

權智集團  
**GroupSense**

**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)

(Stock Code 股份代號: 601)

## Interim Report 2006/2007

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## CORPORATE INFORMATION

### Directors

#### *Executive Directors:*

TAM Wai Ho, Samson JP (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

### Qualified Accountant

CHENG Yiu Kong

### Auditors

Ernst & Young

### 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

6th Floor, Building 9  
 No. 5 Science Park West Avenue  
 Hong Kong Science Park  
 Shatin, New Territories, Hong Kong

### Principal Share Registrar and Transfer Office in Bermuda

The Bank of Bermuda Limited  
 Bank of Bermuda Building  
 6 Front Street  
 Hamilton HM11  
 Bermuda

### Branch Share Registrar and Transfer Office in Hong Kong

Secretaries Limited  
 26th Floor, Tesbury Centre  
 28 Queen's Road East  
 Hong Kong

### Website

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

### Stock Code

601

## RESULTS

The Board of Directors (the “Board”) of Group Sense (International) Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2006, together with the comparative figures for the corresponding period in 2005 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2006

	Notes	Six months ended 30th September,	
		2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Revenue	3	645,438	737,404
Cost of sales		(495,593)	(568,830)
Gross profit		149,845	168,574
Other income		10,285	12,829
Research and development expenses		(36,383)	(39,471)
Distribution & selling expenses		(29,500)	(41,507)
Administrative expenses		(48,424)	(46,876)
Gain on disposal of an available-for-sale investment		78	—
Allowance for amounts due from an associate		—	(2,822)
Finance costs	4	(34)	(756)
Profit before tax	5	45,867	49,971
Income tax expense	6	(7,427)	(323)
Profit for the period		38,440	49,648
Attributable to:			
Equity holders of the parent		38,440	49,648
Minority interests		—	—
		38,440	49,648
Dividends	7	23,952	24,051
Earnings per share	8		
Basic (HK cents)		3.21	4.12
Diluted (HK cents)		3.21	4.12

**CONDENSED CONSOLIDATED BALANCE SHEET***At 30th September, 2006*

		<b>30.9.2006</b>	31.3.2006
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<i>HK\$'000</i> <i>(Audited)</i>
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>103,928</b>	106,125
Prepaid lease payment		<b>8,744</b>	8,635
Intangible assets		<b>8,187</b>	7,164
Interests in associates		<b>4</b>	4
Available-for-sale investments		<b>31,978</b>	27,984
Other receivables		<b>4,621</b>	3,960
Deferred tax assets		<b>227</b>	300
		<b>157,689</b>	154,172
<b>Current assets</b>			
Inventories		<b>128,304</b>	181,483
Trade receivables	10	<b>147,176</b>	182,918
Other receivables		<b>44,613</b>	43,929
Prepaid lease payment		<b>229</b>	223
Amounts due from associates		<b>4,229</b>	3,868
Held-for-trading investments		<b>41,069</b>	40,740
Bank deposits		<b>247,377</b>	210,999
Bank balances and cash		<b>39,771</b>	36,608
		<b>652,768</b>	700,768

		<b>30.9.2006</b>	31.3.2006
	<i>Notes</i>	<b>HK\$'000</b> <b>(Unaudited)</b>	<i>HK\$'000</i> <i>(Audited)</i>
<b>Current liabilities</b>			
Trade payables	11	<b>97,918</b>	183,843
Other payables		<b>50,047</b>	57,959
Product warranty provision		<b>500</b>	500
Tax payable		<b>18,237</b>	11,406
Bank borrowings		<b>835</b>	608
		<b>167,537</b>	254,316
<b>Net current assets</b>		<b>485,231</b>	446,452
<b>Total assets less current liabilities</b>		<b>642,920</b>	600,624
<b>Capital and reserves</b>			
Share capital		<b>119,761</b>	119,761
Reserves		<b>520,880</b>	479,240
<b>Equity attributable to equity holders of the parent</b>		<b>640,641</b>	599,001
<b>Minority interests</b>		<b>860</b>	847
<b>Total equity</b>		<b>641,501</b>	599,848
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>1,419</b>	776
		<b>1,419</b>	776
<b>Total equity and non-current liabilities</b>		<b>642,920</b>	600,624

