



GROUP SENSE (INTERNATIONAL) LIMITED

權智(國際)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 601)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST MARCH, 2004

The Directors of Group Sense (International) Limited (the “Company”) announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March, 2004, together with the comparative figures for the previous year, as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover	2	1,355,648	1,147,607
Cost of sales		(1,019,446)	(816,758)
Gross profit		336,202	330,849
Other operating income		14,690	13,042
Research and development expenses		(68,014)	(60,652)
Distribution and selling expenses		(86,132)	(146,978)
Administrative expenses		(93,973)	(93,899)
Profit from operations	3	102,773	42,362
Finance costs	4	(2,474)	(12,973)
Share of results of associates		(2,403)	(191)
Gain on repurchase of convertible redeemable preferred shares issued to minority shareholders of a subsidiary	5(b)	46,900	–
Reversal of premium on convertible redeemable preferred shares issued to minority shareholders of a subsidiary	5(b)	15,015	–
Gain on disposal of a subsidiary engaged in pager product operation		–	845
Profit before tax		159,811	30,043
Income tax credit (expense)	6	1,698	(3,878)
Profit before minority interests		161,509	26,165
Minority interests		575	15,846
Profit for the year		162,084	42,011
Dividends		41,937	17,768
Earnings per share	7		
Basic		HK13.6 cents	HK3.54 cents
Diluted		HK13.5 cents	HK3.54 cents

NOTES TO THE CONSOLIDATED INCOME STATEMENT

1. CHANGE IN ACCOUNTING POLICY

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”). The term HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and Interpretations approved by the HKSA:

SSAP No. 12 (Revised) Income taxes

In the current year, the Group has adopted SSAP No.12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP No.12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP No.12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP No.12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly. As a result

of this change in policy, the opening balance on the accumulated losses at 1st April, 2002 has been reduced by HK\$9,680,000, representing the cumulative effect of the change in policy prior to 1st April, 2002. The profit for the year ended 31st March, 2004 has been increased by HK\$1,178,000 (2003: reduced by HK\$1,107,000).

2. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is engaged in the design, manufacture and sale of a range of electronic handheld product operation and the ODM products. The segmental information is disclosed in accordance with different types of operations. These operations are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below:

2004

	Electronic handheld products HK\$'000	ODM products HK\$'000	Consolidated HK\$'000
TURNOVER	<u>765,341</u>	<u>590,307</u>	<u>1,355,648</u>
RESULT			
Segment result	<u>79,131</u>	<u>26,067</u>	105,198
Impairment loss of investments in securities			<u>(2,425)</u>
Profit from operations			102,773
Finance costs			(2,474)
Share of results of associates			(2,403)
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 tax			159,811
Income tax credit			<u>1,698</u>
Profit before minority interests			<u>161,509</u>

2003

	Electronic handheld products HK\$'000	ODM products HK\$'000	Consolidated HK\$'000 (Restated)
TURNOVER	<u>781,187</u>	<u>366,420</u>	<u>1,147,607</u>
RESULT			
Segment result	<u>30,835</u>	<u>17,207</u>	48,042
Impairment loss of investments in securities			(5,133)
Unrealised loss on listed equity securities			(81)
Impairment loss of other assets			<u>(466)</u>
Profit from operations			42,362
Finance costs			(12,973)
Share of results of associates			(191)
Gain on disposal of a subsidiary engaged in pager product operation			845
Profit before tax			30,043
Income tax expense			<u>(3,878)</u>
Profit before minority interests			<u>26,165</u>

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Contribution to profit from operations	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	136,992	127,566	28,035	22,844
The PRC, other than Hong Kong	174,746	308,766	7,780	(4,177)
Other Asian markets	961,017	632,661	49,418	20,614
North America	49,385	68,077	12,273	6,648
Europe	30,962	7,792	7,192	2,375
Middle East	2,064	1,447	502	334
Others	482	1,298	(2)	(596)
	<u>1,355,648</u>	<u>1,147,607</u>	<u>105,198</u>	<u>48,042</u>
Impairment loss of investments in securities			(2,425)	(5,133)
Unrealised loss on listed equity securities			-	(81)
Impairment loss of other assets			-	(466)
Profit from operations			<u>102,773</u>	<u>42,362</u>
3. PROFIT FROM OPERATIONS				
			2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:				
Depreciation and amortisation			38,783	46,460
and after crediting:				
Interest income			<u>1,171</u>	<u>1,707</u>
4. FINANCE COSTS				
			2004 HK\$'000	2003 HK\$'000
Interest on:				
Bank borrowings wholly repayable within five years			1,810	4,616
Finance leases			9	167
Promissory notes			655	-
Premium on convertible redeemable preferred shares issued to minority shareholders of a subsidiary			-	8,190
			<u>2,474</u>	<u>12,973</u>
5. CONVERTIBLE REDEEMABLE PREFERRED SHARES ISSUED TO MINORITY SHAREHOLDERS OF A SUBSIDIARY				
(a)	On 28th May 2001, 171,818 voting convertible redeemable series A preferred shares (the "Preferred Shares") were issued to certain minority shareholders ("MI") of a subsidiary (the "Subsidiary"). 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 the agreements (the "Agreements") with the MI in which the MI agreed to sell all the Preferred Shares of HK\$81,900,000 to the Company 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 was 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 recognised by the Group during the year ended 31st March, 2004.			
	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.			

