

**TeleEye**

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## **TeleEye Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*



**Interim Report**

**For the six months ended 31 December 2001**

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

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

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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 TELEEEYE 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 six months ended 31 December 2001 amounted to HK\$7,351,000.
- Loss attributable to shareholders amounted to HK\$1,656,000 for the six months ended 31 December 2001.
- Basic loss per share amounted to HK0.92 cents for the six months ended 31 December 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 and six months (the "Half-Yearly Period") ended 31 December 2001 together with the comparative unaudited figures for the corresponding period in 2000 are as follows:

### Consolidated Income Statement (Unaudited)

	Notes	Three months ended 31 December		Six months ended 31 December	
		2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	2	4,172	3,677	7,351	10,914
Cost of sales		(1,155)	(1,300)	(2,042)	(2,458)
		<u>3,017</u>	<u>2,377</u>	<u>5,309</u>	<u>8,456</u>
Other revenue		165	225	452	424
Selling and distribution expenses		(1,460)	(1,205)	(2,724)	(2,309)
Administrative expenses		(888)	(318)	(1,714)	(880)
Other operating expenses		(1,822)	(1,003)	(3,028)	(2,537)
(Loss) Profit from operations	2	(988)	76	(1,705)	3,154
Finance cost		(2)	-	(2)	-
Share of loss of an associate		(75)	-	(239)	-
(Loss) Profit from ordinary activities before taxation	3	(1,065)	76	(1,946)	3,154
Taxation	4	150	-	290	(498)
(Loss) Profit after taxation		(915)	76	(1,656)	2,656
Minority interests		-	-	-	-
(Loss) Profit attributable to shareholders		<u>(915)</u>	<u>76</u>	<u>(1,656)</u>	<u>2,656</u>
Dividend	6	-	(1,200)	-	(1,200)
Basic (loss) earnings per share (cents)	5	<u>(0.51)</u>	<u>0.06</u>	<u>(0.92)</u>	<u>2.04</u>

**Consolidated Statement of recognised gains and losses (Unaudited)**

		<b>Six months ended 31 December 2001 HK\$'000</b>	Six months ended 31 December 2000 HK\$'000
	<i>Notes</i>		
Exchange difference on translation of the financial statements of overseas subsidiaries and associate	11	(39)	–
Decrease in fair values of non-trading securities	11	(56)	–
Net loss not recognised in the income statement		(95)	–
Net (loss) profit for the period	11	(1,656)	2,656
Total recognised (losses) gains		<u>(1,751)</u>	<u>2,656</u>

**Consolidated Balance Sheet**

		<b>As at 31 December 2001 HK\$'000 (Unaudited)</b>	As at 30 June 2001 HK\$'000 (Audited)
	<i>Notes</i>		
<b>Non-current assets</b>			
Development expenditure capitalised		3,412	2,727
Fixed assets		1,102	1,110
Interest in an associate		129	407
Other financial assets	7	5,752	–
		<u>10,395</u>	<u>4,244</u>
<b>Current assets</b>			
Inventories		2,585	2,505
Trade and other receivables	8	2,274	1,886
Tax recoverable		569	–
Cash and cash equivalents		24,776	34,387
		<u>30,204</u>	<u>38,778</u>
<b>Current liabilities</b>			
Trade and other payables	9	3,367	2,547
Taxation		–	4
Dividend payable to former shareholders		–	1,200
		<u>3,367</u>	<u>3,751</u>
<b>Net current assets</b>		<u>26,837</u>	<u>35,027</u>
<b>Total assets less current liabilities</b>		<u>37,232</u>	<u>39,271</u>
<b>Non-current liabilities</b>			
Deferred taxation		307	597
<b>Minority interests</b>		2	–
<b>Net Assets</b>		<u>36,923</u>	<u>38,674</u>
<b>Capital and reserves</b>			
Share capital	10	1,800	1,800
Reserves	11	35,123	36,874
		<u>36,923</u>	<u>38,674</u>

