



GROUP SENSE (INTERNATIONAL) LIMITED

權智（國際）有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

2005/2006 INTERIM RESULTS ANNOUNCEMENT

RESULTS

The Directors of Group Sense (International) Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2005 together with the comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30th September,	
	Notes	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited and restated)
Turnover	4	737,404	657,134
Cost of sales		(568,830)	(498,262)
Gross profit		168,574	158,872
Other income		12,829	9,389
Research and development expenses		(39,471)	(40,076)
Distribution costs		(41,507)	(41,557)
Administrative expenses		(46,876)	(43,970)
Allowance for amounts due from an associate		(2,822)	—
Loss on disposal of a subsidiary		—	(4,758)
Finance costs	5	(756)	(790)
Profit before tax	6	49,971	37,110
Income tax expense	7	(323)	(151)
Profit for the period		49,648	36,959
Attributable to:			
Equity holders of the parent		49,648	36,734
Minority interests		—	225
		49,648	36,959
Dividends	8	24,051	11,988
Earnings per share	9		
Basic (HK cents)		4.12	3.07
Diluted (HK cents)		4.12	3.05

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2005

	Notes	30.9.2005 HK\$'000 (Unaudited)	31.3.2005 HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment		95,431	179,109
Prepaid lease payments		8,747	8,662
Intangible assets		12,627	8,804
Interests in associates		–	–
Investments in securities		–	37,984
Available-for-sale investments		37,984	–
Other receivables		2,483	3,750
Deferred tax assets		9,905	10,085
		<u>167,177</u>	<u>248,394</u>
Current assets			
Inventories		179,575	189,156
Trade receivables	10	168,672	85,958
Other receivables		46,482	49,331
Prepaid lease payments		223	223
Amounts due from associates		3,367	6,183
Investments in securities		–	8,986
Financial assets at fair value though profit and loss		42,285	–
Tax recoverable		74	72
Bank deposits		30,419	56,784
Bank balances and cash		203,183	225,616
		<u>674,280</u>	<u>622,309</u>
Assets classified as held for sale		86,660	–
		<u>760,940</u>	<u>622,309</u>
Current liabilities			
Trade payables	11	154,741	168,453
Other payables		64,222	59,170
Product warranty provision		500	500
Tax payable		–	–
Bank borrowings – due within one year		71,792	26,654
		<u>291,255</u>	<u>254,777</u>
Liabilities associated with assets classified as held for sale		9,806	–
		<u>301,061</u>	<u>254,777</u>
Net current assets		<u>459,879</u>	<u>367,532</u>
Total assets less current liabilities		<u>627,056</u>	<u>615,926</u>

Capital and reserves		
Share capital	120,255	120,366
Reserves	498,262	484,656
Equity attributable to equity holders of the parent	618,517	605,022
Minority interests	847	829
Total equity	619,364	605,851
Non-current liabilities		
Bank borrowings		
– due after one year	7,462	9,988
Deferred tax liabilities	230	87
	7,692	10,075
Total equity and non-current liabilities	627,056	615,926

NOTES:

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 (HKAS 34) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost conventions, except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st March, 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively.

The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

(a) Business Combinations

In the current period, the Group has applied the transitional provisions of HKFRS 3 "*Business Combinations*" to goodwill acquired in business combinations for which the agreement date was before 1st January, 2005. The principal effects of the application of the transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated profits on 1st April, 2005 (see Note 3 for the financial impact).

(b) Share-based Payments

In the current period, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions (see Note 3 for the financial impact).

(c) Financial Instruments

In the current period, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial statements of the Group are presented for current and prior periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as “investment securities” and “other investments”. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss” or “available-for-sale financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” is carried at fair value, with changes in fair values recognised in profit or loss. Investments in unquoted equity instruments that classified as “Available-for-sale financial assets” is measured at cost less impairment as fair value cannot be reliably determined. For certain investments in equity instruments with quoted market price and classified as “Available-for-sale financial assets”, they are carried at fair value, with changes in fair value recognised in equity. The change has had no material effect on the results for the current period.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method (see Note 3 for the financial impact).

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1st April, 2005. As a result, the Group’s bill receivables with full recourse which were derecognised prior to 1st April, 2005 have not been restated. As at 30th September, 2005, the Group’s bills receivables with full recourse have not been derecognised. Instead, the related borrowings of approximately HK\$56,768,000 have been recognised on the balance sheet date. This change has had no material effect on the results for the current period.

