

DIRECTORS' REPORT

The Directors are pleased to submit their report together with the audited financial statements of SCMP Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the 18-month period ended 31 December 2001.

Change of financial year end date

The Company has changed its financial year end date from 30 June to 31 December commencing from the year 2001, with the current financial statements covering the 18-month period from 1 July 2000 to 31 December 2001 (the "Period").

Change of company name

Pursuant to a special resolution passed on 12 November 2001 and the approval of the Registrar of Companies of Bermuda, the Company has changed its name from South China Morning Post (Holdings) Limited to SCMP Group Limited with effect from 13 November 2001 and the Chinese name "SCMP 集團有限公司" has been adopted for identification purpose.

Principal activities and segment information

The Company is an investment holding company. The principal activities of the Group during the Period consisted of the publishing, printing and distribution of the *South China Morning Post*, *Sunday Morning Post* and other print and online publications. The Group was also involved in retailing, music publishing, video and film post-production, recreation clubs, education and property investment through its subsidiaries.

An analysis of the Group's performance for the Period by business segments is set out in note 5 to the financial statements.

Major suppliers and customers

In the Period under review, the Group purchased less than 30% of its goods from its five largest suppliers. Sales to the five largest customers also accounted for less than 30% of the total sales for the Period.

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital had any interest in the five largest suppliers and customers.

Financial results

The profit of the Group for the Period and the state of affairs of the Company and the Group as at 31 December 2001 are set out in the financial statements on pages 43 to 47.

Dividend

During the Period, an interim dividend of HK15 cents per share, a special dividend of HK10 cents per share and an interim dividend distribution from the contributed surplus account of HK8 cents per share were paid. The Directors do not recommend the payment of a final dividend for the Period.

Five year financial summary

The summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 78. To reflect the change of financial year end date to 31 December, an additional summary for the calendar year 2001 and previous calendar years is set out on page 79.

Fixed assets and investment properties

Movements in the fixed assets and details of investment properties of the Group are disclosed in note 15 to the financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2001 are set out in note 30 to the financial statements.

Associates and jointly controlled entities

Particulars of the Group's interests in its principal associates and jointly controlled entities are set out in note 30 to the financial statements.

Bank loans

Particulars of bank loans of the Group as at the balance sheet date are set out in note 22 to the financial statements. All bank loans were fully repaid during the Period.

Share capital

Details of the authorised and issued share capital of the Company are set out in note 24 to the financial statements.

Pre-emptive rights

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

Reserves

Movements in the reserves of the Company and the Group during the Period are set out in note 25 to the financial statements.

Charitable donations

During the Period, the Group made charitable donations totalling HK\$666,898.

Directors

The Directors who held office during the Period and up to the date of this report were:

Mr. Kuok Khoon Ean	Chairman
Mr. Roberto V. Ongpin	Deputy Chairman
Mr. Thaddeus Thomas Beczak	Deputy Chairman
Mr. Ronald J. Arculli*	
Tan Sri Dr. Khoo Kay Peng	
Mr. Chye Kuok Khoon Ho	
Mr. Peter Lee Ting Chang*	
Dr. The Hon. David Li Kwok Po*	
Mr. Paul J. C. Bush	<i>(deceased on 17 November 2001)</i>
Mr. Lindley J. Holloway	<i>(resigned on 13 August 2001)</i>
Mr. Owen R. Jonathan	<i>(retired on 6 November 2000)</i>

* Independent Directors

In accordance with the Bye-laws of the Company, Mr. Ronald J. Arculli and Tan Sri Dr. Khoo Kay Peng shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Directors' meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors during the Period were:

Name of Director	Board of Directors Meeting		Audit Committee Meeting		Remuneration Committee Meeting	
	No. held*	No. attended	No. held*	No. attended	No. held*	No. attended
Mr. Kuok Khoon Ean	6	6	3	3**	2	1**
Mr. Roberto V. Ongpin	6	3	–	–	–	–
Mr. Thaddeus Thomas Beczak	6	5	–	–	–	–
Mr. Ronald J. Arculli	6	2	3	2	2	2
Tan Sri Dr. Khoo Kay Peng	6	4	–	–	–	–
Mr. Chye Kuok Khoon Ho	6	5	–	–	–	–
Mr. Peter Lee Ting Chang	6	6	3	3	2	2
Dr. The Hon. David Li Kwok Po	6	3	–	–	–	–
Mr. Paul J. C. Bush	5	4	3	3	2	2
Mr. Lindley J. Holloway	4	3	–	–	–	–
Mr. Owen R. Jonathan	1	0	–	–	–	–

* Reflects the number of meetings held during the time the Director held office during the Period

** Attended as an invitee of the Committee

Directors' interests in shares

(1) Ordinary shares

As at 31 December 2001, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance were as set out below:

Name of Director	Number of shares of the Company		
	Personal Interests	Corporate Interests	Total
Mr. Thaddeus Thomas Beczak	100,000	–	100,000
Tan Sri Dr. Khoo Kay Peng	–	106,294,000*	106,294,000
Dr. The Hon. David Li Kwok Po	100,000	–	100,000

* The interests in the 106,294,000 shares are in respect of deemed corporate interest held by Tan Sri Dr. Khoo Kay Peng through (i) MUI Media Ltd. as to 89,794,000 shares and (ii) Bonham Industries Limited as to 16,500,000 shares.