**Condensed Consolidated Cash Flow Statement (Unaudited)**

For the six months ended 31 December 2001

	HK\$'000
Net cash outflow from operating activities	(2,518)
Net cash outflow from returns on investments and servicing of finance	(773)
Taxation paid	(572)
Net cash outflow from investing activities	<u>(6,059)</u>
<b>Net cash outflow before financing</b>	<b>(9,922)</b>
<b>Net cash inflow from financing</b>	<b><u>311</u></b>
<b>Decrease in cash and cash equivalents</b>	<b>(9,611)</b>
Cash and cash equivalents at 1 July 2001	<u>34,387</u>
Cash and cash equivalents at 31 December 2001	<u><u>24,776</u></u>
<b>Analysis of the balances of cash and cash equivalents</b>	
Cash at bank and in hand	2,634
Deposits with bank	<u>22,142</u>
	<u><u>24,776</u></u>

Notes:**1. Group Recognition 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 of the Group for the six months ended 31 December 2001 and 2000 include the results of the Company, its subsidiaries and associate with effect from 1 July 2000 or since their respective dates of incorporation, where this is for a shorter period. 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. All material inter-company transactions and balances have been eliminated on consolidation.

(b) *Statement of compliance*

The unaudited interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 "Interim Financial Reporting", and on a basis consistent with the accounting policies adopted by the Group in preparation of its financial statements for the year ended 30 June 2001, except that, in this first year of implementation of the standard, as permitted by Note 4 to Rule 18.55 of the GEM Listing Rules, no comparative figures have been presented for the condensed consolidated cash flow statement.

In the current period, the Group has adopted, for the first time, the following Statement of Standard of Accounting Practice issued by the Hong Kong Society of Accountants.

Investments in securities

The Group's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Dated debt securities that the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the income statement.
- (iii) Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) Profits and losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

## 2. Turnover and operating results

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.

The operations of the Group are substantially conducted in Hong Kong. The Group's turnover and operating results analyzed according to the geographical locations of the Group's customers during the financial periods are as follows:

#### Six months ended 31 December 2001

	Hong Kong HK\$'000	Asia excluding Hong Kong HK\$'000	Europe HK\$'000	North and South America HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Revenue from customers	2,947	2,028	1,443	272	745	(84)	7,351
Segment result	1,515	1,149	917	39	553	(55)	4,118
Unallocated other income							452
Unallocated corporate expenses							(6,275)
Loss from operations before finance cost							<u>(1,705)</u>

#### Six months ended 31 December 2000

	Hong Kong HK\$'000	Asia excluding Hong Kong HK\$'000	Europe HK\$'000	North and South America HK\$'000	Others HK\$'000	Consolidated HK\$'000
Revenue from customers	7,302	1,114	2,087	236	175	10,914
Segment result	5,318	645	1,316	(5)	103	7,377
Unallocated other income						424
Unallocated corporate expenses						(4,647)
Profit from operations before finance cost						<u>3,154</u>

In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information as the primary reporting format.

Segment revenue and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue and result are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Unallocated items mainly comprise corporate and financing expenses, other incomes and expenses, and minority interests.

### 3. (Loss) Profit from ordinary activities before taxation

(Loss) Profit from ordinary activities before taxation has been arrived at after charging (crediting):

	Three months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	(136)	(208)	(407)	(407)
Dividend income	(28)	–	(44)	–
Interest expenses	2	–	2	–
Depreciation	135	96	259	169
Amortisation of capitalised development expenditure	145	10	254	20
	<u>145</u>	<u>10</u>	<u>254</u>	<u>20</u>

### 4. Taxation

The taxation (credit) charge comprises:

	Three months ended		Six months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for Hong Kong profits tax at 16% of the estimated assessable profits for the period	–	–	–	400
Deferred taxation	(150)	–	(290)	98
	<u>(150)</u>	<u>–</u>	<u>(290)</u>	<u>498</u>

No Hong Kong profits tax has been provided for the six months ended 31 December 2001 as there was no assessable profit arising in or derived from Hong Kong during the period.

