千里眼控股有限公司
TeleEye Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 8051)

2014/2015 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 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$15,724,000 for the six months ended 31 December 2014, representing a decrease of approximately 29% when compared with the same period in 2013.

- The Group recorded a loss attributable to the owners of the Company of approximately HK$5,068,000 for the six months ended 31 December 2014, representing an increase of approximately 430% when compared with the same period in last year. The loss is mainly attributable to drop in sales revenue and gross profit margin.

- The board (the "Board") of Directors does not recommend the payment of an interim dividend for the six months ended 31 December 2014.

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 2014, together with the comparative unaudited figures for the corresponding periods in 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Three months ended 31 December		**Six months ended 31 December**	
		2014	2013	**2014**	2013
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	*4*	**6,807**	12,347	**15,724**	22,009
Cost of sales		**(4,128)**	(7,166)	**(9,909)**	(13,139)
Gross profit		**2,679**	5,181	**5,815**	8,870
Other income		**80**	87	**160**	160
Selling and distribution costs		**(2,361)**	(2,249)	**(4,793)**	(4,275)
Administrative expenses		**(1,975)**	(1,801)	**(3,958)**	(3,526)
Research and development expenditure		**(1,273)**	(1,112)	**(2,360)**	(2,201)
(Loss)/Profit before taxation	*6*	**(2,850)**	106	**(5,136)**	(972)
Income tax	*7*	**—**	—	**—**	—
(Loss)/Profit for the period		**(2,850)**	106	**(5,136)**	(972)
Other comprehensive (expense)/income:					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising on translating foreign operations		**(133)**	83	**(303)**	281
Change in fair value on available-for-sale investments		**209**	127	**(169)**	437
Other comprehensive (expense)/income for the period		**76**	210	**(472)**	718
Total comprehensive (expense)/income for the period		**(2,774)**	316	**(5,608)**	(254)

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

		Three months ended 31 December		Six months ended 31 December	
		2014	2013	**2014**	2013
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(Loss)/Profit for the period attributable to:					
Owners of the Company		**(2,813)**	111	**(5,068)**	(956)
Non-controlling interests		**(37)**	(5)	**(68)**	(16)
		(2,850)	106	**(5,136)**	(972)
Total comprehensive (expense)/income for the period attributable to:					
Owners of the Company		**(2,755)**	330	**(5,582)**	(210)
Non-controlling interests		**(19)**	(14)	**(26)**	(44)
		(2,774)	316	**(5,608)**	(254)
(Loss)/Earnings per share	*8*				
— Basic		**(21) HK cents**	1 HK cents	**(37) HK cents**	(7) HK cents
— Diluted		**(21) HK cents**	1 HK cents	**(37) HK cents**	(7) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	As at 31 December 2014 HK$'000 (Unaudited)	As at 30 June 2014 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	*9*	**224**	252
Capitalised development costs		**2,895**	3,077
Available-for-sale investments		**6,779**	6,948
		9,898	10,277
Current assets			
Inventories		**8,398**	9,415
Trade and other receivables	*10*	**4,761**	4,220
Bank balances and cash		**3,971**	7,844
		17,130	21,479
Current liabilities			
Trade and other payables	*11*	**3,196**	2,435
Net current assets		**13,934**	19,044
Total assets less current liabilities		**23,832**	29,321
Capital and reserves			
Share capital	*12*	**2,749**	2,741
Reserves		**21,548**	27,019
Equity attributable to owners of the Company		**24,297**	29,760
Non-controlling interests		**(465)**	(439)
Total equity		**23,832**	29,321

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 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
Loss for the period	–	–	–	–	–	–	(5,592)	(5,592)	(71)	(5,663)
Other comprehensive (expense)/ income for the period										
Exchange differences arising on translating foreign operations	–	–	(364)	–	–	–	–	(364)	(15)	(379)
Change in fair value on available-for-sale investments	–	–	–	210	–	–	–	210	–	210
	–	–	(364)	210	–	–	–	(154)	(15)	(169)
Total comprehensive (expense)/ income for the period	–	–	(364)	210	–	–	(5,592)	(5,746)	(86)	(5,832)
Issue of ordinary shares upon exercise of share options	28	292	–	–	–	–	–	320	–	320
At 1 July 2014 (audited)	2,741	26,813	(254)	1,510	985	14,990	(17,025)	29,760	(439)	29,321
Loss for the period	–	–	–	–	–	–	(5,068)	(5,068)	(68)	(5,136)
Other comprehensive (expense)/ income for the period										
Exchange differences arising on translating foreign operations	–	–	(345)	–	–	–	–	(345)	42	(303)
Change in fair value on available-for-sale investments	–	–	–	(169)	–	–	–	(169)	–	(169)
	–	–	(345)	(169)	–	–	–	(514)	42	(472)
Total comprehensive expense for the period	–	–	(345)	(169)	–	–	(5,068)	(5,582)	(26)	(5,608)
Issue of ordinary shares upon exercise of share options	8	211	–	–	(100)	–	–	119	–	119
At 31 December 2014 (unaudited)	2,749	27,024	(599)	1,341	885	14,990	(22,093)	24,297	(465)	23,832

