

# 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 year ended 31 December 2002.

## Principal activities and segment information

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

An analysis of the Group's performance for the year by business segments is set out in note 4 to the financial statements.

## Major suppliers and customers

In the year 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 year.

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 year and the state of affairs of the Company and the Group as at 31 December 2002 are set out in the financial statements on pages 36 to 40.

## Dividend distributions

During the year, an interim dividend distribution from the contributed surplus account of HK4 cents per share was paid. The Directors recommend the payment of a final dividend distribution from the contributed surplus account of HK4 cents per share in respect of the year ended 31 December 2002 to the shareholders whose names appear on the register of members of the Company on Friday, 23 May 2003.

## 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 72. 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 73.

## Fixed assets and investment properties

Movements in the fixed assets and details of investment properties of the Group are disclosed in note 14 to the financial statements.

## Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2002 are set out in note 30 to the financial statements.

## Associates and a jointly controlled entity

Particulars of the Group's interests in its principal associates and a jointly controlled entity are set out in note 16 to the financial statements.

## Bank loans

Particulars of bank loans of the Group as at the balance sheet date are set out in note 21 to the financial statements.

## 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 year are disclosed in note 25 to the financial statements.

## Charitable donations

During the year, the Group made charitable donations totalling HK\$114,968.

## Directors

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

<b>Mr. Kuok Khoon Ean</b>	Chairman
<b>Mr. Roberto V. Ongpin</b>	Deputy Chairman
<b>Mr. Thaddeus Thomas Beczak</b>	Deputy Chairman
<b>Mr. Ronald J. Arculli*</b>	
<b>Tan Sri Dr. Khoo Kay Peng</b>	
<b>Mr. Peter Lee Ting Chang*</b>	
<b>Dr. The Hon. David Li Kwok Po*</b>	
<b>Mr. Chye Kuok Khoon Ho #</b>	

\* *Independent non-executive Director*

# *Mr Chye Kuok Khoon Ho resigned as director on 3 September 2002 and was re-appointed on 10 September 2002. Mr Chye Kuok subsequently resigned as director on 5 December 2002.*

In accordance with the Bye-laws of the Company, Mr. Roberto V. Ongpin and Dr. The Hon. David Li Kwok Po shall retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## Directors' meeting

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors during the year 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	4	4	2	2**	1	1**
Mr. Roberto V. Ongpin	4	3	-	-	-	-
Mr. Thaddeus Thomas Beczak	4	4	-	-	-	-
Mr. Ronald J. Arculli	4	2	2	2	1	1
Tan Sri Dr. Khoo Kay Peng	4	3	-	-	-	-
Mr. Peter Lee Ting Chang	4	4	2	2	1	1
Dr. The Hon. David Li Kwok Po	4	4	-	-	-	-
Mr. Chye Kuok Khoon Ho	2	1	2	1	1	-

\* *Reflects the number of meetings held during the time the Director held office during the year*

\*\* *Attended as an invitee of the Committee*

## Directors' interests in shares

### (1) Ordinary shares

As at 31 December 2002, 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		Total
	Personal Interests	Corporate Interests	
Mr. Kuok Khoon Ean	-	340,000#	340,000
Mr. Thaddeus Thomas Beczak	294,000	-	294,000
Tan Sri Dr. Khoo Kay Peng	-	87,119,145*	87,119,145
Dr. The Hon. David Li Kwok Po	100,000	-	100,000

# The interests in the 340,000 shares are in respect of deemed corporate interests held by Mr Kuok Khoon Ean through Allerlon Limited.

\* The interests in the 87,119,145 shares are in respect of deemed corporate interests held by Tan Sri Dr. Khoo Kay Peng through (i) MUI Media Ltd. as to 70,969,145 shares and (ii) Bonham Industries Limited as to 16,150,000 shares.

### (2) Share options

As at 31 December 2002, 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 2002.

## Substantial shareholders

As at 31 December 2002, 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
Silchester International Investors Limited#	181,194,000

\* 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 respective 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.

# An independent investment manager, acting on behalf of clients, and not connected with either the Company or other substantial shareholders.

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”). The Scheme was amended with shareholders’ approval on 6 November 2000 and further amended at the annual general meeting held on 29 May 2002 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”). It is a part of the Group’s policy to reward employees for their past contributions to the Group and motivate them to optimise their future contributions and enable the Group to attract and retain individuals with experience and ability. Under the Scheme, the Board of Directors of the Company (the “Board”) 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 “Executive”).