### 5. Basic (loss) earnings per share

The calculation of basic (loss) earnings per share is based on the unaudited consolidated loss attributable to shareholders for the three months and six months ended 31 December 2001 of HK\$915,000 and HK\$1,656,000 respectively (three months and six months ended 31 December 2000: profit of HK\$76,000 and HK\$2,656,000 respectively) and on weighted average number of 180,000,000 ordinary shares for the three months and six months ended 31 December 2001 (three months and six months ended 31 December 2000: 130,000,000) 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 three months and six months ended 31 December 2000, there were no potential ordinary shares outstanding whilst during the corresponding period ended 31 December 2001, the potential ordinary shares outstanding were not dilutive.



**6. Dividend**

The directors do not recommend the payment of interim dividend for the period from 1 July 2001 to 31 December 2001 (2000: HK\$1,200,000).

**7. Other financial assets**

	<b>31 December 2001 HK\$'000</b>	30 June 2001 HK\$'000
Non-trading securities (at market value)		
– Equity securities listed in Hong Kong	<b>3,876</b>	–
Held-to-maturity debt securities		
– Unlisted	<b>1,561</b>	–
Loans to an associate	<b>315</b>	–
	<u><b>5,752</b></u>	<u>–</u>

**8. Trade and other receivables**

	<b>31 December 2001 HK\$'000</b>	30 June 2001 HK\$'000
Trade receivables	<b>1,440</b>	1,356
Other receivables	<b>66</b>	–
Deposits and prepayments	<b>768</b>	530
	<u><b>2,274</b></u>	<u>1,886</u>

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

	<b>31 December 2001 HK\$'000</b>	30 June 2001 HK\$'000
Current	<b>595</b>	333
1 to 3 months overdue	<b>724</b>	447
More than 3 months but less than 12 months overdue	<b>121</b>	576
	<u><b>1,440</b></u>	<u>1,356</u>

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

The Group's local sales are made either on a cash-on-delivery basis or on credit terms of up to 30 days. For sales to overseas customers or the Group's distributors, the Group demands full payment in advance by telegraphic transfer. Where customers have established a favourable payment record, the Group may accept 30% deposit by telegraphic transfer before shipment, with the balance being settled immediately on arrival of the shipment or on credit terms of up to 30 days.

**9. Trade and other payables**

	<b>31 December 2001 HK\$'000</b>	30 June 2001 HK\$'000
Trade creditors	353	116
Other payables and accrued charges	912	962
Receipt in advance	441	323
Amounts due to directors	1,344	1,146
Loan from minority shareholder	312	-
Amount due to minority shareholder	2	-
Amount due to an associate	3	-
	<u>3,367</u>	<u>2,547</u>

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

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

	<b>31 December 2001 HK\$'000</b>	30 June 2001 HK\$'000
Due within 1 month or on demand	192	3
Due after 1 month but within 3 months	161	113
	<u>353</u>	<u>116</u>

**10. Share capital**

	<b>Number of shares</b>	<b>HK\$'000</b>
<i>Authorised:</i>		
(Ordinary shares of \$0.01 each)	<u>800,000,000</u>	<u>8,000</u>
<i>Issued and fully paid:</i>		
At 30 June 2001 and 31 December 2001	<u>180,000,000</u>	<u>1,800</u>

**11. Reserves**

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
At 1 July 2001	21,605	14,990	(96)	-	375	36,874
Exchange difference on translation of overseas subsidiaries and associate	-	-	(39)	-	-	(39)
Decrease in fair values of non-trading securities	-	-	-	(56)	-	(56)
Loss for the period	-	-	-	-	(1,656)	(1,656)
At 31 December 2001	<u>21,605</u>	<u>14,990</u>	<u>(135)</u>	<u>(56)</u>	<u>(1,281)</u>	<u>35,123</u>

**12. Material Related Party Transactions**

	<b>Six months ended 31 December 2001 HK\$'000</b>	Six months ended 31 December 2000 HK\$'000
Sales to City University of Hong Kong and its related entity	79	122
Management and administrative service fee to CityU Enterprises Limited ( <i>Note i</i> )	–	8
Office and facility charges payable to CityU Enterprises Limited ( <i>Note i</i> )	–	22
Facilities and other service fee to City University of Hong Kong ( <i>Note ii</i> )	20	34
Interest expense on minority shareholder's loan ( <i>Note iii</i> )	2	–
Purchase from Vicam Pte Electronics Limited ( <i>Note iv</i> )	197	–
Interest income from CAMERIO Japan Inc. ( <i>Note v</i> )	<u>1</u>	<u>–</u>

