



千里眼控股有限公司
TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8051)

2011/2012 INTERIM RESULTS ANNOUNCEMENT

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

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

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

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors of TeleEye Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to TeleEye Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- The Company and its subsidiaries (collectively referred to as the “Group”) recorded a turnover of approximately HK\$19,985,000 for the six months ended 31 December 2011, representing a decrease of approximately 20% when compared with the same period in 2010.
- The Group recorded a loss attributable to the owners of the Company of approximately HK\$1,875,000 for the six months ended 31 December 2011 as compared with a profit of approximately HK\$2,326,000 for the same period in last year. The deterioration in performance of the Group is mainly attributable to drop in sales.
- The board (the “Board”) of directors (the “Directors”) does not recommend the payment of an interim dividend for the six months ended 31 December 2011.

RESULTS

The Board of Directors of TeleEye Holdings Limited (the “Company”) hereby announces the unaudited consolidated results of the Group for the three months and six months ended 31 December 2011, together with the comparative unaudited figures for the corresponding periods in 2010, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	Three months ended		Six months ended	
		31 December		31 December	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	4	10,615	12,679	19,985	24,909
Cost of sales		(5,817)	(5,765)	(10,464)	(11,670)
Gross profit		4,798	6,914	9,521	13,239
Other income		67	41	114	74
Selling and distribution costs		(2,525)	(2,148)	(4,681)	(4,266)
Administrative expenses		(2,214)	(1,965)	(4,420)	(3,513)
Research and development expenditure		(1,300)	(1,429)	(2,438)	(2,665)
(Loss)/profit before taxation	6	(1,174)	1,413	(1,904)	2,869
Income tax expense	7	(1)	(326)	(1)	(540)
(Loss)/profit for the period		<u>(1,175)</u>	<u>1,087</u>	<u>(1,905)</u>	<u>2,329</u>
Other comprehensive income/(expense):					
Exchange loss on translating foreign operations		(20)	(135)	(208)	(8)
Increase/(decrease) in fair value on available-for-sale investments		243	411	(1,161)	1,143
Other comprehensive income/(expense) for the period		<u>223</u>	<u>276</u>	<u>(1,369)</u>	<u>1,135</u>
Total comprehensive (expense)/income for the period		<u>(952)</u>	<u>1,363</u>	<u>(3,274)</u>	<u>3,464</u>

	Three months ended		Six months ended	
	31 December		31 December	
	2011	2010	2011	2010
NOTES	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to:				
Owners of the Company	(1,154)	1,071	(1,875)	2,326
Non-controlling interests	(21)	16	(30)	3
	<u>(1,175)</u>	<u>1,087</u>	<u>(1,905)</u>	<u>2,329</u>
Total comprehensive (expense)/income for the period attributable to:				
Owners of the Company	(932)	1,345	(3,251)	3,465
Non-controlling interests	(20)	18	(23)	(1)
	<u>(952)</u>	<u>1,363</u>	<u>(3,274)</u>	<u>3,464</u>
(Loss)/earnings per share				
— Basic	(13 cents)	12 cents	(21 cents)	26 cents
— Diluted	(13 cents)	12 cents	(21 cents)	26 cents

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December 2011 <i>NOTES</i> <i>HK\$'000</i> (Unaudited)	As at 30 June 2011 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	9	1,101	1,339
Capitalised development costs		2,718	2,207
Available-for-sale investments		5,008	6,168
		8,827	9,714
Current assets			
Inventories		12,258	14,122
Trade and other receivables	10	4,702	5,312
Bills receivables	10	—	373
Tax recoverable		57	—
Bank balances and cash		16,672	15,719
		33,689	35,526
Current liabilities			
Trade and other payables	11	4,018	3,321
Tax payables		—	147
		4,018	3,468
Net current assets		29,671	32,058
Total assets less current liabilities		38,498	41,772
Non-current liability			
Deferred tax liabilities		499	499
Net assets		37,999	41,273
Capital and reserves			
Share capital		1,808	1,808
Reserves		36,391	39,642
Equity attributable to owners of the Company		38,199	41,450
Non-controlling interests		(200)	(177)
Total equity		37,999	41,273

