CHKP

**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 2019

**HIGHLIGHTS**

- In a difficult economic environment, the Group's consolidated turnover remained steady at HK$476 million, down just 0.6% compared to the same period last year
- Results varied across different business segments, with sales of luxury photographic products decreasing whilst revenue from photofinishing services and wholesales of consumer electronic products and household appliances grew
- The Group's 65% investment to provide imaging operation services at Hong Kong Disneyland Resort has provided a new revenue source since the enterprise launched on 1 July 2019
- Savings in advertising and marketing expenses and a reduction in renminbi exchange loss improved the Group's results
- Net loss attributable to shareholders amounted to HK$2.0 million, an improvement of HK$5.7 million compared to the same period last year
- The Board of Directors does not recommend payment of any interim dividend

## CONDENSED CONSOLIDATED INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019*

| | | For the six months ended 30 September | |
|---|---|---|---|
| | *Note* | **2019** | 2018 |
| | | **(Unaudited)** | (Unaudited) |
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | *3* | **476,185** | 478,942 |
| Cost of sales | | **(363,768)** | (367,380) |
| **Gross profit** | | **112,417** | 111,562 |
| Other income and gains | *4* | **8,053** | 8,771 |
| Selling and distribution costs | | **(66,454)** | (69,940) |
| Advertising and marketing expenses | | **(11,757)** | (14,696) |
| Administrative expenses | | **(42,540)** | (42,499) |
| **Operating loss** | | **(281)** | (6,802) |
| Finance cost | | **(1,771)** | – |
| Share of results of an associate | | **–** | – |
| **Loss before income tax** | *5* | **(2,052)** | (6,802) |
| Income tax expense | *6* | **(680)** | (625) |
| **Loss for the period** | | **(2,732)** | (7,427) |
| Loss attributable to: | | | |
| – Owners of the Company | | **(1,988)** | (7,645) |
| – Non-controlling interests | | **(744)** | 218 |
| | | **(2,732)** | (7,427) |
| **Loss per share attributable to owners of the Company** | *8* | | |
| Basic loss per share | | **HK(0.17) cent** | HK(0.64) cent |
| Diluted loss per share | | **HK(0.17) cent** | HK(0.64) cent |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019*

| | For the six months ended 30 September | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Loss for the period** | **(2,732)** | (7,427) |
| **Other comprehensive loss** | | |
| Item that may be reclassified subsequently to profit or loss | | |
| Exchange differences on translation of foreign operations | **(2,345)** | (4,794) |
| Item that will not be reclassified to profit or loss | | |
| Gain on revaluation of property | **1,959** | – |
| Item that has been reclassified to profit or loss | | |
| Realisation of accumulated exchange differences upon liquidation of a subsidiary | **92** | – |
| **Total comprehensive loss for the period** | **(3,026)** | (12,221) |
| **Total comprehensive loss attributable to:** | | |
| – Owners of the Company | **(2,282)** | (12,439) |
| – Non-controlling interests | **(744)** | 218 |
| | **(3,026)** | (12,221) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AS AT 30 SEPTEMBER 2019*