*Notes:*

- (i) These represent expenses paid to CityU Enterprises Limited, for the services provided to the Group and the use of office and facilities prior to 31 December 2000, in accordance with relevant agreements previously 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 minority shareholder, TeleCam Holdings Pte Limited, for the funding provided by it to finance the operations of TeleEye (S) Pte Limited, in which the Group has 51% interest. The loan is unsecured, interest bearing at floating rates equivalent to the prime rate offered by the Development Bank of Singapore and has no fixed repayment term. The amounts outstanding as at 31 December 2001 and 30 June 2001 amounted to HK\$312,000 and Nil respectively.
- (iv) Vicam Electronics Pte Limited has the same shareholders and directors as TeleCam Holdings Pre Limited.
- (v) This represents interest received from the shareholder loan to the associate. The loan is unsecured, interest bearing at 1% per annum and has no fixed terms of repayment. The loan outstanding as at 31 December 2001 and 30 June 2001 amounted to HK\$315,000 and Nil respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS****Financial Review**

For the Half-Yearly Period and the second quarter ended 31 December 2001, the Group generated turnover of HK\$7,351,000 and HK\$4,172,000 respectively whereas turnover of HK\$10,914,000 and HK\$3,677,000 was recorded for the previous corresponding periods in 2000. The Group had other revenue of HK\$452,000 and incurred operating expenses of HK\$7,466,000 for the six months ended 31 December 2001. The Group shared a loss from an associate of HK\$239,000 and HK\$75,000 for the Half-Yearly Period and the second quarter ended 31 December 2001 respectively. Loss attributable to shareholders for the current Half-Yearly Period was HK\$1,656,000.

Turnover for the six months ended 31 December 2001 dropped by HK\$3,563,000 or 33% as compared to the corresponding period in 2000. It was mainly due to two substantial orders in the first quarter of 2000. During the period under review, the Group continued to focus on corporations with extensive remote operations for potential big orders.

The Groups' turnover for the six months ended 31 December 2001 was mainly derived from sales of **TeleEye Pro** and **TeleEye III+** series, amounted to approximately HK\$2 million and HK\$4 million respectively, which represents more than 80% of the Group's turnover.

For the six months ended 31 December 2001, customers from Hong Kong still contributed to the greatest portion of the Group's turnover as to HK\$2,947,000 or 40% to the total turnover. Being the second largest market, Asia, excluding Hong Kong, generated a turnover of HK\$2,028,000 while Europe contributed HK\$1,443,000 to the Group's turnover.

Turnover for the three months ended 31 December 2001 increased by HK\$993,000 or 31% as compared with the first quarter ended 30 September 2001. Such increase was mainly attributable to sales promotion activities launched in the United Kingdom ("UK"), substantial orders from the China distributor for customers to monitor ATM machines in banks and local sales from Singapore subsidiary.

Due to the Group's global market expansion, boosting of product development and launch of new products, the overheads charged to the income statement for this quarter increased by HK\$874,000 or 27% when compared with the first quarter ended 30 September 2001. Rise in total expenses was mainly attributable to the increase in staff cost, advertising, promotion, travelling and rental expenses. These are in line with the Group's strategy to promote its brand name and products worldwide. New products were also introduced to the existing and potential markets by advertising in newspaper and trade magazines heavily. During this quarter, the Group moved its Service Centre to a larger unit to cater for the Group's expansion.

Because of rapid expansion of distribution network in Japan and favourable response of **TeleEye** mobile video solution, turnover from CAMERIO Japan Inc. ("CAMERIO") nearly tripled in this second quarter as compared with the first quarter ended 30 September 2001. This resulted in significant drop in share of its loss from HK\$164,000 for the three months ended 30 September 2001 to HK\$75,000 for this second quarter. During this second quarter, the Group further invested in CAMERIO by way of an interest bearing loan of HK\$315,000 to fund its general working capital requirements.

