權 智 集 團
GroupSense

GROUP SENSE (INTERNATIONAL) LIMITED

權智(國際)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00601)

2011/2012 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, 2011, together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September, 2011

		Six months ended 30th September,	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	*(Unaudited)*
REVENUE	3	**261,452**	345,987
Cost of sales		**(188,237)**	(248,261)
Gross profit		**73,215**	97,726
Other income and gains		**4,172**	5,677
Selling and distribution costs		**(17,094)**	(25,671)
Administrative expenses		**(45,426)**	(43,474)
Research and development expenses		**(41,139)**	(41,373)
Finance costs	4	**(228)**	-
Share of losses of jointly-controlled entities		**(225)**	(18)
LOSS BEFORE TAX	5	**(26,725)**	(7,133)
Income tax expenses	6	**(5)**	(71)
LOSS FOR THE PERIOD		**(26,730)**	(7,204)
OTHER COMPREHENSIVE INCOME			
Exchange differences on translating foreign operations		**7,542**	7,022
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(19,188)**	(182)
Loss attributable to:			
Equity holders of the Company		**(20,659)**	(6,913)
Non-controlling interests		**(6,071)**	(291)
		(26,730)	(7,204)

* *For identification purpose only*

	Notes	Six months ended 30th September, 2011 HK$'000 (Unaudited)	2010 HK$'000 (Unaudited)
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**(13,385)**	109
Non-controlling interests		**(5,803)**	(291)
		(19,188)	(182)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8		
Basic		**(HK1.72cents)**	(HK0.58cents)
Diluted		**(HK1.72cents)**	(HK0.58cents)

Details of the dividends are disclosed in note 7 to this announcement.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2011

	Notes	30.09.11 HK$'000 (Unaudited)	31.03.11 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**108,965**	101,091
Prepaid lease payments		**17,280**	17,082
Deferred development costs		**1,175**	1,265
Interests in jointly-controlled entities		**13,079**	16,670
Available-for-sale investments		**38,210**	38,153
Long term deposits		**6,375**	4,942
Total non-current assets		**185,084**	179,203
CURRENT ASSETS			
Inventories		**102,645**	116,063
Trade receivables	9	**87,428**	90,424
Prepayments, deposits and other receivables		**59,648**	50,391
Amounts due from associates		**1,385**	1,453
Investments at fair value through profit or loss		**8,346**	8,450
Derivative financial instruments		**-**	227
Cash and cash equivalents		**155,049**	163,900
Total current assets		**414,501**	430,908
CURRENT LIABILITIES			
Trade and bills payables	10	**46,191**	38,554
Other payables and accruals		**73,718**	88,205
Tax payable		**156**	9,644
Interest-bearing bank borrowing	11	**25,000**	-
Total current liabilities		**145,065**	136,403
NET CURRENT ASSETS		**269,436**	294,505
Net assets		**454,520**	473,708
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**119,766**	119,766
Reserves		**336,816**	350,201
		456,582	469,967
Non-controlling interests		**(2,062)**	3,741
Total equity		**454,520**	473,708

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2011

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, 2011, except for the adoption of the new standards and interpretation as noted below:

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 24 (Revised)	*Related Party Disclosures*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*

Apart from the above, the Group has also adopted Improvements to HKFRSs 2010* issued by the HKICPA which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording.

* Improvements to HKFRSs 2010 contain amendments to HKFRS 1, HKFRS 3, HKFRS 7, HKAS 1, HKAS 27, HKAS 34 and HK(IFRIC)-Int 13.

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. OPERATING SEGMENT INFORMATION

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

For the six months ended 30th September, 2011

	Electronic handheld products *HK$'000*	**Original design manufacturing ("ODM") products** *HK$'000*	**Corporate and others** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue:				
Sales to external customers	**131,007**	**130,445**	**-**	**261,452**
Segment results	**(14,386)**	**(12,965)**	**518**	**(26,833)**
Reconciliation:				
Interest income				**561**
Finance costs				**(228)**
Share of losses of jointly-controlled entities				**(225)**
Loss before tax				**(26,725)**
Income tax expenses				**(5)**
Loss for the period				**(26,730)**

For the six months ended 30th September, 2010

	Electronic handheld products *HK$'000*	ODM products *HK$'000*	Corporate and others *HK$'000*	Consolidated *HK$'000*
Segment revenue:				
Sales to external customers	133,847	212,140	-	345,987
Segment results	(12,594)	2,698	2,364	(7,532)
Reconciliation:				
Interest income				417
Share of losses of jointly-controlled entities				(18)
Loss before tax				(7,133)
Income tax expenses				(71)
Loss for the period				(7,204)

4. FINANCE COSTS

	Six months ended 30th September,	
	2011	2010
	HK$'000	*HK$'000*
Interest on bank borrowing wholly repayable within five years	**228**	-

