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 2011

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

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

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

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

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

AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Revenue	3	**45,693**	50,616
Cost of sales		**(22,117)**	(24,615)
Gross profit		**23,576**	26,001
Other income	4	**211**	303
Selling and distribution costs		**(9,426)**	(9,015)
Administrative expenses		**(7,463)**	(10,548)
Research and development expenditure		**(5,579)**	(4,667)
Profit before taxation	5	**1,319**	2,074
Income tax expenses	6	**(140)**	(542)
Profit for the year		**1,179**	1,532
Other comprehensive income:			
Exchange differences on translating foreign operations		**209**	618
Increase in fair value on available-for-sale investments		**1,393**	22
Other comprehensive income for the year		**1,602**	640
Total comprehensive income for the year		**2,781**	2,172
Profit for the year attributable to:			
Owners of the Company		**1,206**	1,525
Non-controlling interests		**(27)**	7
		1,179	1,532
Total comprehensive income for the year attributable to:			
Owners of the Company		**2,817**	2,046
Non-controlling interests		**(36)**	126
		2,781	2,172
Earnings per share	7		
— Basic		**13.36 cents**	16.91 cents
— Diluted		**13.21 cents**	16.84 cents

AUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	Notes	2011 HK$'000	2010 HK$'000
Non-current assets			
Property, plant and equipment		**1,339**	1,257
Capitalised development costs		**2,207**	1,641
Available-for-sale investments		**6,168**	2,833
		9,714	5,731
Current assets			
Inventories		**14,122**	10,940
Trade and other receivables	*9*	**5,312**	7,427
Bills receivables	*9*	**373**	—
Bank balances and cash		**15,719**	19,586
		35,526	37,953
Current liabilities			
Trade and other payables	*10*	**3,321**	4,844
Tax payables		**147**	45
		3,468	4,889
Net current assets		**32,058**	33,064
Total assets less current liabilities		**41,772**	38,795
Non-current liability			
Deferred tax liabilities		**499**	399
Net assets		**41,273**	38,396
Capital and reserves			
Share capital		**1,808**	1,803
Reserves		**39,642**	36,734
Equity attributable to owners of the Company		**41,450**	38,537
Non-controlling interests		**(177)**	(141)
Total equity		**41,273**	38,396

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	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)/ retained profits *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1 July 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
Profit for the year	–	–	–	–	–	–	1,206	1,206	(27)	1,179
Other comprehensive income for the year	–	–	218	1,393	–	–	–	1,611	(9)	1,602
Total comprehensive income for the year	–	–	218	1,393	–	–	1,206	2,817	(36)	2,781
Issue of ordinary shares upon exercise of share options	5	171	–	–	(80)	–	–	96	–	96
At 30 June 2011	**1,808**	**21,817**	**107**	**753**	**1,022**	**14,990**	**953**	**41,450**	**(177)**	**41,273**

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")

New and revised Standards and Interpretations applied in current year

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKAS 32 (Revised)	Classification of Right Issues
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
HK-Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

New and revised Standards and Interpretations issued but not yet effective

The Group has not applied the following new and revised Standards and Interpretations that have been issued but are not yet effective.

HKAS 1 (Amendments)	Presentation of items of other comprehensive income[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[3]
HKAS 19 (Revised 2011)	Employee benefits[5]
HKAS 24 (Revised 2009)	Related party disclosures[1]
HKAS 27 (Revised 2011)	Separate financial statements[5]
HKAS 28 (Revised 2011)	Investments in associates and joint ventures[5]
HKFRS 7 (Amendments)	Disclosures — Transfers of financial assets[2]
HKFRS 9	Financial instruments[5]
HKFRS 10	Consolidated financial statements[5]
HKFRS 11	Joint arrangements[5]
HKFRS 12	Disclosure of interests in other entities[5]
HKFRS 13	Fair value measurement[5]
HK(IFRIC) — Int 14 (Amendments)	Prepayments of a minimum funding requirement[1]

1 Effective for annual periods beginning on or after 1 January 2011.
2 Effective for annual periods beginning on or after 1 July 2011.
3 Effective for annual periods beginning on or after 1 January 2012.
4 Effective for annual periods beginning on or after 1 July 2012.
5 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 "Financial instruments" (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 "Financial instruments" (as revised in November 2010) adds requirements for financial liabilities and for derecognition. Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

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

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors ("Directors") of the Company anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 30 June 2014 and that the application of new standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The Directors of the Company anticipate that the application of the other new and revised standards, amendments and interpretations will have no material impact on the consolidated financial statements.

