

SCMP Group Limited

NEWSPAPER MAGAZINE RETAIL VENTURES

Interim Report 2003



SCMP Group Limited

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS

The Directors of SCMP Group Limited (the "Company") are pleased to announce the unaudited interim results of the Company and its group of companies (the "Group") for the six months ended 30 June 2003 as follows:

CONDENSED CONSOLIDATED PROFIT & LOSS ACCOUNT

		Unaudited	
		For the six months ended 30 June	
		2003	2002
			(Restated)
	Note	HK\$'000	HK\$'000
Turnover	2	613,635	669,911
Other revenue	3	1,938	4,786
Staff costs		(183,268)	(207,052)
Cost of production materials/sales		(203,016)	(208,067)
Rental and utilities		(44,289)	(51,415)
Depreciation and amortisation		(38,869)	(39,521)
Advertising and promotion		(5,438)	(14,490)
Other operating expenses		(79,159)	(61,287)
Gain on disposal of long-term investment shares		1,955	–
Gain on disposal of subsidiaries		600	11,209
Provision for impairment in value of long-term investment		(780)	–
Profit from operating activities		63,309	104,074
Finance costs		(2,919)	–
Operating profit		60,390	104,074
Share of losses less profits of associates		(1,695)	2,716
Share of losses of a jointly controlled entity		(3,575)	(4,018)
Profit before tax		55,120	102,772
Tax	4	(19,678)	(11,788)
Profit after tax		35,442	90,984
Minority interests		(1,465)	(902)
Profit attributable to shareholders		33,977	90,082
Dividend distribution			
Proposed interim dividend distribution of 2 cents (2002: 4 cents) per share		31,219	69,375
Earnings per share			
Basic	5	2.18 cents	5.19 cents

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CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited	
		30 June 2003	31 December 2002 (Restated)
	Note	HK\$'000	HK\$'000
Non-current assets			
Intangible assets	6	27,261	14,130
Fixed assets	7	1,488,815	1,507,475
Defined benefit plan's assets		32,464	37,858
Interests in associates		39,013	41,875
Interest in a jointly controlled entity		7,239	9,375
Long-term investment shares		122,456	128,523
		1,717,248	1,739,236
Current assets			
Inventories		37,967	43,172
Accounts receivable	8	113,717	155,326
Prepayments, deposits and other receivables		42,621	49,146
Bank balances and deposits		154,168	138,992
		348,473	386,636
Current liabilities			
Accounts payable and accrued liabilities	9	115,343	169,533
Tax payable		14,211	1,360
Subscriptions in advance		14,605	16,285
		144,159	187,178
Net current assets		204,314	199,458
Total assets less current liabilities		1,921,562	1,938,694
Non-current liabilities			
Minority interests		10,165	8,692
Interest-bearing bank loan, unsecured		310,000	310,000
Deferred tax		97,886	91,248
		418,051	409,940
		1,503,511	1,528,754
Capital and reserves			
Issued capital	10	156,095	156,095
Reserves	11	1,316,197	1,310,221
Proposed dividend distribution	11	31,219	62,438
		1,347,416	1,372,659
		1,503,511	1,528,754

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CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	For the six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net cash inflow from operating activities	103,151	133,144
Net cash outflow from investing activities	(25,536)	(155,918)
Net cash outflow from financing activities	(62,439)	(3,000)
Increase/(decrease) in cash and cash equivalents	15,176	(25,774)
Cash and cash equivalents at beginning of period	138,992	282,352
Cash and cash equivalents at end of period	154,168	256,578

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Unaudited	
		For the six months ended 30 June	
		2003	2002
		HK\$'000	(Restated) HK\$'000
	Note		
At 1 January			
As previously stated		1,537,245	2,150,075
Changes in accounting policy	11	(8,491)	(14,718)
As restated		1,528,754	2,135,357
Surplus/(deficit) on revaluation of long-term investment shares	11	3,055	(869)
Deferred taxation directly (charged)/credited to reserve	11	(14)	4
Exchange differences on consolidation	11	1,130	543
Net gains and losses not recognised in the profit and loss account		4,171	(322)
Net profit for the period	11	33,977	90,082
Revaluation reserve released on disposal of long-term investment shares	11	(952)	–
Dividends	11	(62,439)	–
At 30 June		1,503,511	2,225,117

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NOTES TO THE ACCOUNTS

1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim accounts ("interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, (as applicable to condensed interim accounts), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These interim accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has adopted the SSAP 12 (revised) "Income Taxes" issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policy and the effect of adopting the above revised policy are as follows:

Up to the year ended 31 December 2002, deferred taxation was provided, using liability method, on all significant timing differences to the extent it is probable that liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond doubt.

