



Group Sense (International) Limited

權智（國際）有限公司

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)



Interim Report
2004/2005

CORPORATE INFORMATION

Directors

Executive Directors:

TAM Wai Ho, Samson (*Chairman*)
TAM Wai Tong, Thomas (*Managing Director*)
TAM Mui Ka Wai, Vivian
Kazuhiro OTANI
LEE Koon Hung
FOK Ting Yeung, James

Non-executive Director:

LO Chi Chung, William*

Independent Non-executive Directors:

YUNG Wing Ki, Samuel MH*
HO Kwok Shing, Harris*
WONG Kon Man, Jason*

* Member of Audit Committee

Company Secretary

YEUNG Sze Nga

Auditors

Deloitte Touche Tohmatsu

Solicitors

Mallesons Stephen Jaques

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited

Registered Office

Clarendon House, Church Street,
Hamilton HM11, Bermuda

Principal Place of Business

27th Floor, Wu Chung House,
213 Queen's Road East,
Wanchai, Hong Kong

Hong Kong Share Registrars and Transfer Office

Secretaries Limited
Ground Floor,
Bank of East Asia Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

Website

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

Stock Code

601

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

For the six months ended 30th September, 2004

		Six months ended	
		30th September,	
		2004	2003
	<i>Notes</i>	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

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2004

	<i>Notes</i>	30.9.2004 HK\$'000 (Unaudited)	31.3.2004 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	183,526	186,577
Intangible assets		18,888	27,960
Interests in associates		–	–
Investments in securities		36,652	36,652
Other receivable		6,250	5,000
Deferred taxation assets		9,646	10,015
		254,962	266,204
Current assets			
Inventories		148,915	159,853
Trade receivables	11	123,913	186,540
Other receivables		46,171	51,460
Amounts due from associates		5,480	5,739
Tax recoverable		–	122
Bank deposits		108,337	60,304
Bank balances and cash		137,795	182,360
		570,611	646,378
Current liabilities			
Trade payables	12	118,666	164,632
Other payables		67,203	69,486
Product warranty provision		500	500
Bank borrowings – due within one year		32,261	63,056
Obligations under finance leases – due within one year		–	29
		218,630	297,703
Net current assets		351,981	348,675
Total assets less current liabilities		606,943	614,879

CONDENSED CONSOLIDATED BALANCE SHEET – continued

At 30th September, 2004

	30.9.2004 <i>HK\$'000</i> (Unaudited)	31.3.2004 <i>HK\$'000</i> (Audited)
Capital and reserves		
Share capital	119,884	119,746
Reserves	470,704	469,114
Shareholders' funds	590,588	588,860
Minority interests	225	–
Non-current liabilities		
Bank borrowings – due after one year	16,086	25,755
Deferred tax liabilities	44	264
	16,130	26,019
	606,943	614,879

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2004

	Share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Special reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	(Accumulated loss) profits HK\$'000	Total HK\$'000
At 1st April, 2003 (Audited)	118,450	409,843	285	(60,819)	(15,550)	1,356	(5,337)	448,228
Shares repurchased and cancelled	(134)	(349)	134	-	-	-	-	(349)
Share repurchase expenses	-	(5)	-	-	-	-	-	(5)
Exercise of share option	724	1,087	-	-	-	-	-	1,811
Profit for the period	-	-	-	-	-	-	107,462	107,462
Dividend paid	-	-	-	-	-	-	(17,828)	(17,828)
At 30th September, 2003 and 1st October, 2003 (Unaudited)	119,040	410,576	419	(60,819)	(15,550)	1,356	84,297	539,319
Issue of shares	706	739	-	-	-	-	-	1,445
Exchange difference on translation of overseas operations not recognised in the income statement	-	-	-	-	-	(573)	-	(573)
Profit for the period	-	-	-	-	-	-	54,622	54,622
Dividend paid	-	-	-	-	-	-	(5,953)	(5,953)
At 31st March, 2004 and 1st April, 2004 (Audited)	119,746	411,315	419	(60,819)	(15,550)	783	132,966	588,860
Issue of shares	138	142	-	-	-	-	-	280
Realised on disposal of a subsidiary	-	-	-	-	-	679	-	679
Profit for the period	-	-	-	-	-	-	36,734	36,734
Dividend paid (Note 8)	-	-	-	-	-	-	(35,965)	(35,965)
At 30th September, 2004 (Unaudited)	119,884	411,457	419	(60,819)	(15,550)	1,462	133,735	590,588