6. INCOME TAX CREDIT (EXPENSE)

	2004 HK\$'000	2003 HK\$'000 (Restated)
Current tax:		
Hong Kong Profits Tax:		
(Under)over provision in prior years	(17)	72
The PRC Income Tax:		
Current year	–	(2,843)
Overprovision in prior years	537	–
	<u>537</u>	<u>(2,843)</u>
Deferred tax:		
Current year	375	(1,107)
Attributable to a change in tax rate	803	–
	<u>1,178</u>	<u>(1,107)</u>
	<u><u>1,698</u></u>	<u><u>(3,878)</u></u>

The Hong Kong Profits Tax represents an underprovision in prior years. No tax is payable on the profit for the year arising in Hong Kong since the assessable profit is wholly absorbed by tax losses brought forward.

The PRC income tax represents an overprovision in prior years which was calculated at the prevailing tax rate in the PRC. No provision for the PRC income tax been made in the current year as the operations in the PRC incurred a tax loss for the year.

In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of deferred tax balances at 31st March, 2004.

7. EARNINGS PER SHARE

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

	2004	2003 (restated)
Profit for the purposes of basic diluted earnings per share:		
Profit for the year	<u><u>HK\$162,084,000</u></u>	<u><u>HK\$42,011,000</u></u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,190,261,487	1,185,806,897
Effect of dilutive potential ordinary shares:		
Share options	<u>8,016,719</u>	<u>447,485</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>1,198,278,206</u></u>	<u><u>1,186,254,382</u></u>

The computation of diluted earnings per share does not assume the conversion of the subsidiaries' preferred shares since the conversion of them would result in an increase in earnings per share for both years ended 31st March.

The adjustment to comparative basic and diluted earnings per share, arising from the changes in accounting policies shown in note 1, is as follow:

	Basic HK cents	Diluted HK cents
Reconciliation of 2003 earnings per share:		
Reported figures before adjustments	3.60	3.60
Adjustment arising from the adoption of SSAP 12 (Revised)	(0.06)	(0.06)
Restated	<u><u>3.54</u></u>	<u><u>3.54</u></u>

DIVIDEND

The Directors propose a final dividend of HK3.0 cents per share in respect of the year ended 31st March, 2004 (2003: HK1.5 cents), payable on or about 3rd September, 2004 to shareholders whose names appear on the Register of Members on 18th August, 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 13th August, 2004 to Wednesday, 18th August, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all properly completed transfer forms accompanied by relevant share certificates must be lodged with Secretaries Limited, Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:00 p.m. on Thursday, 12th August, 2004.

BUSINESS REVIEW

In this fiscal year, turnover of the Group was HK\$1,355.6 million, representing an increase of 18% as compared with the corresponding period last year of HK\$1,147.6 million. The continuous growth of turnover was mainly due to the promising performance of the Group's major operations with steady rise. Operating profit for the year amounted to HK\$102.8 million with an increase of 142% as compared with last year of HK\$42.4 million, and the recurring net profit increased from 3.7% to 7.4% which basically tally with the Group's objective.

Along with the gradual recovery of the global economy, the demand for consumer electronic products has increased slightly. Under the market environment with keen competition, each SBU has made unremitting efforts to expand business and improve operational efficiency, thereby increasing the profit of the Group as compared with that of last year. Such good result was attributable to the stringent cost control, appropriate market strategy, and consequently the Group's solid foundation.

Electronic Dictionary

Electronic Dictionary business remains the core operation of the Group. Through years of effort, the SBU has established a firm foundation in both Asian and overseas markets, and has become the largest producer of electronic dictionary in the world. The Group produced electronic dictionary with over 20 different languages, and has also possessed particular advantage in the manufacturing of medium- to high-range electronic dictionary products. As a result, the business of overseas market last year was registered with satisfying performance.

Nevertheless, the competition remained keen in the electronic dictionary market, especially in Mainland China. The advent of price-war between competitors has worsened the selling environment, resulting in continued depression of price and declining profit margin. What was worse, the outbreak of Severe Acute Respiratory Syndrome (SARS) during the first quarter in this fiscal year had dampened business turnover further. However, with the Group's professional knowledge and extensive industry experience, the results had gradually improved and stabilized along with the subsidence of SARS through the cooperation with a reputable English-learning institution to launch a series of quality electronic dictionaries with learning functions.