3. **REVENUE AND SEGMENT INFORMATION**

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

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

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

Geographical information

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

The Group's revenue from external customers by geographical location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		**Non-current assets**	
	2011	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Asia	**22,584**	29,387	**3,385**	2,764
Europe	**11,336**	10,055	**161**	134
Africa	**9,656**	9,947	**—**	—
Others	**2,117**	1,227	**—**	—
	45,693	50,616	**3,546**	2,898

Note: Non-current assets exclude available-for-sale investments.

3. **REVENUE AND SEGMENT INFORMATION (CONTINUED)**

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2011	2010
	HK$'000	*HK$'000*
Customer A	**8,103**	7,552
Customer B	**N/A**[1]	7,203

[1] The corresponding revenue did not contribute over 10% of the total sales of the Group.

4. **OTHER INCOME**

Other income is analysed as follows:

	2011	2010
	HK$'000	*HK$'000*
Dividend income from listed equity securities	**194**	118
Interest income from bank deposits	**1**	2
Others	**16**	183
	211	303

5. **PROFIT BEFORE TAXATION**

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging/(crediting):		
Staff salaries and other benefits (including directors' remuneration)	**16,569**	14,546
Share-based payments	**—**	1,102
Retirement benefits scheme contributions	**566**	517
Total staff costs	**17,135**	16,165
Less: Amount capitalised as development costs	**(1,303)**	(912)
	15,832	15,253
Allowance for/(Reversal of allowance for) obsolete stocks (included in cost of sales)	**106**	(472)
Amortisation of capitalised development costs (included in research and development expenditure)	**737**	687
Auditors' remuneration	**311**	348
Depreciation of property, plant and equipment	**619**	634
Gain on disposal of property, plant and equipment	**(196)**	(66)
Net foreign exchange (gain)/loss	**(664)**	1,452
Reversal of allowance for bad and doubtful debts	**(85)**	(70)
Write down of inventories (included in cost of sales)	**446**	787

6. INCOME TAX EXPENSES

	2011	2010
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Current year	**232**	457
Overprovision in prior years	**(192)**	—
	40	457
Deferred tax		
Current year	**100**	85
	140	542

Hong Kong Profits Tax is calculated at the rate of 16.5% of the estimated assessable profit for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2011	2010
	HK$'000	*HK$'000*
Profit before taxation	**1,319**	2,074
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	**218**	342
Tax effect of expenses not deductible for tax purpose	**109**	465
Tax effect of income not taxable for tax purpose	**(148)**	(225)
Tax effect of tax losses not recognised	**177**	—
Utilisation of tax losses previously not recognised	**—**	(68)
Overprovision in prior years	**(192)**	—
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(35)**	(57)
Others	**11**	85
Tax charge for the year	**140**	542

7. 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:

	2011	2010
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**1,206**	1,525
	'000	*'000*
Numbers of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**9,027**	9,015
Effect of dilutive potential ordinary shares:		
— Share options	**100**	39
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**9,127**	9,054

8. DIVIDEND

The board ("Board") does not recommend the payment of dividend for the year ended 30 June 2011 (2010: Nil).

9. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Trade receivables	**3,900**	5,152
Less: Allowances for bad and doubtful debts	**(90)**	(235)
	3,810	4,917
Other receivables	**1,502**	2,510
	5,312	7,427

9. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLES (CONTINUED)

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

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Current	**3,236**	4,206
1 to 3 months overdue	**537**	703
More than 3 months overdue	**37**	8
	3,810	4,917

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

10. TRADE AND OTHER PAYABLES

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Trade payables	**1,809**	2,622
Accruals and other payables	**1,512**	2,222
	3,321	4,844

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:

	The Group	
	2011	2010
	HK$'000	*HK$'000*
Current	**1,554**	2,397
1 to 3 months overdue	**170**	131
More than 3 months overdue	**85**	94
	1,809	2,622

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 30 June 2011, the Group recorded a turnover of approximately HK$45,693,000, representing a decrease of about 9.7% as compared with the turnover of about HK$50,616,000 of the preceding year. Profit attributable to the owners of the Company for the year ended 30 June 2011 amounted to approximately HK$1,206,000 (2010: HK$1,525,000). Basic earnings per share for the year ended 30 June 2011 was HK$13.36 cents (2010: HK$16.91 cents).

