

TeleEye

www.TeleEye.com

TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Vision Beyond boundaries

Annual Report 2001



V i s i o n b e y o n d b o u n d a r i e s



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.

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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 (the “Directors”) of TeleEye Holdings Limited (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.



Dr. Chan Chok Ki
Chairman and Chief Executive Officer

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of TeleEye Holdings Limited (the "Company") and together with its subsidiaries and associated company (the "Group"), I hereby announce the audited results of the Company for the year ended 30 June 2001 (the "Year").

The Year marked a significant year for the Group. During the year, the Group set up its first overseas office through an associated company in Japan, launched the Third Generation **TeleEye** video products and became a publicly listed company on 8 May 2001 on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited. The listing attracted extensive public attention and our public offer shares were oversubscribed 109 times. The successful listing exercise enhanced the brand awareness of **TeleEye** and marked a historical event as the first listed high tech company nurtured by a local university.

The Year also brought new challenges to the Group. The strong US dollar increased significantly our cost when translated to the currencies of other major countries except the United States of America ("US"), China and Hong Kong SAR. The rapid development in telecommunications technologies such as broadband Internet, the 2.5G and 3G wireless mobile communications brought challenges as well as opportunities. Our strong research and development capability has positioned us well to take on the new wave of technological challenges. However, the severe shortage of engineers and IT staff in Hong Kong also drove our research and development cost high.

Our focus on the "Remote Management" application has distinguished us in the newly developed market. Our products have found applications in an extremely wide range of markets such as retail industry, manufacturing, building and construction, public utilities, banks, transportation, logistics, education, government and military. The low penetrated but immense market worldwide offers a big opportunity for the Group. We capitalized upon the listing to further grow our sales network overseas and expand our research and development team in order to prepare for the long-term growth of the Group.

REVIEW

For the year ended 30 June 2001, the Group's turnover was HK\$18.5 million, representing a growth of 12%. Net profit attributable to shareholders amounted to HK\$1.6 million. Basic earnings per share was HK1.15 cents. The gross profit margin remained high indicating the high value-added characteristics of the Group's high-tech products. Aiming to penetrate into the global remote management market, the Group has invested in the expansion of distribution channels, the marketing & sales team and the research & development team, driving up the overhead cost which led to the lowering of net profit. We believe the prudent long-term investments will put us in a strategic market position and contribute to the future growth and profitability of the Group.

BUSINESS DEVELOPMENT

Remote management application using remote video monitoring system is a fairly new concept in the global market. The potential market is large and relatively untapped. With a strong foundation in Hong Kong, the Group's strategy is to expand and strengthen its marketing and distribution capabilities in overseas markets. In order to finance its business plan, the Group has successfully raised funds through private investment and initial public offers in GEM.

In October 2000, the Group has set up an associated company, CAMERIO Japan, Inc. ("CAMERIO"), to develop, market and distribute its products in Japan. As the culture and telecommunications infrastructures in Japan are unique, CAMERIO focuses on product customization,

product promotion and publicity, training and reseller recruitment activities. CAMERIO aims to recruit sufficient number of resellers to cover the whole country. As Japan's economy has been worsening, the Group expects a longer breakeven time for the operation there.

The Group has reached the final stage of negotiation with its Singapore distributor to form a subsidiary in Singapore. It is expected that the new company will start operation in the first-half of our coming financial year.



TeleEye Holdings Limited listed on the GEM of The Stock Exchange on 8 May 2001.

Left: Dr. Chan Chok Ki, Chief Executive Officer of TeleEye Holdings Limited

Middle: Mr. Frederick Ma, Member of the GEM Listing Committee

Right: Professor H. K. Chang, President of the City University of Hong Kong

PRODUCT LAUNCH

Beginning 2001, the Group started production and shipment of its third generation products, **TeleEye III**, which features Internet/LAN connectivity, real time video transmission and remote alarm and control functions. Totally 8 models of **TeleEye III** video transmission units with 4, 8, 16 camera and alarm inputs are available. New versions of **TeleEAR** audio transmission unit and other accessories for **TeleEye III** were also launched.



TeleEye's product series

The Group has launched a Japanese version of our software products in Japan, making available a total of 9 language versions. The Group has also added to its products with 5 more new camera control drivers, which are capable of controlling Panasonic, Pelco, Vicon, Kalatel and Kampro speed dome cameras. To further enhance **TeleEye III's** functions, a network digital video recording software was also launched.

RESEARCH & DEVELOPMENT

The rapid development in telecommunications and computer technologies offers both opportunities as well as challenges. Over the years, the Group has built up an experienced research and development team with a proven record of developing innovative products that satisfy customer demands.

Live Video on Internet

The research and development team continues to focus on developing new products using the Internet, wireless LAN and mobile channels as communication media. In particular, following the success of **TeleEye III**, the Group is currently developing **TeleEye III+** which uses our proprietary "**sureLINK**" technology to enable remote video monitoring through low cost broadband Internet services that only provide dynamic IP address. Dynamic IP broadband services, several times cheaper than static IP broadband services, usually allow 24-hour unlimited access. In countries where phone services have time charges, using dynamic IP broadband services for video monitoring offers real time video performance and fast connection at low cost. The "**sureLINK**" and **TeleEye III+** technologies to be launched in September 2001 will again put us ahead of competition.

Live Video on Mobile

The hectic development of mobile communication during the year saw the introduction of GPRS, HSCSD, CDMA and wireless LAN (IEEE802.11b) services by major service provider worldwide. While our products have gone mobile using notebook computer since 1999, the research and development team has successfully developed video software for PDAs that run on Windows CE platform and is testing it on all mobile services

including the PHS service in Japan. The mobile **TeleEye** product is scheduled for launching in October 2001. The mobile live video monitoring solution will open frontier markets in the mobile era.

Digital Video Recorder

High-performance digital video recorders will soon replace analog video tape recorders. The Group is developing a reliable digital video recorder that features multiple video and alarm inputs, long recording time and remote video playback. It will support triplex operations allowing live video monitoring, recording and playback at the same time.

SALES AND MARKETING

The Group continues to focus its effort on brand building, channel management, product promotion and market development. To raise brand awareness and promote our products, we participated in leading exhibitions worldwide, advertised in major trade magazines and media, conducted seminars for resellers and organized media events. To highlight application examples and new product features, we also circulated newsletters and leaflets to potential customers in various market segments. The Group's website and its on-site product demo continued to attract numerous enquiries from all over the world and served as an effective marketing tool for sales development.

In order to strengthen the sales activities in overseas markets, we adapted an active channel management policy. Pricing strategies and incentive

schemes were constantly reviewed with the objective of promoting sales in each country. Distributor business review meetings and technical training were periodically carried out.

PROSPECTS

The Group continues to focus on developing the market of Remote Visual Management application. The high value market has great growth potential and few competitors. More and more companies begin to realize the importance of applying remote visual management to improve their efficiency and



Latest **TeleEye III** Network CCTV.

productivity. We expect demand for **TeleEye** products will surge when the companies try to improve management effectiveness and lower their operation costs.

In the coming year, the Group will launch products addressing the growing demands on broadband Internet, wireless PDA and digital video

recording areas. Together with the existing product lines, the Group will be able to offer solutions to our customers covering all the fast growing areas.

The Group will set up new offices in Singapore, the United Kingdom ("UK"), China and the US in the coming year. The offices will support marketing and sales activities in the three time zones. Our business operations in these high growth regions will form a strong foundation for our future business growth.

We will recruit more distributors and resellers in the computer



Live video on PDA.

and CISCO, to provide package solution to customers.

and system integration business. We will organize joint promotion events with leading telecommunication operators and equipment manufacturers, such as PCCW

Our ability to develop innovative products that satisfy customers' needs, to establish customer oriented market channels, and our commitment to quality products and services will put us ahead in developing this high-valued high potential Remote Visual Management market.