Commencing from 1 January 2003, the Group has adopted SSAP 12 (revised) "Income Taxes" whereby deferred taxation is provided for in full, using liability method, on temporary difference arising between tax bases of assets and liabilities (i.e. amounts attributed to those assets and liabilities for taxation purposes) and their carrying value in the accounts.

Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The adoption of SSAP 12 (revised) represent a change in accounting policy and the effect on the Group's accounts resulting from such a change have been accounted as a prior year adjustment. The comparative consolidated profit and loss for the six months period ended 2002 has been restated to conform with the changed policy. The opening retained earnings as at 1 January 2003 was reduced by HK\$8,313,000 (2002: HK\$14,532,000) which is the cumulative effect of the change in policy on the retained earnings prior to 2003. The opening asset revaluation reserve as at 1 January 2003 was reduced by HK\$178,000 (2002: HK\$186,000), representing the deferred tax liability recognised in respect of the asset revaluation surplus on the Group's land and building. The net deferred tax liabilities and minority interests as at 31 December 2002 have been restated at HK\$91,248,000 and HK\$8,692,000, respectively. For the six months ended 30 June 2002, profit and loss account and asset revaluation reserve were credited by HK\$3,979,000 and HK\$4,000, respectively.

2. Segment Information

The Company acted as an investment holding company during the period. The principal activities of the Group comprised the publishing, printing and distribution of the *South China Morning Post*, *Sunday Morning Post* and other print and online publications, retailing, property holding and video and film post-production.

Substantially all the activities of the Group are based in Hong Kong and below is an analysis of the Group's turnover and contribution to operating profit by principal activity:

	Turnover For the six months ended 30 June		Contribution to operating profit For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Newspapers, magazines and other publications	354,270	402,782	17,194	56,957
Retailing	203,202	204,597	(1,201)	(525)
Investment properties	41,392	38,716	40,024	37,558
Video and film post-production	10,386	10,669	1,425	(2,160)
Entertainment and education	4,385	13,147	2,948	12,244
Total	613,635	669,911	60,390	104,074

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3. Other Revenue

	For the six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Dividend income from listed investments	563	1,241
Interest income	874	2,833
Others	501	712
Total	1,938	4,786

4. Tax

	For the six months ended 30 June	
	2003 HK\$'000	2002 (Restated) HK\$'000
Company and subsidiaries:		
Hong Kong profits tax	12,901	15,169
Elsewhere	113	–
Deferred taxation relating to the origination and reversal of temporary differences	(1,914)	(3,995)
Deferred taxation relating to an increase in tax rate	8,538	–
Associates:		
Elsewhere	40	614
Taxation charge	19,678	11,788

Hong Kong profits tax has been calculated at 17.5% (2002: 16%) on the assessable profits generated during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

5. Earnings per Share

The calculation of basic earnings per share is based on the net profit for the period attributable to shareholders of HK\$33,977,000 (2002: HK\$90,082,000) and the weighted average of 1,560,945,596 (2002: 1,734,383,996) shares in issue during the period.

For the six months ended 30 June 2003, the diluted earnings per share was not shown as there was no dilution effect.

6. Intangible Assets

	Goodwill HK\$'000	Publishing titles HK\$'000	Software costs HK\$'000	Assets in progress HK\$'000	Total HK\$'000
Cost:					
At 1 January 2003	610,033	1,820,000	4,250	9,951	2,444,234
Additions	1,670	–	495	11,429	13,594
At 30 June 2003	611,703	1,820,000	4,745	21,380	2,457,828
Accumulated amortisation:					
At 1 January 2003	610,033	1,820,000	71	–	2,430,104
Provided during the period	28	–	435	–	463
At 30 June 2003	610,061	1,820,000	506	–	2,430,567
Net book value:					
At 30 June 2003	1,642	–	4,239	21,380	27,261
At 31 December 2002	–	–	4,179	9,951	14,130

