

TeleEye

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TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



**Third Quarterly Report
For the nine months ended 31 March 2001**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities trade on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of TELEEEYE HOLDINGS LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to TELEEEYE HOLDINGS LIMITED. The directors of TELEEEYE HOLDINGS LIMITED, having made all

reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- **Turnover for the nine months ended 31 March 2001 increased by 14.0% from that for the corresponding period ended 2000 of approximately HK\$12.6 million to approximately HK\$14.3 million.**
- **Profit after taxation decreased by approximately 46.8% to approximately HK\$1.9 million for the nine months ended 31 March 2001 compared with the corresponding period ended 2000.**
- **Basic earnings per share amounted to 1.47 cents for the nine months ended 31 March 2001.**

RESULTS

The board of directors (the “Board”) of TeleEye Holdings Limited (the “Company”) is pleased to announce that the unaudited combined results of the Company and its subsidiaries and associated company (the “Group”) for the nine months and three months ended 31 March 2001 together with comparative unaudited figures for the corresponding periods in 2000 are as follows:

	Notes	Nine months ended 31 March		Three months ended 31 March	
		2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Turnover	2	14,340	12,575	3,426	3,857
Profit (loss) before taxation		2,654	4,350	(500)	854
Finance cost		–	(54)	–	(29)
Share of (loss) of an associated company		(325)	–	(325)	–
Taxation	3	(415)	(696)	83	(134)
Profit (loss) after taxation		1,914	3,600	(742)	691
Dividends	4	1,200	1,600	–	–
Basic earnings (loss) per share (cents)	5	1.47	2.77	(0.57)	0.53

Notes:

1. Basis of preparation

The Company was incorporated in the Cayman Islands on 24 August 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company's shares have been listed on GEM operated by the Stock Exchange since 8 May 2001.

Pursuant to a Group reorganisation (the “Reorganisation”) in preparation for the listing of the Company's shares on GEM, the Company became the ultimate holding company of the Group on 11 April 2001. Details of the Reorganisation are set out in the prospectus of the Company dated 24 April 2001. The results of the Group include results of all companies now comprising the Group for the period from 1 July 1999 to 31 March 2001 as if the current structure of the Group had been in existence and remained unchanged throughout the period.

The principal accounting policies adopted in preparing the unaudited combined results conform with Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants.

2. Turnover

The principal activities of the Group are to develop technology and sell products of original design in signal processing technology for commercial application.

Turnover represents the invoiced value of goods sold less discounts and sales returns.

3. Taxation

The taxation charge (credit) comprises:

	Nine months ended 31 March		Three months ended 31 March	
	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Provision for Hong Kong profits tax at 16% of the estimated assessable profits for the period	415	696	-	134
Over-provision in respect of prior period	-	-	(83)	-
	<u>415</u>	<u>696</u>	<u>(83)</u>	<u>134</u>

4. Dividends

	Nine months ended 31 March		Three months ended 31 March	
	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2000 HK\$'000 (unaudited)
Dividends declared by a subsidiary of the Company to their former shareholders prior to the Reorganisation as set out in the prospectus of the Company dated 24 April 2001	<u>1,200</u>	<u>1,600</u>	<u>-</u>	<u>-</u>

On 10 April 2001 and 13 January 2000, a subsidiary of the Group, namely Signal Communications Limited ("SiCOM"), declared an interim dividend of HK\$1.2 million and HK\$1.6 million for the six months ended 31 December 2000 and 31 December 1999 respectively to its then shareholders.

The Board does not recommend the payment of an interim dividend for the quarter ended 31 March 2001.

5. Basic earnings (loss) per share

The calculations of basic earnings (loss) per share for the three months and nine months ended 31 March 2001 and 31 March 2000 were based on the unaudited combined profit (loss) attributable to shareholders during the periods and assuming 130,000,000 shares outstanding after the Group's Reorganisation as if those shares had been in issue throughout each period presented. Refer to the Company's prospectus dated 24 April 2001 for details.

Diluted earnings per share is not presented because there were no dilutive potential ordinary shares in issue during the periods.

6. Reserves

There was no movement to or from reserves during the nine months ended 31 March 2001 and 31 March 2000.