| | *Note* | **30 September 2019 (Unaudited)** ***HK$'000*** | 31 March 2019 (Audited) *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **43,201** | 77,192 |
| Investment properties | | **241,007** | 235,580 |
| Right-of-use assets | | **101,753** | – |
| Deposits | | **11,101** | 13,729 |
| Deferred tax assets | | **213** | 86 |
| **Total non-current assets** | | **397,275** | 326,587 |
| **Current assets** | | | |
| Inventories | | **203,391** | 198,549 |
| Contract assets | | **5,667** | 7,485 |
| Trade receivables | *9* | **53,236** | 51,713 |
| Amount due from an associate | *11* | **–** | – |
| Prepayments, deposits and other receivables | | **47,896** | 50,085 |
| Cash and bank balances | | **181,959** | 198,178 |
| **Total current assets** | | **492,149** | 506,010 |
| **Total assets** | | **889,424** | 832,597 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | | **118,532** | 118,532 |
| Reserves | | **514,966** | 521,891 |
| | | **633,498** | 640,423 |
| Non-controlling interests | | **3,340** | 1,735 |
| **Total equity** | | **636,838** | 642,158 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Accrued liabilities | | **5,554** | 5,727 |
| Lease liabilities | | **35,404** | – |
| Deferred tax liabilities | | **29,279** | 29,258 |
| **Total non-current liabilities** | | **70,237** | 34,985 |
| **Current liabilities** | | | |
| Trade and bills payables | *10* | **58,583** | 82,291 |
| Contract liabilities | | **13,093** | 15,174 |
| Accrued liabilities and other payables | | **55,417** | 48,203 |
| Lease liabilities | | **45,028** | – |
| Tax payable | | **10,228** | 9,786 |
| **Total current liabilities** | | **182,349** | 155,454 |
| **Total liabilities** | | **252,586** | 190,439 |
| **Total equity and liabilities** | | **889,424** | 832,597 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting" issued by the Hong Kong Institute Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial information does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual financial statements for the year ended 31 March 2019 and any public announcements made by the Company during the interim reporting period.

### 1.1 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2019 and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

***New and amended standards and interpretations adopted by the Group***

China-Hongkong Photo Products Holdings Limited (the "Company") and its subsidiaries (together, the "Group") have adopted the following new and amended HKASs and Hong Kong Financial Reporting Standards ("HKFRSs") for the first time for the current period's condensed consolidated interim financial information.

| | |
|---|---|
| Annual Improvements Project | Annual Improvements 2015 – 2017 Cycle |
| HKAS 19 (Amendments) | Plan Amendment, Curtailment or Settlement |
| HKAS 28 (Amendments) | Long-term Interests in Associates and Joint Ventures |
| HKFRS 9 (Amendments) | Prepayment Features with Negative Compensation |
| HKFRS 16 | Leases |
| HK (IFRIC 23) – Int 23 | Uncertainty over Income Tax Treatments |

The Group changed its accounting policies for leases with effect from 1 April 2019 following the adoption of HKFRS 16 "Leases" ("HKFRS 16") as disclosed in Note 2 below. All other amendments to standards and interpretation listed above do not have a significant effect on the Group's accounting policies.

## 2 CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 April 2019 in Note 2(b) below.

The Group has adopted HKFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 April 2019.

### (a) Adjustments recognised on the adoption of HKFRS 16

On the adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.0%.

| | 2019<br>*HK$'000* |
|---|---|
| Operating lease commitments disclosed as at 31 March 2019 | 85,446 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 74,880 |
| Add: equipment leases recognised | 17,584 |
| Less: short-term leases recognised on a straight-line basis as expense | (1,394) |
| Lease liabilities recognised as at 1 April 2019 | 91,070 |
| Represented by: | |
| Current lease liabilities | 47,424 |
| Non-current lease liabilities | 43,646 |
| | 91,070 |

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Upon the adoption of HKFRS 16, the Group reclassified the leasehold land under finance lease and prepaid premium for land lease under operating leases in "property, plant and equipment" to "right-of-use assets" for presentation purpose.

The change in accounting policy mainly affected the following items in the consolidated statement of financial position on 1 April 2019. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

| | 31 March 2019 | Reclassification under HKFRS 16 | Recognition of leases HKFRS 16 | 1 April 2019 (Restated) |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Consolidated statement of financial position (extract)** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 77,192 | (29,232) | – | 47,960 |
| Right-of-use assets | – | 29,232 | 88,350 | 117,582 |
| **Current assets** | | | | |
| Prepayments, deposits and other receivables | 50,085 | – | (2,239) | 47,846 |
| **Total assets** | 832,597 | – | 86,111 | 918,708 |
| **Current liabilities** | | | | |
| Accrued liabilities and other payables | 48,203 | – | (300) | 47,903 |
| Lease liabilities | – | – | 47,424 | 47,424 |
| **Non-current liabilities** | | | | |
| Lease liabilities | – | – | 43,646 | 43,646 |
| Deferred tax liabilities | 29,258 | – | 15 | 29,273 |
| **Total liabilities** | 190,439 | – | 90,785 | 281,224 |
| **Net assets** | 642,158 | – | (4,674) | 637,484 |
| Retained earnings/(accumulated losses) | 3,386 | – | (4,643) | (1,257) |
| Non-controlling interests | 1,735 | – | (31) | 1,704 |
| **Total equity** | 642,158 | – | (4,674) | 637,484 |

*Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease".

**(b) The Group's leasing activities and how these are accounted for**

*As a lessee*

The Group leases various properties and equipment. Rental contracts are typically made for fixed periods of 2 to 7 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until 31 March 2019, leases of properties and equipment were classified as operating leases. Payments made under operating leases were charged to consolidated income statement on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments are discounted by using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made on or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in consolidated income statements. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options are included in a number of properties across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, no significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

***As a lessor***

The Group leases out its various offices and car parking spaces under non-cancellable operating lease arrangements. The lease terms are between 1 and 3 years. The Group has classified theses leases as operating leases.

The accounting policies applicable to the Group as a lessor in the comparative period are not different from HKFRS 16. The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of ‘other income’. The Group has accounted for its lease in accordance with HKFRS 16 from the date of initial application.

## 3 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable segments as follows:

(a) the merchandise segment engages in the marketing and distribution of photographic developing, processing and printing products and the sale of photographic merchandises, skincare products, consumer electronic products and household appliances;

(b) the service segment engages in the provision of technical services for photographic developing and processing products, imaging solution, professional audio-visual advisory and custom design and installation services;

(c) the investment segment comprises the Group's business in investment properties and other investment businesses; and

(d) the corporate and others segment comprises the Group's corporate income and expense items.

The chief operating decision-maker of the Group has been identified as the Board of Directors. The Board of Directors monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before income tax. The adjusted profit/(loss) before income tax is measured consistently with the Group's profit/(loss) before income tax except that interest income, interest expense and share of results of an associate are excluded from such measurement.

During the period, the Group performed a review on its businesses and rationalised the classifications of certain administrative expenses allocated to the respective reporting segments. Accordingly, certain comparative amounts have been reclassified to conform to the current period's presentation.

The following table presents revenue and (loss)/profit of the Group's segments for the six months ended 30 September 2019 and 2018.

| | (Unaudited) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Merchandise | | Service | | Investment | | Corporate and other | | Eliminations | | Consolidated | |
| | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* | ***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 | **383,431** | 395,953 | **92,754** | 82,989 | **-** | – | **-** | – | **-** | – | **476,185** | 478,942 |
| Inter-segment sales | **47,187** | 16,115 | **2,022** | 1,558 | **-** | – | **-** | – | **(49,209)** | (17,673) | **-** | – |
| Other income and gains | **4,090** | 4,527 | **1,844** | – | **6,052** | 6,946 | **1,019** | 1,065 | **(5,888)** | (5,145) | **7,117** | 7,393 |
| Total | **434,708** | 416,595 | **96,620** | 84,547 | **6,052** | 6,946 | **1,019** | 1,065 | **(55,097)** | (22,818) | **483,302** | 486,335 |
| **Segment results** | **(438)** | (4,310) | **1,584** | 132 | **1,245** | 2,287 | **(3,608)** | (6,289) | **-** | – | **(1,217)** | (8,180) |
| Interest income | | | | | | | | | | | **936** | 1,378 |
| Interest expense | | | | | | | | | | | **(1,771)** | – |
| Share of results of an associate | | | | | | | | | | | **-** | – |
| **Loss before income tax** | | | | | | | | | | | **(2,052)** | (6,802) |
| Income tax expense | | | | | | | | | | | **(680)** | (625) |
| **Loss for the period** | | | | | | | | | | | **(2,732)** | (7,427) |
| **Timing of revenue recognition** | | | | | | | | | | | | |
| At a point in time | **430,618** | 412,068 | **13,926** | 13,079 | **-** | – | **-** | – | **(47,330)** | (16,180) | **397,214** | 408,967 |
| Overtime | **-** | – | **80,850** | 71,468 | **-** | – | **-** | – | **(1,879)** | (1,493) | **78,971** | 69,975 |
| | **430,618** | 412,068 | **94,776** | 84,547 | **-** | – | **-** | – | **(49,209)** | (17,673) | **476,185** | 478,942 |

