*Tele*Eye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2002

CORPORATE PROFILE

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

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

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

Following more than eight years of development, the ***Tele*Eye** products serve many major clients worldwide. The Group currently has an extensive distribution network of dealers and distributors in 22 countries worldwide. The ***Tele*Eye** products are deployed by well-known corporations like Luk Fook Holdings Company Limited, FANCL House, Hutchison Global Crossing Limited, The Hongkong and Shanghai Banking Corporation Limited, Swire Coca-Cola Hong Kong Limited, British Airway plc., etc.

To further tap into the regional market, the Group formed companies in Japan (CAMERIO Japan, Inc.) and Singapore (TeleEye (S) Pte Limited) in October 2000 and November 2001 respectively. Furthermore, the Group's subsidiary in the United Kingdom started operation in February 2002.

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

VISION BEYOND BOUNDARIES

CONTENTS

CORPORATE STRUCTURE

- **TeleEye Holdings Limited** *(Incorporated in the Cayman Islands)* Investment Holding
  - 100% **Signal Communications Holdings Limited** *(Incorporated in the British Virgin Islands)* Investment Holding
    - 100% **SiCOM Japan Limited** *(Incorporated in the British Virgin Islands)* Investment Holding
      - 49% **CAMERIO JAPAN, Inc.** *(Incorporated in Japan)* Sales and marketing of remote audio and video monitoring systems in Japan
    - 100% **SiCOM Far East Limited** *(Incorporated in the British Virgin Islands)* Investment Holding
      - 51% **TeleEye (S) Pte Limited** *(Incorporated in Singapore)* Sales and marketing of remote audio and video monitoring systems in Singapore and its neighbourhood
    - 100% **SiCOM Europe Limited** *(Incorporated in the British Virgin Islands)* Investment Holding
      - 100% **TeleEye Europe Limited** *(Incorporated in the United Kingdom)* Marketing of remote audio and video monitoring systems in Europe
    - 100% **Signal Communications Limited** *(Incorporated in Hong Kong)* Research and development, sales and marketing of remote audio and video monitoring systems
      - 100% **SiCOM China Limited** *(Incorporated in the British Virgin Islands)* Investment Holding
        - 100% **千里眼數碼科技（深圳）有限公司** *(Incorporated in the People's Republic of China (the "PRC") in August 2002)* Research and development, production, sales and marketing of remote audio and video monitoring systems in the PRC

CORPORATE INFORMATION

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

NON-EXECUTIVE DIRECTOR
Dr. CHAN Cheung Fat

INDEPENDENT NON-EXECUTIVE DIRECTORS
Professor SIU Wan Chi
Dr. LIAO York

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http://www.TeleEye.com
http://www.TeleEye.net
http://www.CAMERIO.com
http://www.TeleEye.com.cn
http://www.TeleEAR.com
http://www.TeleEye.info
http://www.TeleEye.biz
http://www.TeleEye.com.sg
http://www.TeleEye.com.hk
http://www.香港千里眼.公司
http://www.香港千里眼.公司.cn
http://www.千里眼.com
http://www.千里眼.net

COMPANY SECRETARY
Ms. WONG Siu Fan *AHKSA, ACCA*

AUTHORISED REPRESENTATIVES
Dr. CHAN Chok Ki
Ms. WONG Siu Fan

COMPLIANCE OFFICER
Mr. HO Ka Ho

QUALIFIED ACCOUNTANT
Ms. WONG Siu Fan *AHKSA, ACCA*

AUDIT COMMITTEE MEMBERS
Professor SIU Wan Chi
Dr. LIAO York

PRINCIPAL BANKER
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AUDITORS
Messrs Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
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Hong Kong

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of TeleEye Holdings Limited (the "Company") and, its subsidiaries (hereinafter collectively referred to as the "Group"), I hereby present the audited consolidated results of the Group for the year ended 30 June 2002 and summarise the recent development and major activities of the Group for the year ended 30 June 2002 (the "Year").

Upon the Company's listing on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited in May 2001, the Group has invested substantially in market expansion and product development. These increased operating expenses mostly would have been covered by revenue, however, the difficult global economic environment and the increase in competition, especially from South Korea and Taiwan's manufacturers, made a negative impact on the Group's turnover.

To face the challenges, the Group set up new offices in Singapore and the United Kingdom ("UK") and launched a series of new products including ***Tele*Eye *III+*** Network CCTV series, proprietary "***sure*LINK**" Technology for broadband connection, mobile video solution and digital video recording products during the Year. To increase public awareness and unveil its latest developments, the Group participated in over 10 exhibitions worldwide and held seminars, visits and training workshops to resellers and distributors around the world.

The opening ceremony of TeleEye (S) Pte Limited.

The Group believes the building up of new marketing offices and speeding up its product development will provide a strong foundation for growth when the economy improves. In view of the poor economic situation, the Group constantly reviews its cost structure and productivity. The Group is setting up its next office in China in order to capture the growing market and to reduce production and development costs.

REVIEW

For the year ended 30 June 2002, the Group's turnover was approximately HK$17,005,000 (2001: HK$18,471,000), down by 8% from previous year. Loss attributable to shareholders amounted to approximately HK$4,399,000 in this Year. Basic loss per share was 2.44 HK cents. There was a substantial increase in expenditure of the Group, especially in staff costs and operating expenses, which were resulted from the Group's expansion. To penetrate into the global remote management markets, the Group has diversified its distribution channels, expanded its marketing and sales, and research and development teams and participated extensively in exhibitions that drove up its overheads. The Group believes that its turnover from target markets will continue to improve as its overseas offices will be able to capture the opportunities by providing better marketing and product support.

BUSINESS DEVELOPMENT

To cope with the Group's global expansion plan, the Group successfully raised funds through placing and public offer in the GEM last year. In November 2001, the Group set up a new subsidiary, TeleEye (S) Pte Limited ("TeleEye (S)") in Singapore. The office serves as a hub to expand business in Singapore as well as the South East Asia. It carried out intensive marketing work particularly in promoting public awareness and strengthening sales channels of ***Tele*Eye** products. The Group believes that these will result in a steady growth of sales of TeleEye (S) and expects TeleEye (S) can achieve a breakeven within a year.

The Group's another subsidiary, TeleEye Europe Limited ("TeleEye Europe") started operation in the UK since February 2002. This establishment aims to set up a solid foundation for further expansion into the UK and European

CHAIRMAN'S STATEMENT

markets. It has formed strategic partnership with four leading alarm response centers in the UK and Ireland to provide visual verification services to customers. The collaborations strengthen the Group's distribution network in the British and Irish markets.

Affected by the stagnant economy in Japan and the depreciation of Japanese Yen, the Group shared a net loss from its associate, CAMERIO Japan, Inc. ("CAMERIO"). The Group's mobile video monitoring solution has attracted much attention in the Japanese market where the excellent mobile communication infrastructure and reasonable data service fees in Japan provide a favorable environment for mobile video applications. During the Year, CAMERIO participated in major exhibitions and forums to showcase the ***CAMERIO* M-monitoring Solution**. With the help of NTT DoCoMo, the Group has tested its video solution on the Japanese 3G mobile network in the Tokyo region with satisfactory results.

PRODUCT LAUNCH

During the Year, the Group launched a series of new products to meet different types of customers' demands.

Live Video on Broadband Internet

Following the success of ***Tele*Eye *III***, the Group launched its ***Tele*Eye *III*+** Network CCTV series with "***sure*LINK**" Technology. The proprietary "***sure*LINK**" Technology enables the ***Tele*Eye *III*+** to connect the Internet through ADSL with dynamic IP address. Shipment of the ***Tele*Eye *III*+** with 4, 8 or 16 cameras and alarm input models started in October 2001. To cater for small business operations, 2-camera model of ***Tele*Eye *III*+** is also available for the market. The launch of broadband Internet products attracts many leading telecommunications operators and equipment manufacturers to approach the Group for package solution or joint promotion event.

The Group's Chairman introduced the TeleEye M-monitoring Solution to Mr. Antony Leung Kam-chung, Financial Secretary of the HKSAR.

Live Video on Mobile

In view of the rapid development of mobile communication, ***Tele*Eye** products have also gone mobile. The research and development team has successfully developed a video software – ***Tele*Eye M-monitoring Solution** for Pocket PCs running on Windows CE platform. It is compatible with most mobile networks including GSM, CDMA, GPRS, PHS, HSCSD and wireless LAN. The research and development team also successfully tested the solution with popular Pocket PCs like CASIO, Compaq, HP, NTT DoCoMo and Toshiba. The Group also teamed up with Hutchison to launch a joint offer of high-speed mobile video solution with 2.5G CDMA data service and ***Tele*Eye M-monitoring Solution**.

Tele*Eye *III*+ *product series.

