

# 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 2003.

## 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 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

During the year, whilst the Group purchased more than 30% of its goods from its five largest suppliers, sales to the five largest customers accounted for less than 30% of the total sales for the year.

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchase	
– the largest supplier	12.1%
– five largest suppliers combined	39.0%
Sales	
– the largest customer	5.5%
– five largest customers combined	13.4%

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.

## 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 2003 are set out in the financial statements on pages 44 to 48.

## DIVIDEND DISTRIBUTIONS

During the year, an interim dividend distribution from the contributed surplus account of HK2 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 2003 to the shareholders whose names appear on the register of members of the Company on Friday, 21 May 2004.

## **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 77. To reflect the change of financial year end date to 31 December, an additional summary for the calendar year 2003 and previous calendar years is set out on page 78.

## **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 2003 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 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 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\$399,710.

## **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. Ronald J. Arculli*</b>	
<b>Mr. Thaddeus Thomas Beczak<sup>#</sup></b>	
<b>Tan Sri Dr. Khoo Kay Peng</b>	
<b>Ms. Kuok Hui Kwong</b>	(appointed on 6 February 2004)
<b>Mr. Peter Lee Ting Chang*</b>	
<b>Dr. The Hon. David Li Kwok Po*</b>	

\* *Independent Non-executive Director*

<sup>#</sup> *Mr. Thaddeus Thomas Beczak served as Deputy Chairman until 31 December 2003 and has become Non-executive Director from that date.*

In accordance with Bye-Law 99 of the Company's Bye-Laws, one-third of the Directors who have been longest in office since their last election shall retire from office at each annual general meeting. Mr. Thaddeus Thomas Beczak and Mr. Peter Lee Ting Chang are the longest-serving Directors and hence are eligible for re-election at the forthcoming Annual General Meeting of the Company. Mr. Thaddeus Thomas Beczak has informed the Board that he will not stand for re-election. Mr. Peter Lee Ting Chang offers himself for re-election.

Ms. Kuok Hui Kwong has been appointed as Director of the Company on 6 February 2004. In accordance with Bye-Law 102(B) of the Company's Bye-Laws, Ms. Kuok shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at the meeting. Ms. Kuok Hui Kwong offers herself for re-election at the forthcoming Annual General Meeting.

## DIRECTORS' MEETING

The number of Directors' meetings and number of meetings attended by each of the Directors during the year were:

Name of Director	Board of Directors Meeting		Audit Committee Meeting	
	Number held	Number attended	Number held	Number attended
Mr. Kuok Khoon Ean	4	4	2	1*
Mr. Roberto V. Ongpin	4	3	—	—
Mr. Ronald J. Arculli	4	4	2	2
Mr. Thaddeus Thomas Beczak	4	4	2	1*
Tan Sri Dr. Khoo Kay Peng	4	2	—	—
Mr. Peter Lee Ting Chang	4	3	2	2
Dr. The Hon. David Li Kwok Po	4	3	—	—

\* Attended as an invitee of the Committee

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the Directors 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		Number of underlying ordinary shares held under equity derivatives	Total	Approximate % of issued share capital*
	Capacity/ Nature of interests	Number of shares held			
Mr. Kuok Khoon Ean (Note 1)	Corporate	340,000	—	340,000	0.022%
Mr. Thaddeus Thomas Beczak (Note 2)	Personal	294,000	350,000	644,000	0.041%
Tan Sri Dr. Khoo Kay Peng (Note 3)	Corporate	87,119,145	—	87,119,145	5.581%
Dr. The Hon. David Li Kwok Po	Personal	100,000	—	100,000	0.006%

Notes:

- The interests in the 340,000 shares are in respect of deemed corporate interests held by Mr. Kuok Khoon Ean through Allerlon Limited, which is wholly owned by Mr. Kuok and his spouse.
- During the year, Mr. Thaddeus Thomas Beczak was granted 350,000 options to subscribe for the underlying ordinary shares of the Company under the Company's share option scheme, details of which are set out in the section headed "Share Option Scheme" of this report.

3. 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 31 December 2003, Dr. Khoo was deemed to have an interest in approximately 32.09% of the issued capital of Pan Malaysian Industries Berhad which in turn holds approximately 46.56% 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.

\* *Approximate percentage calculated based on the 1,560,945,596 ordinary shares of the Company in issue as at 31 December 2003.*

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

Save as stated above, none of the Directors (including their spouses and 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 during the year.

Apart from the aforesaid, as at 31 December 2003, none of the Directors of the Company had any interest or short position in any shares, underlying shares and 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.

