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 2010

**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.**

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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 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.*

## AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 30 June 2010*

| | Notes | **2010** **HK$'000** | 2009 HK$'000 |
|---|---|---|---|
| Revenue | 3 | **50,616** | 52,502 |
| Cost of sales | | **(24,615)** | (26,791) |
| Gross profit | | **26,001** | 25,711 |
| Other income | 4 | **303** | 768 |
| Selling and distribution costs | | **(9,015)** | (10,129) |
| Administrative expenses | | **(10,548)** | (10,186) |
| Research and development expenditure | | **(4,667)** | (4,474) |
| Profit before taxation | 5 | **2,074** | 1,690 |
| Income tax (charge)/credit | 6 | **(542)** | 86 |
| Profit for the year | | **1,532** | 1,776 |
| Other comprehensive income: | | | |
| Exchange differences on translating foreign operations | | **618** | (327) |
| Increase/(decrease) in fair value of available-for-sale financial assets | | **22** | (1,048) |
| Reserve released on disposal of available-for-sale financial assets | | **—** | (461) |
| Other comprehensive income/(loss) for the year | | **640** | (1,836) |
| Total comprehensive income/(loss) for the year | | **2,172** | (60) |
| Profit attributable to: | | | |
| Owners of the Company | | **1,525** | 1,874 |
| Non-controlling interests | | **7** | (98) |
| | | **1,532** | 1,776 |
| Total comprehensive income/(loss) attributable to: | | | |
| Owners of the Company | | **2,046** | 17 |
| Non-controlling interests | | **126** | (77) |
| | | **2,172** | (60) |
| Earnings per share | 7 | | |
| — Basic | | **16.91 cents** | 20.79 cents |
| — Diluted | | **16.84 cents** | 20.74 cents |

## AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2010*

| | Notes | 2010 HK$'000 | 2009 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,257** | 983 |
| Capitalised development costs | | **1,641** | 1,416 |
| Available-for-sale investments | | **2,833** | 1,305 |
| | | **5,731** | 3,704 |
| **Current assets** | | | |
| Inventories | | **10,940** | 6,403 |
| Trade and other receivables | *9* | **7,427** | 6,076 |
| Bank balances and cash | | **19,586** | 23,459 |
| | | **37,953** | 35,938 |
| **Current liabilities** | | | |
| Trade and other payables | *10* | **4,844** | 4,006 |
| Tax payables | | **45** | 200 |
| | | **4,889** | 4,206 |
| **Net current assets** | | **33,064** | 31,732 |
| **Total assets less current liabilities** | | **38,795** | 35,436 |
| **Non-current liability** | | | |
| Deferred tax liability | | **399** | 314 |
| **Net assets** | | **38,396** | 35,122 |
| **Capital and reserves** | | | |
| Share capital | | **1,803** | 1,803 |
| Reserves | | **36,734** | 33,586 |
| Equity attributable to owners of the Company | | **38,537** | 35,389 |
| Non-controlling interests | | **(141)** | (267) |
| **Total equity** | | **38,396** | 35,122 |

## AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 30 June 2010*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 (Note) | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 July 2008 | 1,803 | 21,646 | (273) | 847 | – | 14,990 | (3,652) | 35,361 | (165) | 35,196 |
| Profit for the year | – | – | – | – | – | – | 1,874 | 1,874 | (98) | 1,776 |
| Other comprehensive (loss)/income for the year | – | – | (348) | (1,509) | – | – | – | (1,857) | 21 | (1,836) |
| Total comprehensive (loss)/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 |
| Profit for the year | – | – | – | – | – | – | 1,525 | 1,525 | 7 | 1,532 |
| Other comprehensive income for the year | – | – | 499 | 22 | – | – | – | 521 | 119 | 640 |
| Total comprehensive income for the year | – | – | 499 | 22 | – | – | 1,525 | 2,046 | 126 | 2,172 |
| Recognition of equity-settled share-based payments | – | – | – | – | 1,102 | – | – | 1,102 | – | 1,102 |
| **At 30 June 2010** | **1,803** | **21,646** | **(111)** | **(640)** | **1,102** | **14,990** | **(253)** | **38,537** | **(141)** | **38,396** |

*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 ("BVI").