## 4 OTHER INCOME AND GAINS

| | For the six months ended 30 September | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Rental income from investment properties | **4,002** | 4,837 |
| Interest income on bank deposits | **936** | 1,378 |
| Marketing subsidy | **975** | – |
| Rental income from equipment | **525** | 332 |
| Interest income from an associate | **–** | 622 |
| Others | **1,615** | 1,602 |
| | **8,053** | 8,771 |

## 5 LOSS BEFORE INCOME TAX

The Group's loss before income tax is arrived at after charging:

| | For the six months ended 30 September | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Loss on disposals of equipment | **220** | 6 |
| Provision for inventories *(Note (a))* | **1,468** | 257 |
| Cost of inventories sold *(Note (a))* | **318,001** | 327,033 |
| Cost of services provided *(Note (a))* | **44,299** | 40,090 |
| Foreign exchange differences, net | **2,129** | 4,575 |
| Professional and legal expenses | **760** | 517 |
| Depreciation of property, plant and equipment | **7,674** | 9,562 |
| Depreciation of right-of-use assets | **28,244** | – |

*Note:*

(a) Included in "Cost of sales" on the face of the condensed consolidated income statement.

## 6 INCOME TAX EXPENSE

| | For the six months ended 30 September | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Current income tax: | | |
| – Hong Kong: | | |
| Charge for the period | **175** | 298 |
| Over-provision in prior years | **(21)** | (168) |
| – People's Republic of China ("PRC"): | | |
| Charge for the period | **461** | 508 |
| | **615** | 638 |
| Deferred tax | **65** | (13) |
| Total tax expense for the period | **680** | 625 |

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2018 (the "Bill") which introduces the two-tiered profits tax regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. For the six months ended 30 September 2019, only one subsidiary of the Group is entitled to this tax benefit (2018: Same). The profits of other Group entities incorporated in Hong Kong not qualifying for the two-tiered profit tax regime are continued to be taxed at the flat rate of 16.5% for the six months ended 30 September 2019 (2018: same).

Taxation on profits assessable for the period in the PRC has been calculated at the rates of tax prevailing in the location in which the Group operates.

## 7 DIVIDEND

The Board of Directors does not recommend the payment of any interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

## 8 LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

### (a) Basic loss per share

The calculations of the basic loss per share for the six months ended 30 September 2019 and 2018 are based on:

| | For the six months ended 30 September | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| **Loss:** | | |
| Loss attributable to owners of the Company, used in the basic loss per share calculation | **(1,988)** | (7,645) |
| **Shares:** | | |
| Weighted average number of ordinary shares in issue during the period, used in the basic loss per share calculation | **1,185,318,349** | 1,185,318,349 |

### (b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 September 2019 and 2018 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2019 and 2018.

## 9 TRADE RECEIVABLES

The Group's trading terms with its customers are either on a cash basis or on credit. For credit sales, the credit period is generally 15 to 30 days, except for certain well-established customers where the terms are extended to 60 days.

