千里眼控股有限公司
TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8051)

2013/2014 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.

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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 ("Directors" and each a "Director") of TeleEye Holdings Limited (the "Company") 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 Company. 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 Company and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately HK$22,009,000 for the six months ended 31 December 2013, representing an increase of approximately 12% when compared with the same period in 2012.

- The Group recorded a loss attributable to the owners of the Company of approximately HK$956,000 for the six months ended 31 December 2013, representing a decrease of approximately 61% when compared with the same period in last year. The board ("the Board") of Directors considers that the improvement in the performance of the Group is mainly attributable to non-recurrent factors: (i) effective cost cutting measures and (ii) reduction in the provision for bad and doubtful debts.

- The Board of Directors does not recommend the payment of an interim dividend for the six months ended 31 December 2013.

RESULTS

The Board of the Company hereby announces the unaudited consolidated results of the Group for the three months and six months ended 31 December 2013, together with the comparative unaudited figures for the corresponding periods in 2012, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Three months ended 31 December		Six months ended 31 December	
		2013	2012	**2013**	2012
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*4*	**12,347**	10,357	**22,009**	19,737
Cost of sales		**(7,166)**	(5,894)	**(13,139)**	(11,065)
Gross profit		**5,181**	4,463	**8,870**	8,672
Other income		**87**	65	**160**	116
Selling and distribution costs		**(2,249)**	(2,429)	**(4,275)**	(4,719)
Administrative expenses		**(1,801)**	(1,956)	**(3,526)**	(4,005)
Research and development expenditure		**(1,112)**	(1,180)	**(2,201)**	(2,554)
Profit/(Loss) before taxation	*6*	**106**	(1,037)	**(972)**	(2,490)
Income tax credit	*7*	**—**	—	**—**	13
Profit/(Loss) for the period		**106**	(1,037)	**(972)**	(2,477)
Other comprehensive income:					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating foreign operations		**83**	37	**281**	139
Change in fair value on available-for-sale investments		**127**	388	**437**	1,090
Other comprehensive income for the period		**210**	425	**718**	1,229
Total comprehensive income/(expense) for the period		**316**	(612)	**(254)**	(1,248)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

		Three months ended 31 December		Six months ended 31 December	
		2013	2012	**2013**	2012
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Profit/(Loss) for the period attributable to:					
Owners of the Company		**111**	(1,019)	**(956)**	(2,427)
Non-controlling interests		**(5)**	(18)	**(16)**	(50)
		106	(1,037)	**(972)**	(2,477)
Total comprehensive income/(expense) for the period attributable to:					
Owners of the Company		**330**	(591)	**(210)**	(1,189)
Non-controlling interests		**(14)**	(21)	**(44)**	(59)
		316	(612)	**(254)**	(1,248)
Earnings/(Loss) per share	*8*				
— Basic		**0.8 HK cents**	(9) HK cents	**(7) HK cents**	(21) HK cents
— Diluted		**0.8 HK cents**	(9) HK cents	**(7) HK cents**	(21) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	As at 31 December 2013 HK$'000 (Unaudited)	As at 30 June 2013 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*9*	**259**	379
Capitalised development costs		**3,056**	2,980
Available-for-sale investments		**6,715**	6,278
		10,030	9,637
Current assets			
Inventories		**10,359**	10,824
Trade and other receivables	*10*	**5,298**	4,389
Bank balances and cash		**13,248**	14,692
		28,905	29,905
Current liabilities			
Trade and other payables	*11*	**4,102**	4,455
Net current assets		**24,803**	25,450
Net assets		**34,833**	35,087
Capital and reserves			
Share capital	*13*	**2,713**	2,713
Reserves		**32,473**	32,683
Equity attributable to owners of the Company		**35,186**	35,396
Non-controlling interests		**(353)**	(309)
Total equity		**34,833**	35,087