Digital Video Recording Transmitter

High-performance digital video recorders will replace analog video tape recorders. To cater for the market needs, the Group successfully developed and launched its ***Tele*Eye *III*+** Video Recording Transmitter ("***Tele*Eye *III*+ VRT**") at the end of March 2002. The ***Tele*Eye *III*+ VRT** is a reliable digital video transmitter that features multiple video and alarm inputs, long recording time and remote video playback. Market response to this new product was very encouraging. In fact, the ***Tele*Eye *III*+ VRT** contributed approximately 10% of the total revenue in 2002 since its debut at the end of March 2002.

CHAIRMAN'S STATEMENT

Reception Software Enhancement

The Group has improved the features of all its existing software products and tested on the Windows XP platform. Furthermore, the Group has tested and added different new camera control drivers to its existing software products, which are capable of controlling popular speed dome cameras including C&B, Kalatel, Shawley, SONNET, Nicecam and Canon. The Group has also launched the Italian, German and Dutch versions of its video reception software for the European markets.

RESEARCH & DEVELOPMENT

As a technology-driven company, the Group aggressively develops advanced signal processing and communication technology products using the Internet, wireless LAN and mobile channels as communication media to meet different market demands.

Professional Model of Video Recording Transmitter

Since the standard models of ***Tele*****Eye *III+* VRT** are well received by the market, the Group has further uplifted the performance of the professional models by enlargement of the recording capacity and boosting the recording frame rate. The Group has already launched the professional models in July 2002.

One-Plug Module Network Closed Circuit Television (CCTV)

New model of 1-camera ***Tele*****Eye *III+*** Video Transmitter with alarm input has been put in production and was ready for shipment in early September 2002. This new model can be linked to the existing computer network in any corporations and turn it into a powerful company-wide video monitoring system. The digital network CCTV will replace analog CCTV network and save the expensive cost of the traditional video cabling.

Web Video Solution

Development of Active Server Page ("ASP") external web server solution for ***Tele*****Eye *III+*** transmitters was finished. It will be consolidated into a new product, ***Cyber Tele*****Eye Web Video Solution**, that will be served as a development tool to create and manage live video on users' existing web page. The ASP enables the web video page to be built on popular login database systems. To cater the needs of video broadcast applications, a scalable video server solution that allows a large number of web video viewers is being developed. This new solution was launched in early September 2002.

Multi-site Video Reception Software

The newly developed Multi-site Video Reception Software can view up to 16 remote sites simultaneously from a personal computer. It is most suitable for multi-location management, for instance, centralised control of chain stores and alarm centres. This new software was ready in early September 2002.

CCTV Camera

To explore potential market in the industry and generate revenue, the Group has tested some OEM cameras to work with ***Tele*****Eye** products. A Colour Pan/Tilt Dome Camera, ***Tele*****Eye DM326** is available to the market in September 2002. The Group will continue to source potential OEM CCTV products to increase revenue for the Group.

SALES AND MARKETING

For the launch of new products, development of overseas offices, brand building and market development, the Group adopted intensive promotion campaigns and international exhibition participation during the Year.

CHAIRMAN'S STATEMENT

To raise brand awareness and introduce the latest developments, the Group participated actively in over 10 leading exhibitions in Hong Kong, China, Japan, Dubai, Singapore, the UK, Taiwan and the U.S.. The Group also advertised in major trade magazines, issued press releases, and conducted seminars and product training for resellers and distributors to increase publicity.

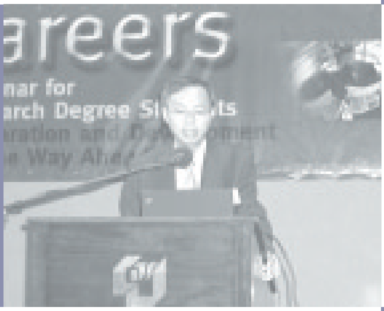
The launch of the broadband Internet and mobile video products attracted many telecommunications providers like PCCW, Pacific Supernet, HKNET, Hutchison Global Crossing to evaluate possibility of organising joint promotion events or providing package solution to their customers. The Group teamed up with Hutchison Telecom to offer a high-speed wireless monitoring solution and with CLP TeleCom to provide video solution on their international private leased line service. Press conference, joint press release and interviews were held to announce these two collaborations.

Responding to the global economic recession, the Group applied new pricing structure and incentive schemes to markets in different countries to boost up the sales. The Group's marketing staff actively visited overseas clients and held business review meetings and technical training workshops periodically. For the year ended 30 June 2002, the Group appointed 7 distributors worldwide to enhance its sales coverage.

PROSPECTS

To meet with the challenges ahead, the Group will constantly review its cost structure and overall productivity. The setting up of an office in China will reduce production and development costs while at the same time capture China's growing market opportunities. A China subsidiary was incorporated in August 2002 and is in the process of setting up its office.

The Group's Chairman delivered speech to major associations in Hong Kong.



To prepare for future growth when global economy bounces back, the Group continues to build up its distribution network worldwide and speed up product development to keep ahead of competitors. With its global brand image, the Group will build up a CCTV camera product line to fully utilise its sales channels.

The Group will look for strategic alliance with alarm response centres, Internet and mobile service operators to provide integrated solution for customers. It will work with property developers to add video monitoring solution to intelligent building projects.

The Group believes the above strategies will improve market penetration, lower costs, strengthen competitive edge, grow revenue and bring profit in the coming year.

APPRECIATION

On behalf of the Board, I would like to express my gratitude to the management and staff of the Group for their hard work and to our shareholders, business associates, the City University of Hong Kong, customers and suppliers for their continuous support.

Dr. Chan Chok Ki
Chairman and Chief Executive Officer

Hong Kong, 18 September 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover of the Group for the year ended 30 June 2002 was approximately HK$17,005,000 (2001: HK$18,471,000), which was down by 8% as compared to the previous financial year. On a quarter-to-quarter comparison, turnover of the Group for the three months ended 30 June 2002 increased by 39% to approximately HK$5,733,000 when compared with the same period last year, and a surge of 46% as compared to the previous quarter. Such a sharp increase was mainly attributable to the new pricing strategy adopted in late March 2002 and the overwhelming sales of the newly launched ***Tele*Eye *III* + VRT.**

During the Year, the Group's turnover was mainly generated from the sales of ***Tele*Eye *III*** and ***Tele*Eye *III+*** series, which accounted for approximately 50% (2001: ***Tele*Eye *III*** accounted for approximately 10%) of the Group's total turnover whereas ***Tele*Eye *Pro*** contributed approximately 20% of the total turnover (2001: approximately 60%). On the other hand, ***Tele*Eye *III+* VRT** contributed approximately 10% of the total turnover since its debut in March 2002.

Other income significantly dropped by 43% to approximately HK$688,000, which was attributable to the decrease in interest earned from short-term deposits as a result of the falls in both global interest rate and the Group's surplus cash level. In order to enhance the interest yield, the Group invested approximately HK$1,561,000 in bonds issued by General Motors, which generated interest of approximately HK$49,000, during the year ended 30 June 2002. Included in other income was also approximately HK$113,000 dividend income from shares of HSBC Holdings Plc and Hutchison Whampoa and units in Tracker Fund of Hong Kong. Those shares and units were purchased during this financial year and the total investment costs were approximately HK$3.9 million.

Operating costs, excluding finance costs, for the year ended 30 June 2002 were approximately HK$17,392,000 (2001: HK$12,986,000), representing a 34% increase and was in line with the Group's business expansion plan. Such increase was mainly attributable to the rise in staff costs, including employees' salaries, directors' emoluments and retirement benefits scheme contributions, and additional rental and related expenses for overseas offices and a larger service centre in Hong Kong, amounting to approximately HK$2,749,000 and approximately HK$453,000, respectively. During the Year, two major products, namely ***Tele*Eye *III+*** Video Transmitter and ***Tele*Eye *III+* VRT**, were launched. This resulted in an increase in amortisation of development costs capitalised, accounted for approximately HK$637,000. In addition, this year included those listing related costs, namely sponsor fee, share registrar fees and annual listing fee, for the full year while last year such costs reflected for only two months after the Group's listing on 8 May 2001. This factor accounted for approximately HK$599,000 increase in operating expenses. For the quarters ahead, with a view to sustaining competitiveness, the Group will reduce its operating costs by streamlining further its operations to improve operational efficiency.

As compared to the previous financial year, share of loss of an associate, CAMERIO Japan Inc. ("CAMERIO") reduced by 27% to approximately HK$404,000 and turnover from external customers generated by CAMERIO sharply increased from approximately HK$211,000 in 2001 to approximately HK$1,380,000 in 2002. Such performance was primarily the result of expansion of distribution network and brand building in Japan.

The Group recorded a loss attributable to shareholders for the year ended 30 June 2002 of approximately HK$4,399,000 as compared to a profit attributable to shareholders of approximately HK$1,578,000 for the year ended 30 June 2001. The loss was principally attributable to additional operating costs for market development, like costs incurred by the two newly incorporated subsidiaries in Singapore and the UK, which only contributed marginal turnover in this infant stage.

Loss per share for the year ended 30 June 2002 was recorded at 2.44 HK cents (2001 basic earnings per share: 1.15 HK cents).

