



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 2006**

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 and its subsidiaries (collectively known as the “Group”) for the period ended 30 September 2006 together with the comparative figures for the corresponding period of last year.

These condensed interim financial statements have not been audited, but have been reviewed by the Company’s audit committee. These interim financial statements have also been reviewed by external auditors in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 September	
		2006	2005
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$’000	HK\$’000
REVENUE	3	558,749	699,268
Cost of sales		(426,004)	(584,423)
Gross profit		132,745	114,845
Other income and gains	4	22,728	8,130
Selling and distribution costs		(30,284)	(33,205)
Advertising and marketing expenses		(12,001)	(7,092)
Administrative expenses		(37,149)	(33,793)
Other operating income/(expenses), net		1,970	(1,018)
Share of profit of an associate		–	348
PROFIT BEFORE TAX	5	78,009	48,215
Tax	6	(8,685)	(3,405)
PROFIT FOR THE PERIOD		69,324	44,810
ATTRIBUTABLE TO:			
Equity holders of the Company		69,371	44,750
Minority interests		(47)	60
		69,324	44,810
DIVIDEND – Interim	7	44,225	25,604
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		5.96 cents	3.85 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		89,517	98,176
Investment properties		35,958	35,958
Prepaid land lease payments		8,764	9,109
Goodwill		35,878	35,878
Rental deposits		8,755	5,907
Interest in an associate		–	9,607
Time deposits		–	38,785
Deferred tax assets		11,538	11,720
		<hr/>	<hr/>
Total non-current assets		190,410	245,140
		<hr/>	<hr/>
CURRENT ASSETS			
Inventories		76,277	143,546
Trade and bills receivables	9	74,945	86,697
Prepayments, deposits and other receivables		26,394	27,360
Cash and cash equivalents		747,576	617,420
		<hr/>	<hr/>
Total current assets		925,192	875,023
		<hr/>	<hr/>
CURRENT LIABILITIES			
Trade and bills payable	10	20,746	49,836
Payables, accruals and other liabilities		81,438	82,682
Interim dividend payable		44,225	–
Tax payable		12,514	7,089
		<hr/>	<hr/>
Total current liabilities		158,923	139,607
		<hr/>	<hr/>
NET CURRENT ASSETS		766,269	735,416
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		956,679	980,556
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Provision for long service payments		2,810	2,810
Deferred tax liabilities		1,993	2,088
		<hr/>	<hr/>
Total non-current liabilities		4,803	4,898
		<hr/>	<hr/>
Net assets		951,876	975,658
		<hr/> <hr/>	<hr/> <hr/>

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
EQUITY		
Equity attributable to equity holders of the Company		
Issued capital	116,383	116,383
Reserves	819,364	794,218
Proposed final dividend	–	48,881
	935,747	959,482
Minority interests	16,129	16,176
Total equity	951,876	975,658

Notes:

1. ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2006 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 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 2006, except for the adoption of the amendments to Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) as disclosed in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

2.1 *Impact of revised HKFRSs*

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs, which are generally effective for accounting periods beginning on or after 1 April 2006. The Group has adopted the following revised HKFRSs which are pertinent to its operations and relevant to these unaudited condensed consolidated interim financial statements:

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts

The adoption of these amendments has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s unaudited condensed consolidated interim financial statements.

2.2 *Impact of issued but not yet effective HKFRSs*

The Group has not early applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these unaudited condensed consolidated interim financial statements:

HKAS 1 Amendment	Presentation of Financial Statements:
	Capital Disclosure
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

3. SEGMENT INFORMATION

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.

The following table presents revenue and results for the Group's business segment for the six months ended 30 September 2006 and 2005.

