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GROUP SENSE (INTERNATIONAL) LIMITED

權智(國際)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00601)

2010/2011 INTERIM RESULTS ANNOUNCEMENT

RESULTS

The board of directors (the “Board”) of Group Sense (International) Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30th September, 2010, together with the comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September, 2010

		Six months ended 30th September,	
		2010	2009
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue	3	345,987	284,537
Cost of sales		(248,261)	(204,327)
Gross profit		97,726	80,210
Other income and gains		5,677	7,220
Selling and distribution costs		(25,671)	(26,838)
Administrative expenses		(43,474)	(41,336)
Research and development expenses		(41,373)	(38,844)
Finance costs	4	-	(25)
Share of losses of jointly-controlled entities		(18)	(1,091)
Loss before tax	5	(7,133)	(20,704)
Tax	6	(71)	(86)
Loss for the period		(7,204)	(20,790)
Other comprehensive income			
Exchange differences on translating foreign operations		7,022	2,077
Total comprehensive loss for the period		(182)	(18,713)
Loss attributable to:			
Equity holders of the Company		(6,913)	(19,080)
Minority interests		(291)	(1,710)
		(7,204)	(20,790)

* For identification purpose only

		Six months ended	
		30th September,	
		2010	2009
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		109	(17,003)
Minority interests		(291)	(1,710)
		(182)	(18,713)
Loss per share attributable to			
ordinary equity holders of the Company	8		
Basic		(HK0.58cents)	(HK1.59cents)
Diluted		(HK0.58cents)	(HK1.59cents)

Details of the dividends are disclosed in note 7 to the condensed financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2010

	Notes	30.09.10 HK\$'000 (Unaudited)	31.03.10 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		89,909	85,581
Prepaid lease payments		16,916	17,142
Deferred development costs		1,990	3,011
Interests in jointly-controlled entities		14,376	13,122
Available-for-sale investments		30,412	26,094
Long term deposits		4,462	7,556
Total non-current assets		158,065	152,506
CURRENT ASSETS			
Inventories		130,873	125,314
Trade receivables	9	108,832	84,617
Prepayments, deposits and other receivables		61,658	62,819
Amounts due from associates		2,617	2,833
Investments at fair value through profit or loss		40,063	40,654
Derivative financial instruments		314	-
Cash and cash equivalents		164,173	201,343
Total current assets		508,530	517,580
CURRENT LIABILITIES			
Trade and bills payables	10	74,276	83,750
Other payables and accruals		60,042	54,012
Tax payable		37,669	37,692
Derivative financial instruments		193	35
Total current liabilities		172,180	175,489
NET CURRENT ASSETS		336,350	342,091
Net assets		494,415	494,597
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		119,766	119,766
Reserves		371,485	371,376
Minority interests		491,251	491,142
		3,164	3,455
Total equity		494,415	494,597

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2010

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 condensed consolidated interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31st March, 2010, except for the adoption of the new standards and interpretation as noted below:

HKFRS 1(Revised)	<i>First-time Adoption of Hong Kong Financial Reporting Standards</i>
HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards Additional Exemptions for First-time Adopters</i>
HKFRS 2 Amendments	<i>Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
Amendments to HKFRS 5 included in <i>Improvements to HKFRSs</i> issued in October 2008	<i>Amendments to HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary</i>
HKAS39 Amendments	<i>Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives</i>
Annual Improvements Project	<i>Improvements to HKFRSs 2009</i>
HK-Interpretation 4 (Revised in December 2009)	<i>Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases</i>
HK(IFRIC)-Int 17	<i>Distributions of Non-cash Assets to Owners</i>

The adoption of the above new standards and interpretations has had no material effect on the condensed consolidated interim financial statements.

The Group has not early adopted any standard interpretation or amendment that was issued but not yet effective.

3. SEGMENT INFORMATION

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

For the six months ended 30th September, 2010

	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:				
Sales to external customers	133,847	212,140	-	345,987
Segment results	(12,594)	2,698	2,364	(7,532)
<u><i>Reconciliation:</i></u>				
Interest income				417
Share of losses of jointly-controlled entities				<u>(18)</u>
Loss before tax				(7,133)
Tax				<u>(71)</u>
Loss for the period				<u><u>(7,204)</u></u>

For the six months ended 30th September, 2009

	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:				
Sales to external customers	162,470	122,067	-	284,537
Segment results	(7,890)	(13,763)	1,608	(20,045)
<u><i>Reconciliation:</i></u>				
Interest income				457
Finance costs				(25)
Share of losses of jointly-controlled entities				<u>(1,091)</u>
Loss before tax				(20,704)
Tax				<u>(86)</u>
Loss for the period				<u><u>(20,790)</u></u>

