

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 2004.

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 digital publications. The Group was also involved in retailing, video and film post-production and property investment through its subsidiaries. During the year, the Group disposed its retailing business.

An analysis of the Group's performance for the year by business segment is set out in note 3 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	12.7%
– five largest suppliers combined	41.9%
Sales	
– the largest customer	2.8%
– five largest customers combined	11.2%

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 2004 are set out in the financial statements on pages 45 to 49.

DIVIDEND DISTRIBUTIONS

During the year, an interim dividend distribution from the contributed surplus account of HK5 cents per share was paid. The Directors recommend to pay from the contributed surplus account of the Company a final dividend of HK7 cents per share and a special dividend of HK3 cents per share in respect of the year ended 31 December 2004 to the shareholders whose names appear on the register of members of the Company on Tuesday, 24 May 2005.

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 81. To reflect the change of financial year end date to 31 December, an additional summary for the calendar year 2004 and previous calendar years is set out on page 82.

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 2004 are set out in note 30 to the financial statements.

ASSOCIATES

Particulars of the Group's principal associates as at 31 December 2004 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 totaling HK\$2,309,231.

DIRECTORS

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

Mr. Kuok Khoon Ean	Chairman
Mr. Roberto V. Ongpin	Deputy Chairman
Mr. Ronald J. Arculli*	
Tan Sri Dr. Khoo Kay Peng	
Ms. Kuok Hui Kwong	(appointed on 6 February 2004)
Mr. Peter Lee Ting Chang*	
Dr. The Hon. David Li Kwok Po*	
Mr. Robert Ng Chee Siong	(appointed on 24 May 2004)
Mr. Thaddeus Thomas Beczak	(retired on 24 May 2004)

* *Independent Non-executive Director*

During the year, Mr. Thaddeus Thomas Beczak retired as a Director of the Company at the Annual General Meeting held on 24 May 2004. The Board would like to take this opportunity to record a special note of thanks and appreciation to Mr. Beczak for his efforts and contributions during his tenure as a Director of the Company.

In accordance with Bye-Law 99 of the Company's Bye-Laws and the stipulation under the Company's Corporate Governance Handbook, Mr. Kuok Khoon Ean, Mr. Ronald J. Arculli and Tan Sri Dr. Khoo Kay Peng shall retire by rotation and are eligible for re-election at the forthcoming Annual General Meeting of the Company. They offer themselves for re-election.

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Mr. Robert Ng Chee Siong was appointed as a Director of the Company on 24 May 2004. In accordance with Bye-Law 102(B) of the Company's Bye-Laws, Mr. Ng shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at the meeting. Mr. Ng offers himself for re-election at the forthcoming Annual General Meeting.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, 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		Approximate % of issued share capital*
	Capacity/ Nature of interests	Number of shares held	
Mr. Kuok Khoon Ean (Note 1)	Corporate	340,000	0.022%
Tan Sri Dr. Khoo Kay Peng (Notes 2 & 3)	Corporate	87,119,145	5.581%
Dr. The Hon. David Li Kwok Po	Personal	4,778,000	0.306%

Notes:

1. 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.
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 31 December 2004, Dr. Khoo was deemed to have an interest in approximately 32.31% 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. As at 31 December 2004, Dr. Khoo and his spouse were deemed to have interests in the entire issued capital of Bonham Industries Limited.
3. The Company has been notified that, with effect from 4 February 2005, Dr. Khoo's spouse ceased to hold any interest in Bonham Industries Limited and Dr. Khoo's interests in Bonham Industries Limited remain unchanged. Dr. Khoo held more than 99% of the entire issued capital of Bonham Industries Limited and Bonham Industries Limited held 16,150,000 shares of the Company as at 4 February 2005.

* *Approximate percentage calculated based on the 1,560,945,596 ordinary shares of the Company in issue as at 31 December 2004.*

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 2004, 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 2004, 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:

Name	Capacity/Nature of interest	Number of ordinary shares held	Approximate % of issued share capital*
Kerry Media Limited (Note 1)	Beneficial owner	524,730,000	33.62%
Kerry 1989 (C.I.) Limited (Note 2)	Interest of controlled corporations	525,036,000	33.64%
Kerry Holdings Limited (Notes 3 & 4)	Interest of controlled corporations	594,576,000	38.09%
Kerry Group Limited (Note 4)	Interest of controlled corporations	594,576,000	38.09%
Silchester International Investors Limited (Notes 5 & 6)	Investment manager	203,005,000	13.01%
Sprucegrove Investment Management Ltd. (Notes 5 & 7)	Investment manager	104,918,000	6.72%
Madam Chai Siew Phin Pauline (Notes 8 & 9)	Interest of controlled corporation	87,119,145	5.58%