	Wholesale		Retail		Corporate and other		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	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	475,556	612,084	83,193	87,184	-	-	-	-	558,749	699,268
Intersegment sales	55,722	35,712	-	-	-	-	(55,722)	(35,712)	-	-
Other income and gains	1,325	758	868	666	991	1,153	-	-	3,184	2,577
Total	532,603	648,554	84,061	87,850	991	1,153	(55,722)	(35,712)	561,933	701,845
Segment results	61,408	47,096	(1,192)	(3,523)	(1,751)	(1,259)	-	-	58,465	42,314
Unallocated income									19,544	5,553
Share of profit of an associate	-	348							-	348
Tax									(8,685)	(3,405)
Profit for the period									69,324	44,810

4. OTHER INCOME AND GAINS

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	12,771	5,553
Gross rental income	982	1,153
Subsidies received from a supplier	458	949
Gain on disposal of an associate	6,773	-
Others	1,744	475
	22,728	8,130

5. PROFIT BEFORE TAX

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

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation	10,148	13,519
Recognition of prepaid land lease payments	345	345
Net realisable value provision/(write-back of net realisable value provision) for inventories	(18,163)	6,743

6. TAX

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong	8,111	4,041
Current – PRC	487	–
Deferred	87	(636)
	<hr/>	<hr/>
Total tax charge for the period	<u>8,685</u>	<u>3,405</u>

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 September 2005: 17.5%) 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.

No tax was shared from an associate during the current period. During the six months ended 30 September 2005, share of tax attributable to an associate amounting to HK\$171,000 was included in “Share of profit of an associate” on the face of the condensed consolidated income statement.

7. DIVIDEND

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim – HK3.8 cents (2005: HK2.2 cents) per ordinary share	<u>44,225</u>	<u>25,604</u>

At a meeting of the board of directors held on 7 December 2006, the directors resolved to pay an interim dividend of HK3.8 cent (2005: HK2.2 cent) per ordinary share to shareholders.

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

The calculations of the basic and diluted earnings per share for the six months ended 30 September 2005 and 2006 are based on:

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
<i>Earnings:</i>		
Profit attributable to equity holders of the Company for the purpose of basic earnings per share calculation	<u>69,371</u>	<u>44,750</u>

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
<i>Number of shares:</i>		
Number of ordinary shares in issue during the period used in calculation of basic earnings per share	<u>1,163,828,377</u>	<u>1,163,828,377</u>

Diluted earnings per share amounts for the six months ended 30 September 2006 and 2005 have not been disclosed as no diluting events existed during the current and prior periods.

9. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 days, except for certain well-established customers where the terms are extended to 120 days.

An aging analysis of the Group's trade and bills receivables as at the respective balance sheet date, based on payment due date and net of provision, is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current to 3 months	73,103	80,311
4 to 6 months	704	4,128
7 to 9 months	–	357
Over 9 months	1,138	1,901
	<u>74,945</u>	<u>86,697</u>

10. TRADE AND BILLS PAYABLES

An aging analysis of the Group's trade and bills payables as at the respective balance sheet date, based on the date of goods purchased and services rendered, is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current to 3 months	18,014	45,401
Over 3 months	2,732	4,435
	<u>20,746</u>	<u>49,836</u>

11. POST BALANCE SHEET EVENT

Subsequent to 30 September 2006, the Group ceased to be the distributor of certain products of Fuji Photo Film Co. Ltd. ("FPF") in Japan, a major supplier of the Group, including graphic arts and medical imaging products, with effect from 20 October 2006 pursuant to an agreement entered into between the Group and FPF on 30 June 2006 to terminate certain distributorship agreements with certain subsidiaries of the Group (the "Termination Agreement"). The Group will remain as a sole distributor of photographic developing and processing products of FPF.

On 20 November 2006, the Group received gross compensation income of US\$18 million (approximately HK\$140 million) from FPF in respect of the early termination of distributorship agreements. Notwithstanding this, as of the date of this report, the board of directors (the "Board") is still in the process of assessing the net financial impact of the Termination Agreement, including but not limited to expenditures, provisions and tax, if any, incidental to the early termination of distributorship agreements, and the Board is of the view that the Termination Agreement will not have a material adverse impact on the financial performance of the Group of the year ending 31 March 2007.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Profit and Revenue

Due to price competition and a continued slump in the sales of traditional imaging products, the Group's total revenue for the period ended 30 September 2006 dropped 20% to HK\$559 million, compared with the corresponding period last year. Driven by a careful financial plan and tactical distribution strategy, a net profit attributable to shareholders of HK\$69.37 million was recorded, compared to a net profit of HK\$44.75 million for the same period last year. Earnings per share were HK5.96 cents.