(2) Share options

As at 31 December 2001, none of the Directors of the Company and their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for equity or debt securities of the Company or any of its associated corporations.

Save as stated above, none of the Directors had any interest in the equity or debt securities of the Company and its associated corporations as at 31 December 2001.

Substantial shareholders

As at 31 December 2001, the Company had been notified of the following interests by shareholders in shares representing 10% or more of the issued share capital of the Company which were recorded in the register required to be kept under Section 16(1) of the SDI Ordinance:

Name of shareholder	Number of shares held
Kerry Media Limited	524,730,000 *
Kerry 1989 (C.I.) Limited	525,036,000 **
Kerry Holdings Limited	594,576,000 ***
Kerry Group Limited	594,576,000

* The interests in the 524,730,000 shares held by Kerry Media Limited are duplicated in the respective interests reported above for Kerry 1989 (C.I.) Limited, Kerry Holdings Limited and Kerry Group Limited.

** The interests in the 525,036,000 shares held by Kerry 1989 (C.I.) Limited are duplicated in the interests reported above for Kerry Holdings Limited and Kerry Group Limited.

*** The interests in the 594,576,000 shares held by Kerry Holdings Limited are duplicated in the interests reported above for Kerry Group Limited.

Save as stated above, no person had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Share option scheme

(1) Summary of terms

The Company has a share option scheme (the "Scheme") which was approved by shareholders on 27 October 1997 (the "Effective Date"). It is a part of the Group's remuneration policy with awards determined based upon the performance of the Group and individual employees. Under the Scheme, the Board of Directors of the Company may grant options to subscribe for shares of the Company to any full-time employee or Executive Director of the Company or any of its subsidiaries. The subscription price is the higher of (i) the nominal value of the shares of the Company and (ii) no less than 90% of the average of the closing prices of the shares of the Company on the five trading days immediately preceding the granting of the option. No option may be exercised earlier than one year after it has been granted or later than ten years after the Effective Date of the Scheme, i.e. 27 October 2007. The remaining life of the Scheme is up to 27 October 2007.

The maximum individual entitlement of options shall not exceed 25% of the maximum aggregate number of shares in the capital of the Company in respect of which options may at that time be granted under the Scheme. The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Scheme may not exceed 10% of the issued share capital of the Company from time to time (excluding any shares which have been duly allotted and issued pursuant to the Scheme). As at the balance sheet date, the total number of shares available for issue under the Scheme was 157,835,499, representing approximately 9.12% of the issued share capital of the Company as at that date (excluding any shares which have been duly allotted and issued pursuant to the Scheme).

Amendments to the rules of the Scheme in conformity with the amended Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") will be proposed for approval by shareholders at the forthcoming Annual General Meeting.

(2) Movements of options granted

The outstanding shares in respect of options granted under the Scheme as at the balance sheet date are summarised below:

	Number of shares in respect of options granted
Outstanding at 1 July 2000	18,333,500
Granted during the Period	1,045,000
Exercised during the Period	1,435,000
Lapsed during the Period	6,063,000
Outstanding at 31 December 2001	11,880,500

Details of the movements during the Period in the share options granted under the Scheme is as follows:

(i) Options granted to Director

Name of Director	Date of grant	Exercisable period	Exercise price/share	Number of shares involved in the options				Outstanding at 31/12/2001
				Outstanding at 01/07/2000	Granted during the Period	Exercised during the Period	Lapsed during the Period	
Mr. Owen R. Jonathan*	02/08/1999	02/08/2000	HK\$ 5.00	200,000	–	–	200,000	–
		- 27/10/2007						
	11/01/2000	11/01/2001	5.51	200,000	–	–	200,000	–
		- 27/10/2007						
				400,000	–	–	400,000	–

*Retired on 6 November 2000

Save as disclosed above, no options were granted to Directors of the Company pursuant to the Scheme.

