



CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED
中港照相器材集團有限公司
(Incorporated in Bermuda with limited liability)

Annual Result Announcement 2002/2003

- **Total turnover of HK\$1,735 million**
- **Net profit attributable to shareholders of HK\$19 million**
- **Earnings per share of HK1.67 cents**
- **Special dividend of HK1 cent per share proposed**

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Year ended 31 March	
		2003 HK\$'000	2002 HK\$'000
TURNOVER	<i>1</i>	1,735,428	1,530,706
Cost of sales		<u>(1,466,551)</u>	<u>(1,275,678)</u>
Gross profit		268,877	255,028
Other revenue	<i>1</i>	57,255	83,401
Selling and distribution expenses		(71,971)	(55,545)
Advertising and marketing expenses		(118,899)	(145,629)
Administrative expenses		(112,539)	(78,852)
Other operating expenses		<u>(6,774)</u>	<u>(6,978)</u>
PROFIT FROM OPERATING ACTIVITIES	<i>2</i>	15,949	51,425
Finance costs	<i>3</i>	<u>(188)</u>	<u>–</u>
PROFIT BEFORE TAX		15,761	51,425
Tax	<i>4</i>	<u>5,161</u>	<u>(3,734)</u>
PROFIT BEFORE MINORITY INTERESTS		20,922	47,691
Minority interests		<u>(1,485)</u>	<u>5,741</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>19,437</u>	<u>53,432</u>
DIVIDENDS			
Interim		23,277	29,096
Proposed final		–	11,638
Proposed special		<u>11,638</u>	<u>–</u>
		<u>34,915</u>	<u>40,734</u>
EARNINGS PER SHARE	<i>5</i>		
Basic		<u>1.67 cents</u>	<u>4.69 cents</u>

Notes:

1. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sale of goods	1,593,993	1,457,920
Income from rendering of film processing and photo finishing services	141,435	72,786
	<u>1,735,428</u>	<u>1,530,706</u>
Other revenue:		
Interest income	701	5,126
Rental income, net	1,686	1,239
Subsidies received from a supplier	49,413	74,769
Gain on disposal of fixed assets	902	–
Others	4,553	2,267
	<u>57,255</u>	<u>83,401</u>
Total revenue	<u><u>1,792,683</u></u>	<u><u>1,614,107</u></u>

2. PROFIT FROM OPERATING ACTIVITIES

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

	2003 HK\$'000	2002 HK\$'000
Depreciation	35,087	3,500
Amortisation of goodwill	2,884	1,923
Loss/(gain) on disposal of fixed assets	(902)	334
Impairment losses on fixed assets	4,010	–
Exchange losses/(gain), net	2,858	(485)
Net rental income	<u>(1,686)</u>	<u>(1,105)</u>

3. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Finance costs represent interest expenses on trust receipt loans wholly repayable within one year	<u>188</u>	<u>–</u>

4. TAX

Hong Kong profits tax has been provided at the rate of 16% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year after offsetting against the available tax losses brought by subsidiaries. Tax on profits assessable in mainland China has been calculated at the rates of tax prevailing in mainland China.

	2003 HK\$'000	2002 HK\$'000
<i>Group:</i>		
Current year provision		
Hong Kong	3,181	4,203
Mainland China	58	235
	<u>3,239</u>	<u>4,438</u>
Underprovision/(overprovision) in prior year	(8,400)	15
Deferred tax	<u>–</u>	<u>(719)</u>
Tax charge/(credit) for the year	<u><u>(5,161)</u></u>	<u><u>3,734</u></u>

At the balance sheet date, the Group had a deferred tax asset not recognised in the financial statements amounting to HK\$16,497,000 (2002: HK\$25,070,000) which was related primarily to tax losses carried forward. There are no other significant potential deferred tax liabilities of the Group and the Company for which a provision has not been made.

5. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

	2003 HK\$	2002 HK\$
Earnings		
Net profit from ordinary activities attributable to shareholders, used in the basic and diluted earnings per share calculations	<u>19,437,000</u>	<u>53,432,000</u>
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	1,163,828,377	1,140,431,117
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 (<i>Note</i>)	<u>—</u>	<u>—</u>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u>1,163,828,377</u>	<u>1,140,431,117</u>

Note: The share option exercise price 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 film, developing and processing 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 and the Group's management services business, which provides management and security services to residential and commercial properties, together with corporate income and expense items.

In determining the Group's geographical segments, revenues and results 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.

