千里眼控股有限公司
TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8051)

2010/2011 INTERIM RESULTS ANNOUNCEMENT

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

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

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

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

HIGHLIGHTS

- The Group recorded a turnover of approximately HK$24,909,000 for the six months ended 31 December 2010, representing a decrease of approximately 11% when compared with the same period in 2009.

- The Group recorded a profit attributable to the owners of the Company of approximately HK$2,326,000 for the six months ended 31 December 2010, representing a decrease of approximately 8% when compared with the same period in 2009.

- The Board of Directors does not recommend the payment of an interim dividend for the six months ended 31 December 2010.

RESULTS

The board (the "Board") of directors (the "Directors") 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 2010, together with the comparative unaudited figures for the corresponding periods in 2009, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Three months ended 31 December		Six months ended 31 December	
		2010	2009	**2010**	2009
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*2*	**12,679**	13,430	**24,909**	27,864
Cost of sales		**(5,765)**	(6,704)	**(11,670)**	(13,947)
Gross profit		**6,914**	6,726	**13,239**	13,917
Other income		**41**	41	**74**	201
Selling and distribution costs		**(2,148)**	(2,320)	**(4,266)**	(4,343)
Administrative expenses		**(1,965)**	(2,198)	**(3,513)**	(4,500)
Research and development expenditure		**(1,429)**	(1,125)	**(2,665)**	(2,061)
Profit before taxation	*4*	**1,413**	1,124	**2,869**	3,214
Income tax charge	*5*	**(326)**	(360)	**(540)**	(710)
Profit for the period		**1,087**	764	**2,329**	2,504
Other comprehensive (loss)/income:					
Exchange differences on translating foreign operations		**(135)**	187	**(8)**	399
Increase/(decrease) in fair value of available-for-sale financial assets		**411**	(9)	**1,143**	104
Other comprehensive income for the period		**276**	178	**1,135**	503
Total comprehensive income for the period		**1,363**	942	**3,464**	3,007

	NOTES	Three months ended 31 December		Six months ended 31 December	
		2010	2009	**2010**	2009
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit/(loss) attributable to:					
Owners of the Company		**1,071**	779	**2,326**	2,528
Non-controlling interests		**16**	(15)	**3**	(24)
		1,087	764	**2,329**	2,504
Total comprehensive income/(loss) for the period attributable to:					
Owners of the Company		**1,345**	957	**3,465**	3,031
Non-controlling interests		**18**	(15)	**(1)**	(24)
		1,363	942	**3,464**	3,007
Earnings per share	*6*				
— Basic		**12 cents**	9 cents	**26 cents**	28 cents
— Diluted		**12 cents**	9 cents	**26 cents**	28 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	As at 31 December 2010 HK$'000 (Unaudited)	As at 30 June 2010 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*7*	**1,042**	1,257
Capitalised development costs		**1,800**	1,641
Available-for-sale investments		**4,186**	2,833
		7,028	5,731
Current assets			
Inventories		**12,798**	10,940
Trade and other receivables	*8*	**5,836**	7,427
Bank balances and cash		**21,177**	19,586
		39,811	37,953
Current liabilities			
Trade and other payables	*9*	**3,885**	4,844
Tax payables		**647**	45
		4,532	4,889
Net current assets		**35,279**	33,064
Total assets less current liabilities		**42,307**	38,795
Non-current liability			
Deferred tax liability		**399**	399
Net assets		**41,908**	38,396
Capital and reserves			
Share capital		**1,805**	1,803
Reserves		**40,245**	36,734
Equity attributable to owners of the Company		**42,050**	38,537
Non-controlling interests		**(142)**	(141)
Total equity		**41,908**	38,396

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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*	Accumulated (losses)/ profit *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 July 2009 (audited)	1,803	21,646	(610)	(662)	–	14,990	(1,778)	35,389	(267)	35,122
Profit/(loss) for the period	–	–	–	–	–	–	2,528	2,528	(24)	2,504
Other comprehensive income for the period	–	–	386	104	–	–	–	490	13	503
Total comprehensive income/ (loss) for the period	–	–	386	104	–	–	2,528	3,018	(11)	3,007
At 31 December 2009 (unaudited)	1,803	21,646	(224)	(558)	–	14,990	750	38,407	(278)	38,129
(Loss)/profit for the period	–	–	–	–	–	–	(1,003)	(1,003)	31	(972)
Other comprehensive income/ (loss) for the period	–	–	113	(82)	–	–	–	31	106	137
Total comprehensive income/(loss) for the period	–	–	113	(82)	–	–	(1,003)	(972)	137	(835)
Recognition of equity-settled share-based payments	–	–	–	–	1,102	–	–	1,102	–	1,102
At 1 July 2010 (audited)	1,803	21,646	(111)	(640)	1,102	14,990	(253)	38,537	(141)	38,396
Profit for the period	–	–	–	–	–	–	2,326	2,326	3	2,329
Other comprehensive (loss)/income for the period	–	–	(4)	1,143	–	–	–	1,139	(4)	1,135
Total comprehensive (loss)/ income for the period	–	–	(4)	1,143	–	–	2,326	3,465	(1)	3,464
Issue of ordinary shares upon exercise of share options	2	86	–	–	(40)	–	–	48	–	48
At 31 December 2010 (unaudited)	1,805	21,732	(115)	503	1,062	14,990	2,073	42,050	(142)	41,908