4. FINANCE COSTS

	Six months ended 30th September,	
	2010	2009
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>-</u>	<u>25</u>

5. LOSS BEFORE TAX

	Six months ended 30th September,	
	2010	2009
	HK\$'000	HK\$'000
Loss before tax has been arrived at after charging/(crediting):		
Provision of inventories	7,452	4,930
Amortisation of deferred development cost (included in research and development expenses)	1,156	1,602
Amortisation of prepaid lease payments	227	227
Depreciation	8,116	11,871
Fair value changes in investments at fair value through profit or loss	591	(243)
Fair value change in derivative financial instruments	(156)	61
Dividend income	(1,062)	(333)
Interest income from investments at fair value through profit or loss	(1,341)	(1,337)
Bank Interest income	<u>(417)</u>	<u>(457)</u>

6. TAX

	Six months ended 30th September,	
	2010	2009
	HK\$'000	HK\$'000
The Group:		
Current - Elsewhere	<u>71</u>	<u>86</u>

7. DIVIDEND

The Board does not recommend any payment of interim dividend (2009: Nil) to shareholders for the six months ended 30th September, 2010.

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$6,913,761 (2009: HK\$19,079,385) and the weighted average of 1,197,663,029 (2009: 1,197,663,029) shares in issue during the periods.

(b) Diluted loss per share

Diluted loss per share amounts for the period ended 30th September, 2010 and 30th September, 2009 have not been presented as the share options had an anti-dilutive effect on the basic loss per share for these periods.

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:

	30.09.2010 HK\$'000	31.03.2010 <i>HK\$'000</i>
0 - 60 days	90,005	66,633
61 - 90 days	3,746	7,347
Over 90 days	15,081	10,637
	<u>108,832</u>	<u>84,617</u>

10. TRADE AND BILLS PAYABLES

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

	30.09.2010 HK\$'000	31.03.2010 <i>HK\$'000</i>
0 - 60 days	71,647	79,626
61 - 90 days	72	1,585
Over 90 days	2,557	2,539
	<u>74,276</u>	<u>83,750</u>

INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend (2009: Nil) to shareholders for the six months ended 30th September, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of this financial year, the Group's revenue was HK\$345,987,379, representing an increase of approximately 22% as compared with HK\$284,537,464 of the same period of last year. The Group recorded an operating loss before tax of HK\$7,133,451, which is 66% less than that of HK\$20,703,782 in the same period last year. The increase in revenue was mostly due to the improvements in our ODM (original design manufacturing) business, in particular our eBook reader business and the launch of our products in the Japanese market. Yet the Group had experienced an upward pressure in its operating costs, including higher labour costs and worsening exchange rates in foreign currencies. As a result, a loss was recorded in the first half of this financial year.

Electronic Dictionary

The SBU (strategic business unit) has experienced a slight decline in sales turnover and gross profit in the first half of the financial year 2010-2011 as compared with the same period in the last financial year.

The uncertainty of the global economy has continued to weaken the consumer-spending sentiment. The sluggish consumer demand has inevitably impacted the business performance of the SBU. Although the SBU has adopted various sales and marketing strategies in promoting our products, business has not been significantly improved.

The SBU is facing the challenge of higher material and operating costs owing to the continuous appreciation of the Japanese Yen and Reminbi.

The emergence of integrated consumer electronic products that incorporate e-dictionary and e-learning applications, amongst others, has also hindered the pace of business recovery of the SBU.

Original Design Manufacturing

Since the gradual recovery of business of the SBU in the second half of the financial year 2009-2010, the business volume has been stable in the first half of the financial year 2010-2011. This is the result of maintaining a working partnership with the SBU's valued customers in Japan, and achieving stable sales of products that were launched in the previous year, including the eBook readers for the US market.

The development of two major ODM products has been completed within the first half of the financial year 2010-2011 and launched in the Japanese market. One of these products is a Digital Card Holder that is of the same size as a conventional business card case. The other is a Wireless Navigation Device that applies 3G wireless connectivity in providing real time information services on the PND (Personal Navigation Device) platform.

In addition to the steadily growing Japanese market, eBook reader is one of the growth areas for the SBU. This eBook reader uses an exclusively-developed reflective monochrome TFT (Thin Film Transistor) display that has fast response and high contrast.

Personal Communication Products

The volume of sales of the SBU in the first half of the financial year 2010-2011 is similar to that in the same period of the previous financial year. The loss, however, has been reduced. This is because the sales of the POS PDA (Point-of-sale Personal Digital Assistant) which has a higher profit margin than the other products have improved. In the POS PDA area, the SBU has established a stable clientele for its products, and sales have been growing steadily. A number of new products have been developed for the logistics and retail sectors in the first half of the financial year 2010-2011, with volume production to start in the second half of the financial year. As for the ODM business, owing to the overstocking of existing customers, sales for the first half of the financial year 2010-2011 has dropped, but are expected to improve in the second half of the financial year. Furthermore, in this half year a new ODM customer has commissioned the SBU for the development of a Tracking Product that is due for completion in the second half of the present financial year.