The subscription price of the options shall not be less than whichever is the highest of: (i) the nominal value of a share of the Company; (ii) the closing price of a share of the Company as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on the date of the Board’s approval of grant of the option (the “Offer Date”); and (iii) the average of the closing prices of a share of the Company in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the Offer Date. An offer of the grant of an option shall remain open for acceptance by the Executive concerned at no consideration for a period of 28 days from the date on which an option is offered to the Executive. 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 number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme may not exceed 10% of the shares of the Company in issue as at 29 May 2002. The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to any one Executive (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. As at the balance sheet date, the total number of shares available for issue under the Scheme was 159,945,899, representing approximately 9.22% of the issued share capital of the Company as at 29 May 2002 and 10.25% of the issued share capital of the Company as at the balance sheet date.

None of the substantial shareholders of the Company has been granted any share option under the Scheme. None of the suppliers of goods or services to the Group has been granted any share option under the Scheme. No participant of the Scheme has been granted share options in excess of the maximum entitlement of each participant.

### (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 January 2002	11,880,500
Granted during the year	-
Exercised during the year	-
Cancelled during the year	-
Lapsed during the year	(1,772,000)
Outstanding at 31 December 2002	10,108,500

Details of the movements during the year in the share options granted under the Scheme are as follows:

- (i) Options granted to Directors  
None of the Directors of the Company has been granted any share option under the Scheme.
- (ii) Options granted to employees

Date of grant	Exercisable period	Exercise price/share	Number of shares involved in the options				Outstanding at 31/12/2002
			Outstanding at 01/01/2002	Granted during the year	Exercised during the year	Lapsed during the year	
		HK\$					
02/08/1999	02/08/2000 – 27/10/2007	5.00	2,206,000	-	-	(454,000)	1,752,000
11/01/2000	11/01/2001 – 27/10/2007	5.51	2,424,500	-	-	(433,000)	1,991,500
20/04/2000	20/04/2001 – 27/10/2007	6.05	6,205,000	-	-	(885,000)	5,320,000
28/06/2001	28/06/2002 – 27/10/2007	4.95	1,045,000	-	-	-	1,045,000
			11,880,500	-	-	(1,772,000)	10,108,500

Valuation of share options has not been presented as the exercise prices of all the share options which were vested as at 31 December 2002 were above the market price of the shares of the Company as at 31 December 2002.

#### Directors' interest in competing business

None of the Directors of the Company has interest in a business which competes or is likely to compete with the business of the Group during the year.

#### 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 year or at any time during the year.

#### 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 year.

#### Directors' arrangements to acquire shares or debentures

Save as disclosed herein, at no time during the year 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 year, 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 Highlight Trading (HK) Limited (“Highlight Trading”), 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, whereby Highlight Trading engages Kerry Logistics to provide logistics services including warehousing, inventory management, delivery and related services (“Logistics Services”) for a term of two years from 1 July 2000 to 30 June 2002. Pursuant to three agreements of extension dated 2 August 2002, 15 September 2002 and 30 November 2002 respectively, both parties have agreed to extend the term of the agreement to 15 September 2002, and subsequently to 30 November 2002 and lastly to 31 March 2003. The service fees paid by Highlight Trading under the said agreements during the year amounted to HK\$84,000.
    - (b) An agreement dated 12 June 2001 was made between Retailcorp Limited (“Retailcorp”), a wholly owned subsidiary of the Company, and Kerry Logistics whereby Retailcorp engages Kerry Logistics to provide Logistics Services to its *Health Plus* outlets for a term of one year from 1 April 2001 to 31 March 2002. Pursuant to two agreements of extension dated 28 March 2002 and 30 April 2002 respectively, both parties have agreed to extend the term of the agreement to 30 April 2002 and subsequently to 31 May 2002. Retailcorp and Kerry Logistics entered into a new agreement dated 25 June 2002 whereby both parties agree to continue the Logistics Services for a further term of one year from 1 June 2002 to 31 May 2003. The service fees paid by Retailcorp under the said agreements during the year amounted to HK\$868,000.
    - (c) An agreement dated 3 November 2001 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 a period of one year from 19 October 2001 to 18 October 2002. Pursuant to an agreement of extension dated 5 October 2002, both parties have agreed to extend the term of the agreement to 31 December 2002. The service fees paid by SCMP Book Publishing under the said agreements during the year amounted to HK\$574,000.
    - (d) An agreement dated 16 September 2002 was made between SCMP Retailing (HK) Limited (“SCMP Retailing”), a wholly owned subsidiary of the Company, and Kerry Logistics whereby SCMP Retailing engages Kerry Logistics to provide Logistics Services for a period of one year from 1 October 2002 to 30 September 2003. The service fees paid by SCMP Retailing under this agreement during the year amounted to HK\$359,000.