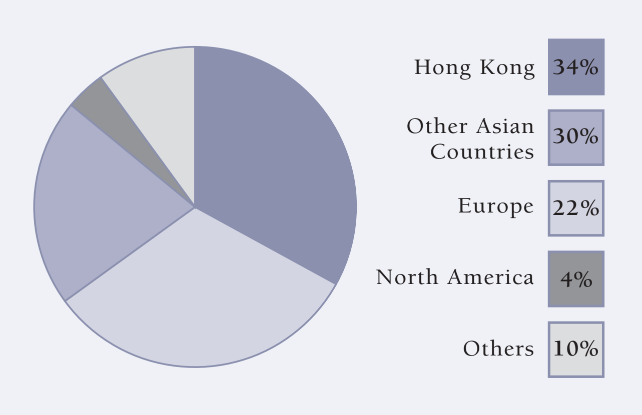
MANAGEMENT'S DISCUSSION AND ANALYSIS

COMMENTS ON SEGMENTAL INFORMATION

Hong Kong

Hong Kong continued to be the main turnover source of the Group, which amounted to approximately HK$5,783,000 (2001: HK$11,329,000) or accounted for 34% of the total turnover for the year ended 30 June 2002. Compared with last year, there was a sharp decrease of 49%, which was mainly due to a lack of substantial orders from retail customers as well as the vigorous price competition. During the year under review, market needs for digital video recorder was growing fast while the Group launched its ***TeleEye III+* VRT** in March 2002. Because of the encouraging performance of ***TeleEye III+* VRT** in the last quarter of the year ended 30 June 2002, the Board believes that this product will generate promising turnover to the Group in the quarters ahead.

Sales By Geographical Segments (Jul 01-Jun 02)



This year's segment result was lower than the previous year's by approximately HK$3,968,000 or 68%, which was partly offset by the decrease in segment expenses as resources like manpower, advertising and promotion of the Group were allocated to other developing markets.

Other Asian countries

Asia, other than Hong Kong, became the second largest market for the year ended 30 June 2002, and accounted for 30% of the Group's total turnover. The turnover sharply increased by 109% to approximately HK$5,110,000, which was mainly contributed by sales in Singapore and China of approximately HK$1,587,000 (2001: HK$471,000) and approximately HK$1,465,000 (2001: HK$622,000), respectively.

TeleEye (S) Pte Limited ("TeleEye (S)"), the Singapore subsidiary, started operation in November 2001 and hence boosted up the sales in Singapore. On the other hand, its operating expenses slightly deteriorated the segment profit. For the financial year ended 30 June 2002, TeleEye (S) incurred a net loss of approximately HK$156,000.

With the China's accession to the World Trade Organisation, the Board expects that China will be a potential great market. During the year under review, the Group actively participated in several leading exhibitions in China so as to increase public awareness and extend its sales channel there. This resulted in an increase in China's turnover for this financial year.

Europe

Turnover from Europe slightly increased by 4%, which was contributed by the marketing efforts made by the UK subsidiary, TeleEye Europe Limited ("TeleEye Europe").

As compared to the previous financial year, segment profit significantly dropped by 75% to approximately HK$402,000. This was attributable to operating expenses incurred by TeleEye Europe upon its operation in February 2002 which only generated marginal contribution to the total turnover. With reference to the growing trend of turnover in the fourth quarter, the Board believes that TeleEye Europe will boost up the sales in the European market in the long run.

MANAGEMENT'S DISCUSSION AND ANALYSIS

North America

Turnover from North America significantly increased by 127% to approximately HK$699,000 (2001: HK$308,000) which was attributable to one substantial order from a major security equipment manufacturer and distributor in the U.S.. The Group is actively identifying such kind of customers and expects that there will be continuous orders from them. As a result, the segment profit sharply increased to approximately HK$187,000 for the year ended 30 June 2002.

Others

It was mainly represented by Middle East market, of which turnover was approximately HK$1,169,000 in 2002. During the year under review, the Group participated in an exhibition in Dubai and recruited several distributors there. Because of increasing marketing efforts in these markets, both turnover and segment profit increased as compared with that recorded in last year.

PROSPECTS OF NEW PRODUCTS AND MARKETS

Looking ahead, the Group will aggressively develop advance products in network camera and digital video recording areas to cater for the market demand. The Group will continuously strengthen its existing markets, particularly in Europe, and further develop those growing markets, like China, the U.S. and Middle East. The Group expects these will widen its turnover base in future.

DIVIDEND

The Board does not recommend the payment of dividend in order to allow for cash for future business development (2001: an interim dividend of HK$1,200,000 was declared prior to the Group's reorganisation).

EMPLOYEES

The Group's staff costs, including employees' salaries, directors' emoluments and retirement benefits scheme contributions, was approximately HK$10,924,000 for the year ended 30 June 2002 as compared with that of approximately HK$8,351,000 for the preceding financial year. Such rise was in line with the increase in headcount of full-time employees from 27 as at 30 June 2001 to 37 as at 30 June 2002 and 6 of which are for the overseas offices.

Employees are paid at market remuneration with discretionary bonus and benefits of medical insurance, retirement benefits schemes, necessary training and share options. Details of the employee share options schemes were set out in the section headed "Share Options" of the Directors' Report.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the year under review, the Group used substantially its internal resources and part of the proceeds from listing to finance its operations. The Group has available banking facilities of HK$5,000,000 from Heng Seng Bank but none of them had been utilised as at 30 June 2002 (30 June 2001: Nil). During the year ended 30 June 2002, the Group obtained a short-term advance from a minority shareholder to finance the operation of TeleEye (S). Consequently, the Group's gearing ratio, as a percentage of bank and other borrowings and long-term debts over total assets, at 30 June 2002 was 1% (30 June 2001: 0%).

The Group had bank balances, deposits and cash of approximately HK$22,851,000 as at 30 June 2002 (30 June 2001: HK$34,387,000).

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL STRUCTURE

Apart from the aforesaid short-term advance from a minority shareholder, which is interest bearing at prevailing market rate, repayable on demand and denominated in Singapore dollars, the Group did not have any borrowings during the year under review.

There was no change in the Company's share capital and outstanding share options granted under the Company's share option scheme, during the year ended 30 June 2002, other than the lapse of certain share options granted upon the resignation of an grantee.

SIGNIFICANT INVESTMENT

Apart from those blue chips securities and bonds acquired, as mentioned under the section "Financial Review" of "Management's Discussion and Analysis", the Group did not hold any significant investment for the year ended 30 June 2002.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year under review, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

CHARGE ON ASSETS

As at 30 June 2002, the Group did not have any charge on its assets (30 June 2001: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Other than those disclosed in the Company's prospectus dated 24 April 2001 (the "Prospectus") under the section headed "Statement of Business Objectives", the Group does not have any other plan for material investments or capital assets for the coming year.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

During the year under review, the Group's sales were substantially denominated either in Hong Kong or US dollars. Since the Hong Kong dollars are pegged to the US dollars, the Board considers that the potential foreign exchange exposure of the Group is limited. During the year under review, the Group did not use any financial instruments for hedging purposes (30 June 2001: Nil).

CONTINGENT LIABILITIES

As at 30 June 2002, the Group did not have any contingent liabilities (30 June 2001: Nil).

COMPARISON OF BUSINESS OBJECTIVES TO ACTUAL BUSINESS PROGRESS

The comparison of the Group's business objectives as set out in the Prospectus to actual business progress for the six months ended 31 December 2001 has been reported in the interim report during the year. The comparison for the six months ended 30 June 2002 is as follows:

Business Objectives	Actual Business Progress
Product development	
Launch improved version of ***Tele*Eye *III***	***Tele*Eye *III+*** supporting dynamic IP connection has been launched
Launch improved version of ***Tele*EAR**	Product has been launched
Launch large scale video web server	Work finished and will be included in new products
Launch improved version of Network Digital Video Recording Software	Improved version has been developed and launched
Further improve ***Tele*Eye *III*** Video Recorder	***Tele*Eye *III+*** Video Recording Transmitter has been launched and improvement work has commenced
Further develop PDA video reception software	Work finished and has been included in new products
Launch first version of web camera	Product design is under development and will be launched at the end of 2002
Commence development of web based video recorder	Development of web based video playback function for ***Tele*Eye *III+*** Video Recording Transmitter has commenced
Start development of second generation of ***Tele*EAR**	Project is delayed subject to review of market demand
Commence development of network based audio reception and recording system	Audio recording function has been incorporated in reception software and ***Tele*Eye *III+*** Video Recording Transmitter
Commence development of video reception software for mobile phone	Market research has commenced