Notes:

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 31 December 2004, Kerry Group Limited and Kerry Holdings Limited were interested in 595,568,000 shares (representing approximately 38.15% 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. Investment manager acting on behalf of clients and not connected with the Company.
6. Silchester International Investors Limited has informally notified the Company that, as at 31 December 2004, it held 205,523,000 shares (representing approximately 13.17% of the Company's issued share capital) and this increase in shareholding was not required to be disclosed under Part XV of the SFO.
7. Sprucegrove Investment Management Ltd. has informally notified the Company that, as at 31 December 2004, it held 101,105,000 shares (representing approximately 6.48% of the Company's issued share capital) and this decrease in shareholding was not required to be disclosed under Part XV of the SFO.
8. 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.
9. Madam Chai Siew Phin Pauline has notified the Company that as at 4 February 2005, she did not have any interest in the Company's shares and this cessation in shareholding was disclosed under Part XV of the SFO.

* Approximate percentage calculated based on the 1,560,945,596 ordinary shares of the Company in issue as at 31 December 2004.

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

Save as stated above, as at 31 December 2004, 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.

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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 162,188,399, representing approximately 9.35% of the issued share capital of the Company as at 29 May 2002 and 10.39% 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 2004 are summarized below:

	Number of shares in respect of options granted
Outstanding at 1 January 2004	10,221,000
Granted during the year	–
Exercised during the year	–
Cancelled during the year	–
Lapsed during the year	(1,895,000)
Outstanding at 31 December 2004	8,326,000



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	Exercise period	Exercise price/share HK\$	Number of shares involved in the options				
				Outstanding at 01/01/2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2004
Mr. Thaddeus Thomas Beczak	23/09/2003	23/09/2004 – 27/10/2007	3.90	350,000	–	–	350,000*	0
Total				350,000	–	–	350,000	0

* Mr. Thaddeus Thomas Beczak retired as a Director of the Company on 24 May 2004 and the share options granted to him lapsed on 31 December 2004.

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	Exercise period	Exercise price/share HK\$	Number of shares involved in the options				
			Outstanding at 01/01/2004	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2004
02/08/1999	02/08/2000 – 27/10/2007	5.00	1,352,500	–	–	(260,000)	1,092,500
11/01/2000	11/01/2001 – 27/10/2007	5.51	1,078,500	–	–	(95,000)	983,500
20/04/2000	20/04/2001 – 27/10/2007	6.05	3,995,000	–	–	(565,000)	3,430,000
28/06/2001	28/06/2002 – 27/10/2007	4.95	845,000	–	–	(125,000)	720,000
23/09/2003	23/09/2004 – 27/10/2007	3.90	2,600,000	–	–	(500,000)	2,100,000
Total			9,871,000	–	–	(1,545,000)	8,326,000

Valuation of share options has not been presented as the exercise prices of all the share options which were vested as at 31 December 2004 were above the market price of the shares of the Company as at 31 December 2004.

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DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Robert Ng Chee Siong, a Non-executive Director of the Company, informed the Board that as at 31 December 2004, he was the Chairman of the Boards of Sino Land Company Limited and its holding company Tsim Sha Tsui Properties Limited, which are in the business of property investment and development. In addition, as at 31 December 2004, Mr. Ng was also a director and shareholder of Boswell Holdings Ltd and its subsidiaries and associated corporations which are also in the business of property investment and development.

The Board is satisfied that property investment and development does not form part of the Company's core business. Publishing remains the core business and focus of the Company.

Save as stated above, none of the Directors of the Company has any 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 2004

Details of options granted as at 31 December 2004 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.

MAJOR TRANSACTION

As announced by the Company on 15 September 2004, SCMP Retailing (HK) Limited ("SCMP Retailing"), a wholly owned subsidiary of the Company, entered into a conditional agreement with The Dairy Farm Company, Limited (the "Purchaser") on 13 September 2004, pursuant to which SCMP Retailing disposed of certain assets relating to the convenience store retail business carried under the name "Daily Stop" to the Purchaser (the "Transaction").

The above disposal constituted a major transaction of the Company pursuant to Chapter 14 of the Listing Rules and was subject to the approval by the shareholders of the Company. At a special general meeting of the Company held on 28 October 2004, the said disposal was unanimously approved by the shareholders who attended the meeting.

Completion of the sale took place on 9 November 2004. The total gross consideration of the Transaction was HK\$101.5 million, HK\$96.5 million of which had been received in 2004. The remaining balance of HK\$5 million, being a retention fund retained by the Purchaser in accordance with the conditional sale and purchase agreement signed on 13 September 2004, will be payable to SCMP Retailing in 2005. The Transaction generated a profit of HK\$76.8 million which was recognised in 2004.