An ageing analysis of the Group's trade receivables as at the end of the reporting period, based on the payment due date and net of impairment, is as follows:

| | **30 September 2019** | 31 March 2019 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Current | **25,123** | 31,078 |
| 1 to 3 months | **25,850** | 18,487 |
| Over 3 months | **2,263** | 2,148 |
| | **53,236** | 51,713 |

## 10 TRADE AND BILLS PAYABLES

An ageing analysis of the Group's trade and bills payables as at the end of the reporting period, based on the date of goods purchased and services rendered, is as follows:

| | **30 September 2019 (Unaudited)** ***HK$'000*** | 31 March 2019 (Audited) *HK$'000* |
|---|---|---|
| Within 3 months | **57,227** | 80,151 |
| Over 3 months | **1,356** | 2,140 |
| | **58,583** | 82,291 |

## 11 AMOUNT DUE FROM AN ASSOCIATE

| | **30 September 2019 (Unaudited)** ***HK$'000*** | 31 March 2019 (Audited) *HK$'000* |
|---|---|---|
| Unlisted shares, at cost | **–** | – |
| Amount due from an associate | **32,720** | 32,720 |
| Less: Provision for impairment *(Note (a))* | **(32,720)** | (32,720) |
| | **–** | – |

*Note:*

(a) The Board of Directors are of the opinion that the credit risk of the amount due from an associate is considered to be high because the associate has been incurring losses and has net deficit as at 30 September 2019 (31 March 2019: Same), which, it has become uncertain that continuing financial support can be provided by the associate's holding company to enable the associate to settle this balance. Provision for impairment of HK$32,720,000 was recognised during the year ended 31 March 2019. The provision balance remained the same as at 30 September 2019.

The amount due from an associate was unsecured, interest bearing at 2% to 5% per annum on balances as at each month-end for the six months ended 30 September 2018. No interest income is recognised for the six months ended 30 September 2019 as the amount due from an associate is fully impaired. These transactions were carried out at a rate mutually-agreed between the parties involved in the transactions. A summary of transactions with an associate is as follows:

| | **For the six months ended 30 September** | |
|---|---|---|
| | **2019 (Unaudited)** ***HK$'000*** | 2018 (Unaudited) *HK$'000* |
| Interest income from an associate | **–** | 622 |

The carrying amount of the amount due from an associate approximates its fair value.

There are no contingent liabilities relating to the Group's interest in an associate.

## 12 RELATED PARTY TRANSACTIONS

Other than those disclosed elsewhere in the condensed consolidated interim financial information, the Group has the following significant related party transactions carried out in the normal course of the Group's business during the period.

The Group's compensation of key management personnel are as follows:

| | **For the six months ended 30 September** | |
|---|---|---|
| | **2019** | 2018 |
| | **(Unaudited)** | (Unaudited) |
| | ***HK$'000*** | *HK$'000* |
| Short term employee benefits | **3,768** | 3,771 |
| Post-employment benefits | **36** | 36 |
| Total compensation paid to key management personnel | **3,804** | 3,807 |

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVENUE AND RESULTS

The Group's consolidated turnover for the six months ended 30 September 2019 was HK$476 million, a slight decrease of 0.6% compared to HK$479 million recorded in the same period last year. The Group's net loss attributable to shareholders during this period was HK$2.0 million.

The on-going Sino-US trade dispute, equity market turbulence and renminbi volatility continued to cast a long shadow over consumer sentiment and actual spending during the period under review. The Group's photographic products segment felt this impact in particular since non-essential and luxury items are amongst the first to be hit in a weakening economy as customers spend more cautiously.

Since July, social tensions in Hong Kong have presented another challenge for retail operations across the city, dampening sales of the Group's photographic products as well as consumer electronic products and household appliances. Despite this, the Group's efforts in recent years to develop its wholesale businesses and online retail platforms delivered noticeable results this reporting period and compensated significantly for the loss of retail store sales. The Group's new imaging operation services at Hong Kong Disneyland Resort also generated additional revenue, helping consolidated revenue hold steady.

Elsewhere, the Group continued to maximise its returns by constantly analysing the sales performances of its retail stores as well as its wholesale and online platforms, closing underperforming stores upon lease expiry and allocating more resources to the development of higher-margin areas. The Group was also careful about spending on controllable costs like advertising and marketing and it took measures to reduce its renminbi deposit holdings and reduce exchange loss, all of which helped improve the Group's bottom line.