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30th September, 2006*

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Capital redemption reserve	Goodwill reserve	Special reserve	Translation reserve	Accumulated profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>											
Balance at 31st March, 2005 (audited)	120,366	412,062	—	419	(15,550)	(60,819)	1,374	147,170	605,022	829	605,851
Effect of changes in accounting policies	—	—	—	—	15,550	—	—	(15,960)	(410)	—	(410)
Balance at 1st April, 2005 (audited and restated)	120,366	412,062	—	419	—	(60,819)	1,374	131,210	604,612	829	605,441
Exchange differences on translation of foreign operations and net income recognised directly in equity	—	—	—	—	—	—	1,765	—	1,765	18	1,783
Realised on disposal of a subsidiary	—	—	—	—	—	—	172	—	172	—	172
Profit for the year	—	—	—	—	—	—	—	54,391	54,391	—	54,391
Total recognised income for the year	—	—	—	—	—	—	1,937	54,391	56,328	18	56,346
Issue of new shares — from exercise of share options	4	4	—	—	—	—	—	—	8	—	8
Repurchase of shares	(609)	(2,361)	—	—	—	—	—	—	(2,970)	—	(2,970)
Recognition of equity-settled share based payment	—	—	1,085	—	—	—	—	—	1,085	—	1,085
Final dividend paid for 2005	—	—	—	—	—	—	—	(36,110)	(36,110)	—	(36,110)
Interim dividend paid for 2006	—	—	—	—	—	—	—	(23,952)	(23,952)	—	(23,952)
	(605)	(2,357)	1,085	—	—	—	—	(60,062)	(61,939)	—	(61,939)
Balance at 31st March, 2006 and 1st April, 2006	119,761	409,705	1,085	419	—	(60,819)	3,311	125,539	599,001	847	599,848
Exchange differences on translation of foreign operations and net income recognised directly in equity	—	—	—	—	—	—	2,892	—	2,892	13	2,905
Profit for the period	—	—	—	—	—	—	—	38,440	38,440	—	38,440
Total recognised income for the period	—	—	—	—	—	—	2,892	38,440	41,332	13	41,345
Recognition of equity-settled share based payment	—	—	308	—	—	—	—	—	308	—	308
Balance at 30th September, 2006 (unaudited)	119,761	409,705	1,393	419	—	(60,819)	6,203	163,979	640,641	860	641,501

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1993.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30th September, 2006*

	<b>Six months ended 30th September,</b>	
	<b>2006</b>	2005
	<b>HK\$'000 (Unaudited)</b>	HK\$'000 (Unaudited and restated)
Net cash generated from operating activities	<b>50,796</b>	46,148
Net cash used in investing activities	<b>(12,137)</b>	(43,590)
Net cash generated (used) in financing activities	<b>194</b>	(51,747)
Net increase (decrease) in cash and cash equivalents	<b>38,853</b>	(49,189)
Cash and cash equivalents at the beginning of the period	<b>247,607</b>	282,400
Effect of foreign exchange rate change	<b>688</b>	391
Cash and cash equivalents at the end of the period, representing by bank deposits, bank balances and cash	<b>287,148</b>	233,602

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 30th September, 2006

### 1. BASIS OF PREPARATION

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31st March, 2006, except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKASs and Interpretations (hereinafter collectively referred to as the “new/revised HKFRSs”), which have become effective for accounting periods beginning on or after 1st January, 2006, that are adopted for the first time for the current period’s financial statements:

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a lease

The adoption of the above new/revised HKFRSs has no material impact on the accounting policies of the Group and the methods of computation in Group’s condensed consolidated interim financial statements.

