



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

29th June 2006

CHINA-HONGKONG PHOTO ANNOUNCES ANNUAL RESULTS

- Net profit attributable to shareholders recorded a dramatic growth of 167% to HK\$120 million
- Surge in demand for digital prints drove rising sales of photographic paper
- Wholesale businesses benefited from positive impact of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA)
- Two new brands, “Fun2Print” and “FotoPress”, have been established to further capitalise on the trend towards digital imaging

China-Hongkong Photo Products Holdings Limited today announced that consolidated turnover for the financial year ended 31 March 2006 was HK\$1,251 million compared to HK\$1,233 million last year. A net profit attributable to shareholders of HK\$120 million was recorded, an impressive 167% increase over the previous year. This good performance was primarily due to the adjustments the Group made to its businesses in line with changes in distribution, together with the benefits of a corporate restructuring and careful resources planning. Earnings per share were HK10.35 cents. The Board of Directors has proposed a final dividend of HK 4.2 cents per ordinary share (2004/05 final dividend: HK 2 cents per ordinary share and final special dividend of HK 8 cents per ordinary share).

“In recent years the trend towards digital technology has become a tide that no one can swim against. The strong currents of technology evolution and the digital imaging revolution have cut adrift many traditional imaging operations around the world. Dwindling demand for traditional imaging products and fierce competition in the new global digital market has forced several of Fujifilm’s competitors out of the market altogether,” said Dr. Dennis Sun, Chairman of China-Hongkong Photo. “To ensure that our business adapts successfully to this new environment and generates profitable revenue growth from the digital imaging market, China-Hongkong Photo Products has made strategic adjustments to its business model. These have enabled us to stay ahead of the global shift in demand and I am pleased to say we have reaped substantial profits as a result.”

“During the fiscal year, the Group benefited from two certificates granted by the Closer Economic Partnership Arrangement between Mainland China and Hong Kong (CEPA), as a Hong Kong Service Supplier for both wholesale and retail services. These have given special privileges to the Group’s wholesale and retail services network in Mainland China that have enabled its further expansion. As a result, the sales performance of both the imaging and information solutions businesses has been exceptional.” Dr. Sun added.

Wholesale Business

Imaging Solutions

The imaging solutions segment includes businesses related to photographic products and equipment. The total segment revenue remained the same as last year even though the total sales of film slumped 41%. Aggregate sales of digital cameras were up by 17.5% and sales volume also recorded 8% growth due to the superb quality and outstanding functions of the Group's products, especially ultra high sensitivity and quick shooting response. With the popularity of digital devices, the continuing surge in the volume of prints from digital cameras drove sales of photographic paper, which grew by an encouraging 51% during the year under review. This, coupled with stable economic growth and booming inbound tourism accelerated the demand for the Group's quality photofinishing service.

Information Solutions

Activities in the information solutions segment include medical imaging systems and graphic art products. During the year under review, the overall revenue for the information solutions segment increased by an impressive 26% as a result of effective implementation of business strategies throughout the Group's distribution channels and the positive impact of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA). In the Hong Kong market, the successful tender for the supply of radiographic films and processing chemicals to the Hospital Authority of Hong Kong has since June 2004 stimulated the sales growth in these categories, which rose by 15% for the fiscal year. In the graphic art products business, 8% growth in sales was recorded during the fiscal year. Total sales of graphic arts film achieved a robust growth of 36% and sales of recording film grew by 46.5%. Sales of the most popular recording film, 'Benefi', continued to increase considerably, rising by 146%. Meanwhile, sales of Printed Circuit Board (PCB) Film rose dramatically by 165% due to the boom in advanced electric products in the global market.

Retail Business

Owing to a plunge in film sales coupled with decreasing developing and processing sales generated from film in the Hong Kong market, total sales for the retail segment decreased by 8% compared to last year. Total sales and volumes of digital print continued to exhibit significant growth, rising by 19% and 20% respectively over the previous year. This growth has been accelerated by the popularity of digital cameras and the success of the "Digital Kiosk". The total number of kiosks increased from 93 to 114 units and volume received from kiosks rose by 114% as they gradually became the most fashionable and easiest way to process digital photo orders. The total volume of the online digital photo business also saw a considerable increase of 120%, reflecting the popularity of the online ordering service following the website revamp.

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 its advertising campaigns and sponsorship events to reach its target customers in Mainland China, Hong Kong and Macau.

In the wholesales business, two powerful D&P sales promotions featuring a popular Japanese comic, "Fullmetal Alchemist" and the local character "Kapo", were launched during the

summer and winter seasons to boost the sales of photofinishing products. The promotions were well received and accelerated the sales of photographic paper in Hong Kong. To boost sales of digital cameras, eye-catching outdoor advertisements such as billboards, MTR panels and bus displays were placed in high traffic areas. Nearly 10,000 square feet of outdoor billboard advertisements have been placed to raise the brand awareness of the digital cameras. This is the first year that outdoor billboard advertisements have been frequently used to promote new digital cameras in Hong Kong and the result has been encouraging from the perspective of both sales and customer comments. 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 based services such as “Tweety”, “Hello Kitty”, “Astro Boy” and “Miffy”. Significant growth in the volume of digital photo prints was recorded during the promotion period, especially digital photos with character borders.

In November 2005, two new brands, “Fun2Print” and “FotoPress”, were established to meet the growing demand for digital imaging products and one-stop digital printing services respectively. “Fun2Print” is a personalised imaging products and services channel that offers unique, tailor-made digital imaging products such as personal bookmarks, notebooks, postcards, memo packs, calendar cards, mouse pads, mugs and cushions. “FotoPress” focuses on offering digital printing services for ad hoc company events or in response to special requests from businesses. The Group anticipates that the digital imaging products and one-stop digital printing service will expand and become a gateway to more lucrative revenue streams within the retail business.

Prospects

Dr. Sun said: “To ensure that we continue to succeed as the imaging market evolves, we will focus on the most promising businesses and offset the impact of increasing competition through effective management of cost, distribution and inventory, which is essential to support profitability. In the coming year, we will prioritise the digital imaging service we offer through our extensive retail platform, which I expect to play a significant role in contributing sustainable business growth to the Group.”

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 Mainland 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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