(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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:										
Sales to external customers	1,538,690	1,404,006	196,738	126,700	-	-	-	-	1,735,428	1,530,706
Intersegment sales	39,745	38,495	-	-	-	-	(39,745)	(38,495)	-	-
Other revenue	53,186	74,769	1,346	-	2,022	3,506	-	-	56,554	78,275
	<u>1,631,621</u>	<u>1,517,270</u>	<u>198,084</u>	<u>126,700</u>	<u>2,022</u>	<u>3,506</u>	<u>(39,745)</u>	<u>(38,495)</u>	<u>1,791,982</u>	<u>1,608,981</u>
Interest income									701	5,126
Total revenue									<u>1,792,683</u>	<u>1,614,107</u>
Segment results	<u>44,351</u>	<u>66,914</u>	<u>(28,712)</u>	<u>(20,495)</u>	<u>(391)</u>	<u>(120)</u>	<u>-</u>	<u>-</u>	15,248	46,299
Interest income									701	5,126
Profit from operating activities									15,949	51,425
Finance costs									(188)	-
Profit before tax									15,761	51,425
Tax									5,161	(3,734)
Profit before minority interests									20,922	47,691
Minority interests									(1,485)	5,741
Net profit from ordinary activities attributable to shareholders									<u>19,437</u>	<u>53,432</u>
Group										
Segment assets	<u>1,103,569</u>	<u>1,175,503</u>	<u>309,569</u>	<u>238,841</u>	<u>19,269</u>	<u>21,963</u>	<u>1,432,407</u>	<u>1,436,307</u>		
Segment liabilities	<u>192,535</u>	<u>194,177</u>	<u>51,445</u>	<u>42,648</u>	<u>7,652</u>	<u>7,853</u>	251,632	244,678		
Unallocated liabilities							3,400	211		
Total liabilities							<u>255,032</u>	<u>244,889</u>		
Other segment information:										
Depreciation and amortisation		17,017	18,150	20,282	18,773	672	-	37,971	36,923	
Impairment losses on fixed assets		4,010	-	-	-	-	-	4,010	-	
Capital expenditure		8,708	33,073	21,003	49,895	865	-	30,576	82,968	
Other non-cash expenses		<u>2,764</u>	<u>6,978</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,764</u>	<u>6,978</u>	

(b) Geographical segments

The following tables present revenue, profit and certain asset and capital expenditure information for the Group's geographical segments.

Group	Hong Kong		Elsewhere in the PRC		Corporate and other		Consolidated	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue:								
Sales to external customers	<u>1,505,049</u>	<u>1,443,648</u>	<u>230,379</u>	<u>87,058</u>	<u>-</u>	<u>-</u>	<u>1,735,428</u>	<u>1,530,706</u>
Other segment information:								
Segment assets	<u>1,175,175</u>	<u>1,234,405</u>	<u>237,962</u>	<u>179,939</u>	<u>19,270</u>	<u>21,963</u>	<u>1,432,407</u>	<u>1,436,307</u>
Capital expenditure	<u>24,889</u>	<u>55,748</u>	<u>4,822</u>	<u>27,220</u>	<u>865</u>	<u>-</u>	<u>30,576</u>	<u>82,968</u>

DIVIDENDS

An interim dividend of HK2 cents per ordinary share was paid on 24 January 2003. The directors do not recommend the payment of final dividend but recommend the payment of a special dividend of HK1 cent per ordinary share in respect of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover

The Group's total turnover for the year ended 31 March 2003 including both wholesale and retail operations was HK\$1,735 million, up 13% compared with 2002.

We successfully maintained our share in respective markets and grew our wholesale business. The new product line and graphic art product have made significant contributions to the growth in turnover. Wholesale turnover increased by 10% to HK\$1,538 million in 2003 compared to HK\$1,404 million in 2002.

Retail turnover also grew to HK\$197 million in 2003 from HK\$126 million in 2002. This was primarily due to the full-year contribution made by Fotomax to the Group after the acquisition took place on 1 August 2001.

Wholesale Business

Imaging System

Imaging system products consist of photographic film, motion picture film, traditional and digital camera, electronic imaging equipment and media and magnetic audiovisual media products. This segment accounted for 63% of the total turnover, which registered a slight decrease of 3%, during the year.

Digital trends have provided a driver for the growth of digital camera sales during the year under review. A 58% increase in sales was recorded from digital cameras and accessories. In additions, Fujifilm Instax instant camera range has been well received by the market, with a 31% growth in turnover. The use of traditional film declined and was evidenced by a 20% decrease in sales. The Group is confident that the digital product sales growth forecasts will offset the impact of declining demand for traditional photographic products.

Photofinishing System

Photofinishing system products comprise of paper, chemicals and photofinishing equipment. This segment accounted for 10% of the total turnover. Turnover decreased by 14% in 2003 when compared to 2002.

The Fuji Digital Imaging (FDI) System has been well received by the market and its network expansion continues, despite the initial steep growth having levelled off. More than 40 cities throughout China, Hong Kong and Macau have installed Frontier Minilabs.

Information System

Information system products consist of medical imaging systems, office automation systems and equipment, data storage media and graphic arts products. This segment accounted for 17% of the total turnover. Compared to last year, turnover increased by 72% in 2003.

The strong performance of our digitalized Fujifilm Computed Radiography product line helped offset the 21% decline in sales of traditional X-ray films during the year under review. The digitalized X-ray machine recorded a growth of 158% in sales.

With a new product line, graphic arts products, awarded by Fujifilm from May 2002, we saw a contribution of HK\$121 million to the Group's turnover which further accelerated the rapid growth of this segment.