The special reserve of the Group represents the difference between the aggregate of the nominal value of share capital of the subsidiaries acquired pursuant to a group reorganisation in April 2001 and the nominal value of the share capital issued by the Company as consideration for the acquisition.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**2,332**	2,579
Net cash used in investing activities	**(789)**	(1,513)
Net cash generated from financing activities	**48**	—
Net increase in cash and cash equivalents	**1,591**	1,066
Cash and cash equivalents at beginning of the period	**19,586**	23,459
Cash and cash equivalents at end of the period, representing bank balances and cash	**21,177**	24,525

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 GEM of the Stock Exchange 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 2010.

The Group has adopted a number of new and revised standards, amendments and interpretations which are effective for the Group's accounting periods beginning on or after 1 July 2010. The adoption of these new and revised standards, amendments and interpretations does not have significant impact on the accounting policies of the Group.

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 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 Asia, 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 2010

	Asia	Europe	Africa	Others	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External sales	**11,360**	**6,756**	**5,883**	**910**	**—**	**24,909**
Inter-segment sales	**628**	**4,138**	**—**	**—**	**(4,766)**	**—**
Total	**11,988**	**10,894**	**5,883**	**910**	**(4,766)**	**24,909**
SEGMENT RESULT	**3,525**	**1,632**	**2,708**	**323**	**—**	**8,188**
Unallocated corporate income						**74**
Unallocated corporate expenses						
— Administrative and other expenses						**(2,728)**
— Research and development expenditure						**(2,665)**
Profit before taxation						**2,869**
Income tax charge						**(540)**
Profit for the period						**2,329**

Six months ended 31 December 2009

As restated

	Asia	Europe	Africa	Others	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External sales	16,350	5,345	5,663	506	—	27,864
Inter-segment sales	177	3,484	—	—	(3,661)	—
Total	16,527	8,829	5,663	506	(3,661)	27,864
SEGMENT RESULT	5,371	627	2,318	199	—	8,515
Unallocated corporate income						201
Unallocated corporate expenses						
— Administrative and other expenses						(3,441)
— Research and development expenditure						(2,061)
Profit before taxation						3,214
Income tax charge						(710)
Profit for the period						2,504

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	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit before taxation has been arrived at after charging/(crediting):				
Amortisation of capitalised development costs (included in research and development expenditure)	**189**	150	**378**	278
Bank deposits interest	**(1)**	—	**(1)**	(1)
Depreciation of property, plant and equipment	**144**	153	**317**	305
Dividends from available-for-sale investments	**(42)**	(17)	**(58)**	(30)
Loss on disposal of property, plant and equipment	**1**	—	**2**	5
Net foreign exchange loss/(gain)	**49**	154	**(394)**	441
Provision/(reversal of provision) for obsolete stocks goods (included in cost of sales)	**119**	70	**(22)**	(173)
(Reversal of)/allowance for bad and doubtful debts	**(20)**	(35)	**(1)**	4

5. INCOME TAX CHARGE

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

	Three months ended 31 December		Six months ended 31 December	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Provision for Hong Kong profits tax for the period	**(326)**	(360)	**(540)**	(710)

Hong Kong profits tax is calculated at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong for the six months ended 31 December 2010.

6. EARNINGS PER SHARE

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

	Three months ended 31 December		Six months ended 31 December	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Earnings				
Profit for the period attributable to owners of the Company	**1,071**	779	**2,326**	2,528
	'000	*'000*	***'000***	*'000*
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	**9,021**	9,015	**9,018**	9,015
Effect of dilutive potential ordinary shares in respect of:				
— Share options	**85**	34	**85**	37
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**9,106**	9,049	**9,103**	9,052

7. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2010, the Group spent approximately HK$99,000 on leasehold improvements, computer and office equipment, furniture and fixtures.

8. TRADE AND OTHER RECEIVABLES

The Group allows credit period of one month to some of its trade customers.

