*TELE*EYE HOLDINGS LTD : NOTHING INNOVATIVE, HERE

For the first time in the history of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), a small group of academics, employed by one of the schools of higher learning in the territory, has banded together in order to make money for themselves – and their college is tagging along for the ride.

Founded by City University of Hongkong, formerly known as The City Polytechnic of Hongkong, researchers Doctors C.K. Chan, C.F. Chan, Ma Chi Kit and Mr Ho Ka Ho have formed themselves together to be the nucleus of what is, today, *Tele*Eye Holdings Ltd.

Designated Stock Code 8051, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd, *Tele*Eye launched its Public Offer and Placing Prospectus, last Tuesday, in an effort to raise about $HK23 million, net of expenses.

*Tele*Eye is Placing 42 million, one-cent shares at a Premier of 59 cents per share and, at the same time, it is Offering 8 million, one-cent shares on the same basis.

This Company, just 7 years old, is engaged *'in the development, sales and marketing of innovative products that make use of advanced signal processing technologies … a broad range of video and audio monitoring systems under various brand names including* "***Tele*Eye**" *and "**CAMERIO**" which are used … as security surveillance, remote business management, monitoring of unmanned premises and equipment and traffic control.'*(Page One of the Prospectus)

The money, raised in this exercise, is to be used as follows, the Prospectus states at Page 89:

1. $HK8 million to expand marketing and promotional activities;
2. $HK7 million to be used to fund the establishment of overseas sales/technical support offices;
3. $HK4 million to be used for research and development;
4. $HK2 million to be used for new product development; and,
5. $HK2 million to be used for research and development of new Internet video transmission products.

For the 39 months, to September 30, 2000, this Company turned in a profit, according to the Accountants' Report, located at Page 134 of the Prospectus:

	Financial Year ended June 30			Three Months to September 30
	1998	1999	2000	2000
	All Figures are Denominated in $HK'000			
Turnover	7,294	12,907	16,440	7,237
Cost of Sales	(1,908)	(2,856)	(3,539)	(1,158)
Gross Profit	5,386	10,051	12,901	6,079
Other Revenue	371	410	282	199
Administrative Expenses	(396)	(722)	(1,090)	(562)
Other Operating Expenses	(3,748)	(5,997)	(6,608)	(2,638)
Profit from Operations	1,613	3,742	5,485	3,078

Financing Costs	(53)	(25)	(72)	Nil
Profit from Ordinary Activities before Taxation	1,560	3,717	5,413	3,078
Taxation	(239)	(565)	(875)	(498)
Profit Attributable to Shareholders	1,321	3,152	4,538	2,580
Dividends Paid	Nil	660	3,450	Nil

While the Company reported profits for the 3 Financial Years, ended June 30, 2000, for the first 8 months of this Financial Year, to February 28, 2001, the Company has lost $HK372,000.

While the above table shows that, for the first 3 months of this Financial Year, to

September 30, 2000, *Tele*Eye reported a Net Profit Attributable to Shareholders of about

$HK2.58 million, Page 109 of the Prospectus indicates that it must have dropped bundle

between October 1, 2000 and February 27, 2001.

According to the Adjusted Net Tangible Asset calculation, at Page 109, the *'Unaudited loss of the Group for the five months ended 28th February, 2001'* was $HK372,000.

By simple deduction, therefore, *Tele*Eye must have lost about $HK2.95 million, during the period, October 1, 2000 and February 27, 2001($HK2.58 million plus $HK372,000).

Another point about the Net Profits of this Company, during the 39-month period to September 30, 2000, is that *Tele*Eye enjoyed an extremely high Net Profit Margin, which TARGET calculates to be 18.10 percent, 24.42 percent, 27.60 percent, and 25.65 percent, respectively, for the above, track-record period.

Considering that this Company is not producing anything that one may consider to be a life-saving machine, one in such short supply that people are willing to pay just about anything, just to make use of it, one may speculate as to how much longer this Company will be able to enjoy such a relatively high Net Profit Margin.

The Finances

As at September 30, 2000, this Company had, relative to its size, a great deal of money in cash.

According to the Accountants' Report at Page 138, *Tele*Eye had about $HK14.53 million in cash and bank deposits.

Current Assets amounted to $HK20.40 million, as at September 30, 2000 (of which figure about 71 percent was the cash), while Current Liabilities stood at about $HK5.17 million.

Inventories were in the books at just $HK2.04 million and comprised raw materials -- $HK1.11 million – and finished goods, about $HK925,000.

In brief, therefore, *Tele*Eye is carrying very little inventory and is sitting on a pile of cash, which represented nearly 83 percent of the Net Assets, as at last September 30, 2000.

The calculation of the Net Tangible Assets, given at Page 109, is as follows:

Combined Net Assets as at September 30, 2000	$HK17,576,000
Unaudited Loss for the 5 Months, ended February 28, 2001	$HK 372,000
Less: Intangible Assets – Development Expenditure, Capitalised as at February 28, 2001 Interim Dividend for the 6 Months to December 31, 2000	 ($HK2,540,000) ($HK1,200,000)
Adjusted Combined Net Tangible Assets	$HK13,464,000
Estimated Net Proceeds of the Share Offer/Placements	$HK23,000,000

Adjusted Net Tangible Assets	**$HK36,464,000**

This Company appears to be heavily reliant of sales in the Asian Region – the PRC, Singapore, the Philippines, Malaysia, Taiwan, Indonesia, Thailand, Pakistan, South Korea, Vietnam, United Arab Emirates and Japan (the Directors' definition of Asia, not TARGET's definition).
As far as the Hongkong Special Administrative Region (HKSAR) is concerned, it has been, historically, the most important, single market ...