



GROUP SENSE (INTERNATIONAL) LIMITED

權智(國際)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

2008/2009 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, 2008, together with the comparative figures for the corresponding period in 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2008

		Six months ended 30th September,	
		2008	2007
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	374,230	509,109
Cost of sales		(292,805)	(404,448)
Gross profit		81,425	104,661
Other income and gains		12,091	12,758
Selling and distribution costs		(28,681)	(26,955)
Administrative expenses		(44,722)	(42,618)
Research and development expenses		(42,391)	(40,280)
Other expenses		(898)	–
Finance costs	4	(8)	(170)
Share of losses of :			
Jointly controlled entities		(1,067)	–
Associates		–	(352)
Profit/(Loss) before tax	5	(24,251)	7,044
Tax	6	(133)	(1,932)
Profit/(Loss) for the period		(24,384)	5,112
Attributable to:			
Equity holders of the Company		(23,615)	5,340
Minority interests		(769)	(228)
		(24,384)	5,112
Dividend	7	–	–
Earnings/(Loss) per share attributable to ordinary equity holders of the Company	8		
Basic		(HK1.97 cents)	HK0.45 cent
Diluted		(HK1.97 cents)	HK0.45 cent

* for identification purpose only

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2008

	Notes	30.09.08 HK\$'000 (Unaudited)	31.03.08 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment		99,500	102,799
Prepaid lease payments		18,031	17,644
Deferred development costs		5,139	5,859
Interest in jointly-controlled entities		9,934	11,001
Available-for-sale investments		26,094	26,094
Deferred tax assets		1	–
Amount due from a related company		1,634	1,587
Long term deposits		3,424	2,186
Total non-current assets		163,757	167,170
Current assets			
Inventories		132,220	115,833
Trade receivables	9	121,812	145,485
Prepayments, deposits and other receivables		54,120	44,451
Amounts due from associates		4,722	3,402
Investments at fair value through profit or loss		40,633	41,532
Derivative financial instruments		2,693	5,717
Cash and cash equivalents		230,085	252,165
Total current assets		586,285	608,585
Current liabilities			
Trade and bills payables	10	95,220	106,517
Other payables and accruals		58,116	52,537
Tax payable		24,760	24,859
Derivative financial instruments		948	3,775
Interest-bearing bank borrowing		–	2,594
Total current liabilities		179,044	190,282
Net current assets		407,241	418,303
Total assets less current liabilities		570,998	585,473
Net assets		570,998	585,473
Equity			
Equity attributable to equity holders of the Company			
Issued capital		119,766	119,766
Reserves		447,891	463,851
		567,657	583,617
Minority interests		3,341	1,856
Total equity		570,998	585,473

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2008

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 basis of preparation and accounting policies used 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, 2008, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements which are set out as below.

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Group considers that the adoption of the above-mentioned accounting standards does not have significant impact on the Group as at the date of the interim financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the Group:

HKFRS 2 Amendments	Share-based Payment – Vesting Conditions and Cancellation ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 and HKAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ¹
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

The Group is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the Group’s condensed financial statements.

3. SEGMENT INFORMATION

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

For the six months ended 30th September, 2008

	Electronic handheld products <i>HK\$'000</i>	Original design manufacturing ("ODM") Products <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment Revenue	<u>236,736</u>	<u>137,494</u>	<u>–</u>	<u>374,230</u>
Segment results	<u>(11,141)</u>	<u>(16,739)</u>	<u>3,816</u>	<u>(24,064)</u>
Interest and unallocated gains				1,786
Finance costs				(8)
Other expenses				(898)
Share of losses of jointly-controlled entities				<u>(1,067)</u>
Loss before tax				(24,251)
Tax				<u>(133)</u>
Loss for the period				<u>(24,384)</u>

For the six months ended 30th September, 2007

	Electronic handheld products <i>HK\$'000</i>	ODM Products <i>HK\$'000</i>	Corporate and others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue	<u>345,553</u>	<u>163,556</u>	<u>–</u>	<u>509,109</u>
Segment results	<u>10,987</u>	<u>(10,005)</u>	<u>1,773</u>	2,755
Interest and unallocated gains				4,811
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>

4. FINANCE COSTS

	Six months ended 30th September, 2008 HK\$'000	2007 HK\$'000
Interest on bank borrowings wholly repayable within five years	8	170
	8	170

5. PROFIT/(LOSS) BEFORE TAX

	Six months ended 30th September, 2008 HK\$'000	2007 HK\$'000
Profit/(Loss) before tax has been arrived at after charging/(crediting):		
Provision for inventories	3,937	5,750
Amortisation of intangible assets (included in research and development expenses)	2,315	2,206
Amortisation of prepaid lease payments	230	180
Depreciation	15,484	15,410
Fair value changes in investment at fair value through profit or loss	898	281
Fair value changes in derivative financial instruments	(2,061)	(820)
Dividend Income	(411)	(215)
Interest income from investments at fair value through profit or loss	(1,345)	(1,346)
Bank Interest income	(1,786)	(4,811)

6. TAX

	Six months ended 30th September, 2008 HK\$'000	2007 HK\$'000
Group :		
Current – Hong Kong	–	1,786
Current – Elsewhere	134	171
Deferred	(1)	(25)
Total tax charge for the period	133	1,932

Hong Kong profits tax has been provided at the rate of 16.5% (2007/2008:17.5%) on the estimated assessable profits arising in Hong Kong during the period.