The Group's subsidiary with shareholding of 51%, TeleEye (S) Pte Limited ("TeleEye (S)") started operations in November 2001. The Group invested equity of SGD 510 and an interest bearing loan of SGD 76,000 to TeleEye (S). TeleEye (S) is engaged in selling **TeleEye** products, cameras and other accessories in Singapore and its neighbourhood. Despite the economic downturn in Singapore, TeleEye (S) recorded a breakeven result within the two-month operations. The Board expects that its result will be more promising for the coming year.

In order to better utilise the surplus cash, the Group invested HK\$3,932,000 in shares in HSBC Holdings Plc, Hutchison Whampoa Limited and units in Tracker Fund of Hong Kong, and HK\$1,561,000 in bonds issued by General Motors. As at this quarter ended 31 December 2001, market values of these Hong Kong equity securities slightly fell by 1%, amounted to HK\$56,000. Together with short term bank deposits, the Group earned interest income of HK\$136,000 and dividend income of HK\$28,000 for the three months ended 31 December 2001.

At 31 December 2001, the Group did not have any contingent liabilities.

### **Liquidity and Financial Resources**

For the six months ended 31 December 2001, the Group used its internal resources as well as proceeds from listing to finance its daily operations. The Group had no bank borrowing but a standby banking facilities of HK\$5,000,000. As at 31 December 2001, the Group had sufficient cash of HK\$2,634,000 and short term deposits of HK\$22,142,000 to cater for its future expansion.

## Employee Information

At 31 December 2001, the Group had 32 employees with 5 headcount increased when compared with the previous financial year ended 30 June 2001. Employees are basically remunerated in accordance with the nature of the job and their respective performance.

## Business Development

TeleEye (S), was incorporated in Singapore on 6 October 2001 of which 51% equity interest was held by the Group. It started operation in November 2001 and served as a hub to expand business further in the Southeast Asia market. An official opening ceremony was held to announce the new establishment. The new setup participated in two exhibitions in November and December 2001, and received overwhelming responses from potential customers. Its turnover for Half-Yearly Period was very encouraging and achieved a breakeven result. It is expected that this new subsidiary could bring profit to the Group from the Singapore market shortly.

CAMERIO, the Group's associated company in Japan, continued to focus on the expansion of distribution network in Japan through product promotion and reseller recruitment. For the Half-Yearly Period, CAMERIO appointed seven resellers who had extensive connection in the Japan electronics industry and expected to generate revenue if the projects under negotiation with them could be materialized. With the efforts from its staff, the Group shared a net loss from its Japan operation for the three months ended 31 December 2001 of HK\$75,000, which represents more than 50% decrease as compared with the first quarter ended 30 September 2001. The company also supported its resellers to showcase **TeleEye** mobile video solution in the Business Solution Seminar held by Toshiba in Tokyo, which attracted great attention. The company successfully tested the latest **TeleEye M-monitoring Solution** that could run on the high-speed Japan's PHS mobile network. It is believed that the Group's mobile solution could open the mobile video monitoring trend in the Japan market.

The Group has reached the final stage of preparation of its new office in the UK. The business and function plans have been finalised. Office site selection has been confirmed and staff recruitment for the new office has also been commenced.

The Group teamed up with Hutchison Telecom to organise a press conference to announce a joint offer of high-speed mobile monitoring solution and the newly launched **TeleEye M-monitoring Solution**. During the period under review, the Group has started preparation for the launch of package solution and joint promotion event with CLP TeleCom in January 2002.

## Product Launch

### **Live Video on Broadband Internet**

For the six months ended 31 December 2001, the Group launched its "**sureLINK**" Technology and new evolution of **TeleEye** series, **TeleEye III+** Network CCTV to customers. **TeleEye III+** enables remote video monitoring through low cost broadband Internet services by means of using the Group's proprietary **sureLINK** Technology. Users are therefore allowed to obtain 24-hour unlimited real time video economically.