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to owners of the Company

	Attributable to owners of the Company							Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Share options reserve HK\$'000	Special reserve HK\$'000	Accumulated (losses)/ retained profits HK\$'000			
At 1 July 2010 (audited)	<u>1,803</u>	<u>21,646</u>	<u>(111)</u>	<u>(640)</u>	<u>1,102</u>	<u>14,990</u>	<u>(253)</u>	<u>38,537</u>	<u>(141)</u>	<u>38,396</u>
Profit for the period	—	—	—	—	—	—	2,326	2,326	3	2,329
Other comprehensive (expense)/ income for the period	—	—	(4)	1,143	—	—	—	1,139	(4)	1,135
Total comprehensive (expense)/ income for the period	—	—	(4)	1,143	—	—	2,326	3,465	(1)	3,464
Issue of ordinary shares upon exercise of share options	2	86	—	—	(40)	—	—	48	—	48
At 31 December 2010 (unaudited)	<u>1,805</u>	<u>21,732</u>	<u>(115)</u>	<u>503</u>	<u>1,062</u>	<u>14,990</u>	<u>2,073</u>	<u>42,050</u>	<u>(142)</u>	<u>41,908</u>
Loss for the period	—	—	—	—	—	—	(1,120)	(1,120)	(30)	(1,150)
Other comprehensive income/ (expense) for the period	—	—	222	250	—	—	—	472	(5)	467
Total comprehensive income/ (expense) for the period	—	—	222	250	—	—	(1,120)	(648)	(35)	(683)
Issue of ordinary shares upon exercise of share options	3	85	—	—	(40)	—	—	48	—	48
At 1 July 2011 (audited)	<u>1,808</u>	<u>21,817</u>	<u>107</u>	<u>753</u>	<u>1,022</u>	<u>14,990</u>	<u>953</u>	<u>41,450</u>	<u>(177)</u>	<u>41,273</u>
Loss for the period	—	—	—	—	—	—	(1,875)	(1,875)	(30)	(1,905)
Other comprehensive (expense)/ income for the period	—	—	(215)	(1,161)	—	—	—	(1,376)	7	(1,369)
Total comprehensive expense for the period	—	—	(215)	(1,161)	—	—	(1,875)	(3,251)	(23)	(3,274)
At 31 December 2011 (unaudited)	<u>1,808</u>	<u>21,817</u>	<u>(108)</u>	<u>(408)</u>	<u>1,022</u>	<u>14,990</u>	<u>(922)</u>	<u>38,199</u>	<u>(200)</u>	<u>37,999</u>

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 a group reorganisation in April 2001 and the nominal value of the share capital issued by the Company as consideration for the acquisition.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	31 December	
	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	1,787	2,332
Net cash used in investing activities	(834)	(789)
Net cash generated from financing activities	—	48
Net increase in cash and cash equivalents	953	1,591
Cash and cash equivalents at beginning of the period	15,719	19,586
Cash and cash equivalents at end of the period, representing bank balances and cash	16,672	21,177

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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”).

2. BASIS OF PREPARATION

The condensed financial statements 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 and with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2011.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

HKFRS 7 (Amendments)	Disclosures — Transfers of financial assets
HKAS 24 (Revised 2009)	Related party disclosures
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a minimum funding requirement

The application of these new or revised HKFRSs in the current interim period had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Directors anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. REVENUE

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

5. SEGMENT INFORMATION

The Group's operating and reportable segment have been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the executive ("Executive") Directors of the Company, being the chief operating decision maker of the Group, in order to allocate resources to segments and to assess their performances.

The Executive Directors regularly review revenue and overall operating result derived from research and development and sale and marketing of video monitoring systems and consider them as one single operating segment.

Geographical information

The Group's operations are located in Hong Kong, the People's Republic of China ("PRC") and United Kingdom.