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30th September, 2004*

	Six months ended	
	30th September,	
	2004	2003
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	82,107	83,792
Net cash used in investing activities	(49,704)	(79,864)
Net cash used in financing activities	(76,968)	(6,177)
Net decrease in cash and cash equivalents	(44,565)	(2,249)
Cash and cash equivalents at the beginning of the period	182,360	93,354
Cash and cash equivalents at the end of the period, representing by bank balances and cash	137,795	91,105

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2004

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	<u>352,552</u>	<u>304,582</u>	<u>657,134</u>
RESULT			
Segment result and profit from operations	<u>29,550</u>	<u>13,108</u>	42,658
Finance costs			(790)
Loss on disposal of a subsidiary			<u>(4,758)</u>
Profit before taxation			37,110
Taxation charge			<u>(151)</u>
Profit before minority interests			<u>36,959</u>

3. BUSINESS SEGMENTS – continued

	Six months ended 30th September, 2003 (Unaudited)		
	Electronic handheld products <i>HK\$'000</i>	ODM products <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER	<u>323,387</u>	<u>246,599</u>	<u>569,986</u>
RESULT			
Segment result and profit from operations	<u>34,747</u>	<u>11,417</u>	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			<u>15,015</u>
Profit before taxation			106,522
Taxation credit			<u>890</u>
Profit before minority interests			<u>107,412</u>

4. PROFIT FROM OPERATIONS

	Six months ended 30th September,	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(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	<u>460</u>	<u>603</u>

5. FINANCE COSTS

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

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 Shares were issued at a redemption price per share equal to the original issue 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 instalments. 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 recognised 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
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
The taxation (charge) credit comprises:		
Deferred taxation	<u>(151)</u>	<u>890</u>

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 HK\$'000 (Unaudited)	2003 HK\$'000 (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

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th September, 2004, the Group spent approximately HK\$14,850,000 on leasehold improvements, furniture, fixtures and equipment, plant and machinery, toolings and moulds and motor vehicles.

11. 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:

	30.9.2004 HK\$'000 (Unaudited)	31.3.2004 HK\$'000 (Audited)
0-60 days	110,913	177,770
61-90 days	2,649	4,980
Over 90 days	10,351	3,790
	123,913	186,540

12. TRADE PAYABLES

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

	30.9.2004 <i>HK\$'000</i> (Unaudited)	31.3.2004 <i>HK\$'000</i> (Audited)
0-60 days	112,641	155,975
61-90 days	4,731	4,152
Over 90 days	1,294	4,505
	118,666	164,632

13. CONTINGENT LIABILITIES

	30.9.2004 <i>HK\$'000</i> (Unaudited)	31.3.2004 <i>HK\$'000</i> (Audited)
Bills discounted with recourse	32,951	21,657

At 30th September, 2004, a subsidiary of the Company gave corporate guarantees amounting to HK\$8,000,000 (31st March, 2004 (audited): HK\$8,000,000) to bankers in respect of banking facilities granted to an associate. The facilities utilised by the associate amounted to approximately HK\$3,996,000 (31st March, 2004 (audited): HK\$3,965,000).

14. COMMITMENTS

Capital expenditure contracted for but not provided in the financial statements in respect of:

	30.9.2004 <i>HK\$'000</i> (Unaudited)	31.3.2004 <i>HK\$'000</i> (Audited)
Acquisition of property, plant and equipment	1,011	2,557

15. RELATED PARTY TRANSACTIONS

Save as disclosed in note 13, the Group also had the following related party transactions: During the six months ended 30th September 2004, the Group purchased goods from a related company of approximately HK\$10,434,000 (six months ended 30th September, 2003 (unaudited): approximately HK\$5,677,000 from a related company and approximately HK\$5,744,000 from a former associate). Mr. Tam Wai Tong, Thomas, a director of the Company, has a beneficial interest in the related company.

The above transactions were carried out at market prices or, where no market price was available, at cost plus a percentage profit mark-up.

INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF GROUP SENSE (INTERNATIONAL) LIMITED

權智(國際)有限公司
(incorporated in Bermuda with limited liability)

We have been instructed by the Company to review the interim financial report set out on pages 2 to 13.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provision thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

30th November, 2004

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

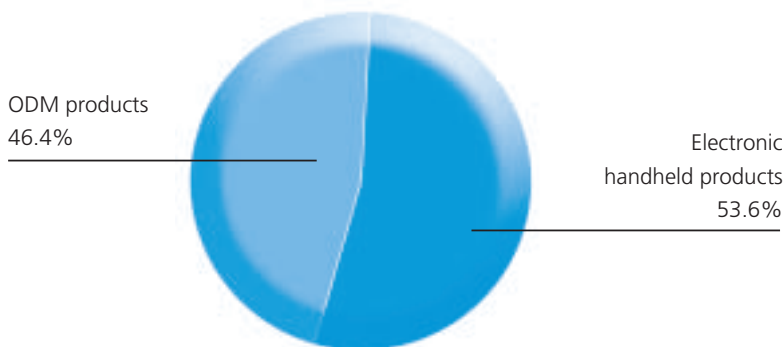
The Register of Members of the Company will be closed from Wednesday, 15th December, 2004 to Friday, 17th December, 2004, both days inclusive, during this period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrars in Hong Kong, Secretaries Limited, Ground Floor, 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.

ANALYSIS OF TURNOVER BY PRINCIPAL ACTIVITY



Electronic Dictionary

For the six months ended 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.

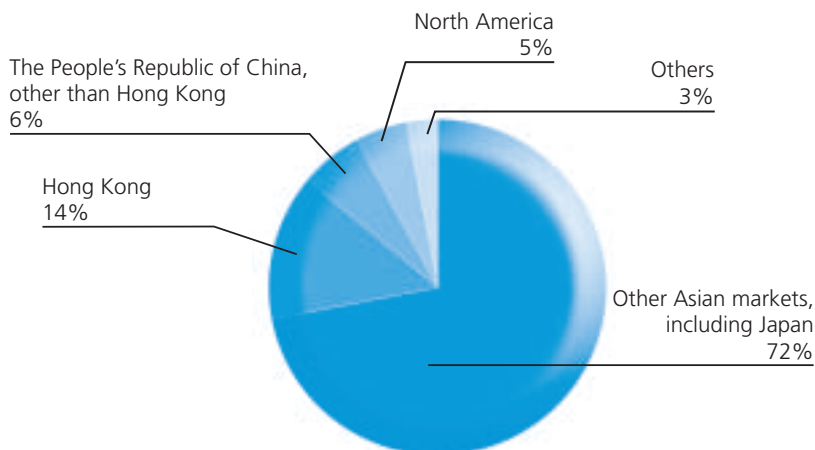
Regarding new product development, the SBU has been focusing on developing the second generation Smartphone platform earlier this year. The new design is not only faster in operating, but also offers remarkably better operating system, and advanced communication and multi-media functions. And owing to 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.

ANALYSIS OF TURNOVER BY GEOGRAPHICAL MARKET



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 its 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 months 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% respectively. 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.

DIRECTORS' INTERESTS IN SECURITIES

At 30th September, 2004, the interests of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors, were as follows:

Name of director	Nature of interests	Personal interests	Number of ordinary shares held			% of issued share capital
			Family interests	Other interests	Total	
Tam Wai Ho, Samson	Notes 1 & 2	24,000,000	–	537,877,118	561,877,118	46.87
Tam Wai Tong, Thomas	Notes 1 & 2	27,000,000	–	537,877,118	564,877,118	47.12
Tam Mui Ka Wai, Vivian	Note 1	1,500,000	–	537,877,118	539,377,118	44.99
Kazuhiro Otani		2,000,000	–	–	2,000,000	0.17
Lee Koon Hung		1,676,000	550,000	–	2,226,000	0.19
Lo Chi Chung, William		3,000,000	–	–	3,000,000	0.25

Notes:

- The 537,877,118 shares are registered in the name of Earnmill Holdings Limited, a company ultimately beneficially owned by The Samson 1992 Trust and The Thomas 1992 Trust in equal shares. The Samson 1992 Trust is a discretionary trust, the discretionary beneficiaries of which include Mr. Tam Wai Ho, Samson and Mrs. Tam Mui Ka Wai, Vivian. The Thomas 1992 Trust is a discretionary trust, the discretionary beneficiaries of which include Mr. Tam Wai Tong, Thomas and Mrs. Tam Ng Lai Yuen, Jocelyn (spouse of Mr. Tam Wai Tong, Thomas).
- Included above is the 20,000,000 shares which are jointly owned by Mr. Tam Wai Ho, Samson and Mr. Tam Wai Tong, Thomas.

The interests of the Directors and their associates in the share options granted by the Company are set out in the section "Share Options".

Save as disclosed above, at 30th September, 2004, none of the Directors or their associates had any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations as defined in the SFO.