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7. Fixed Assets

	Investment properties HK\$'000	Leasehold land and buildings HK\$'000	Other fixed assets HK\$'000	Assets in progress HK\$'000	Total HK\$'000
Cost or valuation:					
At 1 January 2003	756,000	374,148	907,701	7,646	2,045,495
Additions	–	–	5,697	20,719	26,416
Reclassification	–	–	5,937	(5,937)	–
Acquisition of subsidiaries	–	–	183	–	183
Disposals	–	–	(14,302)	(1,135)	(15,437)
Disposal of subsidiaries	–	–	(3,782)	–	(3,782)
At 30 June 2003	756,000	374,148	901,434	21,293	2,052,875
Accumulated depreciation:					
At 1 January 2003	–	66,839	471,181	–	538,020
Provided during the period	–	3,901	34,505	–	38,406
Acquisition of subsidiaries	–	–	37	–	37
Disposals	–	–	(8,808)	–	(8,808)
Disposal of subsidiaries	–	–	(3,595)	–	(3,595)
At 30 June 2003	–	70,740	493,320	–	564,060
Net book value:					
At 30 June 2003	756,000	303,408	408,114	21,293	1,488,815
At 31 December 2002	756,000	307,309	436,520	7,646	1,507,475
Analysis of cost and valuation:					
At cost	–	341,148	901,434	21,293	1,263,875
At valuation – 1990	–	33,000	–	–	33,000
– 2002	756,000	–	–	–	756,000
	756,000	374,148	901,434	21,293	2,052,875

8. Accounts Receivable

The Group allows an average credit period of 7 days to 90 days to its trade customers and an ageing analysis of trade receivables is as follows:

	30 June 2003		31 December 2002	
	Balance HK\$'000	Percentage %	Balance HK\$'000	Percentage %
0 to 30 days	55,703	43	66,307	39
31 to 60 days	34,041	26	53,657	31
61 to 90 days	22,743	18	36,889	22
Over 90 days	16,352	13	14,246	8
Total	128,839	100	171,099	100
Less: Provision for bad and doubtful debts	(15,122)		(15,773)	
	113,717		155,326	

9. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are trade payables and their ageing analysis is as follows:

	30 June 2003		31 December 2002	
	Balance HK\$'000	Percentage %	Balance HK\$'000	Percentage %
0 to 30 days	62,255	83	94,412	77
31 to 60 days	1,427	2	5,767	5
61 to 90 days	604	1	9,611	8
Over 90 days	10,461	14	12,089	10
Total	74,747	100	121,879	100

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10. Share Capital

	30 June 2003 HK\$'000	31 December 2002 HK\$'000
Authorised: 5,000,000,000 shares of HK\$0.10 each	500,000	500,000
Issued and fully paid: 1,560,945,596 (2002: 1,560,945,596) shares of HK\$0.10 each	156,095	156,095

11. Reserves & Proposed Dividend Distribution

	Share premium HK\$'000	Contributed surplus HK\$'000	Investments revaluation reserve HK\$'000	Asset revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits/ (losses) HK\$'000	Total HK\$'000
At 1 January 2002							
As previously stated	1,151,275	1,925,381	27,337	1,503	(38,981)	(1,089,878)	1,976,637
Change in accounting policy							
Effects of adopting SSAP 12 (revised)	-	-	-	(186)	-	(14,532)	(14,718)
As restated	1,151,275	1,925,381	27,337	1,317	(38,981)	(1,104,410)	1,961,919
Shares premium reduction	(1,105,290)	-	-	-	-	1,105,290	-
Change in fair values of long-term investment shares	-	-	(869)	-	-	-	(869)
Exchange differences on consolidation	-	-	-	-	543	-	543
Deferred taxation directly credited to reserve	-	-	-	4	-	-	4
Profit for the period	-	-	-	-	-	90,082	90,082
At 30 June 2002	45,985	1,925,381	26,468	1,321	(38,438)	90,962	2,051,679
At 1 January 2003							
As previously stated	40,971	1,255,909	4,252	1,503	(39,444)	117,959	1,381,150
Change in accounting policy							
Effects of adopting SSAP 12 (revised)	-	-	-	(178)	-	(8,313)	(8,491)
As restated	40,971	1,255,909	4,252	1,325	(39,444)	109,646	1,372,659
Change in fair values of long-term investment shares	-	-	3,055	-	-	-	3,055
Revaluation reserve released on disposal	-	-	(952)	-	-	-	(952)
Exchange differences on consolidation	-	-	-	-	1,130	-	1,130
Deferred taxation directly charged to reserve	-	-	-	(14)	-	-	(14)
Profit for the period	-	-	-	-	-	33,977	33,977
2002 final dividend distribution	-	(62,439)	-	-	-	-	(62,439)
At 30 June 2003 – note (a)	40,971	1,193,470	6,355	1,311	(38,314)	143,623	1,347,416

Note (a) – The proposed interim dividend distribution of HK\$31,219,000 for six months ended 30 June 2003 is to be paid out of the Company's contributed surplus.

