

MANAGEMENT DISCUSSION AND ANALYSIS

We have pleasure in presenting to shareholders the annual report of Millennium Group Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the fifteen months ended 30th June, 2002.

CHANGE OF FINANCIAL YEAR END DATE

The Company’s financial year end date has been changed from 31st March to 30th June as announced on 28th March, 2002. As such, this annual report covers the fifteen months from 1st April, 2001 to 30th June, 2002.

FINANCIAL REVIEW

Turnover of the Group for the fifteen months ended 30th June, 2002 was HK\$193.8 million, an increase of 206% as compared to turnover of HK\$63.3 million for the twelve months ended 31st March, 2001. Gross profit for the fifteen months ended 30th June, 2002 was HK\$70.0 million. This represented an improvement of 8.1 times on gross profit of HK\$7.7 million for the twelve months ended 31st March, 2001.

The increase in turnover and gross profit was a result of the acquisition of One.Tel telecommunication business in Hong Kong. The acquisition was completed during the period; nine months turnover and result of the One.Tel business were consolidated in the Group’s income statement for the fifteen months ended 30th June, 2002.

During the period ended 30th June, 2002, the Group incurred an exchange loss of HK\$3.8 million which was recorded under administrative expenses. The exchange loss was mainly attributable to the Group’s investment in a property interest in the United Kingdom. The interest was disposed of during the period and subsequently the Group did not materially expose to exchange risk.

The Group recorded a loss from operations of HK\$17.4 million for the fifteen months ended 30th June, 2002 as compared to loss of HK\$113.6 million for the prior twelve months ended 31st March, 2001. The loss was mainly attributable to non-cash items such as allowances, depreciation and amortisation.

Net loss for the fifteen months ended 30th June, 2002 was HK\$54.9 million as compared to HK\$84.1 million for the prior twelve months ended 31st March, 2001.

BUSINESS REVIEW

During the period, the Group has acquired 80% equity interest in One.Tel telecommunication business in Hong Kong. Since acquisition, the Group re-articulated the strategies on the marketing, sales and customer services. As a result, the numbers of active customers as well as business volume have been doubled. For the nine months after acquisition, the telecommunication business contributed HK\$143.3 million and HK\$20.6 million to the Group’s turnover and segment profit respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (Cont'd)

The Group's chemical operation, Jilian (Jilin) Petrochemicals Limited ("Jilian") has reported profitability. For the fifteen months ended 30th June, 2002, the Group's share of Jilian's result was HK\$11.0 million as compared to HK\$19.8 million for the prior twelve months ended 31st March, 2001. The Group's share of profit from Jilian was included as the share of results of jointly controlled entities on the consolidated income statement. Subsequent to the balance sheet date, the Group had entered into an agreement with Jilin Chemical Industrial Company Limited ("Jilin Chemical") pursuant to which Jilin Chemical agreed to acquire and the Group agreed to dispose of its entire shareholding in Jilian for an aggregate cash consideration of RMB135 million (or approximately HK\$126.2 million) payable by two installments after satisfaction of certain conditions. As disclosed in the Group previous interim report, options for possible divestment of Jilian would be considered, as the petrochemical business was non-core to the Group's strategy. Having reviewed the terms of the agreement, the Board considered it was the appropriate time to capitalise the investment in Jilian and that the disposal was in the interests of the Group and the shareholders. After the disposal, the Group would not have any interest in the petrochemical business.

During the period, the Group had divested its property interest in the United Kingdom. This property interest had recorded a segment loss of HK\$8.2 million for the fifteen months ended 30th June, 2002. The Group also intends to divest its remaining property investment in Beijing when the appropriate opportunity arises. The Group has reviewed the value of this property investment and recorded a share of loss of associate of HK\$53.8 million for the fifteen months ended 30th June, 2002.

DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the fifteen months ended 30th June, 2002. The Company did not declare a dividend for the year ended 31st March, 2001. The Annual General Meeting of the Company will be held on 19th November, 2002.

BOARD OF DIRECTORS

Dr. Lincoln Chee Wang Jin resigned as Chairman and Executive Director of the Company both with effect from 26th August, 2002. We would like to thank Dr. Chee for his contributions to the Company during the past two years and wish him every success in his new endeavors.

STAFF BENEFITS

The Company reviews remuneration packages on an annual basis. Apart from salary, other benefits include contribution to the Employee Provident Fund or Mandatory Provident Fund, medical subsidies and a discretionary bonus. Company share options are also available to certain staff as an incentive.

BUSINESS OUTLOOK

The Group has a strong balance sheet and cash resources. The Group had a current ratio of 2.73 as at 30th June, 2002 compared to that of 1.22 as at 31st March, 2001. The gearing ratio of the Group is close to zero.

The Group will continue the strategy of developing our business in technology related business and healthcare services. Subsequent to the balance sheet date, the Company had completed a share subscription at HK\$14.3 million; together with proceed coming from the disposal of Jilian; the Group will have substantial cash resources for investment opportunities to expand and build upon its core business.

Hong Kong, 24th September, 2002