

TO ALL SHAREHOLDERS

On behalf of the Board of Directors of the Company, I am pleased to present the annual results of Millennium Sense Holdings Limited (the "Company", together with its subsidiaries and associated company, collectively the "Group") for the year ended 30 June 2001.

RESULTS

For the year ended 30 June 2001, the Group's turnover was approximately HK\$171,400,000, representing a decrease of approximately 11% compared to last year. The net loss from ordinary activities attributable to shareholders was approximately HK\$8,541,000 as compared to last year's net profit of approximately HK\$30,862,000.

DIVIDENDS

The Board does not recommend the payment of a final dividend at the forthcoming Annual General Meeting (2000: 6.6 cents per share).

BUSINESS REVIEW AND OUTLOOK

The year of 2001 was a challenging one for the Group in terms of operation efficiency, which is the controlling factor in determining the performance of the Group. The Group experienced operational difficulties resulted from the temporary suspension of operation of the factory in Dongguan ("Dongguan Factory"), which was mainly responsible for manufacturing most of the high profit margin products of the Group. Because of an explosion disaster of a fireworks factory located at Jiangmen, Guangdong Province, in July 2000, the Government of Guangdong Province announced that all the factories engaging in the manufacturing of fireworks and cigarette lighters in the region had to stop their operation temporarily for inspection. Since then, the operation of the Dongguan Factory was only limited to those non-dangerous works. This partial suspension of operation kept going on for a long period of time. Many orders of the Group were shifted to Shandong Luneng Plastics & Metal Mfg. Co. Ltd. ("Shandong Luneng"), our jointly controlled entity in China. Since Shandong Luneng was not equipped with the necessary facilities and other equipments for manufacturing high-end cigarette lighters, the Group's operation efficiency was greatly reduced, which led to a surge in cost and a sharp drop in profit margin.

To deal with the situation that the Dongguan Factory could not fully resume its operation, the Group had set up a new factory in Longnan County, Jiangxi Province ("Jiangxi Factory"), and decided to close the operation at the Dongguan Factory. At present, the Jiangxi Factory has been established and the relocation of the machinery from the Dongguan Factory to the Jiangxi Factory has been completed. Jiangxi Factory is now almost in full operation.



■ CHAIRMAN'S STATEMENT

■ BUSINESS REVIEW AND OUTLOOK (continued)

The arrangements of the new Jiangxi factory were carefully planned so that it will not only achieve the operating efficiency that the Dongguan Factory previously enjoyed, but also the competitive edge over other lighters manufacturers in the areas of cost control, inventory level and product quality. Directors are confident that after the new Jiangxi Factory is in full operation, it can turn around the Group's lighter manufacturing business and enhance shareholders' value.

Being a company whose major operating activity is manufacturing, we always keep a close eye on the manufacturing processes of our plants. Meanwhile, an overall review on the manufacturing processes is being carried out in an effort not only to streamline the operations, but also to achieve an industrial upgrade. Our engineers and technical personnel are conducting a full study on the structure and the manufacturing procedures of our products so as to manufacture products with better quality and to reduce cost at the same time. In doing so, we are well equipped to increase the Group's ability to meet demand and improve the overall responsiveness to our valued customers.

PROSPECTS

As 70% of Asia's export is headed for North America, it is undoubtedly that the manufacturing weakness of many countries in Asia will continue to deteriorate as a gloomy economic outlook for the United States is expected to persist. We are pleased to report that though the US market accounts for approximately 36% of our total turnover, given the nature of our products which is less susceptible to swings in economic condition, the impacts reported were not detrimental to our overall performance. Nonetheless, competition in the market remained fierce and therefore broader measures must be put in place in order to give ourselves a competitive advantage in this highly-competitive and commodity-typed market environment. Despite the less than satisfactory results this year, the fundamentals of our business remain strong. With our commitment to total customer satisfaction, we are confident that we can revitalize our business and deliver good return to our shareholders.

APPRECIATION

Together with all my fellow directors, I sincerely thank our customers, suppliers and shareholders for their continuing support and all our staff for their loyalty, commitment and hard work.

Sher Tak Chi

Chairman

Hong Kong

29 October 2001