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	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(3,543)**	(900)
Net cash used in investing activities:		
Dividend income received	**126**	128
Increase in capitalised development costs	**(532)**	(631)
Other investing cash flows	**(43)**	(41)
	(449)	(544)
Net cash generated from financing activities:		
Proceeds from issue of shares	**119**	—
	119	—
Net decrease in cash and cash equivalents	**(3,873)**	(1,444)
Cash and cash equivalents at beginning of the period	**7,844**	14,692
Cash and cash equivalents at end of the period, represented by bank balances and cash	**3,971**	13,248

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 ("Etin Tech"), 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 2014, 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 2014. 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 surveillance 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	
	2014	2013
	HK$'000	*HK$'000*
Asia	**10,640**	16,286
Europe	**3,009**	2,601
Africa	**1,650**	2,728
Others	**425**	394
	15,724	22,009

6. (LOSS)/PROFIT BEFORE TAXATION

	Three months ended 31 December		Six months ended 31 December	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(Loss)/Profit before taxation has been arrived at after charging/(crediting):				
Allowance for obsolete stocks (included in cost of sales)	**338**	127	**269**	331
Amortisation of capitalised development costs (included in research and development expenditure)	**451**	277	**714**	555
Depreciation of property, plant and equipment	**28**	71	**56**	145
Dividend income from listed equity securities	**(63)**	(71)	**(126)**	(128)
Loss on disposal of property, plant and equipment	**—**	21	**—**	21
Net foreign exchange loss/(gain)	**49**	(2)	**67**	(82)
(Reversal of allowance)/allowance for bad and doubtful debts	**(9)**	(180)	**57**	(249)

7. INCOME TAX

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit 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. (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/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**	
	2014	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
(Loss)/Earnings				
(Loss)/Profit for the purpose of basic and diluted (loss)/earnings per share ((Loss)/Profit for the period attributable to owners of the Company)	**(2,813)**	111	**(5,068)**	(956)
	'000	*'000*	***'000***	*'000*
Number of shares				
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share	**13,714**	13,566	**13,710**	13,566
Effect of dilutive potential ordinary shares — share options	**—**	19	**—**	—
Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share	**13,714**	13,585	**13,710**	13,566

The computation of diluted loss per share for the six months ended 31 December 2014 and 2013 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 2014, the Group spent approximately HK$43,000 on leasehold improvements, computer and office equipment, furniture and fixtures.

10. TRADE AND OTHER RECEIVABLES

	As at 31 December 2014 HK$'000 (Unaudited)	As at 30 June 2014 HK$'000 (Audited)
Trade receivables	**2,775**	2,826
Less: Allowance for bad and doubtful debts	**(353)**	(305)
	2,422	2,521
Prepayments, deposits and other receivables	**2,339**	1,699
Total trade and other receivables	**4,761**	4,220

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 allowance 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 2014 HK$'000 (Unaudited)	As at 30 June 2014 HK$'000 (Audited)
Current and less than 1 month overdue	**1,613**	2,105
1 to 3 months overdue	**671**	331
More than 3 months overdue	**138**	85
	2,422	2,521

11. TRADE AND OTHER PAYABLES

	As at 31 December 2014	As at 30 June 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	**1,774**	1,015
Accruals and other payables	**1,422**	1,420
Total trade and other payables	**3,196**	2,435

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 2014	As at 30 June 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current and less than 1 month overdue	**1,129**	804
1 to 3 months overdue	**561**	136
More than 3 months overdue	**84**	75
	1,774	1,015

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

12. SHARE CAPITAL

	Number of shares	Share capital
	'000	*HK$'000*
Ordinary shares of HK$0.2 each		
Authorised:		
At 1 July 2013, 31 December 2013, 30 June 2014 and 31 December 2014	40,000	8,000
Issued and fully paid:		
At 1 July 2013 and 31 December 2013	13,566	2,713
Issue of ordinary shares upon exercise of share options	140	28
At 30 June 2014	13,706	2,741
Issue of ordinary shares upon exercise of share options	38	8
At 31 December 2014	13,744	2,749

13. RELATED PARTY DISCLOSURE

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	
	2014	2013
	HK$'000	*HK$'000*
Short-term benefits	**2,333**	2,352
Post-employment benefits	**27**	23

The remuneration of Directors 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 2014 (2013: Nil).

FINANCIAL REVIEW

For the six months ended 31 December 2014, the Group recorded a turnover of approximately HK$15,724,000, representing a decrease of about 29% as compared with a turnover of approximately HK$22,009,000 of the same period in last year. The loss attributable to owners of the Company was approximately HK$5,068,000 for the six months ended 31 December 2014, representing an increase of approximately 430% when compared with the same period in last year. The loss is mainly attributable to drop in sales revenue and gross profit margin.

During the six months ended 31 December 2014, the Group had capitalised operating costs of approximately HK$532,000 (2013: HK$631,000) in respect of development of advanced CCTV products.