Retail Business

A growth of 55% in total retail turnover was recorded during the year under review. This significant increase was attributed to the full-year contribution made by Fotomax to the Group after the acquisition took place on 1 August 2001. Last year, only eight months' turnover was incorporated in the Group's performance.

The Fotomax chain continued to maintain its strong leadership position as the premier developing and printing chain in Hong Kong, despite the economic downturn.

In China, Fotomax retail business has only recently been launched and is still in its investment phase. The Group is also exploring other opportunities to develop its retail business in the China market that is customized to consumers' needs and requirements.

Marketing

Advertising and marketing expenses were lowered compared with last year. The Group has continued with selective high impact initiatives to promote and sustain the Fujifilm brand in both Hong Kong and mainland China, including sponsorship-linked promotions for the FIFA World Cup 2002, and an ongoing partnership with Hong Kong celebrity, Kelly Chen. It has remained active in terms of demonstrating the innovation and cutting edge technology of Fujifilm products at the industry's most important exhibitions and events in Hong Kong, China and around the world.

Profit Attributable To Shareholders

The overall gross profit grew slightly to HK\$269 million in 2003 from HK\$255 million in 2002, with a gross profit margin of 15% compared to that of 16% in the previous year.

Selling and distribution expenses increased by 28%, due largely to the fierce price competition in various product segments. Advertising and marketing expenses were reduced by 23%. Given our business expansion into the retail sector, the total staff costs amounted to HK\$101 million for the year ended 31 March 2003. The Group had 971 employees, 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.

Net profit for the Group was HK\$19 million (2002: HK\$53 million).

Liquidity and Capital Resources

The Group generally financed its operation with internally generated cash flows and import and export-related banking facilities. The Company's cash and bank balances as at the balance sheet date amounted to approximately HK\$359 million (2002: HK\$239 million). We maintain a healthy gearing ratio of 0.06.

Prospects

Although the Group has a very lean operating structure and a cautious approach to spending, there will be considerable hurdles to deal with in the year ahead. The SARS (Severe Acute Respiratory Syndrome) outbreak and its drastic impact on tourism in China and Hong Kong and the retail sector as a whole will be reflected in turnover for the coming year. Furthermore, the undoubted potential of the China market is being realized even more slowly than anticipated with intense price competition and higher costs.

The Group plans to expand its network in China steadily in the year ahead and is also exploring opportunities to develop the retail business to meet the specific needs of consumers in China. It is poised to seize any new opportunities as the pace of China's incorporation of WTO practices accelerates.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year, except that the independent non-executive directors were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's articles of association.

CLOSURE OF REGISTER OF MEMBERS

The Register of members will be closed from 25 August 2003 (Monday) to 28 August 2003 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30pm on 22 August 2003 (Friday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE

A detailed announcement of the Group's annual results for the year ended 31 March 2003, containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 of the Listing Rules of the Stock Exchange, will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

On behalf of the Board
Sun Tai Lun
Chairman and Managing Director
<http://chinahkphoto.com.hk>

HKSAR, 17 July 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Company will be held at 8th Floor, Tsuen Wan Industrial Centre, 220-248 Texaco Road, Tsuen Wan, Hong Kong on Thursday, 28 August 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements and the Reports of the Directors and of the Auditors for the year ended 31 March 2003;
2. To declare a special dividend;
3. To elect Directors, to authorise the Board to fix Directors' remuneration and to set a maximum number of Directors;
4. To appoint Messrs Ernst & Young as Auditors and to authorise the Board to fix their remuneration;
5. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to purchase its shares, subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;
 - (b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution and the said approval shall be limited accordingly; and
 - (c) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
 - (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meetings; and
 - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held”;
6. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

- (a) the exercise by the Directors during the Relevant Period of all the powers of the Company to issue, allot and dispose of additional shares of the Company and to make or grant offers, agreements and options which would or might require shares to be allotted, issued or disposed of during or after the end of the Relevant Period be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or any option scheme similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, the total nominal amount of additional shares issued, allotted, disposed of or agreed conditionally or unconditionally to be issued, allotted or disposed of (whether pursuant to an option or otherwise) shall not in total exceed 20% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution and the said approval shall be limited accordingly; and

- (b) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meetings; and
 - (iii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-laws of the Company or any applicable laws to be held.”;
7. To consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“**THAT** the general mandate granted to the Directors of the Company pursuant to Resolution 6 above and for the time being in force to exercise the powers of the Company to issue, allot or dispose of additional shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by total nominal amount of shares in the capital of the Company repurchased by the Company since the granting of such general mandate referred to in the above Resolution 6 pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution.”

By order of the Board
Wong Chun Ming
Company Secretary

HKSAR, 17 July 2003

Notes:

- (a) The register of members will be closed from 25 August 2003 (Monday) to 28 August 2003 (Thursday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed dividends, all transfers accompanied by the relevant share certificates must be lodged with the Company’s Share Registrars in Hong Kong, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 pm on 22 August 2003 (Friday).
- (b) A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or (if holding two or more shares) proxies to attend and, in the event of a poll, vote on his behalf. A proxy need not be a member of the Company.
- (c) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company’s Share Registrars in Hong Kong, Tengis Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the Meeting.

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