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 HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2012 (audited)	1,808	21,817	(128)	(202)	1,022	14,990	(5,229)	34,078	(235)	33,843
Loss for the period	–	–	–	–	–	–	(2,427)	(2,427)	(50)	(2,477)
Other comprehensive income/ (expense) for the period										
Exchange differences arising on translating foreign operations	–	–	148	–	–	–	–	148	(9)	139
Change in fair value on available-for-sale investments	–	–	–	1,090	–	–	–	1,090	–	1,090
	–	–	148	1,090	–	–	–	1,238	(9)	1,229
Total comprehensive income/ (expense) for the period	–	–	148	1,090	–	–	(2,427)	(1,189)	(59)	(1,248)
Issue of ordinary shares upon exercise of share options	1	30	–	–	(17)	–	–	14	–	14
At 31 December 2012 (unaudited)	1,809	21,847	20	888	1,005	14,990	(7,656)	32,903	(294)	32,609
Loss for the period	–	–	–	–	–	–	(2,841)	(2,841)	(34)	(2,875)
Other comprehensive (expense)/ income for the period										
Exchange differences arising on translating foreign operations	–	–	(219)	–	–	–	–	(219)	19	(200)
Change in fair value on available-for-sale investments	–	–	–	(25)	–	–	–	(25)	–	(25)
	–	–	(219)	(25)	–	–	–	(244)	19	(225)
Total comprehensive expense for the period	–	–	(219)	(25)	–	–	(2,841)	(3,085)	(15)	(3,100)
Issue of ordinary shares by way of open offer	904	4,674	–	–	–	–	–	5,578	–	5,578
Share options lapsed	–	–	–	–	(20)	–	20	–	–	–
At 1 July 2013 (audited)	2,713	26,521	(199)	863	985	14,990	(10,477)	35,396	(309)	35,087
Loss for the period	–	–	–	–	–	–	(956)	(956)	(16)	(972)
Other comprehensive income/ (expense) for the period										
Exchange differences arising on translating foreign operations	–	–	309	–	–	–	–	309	(28)	281
Change in fair value on available-for-sale investments	–	–	–	437	–	–	–	437	–	437
	–	–	309	437	–	–	–	746	(28)	718
Total comprehensive income/ (expense) for the period	–	–	309	437	–	–	(956)	(210)	(44)	(254)
At 31 December 2013 (unaudited)	2,713	26,521	110	1,300	985	14,990	(11,433)	35,186	(353)	34,833

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	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(900)**	(3,195)
Net cash used in investing activities:		
Dividend income received	**128**	114
Increase in capitalised development costs	**(631)**	(602)
Other investing cash flows	**(41)**	(22)
	(544)	(510)
Net cash generated from financing activities:		
Proceeds from issue of shares	**—**	14
Subscription monies of open offer received from shareholders	**—**	6,517
	—	6,531
Net (decrease)/increase in cash and cash equivalents	**(1,444)**	2,826
Cash and cash equivalents at beginning of the period	**14,692**	14,431
Cash and cash equivalents at end of the period, represented by bank balances and cash	**13,248**	17,257

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability and its shares are listed on the GEM of the Stock Exchange. Its ultimate holding company is Etin Tech Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The condensed consolidated 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" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2013, except for the adoption of all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2013. The application of these new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in this condensed consolidated financial statements and/or disclosures set out in this condensed consolidated financial statements.

The Group has not early applied the new and revised HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

4. REVENUE

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

5. SEGMENT INFORMATION

The Group's reportable and operating 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, being the chief operating decision maker of the Group, for the purpose of resource allocation and assessment of segment performance.

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

Geographical information

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

The Group's revenue from external customers by geographical location of customers is detailed below:

	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Asia	**16,286**	13,521
Europe	**2,601**	2,706
Africa	**2,728**	2,771
Others	**394**	739
	22,009	19,737

6. PROFIT/(LOSS) BEFORE TAXATION

	Three months ended 31 December		**Six months ended 31 December**	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit/(Loss) before taxation has been arrived at after charging/(crediting):				
Allowance/(reversal of allowance) for obsolete stocks (included in cost of sales)	**127**	12	**331**	(21)
Amortisation of capitalised development costs (included in research and development expenditure)	**277**	273	**555**	571
Depreciation of property, plant and equipment	**71**	148	**145**	302
Dividend income from listed equity securities	**(71)**	(63)	**(128)**	(114)
Loss on disposal of property, plant and equipment	**21**	—	**21**	—
Net foreign exchange gains	**(2)**	(31)	**(82)**	(76)
Bad debt recovery	**—**	(33)	**—**	(33)
(Reversal of allowance)/allowance for bad and doubtful debts	**(180)**	(11)	**(249)**	110