(d) Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. Under HKAS 17 *Leases*, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The consideration paid is allocated between the land and buildings element unless impracticable. The leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. In addition, leasehold interests in land previously included in intangible assets as land use rights are also reclassified to prepaid lease payments under operating leases. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in accounting policies described in note 2 on the results for the current period are as follows:

	HKFRS 2 <i>HK\$'000</i> <i>(Note 2b)</i>	HKAS 39 <i>HK\$'000</i> <i>(Note 2c)</i>	Total effect <i>HK\$'000</i>
For the six months ended			
30th September, 2005 (unaudited)			
Increase in administrative expenses			
– expenses in relation to share options granted to employees	(514)	–	(514)
Increase in finance costs – increase in imputed interest expense on other receivables	–	(11)	(11)
Decrease in profit for the period	<u>(514)</u>	<u>(11)</u>	<u>(525)</u>

There is no effect of the changes in accounting policies described in note 2 on the results for the six months ended 30th September, 2004.

The cumulative effects of the application of the new HKFRSs as at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (originally stated) <i>HK\$'000</i>	Retrospective Adjustments		As at 31st March, 2005 (restated) <i>HK\$'000</i>	Adjustment on 1st April, 2005		As at 1st April, 2005 (restated) <i>HK\$'000</i>
		HKAS 17 <i>HK\$'000</i> <i>(Note 2d)</i>	HKAS 27 <i>HK\$'000</i> <i>(Note 2)</i>		HKFRS 3 <i>HK\$'000</i> <i>(Note 2a)</i>	HKAS 39 <i>HK\$'000</i> <i>(Note 2c)</i>	
Balance sheet items							
Property, plant and equipment	179,109	–	–	179,109	–	–	179,109
Prepaid lease payments	–	8,885	–	8,885	–	–	8,885
Intangible assets	17,689	(8,885)	–	8,804	–	–	8,804
Other receivables							
– non-current	3,750	–	–	3,750	–	(262)	3,488
Other receivable-current	49,331	–	–	49,331	–	(148)	49,183
Other assets and liabilities	355,972	–	–	355,972	–	–	355,972
Total effects on assets and liabilities	<u>605,851</u>	<u>–</u>	<u>–</u>	<u>605,851</u>	<u>–</u>	<u>(410)</u>	<u>605,441</u>
Share capital	120,366	–	–	120,366	–	–	120,366
Share premium	412,062	–	–	412,062	–	–	412,062
Goodwill reserve	(15,550)	–	–	(15,550)	15,550	–	–
Accumulated profits	147,170	–	–	147,170	(15,550)	(410)	131,210
Other reserves	(59,026)	–	–	(59,026)	–	–	(59,026)
Minority interests	–	–	829	829	–	–	829
Total effects on equity	<u>605,022</u>	<u>–</u>	<u>829</u>	<u>605,851</u>	<u>–</u>	<u>(410)</u>	<u>605,441</u>

There is no financial effects of the application of the new HKFRSs to the Group's equity at 1st April, 2004.

The Group has not early applied the following new Standards or Interpretations that have been issued but are not yet effective. The Directors of the Company has commenced considering the potential impact of these Standards or Interpretations but is not yet in a position for determine whether these Standards or Interpretations would have a significant impact on how its results of operations and financial position are prepared and presented. These Standards or Interpretations may result in change in the future as to how the results and financial position are prepared and presented.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Employees Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

4. BUSINESS SEGMENTS

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

Six months ended 30th September, 2005

	Electronic handheld products <i>HK\$'000</i>	Original design manufacturing ("ODM") products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	<u>431,747</u>	<u>305,657</u>	<u>737,404</u>
RESULT			
Segment result	<u>40,457</u>	<u>13,092</u>	53,549
Allowance for amount due from an associate			(2,822)
Finance costs			<u>(756)</u>
Profit before tax			49,971
Income tax expense			<u>(323)</u>
Profit for the period			<u>49,648</u>