COMPARISON OF BUSINESS OBJECTIVES TO ACTUAL BUSINESS PROGRESS

Business Objectives	Actual Business Progress
Sales and marketing	
Set up an office or joint venture company in Germany	UK office has been in operation during this period. To limit financial risk, business in Germany is covered by the UK office. The plan for Germany office will be reviewed. The Group will also evaluate the situation in the U.S. to find a cost-effective business model of entering into the U.S. market
Attend trade fairs and exhibitions in the UK, Japan, the U.S. and Hong Kong	Participated in major exhibitions in the UK, Japan, the U.S., Taiwan, Middle East, Shanghai and Hong Kong
Organise a distributors' conference to provide technical training, review marketing plans, sales techniques and resolve any distribution problems	Technical training, seminars, customer visits, price review have been conducted
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	All the promotional activities have been carried out as planned especially for the launch of new products
Visit overseas distributors to review marketing plans, provide technical training and support	Visits have been paid to China, Eastern and Western Europe, Japan, Middle East, South East Asia and the U.S.
Resources deployment	
Increase management, finance and administration staff by 1 to 6	To control expenditure, no additional staff has been employed. Total number of full-time staff is remained at 5
Increase engineering and research and development staff by 10 to 30	One more staff for the UK office has been employed. To control expenditure, no additional staff has been employed for the Hong Kong office. Total number of full-time staff is 16
Increase sales and marketing staff by 1 to 15	One more staff has been employed for the UK office and 4 more staff for the Singapore office. Total number of full-time staff is 16
Total number of full-time staff expected to be 51	Total number of full time staff is 37

COMPARISON OF BUSINESS OBJECTIVES TO ACTUAL BUSINESS PROGRESS

USE OF PROCEEDS

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

	For the six months ended 30 June 2002	
	Proposed	Actual
	HK$ million	HK$ million
Sales and marketing	8	3
Product development	3	1
	11	4

During the year under review, the Group intends to carry out its business objectives, as stated in the Prospectus, in a slower pace in order to minimise any business risks arising from the uncertainties in the global economic downturn. As a result, the rate of application of proceeds had been slowed down. It is the present intention of the Group that the remaining net proceeds will still be applied in those areas as stated in the Prospectus.

The remaining net proceeds of HK$12.7 million have been placed with a licensed bank in Hong Kong.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. Chan Chok Ki, aged 47, is a founder and the Chief Executive Officer of the Group responsible for the overall corporate management and business development of the Group. He also actively participates in the strategic research and development of the Group. Dr. C.K. Chan is a research veteran in the digital signal processing and image compression technology. He had taught at the City University of Hong Kong ("City University") since 1985 and was a professor of the Department of Electronic Engineering at the City University before he officially became involved in the management of the Group on a full-time basis in December 2000. He is presently an Adjunct Professor of the Department of Computer Engineering and Information Technology at the City University. He has received many awards which include the EDN Asia Innovator in 1996 and IEEE Third Millennium Award in 2000 for his outstanding achievement and contributions.

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

Dr. Ma Chi Kit, aged 34, is a founder and the Chief Marketing Officer of the Group. He has extensive knowledge on digital signal processing and telecommunications technologies. He is presently responsible for formulation and implementation of marketing strategies, product pricing and positioning, and strategic management of channel distribution for the Group.

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

Mr. Ho Ka Ho, aged 30, is a founder and the Engineering Director of the Group. He is in charge of the engineering department of the Group and is responsible for product design, quality control, research and development of the Group. Mr. Ho has expertise in computer architecture, software engineering and digital signal processing.

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

Non-executive Director

Dr. Chan Cheung Fat, aged 44, is a founder and a research and development consultant of the Group, responsible for spearheading the research and development team on a part-time basis with particular focus on product design and development. Dr. C.F. Chan is a research veteran in the digital signal processing and speech compression technology.

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

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

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

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Professor Siu Wan Chi, aged 52, is an independent non-executive Director who was appointed in September 2000. He is presently the Chair Professor and Director of Centre for Multimedia Signal Processing of the Department of Electronic and Information Engineering, The Hong Kong Polytechnic University. He was the Head of the same department and Dean of Engineering Faculty between 1994 and 2002.

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

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

Dr. Liao York, age 56, is an independent non-executive Director who was appointed in November 2000. He is the managing director of a private investment and consultancy company Winbridge. He also serves on the board of a number of public and private companies in various fields: manufacturing, software, environmental and investment. He was appointed by the Government to the Boards of the Science and Technology Park and the Applied Science and Technology Research Institute.

On the public service side, Dr. Liao has been an active member of the University Grants Committee since 1994. He is a member of the Council of Advisors for Innovation and Technology, as well as the Chief Executive's Commission on Strategic Development.

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

SENIOR MANAGEMENT

Ms. Wong Siu Fan, aged 30, is the financial controller, qualified accountant and company secretary of the Group. She has over eight years of experience in auditing, accounting and financial management. Prior to joining the Group in September 2000, Ms. Wong had worked for an international accounting firm and a public listed company in Hong Kong. Ms. Wong holds a bachelor's degree in accounting from The Hong Kong Polytechnic University, and is an associate member of the Hong Kong Society of Accountants and The Association of Chartered Certified Accountants.

Mr. Lee Chiu Shing, aged 34, is the regional manager of the Group. He joined the Group in May 1998. He is responsible for development of the Japanese market for the Group's products. He has over eight years of working experience in the electronics industry, including stationing as an electronic engineer in Japan for two years. Mr. Lee is responsible for setting up the operation, staff training, business development and technical support for the Group's joint venture company in Japan. Currently, he is also involved in the sales and marketing activities in the PRC.

Ms. Leung Pui Shan, Lydia, aged 31, is the marketing communications manager of the Group. She is responsible for all corporate communications, brand building, marketing and promotions activities of the Group. Prior to joining the Group in September 1998, Ms. Leung had acquired extensive work experience in corporate communications and marketing from listed companies in Hong Kong and high-technology fields. Ms. Leung holds a master degree in marketing from The University of Stirling, the UK.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company with its shares listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The principal activities of its subsidiaries and an associate are set out in notes 13 and 14, to the financial statements, respectively.

RESULTS

The results of the Group for the year ended 30 June 2002 are set out in the consolidated income statement on page 23.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Details in the share capital of the Company are set out in note 23 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 30 June 2002:

(i) The Group's five largest customers accounted for less than 30% of the Group's total turnover.

(ii) The Group's largest supplier and five largest suppliers accounted for 19% and 47%, respectively, of the Group's total purchases (not including purchases of items which are of capital nature).

According to the understanding of the directors, none of the directors, their associates (within the meaning of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules")) or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest suppliers.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:
Dr. Chan Chok Ki
Dr. Ma Chi Kit
Mr. Ho Ka Ho

Non-executive Director:
Dr. Chan Cheung Fat

Independent Non-executive Directors:
Professor Siu Wan Chi
Dr. Liao York

In accordance with Article 87 of the Company's Articles of Association, Mr. Ho Ka Ho retires from office by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS – *continued*

The term of office of each non-executive director is the period up to his retirement or rotation in accordance with the Company's Articles of Association.

Each of the executive directors has entered into a service contract with the Company for an initial term of one year commencing 1 April 2001, which will continue thereafter unless and until terminated by either party by giving six months' prior written notice.

Dr. Chan Cheung Fat has entered into a two-year consultancy agreement with the Company commencing 1 April 2001 under which he has agreed to act as a research and development consultant to the Group on a part-time basis. Such agreement is subject to termination by either party by three months' prior notice.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2002, the interests of the directors and their associates in the issued share capital of the Company, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Number of ordinary shares held			
Name of director	Personal interests	Family interests	Corporate interests *(note)*	Other interests
Dr. Chan Chok Ki	–	–	104,000,000	–
Dr. Chan Cheung Fat	–	–	104,000,000	–
Dr. Ma Chi Kit	–	–	104,000,000	–
Mr. Ho Ka Ho	–	–	104,000,000	–

Note: These shares, representing 57.8% of the issued share capital of the Company as at 30 June 2002, 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.

Save as disclosed above, and other than a nominee share in a subsidiary held by a director in trust for the Group, at 30 June 2002, none of the directors of the Company had any interests in any securities of the Company as defined in the SDI Ordinance or which are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SHARE OPTIONS

The Company adopts the Pre-IPO Share Option Scheme (the "Pre-IPO Scheme") and the Share Option Scheme (the "Option Scheme") to grant share options to eligible employees, including the executive directors of the Company and its subsidiaries.

DIRECTORS' REPORT

SHARE OPTIONS – continued

The Pre-IPO Scheme was adopted pursuant to a resolution passed on 12 April 2001 to recognise the contribution of executive directors and employees of the Company and its subsidiaries to the growth of the Group and/or the listing of the Company's shares on the GEM. The options under the scheme grant the right to the holder to subscribe for new ordinary shares of the Company at HK$0.60 per ordinary share and the maximum number of shares in respect of which options might be granted under the scheme was 14,400,000. The number of shares in respect of which options might be granted to any individual was not permitted to exceed 3,600,000.

Options might be granted without any initial payment. Options granted are exercisable to the extent of an aggregate total of 25 per cent., 50 per cent., 75 per cent. and 100 per cent. at anytime after 6 months, 18 months, 30 months and 42 months, respectively, from the commencement of the trading of the shares on the GEM, and have a duration of 10 years from their respective vesting dates.

