

Millennium Sense Holdings Limited
千禧智慧控股有限公司



Interim Report

2002

OPERATING RESULTS

The Board of Directors (the “Board”) of Millennium Sense Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2002, together with the comparative figures for the corresponding period last year as follows:–

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2002

		Six months ended	
		31 December	
		2002	2001
	Notes	HK\$'000	HK\$'000
Turnover	3	69,969	72,186
Cost of sales		(53,194)	(53,496)
Gross profit		16,775	18,690
Other revenue		1,298	711
Distribution costs		(4,755)	(3,872)
Administrative expenses		(10,029)	(11,237)
Other operating expenses		(2,832)	(444)
Profit from operation activities	4	457	3,848
Finance costs		(661)	(1,014)
		(204)	2,834
Share of (loss)/profit of a jointly-controlled entity		(15)	434
(Loss)/profit before taxation		(219)	3,268
Taxation	5	(112)	(211)
Net (loss)/profit from ordinary activities attributable to shareholders		(331)	3,057
Dividend	6	Nil	Nil
(Loss)/earnings per share	7		
Basic		(0.2) Cents	2.0 Cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET*As at 31 December 2002*

		UNAUDITED	AUDITED
		31 December	30 June
		2002	2002
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	8	48,790	49,395
Intangible assets		1,342	1,423
Interest in a jointly-controlled entity		537	490
		<u>50,669</u>	<u>51,308</u>
CURRENT ASSETS			
Inventories		20,089	12,879
Trade and bills receivables	9	11,835	27,232
Prepayment, deposit, and other receivables		10,380	9,620
Pledged deposits		2,035	2,028
Cash and bank balances		12,158	938
		<u>56,497</u>	<u>52,697</u>
CURRENT LIABILITIES			
Trade payables	10	22,860	22,677
Other payables and accrued liabilities		11,732	6,016
Tax payable		2,778	2,743
Interest-bearing bank and other borrowings		8,907	12,488
		<u>46,277</u>	<u>43,924</u>
NET CURRENT ASSETS		<u>10,220</u>	<u>8,773</u>
TOTAL ASSET LESS CURRENT LIABILITIES		<u>60,889</u>	<u>60,081</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		2,054	2,245
Finance lease payable		815	377
		<u>2,869</u>	<u>2,622</u>
MINORITY INTEREST		<u>18</u>	<u>19</u>
		<u>58,002</u>	<u>57,440</u>
CAPITAL AND RESERVES			
Share capital	11	15,000	15,000
Reserves		43,002	42,440
		<u>58,002</u>	<u>57,440</u>

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2002

	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening balance – Total equity	57,440	66,648
Exchange differences on translation of the financial statements of non-Hong Kong entities	<u>893</u>	<u>2,208</u>
Net gains and losses not recognized in the income Statement	<u>893</u>	<u>2,208</u>
Net profit for the period	<u>(331)</u>	<u>3,057</u>
Closing balance – Total equity	<u>58,002</u>	<u>71,913</u>

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2002

	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	13,832	4,208
Net cash outflow from returns on investments and servicing of finance	(627)	(567)
Tax paid	(112)	(3,454)
Net cash outflow from investing activities	<u>(2,709)</u>	<u>(2,449)</u>
Net cash outflow before financing activities	10,384	(2,262)
Net cash outflow from financing activities	<u>(1,445)</u>	<u>(79)</u>
Increase/(decrease) in cash and cash equivalents	8,939	(2,341)
Cash and cash equivalents at beginning of the Period	<u>(7,375)</u>	<u>6,285</u>
Cash and cash equivalents at end of the Period	<u>1,564</u>	<u>3,944</u>
Analysis of the balances of cash and cash and cash equivalent		
Cash and bank balance	12,158	3,944
Bank overdrafts and trust receipts loans with maturities of less than three months when acquired	<u>(10,594)</u>	<u>–</u>
	<u>1,564</u>	<u>3,944</u>

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2002

1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The sole principal activity of the Group is the design, manufacture and sale of cigarette lighters and lighter-related accessories.

In the opinion of the directors, the ultimate holding company is Four Guard Int'l Limited, a company incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of land and buildings in Hong Kong.

The unaudited interim results of the Group have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting”, and on a basis consistent with the accounting policies adopted in preparing the annual report of the Group for the year ended 30 June 2002.