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 all of the new and revised standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

| | |
|---|---|
| HKAS 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKAS 39 (Amendment) | Eligible Hedged Items |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 3 (Revised) | Business Combinations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners |
| HK(IFRIC)-Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and Revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

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

HKFRS 8 Operating Segments

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segment performance and making decisions about operating matters. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in reduction of reportable segments being presented. Corresponding amounts have been provided on a basis consistent with the revised segment information.

Improving Disclosures about Financial instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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 (Amendment) | Improvements to HKFRSs 2010 [6] |
| HKAS 24 (Revised) | Related Party Disclosures [3] |
| HKAS 32 (Revised) | Classification of Right Issues [2] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters [1] |
| HKFRS 1 (Amendment) | Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters [4] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions [1] |
| HKFRS 8 (Amendment) | Disclosure of information about segment assets [1] |
| HKFRS 9 | Financial Instruments [5] |
| HK(IFRIC)-Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement [3] |
| HK(IFRIC)-Int 19 | Extinguishing Financial Liabilities with Equity Instruments [4] |

1 Effective for annual periods beginning on or after 1 January 2010
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods ending on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2013
6 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011 as appropriate

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

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objectives is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

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 financial performance and financial position of the Group.

## 3. SEGMENT INFORMATION

### Revenue

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

On first-time adoption of HKFRS 8 "Operating Segments" and in a manner consistent with the way in which information is reported internally to the chief operation decision makers for the purposes of resource allocation and performance assessment focuses on the Group's geographical location of its customers who are principally located in Asia, Europe and Africa. Others include locations like the Americas and Australia.

**2010**

| | Asia | Europe | Africa | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **REVENUE** | | | | | | |
| External sales | 29,387 | 10,055 | 9,947 | 1,227 | — | 50,616 |
| Inter-segment sales | 264 | 5,398 | — | — | (5,662) | — |
| Total | 29,651 | 15,453 | 9,947 | 1,227 | (5,662) | 50,616 |
| **SEGMENT RESULT** | 8,917 | 1,946 | 4,116 | 390 | — | 15,369 |
| Unallocated corporate income | | | | | | 303 |
| Unallocated corporate expenses | | | | | | |
| — Administrative and other expenses | | | | | | (8,931) |
| — Research and development expenditure | | | | | | (4,667) |
| Profit before taxation | | | | | | 2,074 |
| Income tax charge | | | | | | (542) |
| Profit for the year | | | | | | 1,532 |

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:

**2010**

The following is an analysis of the Group's assets and liabilities by reportable segment:

*Segment assets*

| | *HK$'000* |
|---|---|
| Asia | 3,074 |
| Europe | 3,785 |
| Africa | 684 |
| Total segment assets | 7,543 |
| Unallocated | 36,141 |
| Consolidated assets | 43,684 |

*Segment liabilities*

| | *HK$'000* |
|---|---|
| Asia | 3,533 |
| Europe | 88 |
| Africa | 13 |
| Others | 94 |
| Total segment liabilities | 3,728 |
| Unallocated | 1,560 |
| Consolidated liabilities | 5,288 |

| | **Asia** | **Europe** | **Africa** | **Others** | **Consolidated** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **OTHER INFORMATION** | | | | | |
| Capital additions | 903 | 34 | — | — | 937 |
| Depreciation | 502 | 132 | — | — | 634 |
| Capitalised development costs | 912 | — | — | — | 912 |
| Reversal of provision for obsolete stocks | (260) | (108) | (92) | (12) | (472) |
| Write down of inventories | 462 | 151 | 154 | 20 | 787 |
| Bad debts written off as uncollectible and allowance for/(reversal of) bad and doubtful debts | 94 | (111) | (53) | — | (70) |
| Amortisation of capitalised development costs | 687 | — | — | — | 687 |

## 3. SEGMENT INFORMATION (CONTINUED)

2009

| | Asia | Europe | Africa | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **REVENUE** | | | | | | |
| External sales | 27,602 | 13,578 | 9,362 | 1,960 | — | 52,502 |
| Inter-segment sales | 1,789 | 7,325 | — | — | (9,114) | — |
| Total | 29,391 | 20,903 | 9,362 | 1,960 | (9,114) | 52,502 |
| **SEGMENT RESULT** | 6,896 | 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.

