



CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED

中港照相器材集團有限公司

(Incorporated in Bermuda with limited liability)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

The board of directors of China-Hongkong Photo Products Holdings Limited (the “Company”) is pleased to present the unaudited interim financial statements of the Company for the period ended 30 September 2003.

These interim financial statements have not been audited, but have been reviewed by the Company’s external auditors and the audit committee.

### Highlights

- Group results significantly impacted by SARS
- Steady growth in information systems turnover
- Future Strategic marketing efforts to capitalize on opportunities in China arising from CEPA (Closer Economic Partnership Arrangement)

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000 (Restated)
TURNOVER	4	678,458	922,386
Cost of sales		(651,639)	(755,504)
Gross profit		26,819	166,882
Other revenue	4	14,114	29,557
Selling and distribution expenses		(48,222)	(46,267)
Advertising and marketing expenses		(20,907)	(64,034)
Administrative expenses		(43,730)	(52,240)
PROFIT/(LOSS) BEFORE TAX	5	(71,926)	33,898
Tax	6	–	5,386
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(71,926)	39,284
Minority interests		(85)	21
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(72,011)</u>	<u>39,305</u>
DIVIDEND – Interim special	7	<u>11,638</u>	<u>23,277</u>
EARNINGS/(LOSS) PER SHARE	8		
Basic		<u>(HK6.19 cents)</u>	<u>HK3.38 cents</u>
Diluted		<u>(HK6.19 cents)</u>	<u>HK3.38 cents</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 September 2003

### 1. Principal Accounting Policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (the “HKSA”) and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation used 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 2003, except that the Group has changed its accounting policy for taxation to comply with SSAP 12 (Revised), “Income taxes” issued by the HKSA, which is effective for accounting periods commencing on or after 1 January 2003.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carry forward of unused tax loss (deferred tax).

Interpretation 20 “Income taxes – Recovery of revalued non-depreciable assets” is also effective for accounting periods commencing on or after 1 January 2003, and requires that a deferred tax asset or liability that arises from revalued non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of its investment properties in the deferred tax calculated under SSAP 12.

On the adoption of SSAP 12 (Revised), deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. In addition, a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

In respect of the deferred tax asset arising from a business combination that is not recognised at the time of acquisition, but is recognised subsequently, SSAP 12 requires the Group to adjust the gross carrying amount of the goodwill and the respective accumulated amortisation to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset at the date of the business combination.

These changes in accounting policy have been applied retrospectively such that the comparative amounts presented have been restated to conform to the changed policy. Further details of the prior year adjustments arising therefrom are disclosed in note 2 to these financial statements.

### 2. Prior Year Adjustments

As detailed in note 1 to the financial statements, with the adoption of SSAP 12 (Revised) during the period, the Group has recognised a deferred tax asset, to the extent that it was probable that the deferred tax asset would crystallise in the foreseeable future, retrospectively in the prior years. The Group’s deferred tax assets principally arose from tax losses carried forward by certain subsidiaries which were acquired by the Group in 2001. The deferred tax assets arising therefrom accordingly resulted in a restatement of goodwill. The effects of this change in accounting policy on the opening balances as at 1 April 2002 and 2003 and on the income statement for the period ended 30 September 2002 are:

#### (A) Restatement of goodwill:

- (i) to reduce the gross amount of goodwill by HK\$13,741,000 as at 1 April 2002 and 2003;
- (ii) to reduce the accumulated amortisation of goodwill as at 1 April 2002 and 2003 by HK\$458,000 and HK\$1,144,000, respectively; and
- (iii) to reduce the amortisation charge of goodwill for the period ended 30 September 2002 by HK\$344,000.

(B) Recognition of a deferred tax asset:

- (i) to recognise a deferred tax asset of HK\$1,698,000 at 1 April 2002; and
- (ii) to increase the tax charge of HK\$1,083,000 for the period ended 30 September 2002 representing the utilisation of the deferred tax asset.

The net impact arising from (A) and (B) above, is summarised below:

	<b>Increase/(decrease)</b>		
	Profit for the period ended 30 September 2002 <i>HK\$'000</i>	Retained profits as at 1 April 2002 <i>HK\$'000</i>	<b>Retained profits as at 1 April 2003 <i>HK\$'000</i></b>
(A) Restatement of goodwill	344	(13,283)	<b>(12,597)</b>
(B) Recognition of deferred tax asset	(1,083)	1,698	–
Net impact of (A) and (B)	<u>(739)</u>	<u>(11,585)</u>	<u><b>(12,597)</b></u>

### 3. 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 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 and 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.