As a result of the Group's tight control on overhead costs, overall operating costs during the year was down by approximately 7% to HK$22,468,000 as compared to HK$24,230,000 in the previous year. The Group's financial position remains strong with substantial liquidity.

BUSINESS REVIEW

During the year, there was a prominent tumble in business in the Middle East which negatively affected the overall performance of the Group. The wide spread of public unrest in the Middle East region combined with the debt crisis in Dubai adversely affected our business in the region. The business in Europe has recovered modestly and other regions remained stable.

We launched more high definition ("HD") video surveillance products this year and consequently the sales in HD products grew rapidly. However, its contribution to the overall revenue is still small.

In response to the major earthquakes in Japan, we have increased our electronic component inventory to avoid disruption in production. With the current sluggish sales, it would take some time to bring down the inventory level to normal.

SEGMENT INFORMATION

Asia

Turnover for Asia (inclusive of Hong Kong, Singapore, Middle East and other Asian countries) as a whole for the year ended 30 June 2011 lost 23% to approximately HK$22,584,000 as compared to about HK$29,387,000 achieved in the preceding year. It accounted for 49% (2010: 58%) of the Group's turnover. The drop in turnover in this region as the result of market condition in Middle East countries.

Europe

Turnover for Europe for the year ended 30 June 2011 rose by 13% to approximately HK$11,336,000 (2010: HK$10,055,000). It accounted for 25% (2010: 20%) of the Group's turnover.

Africa

Business in Africa mainly came from our operations in South Africa and Mauritius. Turnover for Africa for this year decreased by 3% to approximately HK$9,656,000 (2010: HK$9,947,000). It accounted for 21% (2010: 20%) of the Group's turnover. The performance in this region was relatively stable.

Others

Other geographic region mainly included the Americas and Australia. It has contributed to about 5% (2010: 2%) of the Group's total turnover this year, which amounted to approximately HK$2,117,000 (2010: HK$1,227,000).

PRODUCT DEVELOPMENT

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

3 models of MX HD video cameras
1 model of TeleEye HD sureREC video recording system
3 mobile applications for iPhone and iPad
1 professional HD video management software, TeleEye sureSIGHT Pro
5 models of ultra hi-resolution analog video cameras
12 models of standard resolution analog video cameras

BUSINESS OUTLOOK

During the first half of the coming year, we will launch the GX series of standalone HD video recording servers and new models of the MX 700 series, which are low lux HD video cameras. This is intended to substantially strengthen our range of HD products and improve our competitive edge in the market. The Group will continue to strive hard in its marketing efforts to capture as much market share of HD surveillance as possible. The new products will potentially help TeleEye to establish new sales channel in more countries.

The public unrest in the Middle East is settling down and hopefully a recovery will begin soon. Our sales and marketing team will implement strategic plans in the region to bring our business back to a growing path. Regarding the developed countries with high debt, it could take years to reduce public debt to a healthy level and return to a growing economy. However, with our comprehensive range of HD products combined with intensified marketing efforts, the management is optimistic on an improved market penetration.

DIVIDENDS

The Board of Directors does not recommend the payment of dividend for the year ended 30 June 2011 (2010: Nil).

EMPLOYEE INFORMATION

As at 30 June 2011, the Group employed 44 (2010: 41) full time employees in Hong Kong and 12 (2010: 11) 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$17,135,000 (2010: HK$16,165,000).

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$15,719,000 as at 30 June 2011 (30 June 2010: HK$19,586,000). The Group's gearing ratio as at 30 June 2011 was 0% (30 June 2010: 0%).

SIGNIFICANT INVESTMENT

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies.

CHARGE ON ASSETS

As at 30 June 2011, the Group did not have any charge on its assets (30 June 2010: 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 dollars, US dollars and British Pounds. During the year under review, the Group did not use any financial instruments for hedging purposes (30 June 2010: Nil).

CONTINGENT LIABILITIES

As at 30 June 2011, the Group did not have any contingent liabilities (30 June 2010: 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 2011 except for the following deviations:

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

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

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

   At present, the independent ("Independent") Non-Executive Directors are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company's Articles of Association. In addition, not every Director is subject to retirement by rotation at least once every three years. Directors are subject to rotation in accordance with the Articles of Association of the Company (that at each annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, the number nearest to but not greater than one-third, shall retire from office) provided that notwithstanding anything 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 2011, the Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed they have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company.

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 2011.

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, 16 September 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.

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.