The following new/revised HKFRSs relevant to the Group’s operations have been issued but are not effective for 2006 and have not been early adopted:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives



### 3. BUSINESS SEGMENTS

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

#### Six months ended 30th September, 2006

	Electronic handheld products	Original design manufacturing ("ODM") Products	Consolidated
	HK\$'000	HK\$'000	HK\$'000
Revenue	403,853	241,585	645,438
RESULT			
Segment result	39,530	6,293	45,823
Gain on disposal of an available-for-sale investment			78
Finance costs			(34)
Profit before tax			45,867
Income tax expense			(7,427)
Profit for the period			38,440

#### Six months ended 30th September, 2005

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

## 4. FINANCE COSTS

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	34	745
Imputed interest expense on other receivables	—	11
	<b>34</b>	<b>756</b>

## 5. PROFIT BEFORE TAX

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Profit before tax has been arrived at after charging/(crediting):		
Allowance for slow-moving inventories	9,944	14,395
Amortisation of intangible assets (included in research and development expenses)	1,801	3,293
Amortisation of prepaid lease payment	121	111
Depreciation of property, plant and equipment	13,900	11,082
Fair value changes on financial instruments	(174)	712
Interest income	(6,834)	(2,874)

## 6. INCOME TAX EXPENSE

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Group :		
Current — Hong Kong	6,711	—
Deferred	716	323
Income tax expense for the period	7,427	323

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period.

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

## 7. DIVIDENDS

On 17th October, 2006, a dividend of HK3.0 cents per share was paid to shareholders as the final dividend for the year ended 31st March, 2006, amounting to approximately HK\$35,928,000.

The Directors have determined that an interim dividend of HK2.0 cents per share (2005: HK2.0 cents per share) totalling HK\$23,952,000 (2005: HK\$24,051,000) be paid to the shareholders of the Company, whose names appear in the Register of Members on Friday, 29th December, 2006.

## 8. EARNINGS PER SHARE

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

	Six months ended 30th September,	
	2006	2005
	HK\$'000	HK\$'000
Profit for the purpose of basic and diluted earnings per share		
Profit for the period	<b>38,440</b>	49,648
<i>Number of shares</i>	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,197,613</b>	1,203,618
Effect of dilutive potential ordinary shares: share options	<b>669</b>	577
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,198,282</b>	1,204,195

## 9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30th September, 2006, the Group spent approximately HK\$10,073,000 (six months ended 30th September, 2005 (unaudited): approximately HK\$13,450,000) on property, plant and equipment.

**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, based on due date:

	<b>30.9.2006</b>	31.3.2006
	<b>HK\$'000</b>	HK\$'000
0-60 days	<b>138,759</b>	172,534
61-90 days	<b>2,370</b>	2,089
Over 90 days	<b>6,047</b>	8,295
	<b>147,176</b>	182,918

**11. TRADE PAYABLES**

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

	<b>30.9.2006</b>	31.3.2006
	<b>HK\$'000</b>	HK\$'000 (restated)
0-60 days	<b>90,539</b>	177,367
61-90 days	<b>4,568</b>	2,802
Over 90 days	<b>2,811</b>	3,674
	<b>97,918</b>	183,843

**12. CONTINGENT LIABILITIES**

	<b>30.9.2006</b>	31.3.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees given to banks in respect of banking facilities granted to an associate	<b>8,000</b>	8,000
Guarantees given to banks in respect of banking facilities utilised by an associate	<b>4,053</b>	4,087

**13. COMMITMENTS**

	<b>30.9.2006</b>	31.3.2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	<b>6,965</b>	4,996
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of equity securities	—	5,769

**14. RELATED PARTY TRANSACTIONS**

During the six months ended 30th September, 2006, the compensation to key management amounts to approximately HK\$5,332,000 (six months ended 30th September, 2005 (unaudited): approximately HK\$6,043,000) representing directors' remuneration.

**15. COMPARATIVE FIGURES**

Certain comparative figures have been restated to conform with the current period's presentation.

