千里眼控股有限公司
TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8051)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2009

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 principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The 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: (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.

AUDITED CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2009

	NOTES	2009 HK$'000	2008 HK$'000
Revenue	3	**52,502**	62,898
Cost of sales		**(26,791)**	(32,977)
Gross profit		**25,711**	29,921
Other income	4	**768**	564
Selling and distribution costs		**(10,129)**	(11,814)
Administrative expenses		**(10,186)**	(9,427)
Research and development expenditure		**(4,474)**	(4,606)
Profit before taxation	5	**1,690**	4,638
Income tax credit/(expense)	6	**86**	(620)
Profit for the year		**1,776**	4,018
Attributable to:			
Equity holders of the Company		**1,874**	3,997
Minority interests		**(98)**	21
		1,776	4,018
Earnings per share			
— Basic	7	**1.04 cents**	2.22 cents
— Diluted		**1.04 cents**	2.20 cents

AUDITED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2009

	NOTES	2009 HK$'000	2008 HK$'000
Non-current assets			
Property, plant and equipment		**983**	1,643
Capitalised development costs		**1,416**	977
Available-for-sale investments		**1,305**	4,179
		3,704	6,799
Current assets			
Inventories		**6,403**	7,659
Trade and other receivables	*9*	**6,076**	8,353
Bank balances and cash		**23,459**	17,962
		35,938	33,974
Current liabilities			
Trade and other payables	*10*	**4,006**	4,553
Amount due to minority shareholder		—	419
Tax payables		**200**	334
		4,206	5,306
Net current assets		**31,732**	28,668
Total assets less current liabilities		**35,436**	35,467
Non-current liability			
Deferred tax liability		**314**	271
Net assets		**35,122**	35,196
Capital and reserves			
Share capital		**1,803**	1,803
Reserves		**33,586**	33,558
Equity attributable to equity holders of the Company		**35,389**	35,361
Minority interests		**(267)**	(165)
Total equity		**35,122**	35,196

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2009

	Attributable to equity holders of the Company								
	Share capital HK$'000	Share premium HK$'000	Translation reserve HK$'000	Investment revaluation reserve HK$'000	Special reserve HK$'000 (Note)	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 July 2007	1,802	21,638	(281)	983	14,990	(7,649)	31,483	(212)	31,271
Exchange differences on translation of overseas operations	—	—	8	—	—	—	8	26	34
Loss on fair value changes of available-for-sale investments	—	—	—	(136)	—	—	(136)	—	(136)
Net income/(expense) recognised directly in equity	—	—	8	(136)	—	—	(128)	26	(102)
Profit for the year	—	—	—	—	—	3,997	3,997	21	4,018
Total recognised income/ (expense) for the year	—	—	8	(136)	—	3,997	3,869	47	3,916
Issue of ordinary shares upon exercise of share options	1	8	—	—	—	—	9	—	9
At 30 June 2008	1,803	21,646	(273)	847	14,990	(3,652)	35,361	(165)	35,196
Exchange differences on translation of overseas operations	—	—	(348)	—	—	—	(348)	21	(327)
Loss on fair value changes of available-for-sale investments	—	—	—	(1,048)	—	—	(1,048)	—	(1,048)
Net (expense)/income recognised directly in equity	—	—	(348)	(1,048)	—	—	(1,396)	21	(1,375)
Profit for the year	—	—	—	—	—	1,874	1,874	(98)	1,776
Transfer to profit or loss on sale of available-for-sale investments	—	—	—	(461)	—	—	(461)	—	(461)
Total recognised (expense)/ income for the year	—	—	(348)	(1,509)	—	1,874	17	(77)	(60)
Disposal of a subsidiary	—	—	11	—	—	—	11	(25)	(14)
At 30 June 2009	1,803	21,646	(610)	(662)	14,990	(1,778)	35,389	(267)	35,122

Note:

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.

NOTES TO THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS

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.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 1 (Revised)	Presentation of Financial Statements[3]
HKAS 23 (Revised)	Borrowing Costs[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
HKAS 39 (Amendment)	Eligible Hedged Items[4]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 & HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[5]
HKFRS 3 (Revised)	Business Combinations[4]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
HKFRS 8	Operating Segments[3]

HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[3]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[4]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2009
4 Effective for annual periods beginning on or after 1 July 2009
5 Effective for annual periods ending on or after 1 January 2010
6 Effective for annual periods beginning on or after 1 October 2008
7 Effective for transfers of assets from customers received on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that geographical segment by location of customers is its primary reporting format.