Certain presentational changes have been made in order to ensure consistency with the presentation format of the latest annual report.

3. SEGMENTAL INFORMATION

The sole principal activity of the Group is the design, manufacture and sale of cigarette lighters and lighter-related accessories. An analysis of the Group’s turnover and contribution to profit from operating activities by geographical area of market for the six months ended 31 December 2002 is as follows:

	UNAUDITED Turnover Six months ended 31 December		UNAUDITED Contribution to profit from operating activities Six months ended 31 December	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
United States	24,566	27,356	5,890	7,249
The People’s Republic of China (“PRC”):				
Hong Kong	4,145	5,893	994	1,562
Elsewhere	5,766	6,823	1,382	241
Asia	13,709	21,651	3,287	6,929
Others	21,783	10,463	5,222	2,709
	<u>69,969</u>	<u>72,186</u>	16,775	18,690
Expenses, net of income			<u>(16,318)</u>	<u>(14,842)</u>
Profit from operating activities			<u>457</u>	<u>3,848</u>

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	UNAUDITED	
	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses	662	613
Cost of goods sold	53,194	53,496
Depreciation:		
Owned fixed assets	2,656	1,771
Leased fixed assets	401	78
Amortisation of intangible assets	339	239
Provision for diminution in value of investment securities	<u>–</u>	<u>950</u>

5. TAXATION

	UNAUDITED	
	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong	112	196
PRC, elsewhere other than Hong Kong	–	15
Deferred tax	<u>–</u>	<u>–</u>
	<u>112</u>	<u>211</u>

Hong Kong Profits Tax is calculated at the rate of 16% on the estimated assessable profit arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

There is no significant unprovided deferred taxation for both interim periods.

6. DIVIDEND

The directors have resolved that no interim dividend be declared in respect of the six months ended 31 December 2002 (six months ended 31 December 2001: Nil).

7. EARNINGS PER SHARE

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

	UNAUDITED	
	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss)/earnings		
(Loss) /earnings for the purposes of basic and diluted (Loss)/earnings per share (net loss/profit attributable to shareholders)	<u>(331)</u>	<u>3,057</u>
	<i>thousand</i>	<i>thousand</i>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>150,000</u>	<u>150,000</u>

8. FIXED ASSETS

During the period, the Group spent approximately HK\$2,400,000 (six months ended 31 December 2001: HK\$2,400,000) on fixed assets.

9. TRADE AND BILLS RECEIVABLES

The Group's credit terms granted to its customers range between 30 to 90 days. Payments for the Group's products are primarily settled on an open account basis. Customers' creditworthiness is assessed regularly to minimise credit risks.

The following is an aged analysis of trade and bills receivables at the reporting date:

	31 December	30 June
	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(UNAUDITED)</i>	<i>(AUDITED)</i>
1-3 months	8,679	6,283
4-6 months	3,073	4,069
7-12 months	83	7,367
13-24 months	<u>–</u>	<u>9,513</u>
	<u>11,835</u>	<u>27,232</u>

10. TRADE PAYABLES

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

	31 December 2002	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(UNAUDITED)</i>	<i>(AUDITED)</i>
1-3 months	18,738	12,845
4-6 months	2,788	5,425
7-12 months	1,334	1,514
13-24 months	–	349
Over 24 months	–	2,544
	<u>22,860</u>	<u>22,677</u>

Included in trade payables is a trade payable of approximately HK\$16,364,000 (as at 30 June 2002: HK\$15,676,000) due to the jointly-controlled entity, which has no fixed terms of repayment.

11. SHARE CAPITAL

There were no movements in the share capital of the Company in the current interim reporting period.

12. COMMITMENTS

At 31 December 2002, the Group had the following capital commitments:

	Group	
	31 December 2002	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(UNAUDITED)</i>	<i>(AUDITED)</i>
Contracted, but not provided for:		
Capital contributions to a subsidiary	31,721	29,375
Plant and machinery	986	8,913
	<u>32,707</u>	<u>38,288</u>

At 31 December 2002, the Company did not have any other significant commitments.

13. LEASE ARRANGEMENT

As at the balance sheet date, the Group leases out a number of investment properties under operating leases. The investment properties were leased out for periods of one to three years without renewal options given to the leases.