Six months ended 30th September, 2004

	Electronic handheld products <i>HK\$'000</i>	ODM products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	<u>352,552</u>	<u>304,582</u>	<u>657,134</u>
RESULT			
Segment result	<u>29,550</u>	<u>13,108</u>	42,658
Loss on disposal of a subsidiary			(4,758)
Finance costs			<u>(790)</u>
Profit before taxation			37,110
Income tax expense			<u>(151)</u>
Profit for the period			<u>36,959</u>

5. FINANCE COSTS

	Six months ended 30th September, 2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	745	790
Imputed interest expense on other receivables	<u>11</u>	<u>–</u>
	<u>756</u>	<u>790</u>

6. PROFIT BEFORE TAX

	Six months ended 30th September, 2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Profit before tax has been arrived at after charging:		
Allowance for slow-moving inventories	14,395	10,594
Amortisation of intangible assets (included in research and development expenses)	3,293	3,908
Amortisation of prepaid lease payments	111	109
Depreciation of property, plant and equipment	11,082	14,974
Fair value changes on financial instruments	712	–
and after crediting:		
Interest income	<u>2,874</u>	<u>460</u>

7. INCOME TAX EXPENSE

The income tax expense comprises deferred taxation for both periods.

No tax is payable for both periods on the profit arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for the People's Republic of China (the "PRC") income tax had been made for the period ended 30th September, 2004 since the assessable profit was wholly absorbed by tax losses brought forward.

No provision for the PRC income tax was made for the current period as the operations in the PRC incurred a tax loss for the period.

8. DIVIDENDS

On 5th September, 2005, a dividend of HK3.0 cents per share was paid to shareholders as the final dividend for the year ended 31st March, 2005, amounting to approximately HK\$36,111,000.

The Directors have determined that an interim dividend of HK2.0 cents per share (2004: HK1.0 cent per share) totalling HK\$24,051,000 (2004: HK\$11,988,000) be paid to the shareholders of the Company, whose names appear in the Register of Members on 29th December, 2005.

9. EARNINGS PER SHARE

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

	Six months ended 30th September, 2005 HK\$'000	2004 HK\$'000
Profit for the purpose of basic and diluted earnings per share		
Profit for the period	<u>49,648</u>	<u>36,734</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,203,618	1,198,481
Effect of dilutive potential shares: share options	<u>577</u>	<u>4,540</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,204,195</u>	<u>1,203,021</u>

10. 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 at the reporting date:

	30.9.2005 HK\$'000	31.3.2005 HK\$'000
0-60 days (Note)	160,952	78,697
61-90 days	1,773	624
Over 90 days	<u>5,947</u>	<u>6,637</u>
	<u>168,672</u>	<u>85,958</u>

Note: The trade receivables of HK\$160,952,000 include the recognition of bills receivable discounted with full recourse of HK\$56,768,000 as at 30th September, 2005 upon the adoption of HKAS 39. The related borrowings of the same amount have been included in bank borrowings.

11. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30.9.2005 HK\$'000	31.3.2005 HK\$'000
0-60 days	143,504	149,116
61-90 days	7,618	17,345
Over 90 days	3,619	1,992
	154,741	168,453

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK2.0 cents (2004/2005: HK1.0 cent) per share to shareholders whose names appear on the Register of Members of the Company on 29th December, 2005. The interim dividend will be paid on or about 6th January, 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23rd December, 2005 to 29th December, 2005, both days inclusive, during this period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 22nd December, 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Turnover during the six months period ended 30th September, 2005 was HK\$737.4 million, representing an increase of 12% as compared with HK\$657.1 million of last year's same period. Profit from operations amounted to HK\$53.5 million during the period, which represents an increase of 25% as compared with HK\$42.7 million of the corresponding period of last year. Overall, the steady growth in Electronic Dictionary SBU's revenue contributed to an increase in operating profit.

Electronic Dictionary

The SBU has recorded an increase in sales revenue in the first half of 2005 financial year as compared with the same period of last year. There has been significant growth of sales revenues in HK and major overseas markets, a direct consequence of the SBU's appropriate strategy of focusing its development resources and technological investment in medium and high end products.

Our new products, which are equipped with wide ranges of learning contents and multi-media functions, have received positive response from the markets. The English-Chinese and Chinese-English bi-directional sentence translation dictionaries have contributed to an increase in market share and also won a good reputation.

The SBU has simplified the distribution channels and logistics system on the mainland so as to tighten its cost control in relation to distribution and sales activities.

