

TeleEye

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TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)



First Quarterly Report
For the three months ended 30 September 2001

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

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This report, for which the directors collectively and individually accept full responsibility, includes particulars given in compliance with Rules Governing the Listing of Securities on GEM for the purpose of giving information with regard to TELEEYE HOLDINGS LIMITED. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover for the three months ended 30 September 2001 was HK\$3,179,000.
- Loss attributable to shareholders amounted to HK\$741,000 for the three months ended 30 September 2001.
- Basic loss per share amounted to HK0.41 cents for the three months ended 30 September 2001.

RESULTS

The Board of Directors (“the Board”) of TeleEye Holdings Limited (“the Company”) hereby announces the unaudited consolidated results of the Company, its subsidiaries and associated company (“the Group”) for the three months ended 30 September 2001 together with the comparative figures for the corresponding period in 2000 are as follows:

	Notes	Three months ended 30 September	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	3,179	7,237
Cost of sales		(887)	(1,158)
		2,292	6,079
Other revenue	3	287	199
Selling and distribution expenses		(1,264)	(1,104)
Administrative expenses		(826)	(562)
Other operating expenses		(1,206)	(1,534)
(Loss) Profit from operations		(717)	3,078
Share of loss of an associate		(164)	–
(Loss) Profit from ordinary activities before taxation		(881)	3,078
Taxation	4	140	(498)
(Loss) Profit attributable to shareholders		(741)	2,580
Basic (loss) earnings per share (HK cents)	5	(0.41)	1.98

Notes:

1. 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 results 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 of the Group for the three months ended 30 September 2001 and 2000 include the results of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation, where this is for a shorter period. All material intercompany transactions are eliminated on consolidation.

2. Turnover

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

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

3. Other revenue

	Three months ended	
	30 September	
	2001	2000
	HK\$'000	HK\$'000
Interest income	271	199
Dividend income from listed investments	16	–
	<u>287</u>	<u>199</u>

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

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

4. Taxation

The taxation (credit) charge represents:

	Three months ended	
	30 September	
	2001	2000
	HK\$'000	HK\$'000
Provision for Hong Kong profits tax at 16% of the estimated assessable profits for the period	-	400
Deferred taxation	<u>(140)</u>	<u>98</u>
	<u>(140)</u>	<u>498</u>

No Hong Kong profits tax has been provided for the three months ended 30 September 2001 as there was no assessable profit arising in or derived from Hong Kong during the period.

5. (Loss) Earnings per share

The calculation of basic (loss) earnings per share is based on the unaudited consolidated loss attributable to shareholders of HK\$741,000 (2000: profit of HK\$2,580,000), and weighted average number of 180,000,000 (2000: 130,000,000) ordinary shares outstanding after the Group's Reorganisation and the capitalisation issue in May 2001 as if those shares had been outstanding for each period presented.

During the period ended 30 September 2000, there were no potential ordinary shares outstanding whilst during the period ended 30 September 2001, the potential ordinary shares outstanding were not dilutive.

6. Dividend

The directors do not recommend the payment of dividend for the period from 1 July 2001 to 30 September 2001 (2000: Nil).

7. Reserves

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	(Accumu- -lated losses) Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2000	-	-	-	-	4,996	4,996
Profit for the period	-	-	-	-	2,580	2,580
At 30 September 2000	-	-	-	-	7,576	7,576
At 1 July 2001	21,605	14,990	(96)	-	375	36,874
Exchange difference on translation of an overseas associate	-	-	23	-	-	23
Increase in fair values of listed investments	-	-	-	(722)	-	(722)
Loss for the period	-	-	-	-	(741)	(741)
At 30 September 2001	21,605	14,990	(73)	(722)	(366)	35,434

As at 30 September 2001, the listed investments held by the Group were shares in HSBC Holdings Plc and Hutchison Whampoa Limited and units in Tracker Fund of Hong Kong.

FINANCIAL REVIEW

For the three months ended 30 September 2001, the Group's turnover was approximately HK\$3,179,000. The Group had other revenue of HK\$287,000, incurred operating expenses of HK\$3,296,000 and shared a loss from an associated company of HK\$164,000, thus making a net loss after taxation of HK\$741,000.

