill		35,878	35,878
Rental deposits		5,591	6,515
Deferred tax assets		114	114
Held-to-maturity investment		–	5,950
Total non-current assets		242,794	249,178
Current assets			
Inventories		95,216	118,600
Trade and bills receivables	9	33,310	30,382
Prepayments, deposits and other receivables		12,409	13,419
Tax recoverable		32	1,053
Held-to-maturity investment		5,923	–
Cash and cash equivalents		553,430	583,674
Total current assets		700,320	747,128
Current liabilities			
Trade and bills payables	10	16,224	26,860
Accrued liabilities and other payables		41,540	46,317
Tax payable		11,721	8,643
Interim special dividend payable		23,276	–
Total current liabilities		92,761	81,820
Net current assets		607,559	665,308
Total assets less current liabilities		850,353	914,486
Non-current liabilities			
Accrued liabilities		11,867	11,867
Deferred tax liabilities		21,245	21,261
Total non-current liabilities		33,112	33,128
Net assets		817,241	881,358
EQUITY			
Equity attributable to ordinary equity holders of the Company			
Issued share capital		116,383	116,383
Reserves		700,858	718,423
Proposed final dividend		–	29,095
Proposed final special dividend		–	17,457
Total equity		817,241	881,358

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of China-Hongkong Photo Products Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) for the six months ended 30 September 2012 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2012, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”)) as disclosed in note 2.1 below.

2.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current period’s financial statements.

HKFRS 1 (Amendment)	<i>Severe hyperinflation and removal of fixed dates for first-time adopters</i>
HKFRS 7 (Amendment)	<i>Disclosures – Transfers of financial assets</i>

The adoption of the above new and revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these interim financial statements.

HKAS 1 (Amendment)	<i>Presentation of financial statements</i> ¹
HKAS 19 (2011)	<i>Employee benefits</i> ²
HKAS 27 (2011)	<i>Separate financial statements</i> ²
HKAS 28 (2011)	<i>Investment in associates and joint ventures</i> ²
HKAS 32 (Amendment)	<i>Financial instruments: presentation – offsetting financial assets and financial liabilities</i> ³
HKFRS 1 (Amendment)	<i>Government loans</i> ²
HKFRS 7 (Amendment)	<i>Financial instruments: disclosures – offsetting financial assets and financial liabilities</i> ²
HKFRS 7 and 9 (Amendment)	<i>Mandatory effective date and transition disclosures</i> ⁴
HKFRS 9	<i>Financial instruments</i> ⁴
HKFRS 10	<i>Consolidated financial statements</i> ²
HKFRS 11	<i>Joint arrangements</i> ²
HKFRS 12	<i>Disclosure of interests in other entities</i> ²
HKFRS 13	<i>Fair value measurements</i> ²
HK(IFRIC) – Int 20	<i>Stripping costs in the production phase of a surface mine</i> ²
Fourth annual improvements project (2011)	<i>Improvements to HKFRS published in June 2012</i> ²

- ¹ *Effective for annual periods beginning on or after 1 July 2012*
- ² *Effective for annual periods beginning on or after 1 January 2013*
- ³ *Effective for annual periods beginning on or after 1 January 2014*
- ⁴ *Effective for annual periods beginning on or after 1 January 2015*

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application and is not yet in a position to state whether these new and revised HKFRSs have any significant impact on the Group's results of operations and financial position.

3. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments as follows:

- (a) the merchandise segment engages in the marketing and distribution of photographic developing, processing and printing products and sale of photographic merchandises and skincare products;
- (b) the service segment engages in the provision of film processing, photo-finishing services and technical services for photographic developing and processing products;
- (c) the investment segment comprises the Group's business in investment funds and investment properties;
and
- (d) the corporate and other segment comprises the Group's corporate income and expense items and other investment businesses.

Management monitors the results of its segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss). The segment result is measured consistently with the Group's profit before tax except that interest income is excluded from such measurement.

The following table presents revenue and profit/(loss) of the Group's segments for the six months ended 30 September 2012 and 2011.