Smartphone

In the first half of this financial year, the SBU has launched into European and Asian markets two new Palm OS smartphone models – M68 and M98. Due to changes in the mobile phone market and Palm OS, the sales of these new products was unfavourably affected.

Due to intense competition of the mobile phone market, the average retail prices of mobile phones have been on the decline. Also, the company, Palm Source, has changed hands, leading to weakening of market's sentiment towards Palm OS technology. This has affected the sales of our new products in the retail market.

Moreover, the market share of local mobile phone has been declining in China. This led to operating loss in many local mobile phone manufacturers. As a result, the SBU could not secure customers for its new products on the mainland. On the other hand, the major network operators in Europe and the US are pushing forward expeditiously the 3G business, thus having less demand on GPRS smartphone. This rendered our new products unable to enter the network operators market.

Original Design Manufacturing (“ODM”)

As compared with last year over the same period, the SBU has recorded slight growth in its sales turnover. We have further strengthened and consolidated the business partnership with our current major ODM customers through expanding our services to products planning, and wider coverage of the development work.

Growth in the SBU's sales turnover has been slowing down due to that the Japanese electronic dictionary market has become mature and stable, after witnessing a period of vibrant market growth.

In order to sustain the growth momentum, the SBU has started its new business in producing “eLearning” products for Japanese market and wireless application products in Hong Kong. It is expected that these new business lines will contribute to growth in sales in the second half of this financial year.

Outlook

As an IT enterprise, we believe that pooling together the best talents and building up collaborative relationships with other technology enterprises are pivotal to the future development of the group. As such, that the group's moving its headquarters to the Science Park this December will put it to another height in its future development. This move will facilitate further the R&D environment, and facilitate and strengthen the collaboration and merging of talents and technology.

Electronic Dictionary

Despite that competition in the electronic dictionary market tends to get more intense, the SBU is still of the view that its business prospects are good because of its well-established brand name and distribution networks in China, HK and other Asian markets. The SBU is optimistic that growth will continue in the second half of the 2005 financial year and the years thereafter.

The SBU will continue to focus on developing medium and high end products with innovative design and features, and rich learning contents using leading technology. The interactive learning concept will be one of the key elements in designing our new products. It is expected that these new products will bring in favourable sales revenue and reasonable profit margin in next financial year.

For the coming year, the SBU will continue streamlining its sales distribution network on the mainland market, and adopting a conservative approach in advertising and promotion. Meanwhile, the SBU will continue investing on developing high value-added products to sustain its leading position in the market, so as to poise for a recovery take-off.

Resources are planned on new technology research in order to widen and enrich the SBU's product line in the near future.

Smartphone

The SBU has faced a number of challenges in the first half financial year, and therefore needed to adjust its development strategies. Besides Smartphone, the SBU develops also other handheld communication products, and explores actively the ODM business.

In the next half financial year, the SBU will continue launching new smartphones. New products will be targeted at specific market segment with tailor-made services and contents, so as to cater for particular customers' needs. This strategy may avoid direct competition against major branded products on the market.

Besides Smartphone, the SBU will consider developing other handheld communication products which have good market potential and require relatively lesser capital investment, so as to look for new development opportunities and lower the risk of depending on single product line.

Developing ODM business is also the key emphasis of our business development. It is expected that the GPS products as designed for ODM customers will be shipped out in the last quarter of this financial year, and that ODM business will bring in stable revenue for the SBU in the future.

In the second half of this financial year, the SBU will continue improving its operating efficiency and cost control, so as to match up with new development strategies. It is believed that our business will improve next year.

ODM

The SBU will focus on developing series of new products in new categories, particularly targeting for the Japanese and USA markets. This will bring about substantial changes in the SBU's business when various new products are to be launched by next year.

There are new business opportunities in the wireless applications and digital contents players markets, with a vast pool of new customers. These new businesses are expected to be a major contributor to the SBU's business in the coming years.

The management will continue its research and development efforts, especially on these new business lines, and also strive to establish strong partnership with external technology parties and components suppliers so that unique technology and components may be developed to support the manufacturing of our new and unique products.