The Group continues to sell its products worldwide. This quarter revenue was mainly contributed by customers from Hong Kong as to approximately 45% of total revenue while Europe and Asia contributed approximately 18% and 19% to the total revenue respectively. During this quarter, revenue mainly came from sales of **TeleEye III** and **TeleEye Pro**, approximately HK\$1.6 million and HK\$1.0 million respectively.

Due to the Group's global market expansion and boosting of product development, overheads charged to the profit and loss account for this quarter slightly increased by 3% at a controllable rate. The rise in operating expenses was mainly attributable to the increase in staff costs that was in line with the increase in the Group's headcount, from 21 full time employees as at 30 September 2000 to 31 as at this quarter-end. Another increase came from the commencement of a tenancy agreement of a new office unit with effect from 1 September 2000.

At present, the Group still maintains a positive liquidity position, holding short-term bank deposits and generating HK\$271,000 interest income for this quarter.

Affected by the recession of economy and unawareness of remote management in Japan, the Group shared a net loss from its Japan operation in the first quarter ended 30 September 2001.



BUSINESS DEVELOPMENT

The Group reached the final stage of negotiations with a Singapore distributor to form a subsidiary in Singapore. The Group considers the new Singapore office as its Asian Pacific hub to expand its business further in the Asian markets.

The Group's associated company in Japan, CAMERIO Japan, Inc. ("CAMERIO") focuses on expansion of distribution network in Japan through product promotion and reseller recruitment. For the quarter ended 30 September 2001, CAMERIO has appointed six resellers, which have extensive connection in the electronics industry in Japan. CAMERIO is currently negotiating several projects that will generate revenue if they can be materialized.

The Group was invited by PCCW and Cisco to join their business forum and seminar, and provide package solution to customers. The Group is currently negotiating with Hutchison Telecom on business development issues and organizes joint event for launching the mobile **TeleEye** products.

PRODUCT LAUNCH

In September 2001, the Group launched its "**sureLINK**" Technology and new evolution of **TeleEye** series, **TeleEye III+** Network CCTV. **TeleEye III+** uses the Group's proprietary "**sureLINK**" Technology to enable remote video monitoring through low cost broadband Internet services. Users are therefore allowed to obtain 24-hour unlimited real time video economically.

The Group's research and development team developed an internal web server for **TeleEye III+** transmission unit. With its newly built-in web server, **TeleEye III+** adds live videos into users' existing websites. Therefore, users can access live video over the Internet through a standard web browser.

The Group started production and shipment of **TeleEye III+** and it is expected that the new product will put it ahead of competition.

PRODUCT RESEARCH AND DEVELOPMENT

The mobile **TeleEye**, the PDA video reception software, has been developed and entered the stage of final testing. This mobile live video solution is scheduled for launching in the next quarter.

The Group has developed the prototype of remotely accessible and large-scale Network Digital Video Recorder with local hard disk storage. The research & development team will continue to develop and further improve its performances and features.

The Group has commenced development of motion detection features for its digital video recording software and started development of large scale video server for **TeleEye** transmitter. The Group will continue to adopt camera control function for different brands of speed dome cameras.

SALES AND MARKETING

The Group continues to put its efforts on brand building, channel management, product promotion and marketing development. In June 2001, the Group's marketing staff visited its clients in the Middle East and distributors in Vietnam to explore business opportunities and strengthen its channel management. In July and September 2001, the Group signed up two new distributors in Saudi Arabia and Shanghai that will further enhance its sales coverage in the Middle East and China. In order to strengthen sales activities in local market, the Group has adopted a new reseller policy to attract more resellers for promotion sales of **TeleEye**. Reseller business review meetings and technical training were periodically carried out.

To raise awareness and promote the Group's products to the computer and system integration business, the Group participated in IT exhibitions in Hong Kong and started advertising on computer magazines. To announce the launch of **TeleEye III+** and its "**surfLINK**" Technology, the Group published and distributed e-newsletter, press release and new product leaflet to media and potential customers in various segments. Considerable resources such as continuous advertising in trade magazines, direct mailing and media interview have been devoted to increase the publicity and sales of the Group's products. The Group's Chief Executive Officer delivered speeches to major

associations in Hong Kong which generated media coverage and built a stronger brand image and value for the Group.