- (ii) Transportation and Distribution Services

- (a) 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 which is a subsidiary of Kerry Group. Pursuant to this agreement, SCMP Publishers engages Kerry Distribution to provide transportation and distribution services to SCMP Publishers relating to its newspaper business (“Transportation and Distribution Services”) for a term of one year from 15 August 2001 to 14 August 2002. Pursuant to a new agreement dated 19 August 2002, both parties have agreed to continue the Transportation and Distribution Services for a further term of one year from 15 August 2002 to 14 August 2003. SCMP Publishers and Kerry Distribution agreed to early terminate the new agreement with effect from 1 April 2003. The service fees paid by SCMP Publishers under the said agreements during the year amounted to HK\$6,651,000.
    - (b) An agreement dated 19 August 2002 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engages Kerry Distribution to provide daily newspaper pre-delivery services for a term of two years from 31 May 2002 to 30 May 2004. SCMP Publishers and Kerry Distribution agreed to early terminate the said agreement with effect from 1 April 2003. The service fees paid by SCMP Publishers under this agreement during the year amounted to HK\$420,000.

For transactions under 1(i) and 1(ii) (the “Transactions”), 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 Non-executive 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 year does not exceed 3% of the book value of the Company’s net tangible assets as at 31 December 2002 (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 12 March 2002, the Company entered into a sale and purchase agreement (the “Agreement”) with Madam Kwan Wai Han (the “Purchaser”) on 11 March 2002, pursuant to which the Company disposed of its kindergarten and child care business by transferring its legal and beneficial holding of the entire issued share capital of Quality Education Limited (“Quality Education”), a wholly owned subsidiary of the Company, to the Purchaser. Quality Education owns approximately 88.9% of Sun Island English Kindergarten Limited (“Sun Island”). Sun Island has one wholly owned subsidiary, Praise Onward Development Limited (“Praise Onward”). At the time of the Agreement, Sun Island and Praise Onward were the operating companies of nineteen branches of *Sun Island English Kindergarten* and three branches of *Sun Island Child Care Centre*.

The Purchaser is the spouse of the controlling shareholder of Oriental Gain Limited, which owns 11.1% interest in Sun Island and is deemed to be a substantial shareholder of Sun Island. The Purchaser is therefore deemed to be a connected person of the Company in accordance with the Listing Rules. Accordingly, the entering into the Agreement between the Company and the Purchaser constituted a connected transaction of the Company under the Listing Rules.

The total consideration paid by the Purchaser to the Company amounted to HK\$28,154,000 and the transaction was completed on 26 March 2002.

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**

The Company announced on 3 September 2002 a proposed conditional voluntary cash offer to be made by The Hongkong and Shanghai Banking Corporation Limited on behalf of the Company to repurchase up to 173,438,400 shares of the Company, representing approximately 10% of the total issued share capital of the Company as at that date, at an offer price of HK\$3.60 per share (the “Offer”). The Offer was approved by shareholders of the Company at the Special General Meeting held on 11 October 2002. In accordance with the terms of the Offer, the Company repurchased a total of 173,438,400 shares in aggregate at the offer price of HK\$3.60 per share on 30 October 2002 and the shares repurchased were cancelled on the same date. The total consideration paid by the Company for the Offer is approximately HK\$624.4 million. After the repurchase and cancellation of the said 173,438,400 shares of the Company under the Offer, the number of shares of the Company in issue was reduced to 1,560,945,596.

Save as the Offer detailed above, the Company and any of its subsidiaries had not purchased, sold or redeemed any of the Company’s own shares during the year.

### **Valuation of publishing titles**

Under the Listing Agreement between the Company and the Stock Exchange (the “Listing Agreement”), the Company is required to carry out an independent valuation of two of the Group’s publishing titles, *South China Morning Post* and *Sunday Morning Post* (the “Publishing Titles”) once every three years. American Appraisal Hong Kong Limited, an independent valuer, was appointed and valued the Publishing Titles at HK\$4.4 billion as at 31 December 2001 on an open market basis. The Directors have adopted this same value as at 31 December 2002.

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 year, 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 non-executive Directors, namely Mr. Peter Lee Ting Chang and Mr. Ronald J. Arculli. Two Audit Committee meetings had been held during the year.

### **Remuneration Committee**

The Company established a Remuneration Committee on 15 September 2000 with written terms of reference. The Remuneration Committee currently comprises two Independent non-executive Directors, namely Mr. Peter Lee Ting Chang and Mr. Ronald J. Arculli, and an Executive Director Mr. Kuok Khoon Ean. One Remuneration Committee meeting had been held during the year.

### **Auditors**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting. PricewaterhouseCoopers replaced Ernst & Young when it retired at the conclusion of the annual general meeting held on 12 November 2001.

For and on behalf of the Board

**Kuok Khoon Ean**

Chairman

Hong Kong, 24 March 2003