



千里眼控股有限公司 **TeleEye Holdings Limited**

(incorporated in the Cayman Islands with limited liability)

2002/2003 First Quarterly Report

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

HIGHLIGHTS

- Turnover for the three months ended 30 September 2002 amounted to approximately HK\$6,397,000, representing an increase of 101% as compared to the corresponding period in 2001.
- Loss attributable to shareholders amounted to approximately HK\$291,000 representing a basic loss per share of 0.16 HK cents for the three months ended 30 September 2002. The basic loss per share for the three months ended 30 September 2002 was largely reduced by 61% as compared to the corresponding period in 2001.
- As a result of the Group's global marketing effort, turnover generated in this quarter from Europe and other Asian countries excluding Hong Kong, increased by 255% and 184%, respectively, as compared to the corresponding period in 2001. Turnover from overseas markets in this quarter accounted for 68% of the Group's turnover as compared to 55% in the corresponding period in 2001.
- Turnover of **TeleEye III+ Video Recording Transmitter**, a new product launched in March 2002, accounted for approximately half of the Group's turnover for the three months ended 30 September 2002. The success of the product also contributed to the increase in the Group's turnover in this quarter.

RESULTS

The Board of Directors (the "Board") of TeleEye Holdings Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 30 September 2002, together with the comparative unaudited figures for the corresponding period in 2001, as follows:

Condensed Income Statement (Unaudited)

		Three months ended	
		30 September	
	<i>Notes</i>	2002	2001
		HK\$'000	<i>HK\$'000</i>
Turnover	3	6,397	3,179
Cost of sales		(1,950)	(887)
Gross profit		4,447	2,292
Other income	4	115	287
Distribution costs		(1,847)	(1,287)
Administrative expenses		(1,769)	(1,415)
Research and development expenditure		(1,221)	(594)
Loss from operations		(275)	(717)
Interest on advance from a minority shareholder wholly repayable within five years		(4)	–
Share of loss of an associate		–	(164)
Loss before taxation		(279)	(881)
Taxation (charge) credit	5	(12)	140
Loss attributable to shareholders		(291)	(741)
Basic loss per share	6	(0.16 cents)	(0.41 cents)

Notes:

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.

2. Basis of preparation

The condensed income statement and notes thereto (the "Quarterly Financial Information") have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The Quarterly Financial Information has been prepared under the historical cost convention, as modified for the revaluation of investments in securities. The accounting policies adopted in preparing the Quarterly Financial Information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2002 except as described below. In applying such accounting policies in the preparation of the Quarterly Financial Information, greater use has been made of estimation methods than in the preparation of the annual financial statements.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants. The revisions to SSAP 11 "Foreign currency translation" have eliminated the choice of translating the income statements of overseas operations at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. Turnover

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

4. Other income

Three months ended	
30 September	
2002	2001
HK\$'000	HK\$'000

Other income is analysed as follows:

Interest income from		
– bank deposits	65	271
– investments in securities	15	–
– amount due from an associate	1	–
Dividends from investments in securities	31	16
Others	3	–
	<hr/> 115 <hr/>	<hr/> 287 <hr/>

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 has been established.

5. Taxation (charge) credit

Three months ended 30 September	
2002	2001
HK\$'000	HK\$'000

The (charge) credit comprises:

Taxation outside Hong Kong – current period	(12)	–
Deferred taxation credit	–	140
	<u>–</u>	<u>140</u>
	(12)	140
	<u>–</u>	<u>140</u>

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

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

A 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.

6. Basic loss per share

The calculation of basic loss per share is based on a loss of approximately HK\$291,000 (2001: HK\$741,000), being loss attributable to shareholders and 180,000,000 (2001: 180,000,000) ordinary shares in issue during the period.

No disclosure of diluted loss per share for the period ended 30 September 2002 and 30 September 2001 is shown as the effect of the potential ordinary shares in issue would result in a decrease in loss per share for both periods.

7. Dividend

The Board does not recommend payment of any dividend for the three months ended 30 September 2002 (2001: Nil).

