



千里眼控股有限公司
TeleEye Holdings Limited

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8051)

2008/2009 INTERIM RESULTS ANNOUNCEMENT

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

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This announcement, for which the directors of TeleEye 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 TeleEye Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement 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 announcement misleading; and (iii) 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 Group recorded a turnover of approximately HK\$29,484,000 for the six months ended 31 December 2008, representing an increase of approximately 2% when compared with the same period in 2007.
- The Group recorded a profit attributable to the equity holders of the Company of approximately HK\$1,531,000 for the six months ended 31 December 2008, representing a decrease of approximately 7% when compared with the same period in 2007.
- The Board of Directors does not recommend the payment of an interim dividend for the six months ended 31 December 2008.

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 and six months ended 31 December 2008, together with the comparative unaudited figures for the corresponding periods in 2007, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Three months ended 31 December		Six months ended 31 December	
		2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Revenue	2	12,894	14,794	29,484	28,790
Cost of sales		(6,704)	(7,558)	(15,137)	(14,672)
Gross profit		6,190	7,236	14,347	14,118
Other income		373	166	469	295
Selling and distribution costs		(2,499)	(3,007)	(5,433)	(5,752)
Administrative expenses		(2,444)	(2,771)	(5,412)	(4,746)
Research and development expenditure		(957)	(962)	(2,282)	(2,124)
Profit before taxation	4	663	662	1,689	1,791
Taxation	5	(145)	(374)	(275)	(386)
Profit for the period		<u>518</u>	<u>288</u>	<u>1,414</u>	<u>1,405</u>
Attributable to:					
Equity holders of the Company		630	497	1,531	1,645
Minority interests		(112)	(209)	(117)	(240)
		<u>518</u>	<u>288</u>	<u>1,414</u>	<u>1,405</u>
Earnings per share	6				
– basic		<u>0.35 cent</u>	<u>0.28 cent</u>	<u>0.85 cent</u>	<u>0.91 cent</u>
– diluted		<u>0.35 cent</u>	<u>0.27 cent</u>	<u>0.85 cent</u>	<u>0.91 cent</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 31 December 2008 HK\$'000 (Unaudited)	As at 30 June 2008 HK\$'000 (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	7	1,229	1,643
Capitalised development costs		1,117	977
Available-for-sale investments		1,768	4,179
		<u>4,114</u>	<u>6,799</u>
Current assets			
Inventories		8,331	7,659
Trade and other receivables	8	6,335	8,353
Bank balances and cash		18,791	17,962
		<u>33,457</u>	<u>33,974</u>
Current liabilities			
Trade and other payables	9	3,261	4,553
Amount due to minority shareholder	10	390	419
Tax payables		594	334
		<u>4,245</u>	<u>5,306</u>
Net current assets		<u>29,212</u>	<u>28,668</u>
Total assets less current liabilities		<u>33,326</u>	<u>35,467</u>
Non-current liability			
Deferred tax liability		286	271
Net assets		<u>33,040</u>	<u>35,196</u>
Capital and reserves			
Share capital		1,803	1,803
Reserves		31,479	33,558
Equity attributable to equity holders of the Company		33,282	35,361
Minority Interests		(242)	(165)
Total equity		<u>33,040</u>	<u>35,196</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008

	Attributable to equity holders of the Company								
	Share Capital	Share premium	Translation reserve	Investment revaluation reserve	Special reserve	Accumulated losses	Total	Minority Interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2007 (audited)	1,802	21,638	(281)	983	14,990	(7,649)	31,483	(212)	31,271
Exchange differences on translation of overseas operations	-	-	69	-	-	-	69	11	80
Gain on fair value of available-for-sale investments	-	-	-	503	-	-	503	-	503
Net income directly recognised in equity	-	-	69	503	-	-	572	11	583
Profit for the period	-	-	-	-	-	1,645	1,645	(240)	1,405
Total recognised income/(expense) for the period	-	-	69	503	-	1,645	2,217	(229)	1,988
Issue of ordinary shares upon exercise of share options	1	8	-	-	-	-	9	-	9
At 31 December 2007 (unaudited)	1,803	21,646	(212)	1,486	14,990	(6,004)	33,709	(441)	33,268
Exchange differences on translation of overseas operations	-	-	(61)	-	-	-	(61)	15	(46)
Loss on fair value of available-for-sale investments	-	-	-	(639)	-	-	(639)	-	(639)
Net (expense)/income directly recognised in equity	-	-	(61)	(639)	-	-	(700)	15	(685)
Profit for the period	-	-	-	-	-	2,352	2,352	261	2,613
Total recognised (expense)/income for the period	-	-	(61)	(639)	-	2,352	1,652	276	1,928
At 30 June 2008 (audited)	1,803	21,646	(273)	847	14,990	(3,652)	35,361	(165)	35,196