5. LOSS BEFORE TAX

	Six months ended 30th September,	
	2011	2010
	HK$'000	*HK$'000*
The Group's loss before tax has been arrived at after charging/(crediting):		
Provision of inventories	**2,895**	7,452
Amortisation of deferred development cost (included in research and development expenses)	**749**	1,156
Amortisation of prepaid lease payments	**213**	227
Depreciation	**6,477**	8,116
Fair value changes in investments at fair value through profit or loss	**112**	591
Fair value change in derivative financial instruments	**4**	(156)
Dividend income	**(422)**	(1,062)
Interest income from investments at fair value through profit or loss	**(213)**	(1,341)
Bank Interest income	**(561)**	(417)

6. INCOME TAX EXPENSES

	Six months ended 30th September,	
	2011	2010
	HK$'000	*HK$'000*
The Group:		
Current - Elsewhere	**5**	71

7. DIVIDEND

The Board does not recommend any payment of interim dividend (2010: Nil) to shareholders for the six months ended 30th September, 2011.

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$20,659,480 (2010: HK$6,913,761) and the weighted average of 1,197,663,029 (2010: 1,197,663,029) shares in issue during the periods.

(b) Diluted loss per share

Diluted loss per share amounts for the periods ended 30th September, 2011 and 30th September, 2010 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:

	30.09.2011	31.03.2011
	HK$'000	*HK$'000*
0 - 60 days	**73,679**	74,394
61 - 90 days	**1,780**	1,913
Over 90 days	**11,969**	14,117
	87,428	90,424

10. TRADE AND BILLS PAYABLES

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

	30.09.2011	31.03.2011
	HK$'000	*HK$'000*
0 - 60 days	**44,444**	36,240
61 - 90 days	**394**	109
Over 90 days	**1,353**	2,205
	46,191	38,554

11. INTEREST-BEARING BANK BORROWING

	30.09.2011		31.03.2011	
	Effective interest rate (%)	***HK$'000***	Effective interest rate (%)	*HK$'000*
Current				
Bank borrowing, unsecured and repayable within one year	**2.01**	**25,000**	-	-

The Company has guaranteed the Group's bank borrowing amount to HK$25,000,000 (31st March, 2011: Nil) as at 30th September, 2011.

The Group's bank borrowing is HK$25,000,000 (31st March, 2011: Nil). The Group's bank borrowing is denominated in Hong Kong dollars, unsecured, carried interest at HIBOR plus 1.75% per annum and short term in nature.

INTERIM DIVIDEND

The Board does not recommend any payment of interim dividend (2010: Nil) to shareholders for the six months ended 30th September, 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the first half of this financial year, the Group's revenue was HK$261,452,193, representing a decrease of HK$84,535,186 as compared with HK$345,987,379 of the same period last year. The Group recorded an operating loss before tax of HK$26,724,945, representing an increase of HK$19,591,494 as compared with HK$7,133,451 of the same period last year. The reasons for the drop in sales revenue are the delay in product launch and the slow down of export of our major products owing to the weakening of the Japan and North American markets. The operating loss was the result of the reduction in sales orders which affects the overall cost effectiveness, combined with the restructuring of the factory. In the past six months, parts of the factory have been redeployed for the module manufacturing business, a process that affected the operating costs, resulting in a transient loss.

Electronic Dictionary

The SBU (strategic business unit) has experienced a decline in sales turnover and negative profit in the first half of the financial year 2011-2012 as compared with the same period of the previous financial year.

The improvement in the global economy remained uncertain and this has weakened the consumer-spending sentiment. Most of the distributors and retailers have overstocked heavily, especially in the first quarter of the financial year 2011-2012, resulting in dramatic decline of orders from our customers. The emergence of integrated consumer electronic products that contains e-dictionary and basic e-learning applications also affected the SBU business a lot.

Although the SBU has been working hard for new business opportunities to minimize the dependence on the few existing product lines, the improvement pace is still not noticeable.

Original Design Manufacturing

The sales and profit of the SBU has declined in the first half of the financial year 2011-2012, owing to the sudden drop in the eBook orders in the US market and to the slow down in demand for most of the products designated for the Japan market.

Facing the continuously increasing labour cost in China and the rising material costs, the profit margins for many of the products of the SBU has been squeezed. The SBU has responded by shifting its product focus from consumer products with low profit margins to industrial products. In addition, the SBU has also started to focus more on the Japan market where quality and service are much more appreciated compared with other markets.

Development of a new ODM product, a wireless handheld ordering device with peripherals, has been completed and shipment to our Japanese customer, one of the leading companies in POS (Point-of-Sale) system, has started. The sale of this product is expected to be more stable and has a longer market window than ordinary consumer products.

The development of another brand new ODM product that enables ordinary consumers to make live video broadcast on the internet by connecting any available video cameras, has reached the final stage and first shipment is expected to be at the end of 2011. This product is one of the first products for the emerging trend of “prosumers” market (consumers participating in production) that has great growth potential.