Upon the listing of the Company's shares on the GEM on 8 May 2001 no further options could be granted by the Company under the Pre-IPO Scheme. The rights of the holders of the share options granted prior thereto are not affected and such options granted continue to remain valid and exercisable in accordance with the terms of the scheme.

The following table discloses movements in the Company's share options under the Pre-IPO Scheme during the year:

	Date of grant	Exercise price per share	Balance at 1 July 2001	Lapsed during the year	Balance at 30 June 2002
		HK$		*(note)*	
Directors of the Company					
Dr. Chan Chok Ki	12 April 2001	0.60	1,800,000	–	1,800,000
Dr. Ma Chi Kit	12 April 2001	0.60	1,440,000	–	1,440,000
Mr. Ho Ka Ho	12 April 2001	0.60	1,364,000	–	1,364,000
			4,604,000	–	4,604,000
Employees of the Group	12 April 2001	0.60	9,796,000	(676,000)	9,120,000
			14,400,000	(676,000)	13,724,000

No options had been exercised since the date of grant.

Note: These options lapsed upon the resignation of an grantee.

DIRECTORS' REPORT

SHARE OPTIONS – continued

The Option Scheme was adopted on 12 April 2001 for the primary purpose of providing incentives to directors and eligible employees for a term of ten years. Option may be granted without any initial payment and should be accepted within 21 days from the date of grant. The subscription price, subject to adjustment, is the higher of (i) the nominal value of the shares of the Company; (ii) the closing price of the Company's shares as stated in the GEM of the Stock Exchange's daily quotation sheet ("Daily Quotation Sheet") on date of grant; and (iii) the average closing price of the Company's shares as stated in the Daily Quotation Sheet for the five business days immediately preceding the date of grant.

The option holder may subscribe for shares in the Company during such period as may be determined by the directors (which shall be not less than three years and not more than ten years from the date of grant). The maximum number of shares in respect of which options may be granted cannot exceed 10% of the issued share capital of the Company from time to time.

No employee or director shall be granted an option which, if exercised in full, would result in such employee or director becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under the Option Scheme. No options had been granted since the adoption of the Option Scheme.

Save as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or children under the age of eighteen, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2002, the register of substantial shareholders maintained by the Company pursuant to section 16(1) of the SDI ordinance showed that, other than the interests disclosed above in respect of certain directors, the following shareholder had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of ordinary share of the Company held	Percentage of issued share capital
Secure Technology Limited *(note)*	26,000,000	14.4%

Note: Secure Technology Limited is wholly-owned by Mr. Tetsuo Tsumura who is independent of and not connected with any directors or management shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more in the issued share capital of the Company as at 30 June 2002.

DIRECTORS' REPORT

COMPETING INTERESTS

The directors believe that none of the directors nor the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 30 June 2002 with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

AUDIT COMMITTEE

The audit committee has two members comprising two independent non-executive directors, namely Professor Siu Wan Chi and Dr. Liao York.

The primary duties of the audit committee are to review the Company's annual report and accounts, quarterly reports and half-yearly reports and to provide advice and comment thereon to the board of directors. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

The audit committee held four meetings during the year ended 30 June 2002.

SPONSOR'S INTERESTS

Neither the sponsor of the Company, AMS Corporate Finance Limited ("AMS"), nor its associates obtained any material benefit as a result of the listing of the Company on the GEM of the Stock Exchange, other than by a sponsor agreement entered into between AMS and the Company, pursuant to which AMS received, and will receive, fees for acting as the Company's retained sponsor for the period from 8 May 2001 to 30 June 2003.

Save as disclosed above, as at 30 June 2002, AMS, its directors, employees and associates did not have any interest in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

AUDITORS

In August 2002, the Board of Directors accepted the resignation of KPMG, who acted as auditors of the Company for the past one year and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company to fill in the casual vacancy.

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board

Dr. Chan Chok Ki
Chairman and Chief Executive Officer

Hong Kong, 18 September 2002

AUDITORS' REPORT

德勤‧關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

TO THE SHAREHOLDERS OF TELEEYE HOLDINGS LIMITED
千里眼控股有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 23 to 46 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

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

BASIS OF OPINION

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

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 18 September 2002

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2002

	Notes	2002 HK$'000	2001 HK$'000
Turnover		17,005	18,471
Cost of sales		(4,952)	(4,255)
Gross profit		12,053	14,216
Other income	5	688	1,203
Distribution costs		(6,779)	(5,292)
Administrative expenses		(6,741)	(5,367)
Research and development expenditure		(3,872)	(2,327)
(Loss) profit from operations	6	(4,651)	2,433
Interest on advance from a minority shareholder wholly repayable within five years		(9)	–
Share of loss of an associate		(404)	(557)
(Loss) profit before taxation		(5,064)	1,876
Taxation credit (charge)	8	589	(298)
(Loss) profit before minority interest		(4,475)	1,578
Minority interest		76	–
(Loss) profit attributable to shareholders		(4,399)	1,578
Dividend	9	–	1,200
(Loss) earnings per share	10		
Basic		(2.44 cents)	1.15 cents
Diluted		N/A	1.14 cents

CONSOLIDATED BALANCE SHEET

At 30 June 2002

	Notes	2002 HK$'000	2001 HK$'000
Non-current assets			
Property, plant and equipment	11	1,061	1,110
Capitalised development costs	12	3,298	2,727
Interest in an associate	14	–	407
Investments in securities	15	4,913	–
		9,272	4,244
Current assets			
Inventories	16	3,154	2,505
Trade and other receivables	17	1,839	1,886
Amount due from an associate	19	393	–
Bank balances, deposits and cash		22,851	34,387
		28,237	38,778
Current liabilities			
Trade and other payables	20	3,130	1,401
Amount due to a minority shareholder	21	332	–
Amounts due to directors	18	371	1,146
Taxation		8	4
Dividend payable to former shareholders		–	1,200
		3,841	3,751
Net current assets		24,396	35,027
		33,668	39,271
Capital and reserves			
Share capital	23	1,800	1,800
Reserves	25	31,934	36,874
		33,734	38,674
Minority interest		(66)	–
Non-current liability			
Deferred taxation	22	–	597
		33,668	39,271

The financial statements on pages 23 to 46 were approved and authorised for issue by the Board of Directors on 18 September 2002 and are signed on its behalf by:

DR. CHAN CHOK KI	**MR. HO KA HO**
Director	*Director*

BALANCE SHEET

At 30 June 2002

	Notes	2002 HK$'000	2001 HK$'000
Non-current asset			
Investment in a subsidiary	13	10	10
Current assets			
Other receivables		63	–
Amounts due from subsidiaries	18	12,670	–
Bank balances, deposits and cash		12,199	25,188
		24,932	25,188
Current liabilities			
Other payables		285	473
Amounts due to subsidiaries	18	22	755
Amounts due to directors	18	371	–
		678	1,228
Net current assets		24,254	23,960
		24,264	23,970
Capital and reserves			
Share capital	23	1,800	1,800
Reserves	25	22,464	22,170
		24,264	23,970

DR. CHAN CHOK KI
Director

MR. HO KA HO
Director

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 30 June 2002

	2002 HK$'000	2001 HK$'000
Loss on revaluation of investments in securities	(578)	–
Exchange differences arising on translation of overseas operations	37	(96)
Net loss not recognised in the consolidated income statement	(541)	(96)
(Loss) profit attributable to shareholders	(4,399)	1,578
Total recognised (losses) gains	(4,940)	1,482

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2002

	Notes	2002 HK$'000	2001 HK$'000
Net cash outflow from operating activities	26	(5,037)	(1,720)
Returns on investments and servicing of finance			
Interest received		577	1,185
Dividends received from investments in securities		113	–
Dividends paid		(1,200)	(1,850)
Interest paid		(9)	–
Net cash outflow from returns on investments and servicing of finance		(519)	(665)
Taxation			
Hong Kong Profits Tax paid		(4)	(882)
Investing activities			
Purchase of investments in securities		(5,492)	–
Purchase of property, plant and equipment		(504)	(818)
Advance to an associate		(314)	–
Investment in an associate		–	(1,060)
Cash outflow from investing activities		(6,310)	(1,878)
Net cash outflow before financing		(11,870)	(5,145)
Financing	27		
Advance from a minority shareholder		332	–
Capital contribution by a minority shareholder		2	–
Proceeds from issue of shares		–	30,000
Shares issue expenses		–	(6,605)
Net cash inflow from financing		334	23,395
(Decrease) increase in cash and cash equivalents		(11,536)	18,250
Cash and cash equivalents at the beginning of the year		34,387	16,137
Cash and cash equivalents at the end of the year, representing bank balances, deposits and cash		22,851	34,387

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

1. GENERAL

The Company was incorporated in the Cayman Islands with limited liability and its shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Etin Tech Limited, a company incorporated in the British Virgin Islands ("BVI").