## **INTERIM DIVIDEND**

The Board has declared an interim dividend of HK2.0 cents (2005/2006: HK2.0 cents) per share to shareholders whose names appear on the Register of Members of the Company on Friday, 29th December, 2006. The interim dividend will be paid on or about Monday, 8th January, 2007.

## **CLOSURE OF REGISTER OF MEMBERS**

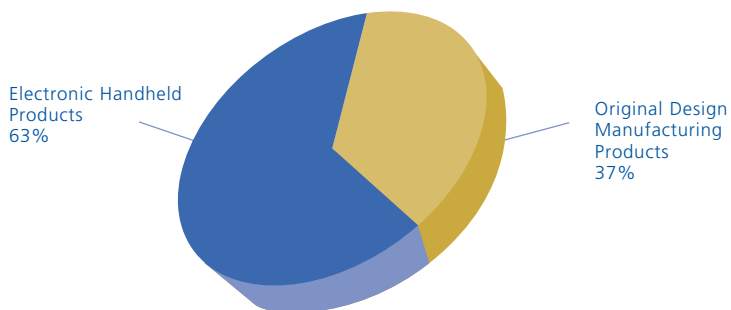
The Register of Members of the Company will be closed from Wednesday, 27th December, 2006 to Friday, 29th December, 2006, both days inclusive, during this period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 22nd December, 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

During the first half of this financial year, the Group's revenue was HK\$645.4 million, representing a decline of 12% as compared with HK\$737.4 million of the same period of last year. The decline in revenue was the direct result of the decrease in the sales to the Group's key Japanese customers due to the competition in the Japanese electronic dictionary market. The Group recorded a profit from operations of HK\$45.8 million, which was a decline of 14% comparing to that of HK\$53.5 million of the corresponding period in last year. The global economy is still booming, and the market for consumable electronic products is also expanding steadily. However, the rivalry competition is getting more and more intense. All SBUs (strategic business units) are striving to contain the costs and improve the operating efficiency, which helps sustain the Group's net profit margin ratio. On the other hand, the Group endeavours to explore new businesses and new market opportunities, with the aim of building up a strong and diversified business foundation.

#### Analysis of Revenue by Principal Activity





### *Electronic Dictionary*

After a strong revenue growth in last financial year, the SBU's revenue recorded in this first half financial year has adjusted slightly downward as compared with the same period of 2005. Nevertheless, targets on both gross profit and net profit margins have been achieved. The SBU's new products, which are equipped with rich learning contents as well as wide-ranged multi-media functions, have received positive market feedbacks. Due to some unexpected technical problems, the development schedule of our new products has been delayed. As a result, the SBU has missed the important timing of launching into markets at high season and this has adversely affected the sales performance in the first half financial year of 2006-2007. The Mainland China market has been growing slowly and price cutting competition is still prevailing in the market.

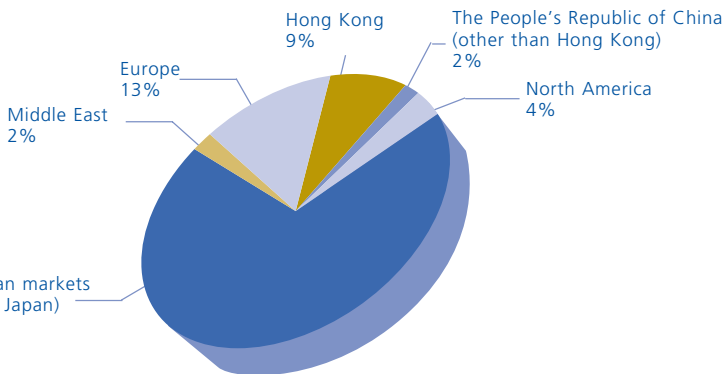
### *Original Design Manufacturing*

Due to the competition in the Japanese electronic dictionary market, which has changed much faster than we expected, the SBU's sales revenue in this first half financial year has been adversely affected when comparing with the same period of last year. As a result, both the net profit and the net profit margin have dropped, despite that vigorous efforts in containing costs have been made and operating efficiency has been improved. Notwithstanding being in such a competitive market, our investment on research and development has been extended consistently to cater for the SBU's wider coverage of development services provided to our customers, and to quicken the development of new products with wireless communication technology and unique digital content players, which are believed to be the SBU's new business lines in the coming years.