## **SUBSTANTIAL INTERESTS IN SHARE CAPITAL**

As at 31 December 2003, the following persons (other than Directors of the Company) had interests or short positions in the shares and underlying shares of the Company representing 5% 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:

<b>Name</b>	<b>Capacity/ Nature of interest</b>	<b>Number of ordinary shares held</b>	<b>Approximate % of issued share capital*</b>
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 (Notes 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 (Notes 5 & 6)	Investment manager	203,349,000	13.03%
Sprucegrove Investment Management Ltd. (Notes 5 & 7)	Investment manager	104,918,000	6.72%
Madam Chai Siew Phin Pauline (Note 8)	Interest of controlled corporation	87,119,145	5.58%
Templeton Global Advisors Ltd. (Note 5)	Investment manager	85,259,937	5.46%

Notes:

- 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.
- The Company has been notified informally that, as at 31 December 2003, Kerry Group Limited and Kerry Holdings Limited were interested in 594,876,000 shares (representing approximately 38.11% of the Company’s issued share capital) and the increase in shareholding was not required to be disclosed under Part XV of the SFO.
- Investment manager acting on behalf of clients and not connected with the Company.
- Silchester International Investors Limited has informally notified the Company that, as at 31 December 2003, it held 203,225,000 shares (representing 13.02% of the Company’s issued share capital) and this decrease in shareholding was not required to be disclosed under Part XV of the SFO.
- Sprucegrove Investment Management Ltd. has informally notified the Company that, as at 31 December 2003, it held 104,592,000 shares (representing 6.70% of the Company’s issued share capital) and this decrease in shareholding was not required to be disclosed under Part XV of the SFO.
- 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 the section headed “Directors’ interests in shares, underlying shares and debentures” of this report.

\* *Approximate percentage calculated based on the 1,560,945,596 ordinary shares of the Company in issue as at 31 December 2003.*

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

Save as stated above, as at 31 December 2003, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## 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 optimize 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 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 date of this report, the total number of shares available for issue under the Scheme was 160,283,399, representing approximately 9.24% of the issued share capital of the Company as at 29 May 2002 and 10.27% of the issued share capital of the Company as at the date of this report.

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 31 December 2003 are summarized below:

	Number of shares in respect of options granted
Outstanding at 1 January 2003	10,108,500
Granted during the year	2,950,000
Exercised during the year	–
Cancelled during the year	–
Lapsed during the year	(2,837,500)
Outstanding at 31 December 2003	10,221,000

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

**(i) Options granted to Directors**

Name of Director	Date of grant	Exercisable period	Exercise price/share HK\$	Number of shares involved in the options				
				Outstanding at 01/01/2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2003
Mr. Thaddeus Thomas Beczak	23/09/2003	23/09/2004 – 27/10/2007	3.90*	–	350,000	–	–	350,000
Total				–	350,000	–	–	350,000

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

**(ii) Options granted to employees**

Date of grant	Exercisable period	Exercise price/share HK\$	Number of shares involved in the options				
			Outstanding at 01/01/2003	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2003
02/08/1999	02/08/2000 – 27/10/2007	5.00	1,752,000	–	–	(399,500)	1,352,500
11/01/2000	11/01/2001 – 27/10/2007	5.51	1,991,500	–	–	(913,000)	1,078,500
20/04/2000	20/04/2001 – 27/10/2007	6.05	5,320,000	–	–	(1,325,000)	3,995,000
28/06/2001	28/06/2002 – 27/10/2007	4.95	1,045,000	–	–	(200,000)	845,000
23/09/2003	23/09/2004 – 27/10/2007	3.90*	–	2,600,000	–	–	2,600,000
Total			10,108,500	2,600,000	–	(2,837,500)	9,871,000

\* The closing price of the shares of the Company immediately before the date on which the options were granted was HK\$3.60.

Valuation of share options has not been presented as the exercise prices of all the share options which were vested as at 31 December 2003 were above the market price of the shares of the Company as at 31 December 2003.

**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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES AS AT 31 DECEMBER 2003

Details of options granted as at 31 December 2003 by the Company under the share option scheme to a Director to subscribe for shares of the Company was set out in the section headed "Share Option Scheme" of this report.