The Group's revenue from external customers by geographical location of customers is detailed below:

	Revenue from external customers	
	2011 HK\$'000	2010 HK\$'000
Asia	11,811	11,360
Europe	3,952	6,756
Africa	3,602	5,883
Others	620	910
	19,985	24,909

6. (LOSS)/PROFIT BEFORE TAXATION

	Three months ended 31 December		Six months ended 31 December	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
(Loss)/profit before taxation has been arrived at after charging/(crediting):				
Allowance/(reversal of allowance) for bad and doubtful debts	57	(20)	326	(1)
Allowance/(reversal of allowance) for obsolete stocks (included in cost of sales)	280	119	390	(22)
Amortisation of capitalised development costs (included in research and development expenditure)	170	189	341	378
Interest income from bank deposits	(1)	(1)	(1)	(1)
Depreciation of property, plant and equipment	165	144	329	317
Dividend income from listed equity securities	(65)	(42)	(112)	(58)
Loss on disposal of property, plant and equipment	—	1	—	2
Net foreign exchange loss/(gain)	48	49	—	(394)
	48	49	—	(394)

7. INCOME TAX EXPENSE

Income tax expense in the condensed consolidated statement of comprehensive income represented:

	Three months ended 31 December		Six months ended 31 December	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Hong Kong Profits Tax				
Current period	—	326	—	540
Underprovision in prior period	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>
	<u><u>1</u></u>	<u><u>326</u></u>	<u><u>1</u></u>	<u><u>540</u></u>

Hong Kong Profits Tax is calculated at the rate of 16.5% of the estimated assessable profits for the periods.

No provision for Hong Kong Profit Tax has been made as the Group had no estimated assessable profits arising from Hong Kong for the six months ended 31 December 2011.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT law, the tax rate of the PRC subsidiary is 25%. No provision for PRC Enterprise Income Tax has been made as the PRC subsidiary did not have any taxable income for the six months ended 31 December 2011.

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

8. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share attributable to the owners of the Company is based on the following data:

	Three months ended 31 December		Six months ended 31 December	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
(Loss)/earnings				
(Loss)/earnings for the purpose of basic and diluted (loss)/earnings per share				
(Loss)/profit for the period attributable to owners of the Company	<u>(1,154)</u>	<u>1,071</u>	<u>(1,875)</u>	<u>2,326</u>
	<u>'000</u>	<u>'000</u>	<u>'000</u>	<u>'000</u>
Numbers of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>9,039</u>	<u>9,021</u>	<u>9,039</u>	<u>9,018</u>
Effect of dilutive potential ordinary shares:				
— Share options	<u>—</u>	<u>85</u>	<u>—</u>	<u>85</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>9,039</u></u>	<u><u>9,106</u></u>	<u><u>9,039</u></u>	<u><u>9,103</u></u>

The computation of diluted loss per share for the six months ended 31 December 2011 does not assume the exercise of the Company’s share options since their exercise would result in decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2011, the Group spent approximately HK\$95,000 on leasehold improvements, computer and office equipment, furniture and fixtures.

10. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES

The Group allows an average credit period of one month to some of its trade customers. The following is an aging analysis of trade receivables (net of allowances for bad and doubtful debts) at the end of the reporting period prepared on the basis of payment due date of sales invoice:

	As at 31 December 2011 HK\$'000	As at 30 June 2011 HK\$'000
Current	3,057	3,236
1 to 3 months overdue	400	537
More than 3 months overdue	98	37
	<u>3,555</u>	<u>3,810</u>

All bills receivables of the Group at 30 June 2011 are aged within one month at the end of the reporting period.

11. TRADE AND OTHER PAYABLES

The following is an aging analysis of trade payables at the end of the reporting period prepared on the basis of payment due date of supplier's invoice:

	As at 31 December 2011 HK\$'000	As at 30 June 2011 HK\$'000
Current	1,571	1,554
1 to 3 months overdue	170	170
More than 3 months overdue	323	85
	<u>2,064</u>	<u>1,809</u>

The normal credit period on purchases of goods is one month.

12. RELATED PARTY TRANSACTIONS

	Six months ended	
	31 December	
	2011	2010
	HK\$'000	HK\$'000
Service fee to The City University of Hong Kong (“City University”)	<u>12</u>	<u>12</u>

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

Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	Six months ended	
	31 December	
	2011	2010
	HK\$'000	HK\$'000
Short-term benefits	2,267	2,145
Post-employment benefits	<u>18</u>	<u>18</u>

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 31 December 2011 (2010: Nil).