12. Approval of the Interim Financial Report

These interim accounts were approved by the Board of Directors on 5 September 2003.

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MANAGEMENT DISCUSSION AND ANALYSIS

Principal Activities

The Company acted as an investment holding company during the period. Its principal activities comprised newspapers, magazines and books publishing, retailing, property investments and video and film post-production.

FINANCIAL REVIEW

Operating Results of the Group

The Group's consolidated operating results for the six months ended 30 June 2003 and 2002 were as follows:

HK\$ million, except per share amounts	Unaudited		
	For the six months ended 30 June		
	2003	2002 (restated)	% change
Turnover	613.6	669.9	(8%)
Operating cost before depreciation	(504.2)	(542.3)	(7%)
EBITDA	109.4	127.6	(14%)
Other revenues	1.9	4.8	(60%)
Depreciation and amortisation	(38.9)	(39.5)	(2%)
Finance costs	(2.9)	–	100%
Gain on disposal of subsidiaries	0.6	11.2	(95%)
Gain on disposal of long-term investment shares	2.0	–	100%
Office relocation expenses	(10.9)	–	100%
Provision for impairment in value of long-term investment	(0.8)	–	100%
Operating profit	60.4	104.1	(42%)
Profit attributable to shareholders	34.0	90.1	(62%)
Earnings per share (HK cents)			
Basic	2.18	5.19	(58%)

The Group faced an extremely challenging business environment in the first half of 2003. First quarter performance was fairly stable despite the war in Iraq but the SARS outbreak in late March had a material adverse impact on several businesses of the Group. On May 16, 2003, the Group issued a profit warning on the back of a 30% year-on-year decline in advertising revenue for the period April 1 to May 11 and a significant drop in newspaper subscription sales to hotels and airlines.

These factors contributed to a decline in consolidated revenues of 8% to HK\$613.6 million for the six months ended 30 June 2003 compared with the same period in 2002. Despite several cost saving measures implemented during the period, earnings before interest, tax, depreciation and amortisation (EBITDA) decreased by 14% to HK\$109.4 million. Office relocation expenses, combined with changes in accounting standard and corporation tax rate relating to deferred taxation, much lower gains on disposal of subsidiaries and long-term investments, and finance costs related to the share buyback in October 2002 resulted in profit attributable to shareholders declining to HK\$34 million compared to HK\$90.1 million for the same period last year. It should be noted that the change in accounting standard and tax rate for deferred taxation that led to a charge to profits of HK\$8.5 million is a non-cash item and therefore has no impact on our cash flow. Basic earnings per share were HK2.18 cents.

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Operating Costs and Expenses

The Group's operating costs and expenses for the six months ended 30 June 2003 and 2002 were as follows:

HK\$ million	Unaudited		
	For the six months ended 30 June		
	2003	2002	% change
Staff costs	183.3	207.1	(12%)
Cost of production materials and sales	203.0	208.1	(3%)
Rental and utilities	44.3	51.4	(14%)
Advertising and promotion	5.4	14.5	(63%)
Other operating expenses	68.2	61.2	11%
Operating cost before depreciation	504.2	542.3	(7%)
Depreciation and amortisation	38.9	39.5	(2%)
Total operating costs and expenses	543.1	581.8	(7%)

In response to the unprecedented business downturn, the Group implemented several cost saving measures. Operating costs before depreciation decreased by 7% to HK\$504.2 million compared with the same period last year, mainly due to a reduction in headcount, lower newsprint costs and usage, reduced rental and advertising and promotion expenses.

Staff costs were lower by 12% due to a reduction in headcount from 1,321 as at 30 June 2002 to 1,262 as at 30 June 2003, partly due to the sale of *Health Plus* in May 2003 and the education business in March 2002, as well as a voluntary salary reduction program initiated in June 2003 which will remain in place for the rest of the year. The average cost of newsprint decreased by 23% to US\$422 per metric ton compared with US\$545 per metric ton for the same period last year. Newsprint usage was lower by 10% with a decline in advertising volume. Rental and utilities decreased by 14% as a result of the sale of *Health Plus* and education businesses. Advertising and promotion expenses were reduced in light of the uncertain and difficult business environment.

