



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

23 November 2018

CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED ANNOUNCES INTERIM RESULTS

- Group recorded year-on-year growth in consolidated turnover of 4.9% for the period under review
- Group recorded loss of HK\$7.4 million, which was mainly due to an exchange loss and increased investment in brand-building
- Board of Directors does not recommend payment of any interim dividend

China-Hongkong Photo Products Holdings Limited (“China-Hongkong Photo” or the “Group”, stock code: 1123) today announced that its consolidated turnover for the six months ended 30 September 2018 was HK\$479 million, an increase of 4.9% compared to the HK\$456 million recorded in the same period last year.

The Group recorded a loss of HK\$7.4 million for the period under review. “The primary factor was the significant depreciation of the renminbi, which led to an exchange loss for the Group of HK\$4.6 million compared to an exchange gain of HK\$1.6 million during the first six months of the last financial year,” said Dr Dennis Sun, Chairman of China-Hongkong Photo. “Also, we invested more in advertising and marketing during this period to support our long-term brand-building strategy. Though these efforts require significant investment, we believe that in the long term, they will work to the advantage of the imaging industry as a whole and the Group in particular.

“In addition to driving sales through marketing campaigns, we also implemented stringent cost controls across all our business segments during the period as part of our three-year business plan,” Dr Sun continued. “We placed particular scrutiny on leasing and capital injection arrangements for all Fotomax and AV Life stores to ensure that the returns delivered by individual stores remain satisfactory.”

MERCHANDISING

Photographic Products

The introduction of a range of new high-end digital cameras and lenses during the period, supported by vigorous brand-building efforts, led to renewed consumer interest and strong associated sales in the Photographic Products category. Sales of digital products increased 4.7% over the same period last year. Sales of instant products fell 30.5% year-on-year due to the strengthening of the Hong Kong dollar and intensified competition from parallel products imported into Hong Kong which caused the Group to adjust downwards the sale prices of some of its instant products. There were also relatively few new products launched in the period under review, leading to an expected comparative downturn in sales.

Skincare Products

The Group continued to operate its Skincare Products segment mainly as an online business. During the period under review, sales showed a promising year-on-year increase of 34.4%, which was partly due to efforts to continually expand and diversify the product range. 30.5% of this increase was attributable to sales of new products. Perfect UV Protectors delivered a 53.9% increase in sales due to higher public awareness of the need for UV protection, while other products recorded steady sales growth. Star products included Collagen Drink 10000 and Jelly Aquarysta, which contributed 23.2% and 12.5%, respectively, to total segment sales.

Consumer Electronic Products and Household Appliances

This segment performed well during the period under review, with sales increasing 10.1% year-on-year. As at 30 September 2018, there were 14 AV Life and Wai Ming Electrical stores in total, down from 16 as at 30 September 2017. In addition to focusing on TV sales, the Group also had a strong performance in audio products and systems such as home theatres, hi-fi systems, amplifiers and speakers, total sales of which rose by 47.4% in comparison with the same period last year. This was partly a result of the introduction of more high-end audio equipment, and partly due to the established reputation of the segment’s professional sales teams as well as the provision of dedicated audio system demonstration areas at stores.



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B-to-B Commercial and Professional Audio and Visual Products

The Group's B-to-B Commercial and Professional Audio and Visual Products segment, which operates as a wholesaler, also performed well, increasing its total sales by 31% compared to the same period last year. Various distributorship agreements signed in the last financial year brought additional sales to this segment during the period under review.

SERVICING

Photofinishing and Imaging Services

Fotomax, the Group's Photofinishing and Imaging Services brand, enjoyed a solid performance in photofinishing, document solution services and personalised imaging gifts services over the first six months of the financial year, with total sales increasing 6.3% year-on-year. As at 30 September 2018, the number of Fotomax outlets stood at 66 compared to 63 at the same date last year.

Professional AV Advisory and Custom Design and Installation Services

The Group was involved in several custom design and installation projects for universities, schools, hospitals, Government departments and hotels during the period. Its busy pipeline saw total sales increase by 84.7% over the previous period, mainly due to the winning of a number of large-scale hotel television installation contracts.