*Business segments*

The following tables present revenue and operating profit/(loss) for the Group's business segments.

Group	Six months ended 30 September									
	Wholesale segment		Retail segment		Corporate and other		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (Restated)	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (Restated)
Segment revenue:										
Sales to external customers	588,867	831,162	89,591	91,224	-	-	-	-	678,458	922,386
Intersegment sales	14,805	13,641	-	-	-	-	(14,805)	(13,641)	-	-
Other revenue	16,319	28,625	1,923	3,140	788	6,235	(5,443)	(8,764)	13,587	29,236
	<u>619,991</u>	<u>873,428</u>	<u>91,514</u>	<u>94,364</u>	<u>788</u>	<u>6,235</u>	<u>(20,248)</u>	<u>(22,405)</u>	<u>692,045</u>	<u>951,622</u>
Interest income									527	321
Total revenue									<u>692,572</u>	<u>951,943</u>
Segment results	<u>(52,043)</u>	<u>49,417</u>	<u>(17,949)</u>	<u>(12,171)</u>	<u>(2,461)</u>	<u>(3,669)</u>	<u>-</u>	<u>-</u>	<u>(72,453)</u>	<u>33,577</u>
Interest income									527	321
Profit/(loss) before tax									(71,926)	33,898
Tax									-	5,386
Profit/(loss) before minority interests									(71,926)	39,284
Minority interests									(85)	21
Net profit/(loss) from ordinary activities attributable to shareholders									<u>(72,011)</u>	<u>39,305</u>
Additional segment information:										
Provision for bad and doubtful debts	1,949	3,657	-	-	-	-	-	-	1,949	3,657
Provision for subsidies	74,089	11,796	-	-	-	-	-	-	-	-
Provision for obsolete inventories	29,734	-	-	-	-	-	-	-	29,734	7,691
Amortisation of goodwill	-	-	1,098	1,098	-	-	-	-	1,098	1,098

### Geographical segments

The following table presents revenue and operating profit for the Group's geographical segments.

Group	Six months ended 30 September							
	Hong Kong		Elsewhere in the PRC		Corporate and other		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (Restated)	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000 (Restated)
Segment revenue sales to external customers	<u>562,871</u>	<u>826,958</u>	<u>115,587</u>	<u>95,428</u>	<u>-</u>	<u>-</u>	<u>678,458</u>	<u>922,386</u>
Segment results	<u>(68,256)</u>	<u>42,632</u>	<u>(1,737)</u>	<u>(5,356)</u>	<u>(2,460)</u>	<u>(3,699)</u>	<u>(72,453)</u>	<u>33,577</u>

#### 4. Turnover and Revenue

Turnover represents the net invoiced value of goods sold, net of trade discounts, allowances for returns and income from the rendering of film processing and photo-finishing services. An analysis of the Group's turnover and revenue is as follows:

	Six months ended 30 September	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Turnover:		
Sale of goods	<b>606,556</b>	867,995
Income from the rendering of film processing and photo-finishing services	<u>71,902</u>	<u>54,391</u>
	<u><b>678,458</b></u>	<u>922,386</u>
Other revenue:		
Interest income	527	321
Rental income	1,063	688
Subsidies received from a supplier	11,682	26,415
Others	<u>842</u>	<u>2,133</u>
	<u><b>14,114</b></u>	<u>29,557</u>

## 5. Profit/(Loss) Before Tax

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Cost of inventories sold	588,704	719,581
Cost of services rendered	33,201	21,218
Amortisation of goodwill	1,098	1,098
Depreciation	16,691	16,727
Staff costs:		
Wages and salaries	38,751	48,929
Retirement benefits scheme contributions	1,477	2,252
	<u>40,228</u>	<u>51,181</u>
Provision for subsidies*	74,089	11,796
Provision for obsolete inventories*	29,734	7,691
Provision for bad and doubtful debts	<u>1,949</u>	<u>3,657</u>

\* Items included in the cost of sales as presented on the profit and loss account.

## 6. Tax

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the period. No overseas profits tax has been provided because no assessable income was generated from the Group's overseas operation during the period (2002: Nil). In the prior period, Hong Kong profits tax had been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that period.