Contribution by Business Segment

HK\$ million	Unaudited		
	Contribution to Turnover		
	For the six months ended 30 June		
	2003	2002	% change
Newspapers, magazines and other publications	354.2	402.8	(12%)
Retailing	203.2	204.6	(1%)
Investment properties	41.4	38.7	7%
Video and film post-production	10.4	10.7	(3%)
Entertainment and education	4.4	13.1	(66%)
Total	613.6	669.9	(8%)

HK\$ million	Unaudited			Unaudited		
	Contribution to EBITDA			Contribution to Operating Profit		
	For the six months ended 30 June			For the six months ended 30 June		
	2003	2002	% change	2003	2002	% change
Newspapers, magazines and other publications	63.7	87.8	(27%)	17.2	57.0	(70%)
Retailing	(0.1)	0.9	(111%)	(1.2)	(0.5)	140%
Investment properties	40.4	37.6	7%	40.0	37.6	6%
Video and film post-production	1.9	(0.4)	575%	1.4	(2.2)	164%
Entertainment and education	3.5	1.7	106%	3.0	12.2	(75%)
Total	109.4	127.6	(14%)	60.4	104.1	(42%)

Newspapers, magazines and books publishing continued to generate a significant portion of the Group's revenues and EBITDA, but office relocation expenses of HK\$10.9 million, finance costs related to the share buyback in October 2002, and settlement of advertising credit claims of HK\$2.3 million led to the core business' contribution to operating profit to decline significantly to HK\$17.2 million.

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OPERATING REVIEW

Newspapers, magazines and other publications

HK\$ million	Unaudited		
	For the six months ended 30 June		
	2003	2002	% change
Turnover			
Newspapers	313.7	361.9	(13%)
Magazines and others	40.5	40.9	(1%)
Total turnover	354.2	402.8	(12%)
EBITDA	63.7	87.8	(27%)
Operating profit	17.2	57.0	(70%)

Revenue for the publishing division for the six months ended 30 June 2003 was HK\$354.2 million, a 12% decrease compared with the same period last year. Despite lower production costs and cost saving measures, operating profit dropped significantly to HK\$17.2 million due to office relocation expenses, finance costs related to the share buyback last year, and settlement of advertising credit claims.

As a result of the SARS outbreak, newspaper display advertising revenue decreased by 19% on the back of a 15% decline in volume and lower yields. The impact of SARS was felt in all categories, particularly travel-related and high-end retail, fashion and lifestyle. Newspaper classified advertising revenue increased by 2%. Recruitment advertising revenue decreased by 13% but this was offset by an increase in revenue in other classified categories. Overall, classified volume decreased by 1%, which was offset by higher yields.

Newspaper circulation revenue decreased by 7% compared to the same period last year, due mainly to a decline in copy sales to hotels and airlines. The average unaudited circulation of the *South China Morning Post* showed a decrease of 11% from 104,406 to 92,474 copies per day in the six months ended 30 June 2003 while the *Sunday Morning Post* showed a decrease of 18% from 90,868 to 74,850 copies per day. On April 6, the cover price of *Sunday Morning Post* was increased from HK\$7 to HK\$8 resulting in a 6% decrease in copy sales but a 10% increase in revenue.

Revenue from magazines and other publications for the six months ended 30 June 2003 was flat compared with the same period last year. The strong performance of magazine titles in the first four months of the year mitigated the impact of SARS on advertising revenue in May and June. Operating profit improved slightly due to cost saving measures.

Retailing

HK\$ million	Unaudited		
	For the six months ended 30 June		
	2003	2002	% change
Turnover	203.2	204.6	(1%)
EBITDA	(0.1)	0.9	(111%)
Operating loss	(1.2)	(0.5)	140%

Revenue from retail operations decreased 1% compared with the same period last year. Because of the very low margins in retail operations, the decline in sales due to SARS led to an increase in operating losses despite some temporary rental reductions and other cost saving measures. In the first six months, four *Daily Stop* shops were closed due to MTR station improvements and four new shops were opened. As at the end of June 2003, there were 83 *Daily Stop* outlets in operation.

Other retailing operations were focused on shop consolidation and cost control in preparation for divestment. On 1 June 2003, *Health Plus* and Highlight Trading were sold at a gain of HK\$0.6 million. The gain on disposal was offset against operating losses.