Conclusion

The Group will focus in developing extensively the European and Japanese markets, so as to explore business opportunities for the Group's products. As to the market of Pearl River Delta, there are still substantial challenges ahead. The RMB currency has been subjected to substantial upward moving pressure, and is look set to revalue further. General wage level is rising, and there is also a lack of good talents on the mainland. All these will have pressure on the operating cost of the Group. The Group will continue closely monitoring the development of the mainland market and set appropriate strategies accordingly. The Group will also keep on stringent cost control so as to maintain a reasonable profit margin.

Liquidity and Financial Resources

On 30th September, 2005, the bank balances and cash (including bank deposits) were approximately HK\$233.6 million in total, which was approximately HK\$48.8 million or 17.3% lower than those of six months ago. Total bank borrowings have increased from approximately HK\$36.6 million to approximately HK\$79.3 million in the six months period. Due to changes in the accounting standards in 2005, the Group has adopted the new accounting standards and included in its balance sheet approximately HK\$56.8 million bills discounted with recourse in the bank borrowings as on 30th September, 2005. Excluding the discounted bills, the bank borrowings would have decreased by approximately HK\$14.1 million to approximately HK\$22.5 million.

Continuous positive operating cash inflow was a direct result of net cash generated from operating activities.

Most of the bank borrowings are short term in nature, around HK\$71.8 million or 91% of total borrowings, which would be due within one year. The remaining bank borrowings of around HK\$7.5 million are long term borrowings which are to be due in more than one year.

As at 30th September, 2005, the gearing ratio, defined as total bank borrowings divided by shareholders' equities, has increased from 6% to 13% in the six months period. If excluding the discounted bills, the gearing ratio would have decreased to 4%. The interest expenses for the twelve months' period have been maintained at approximately HK\$0.8 million.

Disposal of Properties and Charges on Assets

During the first half of the year, the Group has disposed the property located at 27th Floor, Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong and the completion shall take place on or before 28th February, 2006. The reasons for the disposal are that the Group intends to relocate its office, to seek better investment opportunities with higher returns, and to increase its working capital. The net proceeds from the disposal is approximately HK\$106 million.

In securing general banking facilities, certain assets were pledged to banks as collaterals, of which the carrying value amounted to approximately HK\$86.7 million as at the end of 30th September, 2005. This is approximately HK\$0.3 million lower than that of the previous six months period.

Contingent Liabilities

As at 30th September, 2005, the trade bills discounted to banks with recourse amounted to approximately HK\$56.8 million which were classified as bank borrowing upon adoption of HKAS 39 in the current period and were approximately HK\$38.1 million lower than the discounted bills under the classification of contingent liabilities six months ago.

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 Chinese Reminbi. A small portion of the Group's raw material purchase is 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. The Group does not engage in any interest rate or currencies speculations.

Employees

As at 30th September, 2005, the Group has on its payroll 273 (2004: 269) employees in Hong Kong and 4,301 (2004: 4,026) employees in Mainland China, representing an increase of about 1.5% and about 6.8% 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 of Directors, 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

During the six months ended 30th September, 2005, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited a total of 1,142,000 ordinary shares at an aggregate price of HK\$573,390 before expenses. All of these shares had been cancelled. Details of the repurchases are as follows:

Month of purchase	Number of ordinary shares of HK\$0.10 each repurchased	Price per share		Aggregate prices HK\$
		Highest HK\$	Lowest HK\$	
September 2005	1,142,000	0.510	0.495	573,390

Save as disclosed above, 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 (Chairman), 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 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, 2005.

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 of 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, 2005, with deviation from the code provision A.4.2 of the Code.

Under the code provision A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the Bye-laws of the Company prior to 18th August, 2005, at each annual general meeting of the Company, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not greater than one-third) should retire from office by rotation, provided that the Chairman of the Board and the Managing Director of the Company were not subject to the retirement by rotation. Further, any director appointed to fill a casual vacancy or as addition to the Board should hold office only until the next following annual general meeting and would then be eligible for re-election. This constitutes a deviation from the code provision A.4.2 of the Code.

To comply with the code provision, relevant amendments to the Bye-laws of the Company were proposed and approved by the shareholders at the annual general meeting of the Company held on 18th August, 2005.

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 of 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 the Directors, none of the Directors has not complied with, for any part of the accounting period under review, the required standard set out in the Model Code and its code of conduct regarding director’s securities transactions.

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

Hong Kong, 7th December, 2005

* *for identification purpose only*

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

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

“Please also refer to the published version of this announcement in The Standard”