7. DIVIDENDS

The Board does not recommend any payment of interim dividend (2007/2008: Nil) to shareholders for the six months ended 30th September, 2008.

8. EARNINGS/(LOSS) PER SHARE

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

	Six months ended 30th September, 2008 HK\$'000	2007 HK\$'000
Profit/(Loss) for the purpose of basic and diluted earnings/(loss) per share		
Profit/(Loss) for the period	(23,615)	5,340
<i>Number of shares</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	1,197,663	1,197,639
Effect of dilutive potential shares: share options	91	522
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	1,197,754	1,198,161

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:

	30.09.08 HK\$'000	31.03.08 HK\$'000
0-60 days	104,104	130,950
61-90 days	7,022	5,722
Over 90 days	10,686	8,813
	121,812	145,485

10. TRADE AND BILLS PAYABLES

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

	30.09.08 HK\$'000	31.03.08 HK\$'000
0 – 60 days	91,375	103,009
61 – 90 days	1,423	1,606
Over 90 days	2,422	1,902
	95,220	106,517

INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend (2007/2008: Nil) to shareholders for the six months ended 30th September, 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of this financial year, the Group's revenue was approximately HK\$374,230,000, representing a decline of 26% as compared with approximately HK\$509,109,000 of the same period of last year. The Group recorded an operating loss before tax of approximately HK\$24,251,000. The decline in the turnover and profit was mainly attributable to a number of contributing factors, including (i) the keen competition in the electronic consumer products market; (ii) the increase of labour costs in the Mainland and the appreciation of Renminbi against Hong Kong dollars which has resulted in an increase in the Group's operation costs in the Mainland; (iii) the depreciation of other Asian currencies which affect the sales revenue; and (iv) the slow growth in the global economy. In view of the decline, the Company's management continues to take steps to control the production costs, closely monitor the product development schedule and expand the customer base for high profit margin products.

Electronic Dictionary

In the first half of the financial year 2008/2009, the SBU (strategic business unit) has recorded a decline in its turnover and gross profit as compared with the same period of last financial year.

Due to the continual downturn of global economy, most customers have adopted conservative sales strategies in promoting our products. The depreciation of most Asian currencies, especially the Korean WON, also discouraged our Asian customers from importing our products. As a result, the SBU's overall business has to certain extent been adversely affected. There has been significant upward pressure on the materials and labor costs. Although the SBU has been striving to control the development & operating costs, the gross profit margin inevitably has narrowed slightly.

The new electronic dictionary product which is equipped with WiFi communication technology was launched in Hong Kong and Taiwan by the end of first half of the financial year 2008/2009. As such, the contribution to sales revenue in the first half of the financial year 2008/2009 was not much. However, the market feedback has been positive and it is expected the product will be one of the major revenue contributors for the second half of the financial year 2008/2009.

There is a continuous business growth in the individual newly developed Asian market. The overall electronic dictionary market continues to grow and in particular, the student market segment has been expanding rapidly. At the same time, more and more competitors have entered this market since the beginning of year 2008 and we expect there will be furious price competition between different brands in the second half of the financial year 2008/2009.

Original Design Manufacturing

The SBU continued experiencing a decline in sales revenue, which is one of the reasons for the Group's loss in the financial year 2008/2009. After intensive efforts in developing new products, three new products have been launched in Japan as scheduled in the first half of this financial year. However, the initial sales of these new products which are of high value added in the Japanese market have not been enough to offset the decrease in sales revenue of the conventional dictionaries in Japan.

Among all, there was a delay in obtaining the repeated orders of the wireless ePOP (electronic point-of-purchase) display device that was first shipped at the end of the previous financial year, as the customers are spending much longer time in setting up the business model of wirelessly distributing advertising contents through the device.

The newly launched new products are wireless tabletop ordering device which could be used in the Japanese chain restaurants, bluetooth handset that is sold by a Japanese mobile phone operator, and bluetooth keyboard that is complimentary to the new mobile phones in Japan. The orders for these new products are still insignificant, and this therefore led to a deviation from the original business plan.

Despite efforts spent on research and development and that manufacturing costs has been increasing, the SBU managed to control its operating expenses. Also, due to that the SBU has forgone the low value added products, the gross profit of the SBU is improved.