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Group:		
Current – Hong Kong		
Charge for the period	–	(693)
Overprovision in prior period	–	7,162
	<u>–</u>	<u>6,469</u>
Deferred	–	(1,083)
	<u>–</u>	<u>5,386</u>
Total tax credit for the period	<u>–</u>	<u>5,386</u>

## 7. Dividend

No interim dividend (2002: HK2 cents per ordinary share) was declared by the directors. However, an interim special dividend of HK1 cent was declared by the directors in respect of the period ended 30 September 2003.

## 8. Earning/(Loss) per Share

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2003</b>	<b>2002</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
		<b>(Restated)</b>
<i>Earnings/(loss):</i>		
Net profit/(loss) from ordinary activities attributable to shareholders, used in the basic and diluted earnings per share calculations	<b><u>(HK\$72,011,000)</u></b>	<b><u>HK\$39,305,000</u></b>
<i>Shares:</i>		
Number of ordinary shares in issue during the period used in basic earnings per share calculation	<b>1,163,828,377</b>	1,163,828,377
Number of ordinary shares assumed to have been issued at no consideration on deemed exercise of all share options outstanding during the period ( <i>Note</i> )	<u>—</u>	<u>—</u>
Number of ordinary shares used in diluted earnings per share calculation	<b><u>1,163,828,377</u></b>	<b><u>1,163,828,377</u></b>

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

## 9. Operating Lease Arrangements

As at 30 September 2003, the Group had aggregate future minimum lease payment commitments for non-cancellable operating leases in respect of land and buildings as follows:

### (a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms of two years.

As at 30 September 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>Group</b>	
	<b>30 September</b>	<b>31 March</b>
	<b>2003</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Within one year	<b>1,066</b>	506
In the second to fifth years, inclusive	<b>1,534</b>	169
	<b><u>2,600</u></b>	<b><u>675</u></b>

(b) *As lessee*

The Group leases certain of its retail outlets under operating lease arrangements. The leases for the retail outlets are negotiated for terms ranging from one to seven years. As at 30 September 2003, the Group had the following total future minimum lease payments under non-cancellable operating leases:

	<b>Group</b>	
	<b>30 September</b>	31 March
	<b>2003</b>	2003
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>32,220</b>	32,527
In the second to fifth years, inclusive	<b>28,940</b>	31,563
Over five years	<b>195</b>	12,604
	<hr/> <b>61,355</b> <hr/>	<hr/> <b>76,694</b> <hr/>

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's consolidated turnover for the six months ended 30 September 2003 was HK\$678 million, and net loss attributable to shareholders was HK\$72 million. Loss per share was HK6.19 cents, with an interim special dividend of HK1 cent declared.

As a result of over stock caused by SARS (Severe Acute Respiratory Syndrome) and the cut-throat price competition after SARS, the Group's revenue and profitability were impacted. Coupled with grant for subsidies to customers and the obsolete inventories incurred by the Group, a loss was recorded for the period under review.

During the period under review, the Group recorded a decrease of approximately 29% in turnover due to SARS. Our film and D&P service businesses were also affected by the fierce competition resulting from price cuts by parallel imports and different branded products, particularly during the SARS period. Despite a steady sales growth in July and August, the loss caused by SARS could not be recovered.

However, given the enormous growth potential of the China market, we remain confident in the long-term prospects of the Group there.

### Imaging Systems

The imaging systems segment includes businesses related to photographic films, motion picture films, digital cameras, electronic imaging equipment, magnetic audiovisual media products, and accounted for 42% of the Group's total turnover during the period under review.

Affected by SARS, the total segment turnover decreased by 39%. Sales of photographic films and digital cameras dropped, due to the digitalization trend and the delayed launch of new digital camera models by Fujifilm Japan, coupled with severe price cuts of different branded products subsequent to the outbreak of SARS.

Led by the booming film and advertising industry in China, an increased number of Taiwan and Hong Kong production companies filmed on the mainland. This helped drive sales growth in professional movie films in China by 15% during the period. With the commencement of CEPA (Closer Economic Partnership Arrangement) next year, we believe this steady growth in demand for movie films will continue.

### Photofinishing Systems

This segment includes products such as photographic paper, chemicals and photo-finishing equipment, and accounted for 19% of the Group's total turnover. Total sales of this segment recorded a decrease of 38%, compared to the corresponding period last year.



The outbreak of SARS impacted tourism which is key to our sales, despite this, Fujifilm Digital Minilab Frontier continued its expansion pace. Given the prevailing digitalization trends, our businesses in imaging and information sectors are in a growth situation. The Frontier system has been installed in more than 50 cities in China, Hong Kong and Macau.