(ii) Options granted to employees

Date of grant	Exercisable period	Exercise price/share	Number of shares involved in the options				Outstanding at 31/12/2001
			Outstanding at 01/07/2000	Granted during the Period	Exercised during the Period	Lapsed during the Period	
02/08/1999	02/08/2000	HK\$ 5.00	3,885,000	–	1,193,000#	486,000	2,206,000
	-27/10/2007						
11/01/2000	11/01/2001	5.51	4,483,500	–	242,000#	1,817,000	2,424,500
	-27/10/2007						
20/04/2000	20/04/2001	6.05	9,565,000	–	–	3,360,000	6,205,000
	-27/10/2007						
28/06/2001	28/06/2002	4.95*	–	1,045,000	–	–	1,045,000
	-27/10/2007						
			17,933,500	1,045,000	1,435,000	5,663,000	11,880,500

* The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$5.00.

The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$5.80.

Valuation of share options has not been presented as the exercise prices of all share options which were vested as at 31 December 2001 were above the market price of the shares of the Company as at 31 December 2001.

Directors' interests in contracts

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

Directors' service contracts

No Director proposed to be re-elected at the forthcoming Annual General Meeting has an unexpired service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Period.

Directors' arrangements to acquire shares or debentures

Save as disclosed herein, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

Connected and related party transactions

During the Period, the Company and its subsidiaries had the following transactions which constituted connected transactions under the Listing Rules and related party transactions under the Hong Kong Statements of Standard Accounting Practice:

- (1) Certain subsidiaries of the Company had the following connected transactions with subsidiaries of Kerry Group Limited ("Kerry Group"), a substantial shareholder of the Company as defined in the Listing Rules. Details of the transactions are set out below:

- (i) Logistics Services

- (a) An agreement dated 28 July 2000 was made between SCMP Retailing (HK) Limited ("SCMP Retailing"), a wholly owned subsidiary of the Company, and Kerry Logistics (Hong Kong) Limited ("Kerry Logistics"), a subsidiary of Kerry Properties Limited ("Kerry Properties") which is a subsidiary of Kerry Group. Pursuant to this agreement, SCMP Retailing engaged Kerry Logistics to provide logistics services including warehousing, inventory management, delivery and related services ("Logistics Services") to its *Bakers Oven* outlets for the period from 15 August 2000 to 14 August 2002. SCMP Retailing and Kerry Logistics agreed to early terminate the said agreement with effect from 31 May 2001. The service fees paid by SCMP Retailing under this agreement during the Period amounted to HK\$58,601.

- (b) An agreement dated 28 July 2000 was made between SCMP Retailing and Kerry Logistics whereby SCMP Retailing engaged Kerry Logistics to provide Logistics Services to its *Health Plus* shops for the period from 1 April 2000 to 31 March 2002. Due to business restructuring, SCMP Retailing and Kerry Logistics agreed to early terminate the arrangements with effect from 31 March 2001 and the Logistics Services are being provided to Retailcorp Limited ("Retailcorp"), a wholly owned subsidiary of the Company, as mentioned below. The service fees paid by SCMP Retailing under this agreement during the Period amounted to HK\$627,899.

An agreement dated 12 June 2001 was made between Retailcorp and Kerry Logistics. Pursuant to this agreement, Retailcorp engages Kerry Logistics to provide Logistics Services to its *Health Plus* shops for a term of one year from 1 April 2001 to 31 March 2002. The service fees paid by Retailcorp under this agreement during the Period amounted to HK\$672,535.

- (c) An agreement dated 28 July 2000 was made between Highlight Trading (HK) Limited ("Highlight Trading"), a wholly owned subsidiary of the Company, and Kerry Logistics. Pursuant to this agreement, Highlight Trading engages Kerry Logistics to provide Logistics Services for a term of two years from 1 July 2000 to 30 June 2002. The service fees paid by Highlight Trading under this agreement during the Period amounted to HK\$245,955.

(d) An agreement dated 28 July 2000 was made between SCMP Book Publishing Limited (“SCMP Book Publishing”), a wholly owned subsidiary of the Company, and Kerry Logistics whereby SCMP Book Publishing engages Kerry Logistics to provide Logistics Services for the period from 19 July 2000 to 18 October 2001. Pursuant to a new agreement dated 3 November 2001, both parties have agreed to continue the Logistics Services for a further term of one year from 19 October 2001 to 18 October 2002. The service fees paid by SCMP Book Publishing under the said agreements during the Period amounted to HK\$691,544.

(ii) Transportation and Distribution Services

An agreement dated 15 August 2001 was made between South China Morning Post Publishers Limited (“SCMP Publishers”), a wholly owned subsidiary of the Company, and Kerry Distribution (Hong Kong) Limited (“Kerry Distribution”), a subsidiary of Kerry Properties. Pursuant to this agreement, SCMP Publishers engages Kerry Distribution to provide transportation and distribution services for SCMP Publishers relating to its newspaper business for a term of one year from 15 August 2001 to 14 August 2002. The service fees paid by SCMP Publishers under this agreement during the Period amounted to HK\$2,612,400.