An internal web server and platform independent Java decoder for **TeleEye III+** transmission unit was developed to let user add live videos into user's existing web site and get live video over the Internet through standard web browser.

The Group started production and shipment of **TeleEye III+** in October 2001. A total of 8 models of **TeleEye III+** transmission units with 4, 8 or 16 cameras and alarm inputs are available. It is expected that the new product could put the Group's products ahead of competition.

### **Live Video on Mobile**

In October 2001, the Group successfully developed and launched the video software for PDA using Windows CE platform. **TeleEye M-monitoring Solution** is compatible with that and through most mobile networks including GSM, CDMA, GPRS, PHS, HSCSD and wireless LAN. The research and development team also successfully tested the **TeleEye M-monitoring Solution** with different PDAs with brand names like CASIO, Compaq, HP, NTT, DOCOMO and Toshiba using both English and Japanese versions of Windows CE 3.0 or Pocket PC 2002.

Production and shipment of **TeleEye M-monitoring Solution** was started in October 2001 and the Group believes that it could open frontier markets in the mobile era.

### **Reception Software Enhancement**

The Group has improved and developed motion detection features for its network digital video recording software. Besides, the Group has incorporated its software products with protection and tested all its existing software products on Windows XP platforms. Four new camera control drivers were added to the software products and capable of controlling C&B, Kalatel, Shawley and SONNET speed dome cameras. The Java decoder for the web-based **Cyber TeleEye** software was further enhanced. The Group has also launched the Italian version of video reception software for the Italy market.

### **Product Research and Development**

The remotely accessible and large-scaled Network Digital Video Recorder with local hard disk storage has entered the final stage of development and testing. The product, to be referred as the **TeleEye III+** Video Recording Transmitter ("VRT"), is scheduled for launching in the next quarter.

New models of 2-camera **TeleEye III+** video transmission units with alarm inputs have been put under production. Full line reception software was ready for testing for the 2-camera **TeleEye III+** transmitter. The new models will be ready for shipment in February 2002.

The research and development team continued to test **TeleEye M-monitoring Solution** running on new models of Pocket PC like Compaq (iPAQ H3870) and CASIO (E-200) in English and Japanese version respectively. The team also tests the solution on low cost Pocket Manager series like CASIO (BE-500).

The research and development team has commenced development of solutions with Java Server Page ("JSP") and Active Server Page ("ASP") external web servers for **TeleEye III+** transmitter so as to extend user authorization level, and integrate and customize with users' existing web sites. Furthermore, the Group would continue to adopt camera control function for different brands of speed dome cameras.

### **Sales and Marketing**

Since the Group had two major products, namely **TeleEye III+** Network CCTV and **TeleEye M-monitoring Solution**, launched during the Half-Yearly Period to different markets, intensive promotion and advertising campaigns were carried out.

During the period under review, the Group unveiled its latest development in 6 major exhibitions held in Hong Kong, China, Japan, Singapore and the United States of America ("the US"). To announce its launch of new products, the Group advertised heavily in newspaper and trade magazines. To raise awareness and promote **TeleEye III+** broadband Internet products to computer and system integration business, the Group started advertising on computer magazines. Seminars were held in Hong Kong and Japan in October and December 2001 by the Group to introduce and demonstrate our resellers its latest product developments. In addition, the Group published and distributed e-newsletter, press releases and new product leaflet to media and potential customers in various segments.

The Group teamed up with the Hutchison Telecom to jointly offer a high-speed wireless monitoring solution tailored for the need in Hong Kong. A press conference was held on October 2001 to announce the newly launched **TeleEye M-monitoring Solution** and the collaboration.

Other than the promotion and advertising effort for the launch of new products, the Group continued to put its efforts on brand building, channel management and marketing development. In the Half-Yearly Period, the Group's marketing team visited clients and distributors in China, Japan, Middle East, Singapore, Eastern Europe, Western Europe and Vietnam to explore business opportunities, strengthen its channel management and provide training to clients and distributors. For the six months ended 2001, the Group signed 6 new distributors in Saudi Arabia, Shanghai, Croatia, Iran, India and Nigeria to enhance its sales coverage particularly in Eastern Europe, Middle East and China. To protect the brand names "**TeleEye**" and "**CAMERIO**", the Group successfully got registrations of its "**TeleEye**" trademark in Russia and Indonesia, and "**CAMERIO**" trademark in Taiwan.