SHARE OPTIONS

The following table discloses movements in the Company's share options held by each of the Directors and the employees of the Company in aggregate granted under the share option scheme of the Company during the period ended 30th September, 2004:

	Option grant date	Outstanding at 1st April, 2004	Number of options movement during the period				Outstanding at 30th September, 2004
			Granted	Exercised	Cancelled	Lapsed	
Directors							
Tam Wai Ho, Samson	12.08.2002	1,000,000	-	-	-	-	1,000,000
	24.03.2003	1,000,000	-	-	-	-	1,000,000
	19.04.2004	-	900,000	-	-	-	900,000
Tam Wai Tong, Thomas	12.08.2002	1,000,000	-	-	-	-	1,000,000
	24.03.2003	1,000,000	-	-	-	-	1,000,000
	19.04.2004	-	900,000	-	-	-	900,000
Tam Mui Ka Wai, Vivian	12.08.2002	400,000	-	-	-	-	400,000
	24.03.2003	400,000	-	-	-	-	400,000
	19.04.2004	-	400,000	-	-	-	400,000
Kazuhiro Otani	12.08.2002	-	-	-	-	-	-
	24.03.2003	1,000,000	-	(1,000,000)	-	-	-
	19.04.2004	-	900,000	-	-	-	900,000
Lee Koon Hung (Note 1)	12.08.2002	-	-	-	-	-	-
	24.03.2003	-	-	-	-	-	-
	19.04.2004	-	1,400,000	-	-	-	1,400,000
Fok Ting Yeung, James	12.08.2002	400,000	-	-	-	-	400,000
	24.03.2003	400,000	-	-	-	-	400,000
	19.04.2004	-	400,000	-	-	-	400,000
Total (Directors)		6,600,000	4,900,000	(1,000,000)	-	-	10,500,000
Employees							
	12.08.2002	31,000	-	(1,000)	-	-	30,000
	24.03.2003	528,000	-	(382,000)	-	-	146,000
	19.04.2004	-	6,006,000	-	(476,000)	-	5,530,000
Total (Employees)		559,000	6,006,000	(383,000)	(476,000)	-	5,706,000
Grand Total		7,159,000	10,906,000	(1,383,000)	(476,000)	-	16,206,000

Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price HK\$
12.08.2002	12.08.2002 – 16.06.2003	17.06.2003 – 16.06.2008	0.250
24.03.2003	24.03.2003 – 19.01.2004	20.01.2004 – 19.01.2009	0.202
19.04.2004	19.04.2004 – 19.01.2005	20.01.2005 – 20.01.2010	0.950

Note:

- The wife of Mr. Lee Koon Hung, who is also an employee of the Company, was granted options of the Company. At 30th September, 2004, 500,000 options of Mrs. Lee were included under the interests in options of Mr. Lee Koon Hung set out above.

The closing price of the Company's shares immediately before the date of grant on 19th April, 2004 was HK\$0.92. The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised were HK\$0.79.

The fair value of an option on one share of the Company granted during the six months ended 30th September, 2004 with exercise price per share of HK\$0.95 is estimated at HK\$0.234. The following significant assumptions were used to derive the fair value, using the Black-Scholes option pricing model:

Estimated expected life of options granted	1.68 years
Expected volatility based on historical share price movement	61.69%
Hong Kong Exchange Fund Notes Rate	1.60%
Expected annual dividend yield based on dividend payments in the last 12 months	3.80%
Risk-of-forfeiture adjustment	5.47%

The Black-Scholes option pricing model requires the input of assumptions, including the volatility of share price and dividend yield. Because changes in assumptions can materially affect the fair value estimated, in the directors' opinion, the options' actual value may differ from the estimated fair value of the options due to limitations of the existing model.

No charge is recognised in the consolidated income statement in respect of the value of options granted during the year.

SUBSTANTIAL SHAREHOLDERS

At 30th September, 2004, the register of substantial shareholders kept by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests and short positions in the issued capital of the Company:

Name of shareholder	Number of ordinary shares	% of issued share capital
Earnmill Holdings Limited	537,877,118 <i>Note 1</i>	44.87
Value Partners Limited	82,580,000 <i>Note 2</i>	6.89
Cheah Cheng Hye	82,580,000 <i>Note 2</i>	6.89

Notes:

1. The shareholding is duplicated in the "Directors' Interests in Securities" disclosed above.
2. Value Partners Limited is holding the 82,580,000 shares as investment manager. Mr. Cheah Cheng Hye is deemed to be interested in such shares through his 31.82% interest in Value Partners Limited.

Save as disclosed above, at 30th September, 2004, the Company had not been notified by any persons who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the SFO.

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.

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

Hong Kong, 30th November, 2004