As at the balance sheet date, the future minimum lease payments under non-cancellable operating leases are receivable for each of the following period is:

	Group	
	31 December 2002	30 June 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(UNAUDITED)</i>	<i>(AUDITED)</i>
Not later than one year	220	546
Later than one year and not later than five Years	–	328
	<u>220</u>	<u>874</u>

14. RELATED PARTY TRANSACTIONS

During the period, the Group had the following material transaction with its jointly-controlled entity:

	UNAUDITED	
	Six months ended	
	31 December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Purchases of finished goods	23,755	28,155
Sales of raw materials	5,754	6,311
Sales of machinery and moulds	15	512
	<u> </u>	<u> </u>

15. CONTINGENT LIABILITIES

At 31 December 2002, the Group had contingent liabilities not provided for in the financial statements in respect of bills discounted with recourse amounting to approximately HK\$5,100,000 (as at 30 June 2002: HK4,000,000).

At 31 December 2002, the Company had contingent liabilities not provided for in the financial statements in respect of guarantees given to the banks in connection with facilities granted to a subsidiary amounting to HK\$79,028,000 (as at 30 June 2002: HK\$55,336,000). On the same day, such facilities were utilised to the extent of approximately HK\$20,093,000 (as at 30 June 2002: HK\$17,800,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overall Review and Analysis by Geographical Segments

The Group's turnover for the six months ended 31 December 2002 (the "Reporting Period") decreased by approximately 3% to HK\$69,969,000 as compared with the turnover for the six months ended 31 December 2001 (the "Corresponding Period"). The drop in turnover was mainly due to the gloomy economic condition in the US and Japan. However, the growth in turnover attributed to developing markets has offset some of the effect of the deterioration of US and Japan markets. The Group had also made a provision for slow moving raw materials and finish goods of approximately HK\$1,600,000. As a result, the Group had recorded a loss of approximately HK\$331,000 during the Reporting Period. The gross profit margin had decreased approximately 2% to approximately 24% in the Reporting Period. The drop in gross profit margin is due to the fall in export unit price.

Analysis by Business Segments

The Group's primary segment is the design, manufacture and sale of cigarette lighters and lighter-related accessories. Since this is the only business segment of the Group, no further analysis thereof is presented.

Product Development

During the Reporting Period, the Group continued to work on new product design development. Our own research and development team will continue to work on design, component development, sample making and modification, and production engineering in order to accelerate production, improve production efficiency and product quality, and diversify product designs.

Market expansion

In the past, the group's marketing strategy was mainly focus on the markets of US and Japan. However, the group has realized that many developing countries have large populations, and their markets have great potential. The group will allocate more resources to expand its market share in those geographic segments. In order to achieve this objective, the group will design and manufacture more products which suite the tastes of those markets, and simultaneously deploy more effective sales network in these regions.

Capital Expenditure

The Group has capital expenditure of approximately HK\$1,200,000 for leasehold land and buildings, and approximately HK\$1,200,000 for additional plant and machinery during the Reporting Period.

Investment in properties

The Directors do not aware any material change regarding the investment in properties from the information disclosed in the most recent published annual report.

Liquidity and Financial Resources

As at 31 December 2002, net current assets and current ratio of the Group were approximately HK\$10,220,000 (as at 30 June 2002: HK\$8,773,000) and 1.22 (as at 30 June 2002: 1.20) respectively. The current assets comprised inventories of approximately HK\$20,089,000 (as at 30 June 2002: 12,879,000), trade and bills receivables of approximately HK\$11,835,000 (as at 30 June 2002: HK\$27,232,000) and cash and cash equivalents of approximately HK\$12,158,000 (as at 30 June 2002: HK\$938,000).

As at 31 December 2002, the Group had a total outstanding debt and finance lease obligation of HK\$11,776,000 (30 June 2002: HK\$15,110,000), of which HK\$2,533,000 (30 June 2002: HK\$6,487,000) was secured bank loan, HK\$6,424,000 (30 June 2002: HK\$7,306,000) was secured overdrafts, and HK\$2,819,000 (30 June 2002: HK\$1,317,000) was obligation under finance lease. Our gearing ratio was at a ratio of zero (30 June 2002: 4.56%). The computation is based on long-term borrowings of the Group divided by shareholders' fund as at 31 December 2002.

Capital Structure

The Group generally finances its operation with internally generated resources and banking and credit facilities provided by the banks in Hong Kong. Borrowing methods used by the Group mainly include trust receipts loans, overdrafts facilities and bank loans. The interest rates of most of these are fixed by reference to the Hong Kong Dollar Prime Rate for foreign currency's Trade Finance Rates.

