

GROUP SENSE (INTERNATIONAL) LIMITED

權 智 (國 際) 有 限 公 司 *

(incorporated in Bermuda with limited liability)

(Stock Code : 601)

2007/2008 INTERIM RESULTS ANNOUNCEMENT

RESULTS

The Board of Directors (the “Board”) of Group Sense (International) Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2007, together with the comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2007

		Six months ended	
		30th September,	
		2007	2006
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	3	509,109	645,438
Cost of sales		(404,448)	(495,593)
Gross profit		104,661	149,845
Other income and gains		12,758	10,363
Selling and distribution costs		(26,955)	(29,500)
Administrative expenses		(42,618)	(48,424)
Research and development expenses		(40,280)	(36,383)
Finance costs	4	(170)	(34)
Share of losses of associates		(352)	—
Profit before tax	5	7,044	45,867
Tax	6	(1,932)	(7,427)
Profit for the period		<u>5,112</u>	<u>38,440</u>
Attributable to:			
Equity holders of the Company		5,340	38,440
Minority interests		(228)	—
		<u>5,112</u>	<u>38,440</u>
Dividends	7	<u>—</u>	<u>23,952</u>
Earnings per share attributable to ordinary equity holders of the Company	8		
Basic (HK cents)		<u>0.45</u>	<u>3.21</u>
Diluted (HK cents)		<u>0.45</u>	<u>3.21</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2007

	Notes	30.09.07 HK\$'000 (Unaudited)	31.03.07 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		98,157	102,856
Prepaid lease payments		16,719	8,976
Deferred development costs		6,410	6,774
Interests in associates		—	9,024
Available-for-sale investments		34,766	26,209
Long term deposits		2,833	3,490
Total non-current assets		158,885	157,329
Current assets			
Inventories		128,633	170,899
Trade receivables	9	132,951	163,706
Prepayments, deposits and other receivables		57,882	51,772
Amounts due from associates		2,516	1,549
Investments at fair value through profit or loss		40,930	41,211
Derivative financial instruments		820	—
Cash and cash equivalents		224,706	272,885
Total current assets		588,438	702,022
Current liabilities			
Trade and bills payables	10	77,766	166,826
Other payables and accruals		47,714	56,342
Tax payable		26,600	25,005
Interest-bearing bank borrowing		5,384	—
Total current liabilities		157,464	248,173
Net current assets		430,974	453,849
Total assets less current liabilities		589,859	611,178
Non-current liabilities			
Deferred tax liabilities		1,983	2,008
Net assets		587,876	609,170
Equity			
Equity attributable to equity holders of the Company			
Issued capital		119,766	119,761
Reserves		466,867	487,938
		586,633	607,699
Minority interests		1,243	1,471
Total equity		587,876	609,170

NOTES:

1. BASIS OF PREPARATION

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of these interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31st March, 2007, except in relation to the following new/revised Hong Kong Financial Reporting standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as the “new/revised HKFRSs”), which have become effective for accounting periods beginning on or after 1st January, 2007, that are adopted for the first time for the current periods’ interim financial statements:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) —Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment

The adoption of the above new/revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in the Group’s interim financial statements.

3. BUSINESS SEGMENTS

The Group’s primary format for reporting segment information is business segment.

For the six months ended 30th September, 2007

	Electronic handheld products <i>HK\$’000</i>	Original design manufacturing (“ODM”) Products <i>HK\$’000</i>	Consolidated <i>HK\$’000</i>
Revenue	<u>345,553</u>	<u>163,556</u>	<u>509,109</u>
Segment result	<u>11,396</u>	<u>(10,005)</u>	1,391
Interest and unallocated gains			6,175
Share of losses of associates			(352)
Finance costs			<u>(170)</u>
Profit before tax			7,044
Tax			<u>(1,932)</u>
Profit for the period			<u>5,112</u>

3. BUSINESS SEGMENTS *(continued)*

For the six months ended 30th September, 2006

	Electronic handheld products <i>HK\$'000</i>	ODM Products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue	<u>403,853</u>	<u>241,585</u>	<u>645,438</u>
Segment result	<u>32,532</u>	<u>5,823</u>	38,355
Interest and unallocated gains			7,468
Gain on disposal of an available-for-sales investment			78
Finance costs			<u>(34)</u>
Profit before tax			45,867
Tax			<u>(7,427)</u>
Profit for the period			<u>38,440</u>