Apart from the aforesaid, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors 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 engaged 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 four agreements of extension dated 2 August 2002, 15 September 2002, 30 November 2002 and 26 March 2003 respectively, both parties agreed to extend the term of the agreement to 15 September 2002, 30 November 2002, 31 March 2003 and lastly to 31 May 2003. The service fees paid by Highlight Trading under the said agreements during the year amounted to HK\$30,000.
    - (b) An agreement dated 25 June 2002 was made between Retailcorp Limited ("Retailcorp"), a wholly owned subsidiary of the Company prior to the Company's disposal of its interests therein in June 2003, and Kerry Logistics whereby Retailcorp engaged Kerry Logistics to provide Logistics Services to its Health Plus outlets for a term of one year from 1 June 2002 to 31 May 2003. The Company disposed of its interests in Retailcorp in June 2003. The service fees paid by Retailcorp under the said agreement during the year amounted to HK\$238,000.
    - (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 engaged Kerry Logistics to provide Logistics Services for a period of one year from 19 October 2001 to 18 October 2002. Pursuant to two agreements of extension dated 5 October 2002 and 30 December 2002 respectively, both parties agreed to extend the term of the agreement for approximately two and half months to 31 December 2002 and subsequently for a further period of two months to 28 February 2003. SCMP Book Publishing and Kerry Logistics entered into a new agreement dated 25 March 2003 whereby both parties agreed to continue the Logistics Services for a further term of one year from 1 March 2003 to 29 February 2004. Pursuant to an agreement of extension dated 24 February 2004, both parties agreed to extend the term of the agreement for a period of one month to 31 March 2004. The service fees paid and payable by SCMP Book Publishing under the said agreements during the year amounted to HK\$548,000.
    - (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 engaged Kerry Logistics to provide Logistics Services for a period of one year from 1 October 2002 to 30 September 2003. Pursuant to five agreements of extension dated

29 September 2003, 30 October 2003, 30 November 2003, 31 December 2003 and 16 February 2004 respectively, both parties agreed to extend the term of the agreement to 31 October 2003, 30 November 2003, 31 December 2003, 31 January 2004 and lastly to 31 March 2004. The service fees paid and payable by SCMP Retailing under the said agreements during the year amounted to HK\$1,834,000.

(ii) Transportation and Distribution Services

- (a) An agreement dated 19 August 2002 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 engaged 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 2002 to 14 August 2003. SCMP Publishers and Kerry Distribution agreed to early terminate the agreement with effect from 1 April 2003 and the Transportation and Distribution Services are being provided to SCMP Publishers under new agreements mentioned below. The service fees paid by SCMP Publishers under the said agreement during the year amounted to HK\$1,651,000.
- (b) An agreement dated 19 August 2002 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engaged 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 agreement with effect from 1 April 2003 and the services are being provided to SCMP Publishers under new agreements mentioned below. The service fees paid by SCMP Publishers under this agreement during the year amounted to HK\$180,000.
- (c) An agreement dated 27 February 2003 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engaged Kerry Distribution to provide delivery services of newspapers to schools on Hong Kong Island and Kowloon for a term of two years from 1 April 2003 to 31 March 2005. SCMP Publishers and Kerry Distribution agreed to early terminate the agreement with effect from 1 March 2004. The service fees paid and payable by SCMP Publishers under the said agreement during the year amounted to HK\$348,000.
- (d) An agreement dated 27 February 2003 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engaged Kerry Distribution to provide delivery services of newspapers to schools in the New Territories, Hong Kong for a term of two years from 1 April 2003 to 31 March 2005. SCMP Publishers and Kerry Distribution agreed to early terminate the agreement with effect from 1 March 2004. The service fees paid and payable by SCMP Publishers under this agreement during the year amounted to HK\$329,000.
- (e) An agreement dated 27 March 2003 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engaged Kerry Distribution to provide delivery services of newspapers to SCMP Publishers’ designated clients in Hong Kong for a term of two years from 1 April 2003 to 31 March 2005. SCMP Publishers and Kerry Distribution agreed to early terminate the agreement with effect from 27 January 2004. The service fees paid and payable by SCMP Publishers under this agreement during the year amounted to HK\$261,000.
- (f) An agreement dated 29 March 2003 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engaged Kerry Distribution to provide delivery services of newspapers to SCMP Publishers’ distributors in Hong Kong for a term of two years from 1 April 2003 to 31 March 2005. SCMP Publishers and Kerry Distribution agreed to early terminate the agreement with effect from 27 January 2004. The service fees paid and payable by SCMP Publishers under this agreement during the year amounted to HK\$1,134,000.
- (g) An agreement dated 31 March 2003 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engaged Kerry Distribution to provide delivery and collection services of documents to and from SCMP Publishers’ designated offices in Hong Kong for a term of two years from 1 April 2003 to 31 March 2005. SCMP Publishers and Kerry Distribution agreed to early terminate the agreement with effect from 27 January 2004. The service fees paid and payable by SCMP Publishers under this agreement during the year amounted to HK\$360,000.
- (h) An agreement dated 31 March 2003 was made between SCMP Publishers and Kerry Distribution whereby SCMP Publishers engaged Kerry Distribution to provide pre-delivery services at Morning Post Centre in Tai Po, New Territories, Hong Kong for a term of two years from 1 April 2003 to 31 March 2005. SCMP Publishers and Kerry Distribution agreed to early terminate the agreement with effect from 27 January 2004. The service fees paid and payable by SCMP Publishers under this agreement during the year amounted to HK\$513,000.