## MERCHANDISING

### Photographic Products

Overall, digital camera and lens sales fell 16.5% compared to the same six-month period last year. The social unrest in Hong Kong had an unmistakable effect; whilst overall sales fell by just 5.9% year on year between April and June 2019, the subsequent three months saw a total comparative decline of 32.6% as retail challenges in the city escalated.

Sales of instant cameras and film decreased 16.2% year on year, although this was milder than the drop reported for the same period in 2018. Parallel-imported products have remained a drag on the market. The Group also offered fewer exclusively licensed instant film products than it did from April through September 2018; in response, it adjusted the pricing of its instant film, a move that helped moderate the year-on-year decline in sales.

### Consumer Electronic Products and Household Appliances

During the period under review, the Group closed one underperforming store, further reducing its total number of stores to 13 as at 30 September 2019 (compared to 14 as at 30 September 2018 and 16 as at 31 March 2018). Overall sales dropped by 9.2% compared with the same period last year, while like-for-like store sales increased 1.5%.

The Group's wholesale business arms for consumer electronic products and household appliances enjoyed a successful half-year with revenue soaring 47.8% over the same period last year. Since July 2019, the Group has collaborated with online retail platform Price.com to market several of its products. In the same month, the Group launched an e-commerce platform designed to leverage new shopping trends and establish a stronger connection between the Group's online and offline platforms.

### B-to-B Commercial and Professional Audio and Visual ("AV") Products

During the reporting period, this segment of the Group's business continued to build a reputation in Hong Kong as a first-rate provider of high-quality AV professional products and services while also achieving sales growth of 5.4%. Key sales items remained projectors, monitors and professional TVs. Changes in trends and technologies saw projector sales dipped by 1.1% year on year as many functions are increasingly being replaced by other advanced LED display technologies. However, the Group continued to grow sales of other products such as hospitality TVs, which saw an impressive 95.3% sales increase compared to the same period last year as the hotel sector rushes to embrace this innovation.

### Skincare Products

The general downturn in consumer sentiment affected performance in this highly competitive sector, with sales dropping 8.2% year on year. Between April and September 2019, the Group introduced upgraded versions of D-UV Clear White Solution SPF50+ PA++++ sunblock and White Essence Infilt, both of which were named the "No. 1 2019 Grand Prix Whitening Technology" by MAQUIA, a famous Japanese beauty and fashion magazine.

## SERVICING

### Photofinishing and Imaging Services

Fotomax's performance for the reporting period was satisfactory, particularly given how the social disruptions of July onwards impacted shopping patterns in Hong Kong and occasionally forced some stores to close early. The Group recorded sales growth of 3.4% for this segment compared with the same period last year, whilst same-store sales increased 7.5%. Demand for the Group's ID photo service and its one-stop document solution, DocuXpress, continued to grow, pushing up sales by 15.7% and 17.1%, respectively, against April-September 2018. The Group gradually continued to streamline its store network by closing underperforming locations, going from 66 Fotomax stores as at 30 September 2018 to 58 as at 30 September 2019.

On 1 July 2019, the Group took on a new role providing imaging operation services at Hong Kong Disneyland Resort, a business that has generated encouraging turnover since its launch. The Group anticipates higher return from this new investment once conditions stabilise in Hong Kong and tourists begin returning to the city in numbers.

### Professional AV Advisory and Custom Design and Installation Services

Although the performance of this segment slowed compared to the rapid growth of previous years, the Group's Professional AV Advisory and Custom Design and Installation Services still achieved solid 8.5% year-on-year growth in sales. The economic downturn that began in July did not affect this segment as most of its turnover came from projects booked during the previous year.

## OUTLOOK

As of yet, there is no clear resolution on the horizon for the unrest that has beset Hong Kong over the past few months. The Group anticipates that the consumer market will continue to slow as long as the current political and social environments persist.

Therefore, it is vital that the Group demonstrates its ability to adapt to changing consumer trends and spending patterns so that the Group can maintain its competitiveness in these difficult times.