4. FINANCE COSTS

	Six months ended 30th September,	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	<u>170</u>	<u>34</u>
	<u>170</u>	<u>34</u>

5. PROFIT BEFORE TAX

	Six months ended 30th September,	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit before tax has been arrived at after charging/(crediting):		
Allowance for slow-moving inventories	5,750	9,944
Amortisation of intangible assets (included in research and development expenses)	2,206	1,801
Amortisation of prepaid lease payments	180	121
Depreciation	15,410	13,900
Fair value changes in investment at fair value through profit and loss	(281)	(174)
Fair value changes in derivative financial instruments	(820)	—
Interest income	<u>(6,157)</u>	<u>(6,834)</u>

6. TAX

	Six months ended 30th September,	
	2007	2006
	HK\$'000	HK\$'000
Group:		
Current — Hong Kong	1,786	6,711
Current — Elsewhere	171	—
Deferred	(25)	716
	<u>1,932</u>	<u>7,427</u>
Total tax charge for the period	<u>1,932</u>	<u>7,427</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2006:17.5%) on the estimated assessable profits arising in Hong Kong during the period.

7. DIVIDENDS

On 6th September 2007, a dividend of HK2.5 cents per share was paid to shareholders as the final dividend for the year ended 31st March, 2007, amounting to approximately HK\$29,940,000.

The Board does not recommend any payment of interim dividend (2006: HK2.0 cents per share) to shareholders for the six months ended 30th September, 2007.

8. EARNINGS PER SHARE

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

	Six months ended 30th September,	
	2007	2006
	HK\$'000	HK\$'000
Profit for the purpose of basic and diluted earnings per share		
Profit for the period	<u>5,340</u>	<u>38,440</u>
<i>Number of shares</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,197,639	1,197,613
Effect of dilutive potential shares: share options	<u>522</u>	<u>669</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,198,161</u>	<u>1,198,282</u>

9. TRADE RECEIVABLES

The Group allows an average credit period of 60-90 days to its trade customers.

The following is an aged analysis of trade receivables, based on due date:

	30.09.07 HK\$'000	31.03.07 HK\$'000
0 — 60 days	121,863	155,670
61 — 90 days	3,897	505
Over 90 days	7,191	7,531
	<u>132,951</u>	<u>163,706</u>

10. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade payables, based on due date:

	30.09.07 HK\$'000	31.03.07 HK\$'000
0 — 60 days	72,333	161,843
61 — 90 days	2,989	3,660
Over 90 days	2,444	1,323
	<u>77,766</u>	<u>166,826</u>

INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend (2006/2007: HK2.0 cents per share) to shareholders for the six months ended 30th September, 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of this financial year, the Group's revenue was approximately HK\$509,109,000, representing a decline of 21% as compared with approximately HK\$645,438,000 of the same period of last year. The Group recorded an operating profit of approximately HK\$7,044,000, which was a decline of 85% comparing to that of approximately HK\$45,867,000 of the corresponding period of last year. The decline in the turnover and profit was mainly attributable to a number of contributing factors, including the investment in our new office in Japan which incurred additional expenses for the Company, the continuing competitive market environment for electronic consumer products industry which in turn cut into the profit margin of the existing products of the Group for the period, the forgoing of the low value-added and low profit margin products. Moreover, as it takes time to develop new products, our new products could not be launched into markets within the first half of this financial year. This also affected the Group's results.

Electronic Dictionary

The SBU's (strategic business unit) turnover in the first half of this financial year has been maintained as compared with the same period of last financial year, though there was a drop in gross profit margin.

Due to continuous keen competition in electronic dictionary market worldwide, most competitors have cut the retail price significantly in order to seize the market share. In order to maintain the price competitiveness in the market, we have to respond to the competitors' price cut by offering higher discount rates to our dealers. Furthermore, there has been significant upward pressure on the material and labour costs, and this has been made worse by the continuing appreciation of Reminbi. As a result, the overall gross profit margin of the SBU has been affected.

There have been little changes in the electronic dictionary market in the Mainland China. However, both the demand and supply for medium to high end products has gradually improved. This signified the market trend of shifting from low end, low-price products to high value-added ones.