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Investment properties

HK\$ million	Unaudited		
	For the six months ended 30 June		
	2003	2002	% change
Turnover	41.4	38.7	7%
EBITDA	40.4	37.6	7%
Operating profit	40.0	37.6	6%

Rental income from investment properties increased 7% due to a new lease on an investment property and rental income from advertising billboards. The lease for TV City, which contributes a major portion of rental income and EBITDA, will expire at the end of the year.

Video and film post-production

HK\$ million	Unaudited		
	For the six months ended 30 June		
	2003	2002	% change
Turnover	10.4	10.7	(3%)
EBITDA	1.9	(0.4)	575%
Operating profit/(loss)	1.4	(2.2)	164%

Revenue from video film production in the second quarter of this year was affected by SARS with several projects put on hold. Post-production business with higher margins performed better. As a result, the business was profitable for the six months ended 30 June 2003 compared to losses for the same period last year.

Entertainment and education

HK\$ million	Unaudited		
	For the six months ended 30 June		
	2003	2002	% change
Turnover	4.4	13.1	(66%)
EBITDA	3.5	1.7	106%
Operating profit	3.0	12.2	(75%)

Revenue from this division was related to royalties and income from record sales of Capital Artists whose production operation was suspended in October 2001. The education businesses were sold in March 2002.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was HK\$103.1 million for the six months ended 30 June 2003 compared with HK\$133.1 million for the same period last year. The decrease was primarily due to lower earnings resulting from lower advertising and circulation revenues.

Net cash used in investing activities for the six months ended 30 June 2003 was HK\$25.5 million primarily due to capital spending. Net cash used in investing activities for the same period last year was HK\$155.9 million, which comprised mainly of short-term placement of cash deposits.

The Group had net cash used in financing activities of HK\$62.4 million primarily for the payment of dividends. The net cash used in financing activities for the same period last year was HK\$3 million with payment of dividends offset by maturing longer-term bank placements.

Cash generated from the Group's operations and funds available from external sources are expected to be adequate to cover all cash requirements, including working capital needs and planned capital expenditures.

As at 30 June 2003, the Group had bank borrowings of HK\$310 million. The bank borrowing is a Hong Kong Dollar unsecured floating rate term loan repayable within three years. The Group has no significant foreign exchange risk exposure.

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The ratio of current assets to current liabilities was 2.4 times as at 30 June 2003 compared with 2.1 times as at 31 December 2002. As at 30 June 2003, the Group had a gearing ratio of 10% compared with 11% as at 31 December 2002 based on total borrowings of HK\$310 million, net available cash of HK\$ 154.2 million and shareholders' funds of HK\$1,503 million.

CAPITAL EXPENDITURES

The Group continued its capital expenditure program to invest in new technology and improve operating efficiency. Of the estimated HK\$86.1 million capital expenditures in 2003, HK\$38.3 million were spent in the six months ended 30 June 2003 as follows: (i) HK\$13.7 million as partial payments for editorial, circulation, advertising and retail point-of-sales systems, (ii) HK\$10.9 million for video and film post-production equipment, (iii) HK\$9.6 million on replacement items, and (iv) HK\$4.1 million on new retail shops and computer hardware and software. The balance of HK\$47.8 million will be spent further on the editorial, circulation, advertising and retailing systems, new retail outlets and replacement items.

DEFERRED TAXATION

With effect from January 2003, the Group adopted a new accounting policy for deferred tax to comply with Hong Kong SSAP 12 (revised) "Income Taxes". In previous years, partial provision was made for deferred tax arising from timing differences using the income statement liability method except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax liabilities are recognised in full in respect of all timing differences while deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The new accounting policy has been applied retroactively, resulting in prior period adjustments. The opening retained earnings as at 1 January 2003 was reduced by HK\$8,313,000 (2002: HK\$14,532,000) representing the cumulative effect of the change in policy on retained earnings prior to 2003. The opening asset revaluation reserve as at 1 January 2003 was reduced by HK\$178,000 (2002: HK\$186,000), representing the deferred tax liability recognised in respect of the asset revaluation surplus on the Group's land and building. The net deferred tax liabilities and minority interests as at 31 December 2002 were restated at HK\$91,248,000 and HK\$8,692,000, respectively.

For the six months ended 30 June 2002, profit and loss accounts and asset revaluation reserve were credited by HK\$3,979,000 and HK\$4,000, respectively.

PROSPECTS

Our performance for the second half of the year will depend largely on the strength of the economic recovery. While there are signs of recovery from SARS boosted in part by the Government stimulus package, unemployment continues to rise to record levels and deflationary pressures continue to affect some sectors. Against this backdrop, advertising and circulation sales have improved but the pace and strength of such recovery remain uncertain.