Revenue

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

Geographical segment

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:

2009

	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	4,936	3,653	9,918	9,095	13,578	9,362	1,960	—	52,502
Inter-segment sales	—	841	948	—	7,325	—	—	(9,114)	—
Total	4,936	4,494	10,866	9,095	20,903	9,362	1,960	(9,114)	52,502
SEGMENT RESULT	1,878	178	2,031	2,809	2,066	3,364	585	—	12,911
Unallocated corporate income									768
Unallocated corporate expenses									
— Administrative and other expenses									(7,515)
— Research and development expenditure									(4,474)
Profit before taxation									1,690
Income tax credit									86
Profit for the year									1,776

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

3. SEGMENT INFORMATION — Continued

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

2009

	Hong Kong *HK$'000*	Other Asian countries *HK$'000*	Middle East *HK$'000*	Europe *HK$'000*	Africa *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
ASSETS							
Segment assets	351	934	1,149	3,602	118	—	6,154
Unallocated corporate assets							33,488
Consolidated total assets							39,642
LIABILITIES							
Segment liabilities	1,323	1,091	272	325	173	158	3,342
Unallocated corporate liabilities							1,178
Consolidated total liabilities							4,520

	Hong Kong *HK$'000*	Singapore *HK$'000*	Other Asian countries *HK$'000*	Middle East *HK$'000*	Europe *HK$'000*	Africa *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
OTHER INFORMATION								
Capital additions	131	—	5	—	191	—	—	327
Depreciation	476	7	6	—	287	—	—	776
Capitalised development costs	994	—	—	—	—	—	—	994
Write down of inventories	8	3	24	21	28	21	5	110
Allowance for bad and doubtful debts	—	—	2	23	429	32	—	486
Amortisation of capitalised development costs	555	—	—	—	—	—	—	555

3. SEGMENT INFORMATION — Continued

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	7,528	4,729	9,793	9,397	19,791	9,678	1,982	—	62,898
Inter-segment sales	—	2,524	509	—	9,865	—	—	(12,898)	—
Total	7,528	7,253	10,302	9,397	29,656	9,678	1,982	(12,898)	62,898
SEGMENT RESULT	1,797	474	1,742	3,375	3,137	3,791	454	—	14,770
Unallocated corporate income									564
Unallocated corporate expenses									
— Administrative and other expenses									(6,090)
— Research and development expenditure									(4,606)
Profit before taxation									4,638
Income tax expense									(620)
Profit for the year									4,018

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

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

	Hong Kong *HK$'000*	Singapore *HK$'000*	Other Asian countries *HK$'000*	Middle East *HK$'000*	Europe *HK$'000*	Africa *HK$'000*	Others *HK$'000*	Consolidated *HK$'000*
ASSETS								
Segment assets	944	1,270	991	(2)	5,763	245	(6)	9,205
Unallocated corporate assets								31,568
Consolidated total assets								40,773
LIABILITIES								
Segment liabilities	1,940	148	596	252	938	138	136	4,148
Unallocated corporate liabilities								1,429
Consolidated total liabilities								5,577

3. SEGMENT INFORMATION — Continued

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$'000*	Consolidated *HK$'000*
OTHER INFORMATION								
Capital additions	1,154	14	—	—	498	—	—	1,666
Depreciation	459	9	14	—	190	—	—	672
Capitalised development costs	798	—	—	—	—	—	—	798
(Reversal of)/provision for obsolete goods	(15)	(8)	211	(28)	(54)	(29)	(7)	70
Write down of inventories	146	80	319	260	512	277	63	1,657
Allowance for loan to an associate	—	—	1	—	—	—	—	1
Amortisation of capitalised development costs	1,268	—	—	—	—	—	—	1,268

Business segments

The Group is solely engaged in research and development and sales and marketing of video surveillance systems. No further business segment information is presented as all of the Group's revenue, operating results and assets were attributable to this business segment.

4. OTHER INCOME

	2009 ***HK$'000***	2008 *HK$'000*
Other income is analysed as follows:		
Interest income from		
— bank deposits	**140**	366
— loan to an associate	**—**	2
Dividend income from listed equity securities	**83**	136
Others	**84**	60
Fair value gain from equity on disposal of available-for-sale investments	**461**	—
	768	564