Original Design Manufacturing

The SBU has experienced considerable drop in sales revenue. The drop in revenue was due to changes in conventional electronic dictionaries business in Japanese market and the delay in launching newly focused products. Firstly, sales of electronic dictionaries to major customers in Japan have been on the declining trend. Besides, the regular seasonal effect of slower sales in this first half financial year, forgoing low value-added products line in the previous year has brought adverse impact on the SBU's sales, while the business of high value-added distinctive electronic dictionaries could not bring much contribution to the SBU's sales. Secondly, delay in launching new products in Japanese mobile communication market, which has been developed since last year, was another reason for the unsatisfactory results. It was previously expected that new product would have been first launched within this first half financial year, but was postponed to this second half financial year due to certain market factors. On the other hand, however, development of three new products in the new categories have been undertaken smoothly, and all are to be shipped to Japan and US markets in the second half of this financial year.

Operation at the Japanese subsidiary in Tokyo has begun by end of March, 2007, with functions of marketing and sales, and software development for the new product categories in Japan. Priority has been given to building up business partnership with various external parties for product distribution and services, technology, and product development. With strong support from the SBU, the objectives set for the first half of this financial year have been well achieved and two projects have been kicked off that are expected to contribute to the SBU's sales within this financial year.

Personal Communication Products

In the first half of this financial year, the SBU has successfully developed several WiFi communication products and GPS products. As compared to the products developed in the same period last year, we have optimized the WiFi and GPS technologies for personal communication products. Areas like battery life, communication efficiency and stability have been improved in our products. Through mastering the basic technology, the competitiveness of our products could be enhanced, and that is also conducive to the development of future similar products.

It is imperative that we need to explore and develop new customers and markets, before our new products are firstly launched. Especially the vertical markets, we have to find the appropriate partners and conduct intensive tests on our products. As such, the new products could not deliver expected revenue in this first half financial year. But as our products have already approved by some customers, shipping of our new products will be expected in the second half of this financial year.

Outlook

New products to be developed will be the driver of the Group's future business development. The Group believes that through investing in strengthening our research and development team and also forging closer technology partnership with our vendors, it could help the Group to develop and launch new and competitive products in the market. The Group will actively expand and strengthen its marketing efforts, participate in various trade exhibitions so as to solicit new overseas customers, and to enlarge its distribution network. As the production cost on the mainland is escalating, the Group will continue its efforts in containing the production costs and working out an effective product development and designing programme together with our vendors, in order to increase the overall competitiveness of the Group.

Electronic Dictionary

Despite that competition in the electronic dictionary market is getting more intense, it is believed that with the Group's well-established brand name and distribution networks in China, Hong Kong and Asian markets, the SBU can still manage to command a good business prospect in the second half of this financial year. Nevertheless, the SBU will strive to maintain a reasonable gross profit margin through forging strong strategic partnership with the components vendors and continuous efforts in containing the costs.

The SBU's will continue fine-tuning the product development strategy to meet the market demand. It is expected that with the launching of new products, especially those equipped with wireless communication features, the SBU will be able to meet the set targets on sales & profit margin.

Original Design Manufacturing

Thanks to our intensive efforts in marketing and research and development for over a year in accordance with the SBU's long term strategy, we have secured a variety of new business opportunities. The SBU will launch new series of products by end of 2007, and all are expected to contribute to the sales in this financial year. The new products include bluetooth audio product for ODM (original design manufacturing) customer in USA, a wireless communication device for Japanese car navigation system, the electronic POP (point-of-purchase) wireless terminals for video advertisement system for the Japanese market, and the electronic books for the US market, in addition to new series of electronic dictionaries with distinctive features for the existing major customers so as to regain our market share.

Through expediting development for these new projects, the SBU will strive to maximize the sales and profit in this second half financial year, so as to minimize the loss incurred in this first half financial year. Furthermore, a series of new unique projects are being brought in by our office in Japan, as well as new business and technology partners there. Several projects are to be kicked off within this financial year.

Notwithstanding the tough business environment, the SBU continues steadfastly its investment on new business opportunities and the rapid expansion of its operation in Japan. We firmly believe that the next growth momentum will be created for the years to come, while we are keeping close attention to cost control and enhancing our operation efficiency.

