

## MANAGEMENT DISCUSSION AND ANALYSIS

The Board of Directors (the “Board”) of Millennium Group Limited (the “Company” together with its subsidiaries, the “Group”) presents the annual report of the Group for the year ended 30th June, 2003.

### FINANCIAL YEAR END DATE

This annual report covers the year from 1st July, 2002 to 30th June, 2003. The Company’s financial year end date has been changed from 31st March to 30th June as announced on 28th March, 2002. As such, the comparative figures cover the fifteen months from 1st April, 2001 to 30th June, 2002.

### FINANCIAL REVIEW

Turnover of the Group for the year ended 30th June, 2003 was HK\$206.2 million, an increase of 6.4% as compared to turnover of HK\$193.8 million for the fifteen months ended 30th June, 2002. Gross profit for the year ended 30th June, 2003 was HK\$64.4 million as compared to HK\$70.0 million for the fifteen months ended 30th June, 2002. There was a significant improvement in operating results. The loss from operations was reduced to HK\$1.4 million for the year ended 30th June, 2003. The loss from operations for the fifteen months ended 30th June, 2002 was HK\$17.5 million.

During the year ended 30th June, 2003, the Group disposed of its entire interests in One.Tel telecommunication business and recognised a gain of HK\$6.7 million which was included in the gain on disposal of subsidiaries on the consolidated income statement. For the year ended 30th June, 2003, the Group recognised a loss of HK\$4.2 million on disposal of a jointly controlled entity, Jilian (Jilin) Petrochemicals Limited.

During the year ended 30th June, 2003, the Group recorded a share of impairment loss of HK\$28.3 million on its associate, Beijing Shuaifu Development Co., Ltd. (“Beijing Shuaifu”). The net asset of Beijing Shuaifu is mainly represented by the holding of a development right in respect of a parcel of land located in the Dongcheng District of Beijing. There is no significant progress on the development plan of the land since the development right granted from the PRC government. During the year ended 30th June, 2003, the Group took legal action against the major shareholder of Beijing Shuaifu to request it to acquire the Group’s interest in Beijing Shuaifu as the development plan has further delayed. However, the major shareholder of Beijing Shuaifu was unable to acquire the Group’s interest in Beijing Shuaifu. The completion of the development plan of the land in near future is remote and the amount of the development right of the land should be fully impaired and recognised as at 30th June, 2003.

Net loss for the year ended 30th June, 2003 was HK\$20.3 million as compared to HK\$54.9 million for the fifteen months ended 30th June, 2002.

### BUSINESS REVIEW

During the year ended 30th June, 2003, One.Tel telecommunication business contributed HK\$150.2 million to the Group’s turnover as compared to HK\$143.3 million for the fifteen months ended 30th June, 2002. The Group has re-articulated One.Tel’s strategies on the marketing, sales and customer services. The numbers of customers as well as business volume have increased. However, there was continuation of price war among the key competitors. Due to market pressure, the retail IDD rate could not increase despite a significant increase in the China wholesale rate at the end of 2002. As a result, there was continuing erosion of the profit margin in One.Tel telecommunication business. This led to the decision to dispose the business by the Group. Before the disposal, One.Tel telecommunication business segment profit contribution for the year ended 30th June, 2003 was HK\$8.8 million, a decrease of 57% as compared to the same segment profit contribution of HK\$20.6 million for the fifteen months ended 30th June, 2002.

During the year ended 30th June, 2003, the Group was not materially exposed to exchange risk.

## MANAGEMENT DISCUSSION AND ANALYSIS

Pursuant to the agreement in relation to the sale and purchase of 35% of the issued share capital in CMEP Limited (“the Sale and Purchase Agreement”) dated 2nd January, 2003 entered into between China Media International Group Limited (“CMI”) and the Company, the Company acquired 35% interest in CMEP Limited (“CMEP”) at a consideration of HK\$105 million from CMI. CMEP is a company incorporated in the British Virgin Islands and is principally engaged in holding of a contractual right to receive fees from the business of trading of television commercial airtime in the PRC. The consideration was satisfied by cash of HK\$82 million and by the allotment and issue of 200,000,000 new ordinary shares in the Company of HK\$0.02 each at an issue price of HK\$0.115 each. The Company’s investment in 35% interest in the issued shares of CMEP was recorded in the Group’s balance sheet as investments in securities at cost of HK\$137.9 million. The cost of the investment in CMEP was based on the consideration of the new ordinary shares issued by reference to the closing market price of the shares of the Company at 10th February, 2003, the date of the allotment of shares, of HK\$0.275 per share.

In accordance with the Sale and Purchase Agreement, CMI undertakes to the Company that CMI should procure that the net profit after tax of CMEP for the period from 27th May, 2002 (the date of incorporation of CMEP) to 30th June, 2003 as shown in the audited financial statements of CMEP for such period, should not be less than HK\$100 million and that for each of the year ending 30th June, 2004 and 30th June, 2005 shall not be less than HK\$150 million. If the amount of the net profit after tax falls short of the undertaking amount, CMI should pay or cause CMEP to pay, out of CMI’s entitlement in CMEP’s net profit for that period, to the Company the amounts of downward adjustment to the consideration.

In addition, pursuant to the Shareholders Agreement dated 10th February, 2003 entered into between CMI and the Company, the board of directors of CMEP shall comprise not less than two and not more than three directors, in which the Company should be entitled to appoint one director and CMI should be entitled to appoint up to two directors. However, after continuous negotiations between the Company and CMI, the Company could not appoint any representative to be on the board of CMEP. Since the Company does not have the ability to exercise significant influence over CMEP, the investment in CMEP is classified as investments in securities.

The Company were unable to obtain the audited financial statements of CMEP for the period from 27th May, 2002 (date of incorporation of CMEP) to 30th June, 2003 or other sufficiently reliable financial information of CMEP so as to assess whether an impairment loss in respect of the investment in CMEP should be recognised in the financial statements.

### DIVIDEND

The Board of Directors does not recommend the payment of a dividend for the year ended 30th June, 2003. The Company did not declare a dividend for the fifteen months ended 30th June, 2002.

### STAFF BENEFITS

The Company reviews remuneration packages on an annual basis. Apart from salary, other benefits included contribution to the Employee Provident Fund or Mandatory Provident Fund, medical subsidies and a discretionary bonus.

### BUSINESS OUTLOOK

The Group has a strong balance sheet. The Group had a current ratio of 113 as at 30th June, 2003 compared to that of 2.73 as at 30th June, 2002. The gearing ratio of the Group is close to zero.

The Group will continue to explore investment opportunities in profitable businesses and to enhance shareholders’ value.