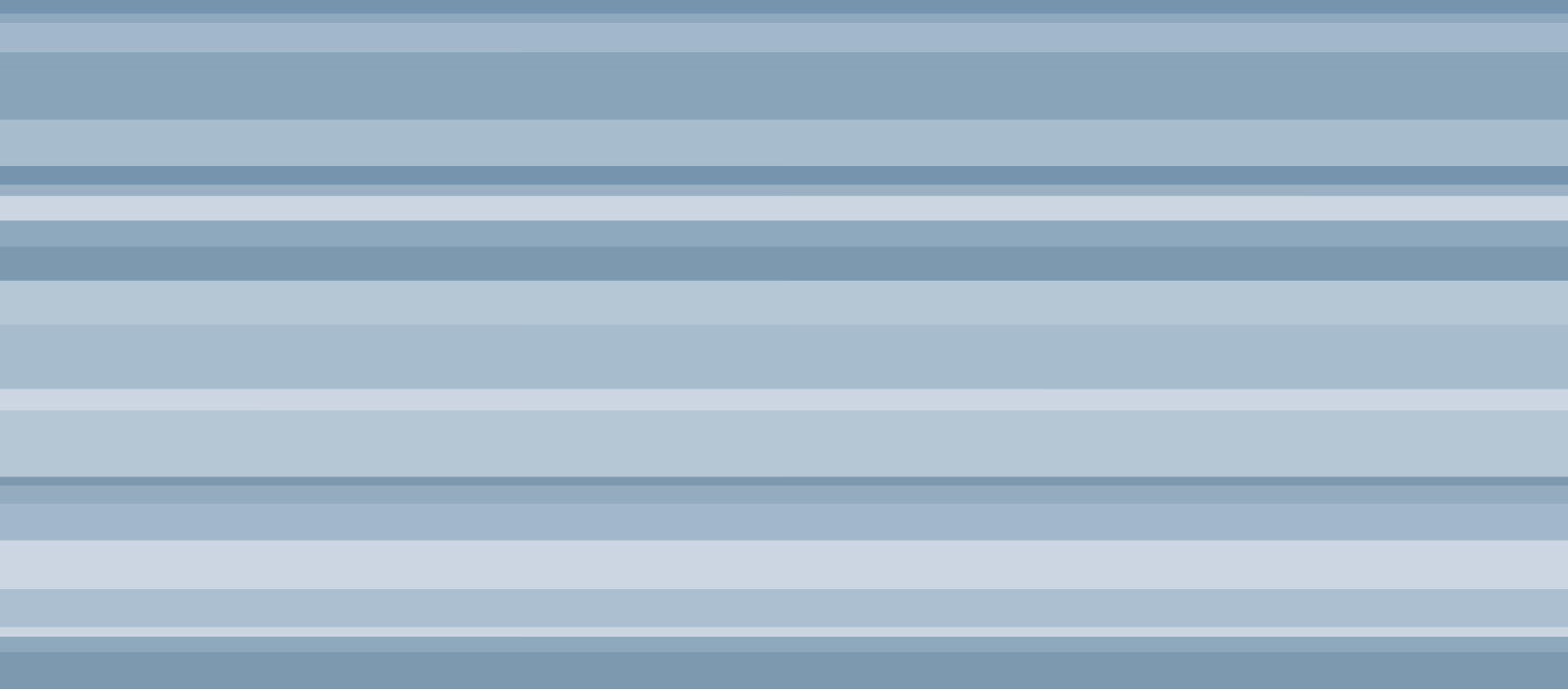
APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to the management and staff of the Group who made the Year a successful one and to our shareholders, business associates, the City University of Hong Kong, customers and suppliers for their continuous support throughout the year.

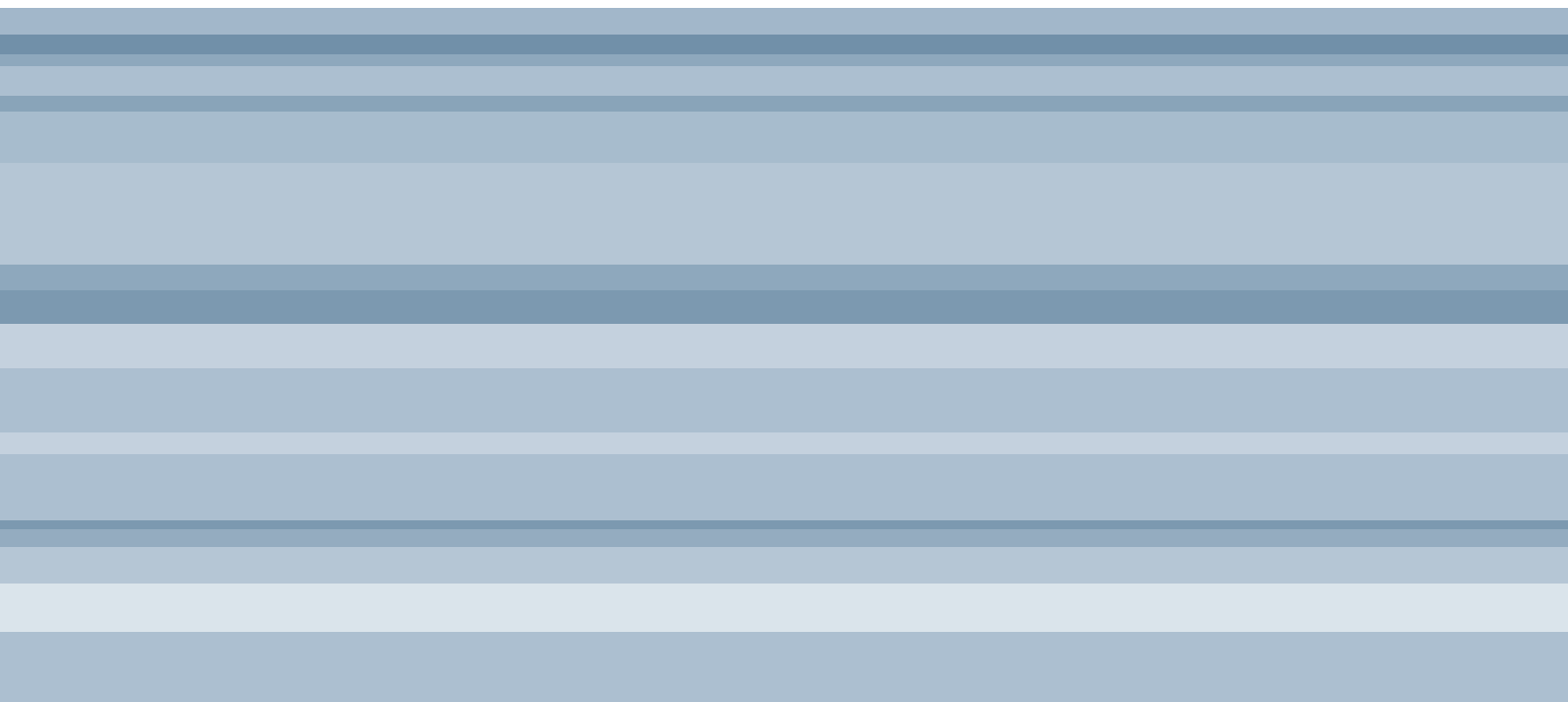
Dr. Chan Chok Ki

Chairman and Chief Executive Officer

Hong Kong, 17 September 2001



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NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of TeleEye Holdings Limited (the "Company") will be held at Fung Shui Room, 6th Floor, The Marco Polo Hong Kong Hotel, Harbour City, Kowloon, Hong Kong on 22 October 2001 at 11:00 a.m. for the following purposes:

1. To receive and consider the Audited Financial Statements of the Company and the Reports of the Directors and Auditors for the year ended 30 June 2001.
2. To elect Directors.
3. To fix Directors' remuneration.
4. To reappoint Auditors and authorise the Board of Directors to fix their remuneration.
5. By way of special business, to consider and if thought fit, pass with or without modifications, the following resolutions as Ordinary Resolutions:

A. **"THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue or deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and

options which would or might require the exercise of such powers after the end of the Relevant Period;

- (c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any share option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and / or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the bye-laws of the Company in force from time to time; or (iv) the exercise of rights of subscription or conversion under the terms of any warrants or convertible bonds issued by the Company or any securities which are convertible into shares of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of passing this Resolution and the said approval shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the date of passing this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Law (Revised) of the Cayman Islands or any other applicable laws to be held; or
- (iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Directors of the Company under this Resolution;

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of shares as at that date (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional

entitlements or having regard to any restrictions or obligations under the laws or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong).”

B. **“THAT:**

- (a) the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” shall have the same meaning as assigned to it under Ordinary Resolution 5.A of this notice.”

NOTICE OF ANNUAL GENERAL MEETING

C. **"THAT:**

Conditional upon Resolutions 5.A and 5.B above being passed, the aggregate nominal amount of shares in the capital of the Company which are repurchased by the Company under the authority granted to the directors as mentioned in Resolution 5.B above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to Resolution 5.A, provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of this Resolution."

By order of the Board

Dr. Chan Chok Ki

Chairman

Hong Kong, 28 September 2001

Registered Office:

P.O. Box 2681 GT
Zephyr House
George Town
Grand Cayman
British West Indies

Head Office and Principal Place of Business:

Units 216-217, 2nd Floor
Tech Centre
72 Tat Chee Avenue
Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.
3. A form of proxy for the meeting will be enclosed with the annual report.
4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.
5. In relation to proposed Resolution 5 above, approval is being sought from the members for the grant to the Directors of a general mandate to authorise the issue and repurchase of shares pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The explanatory statement required by the Listing Rules of the Stock Exchange in connection with the repurchase mandate will be despatched to members together with the annual report.

Founded in 1994 by the City University of Hong Kong and a group of research veterans, TeleEye Group is engaged in the development, sales and marketing of innovative products that make use of advanced signal processing technologies. The Group has rapidly grown to become a dynamic and leading world-class supplier of remote visual management systems with extensive application in various industries under the well-established "**TeleEye**", "千里眼" and "**CAMERIO**" brand names.

The Group's products allow people to visually monitor remote locations anywhere, anytime through phone lines, the Internet or wireless network. They extend people's vision beyond territorial boundaries and open up innovative applications especially in the Internet and Mobile world.