FINANCIAL REVIEW

For the six months ended 31 December 2011, the Group recorded a turnover of approximately HK\$19,985,000, representing a decrease of about 20% as compared with a turnover of approximately HK\$24,909,000 of the same period in last year. The Group recorded a loss attributable to owners of the Company of approximately HK\$1,875,000 for the six months ended 31 December 2011 as compared with a profit of approximately HK\$2,326,000 for the same period in last year.

The Group's balance sheet remains strong, with substantial liquidity. During the six months ended 31 December 2011, the Group had capitalised operating costs of approximately HK\$852,000 (2010: HK\$538,000) in respect of development of advanced CCTV products.

BUSINESS REVIEW

In the second half of 2011, the global economy was greatly affected by the European sovereign debt crisis that resulted in tight liquidity, high unemployment rates and turbulent currency market. Thailand flooding disrupted the supply of hard drive, an essential component of our video recording server, and pushed up its price significantly. Overall demands were weak and competitions were keen. To maintain our market position, the Group has stepped up marketing and promotion activities as well as reducing the price of products. The overall gross profit margin has dropped during the period. Inflationary pressure has also pushed up costs in general. As a result, the Group reported a loss during this period.

BUSINESS OUTLOOK

Given the uncertainties in major economies, we expect the overall market demands for our products will remain weak in the near future.

In 2012, the Group has just launched the GX series of High Definition (“HD”) Video Recording Server which is an important addition to complete our HD video product line. Despite weak economic environment, the demand of HD video surveillance product is growing. We will continue to launch major marketing activities to introduce the HD products to markets worldwide.

SEGMENT INFORMATION

Asia

Turnover for Asia (inclusive of Hong Kong, Singapore, middle East and other Asian Countries) the six months ended 31 December 2011 amounted to approximately HK\$11,811,000 (2010: HK\$11,360,000) or 59% (2010: 46%) of the Group’s turnover. The overall markets in Asia are relatively stable. The responses to our HD video products are encouraging. High value customers in the retail, banking, hotel and education sectors are adopting our HD video surveillance solution in this region.

Europe

Turnover for the six months ended 31 December 2011 amounted to approximately HK\$3,952,000 (2010: HK\$6,756,000) or 20% (2010: 27%) of the Group’s turnover. Affected by the poor economic situation in Europe, sales in many countries in this region dropped significantly. Austerity measures, sluggish corporate spending and tight credit market all contributed to the weak demand in this region.

SEGMENT INFORMATION (CONTINUED)

Africa

Turnover for the six months ended 31 December 2011 amounted to approximately HK\$3,602,000 (2010: HK\$5,883,000) or 18% (2010: 24%) of the Group's turnover. The fluctuation in currency especially the significant drop in the value of South Africa Rand against United States ("US") dollar has hurt our sales in the region.

Others

Other geographical segments included the Americas and Australia. Turnover for the six months ended 31 December 2011 amounted to approximately HK\$620,000 (2010: HK\$910,000) or 3% (2010: 3%) of the Group's total turnover.

EMPLOYEE INFORMATION

As at 31 December 2011, the Group employed 48 (2010: 43) full time employees in Hong Kong and 15 (2010: 14) full time employees in the PRC and overseas office. The Group's staff costs, including directors' emoluments, employees' salaries, share-based payments and retirement benefits scheme contribution amounted to approximately HK\$8,478,000 (2010: HK\$7,906,000).

Employees are remunerated in accordance with individual's responsibility and performance, which remain competitive with the prevailing market rates. Other fringe benefits such as medical insurance, retirement benefit scheme and discretionary bonus are offered to all employees. Share options are granted at the directors' discretion and under the terms and conditions of share option schemes.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group mainly used its internal resources to finance its operations during the six months ended 31 December 2011.

The Group had bank balances, deposits and cash of approximately HK\$16,672,000 as at 31 December 2011 (30 June 2011: HK\$15,719,000).