Business Review

Wholesale business

During the period under review, total sales of traditional imaging products continued to decline and dropped by 28% compared to the same period last year. Aggregate sales of digital cameras were also down slightly due to keen competition in the local market and the delayed launch of professional digital camera models by Fujifilm Japan. However, with the ongoing popularity of digital devices, the volume of prints from digital cameras continued to surge and drove sales of photographic paper up by 2% in Hong Kong during the period under review. This, coupled with the strong economic growth and a boom in tourism, accelerated the demand for our quality photofinishing service in Hong Kong. During the period under review, demand for digital minilabs reached saturation point and installations of new Frontier minilabs slowed. Despite this, sales of photographic paper showed robust growth. With the state-of-the-art technology, high quality digital imaging and effective distribution channels, the Fuji Digital Imaging (FDi) service is well placed to capitalise on the rising demand for quality imaging products and services.

Retail business

In Hong Kong the decline of the traditional imaging market coupled with price competition saw total sales for the retail segment decrease by 4%, compared to the same period last year. The network of Fotomax outlets remained stable at 91 shops, although higher rental costs and keen market competition put heavy pressure on profitability. Total sales and volumes of digital print continued to grow significantly, rising by 13.9% and 9.8% respectively compared with the same period last year. The Digital Kiosk installation plan was successfully implemented during the period to support the demand for digital photo services. We increased the total number of Kiosks by 34 to 135 units and volume received from Kiosks rose by 83.6%. To shorten transaction time and improve convenience to customers, Fotomax promoted the Octopus Card payment system during the period. Fotomax is the first photofinishing network to provide this payment service in Asia, and also the only photofinishing network to participate the Octopus Reward Scheme to issue extra Octopus Reward Dollars to customers. The total volume of the online digital photo business also saw a considerable increase of 60.9%, reflecting the popularity of the online ordering service. On-line sales are expected to offset the losses from film sales and become a pillar of our retail business in the future.

Financial Resources

The financial position of the Group remained sound and healthy during the period under review. The Group's cash and bank balances as at 30 September 2006 were approximately HK\$748 million with a zero gearing ratio. Trade receivables of HK\$75 million were recorded for the period, while inventory was HK\$76 million. As at 30 September 2006, the Group had no significant contingent liabilities.

Outlook

The Group has achieved continued growth in profitability during the period under review, supported by the positive impact of CEPA and the influx of visitors from Mainland China to Hong Kong. We remain optimistic about business prospects and will continue to take advantage of the special privileges granted by CEPA and the boom in tourism in Hong Kong to develop more opportunities in our rapidly growing digital businesses. We intend to expand our established digital imaging services as well as foster emerging businesses, such as our new digital printing services, and to increase revenues and profits in both the wholesale and retail businesses. The Group will also continue to strengthen its profitability and growth by actively seeking out new targets suitable for acquisition and investment.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 9 January 2007 (Tuesday) to 12 January 2007 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend, all transfers accompanied by the relevant share certificates must be lodged with Tengis Limited, the Hong Kong Branch Registrars of the Company, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on 8 January 2007 (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

The Company has an audit committee (the "Committee") which was established in accordance with the Rules 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Committee comprises two non-executive directors and three independent non-executive directors of the Company. The Group's interim financial statements for the period ended 30 September 2006 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period ended 30 September 2006 except that:–

- (1) The roles of Chairman and Chief Executive Officer have not been separated. Dr. Sun Tai Lun, Dennis is the Chairman/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.
- (2) The non-executive directors have not entered into any service contract with the Company and are not appointed for a specific term but are subject to retirement by rotation at the Company's annual general meeting; and
- (3) No written guidelines have been established for employees in respect of their dealings in the securities of the Company as only the directors are likely to be in possession of unpublished price-sensitive information of the Company.

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 2006 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.

MEMBERS OF THE BOARD

As of the date of this announcement, Dr. Sun Tai Lun, Dennis is the Chairman, Mr. Tang Kwok Tong, Simon, Ms. Ng Yuk Wah, Eileen and Mr. Sun Tao Hung, Stanley are the executive directors. Ms. Chiang Yun, Rachel and Mr. Liu Hui, Allan are the non-executive directors. Mr. Au Man Chung, Malcolm, Mr. Li Ka Fai, David and Dr. Wong Chi Yun, Allan are the independent non-executive directors.

ON BEHALF OF THE BOARD

Dennis Sun Tai Lun

Chairman

Hong Kong, 7 December 2006

www.chinahkphoto.com.hk

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