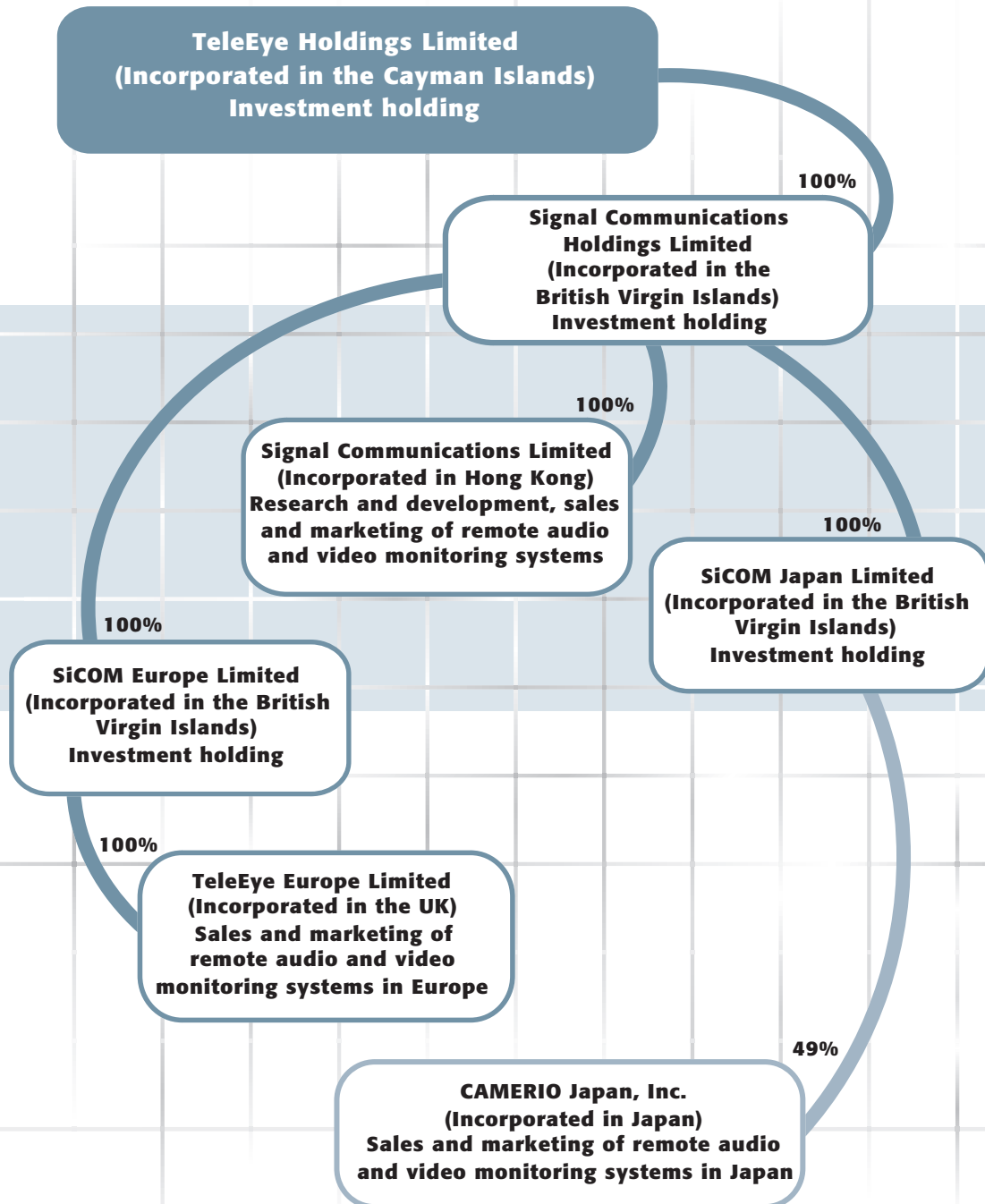
The Group's vision is to become a pioneer and the most technologically advanced supplier in the global market of remote management application.

Following more than seven years of development, the **TeleEye** products serve many major clients worldwide. The Group currently has

an extensive distribution network of dealers and distributors in 25 countries worldwide. The **TeleEye** products are deployed by well-known corporations like Luk Fook Holdings Company Limited, FANCL House, Hutchison Global Crossing Limited, The Hongkong and Shanghai Banking Corporation Limited, Swire Coca-Cola Hong Kong Limited, British Airway plc., etc.

To further tap into the regional market, the Group formed a joint venture company in Japan (CAMERIO Japan, Inc.) in October 2000. By allying with its partner, the Company can enjoy extensive connections in the electronics industry in Japan, facilitating the Group's expansion into the Japanese market.

The successful listing of the Group on the GEM of The Stock Exchange of Hong Kong Limited on 8 May 2001 was a major milestone for its development. The Group will continue to diversify its business geographically and explore new high-growth business opportunities in this remote management industry.



FINANCIAL HIGHLIGHTS

	2001	2000	Changes
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Turnover	18,471	16,440	+12%
Operating expenses	12,986	7,698	+69%
Profit attributable to shareholders	1,578	4,538	-65%
Interim dividend	1,200	3,450	-65%
Basic earnings per share (HK cents)	1.15	3.49	-67%

Financial Review

During the first year of listing on the GEM, the Group propelled its revenue to a record high of HK\$18.5 million, as compared to HK\$16.4 million in 2000. The gross profit margin remained stable throughout the year, as compared with previous years. The profit attributable to shareholders for the year amounted to HK\$1.6 million with basic earnings per share of approximately HK1.15 cents.

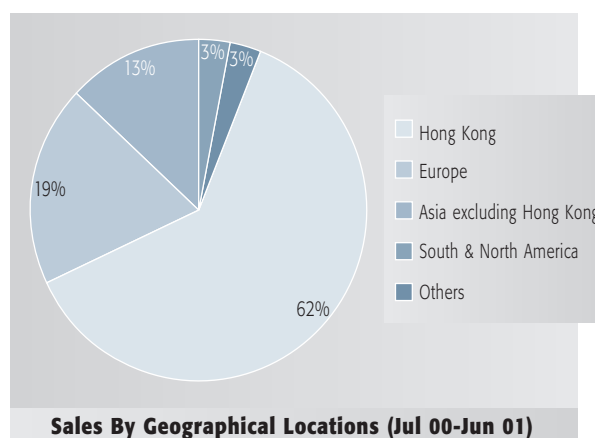
Turnover By Products

The revenue was growing steadily with an annual growth of 12%. Almost all the revenue came from sales of our remote monitoring products with the trademark of "TeleEye" or "CAMERIO". In January 2001, the Group successfully marketed its third generation **TeleEye**, namely **TeleEye III**, which can transmit real time video through Internet. With sophisticated features for wider applications, **TeleEye III** recorded an increasing in revenue over the last six months. Together with its previous generation, **TeleEye Pro**, these two ranges of products contributed to approximately 70% of the total revenue in 2001. Revenue from **TeleEye Pro** remained stable. It is the fact that **TeleEye Pro** targeted at those customers using phone line while **TeleEye III** targeted at those using the Internet.

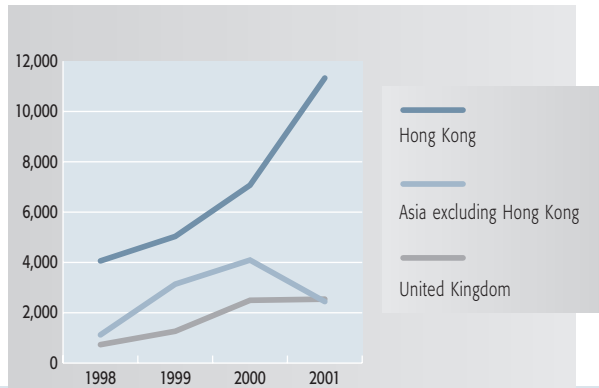
Turnover By Geographical Locations

The Group continues to sell its products worldwide. This year revenue mainly contributed by customers from three areas, namely Hong Kong, Europe and Asia (excluding Hong Kong), with approximately 94% of the Group's total turnover.

Being the major market, revenue derived from Hong Kong for the financial year ended 2001 accounted for HK\$11.3 million, representing approximately 62% of the Group's total turnover. The customers of the Group ranged from small local companies to multinational organizations. During the year, the Group received two substantial orders for hundreds sets of **TeleEye** system. One was from a well-known property developer which integrated **TeleEye** into its security system for property



management purpose. The other was from a telecommunications retail chain which used **TeleEye** to monitor the operation of its retail stores.



Sales Trends for the Three Major Markets (1998-2001)

To enhance its brand awareness, the Group allocated more resources in advertising and promotional activities. It advertised mainly in security journals, magazines and well-known newspapers. Being the Group spokesperson, the Group's chief executive officer generated numerous media coverage for the Group and its products. As a result of the listing exercise, the awareness of the Group's brand name was further enhanced. All these resulted in a 60% annual growth in Hong Kong sales in 2001 as compared with 40% annual growth in 2000.

Sales in Hong Kong has been significantly increased over the past four years. The directors of the Group (the "Directors") believe that such increase was due to its local presence to give prompt response to customers and provide excellent after sales services and technical support.

In 2001, Europe was the second largest market of which the United Kingdom made the greatest contribution. Revenue from the United Kingdom has been steadily increased over the past four years. During the financial year, the Group visited its distributors in the United Kingdom to conduct

business reviews and participated in major international exhibitions in Europe. Despite the global economic slowdown and a strong US dollar, the demand for this kind of security product in the United Kingdom remained high. In order to further boost up the revenue, the Group is setting up a promotional office there.