BUSINESS REVIEW & PROSPECTS

The Board is pleased to announce the Group's first quarterly results since its listing on GEM. For the nine months ended 31 March 2001, the Group recorded a turnover of approximately HK\$14.3 million representing a 14.0% increase as compared to the same period in the previous financial year. The Group recorded a profit attributable to shareholders of HK\$1.9 million for the nine months ended 31 March 2001, a 46.8% drop as compared with that for the same period of the previous year.

For the quarter ended 31 March 2001, the Group incurred a loss before taxation of approximately HK\$500,000 which was attributable to the increase in both salary expenses for manpower expansion and marketing expenses for further enhancement of the public awareness of the brand name of *TeleEye*. The objective for such business strategy was mainly for the preparation of developing overseas markets and setting up overseas offices in near future.

In October 2000, the Company invested in Japan by setting up an associated company, namely CAMERIO Japan, Inc. ("CAMERIO") to introduce and market the Group's products in the Japan market. Being an infant company, CAMERIO has focused on product customization and market preparation in order to set a solid foundation for future expansion into the Japan market. This resulted in the Group's share of net loss of approximately HK\$325,000 for the quarter ended 31 March 2001.

Business Development

CAMERIO has successfully built up its marketing and technical team. It has customized the Group's products to suit the Japanese computing environment and telecommunication infrastructure. In particular, the Group's products can achieve high-speed video transmission through Japan's PHS mobile network. The customization work has put the operation in a good position to penetrate into the Japan market. Initial marketing work has commenced.

The Group has started evaluating different options for its future business models in the United Kingdom and Singapore. In addition the Group has been holding negotiations with its Singapore authorized distributor for forming a joint venture there.

Product Launch

In January 2001, the Group started production and shipment of its third generation products - *TeleEye III*. Models of 4-camera *TeleEye III* video transmission units with optional alarm inputs are available. *TeleEye III* series feature Internet/Ethernet connectivity, real time video transmission and remote alarm and control functions. The Group has also adopted *TeleEAR* audio data transmission unit and other accessories for *TeleEye III*.

The Group has added to its software products with two new camera control drivers, which are capable of controlling Panasonic and Kampro speed dome cameras. The Group has also launched the Japanese version of video reception software for the Japan market.

Product Research and Development

To extend the product range of *TeleEye III*, the Group has started the design of 8-camera and 16-camera *TeleEye III* models. In order to further enhance Internet capabilities, development of an internal web server for *TeleEye III* transmitters has commenced.

The Group has started the design of a reliable, remotely-accessible and large scale network video recording system.

For its latest software products, cover other languages, the Group has begun translating them to cover all nine languages supported the Group.

The Group collected information concerning future implementation of its image compression technology to mobile Personal Data Assistant devices.

Sales and Marketing

The Group continues to expand the size of the market for its products in different markets by intensive marketing and advertising campaigns. In February and March 2001, the Group's marketing team visited and conducted business reviews with distributors in the Southeast Asia so as to strengthen its channel management. In March 2001, it published and distributed a newsletter to more than ten thousand potential customers, dealers and distributors worldwide. At the same time, the Group launched its Chinese web site and live demonstration for its *Cyber TeleEye* product. In addition, the Group invited coverage on product and company profile by mass media. The Group had started preparation for major exhibitions in the second quarter of 2001 to be held in the United Kingdom and Hong Kong.

COMPETING INTEREST

None of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN SHARES

As at 8 May 2001 (the date on which dealings in the shares of the Company first commenced on GEM) according to the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) or as otherwise notified to the Company pursuant to the minimum standards of dealings by the directors as referred to Rule 5.4 of the GEM Listing Rules, the interests of directors in the securities of the Company, its subsidiaries and associated company were as follows:

Name of Director	Number of Shares In the Company	Nature of Interest
Dr Chan Chok Ki <i>(Note)</i>	104,000,000	Corporate interest
Dr Chan Cheung Fat <i>(Note)</i>	104,000,000	Corporate interest

Note: These shares are held by Etin City Limited, which is owned by Etin Tech Limited and CityU Enterprises Limited in the proportion of 70% and 30% respectively. Etin Tech Limited is owned by Dr Chan Chok Ki, Dr Chan Cheung Fat, Dr Ma Chi Kit and Mr Ho Ka Ho in the proportion of 44.3%, 34.3%, 14.3% and 7.1%.

