



TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

THIRD QUARTERLY REPORT For the nine months ended 31 March 2002

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid reports 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 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 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 nine months ended 31 March 2002 amounted to HK\$11,272,000.
- Loss attributable to shareholders amounted to HK\$3,268,000 for the nine months ended 31 March 2002.
- Basic loss per share amounted to HK1.82 cents for the nine months ended 31 March 2002.

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 an associate (the "Group") for the three months and nine months ended 31 March 2002 together with the comparative unaudited figures for the corresponding periods in 2001 as follows:

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Notes	Three months ended 31 March		Nine months ended 31 March	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	3,921	3,426	11,272	14,340
Cost of sales		(1,130)	(848)	(3,172)	(3,306)
		2,791	2,578	8,100	11,034
Other revenue	3	81	109	533	533
Selling and distribution expenses		(1,463)	(1,381)	(4,187)	(3,690)
Administrative expenses		(1,008)	(624)	(2,722)	(1,504)
Other operating expenses		(2,169)	(1,182)	(5,197)	(3,719)
(Loss) Profit from operations		(1,768)	(500)	(3,473)	2,654
Finance cost		(3)	–	(5)	–
Share of loss of an associate		(84)	(325)	(323)	(325)
(Loss) Profit from ordinary activities before taxation		(1,855)	(825)	(3,801)	2,329
Taxation	4	183	83	473	(415)
(Loss) Profit after taxation		(1,672)	(742)	(3,328)	1,914
Minority interests		60	–	60	–
(Loss) Profit attributable to shareholders		(1,612)	(742)	(3,268)	1,914
Dividend	6	–	–	–	(1,200)
Basic (loss) earnings per share (cents)	5	(0.90)	(0.57)	(1.82)	1.47

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 “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 nine months ended 31 March 2002 and 2001 include the results of the Company, its subsidiaries and an 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 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		Nine months ended	
	31 March		31 March	
	2002	2001	2002	2001
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Interest income	81	109	488	516
Dividend income from listed investments	–	–	44	–
Sundry income	–	–	1	17
	<u>81</u>	<u>109</u>	<u>533</u>	<u>533</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 comprises:

	Three months ended		Nine months ended	
	31 March		31 March	
	2002	2001	2002	2001
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Provision for Hong Kong profits tax at 16% of the estimated assessable profits for the period	–	15	–	415
Deferred taxation	(183)	(98)	(473)	–
	<u>(183)</u>	<u>(83)</u>	<u>(473)</u>	<u>415</u>

No Hong Kong profits tax has been provided for the nine months ended 31 March 2002 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 nine months ended 31 March 2002 of HK\$1,612,000 and HK\$3,268,000 respectively (three months and nine months ended 31 March 2001: loss of HK\$742,000 and profit of HK\$1,914,000 respectively) and on weighted average number of 180,000,000 ordinary shares for the three months and nine months ended 31 March 2002 (three months and nine months ended 31 March 2001: 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 nine months ended 31 March 2001, there were no potential ordinary shares outstanding whilst during the corresponding period ended 31 March 2002, the potential ordinary shares outstanding were not dilutive.

6. Dividend

The Board does not recommend the payment of dividend for the nine months ended 31 March 2002 (2001: HK\$1,200,000).

7. 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 2000	–	–	–	–	4,996	4,996
Profit for the period	–	–	–	–	2,656	2,656
Dividend to former shareholders	–	–	–	–	(1,200)	(1,200)
At 31 December 2000	–	–	–	–	6,452	6,452
(Loss) for the period	–	–	–	–	(742)	(742)
At 31 March 2001	–	–	–	–	5,710	5,710
At 1 July 2001	21,605	14,990	(96)	–	375	36,874
Exchange difference on translation of overseas subsidiaries and an 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	21,605	14,990	(135)	(56)	(1,281)	35,123
Exchange difference on translation of overseas subsidiaries and an associate	–	–	(10)	–	–	(10)
(Decrease) in fair values of non-trading securities	–	–	–	(208)	–	(208)
(Loss) for the period	–	–	–	–	(1,612)	(1,612)
At 31 March 2002	21,605	14,990	(145)	(264)	(2,893)	33,293

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial review

For the third quarter and nine months ended 31 March 2002, the Group generated turnover of HK\$3,921,000 and HK\$11,272,000 respectively which represented an increase of 14% and a decrease of 21% respectively over the previous corresponding periods in 2001. The Group had other revenue of HK\$81,000, incurred operating expenses of HK\$4,640,000 and shared a loss from an associate of HK\$84,000 for this quarter ended 31 March 2002. Loss attributable to shareholders for the third quarter and the nine months ended 31 March 2002 were HK\$1,612,000 and HK\$3,268,000 respectively.