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

The following is an analysis of the Group's assets and liabilities by reportable segment:

*Segment assets*

| | *HK$'000* |
|---|---|
| Asia | 2,434 |
| Europe | 3,602 |
| Africa | 118 |
| Total segment assets | 6,154 |
| Unallocated | 33,488 |
| Consolidated assets | 39,642 |

## 3. SEGMENT INFORMATION (CONTINUED)

2009

*Segment liabilities*

| | *HK$'000* |
|---|---|
| Asia | 2,686 |
| Europe | 325 |
| Africa | 173 |
| Others | 158 |
| Total segment liabilities | 3,342 |
| Unallocated | 1,178 |
| Consolidated liabilities | 4,520 |

| | **Asia** | **Europe** | **Africa** | **Others** | **Consolidated** |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **OTHER INFORMATION** | | | | | |
| Capital additions | 136 | 191 | — | — | 327 |
| Depreciation | 489 | 287 | — | — | 776 |
| Capitalised development costs | 994 | — | — | — | 994 |
| (Reversal of)/provision for obsolete stocks | (115) | 27 | (44) | (9) | (141) |
| Write down of inventories | 56 | 28 | 21 | 5 | 110 |
| Bad debts written off as uncollectible and allowance for bad and doubtful debts | 25 | 429 | 32 | — | 486 |
| Amortisation of capitalised development costs | 555 | — | — | — | 555 |

## 4. OTHER INCOME

Other income is analysed as follows:

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank deposits interest | **2** | 140 |
| Dividend income from listed equity securities | **118** | 83 |
| Fair value gain from equity on disposal of available-for-sale investments | **—** | 461 |
| Others | **183** | 84 |
| | **303** | 768 |

## 5. PROFIT BEFORE TAXATION

| | **2010** | 2009 |
|---|---|---|
| | ***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 (including share-based payments) | **15,648** | 15,405 |
| Retirement benefits scheme contributions | **517** | 629 |
| | **16,165** | 16,034 |
| *Less:* Amount capitalised as development costs | **(912)** | (994) |
| | **15,253** | 15,040 |
| Bad debts written off as uncollectible and (reversal of)/allowance for bad and doubtful debts | **(70)** | 486 |
| Amortisation of capitalised development costs (included in research and development expenditure) | **687** | 555 |
| Auditors' remuneration | **348** | 328 |
| Depreciation of property, plant and equipment | **634** | 776 |
| Net foreign exchange loss | **1,452** | 1,464 |
| Reversal of provision for obsolete stocks (included in cost of sales) | **(472)** | (141) |
| Write down of inventories (included in cost of sales) | **787** | 110 |
| Loss on disposal of a subsidiary | **—** | 5 |
| (Gain)/loss on disposal of property, plant and equipment | **(66)** | 70 |

## 6. INCOME TAX CHARGE/(CREDIT)

Hong Kong Profits Tax is calculated at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year ended 30 June 2010 and 2009.

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

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation | **2,074** | 1,690 |
| Tax at the domestic income tax rate of 16.5% (2009: 16.5%) | **342** | 279 |
| Tax effect of expenses that are not deductible for tax purposes | **465** | 427 |
| Tax effect of income that is not taxable for tax purposes | **(225)** | (568) |
| Utilisation of tax loss previously not recognised | **(68)** | (18) |
| Overprovision in respect of prior years | **—** | (332) |
| Tax effect of tax loss not recognised | **—** | 80 |
| Tax effect of temporary timing difference | **85** | 46 |
| Tax effect on different tax rate of operations in other jurisdictions | **(57)** | — |
| Taxation charge/(credit) for the year | **542** | (86) |