The third largest market was the Asia (excluding Hong Kong) that made contributions of approximately 13% to the Group's total sales in 2001. Within the region, sales mainly came from Singapore and China. Sales derived from this region dropped dramatically because of the weakening of many Asian currencies. During the year, the Group continued to denominate its overseas sales in US dollars and maintain its pricing level. Because of the strong US dollar, the Group's products were relatively expensive. In spite of the weak sales performance in 2001, revenue from this region still contributed an important portion to the Group's total turnover. In order to increase the market penetration in Asian countries and provide prompt value-added service to customers, the Group is preparing an establishment in Singapore.

In the short run, the Group will be focusing its future growth in the above-mentioned markets so as to repeat its success in Hong Kong.

Operating expenses

Operating expenses increased by 69% from HK\$7.7 million in 2000 to HK\$13.0 million in 2001. Paving the way for future expansion, the Group had adopted a larger cost base structure. The increase was in line with its global market expansion and rapid product development.

Total staff costs (including directors' remuneration and salaries paid to staff engaging in

product development) was the largest cost element, amounted to HK\$8.4 million in 2001, compared with HK\$5.6 million in 2000. The increase was in line with the increase in the Group's headcount, from 15 full time employees as at last financial year-end to 27 as at this year-end. In order to build up a good foundation for future business growth, the Group has employed two teams of staff with their strengths in research and development and with extensive experience in sales and marketing. In future, the Group will continue to recruit more talented staff to speed up its business growth.

The next major cost element was in advertising and promotion, amounted to HK\$2.1 million in 2001, as compared to HK\$1.4 million in 2000. During the year, the Group actively participated in trade fairs and exhibitions, and advertised in trade magazines, journals and mass media.

Responding swiftly to the global economic recession, the Group will further tighten its cost control and emphasize cost-effective activities.

Profit attributable to shareholders

The Group recorded HK\$1.6 million profit attributable to shareholders which was lowered by the

share of net loss of its associate in Japan, amounted to HK\$557,000. As for the Japan market, it is at the infancy stage of marketing its products, "**CAMERIO**". Because of the dense population and well-developed telecommunications infrastructures in Japan, the Directors believe that the Japan market will make a great contribution to the Group's revenue when the market becomes aware of the applications of **CAMERIO**. Affected by the worsening Japan economy, the Directors believe that it will take longer time to make profit from the Japan market.

Basic earnings per share

Due to increased investments for business expansion in 2001, the Group's basic earnings per share was lowered to HK1.15 cents, as compared with HK3.49 cents in 2000. The Directors look forward to seeing promising return in the coming years when the Japan, Singapore, the United Kingdom and China markets for the Group's products become mature.

Dividend

The Board of Directors has decided not to recommend the payment of a final dividend for the year ended 30 June 2001 in order to reserve financial resources for future business development.

FINANCIAL CONDITION

	2001	2000	Changes
	<i>HK\$'000</i>	<i>HK\$'000</i>	
Cash and cash equivalents	34,387	16,137	+113%
Total assets	43,022	20,760	+107%
Shareholders' fund	38,674	4,997	+674%

MANAGEMENT'S DISCUSSION AND ANALYSIS

TeleEye Holdings Limited was successfully listed on the GEM on 8 May 2001 by issuing 50 million new shares to the public, representing 27.8% of the enlarged issue share capital. The Group raised net proceeds of approximately HK\$23.4 million and had applied approximately HK\$1.7 million for the period ended 30 June 2001. This resulted in a significant increase in cash balance in 2001.

Total assets were approximately double to HK\$43.0 million in 2001. Total assets comprised cash and cash equivalents of approximately HK\$34.4 million, capitalization of development expenditure of approximately HK\$2.7 million, inventories of

approximately HK\$2.5 million, trade and other receivables of approximately HK\$1.9 million and tangible assets of approximately HK\$1.1 million.

Liquidity and Capital Resources

The Group generally finances its operation with internally generated cash flow. As at 30 June 2001, the Group had cash and cash equivalents amounting to a total of approximately HK\$34.4 million. At present, the Group maintains a strong liquidity position with no bank borrowings.

As at the date of this annual report, the Group had not made any material capital commitments.

HUMAN RESOURCES

	2001	2000
	No. of full time staff	No. of full time staff
Engineering, research & development	14	9
Sales and marketing	9	5
Management, finance and administration	4	1
	27	15

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Key business objectives as stated in the prospectus

Actual business progress in respect of the period from 17 April 2001 to 30 June 2001

Project Development

- | | |
|--|---|
| • Adopt TeleEAR for TeleEye III | Product has been launched |
| • Launch Japanese version of all existing software products | Products have been launched |
| • Launch Network Digital Video Recording Software | Software has been launched |
| • Further improve video compression technique | Work finished and will be included in future products |
| • Adopt camera control function for different brands of speed dome cameras | Drivers for speed dome cameras have been developed |
| • Start development of local hard disc storage for TeleEye III Video Recorder | Hardware, software and system design has commenced |
| • Start development of PDA video reception software | First prototype version has been developed |
| • Start development of large scale video server for TeleEye transmitters | Specification design has commenced |

Sales and Marketing

- | | |
|---|--|
| • Continue business development activities in joint venture company in Japan | Product promotion like exhibitions, customer demos, publicities, advertising, direct mailing and reseller recruitment has commenced |
| • Set up offices in the UK and Singapore, and identify any joint venture partners for business alliance there | In the final stage of negotiation with a Singapore partner; and in the final stage of planning of office operation and staff recruitment in the UK |
| • Attend trade fairs and exhibitions in the UK and Hong Kong | Participated in major exhibitions in the UK and Hong Kong |



COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Key business objectives as stated in the prospectus

- Continue to create brand name awareness through promotional activities such as press conferences, product profile coverage in trade magazines and by mass media, and advertising in major trade magazines and mass media
- Visit overseas distributors to review marketing plans, provide technical training and support

Resources deployment

- Total number of full-time staff expected to remain at 26

Actual business progress in respect of the period from 17 April 2001 to 30 June 2001

All the promotional activities have been carried out as planned. In addition, we have also published newsletters and maintained websites in 3 languages

Visits have been paid to Europe, South East Asia, Japan and China

One more research and development staff has been employed, totalling 27 full-time staff

EXECUTIVE DIRECTORS

Dr. CHAN Chok Ki
Dr. MA Chi Kit
Mr. HO Ka Ho

NON-EXECUTIVE DIRECTOR

Dr. CHAN Cheung Fat

INDEPENDENT NON-EXECUTIVE DIRECTORS

Prof. SIU Wan Chi
Dr. LIAO York

REGISTERED OFFICE

P.O. Box 2681 GT
Zephyr House
George Town
Grand Cayman
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Units 216-217, 2nd Floor
Tech Centre
72 Tat Chee Avenue
Kowloon
Hong Kong

COMPANY WEBSITES

<http://www.TeleEye.com>
<http://www.TeleEye.net>
<http://www.CAMERIO.com>
<http://www.TeleEye.com.cn>
<http://www.TeleEAR.com>
<http://www.千里眼.com>
<http://www.千里眼.net>

COMPANY SECRETARY

Ms. WONG Siu Fan *AHKSA, ACCA*

AUTHORISED REPRESENTATIVES

Dr. CHAN Chok Ki
Ms. WONG Siu Fan

COMPLIANCE OFFICER

Mr. HO Ka Ho

QUALIFIED ACCOUNTANT

Ms. WONG Siu Fan *AHKSA, ACCA*

AUDIT COMMITTEE MEMBERS

Prof. SIU Wan Chi
Dr. LIAO York

PRINCIPAL BANKER

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

SPONSOR

AMS Corporate Finance Limited
20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central
Hong Kong

LEGAL ADVISER TO THE COMPANY

As to Hong Kong law
Ng & Tse Solicitors, HKSAR
Room 902, 9th Floor
Hang Seng Building
77 Des Voeux Road Central
Hong Kong

AUDITORS

KPMG
Certified Public Accountants
8th Floor
Prince's Building
Central
Hong Kong



Dr. Ma Chi Kit
Chief Marketing Officer

Dr. Chan Chok Ki
Chairman and Chief Executive Officer

Dr. Chan Cheung Fat
Research & Development Consultant

Mr. Ho Ka Ho
Engineering Director

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. Chan Chok Ki, aged 46, is a founder and the Chief Executive Officer of the Group responsible for the overall corporate management and business development of the Group. He also actively participates in the strategic research and development of the Group. Dr. C.K. Chan is a research veteran in the digital signal processing and image compression technology. He had taught at the City University of Hong Kong ("City University") since 1985 and was a professor of the Department of Electronic Engineering at the City University before he officially became involved in the management of the Group on a full-time basis in December 2000. He has received many awards which include the EDN Asia Innovator in 1996 and IEEE Third Millennium Award in 2000 for his outstanding achievement and contributions.

Dr. C.K. Chan obtained both his bachelor and master degrees of science in electrical engineering from The University of California, Los Angeles. He received his PhD degree in electronics from The Chinese University of Hong Kong.

Dr. Ma Chi Kit, aged 33, is a founder and the Chief Marketing Officer of the Group. He has extensive knowledge on digital signal processing and telecommunications technologies. He is presently responsible for formulation and implementation of marketing strategies, product pricing and positioning, and strategic management of channel distribution for the Group.

Dr. Ma obtained his bachelor's degree with first class honours and a PhD degree in electronic engineering from the City University.

Mr. Ho Ka Ho, aged 29, is a founder and the Engineering Director of the Group. He is in charge of the engineering department of the Group and is responsible for product design, quality control, research and development of the Group. Mr. Ho has expertise in computer architecture, software engineering and digital signal processing.