7. INCOME TAX CREDIT

Income tax credit in the condensed consolidated statement of profit or loss and other comprehensive income represented:

	Three months ended 31 December		Six months ended 31 December	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong Profits Tax				
Overprovision in respect of prior period	**—**	—	**—**	13

Hong Kong Profits Tax is calculated at the rate of 16.5% of the estimated assessable profits for both periods. No Hong Kong Profits Tax is provided as there was no assessable profit for both periods.

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

8. EARNINGS/(LOSS) PER SHARE

The calculation of basic and diluted earnings/(loss) 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	
	2013	2012	**2013**	2012
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit/(Loss)				
Profit/(Loss) for the purpose of basic and diluted earnings/(loss) per share (Profit/(Loss) for the period attributable to owners of the Company)	**111**	(1,019)	**(956)**	(2,427)
	'000	*'000*	***'000***	*'000*
Number of shares				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**13,566**	11,520	**13,566**	11,519
Effect of dilutive potential ordinary shares:				
— Share options	**19**	—	**—**	—
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	**13,585**	11,520	**13,566**	11,519

The computation of diluted loss per share for the six months ended 31 December 2013 and 2012 does not assume the exercise of the Company's share options since their exercise would result in decrease in loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2013, the Group spent approximately HK$41,000 on leasehold improvements, computer and office equipment, furniture and fixtures.

10. TRADE AND OTHER RECEIVABLES

	As at 31 December 2013	As at 30 June 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**4,094**	3,778
Less: Allowance for bad and doubtful debts	**(119)**	(363)
	3,975	3,415
Prepayments, deposits and other receivables	**1,323**	974
Total trade and other receivables	**5,298**	4,389

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

	As at 31 December 2013	As at 30 June 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**2,843**	2,340
Less than 3 months overdue	**1,058**	1,029
More than 3 months overdue	**74**	46
	3,975	3,415

11. TRADE AND OTHER PAYABLES

	As at 31 December 2013 *HK$'000* (Unaudited)	As at 30 June 2013 *HK$'000* (Audited)
Trade payables	**2,642**	2,553
Accruals and other payables	**1,460**	1,902
Total trade and other payables	**4,102**	4,455

The following is an ageing analysis of trade payables at the end of the reporting period prepared on the basis of payment due date of supplier's invoice:

	As at 31 December 2013 *HK$'000* (Unaudited)	As at 30 June 2013 *HK$'000* (Audited)
Current	**1,898**	1,966
Less than 3 months overdue	**632**	498
More than 3 months overdue	**112**	89
	2,642	2,553

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

12. RELATED PARTY TRANSACTION

	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Service fee to The City University of Hong Kong ("City University")	**14**	10

CityU Enterprises Limited, a wholly owned subsidiary of City University, holds a 20% (2012: 30%) interests in Etin City Limited, a substantial shareholder of the Company.

Compensation of key management personnel

The remuneration of key management which are the Directors during the period was as follows:

	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
Short-term benefits	**2,352**	2,267
Post-employment benefits	**23**	23

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

13. SHARE CAPITAL

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary shares of HK$0.2 each		
Authorised:		
At 1 July 2012, 31 December 2012, 30 June 2013 and 31 December 2013	40,000	8,000
Issued and fully paid:		
At 1 July 2012	9,039	1,808
Issue of ordinary shares upon exercise of share options	5	1
At 31 December 2012	9,044	1,809
Issue of ordinary shares by way of open offer	4,522	904
At 30 June 2013 and 31 December 2013	13,566	2,713

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 31 December 2013 (2012: Nil).

