

■ REPORT OF THE DIRECTORS

- The directors herein present their report and the audited financial statements of Millennium Sense Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 30 June 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 14 to the financial statements. There was no significant change in the nature of the Group's principal activity during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 30 June 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 26 to 62.

The directors do not recommend the payment of any dividend for the year.

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/(loss) from operating activities by geographical area of market for the year ended 30 June 2001 is as follows:

| | Turnover | | Contribution to profit/(loss) from operating activities | |
|---|----------------|----------|---|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| By geographical area: | | | | |
| United States of America | 62,108 | 57,508 | 12,748 | 18,950 |
| The People's Republic of China ("PRC"): | | | | |
| Hong Kong | 28,033 | 57,429 | 5,754 | 27,698 |
| Elsewhere | 21,264 | 18,444 | 4,365 | 1,318 |
| Asia | 36,413 | 35,787 | 7,474 | 13,394 |
| Europe | 10,789 | 10,902 | 2,214 | 3,857 |
| Others | 12,793 | 12,232 | 2,626 | 3,671 |
| | 171,400 | 192,302 | 35,181 | 68,888 |
| Expenses, net of income | | | (36,498) | (22,985) |
| Profit/(loss) from operating activities | | | (1,317) | 45,903 |

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group prepared on the bases set out in the notes below is as follows:

Results

| | Year ended 30 June | | | | |
|--|--------------------|----------|----------|----------|----------|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Note 2) | (Note 2) | (Note 1) | (Note 1) | (Note 1) |
| TURNOVER | 171,400 | 192,302 | 166,387 | 178,944 | 186,598 |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | (1,317) | 45,903 | 40,541 | 45,537 | 50,289 |
| NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS | (8,541) | 30,862 | 28,141 | 29,747 | 40,898 |

Assets and liabilities

| | As at 30 June | | |
|-------------------|---------------|----------|-----------|
| | 2001 | 2000 | 1999 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Note 3) | (Note 3) | (Note 3) |
| TOTAL ASSETS | 113,338 | 146,054 | 174,638 |
| TOTAL LIABILITIES | (46,690) | (71,249) | (121,959) |
| NET ASSETS | 66,648 | 74,805 | 52,679 |



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■ **SUMMARY FINANCIAL INFORMATION (continued)**

Notes:

- (1) The summary of the combined results of the Group for the three years ended 30 June 1999 has been extracted from the Company's prospectus dated 22 June 2000 and was prepared on a combined basis as if the current structure of the Group had been in existence throughout these years.
- (2) The results of the Group for the years ended 30 June 2001 and 30 June 2000 have been extracted from the audited financial statements for the years ended 30 June 2001 and 30 June 2000 and were prepared on the basis set out in notes 2 and 4 to the respective financial statements.
- (3) As the Company has only published its financial statements for the years ended 30 June 2001, 30 June 2000 and 30 June 1999, the only published details of its assets and liabilities are as at 30 June 2001, 2000 and 1999.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in note 12 to the financial statements. Further particulars of the Group's leasehold land and buildings and investment properties are set out on pages 63 and 64 of the annual report respectively. This summary is not part of the audited financial statements.

SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITY

Particulars of the Company's subsidiaries and the Group's interest in its jointly-controlled entity are set out in notes 14 and 15 to the financial statements, respectively.

BANK LOANS, OVERDRAFTS AND OTHERS BORROWINGS

Details of the bank loans, overdrafts and other borrowings of the Group are set out in notes 21, 22 and 23 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year together with the reasons therefore, are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 30 June 2001, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$59,348,000 (2000: HK\$63,510,000). In addition, the Company's share premium account, in the amount of HK\$6,459,000 (2000: HK\$6,459,000) may be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for the pre-emptive rights under the Company's bye-laws/articles of association or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Sher Tak Chi

Kang Hsiao Fang

Sher Kam Hong

Sher Ching Yee

Romero Villalba Juan

Independent non-executive directors

Lo Hang Fong

Lee Ka Leung, Daniel (resigned on 18 June 2001)

Leung Hoi Yin (appointed on 18 June 2001)

In accordance with clause 87 of the Company's bye-laws, Sher Kam Hong will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The independent non-executive directors do not have specific terms of appointment but are subject to retirement on the same basis as the executive directors as required by the Company's bye-laws.

In accordance with clause 86(2) of the Company's bye-laws, Mr. Leung Hoi Yin will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 15 of the annual report.