Mr. Ho obtained his bachelor of engineering degree in computer engineering with first class honours and master of science degree in electronic engineering from the City University.



Non-executive Directors

Dr. Chan Cheung Fat, aged 43, is a founder and a research and development consultant of the Group, responsible for spearheading the research and development team on a part-time basis with particular focus on product design and development. Dr. C.F. Chan is a research veteran in the digital signal processing and speech compression technology.

Dr. C.F. Chan is presently an associate professor of the Department of Electronic Engineering at the City University. He is also a director of Signal Communications Holdings Limited and Signal Communications Limited, both wholly-owned subsidiaries of the Company.

In 1998, he was named "EDN Asia Innovator" by the EDN Asia Magazine for his contribution in speech compression technology.

He received all his bachelor, master and PhD degrees in electronic engineering from The University of Essex, England.

Independent non-executive Directors

Professor Siu Wan Chi, aged 51, is an independent non-executive Director who was appointed in September 2000. He is presently the Chair Professor and Dean of the Engineering Faculty of The Hong Kong Polytechnic University. He is also an Honorary Professor of The South China University of Technology, the PRC.

Prof. Siu has held numerous public offices in the academic field including guest editor, associate editor and member of editorial board of renowned journals in the US, the UK and the PRC and chairman of academic/professional assessment panels.

Prof. Siu has received many awards which include the Best Paper Award (ICNNSP' 95) and the



Members of TeleEye Group

IEEE Third Millennium Award in 2000 for his outstanding achievements and contributions.

Prof. Siu obtained his master of philosophy degree from The Chinese University of Hong Kong, and the PhD degree from The Imperial College of Science, Technology & Medicine, the UK.

Dr. Liao York, aged 55, is an independent non-executive Director who was appointed in November

2000. Dr. Liao is a co-founder and an executive director of Varitronix Limited which is a public listed company on the Main Board of The Stock Exchange of Hong Kong Limited. Prior to joining Varitronix Limited, Dr. Liao had lectured in the Electronics Department at The Chinese University of Hong Kong for ten years.

Dr. Liao was awarded in 1997 the Most Excellent Order of the British Empire for his services to the Hong Kong community in education and hi-tech industry, and was appointed as Justice of Peace by the Hong Kong

Government in 1998.

Dr. Liao obtained his bachelor's degree in physics from California Institute of Technology. He received his master of arts and PhD degrees in applied physics from Harvard University.

Mr. Cheng Tung Leung, aged 27, is a project supervisor of the Group and is responsible for product design and development. He joined the Group in August 1997 and was the chief designer for several key products of the Group. Mr. Cheng holds a first class honours bachelor's degree in electronic engineering and a distinction master degree of electronic engineering with business management from the City University. He was awarded the Motorola Semi-conductor scholarship in 1997 for his outstanding academic achievements.

Mr. Lee Chiu Shing, aged 33, is the regional manager of the Group. He joined the Group in May 1998. He is responsible for development of the Japanese market for the Group's products. He has over seven years of working experience in the electronics industry, including stationing as an electronic engineer in Japan for two years. Mr. Lee is presently stationed in Japan and is responsible for setting up the operation, staff training, business development and technical support for the Group's joint venture company there.

Ms. Leung Pui Shan, Lydia, aged 30, is the corporate communications officer of the Group responsible for all corporate communications, brand building, marketing and promotions activities of the Group. Prior to joining the Group in September 1998, Ms. Leung had acquired extensive work experience in corporate communications and marketing from listed companies in Hong Kong and high-technology fields. Ms. Leung holds a master degree in marketing from The University of Stirling, the UK.

SENIOR MANAGEMENT

Ms. Wong Siu Fan, aged 29, is the financial controller, qualified accountant and company secretary of the Group. She has seven years of experience in auditing, accounting and financial management. Prior to joining the Group in September 2000, Ms. Wong had worked for an international accounting firm and a public listed company in Hong Kong. Ms. Wong holds a bachelor's degree in accounting from The Hong Kong Polytechnic University, and is an associate member of The Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.



REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 30 June 2001.

GROUP REORGANISATION

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 the Growth Enterprise Market ("GEM") operated by The Stock Exchange of Hong Kong Limited (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 the GEM, the Company became the holding company of the subsidiaries comprising 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 the results of all companies now comprising the Group for the period from 1 July 1999 to 30 June 2001 for the reasons stated in note 1(a) on the accounts.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to act as an investment holding company. The principal activities and other particulars of its subsidiaries are set out in note 14 on the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	15%	
Five largest customers in aggregate	37%	
The largest supplier		17%
Five largest suppliers in aggregate		43%

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

ACCOUNTS

The profit of the Group for the year ended 30 June 2001 and the state of the Company's and the Group's affairs as at that date are set out in the accounts on pages 34 to 59.

An interim dividend of HK\$1,200,000 was declared by one of its subsidiaries to its then shareholders prior to the Reorganisation on 11 April 2001. The directors do not recommend the payment of a final dividend in respect of the year ended 30 June 2001.

FIXED ASSETS

Details of movements in fixed assets are set out in note 13 on the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 21 on the accounts. Shares were issued on incorporation of the Company and to broaden the capital base of the Company for the purpose of the Company's listing on the GEM.

DIRECTORS

The directors during the financial year were:

Executive directors

Dr. CHAN Chok Ki	(appointed on 1 December 2000)
Dr. MA Chi Kit	(appointed on 24 August 2000)
Mr. HO Ka Ho	(appointed on 24 August 2000)

Non-executive directors

Dr. CHAN Cheung Fat	(appointed on 7 November 2000)
Mr. Neil T. Cox	(appointed and resigned on 24 August 2000)

Independent non-executive directors

Professor SIU Wan Chi	(appointed on 16 September 2000)
Dr. LIAO York	(appointed on 7 November 2000)

In accordance with Article 87 of the Company's Articles of Association, Dr. Ma Chi Kit and Dr. Chan Cheung Fat retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Dr. Chan Chok Ki, Dr. Ma Chi Kit and Mr. Ho Ka Ho, being all the executive directors, has entered into a service contract with the Company for a term of one year and will continue thereafter until termination by six months' written notice served by either party on the other. Dr. Chan Chok Ki, Dr. Ma Chi Kit and Mr. Ho Ka Ho are entitled to an aggregate monthly remuneration of HK\$277,000 and a discretionary bonus not exceeding 11% of the combined/consolidated profit after taxation but before extraordinary items of the Group for the relevant year. Under the service contracts, after each completed year of service, their remuneration shall be reviewed by the Board of Directors.

Dr. Chan Cheung Fat has entered into a two-year consultancy agreement with the Company under which he has agreed to act as a research and development consultant to the Group on a part-time basis. Dr. Chan Cheung Fat is entitled to a remuneration calculated on an hourly basis. Such agreement is subject to termination by three months' notice served by either party on the other.

DIRECTORS' INTERESTS IN SHARES

The directors and chief executive of the Company who held office at 30 June 2001 had the following interests in the issued share capital of the Company, its holding companies, subsidiaries and other associated corporations (within the meaning of Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) at that date as recorded in the register of directors' share interests:

Name of director	Ordinary shares in TeleEye Holdings Limited of HK\$0.01 each			
	Personal interests	Family interests	Corporate interests	Other interests
Dr. Chan Chok Ki	–	–	104 million	–
Dr. Chan Cheung Fat	–	–	104 million	–
Dr. Ma Chi Kit	–	–	104 million	–
Mr. Ho Ka Ho	–	–	104 million	–

(Note)

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 approximately 44.3%, 34.3%, 14.3% and 7.1% respectively.

DIRECTORS' INTERESTS IN SHARES (continued)

Pursuant to the Company's Pre-IPO Share Option Scheme adopted by the Company on 12 April 2001, the following directors of the Company have personal interests in options to subscribe for shares in 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 and other principal terms are set out in note 22 on the accounts. No options were exercised under the Pre-IPO Share Option Scheme during the year.

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

Apart from the foregoing, at no time during the year was the Company, any of its holding companies or subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The register of substantial shareholders maintained under Section 16 (1) of the SDI Ordinance shows that the Company has been notified of the following interests in the Company's issued shares at 30 June 2001 amounting to 10% or more of the ordinary shares in issue:

	Ordinary shares held	Percentage of total issued shares
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.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the directors' service contracts disclosed above, no contract of significance to which the Company, any of its holding companies or subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

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

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

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 60 of the annual report.

RETIREMENT SCHEMES

The Group did not provide retirement benefits for its employees in Hong Kong before 1 December 2000. With effect from 1 December 2000, the Group has set up a defined contribution retirement scheme under the Mandatory Provident Fund Scheme (the "MPF Scheme") for all eligible employees of the Group in Hong Kong.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to a maximum of HK\$1,000 and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of the employee's monthly salaries up to a maximum of HK\$1,000.

SPONSOR'S INTEREST

Pursuant to the agreement dated 23 April 2001 entered into between the Company and AMS Corporate Finance Limited ("AMS"), AMS is entitled to receive a fee in respect of the appointment by the Company as the sponsor of the Company as required under the GEM Listing Rules for the period from 8 May 2001 to 30 June 2003.