5. PROFIT BEFORE TAXATION

	2009	2008
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging/(crediting):		
Employee benefits expense (including directors' remuneration)		
Salaries, wages and other benefits	**15,405**	14,857
Retirement benefits scheme contributions	**629**	809
	16,034	15,666
Less: Amount capitalised as development costs	**(994)**	(798)
	15,040	14,868
Allowance for bad and doubtful debts	**405**	13
Bad debts written off	**81**	560
Allowance for loan to an associate	**—**	1
Amortisation of capitalised development costs (included in research and development expenditure)	**555**	1,268
Auditors' remuneration	**328**	387
Depreciation of property, plant and equipment	**776**	672
Net foreign exchange loss/(gain)	**1,464**	(148)
Reversal of provision for obsolete goods (included in cost of sales)	**(141)**	—
Provision for obsolete goods (included in cost of sales)	**—**	70
Write down of inventories (included in cost of sales)	**110**	1,657
Loss on disposal of a subsidiary	**5**	—
Loss on disposal of property, plant and equipment	**70**	—

6. INCOME TAX (CREDIT)/EXPENSE

Hong Kong Profits Tax is calculated at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year ended 30 June 2009 and 2008.

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

The taxation (credit)/expense for the year can be reconciled to the profit before taxation in the consolidated income statement as follows:

	2009	2008
	HK$'000	*HK$'000*
Profit before taxation	**1,690**	4,638
Tax at the domestic income tax rate of 16.5% (2008: 16.5%)	**279**	765
Tax effect of expenses that are not deductible for tax purposes	**427**	477
Tax effect of income that is not taxable for tax purposes	**(568)**	(187)
Overprovision in respect of prior years	**(332)**	—
Utilisation of tax loss previously not recognised	**(18)**	(870)
Tax effect of tax loss not recognised	**80**	162
Tax effect of temporary timing difference	**46**	271
Tax effect on different tax rate of operations in other jurisdictions	**—**	2
Taxation (credit)/expense for the year	**(86)**	620

7. EARNINGS PER SHARE

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

	2009	2008
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to equity holders of the Company	**1,874**	3,997
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**180,300**	180,298
Effect of dilutive potential ordinary shares in respect of:		
— Share options	**412**	1,109
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**180,712**	181,407

8. DIVIDEND

The Board does not recommend the payment of dividend for the year ended 30 June 2009 (2008: Nil).

9. TRADE AND OTHER RECEIVABLES

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Trade receivables	**4,494**	6,457
Less: Accumulated allowances	**(521)**	(116)
	3,973	6,341
Other receivables	**2,103**	2,012
Total trade and other receivables	**6,076**	8,353

The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date prepared on the basis of payment due date of sales invoice:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Current	**3,510**	4,255
1 to 3 months overdue	**463**	1,372
More than 3 months overdue	**—**	714
	3,973	6,341

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$1,972,000 (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:

	The Group	
	2009	2008
	HK$'000	*HK$'000*
Current	**1,623**	1,830
1 to 3 months overdue	**227**	511
More than 3 months overdue	**122**	51
	1,972	2,392

The average credit period on purchases is 1 month.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Review

For the year ended 30 June 2009, the Group recorded a turnover of approximately HK$52,502,000, representing a decrease of about 17% as compared with a turnover of approximately HK$62,898,000 of the preceding year. Profit attributable to equity holders for the year ended 30 June 2009 amounted to approximately HK$1,874,000 (2008: HK$3,997,000). Basic earnings per share for the year ended 30 June 2009 was HK$1.04 cents (2008: HK$2.22 cents). The drop in profit during the year is mainly attributable to the decrease in sales and foreign exchange loss.

As a result of the Group's tight control on all overhead costs, overall operating costs had decreased by approximately 4% to HK$24,789,000 as compared to HK$25,847,000 for the year ended 30 June 2008. The Group's balance sheet remains strong with substantial liquidity.

Segment Information

Europe

Europe is still the largest market of the Group, whose turnover for the year ended 30 June 2009 amounted to approximately HK$13,578,000 (2008: HK$19,791,000) representing 26% (2008: 31.4%) of the Group's turnover. TeleEye Europe Limited (a subsidiary in the UK) operates as a direct selling office commencing since April 2004. It contributed significant effort in the provision of technical and marketing support for the region. Segment contribution was approximately HK$2,066,000 (2008: HK$3,137,000).

Other Asian Countries

Turnover for Other Asian countries excluding Hong Kong and Singapore, for the year ended 30 June 2009 amounted to approximately HK$9,918,000 (2008: HK$9,793,000) or 19% (2008: 15.6%) of the Group's turnover. Segment contribution was approximately HK$2,031,000 (2008: HK$1,742,000).

Africa

Turnover for Africa for the year ended 30 June 2009 decreased by 3% to approximately HK$9,362,000 (2008: HK$9,678,000). It accounted for 18% (2008: 15.4%) of the Group's turnover. Segment contribution decreased to approximately HK$3,364,000 (2008: HK$3,791,000).