FINANCIAL REVIEW

For the six months ended 31 December 2013, the Group recorded a turnover of approximately HK$22,009,000, representing an increase of about 12% as compared with a turnover of approximately HK$19,737,000 of the same period in last year. The loss attributable to owners of the Company was approximately HK$956,000 for the six months ended 31 December 2013, representing a decrease of approximately 61% when compared with the same period in last year. The Board of Directors considers that the improvement in the performance of the Group is mainly attributable to non-recurrent factors: (i) effective cost cutting measures and (ii) reduction in the provision for bad and doubtful debts.

During the six months ended 31 December 2013, the Group had capitalised operating costs of approximately HK$631,000 (2012: HK$602,000) in respect of development of advanced CCTV products.

BUSINESS REVIEW

A TeleEye licensed office was established in Malaysia in November 2013. The 10th overseas office was set up to achieve greater penetration into the Malaysian market. In January 2014, another TeleEye licensed office was established in Turkey to cover the emerging market in that region. With the establishment of new TeleEye offices, we envisage a strong growth of business in these two countries.

During the period, we have launched 6 new models of high definition ("HD") video cameras and 8 new models of ultra high-resolution analog cameras. The newly launched products extended the Group's product line to cover 1080p full HD digital systems and the ultra high-resolution analog systems. When compared with the same period last year, analog and HD digital product lines achieved single-digit and double-digit growth respectively. The growth of HD system outperformed that of analog system indicating higher market acceptance of HD product.

Overall the Group achieved 12% growth in sales revenue and substantial reduction in loss when compared with the same period last year. Price competition remained strong and continued to squeeze the profit margin.

BUSINESS OUTLOOK

The Group is expanding its sales force and reinforcing its sales channel management. The two newly formed TeleEye licensed offices in Malaysia and Turkey will strengthen our presence in both countries. We expect a strong growth in business there due to better customer support and faster market response.

The Group continues to actively build up a comprehensive product line to cover every demand in the video surveillance markets. To integrate all hardware products, the research and development team develops and adds new features to the video management application software. The target is to make the software compatible with not only TeleEye's products but also other popular network cameras in the market.

SEGMENT INFORMATION

Asia

Turnover for Asia (inclusive of Hong Kong, Singapore, Middle East and other Asian countries) as a whole for the six months ended 31 December 2013 amounted to approximately HK$16,286,000 (2012: HK$13,521,000) or 74% (2012: 68%) of the Group's turnover. The responses to our HD video products are encouraging. High value customers in the retail, banking, hotel and education sectors are adopting our HD video surveillance solution in this region. Asia business was robust and fast growing.

Europe

Turnover for the six months ended 31 December 2013 amounted to approximately HK$2,601,000 (2012: HK$2,706,000) or 12% (2012: 14%) of the Group's turnover. Business in Europe remained weak even though business in United Kingdom has recovered and back to a growing trend.

Africa

Turnover for the six months ended 31 December 2013 amounted to approximately HK$2,728,000 (2012: HK$2,771,000) or 12% (2012: 14%) of the Group's turnover. Business in Africa remained steady amid strong currency fluctuations and some political instabilities in the region.

Others

Other geographic segments mainly included the Americas and Australia. Turnover for the six months ended 31 December 2013 amounted to approximately HK$394,000 (2012: HK$739,000) or 2% (2012: 4%) of the Group's total turnover.

EMPLOYEE INFORMATION

As at 31 December 2013, the Group employed 38 (2012: 40) full time employees in Hong Kong and 9 (2012: 13) full time employees in the PRC and overseas offices. The Group's staff costs, including directors' emoluments, employees' salaries and retirement benefits schemes contributions amounted to approximately HK$7,621,000 (2012: HK$8,223,000).

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 benefits schemes 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 scheme.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group mainly used its internal resources to finance its operations during the six months ended 31 December 2013.

The Group had bank balances, deposits and cash of approximately HK$13,248,000 as at 31 December 2013 (30 June 2013: HK$14,692,000).

The Group's gearing ratio, as a percentage of bank and other borrowings and long-term debt over total assets, as at 31 December 2013 was 0% (30 June 2013: 0%).

