# GROUP SENSE (INTERNATIONAL) LIMITED
# 權智(國際)有限公司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 601)**

# 2004/2005 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, 2004 together with the comparative figures for the corresponding period in 2003 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended 30th September | |
|---|---|---|---|
| | | **2004** | 2003 |
| | *NOTES* | ***HK$'000*** | *HK$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Turnover | *3* | **657,134** | 569,986 |
| Cost of sales | | **(491,529)** | (403,840) |
| Gross profit | | **165,605** | 166,146 |
| Other operating income | | **9,389** | 5,391 |
| Research and development expenses | | **(46,809)** | (43,585) |
| Distribution and selling expenses | | **(41,557)** | (39,971) |
| Administrative expenses | | **(43,970)** | (41,817) |
| Profit from operations | *4* | **42,658** | 46,164 |
| Finance costs | *5* | **(790)** | (1,064) |
| Share of results of associates | | **–** | (493) |
| Loss on disposal of a subsidiary | | **(4,758)** | – |
| Gain on repurchase of convertible redeemable preferred shares issued to minority shareholders of a subsidiary | *6* | **–** | 46,900 |
| Reversal of premium on convertible redeemable preferred shares issued to minority shareholders of a subsidiary | *6* | **–** | 15,015 |
| Profit before taxation | | **37,110** | 106,522 |
| Taxation (charge) credit | *7* | **(151)** | 890 |
| Profit before minority interests | | **36,959** | 107,412 |
| Minority interests | | **(225)** | 50 |
| Profit for the period | | **36,734** | 107,462 |
| Dividends | *8* | **11,988** | 5,952 |
| Earnings per share | *9* | | |
| Basic *(HK cents)* | | **3.07** | 9.05 |
| Diluted *(HK cents)* | | **3.05** | 9.00 |

*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 Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2004.

## 3. BUSINESS SEGMENTS

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

The turnover and profit before minority interests of the Group for the six months ended 30th September, 2004 and 2003, analysed by business segments, are as follows:

| | Six months ended 30th September, 2004 (Unaudited) | | |
|---|---|---|---|
| | **Electronic handheld products** *HK$'000* | **Original design manufacturing ("ODM") products** *HK$'000* | **Consolidated** *HK$'000* |
| TURNOVER | **352,552** | **304,582** | **657,134** |
| RESULT | | | |
| Segment result and profit from operations | **29,550** | **13,108** | **42,658** |
| Finance costs | | | **(790)** |
| Loss on disposal of a subsidiary | | | **(4,758)** |
| Profit before taxation | | | **37,110** |
| Taxation charge | | | **(151)** |
| Profit before minority interests | | | **36,959** |

| | Six months ended 30th September, 2003 (Unaudited) | | |
|---|---|---|---|
| | Electronic handheld products | Original design manufacturing ("ODM") products | Consolidated |
| | *HK$'000* | *HK$'000* | *HK$'000* |
| TURNOVER | 323,387 | 246,599 | 569,986 |
| RESULT | | | |
| Segment result and profit from operations | 34,747 | 11,417 | 46,164 |
| Finance costs | | | (1,064) |
| Share of results of associates | | | (493) |
| Gain on repurchase of convertible redeemable preferred shares issued to minority shareholders of a subsidiary | | | 46,900 |
| Reversal of premium on convertible redeemable preferred shares issued to minority shareholders of a subsidiary | | | 15,015 |
| Profit before taxation | | | 106,522 |
| Taxation credit | | | 890 |
| Profit before minority interests | | | 107,412 |

## 4. PROFIT FROM OPERATIONS

| | **Six months ended 30th September** | |
|---|---|---|
| | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit from operations has been arrived at after charging: | | |
| Amortisation of intangible assets (included in research and development expenses) | **4,017** | 506 |
| Depreciation | **14,974** | 16,908 |
| Impairment loss of development costs | **–** | 9,383 |
| and after crediting: | | |
| Interest income | **460** | 603 |

## 5. FINANCE COSTS

| | **Six months ended 30th September** | |
|---|---|---|
| | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Interest on: | | |
| Bank borrowings wholly repayable within five years | **790** | 671 |
| Promissory notes wholly repayable within five years | **–** | 385 |
| Finance leases | **–** | 8 |
| | **790** | 1,064 |

## 6. GAIN ON REPURCHASE OF CONVERTIBLE REDEEMABLE PREFERRED SHARES ISSUED TO MINORITY SHAREHOLDERS OF A SUBSIDIARY

(a) 171,818 voting convertible redeemable series A preferred shares (the "Preferred Shares") were issued to certain minority shareholders ("MI") of a subsidiary of the Company (the "Subsidiary") in May 2001. The Preferred Shares would automatically be converted into ordinary shares of the Subsidiary upon either the earlier of the closing of a qualified public offering or at the option of the MI. The Preferred Shares would be redeemable at the option of the MI, out of funds legally available therefore including capital, at any time commencing five calendar years after the Preferred Share were issued at a redemption price per share equal to the original price of the Preferred Shares plus a premium plus all declared but unpaid dividends.