The Company is an investment holding company. The principal activities of its subsidiaries and associate are set out in notes 13 and 14, respectively.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company issued fully paid shares in exchange for the entire issued share capital of Signal Communications Holdings Limited ("SCHL") and thereby became the holding company of the group (the "Group") formed after the completion of the Group Reorganisation on 11 April 2001. The resulting entity from the Group Reorganisation is regarded as a continuing entity. Accordingly, in accordance with Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions", the financial statements of the Group for the year ended 30 June 2001 have been prepared on a merger basis as if the Company had always been the holding company of the Group.

Details of the Group Reorganisation are set out in the prospectus issued by the Company dated 24 April 2001.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted for the first time a number of new and revised SSAPs issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosures for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the disclosure reported for the current or prior periods.

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the year ended 30 June 2001 have been amended so that they are presented on a consistent basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for revaluation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Turnover

Turnover represents the amounts received and receivable for goods sold, less returns and allowances, to outside customers during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	$33\frac{1}{3}$%
Furniture and fixtures	20%
Office equipment	20% – $33\frac{1}{3}$%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

3. SIGNIFICANT ACCOUNTING POLICIES – continued

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment losses.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting date, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Retirement benefits scheme

The retirement benefits costs charged to the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are its primary reporting format and business segments are its secondary reporting format.

Geographical segments

The Group reports its primary segment information by geographical location of its customers who are principally located in Hong Kong, other Asian countries, Europe and North America. Segment information about these geographical markets is presented below:

2002

	Hong Kong HK$'000	Other Asian countries HK$'000	Europe HK$'000	North America HK$'000	Others HK$'000	Eliminations HK$'000	Consolidated HK$'000
TURNOVER							
External sales	5,783	5,110	3,664	699	1,749	–	17,005
Inter-segment sales	–	431	–	–	–	(431)	–
Total turnover	5,783	5,541	3,664	699	1,749	(431)	17,005
SEGMENT RESULT	1,864	1,136	402	187	905	–	4,494
Unallocated corporate income							688
Unallocated corporate expenses							
– Administrative and other expenses							(5,961)
– Research and development expenditure							(3,872)
Loss from operations							(4,651)
Interest on advance from a minority shareholder wholly repayable within five years							(9)
Share of loss of an associate	–	(404)	–	–	–	–	(404)
Loss before taxation							(5,064)
Taxation credit							589
Loss before minority interest							(4,475)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. SEGMENT INFORMATION – continued

Geographical segments – continued

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

2002

	Hong Kong	Other Asian countries	Europe	North America	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS						
Segment assets	495	686	607	13	17	1,818
Unallocated corporate assets						35,691
Consolidated total assets						37,509
LIABILITIES						
Segment liabilities	933	152	430	328	14	1,857
Unallocated corporate liabilities						1,984
Consolidated total liabilities						3,841

	Hong Kong	Other Asian countries	Europe	North America	Others	Corporate	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
OTHER INFORMATION							
Capital additions	–	55	70	–	–	379	504
Development costs capitalised	–	–	–	–	–	1,399	1,399
Depreciation	–	11	9	–	–	533	553
Amortisation of capitalised development costs	–	–	–	–	–	828	828
Other non-cash expenses	11	–	5	–	–	107	123

Inter-segment sales are charged at terms agreed between the relevant parties.

Analysis of the carrying amounts of segment assets and capital additions by the geographical area in which the assets are located are not presented as over 90% of the amounts involved are located in Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. SEGMENT INFORMATION – continued

Geographical segments – continued

2001

	Hong Kong	Other Asian countries	Europe	North America	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER						
External sales	11,329	2,444	3,521	308	869	18,471
SEGMENT RESULT	5,832	1,030	1,599	(90)	549	8,920
Unallocated corporate income						1,203
Unallocated corporate expenses						
– Administrative and other expenses						(5,363)
– Research and development expenditure						(2,327)
Profit from operations						2,433
Share of loss of an associate	–	(557)	–	–	–	(557)
Profit before taxation						1,876
Taxation charge						(298)
Profit before minority interest						1,578

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by the geographical location of its customers:

	Hong Kong	Other Asian countries	Europe	North America	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS						
Segment assets	1,305	137	74	15	–	1,531
Interest in an associate	–	407	–	–	–	407
Unallocated corporate assets						41,084
Consolidated total assets						43,022
LIABILITIES						
Segment liabilities	309	27	188	189	4	717
Unallocated corporate liabilities						3,631
Consolidated total liabilities						4,348

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

4. SEGMENT INFORMATION – continued

Geographical segments – continued

2001

	Hong Kong HK$'000	Other Asian countries HK$'000	Europe HK$'000	North America HK$'000	Others HK$'000	Corporate HK$'000	Consolidated HK$'000
OTHER INFORMATION							
Capital additions	–	–	–	–	–	818	818
Development costs capitalised	–	–	–	–	–	1,575	1,575
Depreciation	–	–	–	–	–	383	383
Amortisation of capitalised development costs	–	–	–	–	–	191	191

Analysis of the carrying amounts of segment assets and capital additions by the geographical area in which the assets are located are not presented as over 90% of the amounts involved are located in Hong Kong.

Business segments

The Group is solely engaged in research and development and trading of remote audio and video monitoring systems. Accordingly, all of the Group's turnover, contribution to (loss) profit from operations and assets were attributable to this business segment.

5. OTHER INCOME

	2002 HK$'000	2001 HK$'000
Other income is analysed as follows:		
Interest income from		
– bank deposits	524	1,186
– investments in securities, net of amortisation of premium on acquisition of approximately HK$1,000 (2001: Nil)	49	–
– amount due from an associate	2	–
Dividends from investments in securities	113	–
Others	–	17
	688	1,203

6. (LOSS) PROFIT FROM OPERATIONS

	2002 HK$'000	2001 HK$'000
(Loss) profit from operations has been arrived at after charging:		
Staff costs including directors' emoluments	10,548	8,208
Retirement benefits scheme contributions	376	143
Total staff cost	10,924	8,351
Less: Amount capitalised as development costs	(1,399)	(1,575)
	9,525	6,776
Amortisation of capitalised development costs	828	191
Auditors' remuneration	326	286
Depreciation	553	383

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 HK$'000	2001 HK$'000
Directors' fees:		
Executive	–	–
Non-executive	–	–
Independent non-executive	160	23
	160	23
Other emoluments for executive and non-executive directors:		
Salaries and other benefits	3,551	2,386
Bonus	–	1,100
Retirement benefits scheme contributions	36	18
	3,587	3,504
	3,747	3,527

Emoluments of the directors were within the following bands:

	No. of directors	
	2002	2001
HK$1,000,000 or below	5	5
HK$2,000,001 – HK$2,500,000	1	1

The four (2001: four) executive and non-executive directors received emoluments of approximately HK$2,016,000, HK$756,000, HK$628,000 and HK$187,000 for the year ended 30 June 2002 (2001: approximately HK$2,058,000, HK$804,000, HK$433,000 and HK$209,000). Other than a fee of approximately HK$80,000 (2001: HK$12,000) for the year ended 30 June 2002, each of the two independent non-executive directors is not entitled to any other emoluments from the Group.

The five highest paid individuals included three (2001: three) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining two (2001: two) individuals are as follows:

	2002 HK$'000	2001 HK$'000
Salaries and other benefits	780	637
Bonus	68	51
Retirement benefits scheme contributions	24	12
	872	700

During each of the years ended 30 June 2002 and 2001, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, no director waived any emoluments during the years ended 30 June 2002 and 2001.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

8. TAXATION CREDIT (CHARGE)

	2002 HK$'000	2001 HK$'000
The credit (charge) comprises:		
Overprovision in Hong Kong Profits Tax in prior years	–	1
Taxation outside Hong Kong – current year	(8)	–
	(8)	1
Deferred taxation credit (charge) *(note 22)*	597	(299)
	589	(298)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group incurred tax losses for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of the provided and unprovided deferred taxation are set out in note 22.

9. DIVIDEND

During the year ended 30 June 2001, interim dividend of HK$1,200,000 (2002: Nil) was declared by a subsidiary to its former shareholders prior to the Group Reorganisation.

The directors do not recommend the payment of a final dividend for the year ended 30 June 2002.

10. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on a loss of approximately HK$4,399,000 (2001: profit of HK$1,578,000), being (loss) profit attributable to shareholders and 180,000,000 (2001: weighted average number of 137,397,260) ordinary shares in issue during the year.