Personal Communication Products

The business of the SBU has turned around in the first half of the financial year 2011-2012. Compared to the same period of previous financial year, the sales volume has increased noticeably, due to the increased delivery of POS PDA products and the launch of M2M (Machine-to-Machine) communication products.

In the past years, the sales of POS PDA products have been growing steadily. In the first half of the financial year, the SBU has been developing new products for use by more industrial sectors. In view of the expansion of products categories and applications, the SBU has broadened the POS PDA product line into a POS Terminal line.

As for the Tracking Products, the SBU has developed Trackers, a kind of M2M telecommunication product. After detailed study of the M2M markets and products in the first half of the financial year, the SBU has expanded the Tracking Product line to become the M2M communication product line.

Outlook

The business restructuring of the factory has shown signs of early success. At the end of the year, the Group believes that some of the module manufacturing technologies have been mastered and expects to explore more opportunities in this business area. As for the development of new products, finding suitable partners and new products would be of paramount importance. The piece of land bought by the Group in Guangzhou a few years back is going to provide more than 30,000 square metres of office space. The Group plans to invite targeted business and technology partners to move into the premises to jointly exploit new business opportunities and explore the development of new products, thus providing room for further development of the Group.

Electronic Dictionary

As we believe the global economy will continue to be uncertain, the SBU will keep on monitoring the markets closely and adopt appropriate material procurement and inventory strategies to maintain a healthy cash flow position.

At the same time, the SBU will continue to expand its customer base in different markets. The SBU will also explore more business opportunities and partnership for Android-based related products and services with potential customers from different business sectors.

The SBU will strive to maintain a reasonable gross profit margin through the ceaseless enhancement of its operating efficiency and the containment of the product development and materials costs.

Original Design Manufacturing

While the business situation and environment may remain tough throughout the financial year 2011-2012, the SBU will persistently pursue its strategy of penetrating the Japan market further in the coming years, leveraging on the seamless team work with the Group's subsidiary company in Japan, capitalizing on its capability in marketing, R&D as well as serving as a bridge between customers in Japan and the development team in Hong Kong and China.

Further to deepening the partnership with existing valued customers in the development of new products, the SBU and the subsidiary in Japan will intensify their efforts in developing new customers in Japan and in marketing new products being planned for the market there. In support of this strategy, the SBU continues to implement, with sufficient human resources and external partners being assigned, the quality management system with a view to enhance the quality in design and manufacturing, as well as after sales service to customers.

Looking forward to the financial year 2012-2013, in addition to continuing the development of new ODM business in Japan, the SBU has made a decision to create two new strategic products. The first is for the next generation Table-top self-ordering device for use in restaurant, and the second is an electronic stationary product for the consumers. Both products are expected to become the powerhouse for (resuming) the growth of the business of the SBU in the coming years.

Personal Communication Products

Projecting into the second half of the financial year 2011-2012, the sales of the SBU is expected to drop in the third quarter, owing to the depressed sales of POS Terminals in the low season that is further compounded by the uncertain economic climate in Europe and North America. As these are short term issues, the sales volume of the SBU is expected to pick up again in the fourth quarter.

The POS Terminal business has lot of room for expansion. In the past, our products are for indoor use based on WLAN. New products equipped with mobile communication capabilities and different accessories will find applications in many more sectors of industries. The SBU is optimistic to enjoy a reasonable growth in business in the medium to longer term.

The further advancement and spread of wireless communication network will enable the emergence of Internet of Things, and this in turn will stimulate demand for different applications of M2M communication products, leading to great market potential. The SBU will actively pursue the development of such products and markets, turning this into another major product line.

Conclusion

In the face of uncertainty of the global economy, the Group will adopt a pragmatic and prudent approach in its business operations; continue to provide more competitive and appropriate products to its customers; and consolidate its basic product lines in maintaining and gradually increasing the sales volume of the Group.

Liquidity and Financial Resources

On 30th September, 2011, the bank balances and cash (including bank deposits) were HK$155,049,217 in total, which was HK$8,850,769 or 5% lower than those of six months ago. The Group's bank borrowing is HK$25,000,000 (31st March, 2011: Nil). The Group's bank borrowing is denominated in Hong Kong dollars with floating interest rate and short term in nature.

As at 30th September, 2011, the gearing ratio, defined as total bank borrowings divided by shareholders' equities was 5%. The interest expenses is HK$228,185 during the period.

Contingent Liabilities

As at 30th September, 2011, the contingent liabilities of the Group were HK$12,691,354 (31st March, 2011: HK$4,895,054).

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, 2011, the Group has on its payroll 208 (2010: 234) employees in Hong Kong, 2,169 (2010: 2,219) employees in the People's Republic of China and 13 (2010: 12) employees in Japan, representing a decrease of about 11%, a decrease of about 2% 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 SBS, 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, 2011.

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, 2011.

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, 2011.

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

Hong Kong, 29th November, 2011

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 SBS, MH, JP, Mr. Ho Kwok Shing, Harris and Mr. Wong Kon Man, Jason as independent non-executive directors.

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