## 7. EARNINGS PER SHARE

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

| | **2010** | 2009 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings | | |
| Profit for the year attributable to owners of the Company | **1,525** | 1,874 |
| | | *(Restated)* |
| | ***'000*** | *'000* |
| Numbers of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **9,015** | 9,015 |
| Effect of dilutive potential ordinary shares in respect of: | | |
| — Share options | **39** | 21 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **9,054** | 9,036 |

*Note:*

Pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting held on 6 November 2009, every 20 shares of HK$0.01 each in the issued and unissued share capital of the Company were consolidated into 1 share of HK$0.2 each ("the Consolidation of Share"). The Consolidation of Share became effective on 6 November 2009. Therefore, the weighted average number of ordinary shares for the purpose of basic and diluted earnings per share for the year ended 30 June 2009 had been restated to conform the current year presentation.

## 8. DIVIDEND

The Board does not recommend the payment of dividend for the year ended 30 June 2010 (2009: Nil).

## 9. TRADE AND OTHER RECEIVABLES

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **5,152** | 4,494 |
| *Less:* Allowances for bad and doubtful debts | **(235)** | (521) |
| | **4,917** | 3,973 |
| Other receivables | **2,510** | 2,103 |
| Total trade and other receivables | **7,427** | 6,076 |

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

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Current | **4,206** | 3,510 |
| 1 to 3 months overdue | **703** | 463 |
| More than 3 months overdue | **8** | — |
| | **4,917** | 3,973 |

## 10. TRADE AND OTHER PAYABLES

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **2,622** | 1,972 |
| Other payables | **2,222** | 2,034 |
| Total trade and other payables | **4,844** | 4,006 |

The following is an aged analysis of trade payables at the statement of financial position date prepared on the basis of payment due date of supplier's invoice:

| | The Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***HK$'000*** | *HK$'000* |
| Current | **2,397** | 1,623 |
| 1 to 3 months overdue | **131** | 227 |
| More than 3 months overdue | **94** | 122 |
| | **2,622** | 1,972 |

The average credit period on purchases is 1 month.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 30 June 2010, the Group recorded a turnover of approximately HK$50,616,000, representing a decrease of about 4% as compared with the turnover of about HK$52,502,000 of the preceding year. The drop in business during the year is mainly due to a noticeable drop in turnover of the European market in the aftermath of the economic crisis. Profit attributable to the owners of the Company for the year ended 30 June 2010 amounted to approximately HK$1,525,000 (2009: HK$1,874,000). Basic earnings per share for the year ended 30 June 2010 was HK$16.91 cents (2009: HK$20.79 cents).

As a result of the Group's tight control on overhead costs, overall operating costs during the year was down by approximately 2% to HK$24,230,000 as compared to HK$24,789,000 in the previous year. The Group's statement of financial position remains strong with substantial liquidity.

## BUSINESS REVIEW

Business of the Group was affected by the global financial crisis. In some countries, our sales turnover recovered and achieved gains. However, in others, the economic situation has worsened and demand for our products also weakened. As a whole, we achieved stable gains in turnover in Asia and Africa while recorded significant drop in Europe.

Despite the unfavorable economic situation, we actively participated in major exhibitions, provided training to our sales channels and visited our overseas customers regularly. Moreover, we also launched many new products in the areas of High Definition ("HD") Closed Circuit Television ("CCTV"), digital video recorder, video management application and analog cameras.

While we have strengthened our research and development spending during the year, we maintained tight control on our overall spending in anticipation of an uncertain market situation.

## SEGMENT INFORMATION

### Europe

Suffering from the European financial crisis, the Group's business was significantly affected. Turnover for Europe for the year ended 30 June 2010 dropped by 26% to approximately HK$10,055,000 (2009: HK$13,578,000). It accounted for 20% (2009: 26%) of the Group's turnover. Tight credit situation and weak consumer confidence in Europe were affecting spending in security projects. The European Union ("EU") governments have managed to stabilize the economic situation. However, the tight public budgets adopted by EU countries do not encourage economic growth in the coming future. We do not expect our business in Europe to recover substantially in the coming year.