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:
 - (A) Transactions under Conditional Waiver for Compliance with Disclosure Requirements under Listing Rule 14.25
 - (i) Logistics Services
 - (a) An agreement dated 25 March 2003 was made between SCMP Book Publishing Limited ("SCMP Book Publishing"), 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 SCMP Book Publishing engaged Kerry Logistics to provide logistics services including warehousing, inventory management, delivery and related services ("Logistics Services") for a period 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 to 31 March 2004. The service fees paid by SCMP Book Publishing under the said agreements for the period from 1 January 2004 to 31 March 2004 amounted to HK\$137,416.
 - (b) 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 by SCMP Retailing under the said agreements for the period from 1 January 2004 to 31 March 2004 amounted to HK\$493,618.
 - (ii) Transportation and Distribution Services
 - (a) An agreement dated 27 February 2003 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 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 by SCMP Publishers under the said agreement for the period from 1 January 2004 to 29 February 2004 amounted to HK\$83,700.
 - (b) 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 by SCMP Publishers under this agreement for the period from 1 January 2004 to 29 February 2004 amounted to HK\$79,050.

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- (c) 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 by SCMP Publishers under this agreement for the period from 1 January 2004 to 26 January 2004 amounted to HK\$24,323.
- (d) 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 by SCMP Publishers under this agreement for the period from 1 January 2004 to 26 January 2004 amounted to HK\$105,677.
- (e) 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 by SCMP Publishers under this agreement for the period from 1 January 2004 to 26 January 2004 amounted to HK\$33,548.
- (f) 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 by SCMP Publishers under this agreement for the period from 1 January 2004 to 26 January 2004 amounted to HK\$47,806.

On 27 November 2003, the Stock Exchange 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)(A)(i) and (1)(A)(ii) (the "Transactions") on each occasion they arise for a period of two financial years ending 31 December 2005 (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 2004 (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.
- (B) Transactions not covered by Conditional Waiver for Compliance with Disclosure Requirements under Listing Rule 14.25

On 2 March 2004, the Stock Exchange confirmed to the Company that the Waiver was applicable to any extended terms of the said agreement between SCMP Book Publishing and Kerry Logistics as mentioned in (1)(A)(i)(a) above and agreement between SCMP Retailing and Kerry Logistics as mentioned in (1)(A)(i)(b) above up to 31 March 2004. Further extensions of the respective agreements beyond 31 March 2004 would be subject to the revised Listing Rules which came into effect on 31 March 2004.

- (i) Logistics Services
 - (a) Upon the expiration of the term of agreement in the above transaction (1)(A)(i)(a) on 31 March 2004, two agreements of extension dated 20 October 2004 and 10 January 2005, respectively, were entered between SCMP Book Publishing and Kerry Logistics pursuant to which SCMP Book Publishing and Kerry Logistics agreed to extend the term of the agreement from 1 April 2004 to 30 November 2004 and from 1 December 2004 to 31 January 2005, respectively. The service fees paid by SCMP Book Publishing under the said agreements for the period from 1 April 2004 to 31 December 2004 amounted to HK\$452,311.
 - (b) Upon the expiration of the term of agreement in the above transaction (1)(A)(i)(b) on 31 March 2004, an agreement of extension dated 1 November 2004 was entered between SCMP Retailing and Kerry Logistics pursuant to which SCMP Retailing and Kerry Logistics agreed to extend the term of the agreement from 1 April 2004 to 9 November 2004. Thereafter, the Logistics Services were provided to SCMP Retailing under a new agreement mentioned below. The service fees paid by SCMP Retailing under the said agreement for the period from 1 April 2004 to 9 November 2004 amounted to HK\$1,120,881.
 - (c) An agreement dated 5 November 2004 was made between SCMP Retailing and Kerry Logistics whereby SCMP Retailing engaged Kerry Logistics to provide Logistics Services for the period from 9 November 2004 to 31 December 2004. SCMP Retailing and Kerry Logistics agreed to early terminate the agreement with effect from 1 December 2004. The service fees paid by SCMP Retailing under the said agreement for the period from 10 November 2004 to 30 November 2004 amounted to HK\$28,739.
- (ii) Advertising Services
 - (a) An agreement dated 29 December 2003 was made between SCMP Publishers and Kerry Holdings Limited ("Kerry Holdings"), a subsidiary of Kerry Group. Pursuant to this agreement, SCMP Publishers agreed to provide classified advertising and corporate notices services to Kerry Holdings and other companies in the group of companies under Kerry Group ("Kerry Holdings & Others") for a term of one year from 1 January 2004 to 31 December 2004.