USE OF PROCEEDS FROM THE PUBLIC OFFER AND PLACING

The net proceeds from the public listing had been applied in the following areas:

For the period from 8 May to 30 June 2001:

	Proposed HK\$ million	Actual HK\$ million
Sales and marketing	1	0.9
Product development	1	0.8
	<hr/> 2	<hr/> 1.7

The remaining net proceeds of HK\$21.7 million have been placed with a licensed bank in Hong Kong for future use as identified by the Group's business plans as stated in the prospectus. The Board does not envisage any circumstances that may lead to any material alteration to the proposed use of the net proceeds.

RESERVES

Details of movements in reserves during the year are set out in note 23 on the accounts.

COMPLIANCE WITH THE GEM LISTING RULES

The Company has complied with the GEM Listing Rules since the shares of the Company were listed on the GEM of the Stock Exchange on 8 May 2001.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws in the Cayman Islands.

AUDIT COMMITTEE

Pursuant to the GEM Listing Rules, the Company has established an audit committee with written terms of reference in April 2001. The audit committee comprises two independent non-executive directors, Professor Siu Wan Chi and Dr. Liao York. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group.

Since its establishment, the audit committee has met twice, reviewing the Company's reports and accounts, and providing advice and recommendations to the Board of Directors.

AUDITORS

KPMG were first appointed as auditors of the Company on 24 August 2000.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Dr. Chan Chok Ki

Chairman

Hong Kong, 17 September 2001



AUDITORS' REPORT TO THE SHAREHOLDERS OF TELEEYE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 34 to 59 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2001 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 17 September 2001

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 30 June 2001
(Expressed in Hong Kong dollars)

	<i>Notes</i>	2001 \$'000	2000 \$'000
Turnover	2, 3	18,471	16,440
Cost of sales		(4,255)	(3,539)
		14,216	12,901
Other revenue	4	1,203	282
Selling and distribution expenses		(4,914)	(3,246)
Administrative expenses		(2,884)	(1,090)
Other operating expenses		(5,188)	(3,362)
Profit from operations		2,433	5,485
Finance cost	5(a)	–	(72)
Share of loss of an associate		(557)	–
Profit from ordinary activities before taxation	5	1,876	5,413
Taxation	6(a)	(298)	(875)
Profit attributable to shareholders	9	1,578	4,538
Dividends	10	(1,200)	(3,450)
Retained profit for the year		378	1,088
Profit for the year is retained as follows:			
By the Company and its subsidiaries		935	1,088
By associate		(557)	–
		378	1,088
Earnings per share			
	11		
Basic		1.15 cents	3.49 cents
Diluted		1.14 cents	N/A

The notes on pages 39 to 59 form part of these accounts.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 30 June 2001
(Expressed in Hong Kong dollars)

	<i>Notes</i>	2001 \$'000	2000 \$'000
Exchange difference on translation of the financial statements of overseas associate	<i>23(a)</i>	(96)	–
Net loss not recognised in the profit and loss account		(96)	–
Net profit for the year	<i>23(a)</i>	1,578	4,538
Total recognised gains and losses		1,482	4,538

The notes on pages 39 to 59 form part of these accounts.

CONSOLIDATED BALANCE SHEET

At 30 June 2001

(Expressed in Hong Kong dollars)

	<i>Notes</i>	2001 \$'000	2000 \$'000
Non-current assets			
Development expenditure capitalised	12	2,727	1,343
Fixed assets	13	1,110	675
Interest in an associate	15	407	–
		4,244	2,018
Current assets			
Inventories	16	2,505	1,667
Trade and other receivables	17	1,886	938
Cash and cash equivalents	18	34,387	16,137
		38,778	18,742
Current liabilities			
Trade and other payables	19	2,547	2,728
Amount due to potential investor		–	10,000
Taxation	6(b)	4	887
Dividend payable to former shareholders		1,200	1,850
		3,751	15,465
Net current assets		35,027	3,277
Total assets less current liabilities		39,271	5,295
Non-current liabilities			
Deferred taxation	20	597	298
NET ASSETS		38,674	4,997
CAPITAL AND RESERVES			
Share capital	21	1,800	1
Reserves	23(a)	36,874	4,996
		38,674	4,997

Approved by the board of directors on 17 September 2001.

Dr. Chan Chok Ki

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)

Dr. Ma Chi Kit

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Directors

The notes on pages 39 to 59 form part of these accounts.

	<i>Notes</i>	2001 \$'000
Non-current assets		
Investments in subsidiaries	14	10
<hr style="border-top: 1px dashed black;"/>		
Current assets		
Cash and cash equivalents	18	25,188
Current liabilities		
Trade and other payables	19	1,228
<hr/>		
Net current assets		23,960
<hr style="border-top: 1px dashed black;"/>		
NET ASSETS		23,970
<hr style="border-top: 3px double black;"/>		
CAPITAL AND RESERVES		
Share capital	21	1,800
Reserves	23(b)	22,170
<hr/>		
		23,970
<hr style="border-top: 3px double black;"/>		

Approved by the board of directors on 17 September 2001.

)	
Dr. Chan Chok Ki)	
)	Directors
Dr. Ma Chi Kit)	
)	

The notes on pages 39 to 59 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2001
(Expressed in Hong Kong dollars)

	Notes	2001 \$'000	2000 \$'000
Net cash (outflow)/inflow from operating activities	24(a)	(1,720)	3,795
Returns on investments and servicing of finance			
Interest received		1,185	282
Dividends paid to former shareholders		(1,850)	(1,600)
Interest paid on shareholders' loans		-	(97)
Net cash outflow from returns on investments and servicing of finance		(665)	(1,415)
Taxation			
Hong Kong profits tax paid		(882)	(457)
Investing activities			
Payment for purchase of fixed assets		(818)	(500)
Investment in an associate		(1,060)	-
Net cash outflow from investing activities		(1,878)	(500)
Net cash (outflow)/inflow before financing		(5,145)	1,423
Financing	24(b)		
Proceeds from issuance of new shares		30,000	-
Share issuance expenses		(6,605)	-
Investment by potential investor		-	10,000
Repayment of shareholders' loans		-	(594)
Net cash inflow from financing		23,395	9,406
Increase in cash and cash equivalents		18,250	10,829
Cash and cash equivalents at 1 July		16,137	5,308
Cash and cash equivalents at 30 June		34,387	16,137
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		3,207	7,900
Deposits with bank		31,180	8,237
		34,387	16,137

The notes on pages 39 to 59 form part of these accounts.

1 GROUP REORGANISATION AND SIGNIFICANT ACCOUNTING POLICIES

(a) Group reorganisation and basis of consolidation

The Company was incorporated in the Cayman Islands on 24 August 2000 under the Companies Law (revised) of the Cayman Islands and, through a group reorganisation (“the Reorganisation”) by way of a share swap in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“the Stock Exchange”), became the holding company of the subsidiaries comprising the Group on 11 April 2001. The Reorganisation has been accounted for as a reorganisation of businesses under common control under merger accounting. Accordingly, the consolidated accounts have been prepared on the basis of historical costs and as if the subsidiaries had been part of the Group throughout the periods presented, rather than from 11 April 2001. The results and cash flows of the Group for the years ended 30 June 2000 and 2001 include the results and cash flows of the Company and its subsidiaries with effect from 1 July 1999 or since their respective dates of incorporation, where this is for a shorter period. The consolidated balance sheet at 30 June 2000 is a combination of the balance sheets of the subsidiaries of the Company as at 30 June 2000. The excess of the nominal value of the shares of subsidiaries acquired over the nominal value of the shares of the Company issued in exchange is transferred to capital reserve.

The consolidated accounts include the accounts of the Company and all of its subsidiaries made up to 30 June each year. All material intercompany transactions and balances are eliminated on consolidation.

As the Company was incorporated on 24 August 2000, no comparative balance sheet of the Company at 30 June 2000 has been presented in these accounts.

(b) Statement of compliance

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

(c) Basis of preparation of the accounts

The measurement basis used in the preparation of the accounts is historical cost.

1 GROUP REORGANISATION AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

(d) Investments in subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company's balance sheet are stated at cost less any provisions for diminution in value which is other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(e) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Unless the interest in the associate is acquired and held exclusively with a view to subsequent disposal in the near future, an investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated profit and loss account reflects the Group's share of the post-acquisition results of the associates for the year.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

(f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost of fixed assets on a straight line basis over their estimated useful lives as follows:

Computer and office equipment	3 to 5 years
Furniture and fixtures	5 years
Leasehold improvements	3 years

The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the assets are discounted to their present values.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

1 GROUP REORGANISATION AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

(g) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made.

(h) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is after deduction of any trade discounts.

(ii) Interest income

Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the first-in, first-out cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 GROUP REORGANISATION AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

(j) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(k) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

The results of overseas subsidiaries and associates are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

(l) Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research costs are recognised as an expense in the period in which they are incurred. Development costs are recognised as an expense in the period in which they are incurred unless their recovery from closely related revenues or cost savings is probable.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is charged to the profit and loss account when incurred.

Development costs recognised as an asset are amortised on a systematic basis over a period not exceeding 3 years from the commencement of the commercial phase of the project. The unamortised balance of development costs is reviewed at the end of each period and is written off to the extent that the unamortised balance, taken together with further development and directly related costs, is no longer likely to be recovered.

1 GROUP REORGANISATION AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

(m) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(n) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired.