	Attributable to equity holders of the Company						Minority Interests	Total
	Share Capital	Share premium	Translation reserve	Investment revaluation reserve	Special reserve	Accumulated losses		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange differences on translation of overseas operations	-	-	(1,940)	-	-	-	40	(1,900)
Loss on fair value of available-for-sale investments	-	-	-	(1,446)	-	-	-	(1,446)
Net (expense)/income directly recognised in equity	-	-	(1,940)	(1,446)	-	-	40	(3,346)
Fair value gains released on sale of available-for-sale investments	-	-	-	(224)	-	-	-	(224)
Profit for the period	-	-	-	-	-	1,531	(117)	1,414
Total recognised (expense)/income for the period	-	-	(1,940)	(1,670)	-	1,531	(77)	(2,156)
At 31 December 2008 (unaudited)	1,803	21,646	(2,213)	(823)	14,990	(2,121)	(242)	33,040

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 CASH FLOW STATEMENT

	Six months ended 31 December	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Net cash generated from operating activities	2,223	3,406
Net cash used in investing activities	(1,365)	(1,605)
Net cash used in financing activities	(29)	(43)
Net increase in cash and cash equivalents	829	1,758
Cash and cash equivalents at beginning of the period	17,962	11,726
Cash and cash equivalents at end of the period, representing bank balances and cash	18,791	13,484

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. They have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The principal accounting policies adopted in the preparation of the condensed financial statements are consistent with those adopted by the Group in its annual accounts for the year ended 30 June 2008.

2. REVENUE

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

3. SEGMENT INFORMATION

The Group is principally engaged in the research and development and trading of audio and video surveillance systems. In accordance with the Group’s internal financial reporting, the Group has determined that geographical segment by location of customers as its primary reporting format.

Geographical segments

The Group reports its primary segment information by geographical location of its customers who are principally located in Hong Kong, Singapore, Other Asian countries, Middle East, Europe and Africa. Others include locations like the Americas and Australia. Segment information about these geographical markets is presented below:

Six months ended 31 December 2008

	Hong Kong HK\$'000	Singapore HK\$'000	Other Asian countries HK\$'000	Middle East HK\$'000	Europe HK\$'000	Africa HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE									
External sales	2,460	2,504	6,085	3,498	7,714	6,291	932	-	29,484
Inter-segment sales	-	663	614	-	5,553	-	-	(6,830)	-
Total revenue	<u>2,460</u>	<u>3,167</u>	<u>6,699</u>	<u>3,498</u>	<u>13,267</u>	<u>6,291</u>	<u>932</u>	<u>(6,830)</u>	<u>29,484</u>
SEGMENT RESULT	<u>567</u>	<u>(163)</u>	<u>1,467</u>	<u>1,398</u>	<u>1,883</u>	<u>2,191</u>	<u>264</u>	<u>-</u>	<u>7,607</u>
Unallocated corporate income									469
Unallocated corporate expenses									
- Administrative and other expenses									(4,105)
- Research and development expenditure									(2,282)
- Taxation									(275)
Profit for the period									<u>1,414</u>