(b) On 19th May, 2003, the Company entered into agreements (the "Agreements") with the MI in which the MI agreed to sell to the Company all the Preferred Shares of HK$81,900,000 for a consideration of HK$35,000,000 which was settled by an initial cash consideration of HK$11,000,000 and the remaining balance of HK$24,000,000 would be settled by way of promissory notes payable semi-annually by 5 installments. The promissory notes were interest-bearing at a rate of 5.5% per annum. Upon the Agreements being effective, the title to, beneficial ownership of, and any risk attaching to the Preferred Shares together with all associated rights and benefits attaching or accruing to them were passed from the MI to the Company. As a result, a gain of HK$46,900,000 together with the reversal of the previously accrued redemption premium on the Preferred Shares of HK$15,015,000 were recognized by the Group during the six months ended 30th September, 2003.

Pursuant to the Agreements, the Subsidiary would also issue warrants ("Warrants") to the MI for a cash consideration of HK$10 for each Warrant. The MI are entitled, subject to the terms and conditions of the Warrants, at any time or from time to time after 19th May, 2004 and before 18th November, 2005, to subscribe for Warrant Shares (i.e. the ordinary shares and any other shares or securities at any time receivable or issuable upon exercise of the Warrants) representing up to 10% of the issued capital of the Subsidiary. The initial exercise price of the Warrants is approximately HK$44,789,000.

(c) The Group repaid the promissory notes in full as at 31st March, 2004.

## 7. TAXATION (CHARGE) CREDIT

| | **Six months ended 30th September** | |
|---|---|---|
| | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| The taxation (charge) credit comprises: | | |
| Deferred taxation | **(151)** | 890 |

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.

Certain of the Group's subsidiaries in the People's Republic of China (the "PRC") were subject to a 50% reduction under tax holiday in respect of the income tax charged for the period.

No provision for the PRC income tax has been made for the current period since the assessable profit is wholly absorbed by tax losses brought forward.

No provision for the PRC income tax was made for the period ended 30th September, 2003 as the operations in the PRC incurred a tax loss for that period.

**8. DIVIDENDS**

On 3rd September, 2004, a dividend of HK3 cents per share was paid to shareholders as the final dividend for the year ended 31st March, 2004, amounting to approximately HK$35,965,000.

The Directors have determined that an interim dividend of HK1 cent per share (2003: HK0.5 cent per share) should be paid to the shareholders of the Company, whose names appear in the Register of Members on 17th December, 2004.

**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** | |
|---|---|---|
| | **2004** | 2003 |
| | ***HK$'000*** | *HK$'000* |
| | **(Unaudited)** | (Unaudited) |
| Profit for the purpose of basic and diluted earnings per share | | |
| Profit for the period | **36,734** | 107,462 |
| Number of shares | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,198,481** | 1,187,023 |
| Effect of dilutive share options | **4,540** | 7,376 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,203,021** | 1,194,399 |

## INTERIM DIVIDEND

The Directors have declared an interim dividend of HK1 cent (2003/2004: HK0.5 cent) per share to shareholders whose names appear on the Register of Members of the Company on 17th December, 2004. The interim dividend will be paid on or about 22nd December, 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 15th December, 2004 to Friday, 17th December, 2004, 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 share registrars in Hong Kong, Secretaries Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 14th December, 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

Turnover during the six months period ended 30th September, 2004 was HK$657.1 million, a 15% growth as compared with last year's HK$570.0 million. Profit from operations amounted to HK$42.7 million during the period, representing a decrease of 7.6% as compared with the corresponding period last year of HK$46.2 million. The reason for a modest decline in operating profit despite a slight rise in turnover is that the ODM business, which earns a relatively lower profit margin, has, during the period, been steadily increasing in its contribution to the Group's overall sales turnover, thus leading to a modest decrease in operating profit.