8. Movement of reserves

	Share premium	Translation reserve	Investment revaluation reserve	Special reserve	Retained profits (deficit)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2001	21,605	(96)	–	14,990	375	36,874
Exchange differences on translation of overseas operations	–	23	–	–	–	23
Revaluation of investments in securities	–	–	(722)	–	–	(722)
Loss attributable to shareholders	–	–	–	–	(741)	(741)
	<u>21,605</u>	<u>(73)</u>	<u>(722)</u>	<u>14,990</u>	<u>(366)</u>	<u>35,434</u>
At 30 September 2001	<u>21,605</u>	<u>(73)</u>	<u>(722)</u>	<u>14,990</u>	<u>(366)</u>	<u>35,434</u>
	Share premium	Translation reserve	Investment revaluation reserve	Special reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2002	21,605	(59)	(578)	14,990	(4,024)	31,934
Exchange differences on translation of overseas operations	–	(22)	–	–	–	(22)
Revaluation of investments in securities	–	–	(559)	–	–	(559)
Loss attributable to shareholders	–	–	–	–	(291)	(291)
	<u>21,605</u>	<u>(81)</u>	<u>(1,137)</u>	<u>14,990</u>	<u>(4,315)</u>	<u>31,062</u>
At 30 September 2002	<u>21,605</u>	<u>(81)</u>	<u>(1,137)</u>	<u>14,990</u>	<u>(4,315)</u>	<u>31,062</u>

9. Comparative figures

Certain comparative figures have been reclassified to conform with the current quarter'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\$23,000, HK\$589,000 and HK\$594,000, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

Turnover of the Group surged to approximately HK\$6,397,000 for the three months ended 30 September 2002, representing an increase of 101% as compared to the corresponding period in 2001. Compared to the last quarter of the previous financial year, turnover in this quarter showed an increase of approximately HK\$664,000 or 12%. Loss attributable to shareholders for the three months ended 30 September 2002 amounted to approximately HK\$291,000 which was significantly narrowed by approximately HK\$450,000 and approximately HK\$840,000 when compared with the corresponding period in 2001 and the three months ended 30 June 2002, respectively. The encouraging result achieved in this quarter was mainly attributable to the Group's success in global expansion strategy, continuously widening of its product range and effective cost-control measures.

Hong Kong, Europe and other Asian countries were still the major target markets of the Group in this quarter, totalling approximately HK\$5,812,000. Turnover from Hong Kong segment for the three months ended 30 September 2002 increased by 43% to approximately HK\$2,048,000 as compared to the corresponding period in 2001. Furthermore, turnover from Europe segment sharply increased by approximately HK\$1,462,000 or 255% to approximately HK\$2,036,000 in this quarter when compared with the same period last year. Such tremendous growth was attributed to better technical support and marketing effort, like holding seminars, recruiting resellers and visiting distributors in Europe, made by TeleEye Europe Limited ("TeleEye Europe"), the Group's subsidiary in the United Kingdom ("UK"). Finally, turnover from other Asian countries generated in this quarter also increased by approximately HK\$1,120,000 or 184% to approximately HK\$1,728,000 as compared to the same quarter of the previous financial year. Again, it was resulted from the marketing effort made by the Group's overseas establishments, particularly its subsidiary in Singapore, TeleEye (S) Pte Limited ("TeleEye (S)"). During the period under review, turnover from every major markets generally improved. It was mainly attributable to the sales of **TeleEye III+ Video Recording Transmitter ("TeleEye III+ VRT")**, which was launched in March 2002.

Operating expenses incurred during the three months ended 30 September 2002 increased by approximately HK\$1,541,000 to approximately HK\$4,837,000 as compared with the corresponding quarter in 2001. Total staff remuneration increased by approximately HK\$824,000, which was caused by an increase in headcount and a decrease in staff remuneration capitalised as development cost. To cope with the Group's expansion, rental expenses consequently increased by approximately HK\$160,000 in this quarter, which came from additional office units located in Hong Kong and overseas. In addition, amortisation of development costs capitalised increased by approximately HK\$249,000 as several major products were launched after the quarter ended 30 September 2001, particularly **TeleEye III+ VRT**. In comparison with the previous quarter ended 30 June 2002, operating expenses slightly dropped by approximately HK\$449,000, which was the result of continuous cost control implemented by the Group.