	Merchandise		Service		Investment		Corporate and other		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	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	179,070	175,689	57,004	55,982	-	-	-	-	-	-	236,074	231,671
Inter-segment sales	14,828	13,706	1,514	2,547	-	-	-	-	(16,342)	(16,253)	-	-
Other income and gains	3	28,095	-	-	4,171	4,534	407	1,235	-	-	4,581	33,864
Total	193,901	217,490	58,518	58,529	4,171	4,534	407	1,235	(16,342)	(16,253)	240,655	265,535
Segment results	3,082	31,394	2,326	2,479	2,585	(2,441)	(2,631)	(2,843)	-	-	5,362	28,589
Interest income											3,991	2,332
Profit before tax											9,353	30,921
Income tax											(3,525)	(26,709)
Profit for the period											5,828	4,212

During the period, the Group performed a review on its businesses and rationalised the classifications for certain expenses allocated to the respective reporting segments. Accordingly, certain comparative amounts have been reclassified to conform to the current period's presentation.

4. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Rental income	4,171	4,534
Interest income	3,991	2,332
Promotion subsidies from a supplier	3	2,548
Reversal of accrued expenses	-	1,483
Reversal of provisions (note (a))	-	24,064
Foreign exchange difference	5	911
Others	402	324
	8,572	36,196

Note:

- (a) In prior years, the Group had fully provided for certain long outstanding trade receivables of HK\$115,148,000 on sales (the "Sales") to certain customers.

After a series of negotiation, the Group reached a settlement agreement with these customers in November 2011. Both the Group and these customers agreed to discharge the other party of any other obligations related to the Sales. As a result, the Group had reversed certain provisions related to the Sales that had been made in prior years in the amount of HK\$24,064,000 during the six months ended 30 September 2011.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	(3,991)	(2,332)
Loss on disposal of plant and equipment (<i>note (a)</i>)	5	132
Cost of inventories sold (<i>note (b)</i>)	139,438	135,461
Cost of services provided (<i>note (b)</i>)	25,623	25,154
Depreciation	4,445	5,081
	<u>4,445</u>	<u>5,081</u>

Notes:

- (a) Included in "Other operating expense, net" on the face of the condensed consolidated income statement.
- (b) Included in "Cost of sales" on the face of the condensed consolidated income statement.

6. INCOME TAX

	For the six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	3,578	2,346
(Over)/under-provision in prior years*	(133)	21,755
Current – Mainland China	80	461
Deferred	–	2,147
	<u>3,525</u>	<u>26,709</u>
Total tax charge for the period	<u>3,525</u>	<u>26,709</u>

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 September 2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the period after offsetting certain amounts of the tax losses carried forward by certain subsidiaries of the Group. Taxes on profits assessable in the People's Republic of China have been calculated at the rates of tax prevailing in the location in which the Group operates.

* *In prior periods, the Inland Revenue Department (“IRD”) issued various enquiry letters to the Group in relation to the setting off of tax losses totalling HK\$232 million which were carried forward by certain wholly-owned subsidiaries (“the Subsidiaries”) of the Group from prior years. As the directors considered that it was premature to draw a conclusion on the possible outcome of the enquiry during prior years, no provision was made and such matters were disclosed as a contingent liability in prior years.*

During the period ended 30 September 2011, the Group and the IRD had entered into a compromise settlement with regard to the above tax enquires and a net liability of HK\$21,755,000 arose under the compromise settlement. Accordingly, a tax provision of HK\$21,755,000 was made and included in “underprovision in prior years” during the period ended 30 September 2011.

In addition, the Group has tax losses of HK\$150 million which are allowed to be carried forward to offset against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as the realisation of the related tax benefit through the future taxable profits was not probable.

7. DIVIDEND

	For the six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim special – HK2 cents (six months ended 30 September 2011: HK2 cents) per ordinary share	<u><u>23,276</u></u>	<u><u>23,276</u></u>

At a meeting of the board of directors held on 21 November 2012, the directors resolved to pay on 17 January 2013 (Thursday) an interim special dividend of HK2 cents per ordinary share to shareholders whose names appear on the register of members of the Company on 4 January 2013 (Friday).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic earnings per share

The calculations of the basic earnings per share for the six months ended 30 September 2012 and 2011 are based on:

	For the six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Earnings:		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	<u><u>5,828</u></u>	<u><u>4,336</u></u>
Shares:		
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	<u><u>1,163,828,377</u></u>	<u><u>1,163,828,377</u></u>

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 September 2012 and 2011 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2012 and 2011.