Employees and remuneration policies

As at 31 December 2002, the Group had about 2,077 employees spreading from Hong Kong to the PRC. Industrial relationship had been well maintained. The Group had adopted a share option scheme whereby certain employees of the Group may be granted options to acquire shares.

Charges on Group's Assets

At 31 December 2002, the Group pledged its investment properties and certain leasehold land and building with aggregate net book values of approximately HK\$10,912,000 (as at 30 June 2002: HK\$10,912,000) and HK\$5,241,000 (as at 30 June 2002: HK\$5,294,000) respectively as securities for banking facilities granted to the Group.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in US dollars and Hong Kong dollars. Foreign exchange exposure of the Group is mainly minimal so long as the Hong Kong SAR Government's policy to link the Hong Kong dollars to the US dollars remains in effect.

Since the Group's principal manufacturing operations are in the PRC and most of the operating expenses are denominated in Renminbi, the management is aware of possible exchange rate exposure.

Contingent Liabilities

At 31 December 2002, the Company had contingent liabilities not provided for in the financial statements in respect of bill discounted with recourse amounting to approximately HK\$5,100,000 (as at 30 June 2002: HK\$4,000,000).

At 31 December 2002, the Company had contingent liabilities not provided for in the financial statements in respect of unlimited corporate guarantees given to the banks for general banking facilities granted to a subsidiary amounting to HK\$79,028,000 (as at 30 June 2002: HK\$55,336,000). On the same day, such facilities were utilized to the extent of approximately HK\$20,930,000 (as at 30 June 2002: HK\$17,800,000).

Prospects

The performance of the Group for the past six months was adversely affected by the continued gloomy economic condition.

However, since the Group's products are daily commodities, the demand in the market will not fluctuate too dramatically because of the temporary unfavourable economic condition. The Directors believe that the demand in the U.S. and Japan will resume as the economic condition swings back to normal in the future. To lower the geographical risk that Group may suffer due to the economic downturn in its existing markets, the Group has extended its geographical reach to certain developing markets. The Directors believe that the sales from these newly developed markets will not only compensate the loss in turnover in its existing markets, but will also be beneficial for the Group to globalize its products.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the company's listed securities.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2002, the interests of the directors in the share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Name of director	Number of ordinary shares of the Company (Other Interests) <i>(Note)</i>
Sher Tak Chi	100,000,000
Kang Hsiao Fang	100,000,000
Sher Ching Yee	100,000,000

Note: The 100,000,000 shares are held by Four Guard Int'l Limited, which is wholly owned by three unit trusts. Such unit trusts are respectively held by three discretionary trusts, the beneficiaries of which are Kang Hsiao Fang, Sher Ching Yee and the family members of Sher Tak Chi.

In addition to the above, a director has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2002, the persons recorded in the register maintained by the Company pursuant to Section 16(1) of the SDI Ordinance as being directly or indirectly interested in 10% or more of the Company issued share capital were as follows:

Name of shareholder	Number of ordinary shares of HK\$0.10 each held	Interest %
Four Guard Int'l Limited	100,000,000	67

Note: The above interest in the name of Four Guard Int'l Limited was also disclosed as interests of certain directors under the heading "Directors' interests in shares".

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the Section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

AUDIT COMMITTEE

To comply with the revised Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Code"), an audit committee (the "Committee") has been established on 3 July 2000 with written terms of reference for the purpose of reviewing the accounting principles and practices adopted by the Group and to discuss auditing, internal control and financial reporting matters. The members of the Committee are Mr. Lo Hang Fong and Mr. Leung Hoi Yin, both of whom are the independent non-executive directors of the Company.

CODE OF BEST PRACTICE

All of the recommendations and guidelines of the Code have been complied with by the Company, except that the independent non-executive directors are not appointed for specific terms as recommended by the Code. According to the bye-laws of the Company, one third of the directors of the Company will retire by rotation every year and their appointments will be reviewed when they are due for re-election which, in the opinion of the directors, meets the same objective.

APPRECIATION

On behalf of the Board, I would like to thank our customers for their support during the period. I would also like to express our sincere appreciation to our shareholders, suppliers, bankers and staffs for their efforts and commitments.

On behalf of the Board
Sher Tak Chi
Chairman

Hong Kong, 18 March 2003