For transactions under (1)(i)(b) to (1)(i)(d) and 1(ii) (the “Transactions”), The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) has granted a conditional waiver to the Company for compliance with the disclosure requirements as stipulated under Rule 14.25 of the Listing Rules in respect of the Transactions on each occasion they arise for a period of three financial years ending 31 December 2003 (the “Waiver”). In accordance with the conditions of the Waiver, the Directors (including Independent Directors) of the Company have reviewed the Transactions and confirm that:

- (a) the Transactions were entered into by the Group in the ordinary and usual course of its business, conducted on normal commercial terms and in accordance with the relevant agreements on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interest of the Company as a whole; and
- (b) the aggregate amount of the Transactions under the respective category of Logistics Services and Transportation and Distribution Services for the Period does not exceed 3% of the book value of the Group’s net tangible assets as at 31 December 2001 (the “Relevant Cap Amount”).

The Auditors of the Company have also reviewed the Transactions and confirmed to the Directors in writing that:

- (a) the Transactions have been approved by the Board of Directors of the Company;
 - (b) the Transactions have been entered into in accordance with the terms of the agreements governing the Transactions;
 - (c) the aggregate value of the Transactions under the respective category of Logistics Services and Transportation and Distribution Services does not exceed the Relevant Cap Amount; and
 - (d) the Transactions are in accordance with the pricing policy of the Group.
- (2) As announced by the Company on 28 November 2001, the Company entered into a sale and purchase agreement (the “Agreement”) with Aetna International Limited (the “Purchaser”) on that date, pursuant to which, the Company disposed of its sport and recreation club business by transferring its legal and beneficial holding of the entire issued share capital of SCMP Recreation Clubs Limited (“SCMP Recreation Clubs”), a wholly owned subsidiary of the Company, to the Purchaser. SCMP Recreation Clubs has three wholly owned subsidiaries, namely, Spotlight Enterprises Limited, the operating company of *Spotlight Recreation Club*, Telford Recreation Club Limited, the operating company of *Telford Recreation Club*, and Star Attractions Limited, the operating company organising various recreational courses.

The Purchaser is deemed to be a connected person of the Company as one of the Purchaser's controlling shareholders is an ex-employee of the Group who previously served as a director of the Company's subsidiaries. Accordingly, the entering into the Agreement between the Company and the Purchaser constituted a connected transaction for the Company under the Listing Rules.

The total consideration paid by the Purchaser to the Company amounted to HK\$27,855,000 and the transaction was completed on 7 December 2001.

All the above connected transactions are disclosed in accordance with Rule 14.25(1)(A) to (D) of the Listing Rules.

Purchase, sale or redemption of the Company's shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares during the Period.

Valuation of publishing titles

Pursuant to the Listing Agreement between the Company and the Stock Exchange (the "Listing Agreement"), the Company has appointed American Appraisal Hong Kong Limited (the "Valuer"), an independent valuer, to value two of the Group's publishing titles, the *South China Morning Post* and *Sunday Morning Post* (the "Publishing Titles"), as at 31 December 2001 on an open market basis. The Valuer had valued the Publishing Titles at HK\$4.40 billion. The Directors have adopted the Valuer's valuation in their annual valuation of the Publishing Titles.

The valuation is not reflected in the financial statements as the accounting principles generally accepted in Hong Kong and the accounting policies of the Company require any publishing titles to be stated at cost less accumulated amortisation.

Pursuant to the Listing Agreement, the Company is entitled to include the valuation of the Publishing Titles in the calculation of the Company's assets or consolidated assets for the purpose of Rule 14.04(4) and Chapter 14 generally of the Listing Rules.

Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the Period, save that the Non-executive Directors have not been appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company's Bye-laws.

Audit Committee

The Audit Committee has been established since 1998 with written terms of reference and currently comprises two Independent Directors, namely Mr. Peter Lee Ting Chang and Mr. Ronald J. Arculli, and a Non-executive Director, Mr. Chye Kuok Khoon Ho (in place of the late Mr. Paul J.C. Bush). Eight Audit Committee meetings have been held prior to the date of this report.

Remuneration Committee

The Company established a Remuneration Committee on 15 September 2000 with written terms of reference. The Remuneration Committee currently comprises two Independent Directors, namely Mr. Peter Lee Ting Chang and Mr. Ronald J. Arculli and a Non-executive Director, Mr. Chye Kuok Khoon Ho (in place of the late Mr. Paul J.C. Bush). Two Remuneration Committee meetings have been held prior to the date of this report.

Auditors

The Company's former auditors, Ernst & Young, retired at the conclusion of the last annual general meeting of the Company held on 12 November 2001 and PricewaterhouseCoopers was appointed at the meeting to hold office until the conclusion of the forthcoming Annual General Meeting. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board

Kuok Khoon Ean
Chairman

Hong Kong, 25 March 2002