Telecommunication providers like PCCW, ETNS, Hutchison Telecom, Hutchison Global Crossing and Pacific Supernet have negotiated with the Group to evaluate the possibility of organizing joint promotion events or providing package solution to their customers.

The Group had started preparation for the launch of **TeleEye** mobile solution in October by organizing joint promotion event with Hutchison Telecom, hosting seminar, and participating in major exhibitions in China and Hong Kong.

OUTLOOK

Under the volatile stock market environment together with the unstable political and economic situations after the U.S. September 11 incident, the outlook for the industry as a whole will continue to be challenging in the short-term.

As a result, the Group is reviewing its future strategies and plans under the emerging global economic situation. However, the Group believes the sales of its products will not be affected much by the current conditions as substantial increase in sales enquiries for our security products has been received in September as compared to August.

The Group's subsidiary, TeleEye (S) Pte Limited, was incorporated on 6 October 2001 of which 51% of equity interest is held by the Group. Its office is under preparation and operation is expected to commence in November 2001.

Preparation for major exhibitions to be held in China and Hong Kong next quarter has been started. It is expected that the new product showcase will generate numerous sales leads for the Group. Moreover, the Group will organize seminars and joint promotion events for product launch.

Furthermore, the Group will continue its business strategy focusing on development of high value products addressing the growing demands on broadband Internet, wireless PDA and digital video recording areas optimizing the use of assets and driving costs down.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 30 September 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

DIRECTORS' AND CHIEF EXECUTIVE' INTERESTS IN SHARES

The directors and chief executive of the Company who held office at 30 September 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 (Note)	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: 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' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE EQUITY OR DEBT SECURITIES

Pursuant to the Company's Pre-IPO Share Option Scheme ("the Pre-IPO 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 at no consideration as follows:

Name of director	Date of grant	Exercise price per share	Outstanding number of shares under option as at 1 July 2001 and 30 September 2001
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
			<hr style="width: 100%; border: 0.5px solid black;"/>
			4,604,000
			<hr style="width: 100%; border: 1.5px solid black;"/>

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 GEM, and have a duration of 10 years from their respective vesting dates.

During the period, no options were granted, exercised, cancelled or lapsed under the Pre-IPO Scheme.

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 period 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.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

As at 30 September 2001, options comprising an aggregate of 14,400,000 underlying shares granted pursuant to the Pre-IPO Scheme at no consideration and at an exercise price of HK\$0.6 per share were outstanding. All of these options are subject to the same conditions and limitations as detailed in the section headed "Directors' and Chief Executive's Rights to Acquire Equity or Debt Securities" above. These options were granted to the following categories of grantees:

Categories of grantees	Total number of grantees	Number of underlying shares comprised in the options
Directors	3	4,604,000
Employees	23	9,796,000
		<u>14,400,000</u>

Details of the grant to the directors of the Company are disclosed in the section headed "Directors' and Chief Executive's Rights to Acquire Equity or Debt Securities" above.

During the period, no options were granted, exercised, cancelled or lapsed under the Pre-IPO Scheme.

Share Option Scheme

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.

To date, no options have been granted under the Scheme.



SUBSTANTIAL SHAREHOLDERS

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 September 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.

COMPETING INTEREST

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

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, AMS Corporate Finance Limited ("AMS"), neither AMS nor its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company as at 30 September 2001.

Pursuant to the agreement dated 23 April 2001 entered into between the Company and 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.

AUDIT COMMITTEE

An Audit Committee was established with written terms of reference in compliance with the requirements as set out in Rule 5.23 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive directors, Professor Siu Wan Chi (who is acting as the chairman of the audit committee) and Dr. Liao York. The Group's unaudited consolidated results for the three months ended 30 September 2001 have been reviewed by the audit committee.

By order of the Board

DR. CHAN CHOK KI

Chairman and Chief Executive Officer

Hong Kong, 12 November 2001