## SEGMENT INFORMATION (CONTINUED)

### Asia

Turnover for Asia (inclusive of Hong Kong, Singapore, Middle East and other Asian countries) as a whole for the year ended 30 June 2010 gained 6% to approximately HK$29,387,000 as compared to about HK$27,602,000 achieved in the preceding year. It accounted for 58% (2009: 53%) of the Group's turnover. The segment result for Asia this year increased by approximate HK$2,021,000 to HK$8,917,000 (2009: HK$6,896,000). Asia did not suffer the same degree of financial crisis as in Europe or United States. We have strengthened our sales channels in Asia by providing more frequent training and business visits. As a result, we were able to capture some big security system projects in this region. We are expecting a stable and slowly growing business in this region.

### Africa

Business in Africa mainly came from two TeleEye franchised operations in South Africa and Mauritius. Turnover for Africa for this year increased by 6% to approximately HK$9,947,000 (2009: HK$9,362,000). It accounted for 20% (2009: 18%) of the Group's turnover. Segment contribution gained HK$752,000 to approximately HK$4,116,000 (2009: HK$3,364,000). We are strengthening business relationship with our franchisees in Africa by providing technical consultancy services in complex projects.

### Others

Other geographic region mainly included the Americas and Australia. It has contributed to about 2% (2009: 3%) of the Group's total turnover this year, which amounted to approximately HK$1,227,000 (2009: HK$1,960,000). We will focus in building a sales channel in Australia and will participate in exhibition and other marketing activities there.

## PRODUCT DEVELOPMENT

During the year, we have launched the following new products:

6 models of RX version 3 video recording servers
6 models of RA entry level digital video recorders
2 models of MX HD CCTV cameras
9 models of analog CCTV cameras

In the software application side, we launched sureSIGHT, a professional grade video management software that can display up to 64 cameras, compatible with various TeleEye recorders and servers, with interactive map capability and self diagnosis functions.

Adding to our mobile application for Java compatible smart phones, we have proudly launched iView – a video surveillance application on iPhone.

## BUSINESS OUTLOOK

We are expanding our research and development team to strengthen our development effort in HD video surveillance technology. We firmly believe that video surveillance industry is moving from standard definition video to HD ones. In the early stage, however, sales of HD video surveillance system will only be a small part of our total turnover, albeit its rapid grow rate. We plan to introduce new HD cameras, HD video recording servers and HD software applications in the coming twelve months. We will step up our marketing efforts on HD video surveillance and develop training courses to educate our sales channels and end customers.

We are investing in new Enterprise Resource Planning ("ERP") system. The new ERP system will improve our internal control and productivity.

Uncertainties in markets are still a norm in developed countries. We will continue our prudent approach going forward. With our focus on innovative and high quality products, we are cautiously optimistic that the Group will bring good result and value to shareholders.

## DIVIDENDS

The Board of Directors does not recommend the payment of dividend for the year ended 30 June 2010 (2009: Nil).

## EMPLOYEE INFORMATION

As at 30 June 2010, the Group employed 41 (2009: 38) full time employees in Hong Kong and 11 (2009: 13) full time employees in China and overseas offices. The Group's staff costs, including directors' emoluments, employees' salaries, share-based payments and retirement benefits scheme contribution amounted to approximately HK$16,165,000 (2009: HK$16,034,000).

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$19,586,000 as at 30 June 2010 (30 June 2009: HK$23,459,000). The Group's gearing ratio, as a percentage of bank overdraft over total assets, as at 30 June 2010 was approximately 1% (30 June 2009: 1%).

## SIGNIFICANT INVESTMENT

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

## CHARGE ON ASSETS

As at 30 June 2010, the Group did not have any charge on its assets (30 June 2009: 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 2009: Nil).

## CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any contingent liabilities (30 June 2009: 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 2010 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 2010, 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 2010.

## 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 September 2010

*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" page of the 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.*