Personal Communication Products

With the new generation of Internet, there will be more new applications and thus business opportunities on handheld communication products. The SBU believes that the current technology and our product development direction will have more room for development as compared with the previous smartphone business. But this takes better partners and a good marketing channel. Therefore, the SBU will aggressively explore new markets in the next half financial year. For the consumer market, efforts will be made to reshuffle the existing smartphone marketing channels in South East Asia so as to cater for the new products.

On the other hand, the SBU will also put more resources in exploring the vertical markets. The SBU has launched a WiFi PDA product which is tailor-made for the hospitality industry. The product's quality and usability have already been well recognized by some key customers in the industry, and it is expected that more orders will flow in during this second half financial year. We also noted that WiFi PDA products could be applicable in various industries, like warehouse, logistics, manufacturing and retail so the development potential should be large. In the next half financial year, the SBU will continue to seek for appropriate partnership and promote the use of WiFi PDA in various industries.

It is believed that through reorganizing the distribution channel in South East Asia and building up networks in various industries, and that the research and development investments will improve our products and thus their competitiveness, it is expected that the SBU's performance in this second half financial year should be improved.

Conclusion

Higher demand for 3C (computer, communications and consumer) electronic products will be the future development trend. As globalization intensifies market competition worldwide, the Group will continue its efforts in attracting talents and actively seeking technology partners, and this will be the essential element for the Group's long-term growth.

Liquidity and Financial Resources

On 30th September, 2007, the bank balances and cash (including bank deposits) were approximately HK\$224,706,000 in total, which was approximately HK\$48,179,000 or 18% lower than those of six months ago. Total bank borrowings were approximately HK\$5,384,000 (2006: nil). All the bank borrowings are denominated in Japanese Yen with fixed interest rate and short term in nature.

As at 30th September, 2007, the gearing ratio, defined as total bank borrowings divided by shareholders' equities, has been kept below 1% in the six months period. The interest expense for the twelve months' period have increased from approximately HK\$34,000 to approximately HK\$170,000.

Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars or Reminbi. A small portion of the Group's raw material purchase, assets and liabilities are denominated in Japanese Yen. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact on the Group. During the six months period, The Group manages its foreign exchange exposure caused by the appreciation of Reminbi by entering into hedging forward contracts. The Group does not engage in any interest rate or currencies speculations.

Employees

As at 30th September, 2007, the Group has on its payroll 277 (2006: 270) employees in Hong Kong, 2,760 (2006: 3,397) employees in Mainland China and 8 (2006: Nil) employees in Japan, representing an increase of about 3%, a decrease of about 19% and an increase of 100% respectively as compared with prior year. In addition to salary remuneration and usual fringe benefits such as annual leave, medical insurance and provident fund, the Group also provides Share Incentive Plans for executive directors and senior staff.

Appreciation

On behalf of the Board, I wish to thank all our shareholders, customers, suppliers and bankers for their continual support. I would also like to extend my appreciation to all the staff for their dedicated work and their contribution throughout the period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Audit Committee comprises independent non-executive directors, Mr. YUNG Wing Ki, Samuel, MH JP (Chairman of the Audit Committee), Mr. HO Kwok Shing, Harris and Mr. WONG Kon Man, Jason, and a non-executive director, Mr. LO Chi Chung, William. Throughout the period under review, the Audit Committee has held two meetings with full attendance to review the accounting principles and practices adopted by the Group and discuss internal control and financial reporting matters. The Audit Committee has reviewed the unaudited interim report for the six months ended 30th September, 2007.

The Audit Committee has made positive contribution to enhancing the Company's corporate governance.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practice (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30th September, 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 to the Listing Rules (the “Model Code”) as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30th September, 2007.

By order of the Board
Group Sense (International) Limited
Dr. Tam Wai Ho, Samson JP
Chairman

Hong Kong, 11th December, 2007

As at the date of this announcement, the Board comprises Dr. Tam Wai Ho, Samson JP, Mr. Tam Wai Tong, Thomas, Mrs. Tam Mui Ka Wai, Vivian, Mr. Kazuhiro Otani, Mr. Lee Koon Hung, Dr. Fok Ting Yeung, James and Ms. Luk Chui Yung, Judith as executive directors; Mr. Lo Chi Chung, William as non-executive director; Mr. Yung Wing Ki, Samuel MH, JP, Mr. Ho Kwok Shing, Harris and Mr. Wong Kon Man, Jason as independent non-executive directors.

Website: <http://www.gsl.com.hk>

* *for identification purpose only*