Personal Communication Products

In the first half of 2008/2009 financial year, the SBU has shifted its development focus to the original design manufacturing (ODM) business for telecommunication products, and also developing the telecommunication products for vertical markets. New products developed are not ordinary consumer products but are instead equipped with certain degree of uniqueness, catering for certain specific customer segments. It is hoped that these new products could dodge the keen price competition of consumer products market and be less affected by the economic environment.

In the first half of this financial year, the SBU has started some new ODM businesses and developed a number of new products, which are expected to enter the mass production stage during the next half financial year. Also, the SBU would continue developing new wireless communication products which could be applied in various vertical sectors. Following the launch of WiFi PDA product which was tailor-made for the hospitality industry in last year, the development of other new products has been completed in the first half of this financial year and are targeted to market to different vertical markets for different applications.

Outlook

Despite the many uncertainties in the coming years, as well as the various changes and challenges of the external environment, the Group will continue to forge strong and tight partnership with our parts suppliers and customers, so that we all could overcome the difficulties and explore new business opportunities.

Electronic Dictionary

To minimize the gross profit margin squeeze due to upward pressure on the material and PRC labor costs, the SBU will continue to strive to maintain a reasonable gross profit margin through forging strong strategic partnership with the components vendors and enhancing ceaselessly its operating efficiency, containing the product development and materials costs.

In view of many uncertainties and the unstable economic environments, the SBU will continue to monitor the markets closely and adopt appropriate product and market strategies. The SBU will focus on developing medium and high end products which are equipped with unique features and carry higher gross profit margins. At the same time, the SBU will work hard in expanding its customer base in different markets.

After launching of the new electronic dictionary product equipped with WiFi communication technology, the SBU is expecting an increase in sales of electronic dictionary with wireless communication features in the second half of the financial year 2008/2009.

Original Design Manufacturing

The business strategy of the SBU will be adjusted to suit the ongoing worldwide economic turmoil and recession. Development for self-designed own products will be postponed due to the concern of uncertainty of the consumer market. On the other hand, focus will be given to the existing new product categories and customers, and also exploring new ODM business opportunities.

One new product that belongs to the category of “electronic stationary”, with a simple feature of memo typing and unique foldable keyboard and high contrast display, is expected to be one of the major focus in the later half of this financial year. For this unique category, the SBU will further develop series of new unique products for the ODM projects.

Another new business opportunity lies in the category of eBook reader. Besides the existing partner in the USA, there are now several new projects under discussion. With the maturing of this new product category, the SBU is expecting an expansion in sales of eBook in the next financial year. The SBU is striving to improve the Group’s results in the second half of this financial year.

Personal Communication Products

As the economic environment may continue declining in the next half financial year, the electronic products market is expected to be under substantial pressure. For the ODM business, the SBU will shun the high risk consumer products market, and instead focus on the stable and high value-add products market. As for the vertical market, poor economic environment certainly would have impact on the business. The SBU will focus on developing new products and providing solutions for enterprises to help them enhance their efficiency and contain the costs. This will entice enterprises to continue actively using the new products.

The SBU will continue its efforts in stringently containing the production costs and operating expenses, and align with the established development strategy, so as to minimize the impacts of the macroeconomic environment. It is hoped that by leveraging on the clientele and product bases established this year, the SBU could achieve better results and developments in the next year.

Conclusion

It is expected that the next half financial year will still be difficult, and that the business environment will be full of challenges. The Group will adopt a prudent strategy, minimizing the risk exposure and conserve as much strength as possible.

Liquidity and Financial Resources

On 30th September, 2008, the bank balances and cash (including bank deposits) were approximately HK\$230,085,000 in total, which was approximately HK\$22,080,000 or 9% lower than those of six months ago. All bank borrowings were fully repaid by the Group during the period (31st March, 2008: approximately HK\$2,594,000). All the bank borrowings in 2007 were denominated in Japanese Yen with fixed interest rate and short term in nature.

As at 30th September, 2008, the gearing ratio, defined as total bank borrowings divided by shareholders' equities, has been reduced to 0% in the six months period. The interest expense has been decreased from approximately HK\$170,000 to approximately HK\$8,000 as compared with the corresponding period.

Contingent Liabilities

As at 30th September, 2008, the contingent liabilities of the Group were approximately HK\$4,152,000 (31st March, 2008: approximately HK\$4,212,000).

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 Renminbi. 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 Renminbi by entering into hedging forward contracts. The Group does not engage in any interest rate or currencies speculations.

Employees

As at 30th September, 2008, the Group has on its payroll 269 (2007/2008: 277) employees in Hong Kong, 2,475 (2007/2008: 2,760) employees in Mainland China and 12 (2007/2008: 8) employees in Japan, representing a decrease of about 3%, about 10% and an increase of 50% 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, 2008.

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 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, 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers 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, 2008.

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

Hong Kong, 12th December, 2008

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>