BRAND MANAGEMENT

In the first six months of 2018/19, the Group carried out extensive promotional and advertising activities such as placing eye-catching advertisements on Facebook and YouTube, at bus terminals, in MTR stations, on cinema screens and on TVs in commercial buildings to support the newly launched FUJIFILM X-T100, FUJIFILM XF10 and FUJIFILM X-T3 cameras and FUJINON MKX18-55mm and MKX50-135mm lenses. During the period, FUJIFILM also introduced the new retro-style Instax SQUARE SQ6 camera through a global collaboration with pop icon Taylor Swift, further boosting sales of instant products among young consumers.

To keep the FUJIFILM brand visible, the Group continued its corporate alliance sponsorship with Hong Kong Disneyland and conducted various promotional activities. In August 2018, FUJIFILM joined with Magnum Photos to hold a photo exhibition themed on the concept of "HOME" that was well received by the public.

ASTALIFT launched a new White Series of skincare products and the ASTALIFT "Scalp Focus" series, which extended its product range to include haircare. Promotional activities included joint promotions with a beauty magazine, updates and sharing on social media platforms, and invitations for bloggers and YouTubers to trial new products and share their experiences on their own platforms.

Brand management activities and initiatives in support of the Group's photofinishing and imaging services segment included the launch of a new version of Year Album software (V.4) at the end of March 2018. In addition, the Group carried out monthly in-store offers and online Flash Offers through Facebook and eDMs to boost sales.

The Group's AV Life retail brand continued to employ proactive promotional strategies to draw in new customers and burnish its reputation as a leading player in the market. In addition to holding a number of product promotions, AV Life stores also introduced 47" touchscreen monitors as e-catalogues to showcase items that can be purchased in store, an initiative that added new excitement to the shopping experience while reducing the amount of display space needed for individual physical items. AV Life also expanded its promotional programmes to offer discounts to new residents of housing estates and advertised widely in magazines and on social media.



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OUTLOOK

Regarding the Group's prospects, Dr Sun commented, "We are highly conscious of the potential effects of the escalating trade war between China and the United States, which has the potential to impact the global economy negatively. Already, consumer spending sentiment has softened across the board since July 2018, and prospects for 2019 and 2020 are unpredictable.

"In this environment, we believe solid inventory control is absolutely essential. We are already looking at better ways to clear fast-moving items while maintaining inventory levels that can meet customer demand. Also, given current macroeconomic uncertainties, shopping centre and street shop rents have begun to flatten, which we shall seek to leverage to manage costs. On the other hand, we shall continue with our budget plan, focusing on selling high-margin products and expanding our e-commerce options to reach customers across different segments.

"We see a number of positives in the market outlook. Over the next few years, district development and new housing supply in Hong Kong, together with the plans being outlined in the 2018 Government Policy Address to increase the supply of convention and exhibition venues and facilities in Hong Kong, hold great opportunity for the Group's sales of home electrical appliances, its B-to-B Commercial and Professional Audio and Visual Products business as well as its Professional AV Advisory and Custom Design and Installation segment.

"Although storm clouds may be gathering on the global horizon, we believe that opportunities in the Hong Kong environment for our various business segments remain promising. The Group has a clear business plan in place, and it has proven its ability to respond flexibly and speedily to market changes. Its newer business segments have laid down strong foundations and are building up strong project pipelines. Given all this, we are confident that our efforts will continue to contribute towards a stable base for future development," Dr Sun concluded.

ABOUT CHINA-HONGKONG PHOTO

Since 1968, China-Hongkong Photo Products Holdings Limited (stock code: 1123) has had a strong business partnership with Fujifilm Japan as the sole authorised distributor of FUJIFILM products in Hong Kong and Macau. In September 2010, the Group was appointed by Fujifilm Japan to be the exclusive agent in Hong Kong to launch and trade FUJIFILM skincare products via the brand name "ASTALIFT". The Group currently operates an extensive photo-finishing network under the "Fotomax" name in Hong Kong. From August 2013, the Group has expanded its business to the sales of consumer electronics products and household electrical appliances under the brands of "AV Life", "Life Digital" and "Wai Ming Electrical", as well as the provision of professional audio-visual advisory and custom design and installation services. In August 2015, the Group acquired a 49% stake in the Hong Kong operations of kikki.K, an international retail chain that sells premium Scandinavian-designed stationery, gifts and homeware products.

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The full text of this and other Group announcements can be accessed through the Internet at www.chinahkphoto.com.hk.

Issued by: China-Hongkong Photo Products Holdings Ltd
Eileen Ng (Tel: 2408-8663, Fax: 2409-0294)