Included in trade and other receivables are trade receivables of approximately HK$4,144,000 (30 June 2010: HK$4,917,000). The following is an aged analysis of trade receivables at the end of the reporting period prepared on the basis of payment due date of sales invoice:

	31 December 2010	30 June 2010
	HK$'000	*HK$'000*
Current	**3,113**	4,206
1 to 3 months overdue	**770**	703
More than 3 months overdue	**261**	8
	4,144	4,917

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK$1,616,000 (30 June 2010: HK$2,622,000). The following is an aged analysis of trade payables at the end of the reporting period prepared on the basis of payment due date of supplier's invoice:

	31 December 2010	30 June 2010
	HK$'000	*HK$'000*
Current	**1,267**	2,397
1 to 3 months overdue	**237**	131
More than 3 months overdue	**112**	94
	1,616	2,622

The average credit period on purchase is one month.

10. RELATED PARTY TRANSACTIONS

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Service fee to The City University of Hong Kong ("City University")	**12**	47

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

Compensation of key management personnel

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

	Six months ended 31 December	
	2010	2009
	HK$'000	*HK$'000*
Short-term benefits	**2,145**	2,164
Post-employment benefits	**18**	18

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 31 December 2010 (2009: Nil).

FINANCIAL REVIEW

For the six months ended 31 December 2010, the Group recorded a turnover of approximately HK$24,909,000, representing a decrease of about 11% as compared with a turnover of approximately HK$27,864,000 of the same period in last year. Profit attributable to owners of the Company for the six months ended 31 December 2010 was decreased by about 8% to approximately HK$2,326,000.

The Group's balance sheet remains strong, with substantial liquidity. During the six months ended 31 December 2010, the Group had capitalised operating costs of approximately HK$538,000 (2009: HK$539,000) in respect of development of advanced CCTV products.

BUSINESS REVIEW

Demands for video surveillance products experienced little growth around the world. We have been able to maintain our price during this difficult time due to the unique technology we developed for our recorder and server product lines. We have faced strong price competition, however, in analog video surveillance camera products where technology contents are limited. We have also launched several high definition ("HD") network cameras during the period. As the HD product line is in an infancy stage, the sales generated in this area is small.

During the period, we have invested in a new enterprise resource planning system and a customer relationship management system to enhance our cost control ability and customer service level.

BUSINESS OUTLOOK

We are launching a new TeleEye logo in 2011. The new logo represents our commitments in quality, innovation and professionalism. The new logo gives a stronger impression and makes us more notable among other brands in exhibitions and promotion activities.

We will set up a new TeleEye office in Sri Lanka in April 2011 under a franchise licensing agreement. This will strengthen our market presence in the region and bring in more businesses.

We have expanded our research and development team to speed up our development in the HD video surveillance product area. We will be launching more HD cameras, recorders and servers in the coming twelve months. When the HD product line is more comprehensive, it may bring in significant revenue.

We are strengthening our marketing campaign to launch new products and promote new business. We are organizing more seminars and workshops overseas to train up our channel partners.

SEGMENT INFORMATION

Asia

Turnover for the six months ended 31 December 2010 amounted to approximately HK$11,360,000 (2009: HK$16,350,000) or 46% (2009: 59%) of the Group's turnover. The drop in turnover was mainly due to the market condition in Middle East countries. Other markets in Asia are relatively stable. Segment contribution decreased to approximately HK$3,525,000 (2009: HK$5,371,000).

Europe

Turnover for the six months ended 31 December 2010 amounted to approximately HK$6,756,000 (2009: HK$5,345,000) or 27% (2009: 19%) of the Group's turnover. The increase was due to general stabilization in European countries after the European financial crisis. Segment contribution increased to approximately HK$1,632,000 (2009: HK$627,000).

Africa

Turnover for the six months ended 31 December 2010 amounted to approximately HK$5,883,000 (2009: HK$5,663,000) or 24% (2009: 20%) of the Group's turnover. Segment contribution increased to approximately HK$2,708,000 (2009: HK$2,318,000).

Others

Other geographical segments included the Americas and Australia. Turnover for the six months ended 31 December 2010 amounted to approximately HK$910,000 (2009: HK$506,000) or 3% (2009: 2%) of the Group's total turnover. Segment contribution increased to approximately HK$323,000 (2009: HK$199,000).

EMPLOYEE INFORMATION

As at 31 December 2010, the Group employed 43 (2009: 39) full time employees in Hong Kong and 14 (2009: 11) full time employees in the PRC and overseas office. The Group's staff costs, including directors' emoluments, employees' salaries and retirement benefits scheme contribution amounted to approximately HK$7,906,000 (2009: HK$7,540,000).

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

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group mainly used its internal resources to finance its operations during the six months ended 31 December 2010.

The Group had bank balances, deposits and cash of approximately HK$21,177,000 as at 31 December 2010 (30 June 2010: HK$19,586,000).