The Group's gearing ratio, as a percentage of bank and other borrowings and long-term debt over total assets, as at 31 December 2011 was 0% (30 June 2011: 0%).

CAPITAL STRUCTURE

The Group did not have any borrowings during the period under review.

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the six months ended 31 December 2011.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisitions and disposals of subsidiaries and affiliated companies for the six months ended 31 December 2011.

CHARGE ON ASSETS

As at 31 December 2011, the Group did not have any charge on its assets (30 June 2011: Nil).

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Up to current moment, the Group does not have any other plan for material investments or capital assets.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

During the period under review, the Group's transactions were substantially denominated in either Hong Kong dollars, US dollars, British Pounds. The Group did not use any financial instruments for hedging purposes (30 June 2011: Nil).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any contingent liabilities (30 June 2011: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND SHARE OPTIONS

At 31 December 2011, the interests of the Directors and chief executives and their associates in the shares and share options of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (“SFO”)) which were required pursuant to Section 352 of the SFO, or which are required pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

(a) Ordinary shares of HK\$0.2 each of the Company

Name of Directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Prof. Chan Chok Ki	Held by controlled corporation (<i>note 1</i>)	5,200,000	57.5%
Dr. Chan Cheung Fat	Held by controlled corporation (<i>note 1</i>)	5,200,000	57.5%

(b) Share options

Name of Directors	Capacity	Number of share options held	Number of underlying shares
Prof. Chan Chok Ki	Beneficial owner (<i>note 2</i>)	135,000	135,000
Dr. Ma Chi Kit	Beneficial owner (<i>note 2</i>)	126,000	126,000
Mr. Ho Ka Ho	Beneficial owner (<i>note 2</i>)	124,000	124,000

Notes:

- (1) These shares, representing approximately 57.5% of the issued share capital of the Company as at 31 December 2011, 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 Prof. 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. As Prof. Chan Chok Ki and Dr. Chan Cheung Fat are entitled to exercise or control the exercise of 30% or more of the voting power in general meetings of Etin Tech Limited, they are deemed to be interested in the entire shares in the Company held by Etin City Limited.
- (2) The share options are granted to the Directors pursuant to the share option schemes adopted by the Company, details of which are set out under the header of “Share Option Schemes” below.

Save as disclosed above, and other than a nominee share in a subsidiary held by a Director in trust for the Group, at 31 December 2011, none of the Directors, the chief executives of the Company nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations.

SHARE OPTION SCHEMES

Share Option Scheme adopted on 28 October 2003 (the “2003 Option Scheme”)

Pursuant to a resolution passed on 28 October 2003, the 2003 Option Scheme was adopted to recognise and motivate the contribution of the employees and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees for a term of ten years. The Directors may at its discretion grant options to any employees, including Executive and non-executive (“Non-Executive”) Directors, advisers, consultants, agents, contractors, customers and suppliers of the Group to subscribe for shares in the Company. Option may be granted at a consideration of HK\$1 and should be accepted within 5 business days from the date of grant. The option granted is exercisable upon acceptance and payment of consideration by the grantee and have a duration of 10 years from their respective vesting dates.

The maximum number of shares in respect of which options may be granted cannot exceed 10% of the issued share capital of the Company on 28 October 2003. No option shall be granted to a grantee if the total number of shares issued and to be issued upon exercise of options granted and to be granted under the 2003 Option Scheme in any twelve months period up to and including the date of grant to such grantee would exceed 1% of the issued share capital of the Company for the time being in issue.

The subscription price shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the Daily Quotation Sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Daily Quotation Sheets for the five trading days immediately preceding the date of grant; or (iii) the nominal value of a share. Without prejudice to the generality of the above, the Directors may grant options in respect of which the subscription price is fixed at different price.