No disclosure of diluted loss per share for the year ended 30 June 2002 is shown as the effect of the potential ordinary shares in issue would result in a decrease in loss per share for the year. The calculation of diluted earnings per share for the year ended 30 June 2001 is based on profit attributable to shareholders of approximately HK$1,578,000 and on the weighted average number of 138,253,756 shares after adjusting for the dilutive effects of 856,496 ordinary shares deemed to be issued for no consideration in respect of share options granted.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Total HK$'000
THE GROUP				
COST				
At 1 July 2001	192	379	1,278	1,849
Additions	62	91	351	504
At 30 June 2002	254	470	1,629	2,353
DEPRECIATION				
At 1 July 2001	51	167	521	739
Provided for the year	79	75	399	553
At 30 June 2002	130	242	920	1,292
NET BOOK VALUES				
At 30 June 2002	124	228	709	1,061
At 30 June 2001	141	212	757	1,110

12. CAPITALISED DEVELOPMENT COSTS

	HK$'000
THE GROUP	
COST	
At 1 July 2001	2,937
Additions	1,399
At 30 June 2002	4,336
AMORTISATION	
At 1 July 2001	210
Provided for the year	828
At 30 June 2002	1,038
NET BOOK VALUE	
At 30 June 2002	3,298
At 30 June 2001	2,727

Development costs recognised as an asset are amortised using the straight line method over three years from the commencement of the commercial phase of the products developed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

13. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2002 HK$'000	2001 HK$'000
Unlisted investment, at cost	10	10

Details of the Company's subsidiaries as at 30 June 2002 were as follows:

Name of subsidiary	Place of incorporation and operation	Issued and fully paid up ordinary share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly %	Indirectly %	
Signal Communications Holdings Limited	BVI	HK$15,000,000	100	–	Investment holding
SiCOM China Limited	BVI	US$1	–	100	Investment holding
SiCOM Europe Limited	BVI	US$1	–	100	Investment holding
SiCOM Far East Limited	BVI	US$1	–	100	Investment holding
SiCOM Japan Limited	BVI	US$1	–	100	Investment holding
Signal Communications Limited	Hong Kong	HK$1,000	–	100	Research and development and trading of remote audio and video monitoring systems
TeleEye Europe Limited	The United Kingdom	GB£1	–	100	Marketing of remote audio and video monitoring systems
TeleEye (S) Pte Limited	Republic of Singapore	S$1,000	–	51	Trading of remote audio and video monitoring systems

None of the subsidiaries had any debt capital outstanding at the end of the year or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

14. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Share of net assets of an associate	–	407

Details of the Group's associate as at 30 June 2002 were as follows:

Name of associate	Place of incorporation and operation	Proportion of nominal value of issued capital held by the Group	Principal activity
CAMERIO Japan, Incorporated	Japan	49%	Trading of remote audio and video monitoring systems

15. INVESTMENTS IN SECURITIES

	THE GROUP					
	Held-to-maturity securities		Other securities		Total	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Listed equity securities in Hong Kong	–	–	3,353	–	3,353	–
Listed debt securities in the United States of America	1,560	–	–	–	1,560	–
	1,560	–	3,353	–	4,913	–
Market value of listed securities	1,567	–	3,353	–	4,920	–

16. INVENTORIES

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Raw materials	1,614	1,116
Finished goods	1,540	1,389
	3,154	2,505

Included in the above are finished goods of approximately HK$124,000 (2001: Nil) which were carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

17. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK$905,000 (2001: HK$1,356,000). The following is an aged analysis of trade receivables at the balance sheet date prepared on the basis of due payment date of sales invoice:

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Current	610	333
1 to 3 months overdue	189	447
More than 3 months but less than 12 months overdue	106	576
	905	1,356

18. AMOUNTS DUE FROM/TO SUBSIDIARIES AND DIRECTORS

THE GROUP AND THE COMPANY

The balances are unsecured, non-interest bearing and are repayable on demand.

19. AMOUNT DUE FROM AN ASSOCIATE

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Loan account	314	–
Trade account	79	–
	393	–

The amount is unsecured and is repayable on demand. The loan account bears interest at 1% per annum and the trade account is non-interest bearing.

20. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$783,000 (2001: HK$116,000). The following is an aged analysis of trade payables at the balance sheet date prepared on the basis of due payment date of supplier invoice:

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Current	606	3
1 to 3 months overdue	2	113
More than 3 months but less than 12 months overdue	175	–
	783	116

21. AMOUNT DUE TO A MINORITY SHAREHOLDER

THE GROUP

The balance is unsecured, bearing interest at prevailing market rates and is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

22. DEFERRED TAXATION

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Balance brought forward	597	298
(Credit) charge for the year *(note 8)*	(597)	299
Balance carried forward	–	597

At the balance sheet date, the major components of deferred taxation (asset) liabilities, provided and unprovided, are as follows:

	THE GROUP			
	Provided		Unprovided	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Tax effect of timing differences attributable to:				
Development costs capitalised	–	436	528	–
Excess of tax allowances over depreciation	–	161	117	–
Unutilised tax loss	–	–	(900)	–
	–	597	(255)	–

Deferred taxation asset in respect of tax losses available to set off future profits has not been recognised in the financial statements as it is not certain that the asset will crystallise in the foreseeable future.

The amount of the net unprovided deferred taxation (credit) charge for the year is as follows:

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Tax effect of timing differences attributable to:		
Development costs capitalised	528	–
Excess of tax allowances over depreciation	117	–
Tax loss arising	(900)	–
	(255)	–

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

23. SHARE CAPITAL

	Notes	Number of shares	HK$'000
Ordinary shares of HK$0.01 each			
Authorised:			
On incorporation on 24 August 2000	(i)	39,000,000	390
Increase on 12 April 2001	(iii)	761,000,000	7,610
At 30 June 2001 and 30 June 2002		800,000,000	8,000
Issued and fully paid:			
On incorporation on 24 August 2000	(i)	1	–
Issue of shares	(ii)	999,999	10
Issue of new shares upon listing of the Company's shares on the GEM	(iv)	50,000,000	500
Capitalisation issue of shares	(v)	129,000,000	1,290
At 30 June 2001 and 30 June 2002		180,000,000	1,800

Notes:

(i) Upon incorporation on 24 August 2000, the Company had authorised share capital of HK$390,000 divided into 39,000,000 shares of HK$0.01 each. On the same date, 1 share was issued for cash at par.

(ii) On 11 April 2001, the Company allotted and issued 999,999 shares of HK$0.01 each, credited as fully paid, in exchange for the acquisition by the Company of the entire issued share capital of SCHL.

(iii) Pursuant to an ordinary resolution passed on 12 April 2001, the authorised share capital of the Company was increased from 39,000,000 to 800,000,000 by the creation of an additional 761,000,000 shares of HK$0.01 each. These shares rank pari passu with the then existing shares in all respects.

(iv) On 8 May 2001, 50,000,000 shares of HK$0.01 each were issued at HK$0.60 per share through public offer and placing to broaden the capital base of the Company, resulting in net cash proceeds of approximately HK$23,395,000.

(v) Immediately after the aforementioned public offer and placing, share premium of HK$1,290,000 was capitalised and applied in paying up in full 129,000,000 shares of HK$0.01 each which were allotted and issued as fully paid to the Company's shareholders on 12 April 2001.

There were no movements in the share capital of the Company during the year ended 30 June 2002.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

24. SHARE OPTIONS

At 30 June 2002, the following options to subscribe for shares were outstanding under the Company's share option scheme:

	Exercise price per share HK$	Number of outstanding options	Exercisable period
Pre-IPO share option	0.60	13,724,000	25 per cent., 50 per cent., 75 per cent., and 100 per cent. of the aggregate total of the share options are exercisable after 6 months, 18 months, 30 months and 42 months, respectively, starting from 8 May 2001 with a duration of 10 years from their respective vesting dates.

No options were exercised or granted during the year.

25. RESERVES

	Share premium HK$'000	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Special reserve HK$'000	Retained profits (deficit) HK$'000	Total HK$'000
THE GROUP						
At 1 July 2000	–	–	–	–	4,996	4,996
Premium arising on issue of shares	29,500	–	–	–	–	29,500
Shares issue expenses	(6,605)	–	–	–	–	(6,605)
Capitalisation issue from share premium	(1,290)	–	–	–	–	(1,290)
Reserve arising from the Group Reorganisation	–	–	–	14,990	(4,999)	9,991
Exchange differences on translation of overseas operations	–	(96)	–	–	–	(96)
Profit attributable to shareholders	–	–	–	–	1,578	1,578
Dividend	–	–	–	–	(1,200)	(1,200)
At 30 June 2001	21,605	(96)	–	14,990	375	36,874
Exchange differences on translation of overseas operations	–	37	–	–	–	37
Revaluation of investments in securities	–	–	(578)	–	–	(578)
Loss attributable to shareholders	–	–	–	–	(4,399)	(4,399)
At 30 June 2002	21,605	(59)	(578)	14,990	(4,024)	31,934
Attributable to an associate:						
At 30 June 2002	–	(99)	–	–	(961)	(1,060)
At 30 June 2001	–	(96)	–	–	(557)	(653)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

25. RESERVES – continued

	Share premium HK$'000	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Special reserve HK$'000	Retained profits (deficit) HK$'000	Total HK$'000
THE COMPANY						
Premium arising on issue of shares	29,500	–	–	–	–	29,500
Shares issue expenses	(6,605)	–	–	–	–	(6,605)
Capitalisation issue from share premium	(1,290)	–	–	–	–	(1,290)
Profit attributable to shareholders	–	–	–	–	565	565
At 30 June 2001	21,605	–	–	–	565	22,170
Profit attributable to shareholders	–	–	–	–	294	294
At 30 June 2002	21,605	–	–	–	859	22,464

The special reserve of the Group represents the difference between the aggregate of the nominal value of share capital of the subsidiaries acquired pursuant to the Group Reorganisation and the nominal value of the share capital issued by the Company as consideration for the acquisition.