*Electronic Dictionary*

For the six months ending 30th September, 2004, the SBU (strategic business unit) recorded a decline in sales revenue as compared with the same period of last year due to the effect of the Mainland China market factor. In line with the Group's forecast put forth in its last year's financial report, the keen price competition and a general downturn in market prices still have an impact on the Group's electronic dictionary business in the Mainland China market.

Despite an unsatisfactory business performance in the Mainland China, the electronic dictionary business in Hong Kong and other major markets over the world has been rather heartening. The Group is optimistic that the strong growth in demand will continue in the second half of the year. This has very much to do with the Group's well-directed strategy of investing resources of products development and technological research in the medium and high end products.

It is encouraging that the recent launch of our new medium and high end products, incorporated with various learning and entertainment functions, has received warm and positive responses from the markets. The Group believes that these new products will contribute considerably to its sales revenue and profit in the second half of this financial year.

*Smartphone*

In April 2004, the SBU has launched its second line of product, Palm OS (operating system) Smartphone G88, which is the refined product basing on the model of Smartphone G18, and is more appealing in its external design as well as more user-friendly. The product has received favourable response in the Asian markets. As for the Mainland China market, manufacturers and retailers have been suffering from the problem of backlog as many mobile phone manufacturers were too optimistic about the multi-function colour display mobile phone market, leading to a general decline in mobile phones' market prices. As a result, Smartphone G88 could not make its expected sales and profit targets in the Mainland China market. And this has certain negative impact on the SBU's overall business in the first half of the year.

Regarding new product development, the SBU has been focusing on developing the second generation Smartphone platform earlier this year. The new design is not only faster in operating, but also offers remarkably better operating system, and advanced communication and multi-media functions. And owing to the improvement in its design and more advanced components being used, the product cost has not gone up in line with the added features. Together with a decline in some component parts' market prices, our new product will be even more competitive in the market.

*Original Design Manufacturing ("ODM")*

The SBU has recorded a satisfactory growth in sales turnover and profit of 23.5% and 14.8% respectively, as compared with the same period of the last year. Given the fierce competition in the market, such encouraging result is mostly attributable to the continuous improvement in operational efficiencies, a stringent control of quality and cost, and the dedicated efforts of all SBU and manufacturing team members.

In particular, the ODM business with Japanese customers has been outstanding and is the pillar of the continuous growth in recent years. It has now become one of the Group's core businesses. In the past three years, the SBU has been focusing on expanding its business with a certain few prestigious customers, and striving to enhance the customers' satisfaction in products' quality and services by providing the customers a wider range of services and at the same time maintaining within itself an efficient cost structure. As a result, the Group's customers have been able to enjoy a strong competitiveness in the market and achieve greater success. This also contributes to the Group's continuous growth in business and profit.

**Outlook**

Hong Kong has staged a strong economic recovery this year, and this will to some extent benefit the Group's domestic business. On the other hand, the Mainland China authorities have imposed macroeconomic control measures since mid-year and this has caused many retailers and distributors cashflow shortfall. The Group will continue its prudent approach in the mainland's business. On the other hand, it will invest more in the research and development work in the Pearl River Delta region so as to improve the products' quality and add more value to the products.

This year, the Group's strategy is to enlarge its European market. A rising Euro and better consumption power will be conducive to the Group's products going into the European market.

*Electronic Dictionary*

Notwithstanding the competition in the electronic market is getting ever more intense, with the well-established brand name and the extensive distribution networks in the Mainland China, Hong Kong and other overseas markets, the Group believes that its business will continue its good competitiveness.

The Group will continue to focus on developing quality medium and high end products, with innovative design, useful and handy features and leading technology. Electronic dictionaries with built-in features of Chinese-English bi-directional full sentence translation and other high end products will be launched in the later half of the year. The Group is confident that these will substantially contribute to the Group's business in sales revenues and profit.

In response to the instability of the Mainland China market and the risk involved, the Group will adopt a relatively conservative strategy concerning investment and promotional activities. Meanwhile, the Group will continue to simplify the operational procedures in order to tighten the cost control and to improve the operational efficiency on distribution and marketing.

*Smartphone*

Products basing on the second generation of Smartphone platform will be launched in the second half of this year. New products will be more competitive in terms of pricing and embedded functions. They also come with different industrial designs and software to suit different needs of different countries' customers, and as such, may help expand its market segment. The Group believes that the Group's new products may bring satisfactory outcome to the SBU's business.