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are either on a cash basis or on credit. For credit sales, the credit period is generally 30 days, except for certain well-established customers where the terms are extended to 120 days.

An aged analysis of the Group's trade and bills receivables as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Current to 3 months	33,309	24,356
Over 3 months	<u>1</u>	<u>6,026</u>
	<u>33,310</u>	<u>30,382</u>

10. TRADE AND BILLS PAYABLES

An aged analysis of the Group's trade and bills payables as at the end of the reporting period, based on the date of goods purchased and services rendered, is as follows:

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Current to 3 months	15,987	26,568
Over 3 months	<u>237</u>	<u>292</u>
	<u>16,224</u>	<u>26,860</u>

11. RELATED PARTY TRANSACTIONS

The Group's compensation of key management personnel are as follows:

	For the six months ended 30 September	
	2012 (Unaudited) <i>HK\$'000</i>	2011 (Unaudited) <i>HK\$'000</i>
Short term employee benefits	3,289	3,099
Post-employment benefits	<u>30</u>	<u>24</u>
Total compensation paid to key management personnel	<u><u>3,319</u></u>	<u><u>3,123</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 September 2012, the Group generated consolidated turnover of HK\$236 million and net profit of HK\$5.8 million. Earnings per share was amounted to HK0.5 cent.

BUSINESS REVIEW

Merchandising

Photographic Products

Sales of instant products enjoyed exceptional success during the period under review. Items such as fancy gift sets bundling FUJIFILM Instax camera and film, products featuring popular cartoon characters, and specially designed or themed cameras, all of which helped pushing sales in this category up by 83.2% compared with the same period last year.

Skincare Products

The FUJIFILM Beauty brand enjoyed a very promising performance for the first half of the financial year, with turnover increased significantly by 49.8% as compared to the same period last year. Customer loyalty for the brand was also strengthened with more than 10,000 members now receiving regular promotional updates and offers.

ASTALIFT Jelly Aquarysta and Collagen Drink 10000 continued to be the best-performing items for the skincare business, recording increases in sales of 18.2% and 78.6% respectively compared with the same period last year. Collagen Drink 10000 has established itself as a leading product in the market.

During the period, the Group continued to expand its product range by introducing three new products for customers seeking brighter and fairer skin, all of which have earned strong reputations from the public and contributed good sales, particularly during summer.

Photofinishing and Technical Services

Fotomax, which is celebrating its 30th anniversary this year, had 76 stores in the region as at 30 September 2012, with an average of 3 digital kiosks installed in each store to facilitate the ordering of photofinishing services. The Group has been continually diversifying its imaging products range, resulting in an increase of 4.3% for overall Fotomax sales. Sales of Fotobook, DocuXpress (the Group's one-stop document solution service) and imaging gift items grew by 17.8%, 13.1% and 22% respectively.

BRAND MANAGEMENT

To strengthen its leading role in the regional imaging industry, the Group set up a flagship store, FUJIFILM STUDIO, in the heart of Causeway Bay in July 2012. This breakthrough, 1,600-square-foot studio, offers a one-stop platform providing a comprehensive array of imaging products and services, along with expert staff helping photography enthusiasts and professionals become more familiar with the Group's products and services. To foster interest in photography, FUJIFILM STUDIO also organizes mini photo exhibitions, photo-taking competitions, workshops and seminars, and provides services such as an instant camera lending service and a premium cleaning service for professional cameras.

During the period, the Group launched two significant marketing series to promote photography and FUJIFILM cameras. The first was the two-month photo exhibition "TO SEE: TO BE SEEN" in collaboration with famous Hong Kong photographer another mountain man, showcasing shots taken by 14 talented local photographers using the FUJIFILM XPro 1. The second was the seminar "Between the Whites and the Blacks, Blacks and Whites of Daido Moriyama" presented by renowned Japanese photographer Mr. Daido Moriyama in August.