The Group's turnover for the third quarter ended 31 March 2002 was mainly derived from sales of **TeleEye Pro** and **TeleEye III+** series, amounting to approximately HK\$3 million, which represents more than 75% of the Group's turnover.

During the period under review, the Group continued its strategy of developing and expanding local and overseas markets. For the third quarter ended 31 March 2002, customers from Asia including Hong Kong contributed to the greatest portion of the Group's turnover as to HK\$2,703,000 or 69% of the total turnover. European market was the second largest market and generated turnover of HK\$618,000 which represented 16% of the total turnover. A turnover of HK\$346,000, representing 9% of the total turnover, was reported in the Middle East market which became the third largest market of the Group in this quarter.

Turnover for the third quarter ended 31 March 2002 increased by HK\$495,000 or 14% as compared with the corresponding quarter in 2001. Such increase mainly attributed to sales in Singapore made by the Group's subsidiary, TeleEye (S) Pte Limited ("TeleEye (S)"), and sales generated by the new markets of Middle East, Macau and Taiwan.

The prevailing strong US dollar and recent global economic downturn remain the major obstacles for both the local and overseas sales. This resulted in a decrease in turnover of HK\$3,068,000 or 21% for the nine months ended 31 March 2002 as compared with the corresponding period of the preceding financial year. In order to improve the competitiveness of the Group's products in various countries, new pricing structures were adopted with effect from early March 2002. The Board believes that the new pricing strategy will bring positive effect to the turnover of the Group next quarter.

In line with the Group's global market expansion, boosting of product development and launch of new products, the overheads charged to the income statement for the nine months ended 31 March 2002 increased by HK\$3,193,000 or 36% when compared with the corresponding period in 2001. Comparing total overheads incurred in this quarter with that in the third quarter of previous financial year, an increase of HK\$1,453,000 or 46% was recorded. It was mainly attributable to the increase in staff headcount, frequent travel to actively participate in exhibitions and business visits, higher rental charges for larger Service Centre and new offices in overseas markets, and additional professional fees to maintain the Company's listing status.

Rapid expansion of distribution network in Japan and favourable response of **CAMERIO** mobile video solution driving turnover from CAMERIO Japan Inc. ("CAMERIO"), resulted in an increase by approximately 9% in the third quarter ended 31 March 2002 as compared with the second quarter ended 31 December 2001. Share of loss from the associate decrease sharply by HK\$241,000 in the third quarter of this year as compared with that of the corresponding period of previous financial year. Price review on some **CAMERIO** products was carried out in March for the Japan market. It is expected that the new pricing strategy will further boost up the sales of CAMERIO.

TeleEye (S) reported an approximately 22% increase in turnover when comparing the third quarter ended 31 March 2002 with the second quarter ended 31 December 2001. However, it recorded a loss of HK\$122,000 in the third quarter ended 31 March 2002. This was primarily attributable to the increase in staff cost and rental expense. Two more staff were hired to cater for the sale and marketing functions. Meanwhile, TeleEye (S) moved to a larger unit in a high technology centre in December 2001. Having a better and larger showroom to demonstrate **TeleEye** products, TeleEye (S) can further promote its corporate image in Singapore.

The Group's subsidiary in the United Kingdom (the "UK"), TeleEye Europe Limited ("TeleEye Europe"), started its normal operation during this quarter. One sales manager was hired in March to carry out the local sale and marketing activities. Having a local office in the UK and implementing new pricing strategy, the board believes that more sales will be generated from the UK segment.

The Group invested HK\$3,932,000 in shares in HSBC Holdings Plc and Hutchison Whampoa Limited and units in Tracker Fund of Hong Kong and HK\$1,561,000 in bonds issued by General Motors. As at 31 March 2002, market values of these Hong Kong equity securities fell by 7%, amounting to HK\$264,000. Together with short term fixed deposits placed in Hang Seng Bank, the Group earned interest income of HK\$81,000 for the three months ended 31 March 2002. Because of the significant drop in interest rate, interest income generated in this quarter decreased by HK\$28,000 as compared with the same quarter in 2001.