### Smartphone

In this first half financial year, the SBU's main source of revenue has shifted from the smartphone products to other telecommunication products. As such, we allocated more research and development resources on developing other telecommunication products other than smartphones. In the first half financial year, the SBU has launched its first GPS product in Europe which is used mainly as automobile navigation. The product is designed and manufactured by the SBU for a GPS company which is one of the largest GPS companies in the world. The product has received high appraisal in the market, both of its quality and functionality. However, as the selling price is relatively high, the demand has therefore been somewhat limited. Besides, the SBU is also focusing on developing new WiFi technology products, to cater for the prevailing WiFi network and its derived applications and demands. WiFi VoIP Phone and WiFi Data Terminal, which are used in the professional market, are expected to be launched in the next half financial year.

#### Analysis of Revenue by Geographical Market



## Outlook

Since the Group moved into Science Park, clustering effect has become more and more prominent. The Group has increasingly built up ties and collaborated more with other technology partners, and will strive to foster partnership with other technology corporations, to enhance the innovation and technological content of its products. This will help the Group to explore new electronic product markets. Technology is advancing rapidly, and so is the electronic product market. New technology derives new product markets like GPS or WiFi application products. This provides the Group room for expansion and development opportunities. The Group will strive to develop new products so as to further diversify and consolidate the Group's business.

### *Electronic Dictionary*

Despite that the competition in the electronic dictionary market is getting intense, the SBU believes that with the Group's well-established brand name and distribution networks in the Greater China and Asian markets, the SBU can still manage to command a good business prospect in the second half financial year of 2006-2007 and the years after. The SBU continues to focus on developing high valued-added products with more innovative designs, richer learning contents and leading speech and translation technology. It is believed that the new products will bring in favorable revenues and reasonable profit margin. In order to sustain the business growth, the SBU has started its new business in producing "e-learning" products with multi-media and wireless applications. It is expected that these new business lines will contribute to growth in sales revenue in this second half financial year and also the next financial year. The SBU will further strengthen its capability in developing new products and project management, and invest more resources in research and development works in multi-media and wireless communication areas. In addition, the SBU will strive for building strong partnership with external technology parties and component suppliers, with an aim to develop unique technology for our new products and maintain our leading position in the market.

### *Original Design Manufacturing*

We expect the Japanese electronic dictionary market to be increasingly competitive in the future. The SBU is therefore developing higher value added dictionary products with distinctive features in order to regain the market share as well as to enhance its cost competitiveness. These new products are to be launched by our customers in the second half of this financial year. Also, marketing focus has been continuously placed on the Japanese market to look for new business opportunities in mobile phone related fields, which are expected to generate revenue for the SBU in the next financial year. For the field of digital content players, our first product eBook, which is equipped with unique high-contrast TFT display, will first be launched in the China market within this financial year, with the aim of becoming a major eBooks hardware supplier and tap on this new growing industry. It is expected that the SBU will reap a good harvest in the next financial year, as a result of its ceaseless efforts in developing new products.

### *Smartphone*

The SBU will aggressively develop new telecommunication products in the next half financial year. The SBU needs to grasp hold of the technology used in these new products, as well as to understand well our customers' needs. Most importantly, the SBU needs to develop sound strategic relationship with its new customers, so that its new products could be launched into the markets effectively. The GPS business will become the SBU's new product line. The automobile navigation business is growing rapidly, though the rivalry competition is also very intense. In the next half financial year, the SBU will focus on providing products with innovative features as well as material cost control, so as to make its products all the more competitive. WiFi network has extended from covering only indoor or private places to outdoor public open areas like restaurants, shopping malls, airports, etc. WiFi city is no longer a concept only. It has been gradually materialized. The SBU will target on WiFi technology's applications in various industries, and design products which could cater for customers' needs. It is believed that this business will bring new development opportunity to the SBU.