Pursuant to the Company’s Pre-IPO Share Option Scheme adopted by the Company on 12 April 2001, the following executive directors of the Company have personal interests in options to subscribe for shares of the Company which have been granted to them as follows:

Name of director	Date of Grant	Exercise price per share	Number of shares under option
Dr Chan Chok Ki	12 April 2001	HK\$0.6	1,800,000
Dr Ma Chi Kit	12 April 2001	HK\$0.6	1,440,000
Mr Ho Ka Ho	12 April 2001	HK\$0.6	1,364,000

The exercise period of the Pre-IPO Share Option Scheme is set out under the paragraph headed "Share Option Schemes" below. Other principal terms of the Pre-IPO Share Option Scheme are set out in the Company's prospectus dated 24 April 2001.

Dr Chan Chok Ki held one share of HK\$1 of SiCOM as nominee of and in trust for Signal Communications Holdings Limited, a wholly owned subsidiary of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SECURITIES

Save as mentioned under the paragraph headed "Share Option Schemes" below, as at 8 May 2001, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and none of the directors of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercise any such right.

SHARE OPTION SCHEMES

On 12 April 2001, the Company conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme, the principal terms of which are set out in the Company's prospectus dated 24 April 2001.

Pursuant to the Pre-IPO Share Option Scheme, 26 employees of the Group (including 3 executive directors) were conditionally granted options on 12 April 2001 to subscribe for an aggregate of 14,400,000 shares, which upon exercise in full will represent 8% of the outstanding issued share capital of the Company as at 8 May 2001, at an exercise price of HK\$0.6 per share. The rights of the grantees to exercise the options granted under the Pre-IPO Share Option Scheme shall vest in four stages, such that the grantees shall have the right to exercise the options in respect of (i) the first 25% of the options agreed to be granted anytime after six months from the date on which the dealings in the shares on GEM commence (the "Listing Date"); (ii) the next 25% of the options anytime after 18 months from the Listing Date; (iii) the next 25% of the options anytime after 30 months from the Listing Date; and (iv) the remaining 25% of the options anytime after 42 months from the Listing Date provided that the right to exercise such percentage of the options so vested to the relevant grantee shall lapse after ten years from their respective vesting dates.

As at the date of this report, no option was granted by the Company under the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 8 May 2001, save for interests of directors disclosed above, the register of substantial shareholders maintained by the Company under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the Company's issued share capital:

Name of Shareholder	Number of Shares Held	% of holding
Etin City Limited <i>(Note 1)</i>	104 million	57.8
Secure Technology Limited <i>(Note 2)</i>	26 million	14.4

Notes:

1. *Etin City Limited is owned by Etin Tech Limited and CityU Enterprises Limited in the proportion of 70% and 30% respectively. Etin Tech Limited is owned by Dr Chan Chok Ki, Dr Chan Cheung Fat, Dr Ma Chi Kit and Mr Ho Ka Ho in the proportion of approximately 44.3%, 34.3%, 14.3% and 7.1% respectively.*
2. *Secure Technology Limited is wholly-owned by Mr. Tetsuo Tsumura who is a passive investor and is independent of and not connected with any directors or management shareholders (as defined in the GEM Listing Rules) or any of their respective associates and has no management role in the Group.*

SPONSORS' INTEREST

None of the Company's joint sponsors to its listing application, AMS Corporate Finance Limited ("AMS") and CEF Capital Limited, their directors, employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options of rights to subscribe for such securities) as at 8 May 2001.

AMS has entered into a sponsorship agreement with the Company whereby, for a fee, AMS has agreed to act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 8 May 2001 to 30 June 2003.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Since dealings in the shares of the Company only commenced on GEM on 8 May 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period under review.

AUDIT COMMITTEE

An Audit Committee was established with written terms of reference in compliance with the requirements as set out in Rule 5.23 and Rule 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors, Professor Siu Wan Chi (who is acting as the chairman of the audit committee) and Dr Liao York. The Group's unaudited results for the nine months ended 31 March 2001 have been reviewed by the audit committee, who were of the opinion that the preparation of such results complied with applicable accounting standards, the Exchange and legal requirements and that adequate disclosures had been made.

By order of the Board
DR CHAN CHOK KI
Chairman and Chief Executive Officer

Hong Kong, 14 May 2001