Six months ended 31 December 2007

	Hong Kong HK\$'000	Singapore HK\$'000	Other Asian countries HK\$'000	Middle East HK\$'000	Europe HK\$'000	Africa HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
REVENUE									
External sales	4,048	2,317	4,029	2,943	9,174	4,868	1,411	-	28,790
Inter-segment sales	-	1,460	129	-	6,689	-	-	(8,278)	-
Total revenue	<u>4,048</u>	<u>3,777</u>	<u>4,158</u>	<u>2,943</u>	<u>15,863</u>	<u>4,868</u>	<u>1,411</u>	<u>(8,278)</u>	<u>28,790</u>
SEGMENT RESULT	<u>1,247</u>	<u>(17)</u>	<u>769</u>	<u>972</u>	<u>1,407</u>	<u>2,002</u>	<u>388</u>	<u>(58)</u>	<u>6,710</u>
Unallocated corporate income									295
Unallocated corporate expenses									
- Administrative and other expenses									(3,090)
- Research and development expenditure									(2,124)
- Taxation									(386)
Profit for the period									<u>1,405</u>

Inter-segment sales are charged at cost plus a percentage mark-up.

4. PROFIT BEFORE TAXATION

	Three months ended 31 December		Six months ended 31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging/(crediting):				
Net foreign exchange loss	565	(96)	706	48
Amortisation of capitalised development costs included in research and development expenditure	154	209	388	565
Depreciation of property, plant and equipment	200	149	417	268
Write-down of inventories (included in cost of sales)	4	34	12	137
Provision for slow-moving goods (included in cost of sales)	130	148	328	259
Allowance for bad and doubtful debts	(26)	182	305	186
Fair value gains released on sales of available-for-sale investments	(224)	–	(224)	–
Dividends from available-for-sale investments	(48)	(46)	(48)	(57)
Interest income	(53)	(98)	(133)	(213)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. TAXATION

Taxation charge in the condensed consolidated income statement represented:

	Three months ended 31 December		Six months ended 31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for Hong Kong profits tax for the period	(130)	(139)	(260)	(139)
Provision for profits tax in other jurisdictions	–	–	–	(12)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(130)	(139)	(260)	(151)
Deferred taxation	(15)	(235)	(15)	(235)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(145)	(374)	(275)	(386)

Hong Kong profits tax is calculated at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong for the six months ended 31 December 2008.

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

6. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Three months ended 31 December		Six months ended 31 December	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Earnings				
Profit for the period attributable to equity holders of the Company	<u>630</u>	<u>497</u>	<u>1,531</u>	<u>1,645</u>
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	180,300	180,300	180,300	180,297
Effect of dilutive potential ordinary shares in respect of:				
– Share options	<u>63</u>	<u>1,355</u>	<u>430</u>	<u>1,359</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>180,363</u>	<u>181,655</u>	<u>180,730</u>	<u>181,656</u>

7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2008, the Group spent approximately HK\$137,000 on computer and office equipment, furniture and fixtures.

8. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of approximately HK\$4,098,000 (30 June 2008: HK\$6,341,000). The following is an aged analysis of trade receivables at the balance sheet date prepared on the basis of payment due date of sales invoice:

	31 December 2008 HK\$'000	30 June 2008 HK\$'000
Current	2,862	4,255
1 to 3 months overdue	745	1,372
More than 3 months	<u>491</u>	<u>714</u>
	<u>4,098</u>	<u>6,341</u>

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$1,662,000 (30 June 2008: HK\$2,392,000). The following is an aged analysis of trade payables at the balance sheet date prepared on the basis of payment due date of supplier's invoice:

	31 December	30 June
	2008	2008
	HK\$'000	HK\$'000
Current	938	1,830
1 to 3 months overdue	198	511
More than 3 months	526	51
	1,662	2,392

10. AMOUNT DUE TO MINORITY SHAREHOLDER

The balance is unsecured, non-interest bearing and is repayable on demand.

11. RELATED PARTY TRANSACTIONS

	Six months ended	
	31 December	
	2008	2007
	HK\$'000	HK\$'000
Sales to an associate	–	64
Interest income from loan to an associate	–	2
Service fee to The City University of Hong Kong ("City University")	29	38
Scholarship donation to City University	36	–

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 during the period was as follows:

	Six months ended	
	31 December	
	2008	2007
	HK\$'000	HK\$'000
Short-term benefits	2,897	1,933
Post-employment benefits	18	18

The remuneration of directors 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 2008 (2007: Nil).