2 TURNOVER

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

3 SEGMENTAL INFORMATION

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

The operations of the Group are substantially conducted in Hong Kong. The Group turnover analysed by the geographical locations of the Group's customers during the financial year is as follows:

Geographical locations of customers

	2001	2000
	\$'000	\$'000
Hong Kong	11,329	7,070
Asia excluding Hong Kong	2,444	4,094
Europe	3,521	4,346
North and South America	546	449
Others	631	481
	18,471	16,440

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

4 OTHER REVENUE

	2001	2000
	\$'000	\$'000
Interest income	1,186	282
Others	17	–
	1,203	282

Included in interest income was interest derived from the application proceeds upon listing of the Company on the GEM amounting to \$499,000 (2000: Nil).

5 PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	2001	2000
	\$'000	\$'000
(a) Finance cost		
Interest on loans from former shareholders repayable within 5 years	–	72
	–	72
(b) Other items		
Staff costs (including mandatory provident fund contributions of \$143,000 (2000: Nil))	8,351	5,636
Less: amount capitalised as development expenditure (note 12)	(1,575)	(1,362)
	6,776	4,274
Research and development costs	1,850	1,012
Auditors' remuneration	286	68
Depreciation	383	163
Amortisation of capitalised development expenditure	191	19
Operating lease charges in respect of properties	812	383

Research and development costs comprise staff costs, which are also included in the total amount of staff costs disclosed above.

6 TAXATION

(a) Taxation in the consolidated profit and loss account represents:

	2001	2000
	\$'000	\$'000
Provision for Hong Kong profits tax at 16% of the estimated assessable profits for the year	–	570
(Over)/under provision in respect of prior years	(1)	7
	(1)	577
Deferred taxation (<i>note 20(a)</i>)	299	298
	298	875

(b) Taxation in the consolidated balance sheet represents:

	2001	2000
	\$'000	\$'000
Provision for Hong Kong profits tax for the year	–	570
Balance of profits tax provision relating to prior years	4	317
	4	887

(c) No provision for taxation has been made in the Company's balance sheet as the Company incurred an adjusted loss for tax purposes during the year.

7 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2001	2000
	\$'000	\$'000
Fees	23	–
Basic salaries, housing and other allowances, and benefits in kind	2,386	648
Bonuses which are based on the Group's performance	1,100	1,841
Retirement scheme contributions	18	–
	3,527	2,489

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

7 DIRECTORS' REMUNERATION (continued)

Included in directors' remuneration were fees of \$23,000 (2000: Nil) payable to the two independent non-executive directors during the year. No other emoluments were paid or payable to the independent non-executive directors.

In addition to the above emoluments, certain directors were granted share options under the Company's Pre-IPO Share Option Scheme. The details of these benefits in kind are disclosed under the paragraph "Directors' interests in shares" in the report of the directors. In the absence of a ready market for the options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the options granted to the respective directors.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the years ended 30 June 2001 and 2000, there were no amounts paid as an inducement to join or upon joining the Group.

The remuneration of the directors is within the following bands:

\$	2001 Number of directors	2000 Number of directors
Nil – 1,500,000	5	3
1,500,001 – 3,000,000	1	–

The four (2000: three) executive and non-executive directors received emoluments of approximately \$2,058,000, \$804,000, \$433,000 and \$209,000 for the year ended 30 June 2001 and approximately \$1,381,000, \$648,000 and \$460,000 for the year ended 30 June 2000.

Each of Dr. Chan Chok Ki, Dr. Ma Chi Kit and Mr. Ho Ka Ho has entered into a service contract with the Group during the year.

Dr. Chan Cheung Fat has entered into a consultancy agreement with the Group during the year.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2000: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2000: two) individuals are as follows:

	2001	2000
	\$'000	\$'000
Salaries and other emoluments	688	792
Retirement scheme contributions	12	–
	700	792

The emoluments of the two (2000: two) individuals with the highest emoluments are within the following bands:

\$	2001	2000
	Number of individuals	Number of individuals
Nil – 1,000,000	2	2

No amounts were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the years ended 30 June 2001 and 2000.

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of \$565,000 which has been dealt with in the accounts of the Company.

10 DIVIDENDS

	2001	2000
	\$'000	\$'000
Dividends declared by a subsidiary of the Company to its former shareholders prior to the Reorganisation on 11 April 2001	1,200	3,450

No dividend has been paid or declared by the Company since its incorporation.

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of \$1,578,000 (2000: \$4,538,000) and the weighted average number of 137,397,260 (2000: 130,000,000) ordinary shares outstanding after the Group's Reorganisation and the capitalisation issue during the year.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

11 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year is based on the profit attributable to shareholders of \$1,578,000 and the weighted average number of 138,253,756 shares after adjusting for the effects of the dilutive potential ordinary shares.

There were no potential dilutive ordinary shares in issue during the year ended 30 June 2000.

(c) Reconciliation

2001
Number of shares

Weighted average number of ordinary shares used in calculating basic earnings per share	137,397,260
Deemed issue of ordinary shares for no consideration	856,496

Weighted average number of ordinary shares used in calculating diluted earnings per share	138,253,756
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12 DEVELOPMENT EXPENDITURE CAPITALISED

The Group

2001	2000
\$'000	\$'000

Cost

At 1 July	1,362	–
Amount capitalised for the year	1,575	1,362

At 30 June	2,937	1,362
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Accumulated amortisation

At 1 July	19	–
Amortisation for the year	191	19

At 30 June	210	19
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Net book value	2,727	1,343
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13 FIXED ASSETS

The Group

	Computer and office equipment	Furniture and fixtures	Leasehold improvement	Total
	\$'000	\$'000	\$'000	\$'000
Cost:				
At 1 July 2000	775	256	–	1,031
Additions	503	123	192	818
At 30 June 2001	1,278	379	192	1,849
Accumulated depreciation:				
At 1 July 2000	252	104	–	356
Charge for the year	269	63	51	383
At 30 June 2001	521	167	51	739
Net book value:				
At 30 June 2001	757	212	141	1,110
At 30 June 2000	523	152	–	675

14 INVESTMENTS IN SUBSIDIARIES

	2001 \$'000
Unlisted shares, at cost	10

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

14 INVESTMENTS IN SUBSIDIARIES (continued)

The following list contains all of the subsidiaries of the Group. The class of shares held is ordinary.

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective holding	Percentage of equity held by		Principal activity
				the Company	held by subsidiary	
Signal Communications Holdings Limited	British Virgin Islands	15,000,000 shares of HK\$1 each	100%	100%	–	Investment holding
Signal Communications Limited	Hong Kong	1,000 shares of HK\$1 each	100%	–	100%	Research and development, sales and marketing of remote audio and video monitoring systems
SiCOM Japan Limited	British Virgin Islands	1 share of US\$1 each	100%	–	100%	Investment holding
SiCOM Europe Limited	British Virgin Islands	1 share of US\$1 each	100%	–	100%	Investment holding
TeleEye Europe Limited	United Kingdom	1 share of GBE1 each	100%	–	100%	Sales and marketing of remote audio and video monitoring systems

15 INTEREST IN AN ASSOCIATE

	The Group	
	2001 \$'000	2000 \$'000
Share of net assets	407	–

15 INTEREST IN AN ASSOCIATE (continued)

Particulars of the associate of the Group as at 30 June 2001 are set out below:

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective holding	held by the Company	held by subsidiary	
CAMERIO Japan, Inc.	Japan	600 shares of JPY50,000 each	49%	-	49%	Sales and marketing of remote audio and video monitoring systems

16 INVENTORIES

	The Group	
	2001 \$'000	2000 \$'000
Raw materials	1,116	1,046
Finished goods	1,389	621
	2,505	1,667

17 TRADE AND OTHER RECEIVABLES

	The Group	
	2001 \$'000	2000 \$'000
Trade receivables	1,356	779
Deposits and prepayments	530	159
	1,886	938

All of the trade and other receivables, except for utility deposits amounting to \$258,000 (2000: \$159,000), are expected to be recovered within one year.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

17 TRADE AND OTHER RECEIVABLES (continued)

Included in trade and other receivables are trade debtors (net of specific provisions for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2001	2000
	\$'000	\$'000
Current	333	402
1 to 3 months overdue	447	249
More than 3 months overdue but less than 12 months overdue	576	128
	1,356	779

Debts are due within 30 days from the date of billing.

18 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2001	2000	2001
	\$'000	\$'000	\$'000
Deposits with bank	31,180	8,237	25,137
Cash at bank and in hand	3,207	7,900	51
	34,387	16,137	25,188

19 TRADE AND OTHER PAYABLES

	The Group		The Company
	2001	2000	2001
	\$'000	\$'000	\$'000
Trade creditors	116	114	-
Other payables and accrued charges	962	89	473
Receipt in advance	323	684	-
Amounts due to directors	1,146	1,841	-
Amounts due to subsidiaries	-	-	755
	2,547	2,728	1,228

All of the trade and other payables are expected to be settled within one year.

The amounts due to directors are interest free, unsecured and have no fixed terms of repayment.

19 TRADE AND OTHER PAYABLES (continued)

Included in trade and other payables are trade creditors with the following ageing analysis.