In order to strengthen sales activities in local market, the Group has adopted a new reseller policy to attract more resellers for promotion and sales of **TeleEye**. Reseller business review meetings and technical training were periodically carried out. Considerable resources such as continuous publicity, direct mailing and media interview have been devoted to increase awareness and sales of the Group's products.

The Group's Chief Executive Officer delivered speech to major associations in Hong Kong, the HKSAR Government's forum and the Stock Exchange to generate media coverage and further enhance brand image and value for the Group.

Telecommunication providers like the CLP Telecom, ETNS, HKNET, Hutchison Telecom, Hutchison Global Crossing and Pacific Supernet negotiated with the Group to evaluate possibility of organizing joint promotion events or providing package solution to customers. The Group started preparation of joint events and publicity, with the CLP Telecom for the collaboration of its leased line service and the Group's **TeleEye** products, to be launched in January 2002.

## Outlook

The Half-Yearly Period of 2001 brought new challenges to the Group as it faced a very difficult economic situation. The challenges created price pressure to the Group and affected its turnover directly. Under the unstable political situation after the U.S. September 11 incident, the global economic downturn and the substantially drop of Japanese Yen, outlook for the industry as a whole is expected to be challenging. Responding swiftly to the global economic recession, the Group will further tighten its cost control, emphasize cost-effective activities as well as review its global business strategy for 2002 and forward.

With the worldwide economic downturn likely to continue, the Group's directors still have confidence of a bright future especially with the PRC's accession to the World Trade Organization. Sales in China had being significantly increased over the past six months and China has become a major market of the Group. The Group received substantial orders for **TeleEye** system in China for customers to monitor ATM machines in banks. The Group will strengthen its promotion activities in China to achieve further growth.

To launch the **TeleEye III+ VRT**, the Group will join exhibitions in Dubai, Hong Kong and Taiwan in the next quarter of 2002. It is expected that new product showcase will generate numerous and fruitful sales lead for the Group.

The Group will continue to build up its overseas operations in Japan and Singapore. The UK office will be in operation in mid of next quarter as scheduled. The Group will boost its marketing efforts in its major markets like Hong Kong, Europe and Southeast Asia in 2002.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Key business objectives as stated in the prospectus from 1 July 2001 to 31 December 2001

Actual business progress in respect of the period from 1 July 2001 to 31 December 2001

### Product Development

Further improve firmware of **TeleEye III**

Work finished and has included its proprietary **sureLink** technology in the new **TeleEye III+** product

Launch 8-camera and 16-camera models of **TeleEye III** transmission unit

8-camera and 16-camera models have been launched to **TeleEye III**. In addition, new 4-camera, 8-camera and 16-camera for **TeleEye III+** have also been launched

Implement web server program for **TeleEye III**

Built-in web server program and platform independent Java decoder has been implemented in **TeleEye III+**

Further improve voice coder of **TeleEAR**

**TeleEAR** has been tested to work with **TeleEye III+** or standalone operation

Test all existing software products on new operating systems

All existing software products have been tested on Windows 2000, Windows ME and Windows XP platform

Further improve **Network Digital Video Recording Software**

Work finished and has been included in the **Network Digital Video Recording Software**

Launch **TeleEye III Video Recorder**

Final stage of development and testing has commenced and to be launched next quarter under the trade name of **TeleEye III+ Video Recording Transmitter**

Further improve **Cyber TeleEye**

Platform independent Java decoder for **TeleEye III+** was developed. Development of solutions with JSP and ASP external web servers has commenced

Launch PDA video reception software

**TeleEye M-monitoring Solution** has been launched

Commence development of web camera

Research for product information has commenced

Commence development of motion detection techniques

Work finished, has been included in **Network Digital Video Recording Software** and will be used in **TeleEye III+ Video Recording Transmitter**