The following table discloses the Company’s share options under the 2003 Option Scheme as at 31 December 2011 and 30 June 2011:

	Date of grant	Exercise price per share HK\$	Balance at 31 December 2011 and 30 June 2011
Directors of the Company			
Prof. Chan Chok Ki	4 August 2004	2.9	45,000
	23 June 2010	3.98	90,000
Dr. Ma Chi Kit	4 August 2004	2.9	36,000
	23 June 2010	3.98	90,000
Mr. Ho Ka Ho	4 August 2004	2.9	34,000
	23 June 2010	3.98	90,000
			385,000
Employees of the Group	4 August 2004	2.9	4,000
	23 June 2010	3.98	36,000
			425,000
Exercisable at end of the period			425,000
Weighted average exercise price			HK\$3.68

The closing price of the Company’s shares immediately before 4 August 2004 and 23 June 2010 (date of grant of the above options) were HK\$2.9 and HK\$3.98 respectively. At 31 December 2011, the number of shares in respect of which options had been granted under the 2003 Option Scheme represents 4.7% (2010: 5.0%) of the shares of the Company in issue at that date.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the section headed “Share Option Schemes” as described above, at no time during the six months ended 31 December 2011 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 six months ended 31 December 2011.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed in the section headed “Directors’ and Chief Executives’ Interests in Shares and Share Options”, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no person as having a notifiable interest or short position in the issued share capital of the Company as at 31 December 2011.

COMPETITION AND CONFLICT OF 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 or any other conflicts of interests which any such person has or may have with the Group.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 31 December 2011, the Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the six months ended 31 December 2011 except for the following deviations:

1. Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established and set out in writing.

At present, Prof. Chan Chok Ki is both the Chairman and Chief Executive Officer of the Company who is responsible for managing the Board and the Group's business. Prof. Chan has been both the Chairman and Chief Executive Officer of the Company since its incorporation. The Board considers that Prof. Chan has in-depth knowledge in the Group's business and can make appropriate decisions promptly and efficiently. The combination of the roles of Chairman and Chief Executive Officer can effectively formulate and implement the Group's strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the Company as the Board of Directors, which comprises experienced and high caliber individuals, meets regularly to discuss issues affecting the operations of the Group. The Group considers that, at its present size, there is no imminent need to segregate the role of Chairman and Chief Executive Officer.

2. Code Provision A.4.1 stipulates that Non-Executive Directors should be appointed for a specific term, subject to re-election. Code Provision A.4.2 stipulates that all Directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

At present, the independent ("Independent") Non-Executive Directors are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association. In addition, not every Director is subject to retirement by rotation at least once every three years. Directors are subject to rotation in accordance with the Articles of Association of the Company (that at each annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not greater than one-third, shall retire from office) provided that notwithstanding anything herein, the Chairman of the Board and/or the managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. As such, with the exception of the Chairman, all Directors are subject to retirement by rotation in accordance with the Company's Articles of Association. The Board considers that the continuity of office of the Chairman provides the Group a strong and consistent leadership and is of great importance to the smooth operations of the Group. Therefore, for stability reasons, there is no imminent need to amend the Articles of Association of the Company.

AUDIT COMMITTEE

The audit committee has four members comprising three Independent Non-Executive Directors, namely Mr. Yu Hon To, David, Prof. Siu Wan Chi and Prof. Ching Pak Chung and one Non-Executive Director, namely Dr. Chan Cheung Fat.

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

The audit committee has reviewed the draft of this report and has provided advice and comments thereon.

REMUNERATION COMMITTEE

The remuneration committee has three members comprising two Independent Non-Executive Directors, namely Prof. Siu Wan Chi and Prof. Ching Pak Chung and one Non-Executive Director, namely Dr. Chan Cheung Fat.

The primary duties of the remuneration committee are to formulate and make recommendations to the Board on the Company's policy and structure for all the remuneration of the Directors and senior management and on the establishment of a formal and transparent procedures for developing policy on such remuneration.

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

Hong Kong, 10 February 2012

As at the date hereof, the Executive Directors are Prof. Chan Chok Ki (Chairman of the Company), Dr. Ma Chi Kit and Mr. Ho Ka Ho; the Non-Executive Director is Dr. Chan Cheung Fat; and the Independent Non-Executive Directors are Mr. Yu Hon To, David, Prof. Siu Wan Chi and Prof. Ching Pak Chung.

This announcement will remain on the "Latest Company Announcements" of GEM website at www.hkgem.com for at least seven days from the date of its posting and on the website of the Company at www.teleeye.com.hk.