

Report of the Directors

The directors 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 2002.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. There was no significant change in the nature of the Group's principal activity during 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 results by geographical area of the market for the year ended 30 June 2002 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's results for the year ended 30 June 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 19 to 47.

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and minority interest of the Group prepared on the bases set out in the notes below is as follows. This summary does not form part of the audited financial statements.

Results

	2002 HK\$'000 (Note 2)	Year ended 30 June			
		2001 <i>HK\$'000</i> (Note 2)	2000 <i>HK\$'000</i> (Note 2)	1999 <i>HK\$'000</i> (Note 1)	1998 <i>HK\$'000</i> (Note 1)
TURNOVER	122,560	171,400	192,302	166,387	178,944
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(2,500)	(1,317)	45,903	40,541	45,537
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(9,763)	(8,541)	30,862	28,141	29,747

Assets and Liabilities

	2002 HK\$'000 (Note 3)	As at 30 June		
		2001 <i>HK\$'000</i> (Note 3)	2000 <i>HK\$'000</i> (Note 3)	1999 <i>HK\$'000</i> (Note 3)
TOTAL ASSETS	104,005	113,338	146,054	174,638
TOTAL LIABILITIES	(46,546)	(46,690)	(71,249)	(121,959)
MINORITY INTEREST	(19)	-	-	-
NET ASSETS	57,440	66,648	74,805	52,679

SUMMARY FINANCIAL INFORMATION *(continued)***Assets and Liabilities** *(continued)*

Notes:

- (1) The summary of the combined results of the Group for the two 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 2002, 30 June 2001 and 30 June 2000 have been extracted from the audited financial statements for the years ended 30 June 2002, 30 June 2001 and 30 June 2000.
- (3) As the Company has only published its financial statements for the years ended 30 June 2002, 30 June 2001, 30 June 2000 and 30 June 1999, the only published details of its assets and liabilities are as at 30 June 2002, 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 13 to the financial statements. Further details of the Group's investment properties are set out on page 48.

SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in note 26 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

At 30 June 2002, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK\$55,862,000 (2001: HK\$59,348,000). In addition, the Company's share premium account, in the amount of HK\$6,459,000 (2001: HK\$6,459,000) may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 76% of the total sales for the year and sales to the largest customer included therein amounted to approximately 41%.

Purchases from the Group's five largest suppliers accounted for approximately 76% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 56%. Shandong Luneng Plastics & Metal Mfg. Co., Ltd., a jointly-controlled entity of the Group, is one of the Group's five largest suppliers.

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.

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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 15 and 16 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 23, 24 and 25 to the financial statements.

DIRECTORS

The directors of the Company during the year were:

Executive directors

Sher Tak Chi
 Kang Hsiao Fang
 Sher Kam Hong
 Sher Ching Yee
 Romero Villalba Juan (resigned on 25 March 2002)

Independent non-executive directors

Lo Hang Fong
 Leung Hoi Yin

In accordance with clause 87 of the Company's bye-laws, Mr. Lo Hang Fong 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.

On 25 March 2002, the Meeting of the Board of Directors of the Company approved the resignation of Mr. Romero Villalba Juan as executive director of the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 11 of the annual report.

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 8 and 9 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.

On 26 June 2001, the service contract of Mr. Sher Tak Chi was replaced by new service contracts entered with the Group for a fixed term of 2 years commencing from 1 July 2001.

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 of compensation, other than statutory compensation.

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 any of its subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 30 June 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:

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

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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the headings "Directors' interests in shares" above and "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and full-time employees of the Group. The Scheme was approved on 13 June 2000 and became effective upon the listing of the Company's shares on the Hong Kong Stock Exchange on 3 July 2000 and, unless otherwise cancelled or amended, will remain in force for 10 years from the date of approval.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. At 30 June 2002, no share options have been granted under the Scheme. The maximum number of shares issuable under share options to each eligible participant in the Scheme may not exceed 25% of the maximum aggregate number of shares in respect of which options may be granted under the Scheme. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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SHARE OPTION SCHEME *(continued)*

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$10 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 80% of the average closing price of the Company's shares on the Hong Kong Stock Exchange for the 5 trading days immediately preceding the date of the option deemed to be granted; and (ii) the nominal value of the shares.

Pursuant to the amendments (the "New Rules") to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, any options granted after 1 September 2001 must comply with the provisions of the New Rules. If the Company wishes to grant options to its directors or other eligible participants in future, a new share option scheme in compliance with the New Rules is required to be approved and adopted by the shareholders of the Company in a general meeting.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held	Percentage of the Company's share capital
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.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the year ended 30 June 2002 are set out in note 32 to the financial statements. However, these transactions do not constitute connected transactions of the Company under Chapter 14 of the Listing Rules.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the directors are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, as defined in the Listing Rules.

IMPORTANT EVENTS

The Group has been transferring its production facilities from the factory in Dongguan in Guangdong Province (the "Dongguan Factory") to the new factory in Longnan County, Jiangxi Province which is operated by Longnan County Poly Action Plastic & Metal Products Co., Limited, a wholly-owned subsidiary of the Group. During the year under review, the relocation of the machinery was completed. Poly Action Plastics & Metal Manufacture Limited, which was responsible for holding the Dongguan Factory, is now in the progress of dissolution as at the date of approval of the financial statements.

AUDIT COMMITTEE

To comply with the revised Code of Best Practice (the “Code”) as set out in Appendix 14 of the Listing Rules, 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

In the opinion of the directors, the Company complied with the Code, throughout the accounting period covered by the annual report, except that the independent non-executive directors are not appointed for specific terms as required by paragraph 7 of 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 2002