In the opinion of the directors, the Company's reserves available for distribution to its shareholders as at 30 June 2002 comprised share premium and retained profits in aggregate amounting to approximately HK$22,464,000 (2001: HK$22,170,000) provided that, after distribution, the Company will be able to pay its debts as they fall due in the ordinary course of business.

26. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 HK$'000	2001 HK$'000
(Loss) profit before taxation	(5,064)	1,876
Interest income	(575)	(1,186)
Dividends income from investments in securities	(113)	–
Interest expense	9	–
Share of loss of an associate	404	557
Depreciation	553	383
Amortisation of capitalised development costs	828	191
Development costs capitalised	(1,399)	(1,575)
Allowance for inventories	107	–
Allowance for bad and doubtful debts	16	–
Increase in inventories	(756)	(838)
Decrease (increase) in trade and other receivables	46	(947)
Increase in amount due from an associate	(79)	–
Increase in trade and other payables	1,729	514
Decrease in amounts due to directors	(775)	(695)
Exchange differences on translation	32	–
Net cash outflow from operating activities	(5,037)	(1,720)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital HK$'000	Share premium HK$'000	Amount due to a potential investor HK$'000	Amount due to a minority shareholder HK$'000	Minority interest HK$'000
At 1 July 2000	–	–	10,000	–	–
Elimination prior to the Group Reorganisation	–	–	(10,000)	–	–
Issue of shares upon the Group Reorganisation	10	–	–	–	–
Issue of shares through public offer and placing	500	29,500	–	–	–
Capitalisation issue from share premium	1,290	(1,290)	–	–	–
Shares issue expenses	–	(6,605)	–	–	–
At 30 June 2001	1,800	21,605	–	–	–
Advance during the year	–	–	–	332	–
Capital contribution by a minority shareholder	–	–	–	–	2
Share of loss by minority interest	–	–	–	–	(76)
Share of exchange differences on translation of overseas operations by minority interest	–	–	–	–	8
At 30 June 2002	1,800	21,605	–	332	(66)

28. RETIREMENT BENEFITS SCHEME

Prior to 1 December 2000, the Group did not have any pension or retirement benefits scheme for its employees in Hong Kong. With effect from 1 December 2000, the Group has set up a defined contribution retirement scheme ("MPF Scheme") under the Mandatory Provident Fund legislation regulated by the Mandatory Provident Fund Scheme Authority in Hong Kong and to make contributions for its eligible employees in Hong Kong at rates specified in the rules.

In addition to the participation in the MPF Scheme, the Group is required to contribute respectively to National Insurance Contributions and Central Provident Fund Scheme for certain of its employees in the United Kingdom and Singapore based on applicable rates in accordance with the relevant government regulations.

The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the respective schemes. No forfeited contributions are available to reduce contributions payable in future years.

29. OPERATING LEASE ARRANGEMENTS

	THE GROUP 2002 HK$'000	THE GROUP 2001 HK$'000
Minimum lease payments made under operating leases in respect of premises during the year	1,209	812

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2002

29. OPERATING LEASE ARRANGEMENTS – continued

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of premises which fall due as follows:

	2002 HK$'000	2001 HK$'000
Within one year	1,235	807
In the second to fifth year inclusive	253	854
	1,488	1,661

Operating lease payments represent rentals payable by the Group for staff quarters and office premises. Leases are negotiated and rentals are fixed for an average of two years.

The Company had no significant lease commitments at the balance sheet date.

30. CONTINGENT LIABILITIES

At 30 June 2002, the Company had an outstanding guarantee issued in favour of a bank of HK$5,000,000 (2001: Nil) for securing general banking facilities granted to a subsidiary.

The Group had no significant contingent liabilities at the balance sheet date.

31. RELATED PARTY TRANSACTIONS

	THE GROUP	
	2002 HK$'000	2001 HK$'000
Sales to City University of Hong Kong ("City University ") and its related parties *(note i)*	87	162
Sales to an associate *(note i)*	292	–
Interest income from an associate *(note ii)*	2	–
Management fee to an associate *(note iii)*	44	–
Management and administrative services fees to CityU Enterprises Limited *(note iii)*	–	24
Office and facility charges to CityU Enterprises Limited *(note iii)*	–	22
Service fee to City University *(note iii)*	35	66

CityU Enterprises Limited, a wholly owned subsidiary of City University, holds a 30% interest in Etin City Limited, a substantial shareholder of the Company.

Note:

(i) The selling price was determined by the directors with reference to prices for similar transactions with unrelated third parties.

(ii) Interest was charged at 1% per annum.

(iii) The transaction was carried out in accordance with terms determined and agreed by both parties.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. In particular, all items in other operating expenses have been reclassified to distribution costs, administrative expenses and research and development expenditure in the amount of approximately HK$378,000, HK$2,483,000 and HK$2,327,000, respectively.

FINANCIAL SUMMARY

RESULTS

	Year ended 30 June				
	1998 HK$'000	1999 HK$'000	2000 HK$'000	2001 HK$'000	2002 HK$'000
Turnover	7,294	12,907	16,440	18,471	17,005
Profit (loss) before taxation	1,560	3,717	5,413	1,876	(5,064)
Taxation (charge) credit	(239)	(565)	(875)	(298)	589
Profit (loss) before minority interest	1,321	3,152	4,538	1,578	(4,475)
Minority interest	–	–	–	–	76
Profit (loss) for the year	1,321	3,152	4,538	1,578	(4,399)

ASSETS AND LIABILITIES

	At 30 June				
	1998 HK$'000	1999 HK$'000	2000 HK$'000	2001 HK$'000	2002 HK$'000
Total assets less current liabilities	1,417	3,909	5,295	39,271	33,668
Non-current liabilities	–	–	(298)	(597)	–
Minority interest	–	–	–	–	66
Shareholders' funds	1,417	3,909	4,997	38,674	33,734

Notes:

(1) The Company was incorporated in the Cayman Islands on 24 August 2000 and became the holding company of the Group on 11 April 2001 as a result of the Group Reorganisation.

(2) The results for each of the four years ended 30 June 1998, 1999, 2000 and 2001 and the assets and liabilities as at 30 June 1998, 1999 and 2000 have been prepared using the merger method of accounting as if the group structure immediately after the Group Reorganisation had been in existence throughout the years concerned.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of TeleEye Holdings Limited (the "Company") will be held at Conference Room 1-2, G/F, Tech Centre, 72 Tat Chee Avenue, Kowloon, Hong Kong on 23 October 2002 at 10:30 a.m. for the following purposes:

1. To receive and consider the audited financial statements of the Company and the reports of the directors and auditors for the year ended 30 June 2002.

2. To re-elect directors and authorize the board of directors of the Company (the "Board") to fix directors' remuneration.

3. To re-appoint auditors and authorise the Board to fix auditors' remuneration.

4. By way of special business, to consider and if thought fit, pass with or without modifications, the following resolutions as Ordinary Resolutions:

A. "**THAT**:

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

(b) the approval in paragraph (a) above shall authorise the Board during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

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

NOTICE OF ANNUAL GENERAL MEETING

(d) for the purpose of this Resolution:

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

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Law (Revised) of the Cayman Islands or any other applicable laws to be held; or

(iii) the passing of an ordinary resolution by the members of the Company in general meeting revoking or varying the authority given to the Board under this Resolution;

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrant, options or other securities giving rights to subscribe for shares open for a period fixed by the Board to holders of shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of shares as at that date (subject to such exclusion or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

B. "**THAT**:

(a) the exercise by the Board during the Relevant Period of all powers of the Company to purchase its own shares, subject to paragraph (b) below, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be purchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchase pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(c) for the purpose of this Resolution, "Relevant Period" shall have the same meaning as assigned to it under Ordinary Resolution 5A of this notice."

NOTICE OF ANNUAL GENERAL MEETING

C. "**THAT**:

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

By order of the Board
Dr. Chan Chok Ki
Chairman and Chief Executive Officer

Hong Kong, 30 September 2002

Registered Office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town, Grand Cayman
British West Indies

Head Office and Principal Place of Business:
Units 216-217, 2nd Floor
Tech Centre
72 Tat Chee Avenue
Kowloon
Hong Kong

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar in Hong Kong Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. A form of proxy for the meeting will be enclosed with the annual report.

4. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

5. In relation to proposed Resolution 5B above, approval is being sought from the members for the grant to the Board of a general mandate to authorise the repurchase of shares. An explanatory statement required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange in connection with the repurchase mandate will be despatched to members together with the annual report.