The distribution network the SBU has established in the Asian countries is becoming stabilized. In the remaining half of this year, the SBU will endeavor in enlarging its distribution network to cover more cities in Asia. The Mainland China market is still one with the greatest potential. As competition in the low-end product market is getting more and more intense, profit is being slashed continuously. Some manufacturers will opt for developing medium or high-end products and this is expected to drive the needs for Smartphone products in the future. The Group believes that in the next half of the year, our new products will achieve a rather satisfactory business in the Mainland China market. However, the mobile phone market in the Mainland China is still full of uncertainties. Overly relying on one single market would be too risky and therefore, the SBU will try to explore new markets in Europe or the United States, hoping that the Group may develop a more stable business development.

The SBU has accumulated material experience and expertise in developing Smartphone products, of which many functions have been well received by customers. As the prices are relatively high and also the modes of operation are more complicated, Smartphone products have not yet been widely popularized. The SBU's future design will aim at lower cost, more innovative functions and more simplified modes of operation. The Group also believes new products may help expand the SBU's market and business.

*ODM*

The SBU shall continue its endeavors to maximize customers' satisfaction and steadily expand our core business, while at the same time, develop new lines of business with appropriate strategic customers in different categories of products through additional investment in research and development work.

As usual, the Group values the partnership with its key components suppliers, and together, the Group will strive to create unique products based on the Group's partners' leading technology and new supply of components. With the enthusiastic support of the Group's suppliers, like providing quality components, swift delivery and efficient cost control etc., the SBU shall be able to further enhance its services to the customers. Partnership among the customers, components suppliers and the Group is a significant asset to all parties and is essential for the continuous growth of all parties in this increasingly competitive global market.

Several new projects producing new products are currently being planned and will be launched later in this financial year or next. This could likely boost up the sales figure of the SBU in the years ahead.

**Conclusion**

The overall market competition remains keen, and products' prices and profit margins are under downward adjustment pressure. The Group will continue its efforts of keeping stringent control of the cost structure and leveraging on its research and development advantage so as to add more value to its products and maintain the appropriate profitability. As for the Smartphone business, a steady growth is likely to be seen. The Group will explore the European and United States markets in the near future, and the Group believes that the markets' upside potential is considerably good. All in all, the management is cautiously optimistic about the Group's future business.

**Liquidity and financial resources**

On 30th September, 2004, the bank balances and cash were approximately in total HK$246.1 million, which was approximately HK$3.5 million or 1.4% higher than six months ago. Total bank borrowings have decreased from approximately HK$88.8 million to approximately HK$48.3 million in the six month period.

Continuous positive operating cash inflow resulted in a higher liquidity recorded.

Most of the bank borrowings were short-term in nature, around HK$32.3 million or 67%, which would be due within one year. The remaining loans of around HK$16 million were long term borrowings which were to be due in more than one year.

As at 30th September, 2004, the gearing ratio, defined as total bank borrowings divided by shareholders' equities, has decreased from 15% to 8% in six months' time. As a result, the interest expenses for the six months' period have reduced from approximately HK$1.0 million to approximately HK$0.8 million.

**Disposal of a subsidiary**

In September 2004, the Group sold its Singapore based research and development subsidiary to a Singapore listed company at a consideration of approximately HK$10 million. The transaction has incurred a loss of approximately HK$4,758,000, which was reflected in the condensed consolidated income statement for the period ended 30th September, 2004.

### Charges on assets

In securing general banking facilities, certain assets were pledged to banks as collaterals, of which the carrying value amounted to approximately HK$88.2 million as at the end of 30th September, 2004. This is approximately HK$11.8 million lower than that of the previous six months' period.

### Contingent liabilities

As at 30th September 2004, the trade bills discounted to banks with recourse amounted to approximately HK$33 million which were approximately HK$11.3 million higher than those of 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 China 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 to the Group. The Group does not engage in any interest rate or currencies speculations.

### Employees

As at 30th September, 2004, the Group has on its payroll 269 (2003: 240) employees in Hong Kong, 4,026 (2003: 4,042) in the Mainland China, representing an increase of about 12% and a decrease of about 0.4%. The Group has no employee (2003: 79) in Singapore. In addition to salary payroll and other usual benefits like annual leave, medical insurance and provident fund, the Group also provides for the executive directors and senior staff Share Incentive Plans.

### 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company 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 held two meetings with all members present and has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited interim report for the six months ended 30th September, 2004.

## CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September, 2004, in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## 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.

## PUBLICATION OF FURTHER INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All the financial and other related information of the Company required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules in force prior to 31st March, 2004, which remain applicable to interim results announcement in respect of accounting periods commencing before 1st July, 2004 under the transitional arrangement, will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

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

Hong Kong, 30th November, 2004

* *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"