The electronic dictionary market nowadays has developed into the stage that only the stronger ones survive. However, with the excellent R&D capability, attitude of ever-improving and professional product design, it is believed that the Group would further strengthen its leading position in the market.

Smartphone

To keep abreast of the latest market trend, the SBU has shifted its operation focus from developing PDA in the past to high quality smartphone presently. In view of the business results of this year, the Group has made a good start. As the smartphone business has gradually dominated the business, the name of the SBU was changed to "Smartphone" correspondingly.

In September, the Group launched its first self-developed smartphone G18 with Palm operating system, which was well received in the market. This also aroused the attention and interest of the telecommunication service providers, which in turn reflected the Group's success in the start-up of the smartphone business. As a result, the Group gains confidence to expand into other markets beyond Asia. Nevertheless, the Group would still remain its focus on developing PDA, in order to produce customized products to fulfill the needs of the market.

ODM

The ODM operation reported a remarkable increase in sales performance in this fiscal year, especially in the Japanese market. Our encouraging results were attributable to the close and interactive cooperation between the Group and its customers, which made the customers more confident on the Group and resulted in more orders. This fully reflected the major customers' recognition and satisfaction to the Group. Besides, the implementation of various effective measures such as enhancing operational efficiency, stringent quality and cost control had also contributed to the remarkable growth in sales turnover.

OUTLOOK

It is envisaged that economic development in Hong Kong and Mainland China as well as Pacific Asian would be fuelled after Hong Kong's entering into Closer Economic Partnership Agreement (CEPA) with Mainland China. The economy will rebound from the worst situation after the SARS outbreak, thereby enhancing the customers' spending power. To grasp this opportunity, the Group will hence place more resources in technology research to enhance competitiveness. It is hoped that new business scope will be explored and more new businesses will be created. Furthermore, the Group will continue to maintain a closer cooperation with the suppliers, so as to provide high quality and value for money products to users and customers. The Group will also devote its effort to satisfy the every need of different customers, promoting the image of the Group.

Electronic Dictionary

As aforementioned, the competition in the electronic dictionary market tends to become more intensified. However, the Group is optimistic to the prospect with our well-established brand name, the advantage in producing medium- and high-range products and in the overseas market, as well as the addition of innovative technology and features to the electronic dictionary.

Regarding to the market in Mainland China, the Group will adopt a relatively conservative strategy under various uncertain factors. The investment in the promotion in Mainland China market will be reduced. As the Group fully recognized the importance of the quality of products, resources will be placed on R&D continuously to manufacture new products with value-for-money features and improve current developing techniques. Moreover, the Group will continue to seek cooperation with other reputable English-learning institutions to convert traditional electronic dictionary into diverse learning devices, with an aim to maintain its market share and strengthen its leading position, and to make continuous solid contribution to the Group's result in terms of growth and profits.

Smartphone

Looking ahead, it is expected that there is vast room for development and that an increase in the performance will be achieved as compared to previous year. To avoid taking the risk of single market, the Group will dedicate to explore new markets and provide high quality products to local telecommunication service providers and well-known mobile phone producers in order to access to overseas market. By so doing, more income will be generated from different markets. Besides, the Group will devote its effort to develop new and high quality products such as adding to smartphone with more multimedia features, and propose various solutions for customers in different regions to provide them with the most suitable products with specialized features that fit in with market development. The plan of launching our new smartphone model in the second half of the year is expected to bring new contribution to the business, such that the SBU will remain ongoing stable development under the vigorous competition in the market.

ODM

The SBU will keep focusing on providing customers with quality products, comprehensive services and efficient project management to achieve greater customers' trust and satisfaction. In order to improve products quality, we will enhance R&D capability and provide more R&D services. Besides working closely with our existing customers, we will also form strategic alliances with other well-known strategic customers so as to broaden our customer base with an aim to achieve appropriate balance. In spite of the unstable supply of components in the world that may erode the profit margin in the coming year, we believe that certain increase in sales performance will be obtained by applying appropriate strategy on component purchasing.

CONCLUSION

As the economy has recovered gradually and the Asian economy remained stable, the Group is optimistic to the business prospect. The Group will increase its effort to develop and launch high value-added products, enhance service standard and reinforce cost control. Emphasis on exploring new businesses will also be made to broaden sales network. Therefore, the Group not only expects a desirable result in the Pacific-Asia, but also an exploration to the European market that takes a major step towards the development of the Group's business. In conclusion, the Group remains confident in the business performance in the year ahead.