FINANCIAL REVIEW

For the six months ended 31 December 2008, the Group recorded a turnover of approximately HK\$29,484,000, representing an increase of about 2% as compared with a turnover of approximately HK\$28,790,000 of the same period in last year. Profit attributable to shareholders for the six months ended 31 December 2008 amounted to approximately HK\$1,531,000, as compared to HK\$1,645,000 of the same period in last year.

The Group's balance sheet remains strong, with substantial liquidity and a prudently low level of gearing. During the six months ended 31 December 2008, the Group had capitalised operating costs of approximately HK\$527,000 (2007: HK\$459,000) in respect of development of advanced CCTV products. In line with the Group's business expansion, overall operating costs had increased by approximately 4% to HK\$13,127,000, as compared to HK\$12,622,000 for the same period in 2007.

BUSINESS REVIEW

The Group is principally engaged in research and development and sales and marketing of audio and video surveillance systems. In November 2008, the Group launched a new product of DM590. DM590 Series allows full colour surveillance down to 0.1 Lux operation. In the night time, the camera switches to operate in B&W mode to increase its sensitivity for very low light to 0.01 Lux. Furthermore, DM590 Series can provide steady and clear image as usual and provide 8 privacy zone maskings, which allows users to mask out any undesired areas on screen.

BUSINESS OUTLOOK

Since October 2008, the global financial crisis greatly affects the business of the Group with falling sales and growing inventory. We have taken necessary measures to limit our exposure to risks. We expect the turbulent market will stay for the rest of the year. To ride through the storm, the Group will maintain a strong cash position; improve productivity and implement cost cutting measures. However, in order to stay ahead in the market, we will keep the product development schedule and launch new products as planned.

SEGMENT INFORMATION

Europe

Europe is still the largest market of the Group, whose turnover for the six months ended 31 December 2008 amounted to approximately HK\$7,714,000 (2007: HK\$9,174,000) or 26% (2007: 32%) of the Group's turnover. TeleEye Europe Limited (a subsidiary in the UK) operates as a direct selling office commencing from April 2004. It contributed significant effort in the provision of technical and marketing support in the region. Segment contribution was approximately HK\$1,883,000 (2007: HK\$1,407,000).

Africa

Turnover for the six months ended 31 December 2008 amounted to approximately HK\$6,291,000 (2007: HK\$4,868,000) or 21% (2007: 17%) of the Group's turnover. The increase in turnover was mainly due to the increasing marketing efforts applied in the region. Segment contribution increased to approximately HK\$2,191,000 (2007: HK\$2,002,000).

Hong Kong

Turnover for the six months ended 31 December 2008 amounted to approximately HK\$2,460,000 (2007: HK\$4,048,000) or 8% (2007: 14%) of the Group's turnover. Segment contribution decreased to approximately HK\$567,000 (2007: HK\$1,247,000).

Other Asian Countries

Turnover for Other Asian countries excluding Hong Kong and Singapore, for the six months ended 31 December 2008 amounted to approximately HK\$6,085,000 (2007: HK\$4,029,000) or 21% (2007: 14%) of the Group's turnover. Segment contribution was approximately HK\$1,467,000 (2007: HK\$769,000).

Singapore

Turnover for the six months ended 31 December 2008 amounted to approximately HK\$2,504,000 (2007: HK\$2,317,000) or 8% (2007: 8%) of the Group's turnover. The segment reported a loss of approximately HK\$163,000 (2007: HK\$17,000).

Middle East

Turnover for the six months ended 31 December 2008 amounted to approximately HK\$3,498,000 (2007: HK\$2,943,000) or 12% (2007: 10%) of the Group's turnover. The segment reported a contribution of approximately HK\$1,398,000 (2007: HK\$972,000).

Others

Other geographical segments included the Americas and Australia. Turnover for the six months ended 31 December 2008 amounted to approximately HK\$932,000 (2007: HK\$1,411,000) or 3% (2007: 5%) of the Group's total turnover. Segment contribution was approximately HK\$264,000 (2007: HK\$388,000).

EMPLOYEE INFORMATION

As at 31 December 2008, the Group employed 35 (2007: 35) full time employees in Hong Kong and 15 (2007: 17) full time employees in the PRC and overseas offices. The Group's staff costs, including directors' emoluments, employees' salaries and retirement benefits scheme contribution amounted to approximately HK\$8,220,000 (2007: HK\$7,568,000).