The Group expects to see further downturns in sales of luxury cameras and high-end electrical appliances before the situation stabilises. On the other hand, the Group anticipates that sales of consumer goods, like skincare products and essential home appliances, and services, such as ID photofinishing and document solution, will hold up well and remain stable even in turbulent economic conditions.

Within the high-end photographic segment, the Group believes that the latest FUJIFILM large-format sensor cameras have arrived at a good time to stimulate sales, as demand from professional photographers for this type of camera is increasing. In line with its emphasis on customer-centricity and service excellence, the Group intends to focus on improving maintenance and after-sales service for FUJIFILM customers. The Group has already enhanced its service offerings by introducing a WhatsApp service for customers enquiring about maintenance support.

The economic downturn in Hong Kong is expected to result in many companies reducing capital expenditure investments and tightening budgets across the board. The flip side of lower capital expenditures is that more companies will want to maintain their existing equipment over a longer period. Therefore, the Group plans to focus on providing its staff in the commercial and professional AV products segment as well as its professional AV advisory and custom design and installation services segment with more professional training, whilst at the same time further enhancing its after-sales service competency as a way of increasing the volume of the maintenance service contracts it undertakes.

New AV technology yields high profit margins and is typically in demand amongst consumers. As such, it will always be an important part of the Group's growth plans. Looking ahead, the Group will continue to update the AV technology offered in its stores and roll out new products as soon as they become available in order to capture the first market wave.

Across all its retail business segments, the Group will negotiate hard with landlords to gain appropriate concessions that reflect the reality of the current retail environment in Hong Kong. This will involve seeking rental concessions and subsidies as a way of managing business in a difficult time. The Group expects to weather the current storm and benefit from its many complementary business interests once the Hong Kong retail environment stabilises.

## LIQUIDITY, FINANCIAL RESOURCES AND OTHER WORKING CAPITAL

The Group's financial resources remain strong. As at 30 September 2019, the Group had cash and bank balances of HK$182 million and was debt-free. The Group has adequate liquidity to meet its current and future working capital requirements. As at 30 September 2019, the Group's trade receivables stood at HK$53 million while its inventories were worth HK$203 million.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

## AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The Company has an audit committee (the "Committee") which was established in accordance with the Rules 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), for the purpose of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The Committee comprises a total of three Independent Non-executive Directors and one Non-executive Director of the Company. The Group's financial statements for the six months ended 30 September 2019, approved by the Board of Directors on 22 November 2019, have been reviewed by the Committee, which is of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made. In addition, the Company's auditors PricewaterhouseCoopers, have also reviewed the aforesaid unaudited interim financial information in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board of Directors, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules throughout the six months ended 30 September 2019.

Full details on the subject of corporate governance are set out in the Company's 2018/2019 Annual Report.

## INTERIM DIVIDEND

The Board of Directors does not recommend any interim dividend for the six months ended 30 September 2019.

## SUBSEQUENT EVENTS

Subsequent to 30 September 2019 and up to the date of this announcement, no material events have occurred.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.chinahkphoto.com.hk) and the 2019/20 Interim Report will be dispatched to the shareholders and published on the above-mentioned websites in due course.

## MEMBERS OF THE BOARD

As at the date of this announcement, the Directors of the Company are:

*Executive Directors:*
Dr. SUN Tai Lun, Dennis *(Chairman)*
Mr. SUN Tao Hung, Stanley *(Deputy Chairman and Chief Executive Officer)*
Mr. SUN Tao Hsi, Ryan
Ms. CHAN Wai Kwan, Rita

*Non-executive Director:*
Mr. FUNG Yue Chun, Stephen

*Independent Non-executive Directors:*
Mr. LI Ka Fai, David
Mr. LIU Hui, Allan
Dr. WONG Chi Yun, Allan

By Order of the Board
**China-Hongkong Photo Products Holdings Limited**
**SUN Tai Lun, Dennis**
*Chairman*

Hong Kong, 22 November 2019