Middle East

Turnover for Middle East for the year ended 30 June 2009 amounted to approximately HK$9,095,000 (2008: HK$9,397,000) or 17% (2008: 14.9%) of the Group's turnover. The segment reported a contribution of approximately HK$2,809,000 (2008: HK$3,375,000).

Hong Kong

Turnover for the year ended 30 June 2009 decrease to approximately HK$4,936,000 (2008: HK$7,528,000) or 9% (2008: 12%) of the Group's turnover. Segment contribution was approximately HK$1,878,000 (2008: HK$1,797,000).

Singapore

Turnover for Singapore for the year ended 30 June 2009 was dropped to approximately HK$3,653,000 (2008: HK$4,729,000) or 7% (2008: 7.5%) of the Group's turnover. The segment reported a contribution of approximately HK$178,000 (2008: HK$474,000).

Others

Other geographical segments included the Americas and Australia. Turnover for the year ended 30 June 2009 amounted to approximately HK$1,960,000 (2008: HK$1,982,000) or 4% (2008: 3.2%) of the Group's total turnover. The segment reported a contribution of approximately HK$585,000 (2008: HK$454,000).

Business Review

The Group's business suffered substantially from the global financial crisis which is a combination of bank failures, credit crunches and currency crisis, happened all at once. In view of the abrupt changes, the management quickly adopted a defensive strategy. We reviewed and reduced marketing and other expenses, closely monitored trade credits to avoid bad debts and implemented price and incentive programs for markets suffering from currency drop of more than 20%. We negotiated price reduction from suppliers to lower production costs. As a result, the Group's financial position is strengthened in preparation for a prolong global recession which may last for years.

In this time of difficulty, however, we strategically maintain our research and development spending so as to further widen our leading edge in video surveillance market. As digital technology becomes more popular, video surveillance is undergoing rapid development in mega-pixel camera technology, large scale video management solution and video analytic techniques. Only companies who master these new technologies can gain market shares when market recovers.

Product Development

In addition to the popular RX series of professional video recording servers, during the year the Group has launched its CX series of entry level video recording servers as well as the NXR series of network recording solution for NX network cameras and a new version of Central Monitoring Station Software. These new products enlarge TeleEye's product range to cover both professional and entry level surveillance applications. NXR solution also strengthens our entry into the network camera market.

The new products are powered by our unique SMAC-M multi-stream video technology. As a result, many powerful features such as mobile viewing, optimal video transmission, remote video playback and excellent recording capabilities are unique to TeleEye products.

BUSINESS OUTLOOK

We believe the worst situation has gone and the global market has stabilized. The video surveillance market as a whole will slowly recover. However, business opportunities are emerging in this period of rapid advancement of video surveillance technology. The Group is well positioned to capture these opportunities by introducing technologically advanced products and solutions in the coming year. In addition we will also focus on developing new sales channels in emerging markets.

DIVIDENDS

The Board of Directors does not recommend the payment of dividend for the year ended 30 June 2009 (2008: Nil).

EMPLOYEE INFORMATION

As at 30 June 2009, the Group employed 38 (2008: 39) full time employees in Hong Kong and 13 (2008: 19) 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$16,034,000 (2008: HK$15,666,000).

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 year. The Group had bank balances, deposits and cash of approximately HK$23,459,000 as at 30 June 2009 (30 June 2008: HK$17,962,000). The Group's gearing ratio, as a percentage of bank and other borrowings and long-term debt over total assets, as at 30 June 2009 was approximately 1% (30 June 2008: 3%).

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

In the early of March 2009, the Group had disposed of a subsidiary engaged in sales and marketing of audio and video monitoring system in Singapore for a cash consideration of SGD6,000 equivalent to approximately HKD31,000. Save as aforesaid, the Group did not make any material acquisitions and disposals of subsidiaries and affiliated companies in this year.

CHARGE ON ASSETS

As at 30 June 2009, the Group did not have any charge on its assets (30 June 2008: Nil).

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Up to the 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 year under review, the Group's transactions were substantially denominated in either Hong Kong, US dollars and British Pounds. During the year under review, the Group did not use any financial instruments for hedging purposes (30 June 2008: Nil).

CONTINGENT LIABILITIES

As at 30 June 2009, the Group did not have any contingent liabilities (30 June 2008: Nil).

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

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the year ended 30 June 2009 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 roles 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 therein, 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.

A Corporate Governance Report will be dispatched with the annual report of the Company.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

For the year ended 30 June 2009, 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.

AUDIT COMMITTEE

The audit committee has four members comprising the 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. The audit committee held four meetings during the year ended 30 June 2009.

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, 18 September 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.