In our core business, we will launch several marketing and promotion campaigns in the second half to drive circulation and advertising growth, and to coincide with the centenary of the *South China Morning Post*. We will continue to introduce new advertising formats and strive to drive revenue at each customer interaction. We will continue to improve the quality of our newspapers and expand its availability in Hong Kong and the mainland. We will continue to find new ways to deliver our quality content using our online platform. In our other businesses, we will continue to seek efficiency gains and find new ways of increasing revenues.

We will remain focused on disciplined cost control in all our businesses. Our voluntary salary reduction program will stay in place through the end of the year. The full impact of cost savings from the office relocation will be evident next year. Our recent and continuing investments in technology are lowering our cost base and improving efficiency.

Our long-term focus remains unchanged and on track: delivering quality content that is relevant to our readers, offering an enhanced ability to serve our customers, and making strategic investments to enhance the value of our existing assets or extend our brand. These strategies combined with strong financial discipline put us in a strong position to pursue opportunities for growth as they arise.

INTERIM DIVIDEND DISTRIBUTION

The Directors have declared an interim dividend distribution from the contributed surplus account of HK2 cents per share, amounting to HK\$31.2 million, payable to shareholders whose names appear on the Register of Members of the Company on Tuesday, 30 September 2003 and payable on Wednesday, 8 October 2003.

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BOOK CLOSURE

The Register of Members of the Company will be closed from Thursday, 25 September 2003 to Tuesday, 30 September 2003, both days inclusive. All transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrars, Computershare Hong Kong Investor Services Limited of 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 24 September 2003 so as to qualify for the interim dividend distribution.

DIRECTORS

The following persons were Directors of the Company as at the date of this report:

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. Peter Lee Ting Chang*	
Dr. The Hon. David Li Kwok Po*	

* Independent Non-executive Director

INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

(A) Directors and Chief Executives

As at 30 June 2003, the Directors and chief executives of the Company had the following interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Name of Director	Ordinary shares of the Company		
	Capacity/ Nature of interests	Number of shares held	Approximate % of issued share capital
Mr. Kuok Khoon Ean (Note 1)	Corporate	340,000	0.022%
Mr. Thaddeus Thomas Beczak	Personal	294,000	0.019%
Tan Sri Dr. Khoo Kay Peng (Note 2)	Corporate	87,119,145	5.581%
Dr. The Hon. David Li Kwok Po	Personal	100,000	0.006%

Note:

1. The interests in the 340,000 shares are in respect of deemed corporate interests held by Mr. Kuok Khoon Ean through Allerton Limited, which is wholly owned by Mr. Kuok and his spouse.
2. 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. As at 30 June 2003, Dr. Khoo was deemed to have an interest in approximately 29.48% of the issued capital of Pan Malaysian Industries Berhad which in turn holds approximately 46.13% of the issued capital of Malayan United Industries Berhad ("MUI Berhad"). MUI Media Ltd. is wholly owned by MUI Berhad. Dr. Khoo and his spouse are deemed to have interests in the entire issued capital of Bonham Industries Limited.

All the interests stated above represent long positions in the shares of the Company.

As at 30 June 2003, none of the Directors or their respective spouses or children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations. At no time during the six months ended 30 June 2003 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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Save as stated above, as at 30 June 2003, none of the Directors or chief executives of the Company had any interest or short position in any shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(B) Substantial Shareholders

As at 30 June 2003, the following persons (other than Directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company representing 10% or more of the voting power at any general meeting of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity/ Nature of Interest	Number of shares held	Approximate % of issued share capital
Kerry Media Limited (Note 1)	Interest of controlled corporation	524,730,000	33.62%
Kerry 1989 (C.I.) Limited (Note 2)	Interest of controlled corporation	525,036,000	33.64%
Kerry Holdings Limited (Note 3 & 4)	Interest of controlled corporation	594,576,000	38.09%
Kerry Group Limited (Note 4)	Interest of controlled corporation	594,576,000	38.09%
Silchester International Investors Limited (Note 5 & 6)	Investment manager	189,001,000	12.11%

Note:

1. *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.*
2. *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.*
3. *The interests in the 594,576,000 shares held by Kerry Holdings Limited are duplicated in the interests reported above for Kerry Group Limited.*
4. *The Company has been notified informally that, as at 30 June 2003, Kerry Group Limited and Kerry Holdings Limited were interested in 594,776,000 shares (representing approximately 38.10% of the Company's issued share capital) and the increase in shareholding was not required to be disclosed under Part XV of the SFO.*
5. *Silchester International Investors Limited has informally notified the Company that, as at 30 June 2003, it held 197,669,000 shares (representing approximately 12.66% of the Company's issued share capital) and this increase in shareholding was not required to be disclosed under Part XV of the SFO.*
6. *Investment manager acting on behalf of clients and not connected with the Company.*

All the interests stated above represent long positions in the shares of the Company.