The Group's gearing ratio, as a percentage of bank and other borrowings and long-term debt over total assets, as at 31 December 2010 was zero (30 June 2010: 1%).

CAPITAL STRUCTURE

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

SIGNIFICANT INVESTMENT

The Group did not enter into any new significant investment during the six months ended 31 December 2010.

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 2010.

CHARGE ON ASSETS

As at 31 December 2010, the Group did not have any charge on its assets (30 June 2010: Nil).

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

During the period under review, the Group's transactions were denominated in Hong Kong dollars, United States dollars, British Pounds and Renminbi. The Group did not use any financial instruments for hedging purposes (30 June 2010: Nil).

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any contingent liabilities (30 June 2010: Nil).

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

At 31 December 2010, the interests of the Directors and chief executives and their associates in the shares and share options of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which were required pursuant to Section 352 of the SFO, or which are required pursuant to Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

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

Name of Directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Prof. Chan Chok Ki	Held by controlled corporation *(note 1)*	5,200,000	57.6%
Dr. Chan Cheung Fat	Held by controlled corporation *(note 1)*	5,200,000	57.6%

(b) Share options

Name of Directors	Capacity	Number of share options held	Number of underlying shares
Prof. Chan Chok Ki	Beneficial owner *(note 2)*	225,000	225,000
Dr. Ma Chi Kit	Beneficial owner *(note 2)*	198,000	198,000
Mr. Ho Ka Ho	Beneficial owner *(note 2)*	192,200	192,200

Notes:

(1) These shares, representing approximately 57.6% of the issued share capital of the Company as at 31 December 2010, 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 2010, 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$12 per ordinary share and the maximum number of shares in respect of which options might be granted under the scheme was 720,000. The number of shares in respect of which options might be granted to any individual was not permitted to exceed 180,000.

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 2010:

	Date of grant	**Exercise price per share** *HK$*	**Balance at 1 July 2010**	**Movement during the period**	**Balance at 31 December 2010**
Directors of the Company					
Prof. Chan Chok Ki	12 April 2001	12	90,000	—	90,000
Dr. Ma Chi Kit	12 April 2001	12	72,000	—	72,000
Mr. Ho Ka Ho	12 April 2001	12	68,200	—	68,200
			230,200	—	230,200
Employees of the Group	12 April 2001	12	58,600	—	58,600
			288,800	—	288,800

No options had been exercised since the date of grant. At 31 December 2010, the number of shares in respect of which options had been granted under the Pre-IPO Scheme represents 3.2% (2009: 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 2010:

	Date of grant	Exercise price per share	Balance at 1 July 2010	Exercised during the period	Balance at 31 December 2010
		HK$			
Directors of the Company					
Prof. Chan Chok Ki	4 August 2004	2.9	45,000	—	45,000
	23 June 2010	3.98	90,000		90,000
Dr. Ma Chi Kit	4 August 2004	2.9	36,000	—	36,000
	23 June 2010	3.98	90,000		90,000
Mr. Ho Ka Ho	4 August 2004	2.9	34,000	—	34,000
	23 June 2010	3.98	90,000		90,000
			385,000	—	385,000
Employees of the Group	4 August 2004	2.9	4,000	—	4,000
	23 June 2010	3.98	60,000	(12,000)	48,000
			449,000	(12,000)	437,000
Exercisable at end of the period					437,000
Weighted average exercise price			HK3.69	HK$3.98	HK$3.69

The closing price of the Company's shares immediately before 4 August 2004 and 23 June 2010 (date of grant of the above options) were HK$2.9 and HK$3.98 respectively. At 31 December 2010, the number of shares in respect of which options had been granted under the 2003 Option Scheme represents 5% (2009: 1.3%) of the shares of the Company in issue at that date.

The 12,000 share options exercised during the period ended 31 December 2010 resulted in the issue of 12,000 ordinary shares of the Company and new share capital of HK$2,400 and share premium of HK$45,360 (before issue expenses).

The weighted average closing price per share immediately before the date on which the option for 12,000 shares was exercised (i.e. 15 November 2010) was HK$5.4.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the section headed “Share Option Schemes” as described above, at no time during the six months ended 31 December 2010 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 2010.

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 2010.

COMPETING AND CONFLICT OF INTERESTS

The Directors believe that none of the Directors nor the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group or any other conflicts of interests which any such person has or may have with the Group.

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 31 December 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.

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 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 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, BBS 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.

REMUNERATION COMMITTEE

The remuneration committee has three members comprising two independent non-executive Directors, namely Prof. Siu Wan Chi and Prof. Ching Pak Chung, BBS 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, 11 February 2011

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, BBS.

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