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- (b) An agreement dated 23 October 2003 was made between SCMP Publishers and Kerry Holdings whereby SCMP Publishers agreed to provide display advertising services to Kerry Holdings & Others for a term of one year from 15 October 2003 to 14 October 2004.
- (c) An agreement dated 11 October 2004 was made between SCMP Publishers and Kerry Holdings whereby SCMP Publishers agreed to provide display advertising services to Kerry Holdings & Others for a term of one year from 17 October 2004 to 16 October 2005.

The aggregate amount of service fees for the above transactions (1)(B)(ii) paid for the financial year ended 31 December 2004 amounted to HK\$4,954,512.

(iii) Publication Services

- (a) An agreement dated 5 December 2003 was made between SCMP Publishers and Kerry Real Estate Agency Limited ("Kerry Real Estate"), a subsidiary of Kerry Properties which is a subsidiary of Kerry Group. Pursuant to this agreement, SCMP Publishers was engaged to publish one issue of the magazine, "The Dress Circle" for Kerry Real Estate, in June 2004. The agreement has been fully performed and the amount received was HK\$305,000.
- (b) An agreement dated 11 June 2004 was made between SCMP Publishers and Kerry Real Estate whereby SCMP Publishers was engaged to publish one issue of the magazine, "The Dress Circle" for Kerry Properties, in August 2004. The agreement has been fully performed and the amount received was HK\$589,000.
- (c) An agreement dated 14 October 2004 was made between SCMP Publishers and Kerry Properties whereby SCMP Publishers was engaged to publish one issue of the magazine, "The Dress Circle" for Kerry Properties, in December 2004. Three more issues of the magazine are outstanding and remain to be published under the agreement. SCMP Publishers received HK\$498,305 for the first issue.
- (d) SCMP Publishers entered into a transaction with Kerry Properties to produce a year calendar in November 2004. The amount received for production of the calendar was HK\$162,906.

In accordance with Rule 14A.37 of the Listing Rules, the Directors (including Independent Non-executive Directors) of the Company have reviewed the above continuing connected transactions (1)(B)(i) to (1)(B)(iii) (the "Continuing Connected Transactions") and confirm that the Continuing Connected Transactions were entered into by the Group in the ordinary and usual course of its business, were conducted on normal commercial terms and were entered into in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

- (a) the Continuing Connected Transactions have been approved by the Board of Directors of the Company;
- (b) the Continuing Connected Transactions have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- (c) the Continuing Connected Transactions are in accordance with the pricing policy of the Group.



The Company will make an announcement regarding the Continuing Connected Transactions and such logistics services transactions, advertising services transactions and publication services transactions entered or to be entered into in financial year 2005 in compliance with its disclosure obligations under the Listing Rules.

- (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”) (now known as SCMP Magazines Publishing (HK) Limited) (a subsidiary in which the Company had 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.

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.

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 owned various magazine titles, namely “Automobile”, “Amoeba”, “Champion”, “PC Home”, “Autoworld” and “Techmag”. SCMP Haymarket Publishing Pte Ltd (“Singco”), a wholly owned subsidiary of SCMPH, owned magazine title “CEI ASIA PACIFIC”.

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 had been produced in SCMPH’s magazines “Automobile” or “Autoworld” (“Haymarket Material”). After completion of the transaction, SCMPH became an indirect wholly owned subsidiary of the Company and Singco became a wholly owned subsidiary of HPHK. Further, each of SCMP Publishers, TVEI, HGL, HPSL, HPHK and SCMPH (parties to the JVA) was released from the mutual agreements and respective undertakings under the JVA.

The total consideration paid 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) was HK\$1.00. The total consideration paid 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 was HK\$1.00. The total consideration paid by HPHK to SCMPH for acquisition of the entire issued share capital of Singco was S\$1.00. There was no monetary or non-monetary consideration for the disposal of the copyright in the Haymarket Material by SCMPH to HPHK.

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.

Directors' Report

VALUATION OF PUBLISHING TITLES

The Company has appointed American Appraisal China Limited (the "Valuer"), an independent valuer, to value two of the Group's publishing titles, *South China Morning Post* and *Sunday Morning Post* (the "Publishing Titles") as at 31 December 2004 on an open market basis. The Valuer had valued the Publishing Titles at HK\$4.369 billion. The Directors have adopted the Valuer's valuation in their annual valuation of the Publishing Titles.

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

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.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors of the Company. All Directors of the Company have confirmed their compliance with the required standard set out in the Model Code during the year.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance. Further information on the Company's corporate governance practices is set out in the "Corporate Governance" section of this Annual Report on pages 37 to 42.

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, 1 April 2005