■ REPORT OF THE DIRECTORS

■ REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the remuneration of the directors and of the five highest paid individuals in the Group are set out in notes 5 and 6 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial term of three years commencing from 3 July 2000 and shall continue thereafter unless terminated in accordance with the terms of the service contracts.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the Company's share option scheme, the directors may, at their discretion, grant options to executive directors or employees of the Group to subscribe for shares in the Company. Details of the share option scheme are set out in note 24 to the financial statements.

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, 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:

Ordinary shares of the Company

| Name of director | Number of shares held and nature of interest | |
|------------------|--|-------------|
| | | Other |
| Sher Tak Chi | (Note) | 100,000,000 |
| Kang Hsiao Fang | (Note) | 100,000,000 |
| Sher Ching Yee | (Note) | 100,000,000 |

DIRECTORS' INTERESTS IN SHARES (continued)

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.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a material interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company, its holding company or its subsidiaries was a party at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the persons interested in 10% or more of the issued share capital of the Company as recorded in the register of interests kept by the Company pursuant to Section 16(1) of the SDI Ordinance 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.



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■ **MAJOR CUSTOMERS AND SUPPLIERS**

During the year ended 30 June 2001, sales to the Group's five largest customers accounted for approximately 78% of the total sales for the year and sales to the largest customers included therein amounted to approximately 34%.

Purchases from the Group's five largest suppliers accounted for approximately 36% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 24%. Shandong Luneng Plastics & Metal Mfg. Co., Ltd., a jointly-controlled entity of the Group, is one of the Group's five largest suppliers.

Except as disclosed above, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

PENSION SCHEME

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year ended 30 June 2001 are set out in notes 2 and 4 to the financial statements, respectively.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for year ended 30 June 2001 are set out in note 27 to the financial statements. However, these transactions do not constitute connected transactions of the Company under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in Hong Kong.

IMPORTANT EVENTS

1. On 22 May 2001, Classic Line International Limited ("CLI"), a wholly-owned subsidiary of the Company, entered into two sets of sale and purchase agreement with King Sing Management Corp. ("KSM") and Glory Lion Management Limited ("GLM"), both are independent third parties, to transfer 100% of its shares in Polycity Industrial Limited ("PIL"), a 100% wholly owned subsidiary of the Company, to each of KSM and GLM equally at a consideration of each of KSM and GLM agreeing to pay approximately HK\$1,498,000 to CLI. After the sale and purchase, PIL shall be jointly owned by KSM and GLM equally instead of by CLI.

IMPORTANT EVENTS (continued)

2. On 30 June 2001, CLI entered into two sets of sale and purchase agreement with Glory Lion Management Limited ("GLM") and King Sing Management Corp. ("KSM"), both are independent third parties, to transfer 100% of its shares in Poly Action Development Limited ("PAD"), a 100% wholly owned subsidiary of the Company, to each of GLM and KSM equally at a consideration of each of GLM and KSM agreeing to pay approximately HK\$1,523,000 to CLI. After the sale and purchase, PAD shall be jointly owned by GLM and KSM equally instead of by CLI.
3. Pursuant to an order of suspension of operation (issued in July 2000) imposed by the government of the Guangdong Province of the PRC against factories in the Guangdong Province, which are engaged in the manufacture of dangerous goods including, but not limited to, fireworks and cigarette lighters, Poly Action Plastics & Metal Manufacture Limited, a wholly-owned subsidiary of the Group, which operated a lighter manufacturing factory in Dongguan (the "Dongguan Factory"), has continued its non-dangerous production processes during the year. However, since June 2001, the Group has progressively transferred the production facilities in the Dongguan Factory to a newly established factory in Longnan County, Jiangxi Province (the "Jiangxi Factory"), which is operated by Longnan County Poly Action Plastic & Metal Products Co., Limited, a wholly-owned subsidiary of the Group. The Jiangxi Factory has supplemented the role of the Dongguan Factory as the Group's lighter manufacturing centre.

Subsequent to the balance sheet date, the Dongguan Factory has commenced a voluntary dissolution, which was still in progress as at the date of approval of the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 31 to the financial statements.



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■ **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.

During the year, Mr. Leung Hoi Yin was appointed as a member of the Committee on 18 June 2001 to fill the vacancy left by Mr. Lee Ka Leung, Daniel whom resigned on 18 June 2001.

COMPLIANCE WITH THE 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.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board
SHER Tak Chi
Chairman

Hong Kong, 29 October 2001