Employee information

Staff cost, including directors' remuneration and amount capitalised as development expenditure, was HK\$7,982,000 for the nine months ended 31 March 2002 as compared with that of HK\$6,216,000 for the corresponding period of the preceding financial year. Such increase was in line with the growth in number of full-time employees from 26 as at 31 March 2001 to 38, of which 5 staff were in the overseas offices as at 31 March 2002. Employees were paid at market remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training. Details of the employee share options schemes were set out under the section headed "Share Option Schemes".

Liquidity and financial resources

For the nine months ended 31 March 2002, the Group used its internal resources as well as proceeds from listing to finance its daily operations. The Group had no bank borrowing but standby banking facilities of HK\$5,000,000 from Hang Seng Bank. As at 31 March 2002, the Group had sufficient cash of HK\$3,122,000 and short term deposits of HK\$18,705,000 to cater for its future expansion.

Contingent liabilities

At 31 March 2002 and 30 June 2001, the Group did not have any contingent liabilities.

Charges on assets

As at 31 March 2002 and 30 June 2001, the Group did not have any charge on its assets.

Material investments and capital assets

Other than those disclosed in the Company's Prospectus dated 24 April 2001 under the section headed "Statement of Business Objectives", the Group did not have any plan for material investments and acquisition of material capital assets as at 31 March 2002.

Business development

TeleEye (S) carried out intensive marketing works particularly in promotion so as to increase brand awareness of **TeleEye** in the Singapore market. In order to reach different target customers, TeleEye (S) carried out direct mailing exercise for certain potential target groups. Moreover, the company proactively visited resellers to introduce new **TeleEye** products and strengthen its sales channel.

CAMERIO continued to focus on its business expansion through product promotion and reseller recruitment. Further to joining the Business Solution Seminar in last quarter, CAMERIO showcased **CAMERIO M-monitoring Solution** in the Technical Show Japan 2002 in January. Once again, visitors in the show were amazed at the high-speed video stream for mobile video monitoring.

TeleEye Europe was in operation since February and a press announcement was made for this new establishment. The Group focused on setting up a solid foundation for further expansion in the UK market. Furthermore, it is now preparing launch of new products and a series of reseller recruitment programs in the coming exhibition in May.

The Group started to evaluate different business models for the China market. Research study on office location, company setup procedure and logistics in business operations was carried out.

Product launch

TeleEye III+ Video Recording Transmitter (“TeleEye III+ VRT”)

The Group started production and shipment of **TeleEye III+ VRT** at the end of March 2002. A total of 3 models of **TeleEye III+ VRT** transmitter with 4, 8 or 16 cameras and alarm inputs were available. Market response to the new product was very encouraging and a number of orders were made in this quarter. It is expected that the product will bring promising sales for the coming quarter.

TeleEye III+ Video Transmitter (“TeleEye III+ VT”)

New model of 2-camera **TeleEye III+ Video Transmitters** with alarm inputs was launched. It is expected that the new model will open up small or home use market.

Live Video on Mobile

The research and development team successfully tested **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 successfully tested it on low cost Pocket Manager series like CASIO (BE-500). In addition, the Group developed the P/T/Z control and alarm dial back functions for the solution.

Reception Software Enhancement

The Group improved motion detection features for reception software of the **TeleEye III+ VRT**. Four camera control drivers were added to the software products, which are capable of controlling Nicecam (MP-1000), Canon (VC-C4 & VC-C4R) and Demco (TPT-101, TPT-102 & TPT-103). The Group also launched German version of video reception software for the Germany market.

Product research and development

The research & development team will further enhance the capability and performance of **TeleEye III+ VRT**. The Group incorporated **TeleEye III+ VRT** with motion detection features.

Development of solutions with Java Server Page (“JSP”) and Active Server Page (“ASP”) external web servers for **TeleEye III+ transmitters** is still under the process of program consolidation and performance tuning.

The Group will continue to adapt camera control function for various brands of speed dome camera. A video server program that supports more users access than the present version is under development. Moreover, the Group started study and research work on development and application of network camera.