Share of loss of associate for the quarter ended 30 September 2002 was zero although CAMERIO Japan, Inc ("CAMERIO Japan") recorded a little loss in this quarter. The Group's share of its loss was restricted to the carrying value of the Group's investment in CAMERIO Japan as the Group is only its minority shareholder. Turnover from CAMERIO Japan for the three months ended 30 September 2002 was approximately five times as much as that generated in the corresponding period in 2001.

Minority interest recorded in this quarter dropped to zero as TeleEye (S) achieved a breakeven result. The Group's turnover from Singapore increased from approximately HK\$98,000 for the quarter ended 30 September 2001 to approximately HK\$802,000 for this quarter ended 30 September 2002.

Because of the promising result achieved in this quarter, the Group will continuously concentrate its effort in strengthening its distribution channels and broadening its income source so as to add value to shareholders. On the other hand, the global economic depression has driven the Group to take more prudent approach in establishing overseas offices, especially in the United States. However, the expansion into overseas markets as stated in the Company's prospectus dated 24 April 2001 is still considered as the Group's long-term growth momentum.

Financial Resources and Liquidity

For the three months ended 30 September 2002, the Group used its internal resources as well as proceeds from listing to finance its daily operations. As at 30 September 2002, the Group had sufficient cash and bank balances of approximately HK\$2,882,000 and short-term deposits of approximately HK\$18,218,000 to cater for its future expansion.

Business Development

TeleEye (S) performed well and showed steady growth for the three months ended 30 September 2002. TeleEye (S) continued to carry out the marketing work and strengthen its sales channels. TeleEye (S) participated in a major computer show in September 2002, which attracted many visitors with lots of sales enquiries received. TeleEye (S) achieved a breakeven result in this quarter.

Further to the establishment of strategic partnership with leading alarm centers, TeleEye Europe held three seminars in the Southern, Northern and Central part of England in August and September 2002. Apart from introducing the latest Network CCTV technology and product applications to the visitors, TeleEye Europe aims at recruiting more resellers through these seminars.

Compared with last quarter, turnover from CAMERIO Japan almost doubled while it recorded only a slight loss for this quarter ended 30 September 2002. CAMERIO Japan continues to work with NTT DoCoMo on testing its video solution on the Japanese 3G mobile network. The Group expects the sales of CAMERIO will be on the rise in the coming quarter.

The Group has reached the final stage of new office preparation in China. It was confirmed that the office would be located at the Shenzhen Hi-tech Industrial Park. Staff recruitment for the new office has commenced and it is expected that the office will be in full operation in mid November 2002.

Product Launch

Professional Model of Video Recording Transmitter

The Group further uplifted the performance of **TeleEye III+ VRT** and developed its professional models by enlargement of its recording capacity and boosting the recording frame rate. The Group launched the professional models in July 2002 and market response was overwhelming.

One-Plug Module Network Closed Circuit Television ("CCTV")

New model of the 1-camera **TeleEye III+ Video Transmitter** with alarm input was launched in early September 2002. This new model can be linked to the existing computer network in any corporations and be turned into a powerful company-wide video monitoring system.

Web Video Solution

Cyber TeleEye Web Video Solution, a development tool to create and manage live video on users' existing web page. This solution enables the web video page to be built on popular login database systems and allows multiple Internet users to access the remote video at the same time. This new solution was launched in early September 2002.

Multi-site Video Reception Software

The Multi-site Video Reception Software allows users to view up to 16 remote sites simultaneously from a personal computer. It is most suitable for multi-location management. This solution was launched in early September 2002.