## **Sales and Marketing**

Set up two new offices or joint venture companies in the US and the PRC

Attend trade fairs and exhibitions in the US and Hong Kong

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

Explore business opportunities in the PRC

## **Resources deployment**

Increase management, finance and administration staff by 1 to 5

Increase engineering and research and development staff by 7 to 20

Increase sales and marketing staff by 5 to 14

Total number of full-time staff expected to be 39

The plan needs to be reviewed due to the unstable current market and economic situation

Participated in major exhibitions in China, Japan, Hong Kong, Singapore and the US

All the promotional activities have been carried out as planned especially for the launch of its new products.

Visits have been paid to China, Japan, Eastern and Western Europe, Middle East, South East Asia, the US and Vietnam

Research for business information in China has commenced

1 more finance staff has been employed, totaling 5 full-time staff

In keeping with the Group's tight control on expenditure, only 1 more engineering and research and development staff has been employed, totaling 15 full-time staff

In keeping with the Group's tight control on expenditure, only 3 more sales and marketing staff have been employed, totaling 12 full-time staff

Total number of full-time staff is 32

## USE OF PROCEEDS

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

For the six months ended 31 December 2001

	<b>Proposed</b> <i>HK\$ million</i>	<b>Actual</b> <i>HK\$ million</i>
Sales and marketing	9	3
Product development	2	2
	<u>11</u>	<u>5</u>

The remaining net proceeds of HK\$16.7 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. Due to economic downturn, the Board intends to take more prudent approach to utilise its resources. As a result, the setting up of future overseas offices as stated in the prospectus will be delayed for six to twelve months in order to allow for more in-depth planning.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 31 December 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

The directors and chief executive of the Company who held office at 31 December 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:

<b>Name of Directors</b>	<b>Ordinary shares in Personal interests</b>	<b>TeleEye Holdings Family interests</b>	<b>Limited of Corporate interests</b>	<b>HK\$0.01 each (Note) Other interests</b>
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 ("Pre-IPO Share Options") adopted by the Company on 12 April 2001, the following directors of the Company have personal interests in options to subscribe for ordinary shares in the Company of HK\$0.01 each 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 31 December 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
			4,604,000

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 the date on which the offer of grant was made.

None of the above options were exercised, cancelled or lapsed during the six months ended 31 December 2001.

Dr. Chan Chok Ki held one share of HK\$1 in 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 31 December 2001, options comprising an aggregate of 13,724,000 underlying shares granted pursuant to the Pre-IPO Share Option 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 limitations on the timing of exercise 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	As at 1 July 2001	Number of options Movement during the period			As at 31 December 2001
			Granted	Exercised	Cancelled	
Directors and Chief executive	3	4,604,000	-	-	-	4,604,000
Employees	22	9,796,000	-	-	(676,000)	9,120,000
		14,400,000	-	-	(676,000)	13,724,000

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 six months ended 31 December 2001, 676,000 options granted to one employee were lapsed when he ceased to be employed by the Group.

### **Share Option Scheme**

On 12 April 2001, the shareholders of the Company approved a share option scheme ("the Scheme") under which the Board 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 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 31 December 2001 amounting to 10% or more of the ordinary shares in issue:

	<b>Ordinary shares held</b>	<b>Percentage of total issued shares</b>
Etin City Limited <sup>(Note 1)</sup>	104 million	57.8
Secure Technology Limited <sup>(Note 2)</sup>	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 management shareholders (as defined in the GEM Listing Rules) of the Company had any interest in any business, which competes or may compete with the business of the Group.

## **SPONSOR'S INTEREST**

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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 31 December 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.

## **BOARD PRACTICES AND PROCEDURES**

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During the six months ended 31 December 2001, none of the directors is aware of information that would reasonably indicate that the Company was not in compliance with Rules 5.28 to 5.39 of the GEM Listing Rules.

## **AUDIT COMMITTEE**

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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 six months and three months ended 31 December 2001 have been reviewed by the audit committee.

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

Hong Kong, 7 February 2002