Sales and marketing

The Group continues to put its efforts on brand building, channel management and market development. Since the major products **TeleEye III+ VT** with 2-camera models and **TeleEye III+ VRT** launched in February and March 2002 respectively, extensive promotion and advertising campaigns, like advertising in trade magazine, direct mailing, press announcement and e-newsletter started globally. During the period under review, the Group showcased its latest **TeleEye III+ VRT** in 4 major exhibitions held in Dubai, Japan, Taiwan and Hong Kong with overwhelming responses.

The Group teamed up with CLP TeleCom to jointly offer its international private leased line service and the Group’s **TeleEye** products. A package solution was offered to the customers in the period from January to March 2002. Joint press release and interviews were made to announce this partnership. The Group was invited to join CLP TeleCom seminar for introducing remote monitoring application to market professionals. Moreover, the Group participated in a press conference held by K. Wah Real Estates Co. Ltd. During the press conference, a joint offer of **TeleEye III+ VT** and **TeleEye M-monitoring Solution** to its residential buyers was announced.

For the period under review, the Group’s marketing staff continued to visit clients and distributors in China, Japan, Middle East, Singapore, Eastern Europe and Western Europe and introduce the Group’s new **TeleEye III+ VRT** products. The Group appointed 10 new resellers for Hong Kong market in this quarter. All are active in promotion and sales of **TeleEye** products. Responding to the global economic recession and strong US dollars, the Group adopted a new pricing structure for **TeleEye Pro** and **TeleEye III+** in its local and overseas markets in March 2002. The Board believes that the price review will make the **TeleEye** products more competitive so as to improve the Group’s performance.

The Group published four newsletters and conducted direct mailing to more than 20,000 potential customers, dealers and distributors worldwide. The Group also obtained coverage on new products and business development from local and overseas mass media. The Group's Chief Executive Officer also delivered speeches to academic and security associations in Hong Kong, which had further enhanced brand awareness and value of the Group.

Fukuoka IT Mission from Japan showed their interests in the Group's latest **CAMERIO M-monitoring Solution** and had paid a visit to the Group in March. During the visit, the Mission revealed that mobile video monitoring solution would possess great potential in Japan market.

Outlook

Under the difficult global economic situation, the Group faced with tough price pressure. Responding to the challenges, the Group will continue to tighten its cost control and adopt cost-effective activities. The Group will continuously review its pricing strategy of **TeleEye** products and adopt appropriate pricing structure in different markets so as to attain competitiveness. The Group expects that review on pricing structure will bring positive results to its sales.

The launch of **TeleEye III+ VRT** started in March 2002 and a series of launch programs will be continued in the next quarter. The Group will participate in major exhibitions to be held in the UK, Shanghai and Hong Kong. It is expected that showcase of **TeleEye III+ VRT** will generate numerous sales leads to the Group. Moreover, the Group has organised workshops or seminars in April in order to introduce the **TeleEye III+ VRT** to resellers and dealers.

The Group will emphasise on building up business operation in its UK office. Among the existing markets, substantial increase in sales in Middle East market was reported. It is expected that sales will continue to increase. The Group has realised the opportunity in this market and focused on exploring the business there.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 31 March 2002, 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 EQUITY AND DEBT SECURITIES

The directors and chief executive of the Company who held office at 31 March 2002 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:

	Ordinary shares in TeleEye Holdings Limited of HK\$0.01 each			
	Personal interests	Family interests	Corporate interests	Other interests
			<i>(Note)</i>	
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.

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.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE EQUITY OR DEBT SECURITIES

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 ("Pre-IPO Share 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 March 2002
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	<u>1,364,000</u>
			<u><u>4,604,000</u></u>

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 any time 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 nine months ended 31 March 2002.

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 the age of 18 to acquire benefits by means of the acquisition of equity or debt security of the Company or any other body corporate.

SHARE OPTION SCHEMES

Pre-IPO Share Option Scheme

As at 31 March 2002, 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 January 2002	Number of options				As at 31 March 2002
			Granted	Exercised	Cancelled	Lapsed	
Directors and Chief executive	3	4,604,000	–	–	–	–	4,604,000
Employees	22	9,120,000	–	–	–	–	9,120,000
		<u>13,724,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>13,724,000</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.

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 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 March 2002 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 had 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 31 March 2002.

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 and nine months ended 31 March 2002 have been reviewed by the audit committee.

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

Hong Kong, 13 May 2002