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

As at 31 December 2008, non-interest bearing loans were outstanding to minority shareholders. The loans were to finance the operation of some of the Group's subsidiaries and were repayable on demand.

Other than the above, the Group mainly used its internal resources to finance its operations during the six months ended 31 December 2008. The Group has available banking facilities of HK\$5 million from Hang Seng Bank and none of them has been utilised as at 31 December 2008 (30 June 2008: Nil). Consequently, the Group's gearing ratio, as a percentage of bank and other borrowings and long-term debt over total assets, as at 31 December 2008 was approximately 1% (30 June 2008: 3%).

The Group had bank balances, deposits and cash of approximately HK\$18,791,000 as at 31 December 2008 (30 June 2008: HK\$17,962,000).

CAPITAL STRUCTURE

Apart from the aforesaid non-interest bearing loans from minority shareholders, 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 2008.

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 2008.

CHARGE ON ASSETS

As at 31 December 2008, the Group did not have any charge on its assets (30 June 2008: Nil).

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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 period under review, the Group's transactions were substantially denominated in either Hong Kong, US dollars and British Pounds. During the period under review, the Group did not use any financial instruments for hedging purposes (30 June 2008: Nil). The Group closely monitors its foreign currency exposure from time to time and will engage appropriate hedging activities should needs arise.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any contingent liabilities (30 June 2008: Nil).

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

At 31 December 2008, 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\$0.01 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>)	104,000,000	57.7%
Dr. Chan Cheung Fat	Held by controlled corporation (<i>note 1</i>)	104,000,000	57.7%

(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>)	2,700,000	2,700,000
Dr. Ma Chi Kit	Beneficial owner (<i>note 2</i>)	2,160,000	2,160,000
Mr. Ho Ka Ho	Beneficial owner (<i>note 2</i>)	2,044,000	2,044,000

Notes:

- (1) These shares, representing approximately 57.7% of the issued share capital of the Company as at 31 December 2008, 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 2008, 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

(i) Pre-IPO Share Option Scheme (the “Pre-IPO Scheme”)

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. The options granted 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%, 50%, 75% and 100% at anytime after 6 months, 18 months, 30 months and 42 months respectively, from the commencement of the trading of the shares of the Company 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 six months ended 31 December 2008:

	Date of grant	Exercise price per share HK\$	Balance at 1 July 2008	Movement during the period	Balance at 31 December 2008
Directors of the Company					
Prof. 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
			<u>4,604,000</u>	–	<u>4,604,000</u>
Employees of the Group	12 April 2001	0.60	1,172,000	–	1,172,000
			<u>5,776,000</u>	–	<u>5,776,000</u>

No options had been exercised since the date of grant. At 31 December 2008, the number of shares in respect of which options had been granted under the Pre-IPO Scheme represents 3.2% of the shares of the Company in issue at that date.

(ii) 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 board of directors of the Company may at its discretion grant options to any employees, including executive and 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 board of directors of the Company may grant options in respect of which the subscription price is fixed at different price.

The following table discloses movements in the Company's share options under the 2003 Option Scheme during the six months ended 31 December 2008:

	Date of grant	Exercise price per share HK\$	Balance at 1 July 2008	Movement during the period	Balance at 31 December 2008
Directors of the Company					
Prof. Chan Chok Ki	4 August 2004	0.145	900,000	–	900,000
Dr. Ma Chi Kit	4 August 2004	0.145	720,000	–	720,000
Mr. Ho Ka Ho	4 August 2004	0.145	680,000	–	680,000
			2,300,000	–	2,300,000
Employees of the Group	4 August 2004	0.145	80,000	–	80,000
			2,380,000	–	2,380,000

The closing price of the Company's shares immediately before 4 August 2004 (date of grant of the above options) was HK\$0.145. At 31 December 2008, the number of shares in respect of which options had been granted under the 2003 Option Scheme represents 1.3% of the shares of the Company in issue at that date.

DIRECTORS' RIGHTS 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 2008 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 2008.

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 2008.

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 interest 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 2008, 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 2008 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 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 comment 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.

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

Hong Kong, 11 February 2009

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