## Conclusion

Asia will still be the Group's major market. The Group will invest resources in developing newer and higher value-added products, so as to sustain its brand's market position. The Group will also develop new businesses and expects that wireless communication and digital content products, especially e-book, will become a major electronic product market. The Group will invest resources in developing more innovative and higher value-added diversified products, while at the same time, actively seek for building up ties with strategic partners with good development potential. This is expected to bring in for the Group stronger growth potential in the near future.

## Liquidity and Financial Resources

On 30th September, 2006, the bank balances and cash (including bank deposits) were approximately HK\$287.1 million in total, which was approximately HK\$39.5 million or 16% higher than those of six months ago. Total bank borrowings have increased from approximately HK\$0.6 million to approximately HK\$0.8 million in the six months period. All the bank borrowings are short term in nature.

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

As at 30th September, 2006, the gearing ratio, defined as total bank borrowings divided by shareholders' equities, has been kept below 1% in the six months period. The interest expense for the twelve months' period have decreased from approximately HK\$0.8 million to below HK\$0.1 million.

## 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 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, 2006, the Group has on its payroll 270 (2005: 273) employees in Hong Kong and 3,397 (2005: 4,301) employees in Mainland China, representing a decrease of about 1% and about 21% respectively as compared with prior year. In addition to salary remuneration and usual fringe benefits such as annual leave, medical insurance and provident fund, the Group also provides Share Incentive Plans for executive directors and senior staff.

## Appreciation

On behalf of the Board, I wish to thank all our shareholders, customers, suppliers and bankers for their continual support. I would also like to extend my appreciation to all the staff for their dedicated work and their contribution throughout the period.

## DIRECTORS' INTERESTS IN SECURITIES

At 30th September, 2006, 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 set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Name of director	Nature of interests	Number of ordinary shares held (long position)			Total	% of issued share capital
		Personal interests	Family interests	Other interests		
Tam Wai Ho, Samson JP	Notes 1 & 2	26,000,000	—	537,877,118	563,877,118	47.08
Tam Wai Tong, Thomas	Notes 1 & 2	29,000,000	—	537,877,118	566,877,118	47.33
Tam Mui Ka Wai, Vivian	Note 1	2,300,000	—	537,877,118	540,177,118	45.10
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 Dr. Tam Wai Ho, Samson JP and Mrs. Tam Mui Ka Wai, Vivian (spouse of Dr. Tam Wai Ho, Samson JP). 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). Dr. Tam Wai Ho, Samson JP, Mrs. Tam Mui Ka Wai, Vivian and Mr. Tam Wai Tong, Thomas, being Directors, are directors of Earnmill Holdings Limited.

- Included above is the 20,000,000 shares which are jointly owned by Dr. Tam Wai Ho, Samson JP 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, 2006, 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, 2006:

	Option grant date	Number of options movement during the period				Outstanding at 30th September, 2006
		Outstanding at 1st April, 2006	Granted	Exercised	Cancelled	
<b>Directors</b>						
Tam Wai Ho, Samson JP	19.04.2004	900,000	—	—	—	900,000
Tam Wai Tong, Thomas	19.04.2004	900,000	—	—	—	900,000
Tam Mui Ka Wai, Vivian	19.04.2004 07.08.2006	400,000 —	400,000	—	—	400,000 400,000
Kazuhiro Otani	19.04.2004 03.06.2005 07.08.2006	900,000 800,000 —	—	—	—	900,000 800,000 800,000
Lee Koon Hung (Note 1)	19.04.2004 03.06.2005 19.07.2006 07.08.2006	1,400,000 1,300,000 — —	—	—	—	1,400,000 1,300,000 500,000 800,000
Fok Ting Yeung, James	12.08.2002 24.03.2003 19.04.2004 03.06.2005 07.08.2006	400,000 400,000 400,000 400,000 —	—	—	—	400,000 400,000 400,000 400,000 400,000
Total (Directors)		8,200,000	2,900,000	—	—	11,100,000
<b>Employees</b>						
	12.08.2002 24.03.2003 19.04.2004 03.06.2005 19.07.2006	30,000 96,000 4,645,000 5,962,000 —	—	—	(92,000) (204,000) (72,000)	30,000 96,000 4,553,000 5,758,000 6,599,000
Total (Employees)		10,733,000	6,671,000	—	(368,000)	17,036,000
Grand Total		18,933,000	9,571,000	—	(368,000)	28,136,000

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 — 19.01.2010	0.950
03.06.2005	26.04.2005 — 25.04.2006	26.04.2006 — 25.04.2009	0.606
19.07.2006	15.06.2006 — 14.06.2007	15.06.2007 — 14.06.2010	0.554
07.08.2006	15.06.2006 — 14.06.2007	15.06.2007 — 14.06.2010	0.554

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, 2006, 1,500,000 options of Mrs. Lee were included under the interests in options of Mr. Lee Koon Hung set out above.

Both the closing prices of the Company's shares immediately before the date of grant on 19th July, 2006 and 7th August, 2006 were HK\$0.56.

The fair value of an option on one share of the Company granted during the six months ended 30th September, 2006 with exercise price per share of HK\$0.554 is estimated at HK\$0.09. The following significant assumptions were used to derive the fair value, using the Binomial option pricing model:

Estimated expected life of options granted	3.17 years
Expected volatility based on historical share price movement	34.61%
Hong Kong Exchange Fund Notes Rate on 19th July, 2006	4.64%
Hong Kong Exchange Fund Notes Rate on 7th August, 2006	4.20%
Expected annual dividend yield based on dividend payments in the last 12 months	9.09%
Risk-of-forfeiture adjustment	10.08%

The Binomial 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.

HK\$307,990 (2005: HK\$514,286) is recognized in the consolidated income statement during the year in respect of the value of options granted.

### SUBSTANTIAL SHAREHOLDERS

At 30th September, 2006, 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:

<b>Name of shareholder</b>	<b>Number of ordinary shares held (long position)</b>	<b>% of issued share capital</b>
Earnmill Holdings Limited	537,877,118 (Note 1)	44.91
Value Partners Limited	95,898,000 (Note 2)	8.01
Cheah Cheng Hye	95,898,000 (Note 2)	8.01

Notes:

1. The shareholding is also included in the "Directors' Interests in Securities" disclosed above.
2. Value Partners Limited is holding the 95,898,000 shares as an investment manager. Mr. Cheah Cheng Hye is deemed to be interested in such shares through his 32.77% interest in Value Partners Limited.

Save as disclosed above, at 30th September, 2006, 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 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 of the Audit Committee), 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 87.5% 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, 2006.

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 to the Listing Rules throughout the six months ended 30th September, 2006, with deviation from the first part of the first sentence of the code provision E.1.2 of the Code.

Under the first sentence of the code provision E.1.2 of the Code, the chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. Dr. Tam Wai Ho, Samson JP, the chairman of the Board and the chairman of the Remuneration Committee, was unable to attend the annual general meeting of the Company held on 29th September, 2006 due to other business engagement. Dr. Tam has arranged the other members of the Board and Remuneration Committee to attend the annual general meeting and to be available to answer questions at the annual general meeting.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 to the Listing Rules (the “Model Code”) as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, all Directors have complied with the required standard set out in the Model Code throughout the six months ended 30th September, 2006.

By order of the Board

**Group Sense (International) Limited**

**Dr. Tam Wai Ho, Samson JP**

*Chairman*

Hong Kong, 11th December, 2006