CCTV Camera

To generate more revenue, the Group tested some models of OEM camera on their compatibility with **TeleEye** products. A Colour Pan/Tilt Dome Camera, **TeleEye DM326**, was available in the market in early September 2002.

Research and Development

Network Camera

Product design of network camera is in progress and the first prototype is expected to be ready in next quarter.

Digital Video Recorder

The Group has set the specification and started the design of digital video recording system.

Video Management Software

Research work has commenced for the development of video management software, which is suitable for large-scale operations, particularly in alarm centre.

TeleEye III+ VRT Enhancement

The research and development team further enhanced the software and hardware of **TeleEye III+ VRT** by incorporating the intelligent event driven function. Users can be alerted immediately upon occurrence of alarm or hardware failure.

Reception Software Enhancement

The Group further improves the Multi-site Video Reception Software to support dial up connection. In addition, the **TeleEye M-monitoring Solution** was further enhanced by adding the video playback function. The solution is now fully compatible with the **TeleEye III+ VRT** and audio product, **CAMERIO TeleEAR**.

Sales and Marketing

With the continuous expansion of its product range, the Group actively promoted and marketed its new products by adopting cost-effective promotion programs. In August and September 2002, the Group's marketing team visited distributors and major clients in the Western and Eastern Europe to introduce the new products and conduct business reviews. During the period under review, the Group signed two new distributors in Malta and Ireland. In September 2002, the Group participated in two major exhibitions in Hong Kong while its distributors also actively joined the exhibitions in Italy, Philippines and Croatia to showcase its new products.

Asia Wireless Pacific Limited invited the Group to join a wireless solution event and introduce the remote monitoring systems through the use of wireless data service. The Group was also invited to be a joint promotional partner of a community event organised by the Office of Telecommunications Authority of the Government of Hong Kong SAR to introduce the remote video monitoring concept on broadband Internet to the public which can further enhance the brand image and awareness of the Group.

Following the successful broadcast of the British Open Squash Championships, the Group was invited to broadcast live video for the Cathay Pacific Squash Champions in late August 2002. The Group sponsored the events with the latest **Cyber TeleEye Web Video Solution** by adding and broadcasting live video on the web.

Prospects

The improved financial performance of the Group reflected the success of the Group's cost control and global expansion strategy. To bring the Group back to profitability, the Group will continue to improve its profitability and overall productivity by implementing cost containment measures and aggressive selling strategy.

The Group will continue to strengthen its overseas operations in Japan, Singapore and the UK. The China office will be in full operation in mid November 2002. The Group expects that the China office can reduce its production and development costs while at the same time capture the China's growing business opportunities.

A series of new products launch programs will be continued in the next quarter and the Group also participated in several major international exhibitions in Hong Kong, Germany and China in October 2002.

With the continuous slowdown in the global economy, the Group will broaden its income source by continuously and aggressively widening its product range and building up a CCTV camera product line.

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

During the three months ended 30 September 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN SECURITIES

At 30 September 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:

Name of director	Number of ordinary shares held			
	Personal interests	Family interests	Corporate interests <i>(note)</i>	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 September 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 September 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.

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 8 May 2001, being the date of commencement of 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 period:

	Date of grant	Exercise price per share <i>HK\$</i>	Balance at 1 July 2002	Lapsed during the period <i>(note)</i>	Balance at 30 September 2002
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	9,120,000	(1,112,000)	8,008,000
			13,724,000	(1,112,000)	12,612,000

No options had been exercised since the date of grant.

Note: These options lapsed upon the resignation of grantees.

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 this quarter 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 quarter.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 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 (<i>note</i>)	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. Subsequent to 30 September 2002, the Company was notified by Secure Technology Limited that it ceased to be a substantial shareholder of the Company with effect from 16 October 2002.

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 September 2002.

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.

SPONSOR'S INTEREST

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 September 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.

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 is also responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group.

By order of the Board

DR. CHAN CHOK KI

Chairman and Chief Executive Officer

Hong Kong, 12 November 2002