	The Group	
	2001	2000
	\$'000	\$'000
Due within 1 month or on demand	3	38
Due after 1 month but within 3 months	113	76
	116	114

20 DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	The Group	
	2001	2000
	\$'000	\$'000
At 1 July	298	–
Transfer from the profit and loss account (<i>note 6(a)</i>)	299	298
At 30 June	597	298

(b) Major components of deferred tax of the Group are set out below:

	The Group	
	2001	2000
	\$'000	\$'000
Depreciation allowances in excess of related depreciation	161	83
Development expenditure capitalised	436	215
	597	298

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

21 SHARE CAPITAL

		The Company	
		2001	
	<i>Notes</i>	Number of shares	\$'000
Authorised:			
(Ordinary shares of \$0.01 each)	(c)	800,000,000	8,000
2001			
		Number of shares	\$'000
Issued and fully paid:			
Share issued upon incorporation	(a)	1	–
Shares issued upon Reorganisation	(b)	999,999	10
Shares issued through public offer and placing	(d)	50,000,000	500
Capitalisation issue	(e)	129,000,000	1,290
At 30 June 2001		180,000,000	1,800

Notes:

- (a) Upon incorporation on 24 August 2000, the Company had authorised share capital of \$390,000 divided into 39,000,000 shares of \$0.01 each. On the same date, 1 share was issued for cash at par.
- (b) On 11 April 2001, the Company allotted and issued 999,999 shares of \$0.01 each, credited as fully paid, in exchange for the acquisition by the Company of the entire issued share capital of Signal Communications Holdings Limited.
- (c) By an ordinary resolution passed on 12 April 2001, the Company's authorised share capital was increased from \$390,000 to \$8,000,000, by the creation of an additional 761,000,000 shares ranking pari passu with the existing shares in all respects.
- (d) On 8 May 2001, 50,000,000 shares of \$0.01 each were issued at \$0.6 per share through public offer and placing to broaden the capital base of the Company, resulting in net cash proceeds of approximately \$23,395,000.
- (e) Immediately after the aforementioned public offer and placing, share premium of \$1,290,000 was capitalised and applied in paying up in full 129,000,000 shares of \$0.01 each which were allotted and issued as fully paid to the Company's shareholders as at 12 April 2001.

In the consolidated balance sheet, the share capital at 30 June 2000 represents the combined issued share capital at that date of the entities now comprising the Group.

22 SHARE OPTIONS

- (a) On 12 April 2001, pursuant to the Pre-IPO Share Option Scheme, share options to subscribe for 4,604,000 and 9,796,000 shares were granted to executive directors of the Company and employees of the Group respectively. The exercise price of the share options is \$0.6. All options are only exercisable to the extent of an aggregate total of 25 per cent., 50 per cent., 75 per cent. and 100 per cent. of the Pre-IPO Share Options at anytime after 6 months, 18 months, 30 months and 42 months respectively from the commencement of the trading of the shares on the GEM, and have a duration of 10 years from their respective vesting dates.

During the year, no options were exercised under the Pre-IPO Share Option Scheme.

- (b) On 12 April 2001, the shareholders of the Company approved a share option scheme ("the Scheme") under which its Board of Directors may, at its discretion, invite full-time employees of the Company or any of its subsidiaries, including directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 30% of the issued share capital of the Company. The subscription price will be determined by the Company's Board of Directors and will be the highest of (i) the nominal value of the shares, (ii) the quoted closing price of the Company's shares on the trade day immediately preceding the date of offer of the options, and (iii) the average of the quoted closing prices of the Company's shares on the five trading days immediately preceding the date of offer of the options. The Scheme became effective upon the listing of the Company's shares on 8 May 2001.

During the year, no option was granted by the Company under the Scheme.

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

23 RESERVES

	Share premium	Capital reserve	Exchange reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
(a) The Group					
At 1 July 1999	–	–	–	3,908	3,908
Profit for the year	–	–	–	4,538	4,538
Dividend to former shareholders	–	–	–	(3,450)	(3,450)
At 30 June 2000	–	–	–	4,996	4,996
At 1 July 2000	–	–	–	4,996	4,996
Premium on issue of shares	29,500	–	–	–	29,500
Share issue expenses	(6,605)	–	–	–	(6,605)
Capitalisation of share premium	(1,290)	–	–	–	(1,290)
Reserve arising from the Reorganisation	–	14,990	–	(4,999)	9,991
Exchange difference on translation of overseas associate	–	–	(96)	–	(96)
Profit for the year	–	–	–	1,578	1,578
Dividend to former shareholders	–	–	–	(1,200)	(1,200)
At 30 June 2001	21,605	14,990	(96)	375	36,874

Included in the figures for the exchange reserve and retained profits are debit balances of \$96,000 (2000: Nil) and \$557,000 (2000: Nil) respectively, being the exchange difference on translation of accounts of overseas associate and accumulated loss attributable to the associate.

Under the Companies Law (revised) of the Cayman Islands, the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

Capital reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the shares issued by the Company as consideration thereof pursuant to the Reorganisation.

23 RESERVES (continued)

	Share premium	Retained profits	Total
	\$'000	\$'000	\$'000
(b) The Company			
Premium on issue of shares	29,500	–	29,500
Share issue expenses	(6,605)	–	(6,605)
Capitalisation of share premium	(1,290)	–	(1,290)
Profit for the year	–	565	565
At 30 June 2001	21,605	565	22,170

As at 30 June 2001, in the opinion of the Directors of the Company, the reserves of the Company available for distribution to shareholders amounted to \$22,170,000, subject to the restriction stated in Note 23(a) above.

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2001	2000
	\$'000	\$'000
Operating profit	2,433	5,485
Interest income	(1,186)	(282)
Depreciation	383	163
Development expenditure capitalised	(1,575)	(1,362)
Amortisation of development expenditure	191	19
Increase in inventories	(838)	(827)
Increase in trade and other receivables	(947)	(221)
(Decrease)/increase in trade and other payables	(181)	820
Net cash (outflow)/inflow from operating activities	(1,720)	3,795

NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

24 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing

	Share capital (including Shareholders' premium)	Shareholders' loans	Amount due to potential investor
	\$'000	\$'000	\$'000
At 1 July 1999	1	594	–
Cash inflow from financing	–	–	10,000
Repayment of loans	–	(594)	–
At 30 June 2000	1	–	10,000
At 1 July 2000	1	–	10,000
Elimination prior to Reorganisation	(1)	–	(10,000)
Issue of shares upon Reorganisation	10	–	–
Issue of shares through public offer and placing	30,000	–	–
Share issue expenses	(6,605)	–	–
At 30 June 2001	23,405	–	–

25 COMMITMENTS

At 30 June 2001, the total future minimum lease payments under non-cancellable operating leases in respect of properties are payable as follow:

	The Group	
	2001	2000
	\$'000	\$'000
Within 1 year	807	348
After 1 year but within 5 years	854	76
	1,661	424

26 MATERIAL RELATED PARTY TRANSACTIONS

	2001	2000
	\$'000	\$'000
Sales to City University of Hong Kong and its related entity	162	–
Management and administrative service fee to CityU Enterprises Limited (<i>Note i</i>)	24	22
Office and facility charges payable to CityU Enterprises Limited (<i>Note i</i>)	22	84
Facilities and other service fee to City University of Hong Kong (<i>Note ii</i>)	66	54
Interest expense on shareholders' loans (<i>Note iii</i>)	–	72

Notes:

- (i) These represent expenses paid to CityU Enterprises Limited, for the services provided to the Group and the use of office and facilities during the year, in accordance with relevant agreements renewed annually with CityU Enterprises Limited.
- (ii) This represents the actual amounts charged by City University of Hong Kong for the facilities and other services provided to the Group.
- (iii) This represents interest paid to the former shareholders for the funding provided by them to finance the operations of the Group. The loans were unsecured, interest-bearing at floating rates equivalent to the best lending rate offered by The Hongkong and Shanghai Banking Corporation Limited and repayable in accordance with the loan agreements. The amounts outstanding were fully repaid during the year ended 30 June 2000.

27 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 30 June 2001 to be Etin Tech Limited, which is incorporated in British Virgin Islands.

FIVE YEAR SUMMARY
(Expressed in Hong Kong dollars)

	1997	1998	1999	2000	2001
	\$'000	\$'000	\$'000	\$'000	\$'000
Results					
Turnover	3,993	7,294	12,907	16,440	18,471
Profit from operations	312	1,613	3,742	5,485	2,433
Finance cost	(53)	(53)	(25)	(72)	-
Share of loss of an associate	-	-	-	-	(557)
Profit from ordinary activities before taxation	259	1,560	3,717	5,413	1,876
Taxation	-	(239)	(565)	(875)	(298)
Profit attributable to shareholders	259	1,321	3,152	4,538	1,578
Assets and liabilities					
Fixed assets	188	354	339	675	1,110
Interest in an associate	-	-	-	-	407
Development expenditure capitalised	-	-	-	1,343	2,727
Net current assets (liabilities)	(92)	1,063	3,570	3,277	35,027
Total assets less current liabilities	96	1,417	3,909	5,295	39,271
Non-current liabilities	-	-	-	(298)	(597)
	96	1,417	3,909	4,997	38,674
Share capital	1	1	1	1	1,800
Reserves	95	1,416	3,908	4,996	36,874
	96	1,417	3,909	4,997	38,674
Earnings per share					
Basic (cents)	0.20	1.02	2.42	3.49	1.15
Diluted (cents)	N/A	N/A	N/A	N/A	1.14

Note: The above summary has been prepared on the basis of historical cost and as if all the subsidiaries had been part of the Group throughout the periods presented.