Elsewhere the Group maintained a continuous market presence through extensive marketing and advertising campaigns, including TV commercials, full-page advertisements in magazines, and adverts in newspapers and on bus shelters for its star models FUJIFILM XPro 1 and the special edition FUJIFILM X100 BLACK. For instant products, the Group launched several marketing events featuring the FUJIFILM Instax for special occasions like vacations and dining out.

The Group continued to showcase FUJIFILM Beauty in prominent regional advertising and marketing campaigns, including interviews and product endorsements from several popular local celebrities; media and membership events for new product launches; advertisements in ladies and beauty magazines; Facebook fan page promotions; and more.

In photofinishing, Fotomax carried out several strong marketing efforts for its 30th anniversary celebrations. A modernized image with the slogan “Cheers”, designed to give customers a fresh experience during their visits to Fotomax, was incorporated in all newly designed packing materials and uniforms. The Group also launched a brand-new thematic TV commercial, “Memory is not just pixels”, which aired on popular TV channels as well as Fotomax’s in-store TVs. In addition, a Facebook fan page, advertorial write-ups in leading magazines and newspapers, and a series of in-store promotions were all utilized to increase the business’ market presence.

FINANCIAL RESOURCES

The financial position of the Group remained sound and healthy during the period under review. As at 30 September 2012, the Group’s cash and bank balances were approximately HK\$553 million with a zero gearing ratio. Trade receivables of HK\$33 million were recorded for the period, while inventory was HK\$95 million.

OUTLOOK

The Group will continue to provide a wide range of excellent products and services in the period ahead while also carrying out a range of appealing promotional and marketing strategies.

New digital camera models will be introduced in the upcoming period. The FUJIFILM X-E1 with an interchangeable lens, was launched in early October to overwhelming response, and the FUJIFILM XF1, a compact, pocket-size camera with a stylish design, will be introduced in November.

The Group will introduce reusable, refillable and environmentally friendly packaging for the Group’s skincare products, which the Group expects will be welcomed by today’s modern, green consumers. In the meantime, the Group will continue to introduce new products and support them with effective marketing campaigns to stimulate sales and increase the brand’s popularity.

Fotomax will continue to leverage its 30th anniversary celebrations by introducing a revamped web site and DIY kiosk ordering system, enabling customers to enjoy online and kiosk purchases in easier and more convenient ways.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 2 January 2013 (Wednesday) to 4 January 2013 (Friday), both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining who is entitled to the interim special dividend. In order to qualify for the proposed interim special dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 31 December 2012 (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 period.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "Committee") which was established in accordance with the Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises a total of four independent non-executive directors of the Company. The Group's unaudited interim financial statements for the period ended 30 September 2012 have been reviewed by the Committee, which is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made. In addition, Messrs PricewaterhouseCoopers, have also reviewed the aforesaid unaudited interim financial information.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company had complied with the code provisions as set out in Appendix 14 of the Listing Rules (the "CG Code") throughout the period ended 30 September 2012 except for the deviation discussed below:

Pursuant to code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. During the period from 1 April 2012 to 2 September 2012, the roles of Chairman and Chief Executive Officer of the Company have not been separated. Dr Sun Tai Lun, Dennis is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the role of both Chairman and Chief Executive Officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

On 4 September 2012, the Company announced that Dr Sun Tai Lun, Dennis has resigned as Chief Executive Officer of the Company with effect from 3 September 2012 and Mr Sun Tao Hung, Stanley, the Deputy Chairman of the Company, has been appointed for the post of Chief Executive Officer with effect from 3 September 2012. Therefore, the Company is in full compliance with the code provisions as set out in Appendix 14 with effect from 3 September 2012.

MEMBERS OF THE BOARD

As at the date of this announcement, the directors of the Company are:

Executive Directors:

Dr SUN Tai Lun, Dennis (*Chairman*)

Mr SUN Tao Hung, Stanley (*Deputy Chairman*)

Ms NG Yuk Wah, Eileen

Mr TANG Kwok Tong, Simon

Independent Non-executive Directors:

Mr AU Man Chung, Malcolm

Mr LI Ka Fai, David

Mr LIU Hui, Allan

Dr WONG Chi Yun, Allan

On behalf of the Board

Sun Tai Lun

Chairman

HKSAR, 21 November 2012

<http://www.chinahkphoto.com.hk>