### **Information Systems**

Activities in this segment include medical imaging systems, graphic art products and data storage media. This segment accounted for 26% of the Group's total turnover.

During the period under review, turnover for the information systems segment was up 27% compared to the same period last year, primarily as a result of the SARS outbreak. The surging demand for X-ray films, together with the digitalization of medical systems whose sales increased by over 25% versus the corresponding period last year, have created a strong demand in this sector of business.

Fuji Medical Company Ltd., a subsidiary of the Group, has sought business expansion to provide value-added services through strategic development with leading market players in China, Hong Kong and Macau.

The introduction of Fujifilm's dry imaging technology as a replacement for the conventional X-ray function is also a major breakthrough in terms of technology advancement. This environmentally friendly and cost effective technology delivers superb image quality and stability with no chemical or solid waste, it will further accelerate the market demand of the relevant medical products.

In addition, Fuji graphic art products recorded a 29% growth in sales during the period. Given the continued demand for quality graphic art products, the Group will further expand into the China market.

Aiming to provide marketing, distribution and after-sales services of the graphic art products in China, Hong Kong and Macau, we established a wholly-owned subsidiary called 中商中港(上海)國際貿易有限公司 in Shanghai. Showrooms and an after-sales service centre have also been set up in Shanghai, with more branches to be opened later in key cities.

### **Retail Operations**

The retail front accounted for 13% of the Group's total turnover.

The Fotomax chain benefits from a clear position as the premium, high-quality photo and digital imaging retail chain. During the period under review, Fotomax expanded strategically from 63 shops to 76 in the Hong Kong region. In addition to Hong Kong, the Group has also leveraged Fotomax's strong brand and reputation in the China market. The Group is well-covered in key cities in China, including Beijing, Shanghai, Guangzhou and Shenzhen.

Sales of digital cameras contributed significantly to the growth in turnover. With the popularity of digital cameras, an increased number of digital camera users will employ our FDI service. As a result, this raised the demand for digital output from 10% to over 40% compared to the same period last year.

### **Marketing**

For the six months ended 30 September 2003, the Group has engaged its brand building strategy to support business expansion. Aiming to sustain its brand awareness, the Group has continued to sponsor and participate in different kinds of public activities, including photo contest, tournaments, seminars, exhibitions, trade shows, TV programs and joint promotions to reach our target customers in China, Hong Kong and Macau.

### **Loss Attributable to Shareholders**

During the period, the Group's net loss attributable to shareholders was HK\$72 million with a consolidated turnover of HK\$678 million.

## **FINANCIAL RESOURCES**

The Group's cash and bank balances as at 30 September 2003 were approximately HK\$376 million with a zero gearing ratio.

Trade receivables of HK\$371 million were recorded for the period, while inventory was HK\$222 million.

## **OUTLOOK**

With an average annual growth of over 7%, China is the new engine for the world's economy. The Group remains confident and optimistic about the long-term growth potential of the China market.

The recently signed CEPA between Hong Kong and China provides us with tremendous opportunities that we can capitalize on. While focusing on our existing business strategy, the Group will continue to identify investment options and strategic partnerships to accelerate our development in China.

The strong tourism growth in China and the "Individual Visit Scheme" which allows individual mainland visitors to flock to Hong Kong are positive factors for the Group. Our businesses will continue to ride on the growth momentum, particularly the information systems, digital products and services sectors and retail operations, and achieve promising results in future.

## **DIVIDENDS**

The directors recommend the payment of an interim special dividend of HK1 cent per ordinary share in respect of the period ended 30 September 2003 to shareholders on the register of members on 6 February 2004 (Friday). The dividend will be payable on or before 24 February 2004 (Tuesday). This recommendation has been incorporated in the financial statements.

## **CLOSURE OF SHARE REGISTER**

The register of members will be closed from 3 February 2004 (Tuesday) to 6 February 2004 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed interim special dividend, 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 pm on 2 February 2004 (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.

## **CODE OF BEST PRACTICE**

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period for the six months ended 30 September 2003 in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except that the independent non-executive directors were not appointed for specific terms.

**PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

A detailed announcement of the Group's results for the six months ended 30 September 2003 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Stock Exchange") will be published on the website of the Stock Exchange in due course.

ON BEHALF OF THE BOARD  
**Dennis Sun Tai Lun**  
*Chairman and Managing Director*

Hong Kong, 10 December 2003

[www.chinahkphoto.com.hk](http://www.chinahkphoto.com.hk)

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