LIQUIDITY AND FINANCIAL RESOURCES

Bank balances and cash amounted to HK\$242.7 million at 31st March, 2004, which is HK\$60.7 million or 33% higher than that at 31st March, 2003. Total bank borrowings increased from HK\$56.1 million to HK\$88.8 million, an increase of 58%, during the twelve months period.

The improvement in liquidity is a result of the positive cash inflow from operating activities. An increase in net cash position of HK\$28 million was resulted.

Majority of the bank borrowings, around 71% or HK\$63.1 million, are short term borrowings that are to be due within one year. The remaining HK\$25.8 million are long term borrowings that are to be due after one year.

Gearing ratio, defined as total bank borrowings divided by shareholders' funds, of the Group slightly increased from 12.5 % to 15.1% a year ago.

ACQUISITION OF THE ENTIRE ISSUED PREFERRED SHARES OF A SUBSIDIARY

During the financial year ended 31st March, 2004, the Company and a subsidiary (the "Subsidiary") together with the holders of the entire issued convertible and redeemable Series A Preferred Shares of the Subsidiary agreed to purchase all of these Preferred Shares at a total consideration of HK\$35.0 million. As a result, a non-recurring gain of HK\$46.9 million together with the reversal of the accrued redemption premium on the Preferred Shares of HK\$15.0 million made in previous years were recognised.

The Subsidiary would also issue warrants to the holders of the said Preferred Shares enabled them to subscribe for ordinary shares representing up to 10% of the issued capital of the Subsidiary upon exercise.

PROPERTIES AND CHARGES ON ASSETS

There was no addition or disposal of properties during the year.

Certain assets are pledged as security for general banking facilities granted to the Group. At 31st March, 2004, the carrying value of the assets pledged is HK\$100.0 million which is HK\$2.6 million lower than that of the previous year.

CONTINGENT LIABILITIES

At 31st March, 2004, trade bills discounted to banks with recourse amounted to HK\$21.7 million, which is HK\$5.9 million higher than that of the previous year. Guarantees of HK\$8 million in respect of general banking facilities were granted to an associate for this and the previous years and HK\$4.0 million of which was utilised by that associate, which is HK\$0.8 million higher than the previous year.

FOREIGN CURRENCIES AND TREASURY POLICY

Most of the Group's business transactions, assets and liabilities are denominated in either Hong Kong Dollars, United States Dollars or China Renmenbi. A small portion of the Group's purchases of raw material is denominated in Japanese Yens. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not engage in interest rate of foreign currency speculative activities.

EMPLOYEES

At 31st March, 2004, the Group has on its payroll 256 (2003: 249) employees in Hong Kong, 4,261 (2003: 3,737) in Mainland China and 78 (2003: 75) in Singapore representing an increase of 2.8%, 14.0% and 4.0% respectively when compared with prior year. In addition to salary payment and normal fringe benefits such as annual leave, medical insurance and provident fund, the Group also has Share Incentive Plans for executive directors and senior staff.

APPRECIATION

On behalf of the Board of Directors, I wish to thank our shareholders, customers, suppliers and bankers for their continuing support to the Group and to extend my appreciation to all members of staff for their dedication and contribution throughout the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the financial year ended 31st March, 2004, the Company repurchased its own shares through The Stock Exchange of Hong Kong Limited a total of 1,342,000 ordinary shares at an aggregate price of HK\$348,920 before expenses. All of these shares had been cancelled. Details of the repurchases are as follows:

Month of Purchase	Number of ordinary shares of HK\$0.10 each repurchased	Price per Share		Aggregate Prices HK\$
		Highest HK\$	Lowest HK\$	
April 2003	1,342,000	0.26	0.26	348,920

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the financial year.

AUDIT COMMITTEE

The Audit Committee comprises independent non-executive directors, Mr. Yung Wing Ki, Samuel MH (Chairman) and Mr. Ho Kwok Shing, Harris, and a non-executive director, Mr. Lo Chi Chung, William.

During the year, the Audit Committee held three meetings with all members present to review with management the accounting principles and practices adopted by the Group and discuss internal control and financial reporting matters including the review of the audited financial statements.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") throughout the year ended 31st March, 2004.

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 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board
Tam Wai Ho, Samson
Chairman

Hong Kong, 14th July, 2004

* For identification purpose only

The Directors of the Company at the date of this announcement are as follows:

Executive Directors:

Mr. Tam Wai Ho, Samson
Mr. Tam Wai Tong, Thomas
Mrs. Tam Mui Ka Wai, Vivian
Mr. Kazuhiro Otani
Mr. Lee Koon Hung
Dr. Fok Ting Yeung, James

Non-executive Director:

Mr. Lo Chi Chung, William

Independent Non-executive Directors:

Mr. Yung Wing Ki, Samuel MH
Mr. Ho Kwok Shing, Harris

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