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 2013.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not make any material acquisition and disposal of subsidiaries and affiliated companies for the six months ended 31 December 2013.

CHARGE ON ASSETS

As at 31 December 2013, the Group did not have any charge on its assets (30 June 2013: 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 substantially denominated in either Hong Kong dollars, US dollars or British Pounds. The Group did not use any financial instruments for hedging purposes (30 June 2013: Nil).

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any contingent liabilities (30 June 2013: Nil).

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

At 31 December 2013, the interests of the Directors, Chief Executive 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)*	7,800,000	57.50%
	Beneficial owner	179,500	1.32%
Dr. Chan Cheung Fat	Held by controlled corporation *(Note 1)*	7,800,000	57.50%
	Beneficial owner	6,500	0.05%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND SHARE OPTIONS (CONTINUED)

(b) Share options

Name of Directors	Capacity	Number of share options held	Number of underlying shares
Prof. Chan Chok Ki	Beneficial owner *(Note 2 and 3)*	168,193	168,193
Dr. Ma Chi Kit	Beneficial owner *(Note 2 and 3)*	159,274	159,274
Mr. Ho Ka Ho	Beneficial owner *(Note 2 and 3)*	156,725	156,725

(c) Interest in a subsidiary company (Note 4)

Name of a Director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the subsidiary company
Dr. Ma Chi Kit	Non-controlling interests *(Note 4)*	5	5%

Notes:

(1) These shares, representing approximately 57.5% of the issued share capital of the Company as at 31 December 2013, are held by Etin City Limited, which is owned by Etin Tech Limited and CityU Enterprises Limited in the proportion of 80% and 20% 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%, 31.3%, 14.3% and 10.1% 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 scheme adopted by the Company, details of which are set out under the header of "Share Option Scheme" below.

(3) The numbers of share options held and the underlying shares were adjusted upon completion of the open offer of the Company on 8 January 2013.

(4) The share representing approximately 5% of the issued share capital of TeleEye Europe Limited held by Dr. Ma Chi Kit.

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 2013, none of the Directors, the Chief Executive 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 SCHEME

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 the Company may at its discretion grant options to any employees, including Executive and non-executive ("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 the Company may grant options in respect of which the subscription price is fixed at different prices.

SHARE OPTION SCHEME (CONTINUED)

The following table discloses movements in the Company's share options under the 2003 Option Scheme as at 31 December 2013 and 30 June 2013:

Directors of the Company	Date of grant	Exercise price per share	Balance at 31 December 2013 and 30 June 2013
		HK$	
Prof. Chan Chok Ki	4 August 2004	2.28	53,516
	23 June 2010	3.12	114,677
Dr. Ma Chi Kit	4 August 2004	2.28	44,597
	23 June 2010	3.12	114,677
Mr. Ho Ka Ho	4 August 2004	2.28	42,048
	23 June 2010	3.12	114,677
			484,192
Employees of the Group	4 August 2004	2.28	5,097
	23 June 2010	3.12	38,226
			527,515
Exercisable at the end of the period			527,515
Weighted average exercise price			HK$2.89

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 2013, the number of shares in respect of which options had been granted under the 2003 Option Scheme represents 3.9% (2012: 4.6%) of the shares of the Company in issue at that date.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the section headed "Share Option Scheme" as described above, at no time during the six months ended 31 December 2013 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 2013.

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 2013.

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 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 2013, 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 of the Company, 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 2013 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, 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 ("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. To Ka Ho, 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 comments 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 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.

NOMINATION COMMITTEE

The nomination committee has three members comprising two Independent Non-Executive Directors, namely, Prof. Siu Wan Chi and Prof. Ching Pak Chung and one Executive Director, namely, Prof. Chan Chok Ki.

The primary duties of the nomination committee are to select and nominate individuals for directorship as well as making recommendations to the Board on nomination policy.

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

Hong Kong, 13 February 2014

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. To Ka Ho, Prof. Siu Wan Chi and Prof. Ching Pak Chung.

This announcement will remain on the "Latest Company Announcements" page 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.