Outlook

The Group is undergoing a business transformation from primarily focusing on the development and production of consumer products to that of high value-added industrial products. It will take some time to accumulate a new customer base during such a business transformation. Though there are signs of early success with this new business direction, they are not yet reflected in the financial results. The Group's business is still in a period of transition.

For economy of scale reasons, it has been the Group's long term strategy to maintain a stable and reasonable level of production orders for its factory. In addition to providing production services to the SBUs within the Group, the factory is also working with our Japanese partner to expand the business of the manufacture of touch screen panels.

Electronic Dictionary

Though there are signs of economy recovery of some Asian markets, consumer confidence is still weak. In response to the volatile market condition and rapid demand changes, the SBU will continue to monitor the markets closely and adopt appropriate product and market strategies.

To minimize the adverse effect on gross profit, the SBU will strive to maintain a reasonable gross profit margin through enhancing ceaselessly its operating efficiency and containing the costs of product development and materials.

At the same time, the SBU will continue to expand its customer base in different markets. The SBU will also explore more business opportunities in different product lines and service areas.

Original Design Manufacturing

The SBU will continue its business focus and strategy to develop new businesses with existing valued customers in Japan through our subsidiary in Tokyo, and to obtain new opportunities of ODM business that are unique in the market that can make the best use of our expertise and that are worthwhile to participate in. Although a good foundation of business has been established in

Japan in the past year, for the coming half year, the SBU's ODM business is likely to be affected by various factors such as market conditions, foreign exchange rates, and the overall economic environment.

The sales figures of the SBU in the second half of the financial year 2010-2011 are expected to follow closely the respective product life cycles of our products and the changes in customer mix. In addition, the eBook reader market competition is intense in the USA, thus affecting profits. As for the following financial year 2011-2012, the development of another three new projects for Japanese customers is already in progress, and the SBU has already started promoting its eBook reader to the European and Japanese market. Through technology and engineering partnership with external parties, the SBU will continue to add new ODM projects that would provide unique and innovative products to our customers.

Personal Communication Products

In the second half of the financial year of 2010-2011, the launch of a number of new POS PDA products is expected to result in the growth of the POS PDA business, even though the orders of the existing customer will remain at the same level as the same period last year. In the ODM area, both the expected increase in current orders and investment in new projects will help the ODM business enjoy an improved performance in the second half of the financial year. The development of the Tracking Product will be completed in the second half of the financial year, with volume production and the product launch planned for in the next financial year.

The performance of the SBU in the second half of the financial year is expected to improve with a further reduction in loss. The SBU will continue to seek out more business partners in the second half of the financial year to facilitate the growth of its business.

Conclusion

In this financial year, the Group is still going through a transformation of its business. In the face of the changes in our strategies and in other external factors such as the increase in operating costs, the Group will adopt a prudent, step-by-step strategy in implementing its business transformation.

Liquidity and Financial Resources

On 30th September, 2010, the bank balances and cash (including bank deposits) were HK\$164,173,375 in total, which was HK\$37,169,465 or 18% lower than those of six months ago.

As at 30th September, 2010, the gearing ratio, defined as total bank borrowings divided by shareholders' equities was 0%. The interest expense has been decreased from HK\$25,183 to zero as compared with the corresponding period.

Contingent Liabilities

As at 30th September, 2010, the contingent liabilities of the Group were HK\$4,895,054 (31st March, 2010: HK\$4,907,672).

Foreign Currencies and Treasury Policy

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, Japanese Yen, United States dollars or Renminbi. The usual treasury policy of the Group is to manage significant currency exposure and minimize currency risk whenever it may have material impact to the Group. The Group does not engage in any interest rate or currencies speculations.

Employees

As at 30th September, 2010, the Group has on its payroll 234 (2009: 252) employees in Hong Kong, 2,219 (2009: 2,018) employees in the People's Republic of China and 12 (2009: 11) employees in Japan, representing a decrease of about 7%, an increase of about 10% and an increase of about 9% 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 THE COMPANY'S 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. During the period under review, the Audit Committee has held two meetings with 100% 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, 2010.

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

CORPORATE GOVERNANCE PRACTICES

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, 2010.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the “Model Code”) set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors on terms no less exactly than the required standard set out in the Model Code. 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, 2010.

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

Hong Kong, 30th November, 2010

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. 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>