Save as stated above, as at 30 June 2003, no person had registered any interest or short position in any shares or underlying shares of the Company which represented 10% or more of the voting power at any general meeting of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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(C) Certain Other Persons

As at 30 June 2003, the following other persons who are required to disclose their interests pursuant to Part XV of the SFO (other than Directors or chief executives of the Company) had interests or short positions in shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity/ Nature of interest	Number of shares held	Approximate % of issued share capital
Sprucegrove Investment Management Ltd. (Note 1)	Investment manager	104,918,000	6.72%
Madam Chai Siew Phin Pauline (Note 2)	Interest of controlled corporation	87,119,145	5.58%
Templeton Global Advisors Ltd. (Note 1)	Investment manager	85,259,937	5.46%

Note:

1. Investment manager acting on behalf of clients and not connected with the Company.
2. The interests in the 87,119,145 shares held by Madam Chai Siew Phin Pauline are duplicated in the interests for Tan Sri Dr. Khoo Kay Peng reported under "Directors and Chief Executives".

All the interests stated above represent long positions in the shares of the Company.

Save as stated above, as at 30 June 2003, no other person who was required to disclose their interests pursuant to Part XV of the SFO (other than the Directors or chief executive of the Company) had registered any interest or short position in any shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

EMPLOYEES

The Group has approximately 1,262 full-time employees as at 30 June 2003. The Group remunerates its employees largely based on industry practice and also adopts a share option scheme for employees with awards determined annually based upon the performance of the Group and individual employees.

SHARE OPTION SCHEME

The Company has a share option scheme (the "Scheme") which was approved by shareholders on 27 October 1997. 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. 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.

No share option was granted under the Scheme during the six months ended 30 June 2003 (the "Period").

The outstanding shares in respect of options granted under the Scheme as at 30 June 2003 are summarised below:

	Number of shares in respect of options granted
Outstanding at 1 January 2003	10,108,500
Granted during the Period	—
Exercised during the Period	—
Cancelled during the Period	—
Lapsed during the Period	1,405,000
Outstanding at 30 June 2003	8,703,500

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Details of the movements during the six months ended 30 June 2003 in the share options granted under the Scheme are as follows:

(i) Options granted to Directors

None of the Directors of the Company has any outstanding share option or has any option exercised, cancelled or lapsed during the six months ended 30 June 2003.

(ii) Options granted to employees

Date of grant	Exercisable period	Exercise price/share	Number of shares involved in the options				
			Outstanding at 01/01/2003	Granted during the Period	Exercised during the Period	Lapsed during the Period	Outstanding at 30/06/2003
		HK\$					
02/08/1999	02/08/2000–27/10/2007	5.00	1,752,000	–	–	170,000	1,582,000
11/01/2000	11/01/2001–27/10/2007	5.51	1,991,500	–	–	570,000	1,421,500
20/04/2000	20/04/2001–27/10/2007	6.05	5,320,000	–	–	665,000	4,655,000
28/06/2001	28/06/2002–27/10/2007	4.95	1,045,000	–	–	–	1,045,000
			10,108,500	–	–	1,405,000	8,703,500

Valuation of share options has not been presented as the exercise prices of all the share options which were vested as at 30 June 2003 were above the market price of the shares of the Company as at 30 June 2003.

PURCHASE, REDEMPTION OR SALE 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 six months ended 30 June 2003.

CORPORATE GOVERNANCE

The Directors and management are committed to high standards of corporate governance which provide an important framework for the overall operations of the Group. The corporate governance principles adopted by the Group during the six months ended 30 June 2003 are in line with the corporate governance statement set out in the Company's 2002 Annual Report.

CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that the Non-executive Directors of the Company 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. One meeting was held by the Audit Committee in the first six months of 2003. The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2003.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee in 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 the Executive Chairman, Mr. Kuok Khoon Ean.

On Behalf of the Board
KUOK Khoon Ean
Chairman

Hong Kong, 5 September 2003