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 above transactions 1(i) and 1(ii) (the “Transactions”) on each occasion they arise for a period of three financial years ended 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 2003 (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 11 March 2004, South China Morning Post Publishers Limited (“SCMP Publishers”), TVE International Limited (“TVEI”) and SCMP Publications Limited (“SPL”) (all being wholly owned subsidiaries of the Company) and SCMP Haymarket Publishing Limited (“SCMPH”) (a subsidiary in which the Company has a 51% interest) entered into a termination and release agreement (“Termination Agreement”) with Haymarket Group Limited (“HGL”), Haymarket Publishing Services Limited (“HPSL”), Haymarket Publishing (Hong Kong) Limited (“HPHK”) and Media & Marketing Limited (“MML”) (collectively “Haymarket Group”) on 2 March 2004, pursuant to which the parties terminated the SCMP/Haymarket Publishing joint venture and distributed related assets in the joint venture. The SCMP/Haymarket Publishing joint venture was established between SCMP Publishers, TVEI, HGL, HPSL, HPHK and SCMPH under a joint venture agreement made on 2 October 1998 (“JVA”) for publication of Chinese language magazines in Hong Kong, Macau, the PRC and Taiwan. SCMPH owns various magazine titles, namely “AUTOMOBILE”, “Amoeba”, “Champion”, “PC Home”, “Autoworld” and “Techmag”. SCMP Haymarket Publishing Pte Ltd (“Singco”), a wholly owned subsidiary of SCMPH, owns magazine title “CEI ASIA PACIFIC”.

At the signing of the Termination Agreement, SPL, a wholly owned subsidiary of the Company, owned 51% interest in SCMPH, and hence a subsidiary of the Company. HPHK owned 49% interest in SCMPH and was a substantial shareholder of SCMPH. HPHK was therefore a connected person of the Company in accordance with Listing Rules. Accordingly, the entering into the Termination Agreement between the Company’s subsidiaries and HPHK and others constituted a connected transaction for the Company under Listing Rules.

Under the Termination Agreement, TVEI acquired from HPHK its 49% interest in SCMPH and the right to receive repayment of the unsecured and non-interest bearing advances made by MML, HPSL and HPHK to SCMPH. HPHK acquired from SCMPH the entire issued share capital of Singco and copyright in the Chinese translations of all materials from time to time published in magazine titles belonging to Haymarket Group that have been produced in SCMPH’s magazines “AUTOMOBILE” or “Autoworld” (“Haymarket Material”). After completion of the transaction, SCMPH becomes an indirect wholly owned subsidiary of the Company and Singco becomes a wholly owned subsidiary of HPHK. Further, each of SCMP Publishers, TVEI, HGL, HPSL, HPHK and SCMPH (parties to the JVA) is released from the mutual agreements and respective undertakings under the JVA.

The total consideration payable by TVEI to HPHK for the acquisition of a 49% interest in SCMPH and the assignment of the right to receive repayment of the advances made by HPHK to SCMPH (in an aggregate amount of HK\$4,459,000) is HK\$1.00. The total consideration payable by TVEI to MML and HPSL for the assignment of the right to receive repayment of the advances made by MML (in an aggregate amount of HK\$4,199,700.19 after repayment of HK\$4,556,806.70 by SCMPH on completion of the transaction) and HPSL (in an aggregate amount of HK\$9,084,065) to SCMPH is HK\$1.00. The total consideration payable by HPHK to SCMPH for acquisition of the entire issued share capital of Singco is S\$1.00. No monetary or non-monetary consideration for the disposal of the copyright in the Haymarket Material by SCMPH to HPHK was specified in the Termination Agreement.

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 has purchased, sold or redeemed any of the Company's 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 2003.

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. The Committee 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.

## **AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Kuok Khoon Ean**

Chairman

Hong Kong, 30 March 2004