BUSINESS REVIEW

For the three months ended 31 December 2014, we have launched three new models of high definition ("HD") Digital Video Recorders. The new models have improved functionality and a lower cost of production. These new additions will enhance the competitiveness of TeleEye HD video surveillance systems.

For the six months ended 31 December 2014, the weakness of other foreign currencies against United States dollar ("USD") reduced the demand of USD denominated products in many countries and has had an adverse effect on our export market. The competition in particular was especially strong in the price-sensitive analog video surveillance systems market. The gross profit margin and the revenue generated from analog systems have both dropped significantly. The sales of HD video surveillance systems with our unique technology, however, were able to achieve double-digit growth.

Overall the Group reported a significant drop in sales revenue as compared to the same period last year. Price competition remained strong and continued to squeeze profit margin.

BUSINESS OUTLOOK

The continual strengthening of the USD will hurt our export business especially in the more price-sensitive analog systems market. In the coming quarter, we will launch a new series of economical HD video cameras to strengthen the competitiveness of our HD product line.

The Group will evaluate new business opportunities in other areas with the goal of diversifying the business of the Group.

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 2014 amounted to approximately HK$10,640,000 (2013: HK$16,286,000) or 68% (2013: 74%) of the Group's turnover.

Europe

Turnover for the six months ended 31 December 2014 amounted to approximately HK$3,009,000 (2013: HK$2,601,000) or 19% (2013: 12%) of the Group's turnover.

Africa

Turnover for the six months ended 31 December 2014 amounted to approximately HK$1,650,000 (2013: HK$2,728,000) or 10% (2013: 12%) of the Group's turnover.

Others

Other geographic segments mainly included the Americas and Australia. Turnover for the six months ended 31 December 2014 amounted to approximately HK$425,000 (2013: HK$394,000) or 3% (2013: 2%) of the Group's total turnover.

EMPLOYEE INFORMATION

As at 31 December 2014, the Group employed 37 (2013: 38) full time employees in Hong Kong and 12 (2013: 9) 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$8,114,000 (2013: HK$7,621,000).

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 2014.

The Group had bank balances, deposits and cash of approximately HK$3,971,000 as at 31 December 2014 (30 June 2014: HK$7,844,000).

The Group's gearing ratio, as a percentage of bank and other borrowings and long-term debt over total assets, as at 31 December 2014 was 0% (30 June 2014: 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 2014.

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 2014.

CHARGE ON ASSETS

As at 31 December 2014, the Group did not have any charge on its assets (30 June 2014: 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 2014: Nil).

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any contingent liabilities (30 June 2014: Nil).

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

At 31 December 2014, 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	56.75%
	Beneficial owner	233,016	1.7%

(b) Share options

Name of Directors	Capacity	Number of share options held	Number of underlying shares
Prof. Chan Chok Ki	Beneficial owner *(Note 2)*	114,677	114,677
Dr. Ma Chi Kit	Beneficial owner *(Note 2)*	114,677	114,677
Mr. Ho Ka Ho	Beneficial owner *(Note 2)*	114,677	114,677

(c) Interest in a subsidiary company (Note 3)

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 3)*	5	5%

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

Notes:

(1) These shares, representing approximately 56.75% of the issued share capital of the Company as at 31 December 2014, are held by Etin City Limited ("Etin City"), which is fully owned by Etin Tech. Etin Tech 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 45.86%, 26.96%, 15.99% and 11.19% respectively. As Prof. Chan Chok Ki is entitled to exercise or control the exercise of 30% or more of the voting power in general meetings of Etin Tech, he is deemed to be interested in the entire shares in the Company held by Etin City.

(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 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 2014, 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.

SHARE OPTION SCHEME (CONTINUED)

Share Option Scheme adopted on 28 October 2003 (the "2003 Option Scheme") (Continued)

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.

The following table discloses movements in the Company's share options under the 2003 Option Scheme as at 31 December 2014 and 30 June 2014:

Directors of the Company	Date of grant	Exercise price per share *HK$*	Balance at 30 June 2014	Lapsed during the period	Exercised during the period	Balance at 31 December 2014
Prof. Chan Chok Ki	23 June 2010	3.12	114,677	—	—	**114,677**
Dr. Ma Chi Kit	23 June 2010	3.12	114,677	—	—	**114,677**
Mr. Ho Ka Ho	23 June 2010	3.12	114,677	—	—	**114,677**
			344,031	—	—	**344,031**
Employees of the Group	4 August 2004	2.28	5,097	(5,097)	—	**—**
	23 June 2010	3.12	38,226	—	(38,226)	**—**
			387,354	(5,097)	(38,226)	**344,031**
Exercisable at the end of the period			387,354			**344,031**
Weighted average exercise price			HK$3.11			**HK$3.12**

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 2014, the number of shares in respect of which options had been granted under the 2003 Option Scheme represents 2.5% (2013: 3.9%) 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 2014 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 2014.

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 2014.

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 2014, 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 2014 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, 12 February 2015

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.