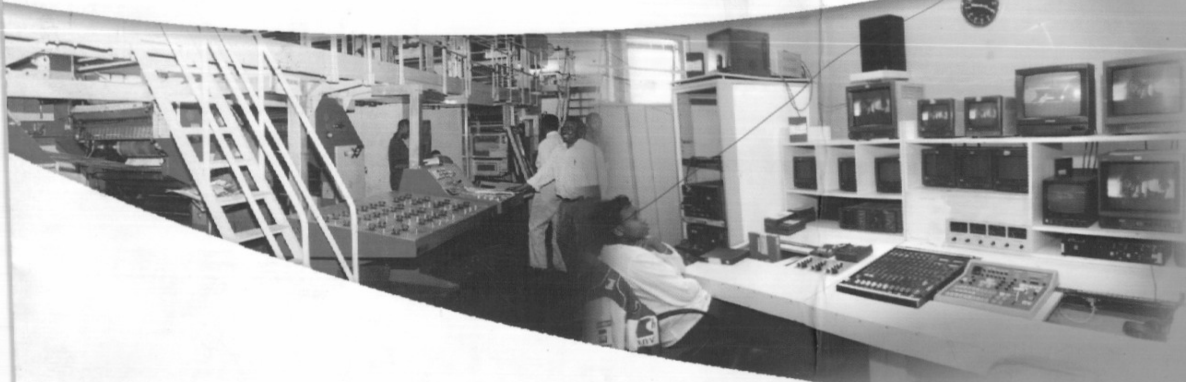
ANNUAL REPORT & ACCOUNTS 2003

STANDARD NEWSPAPERS GROUP



East African Standard KTN

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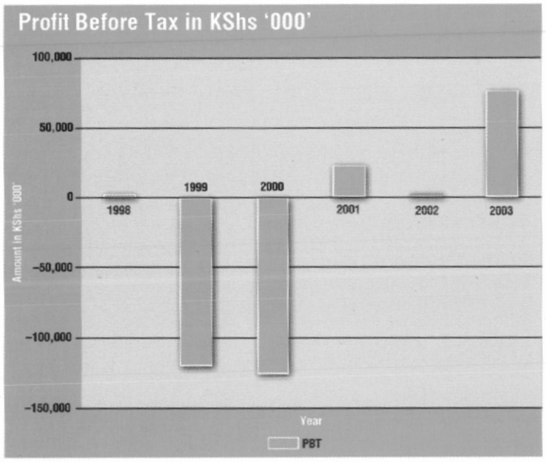
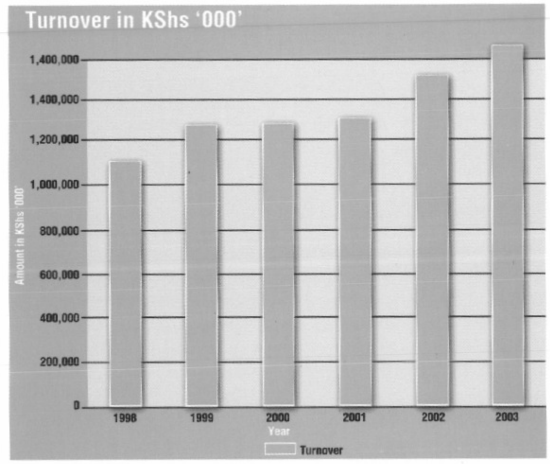
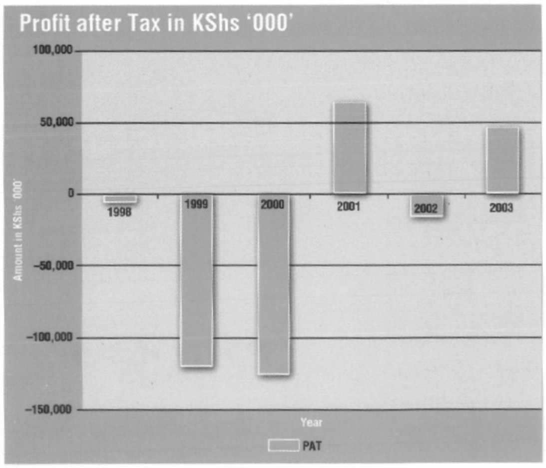
FOR THE YEAR ENDED 30 SEPTEMBER 2003



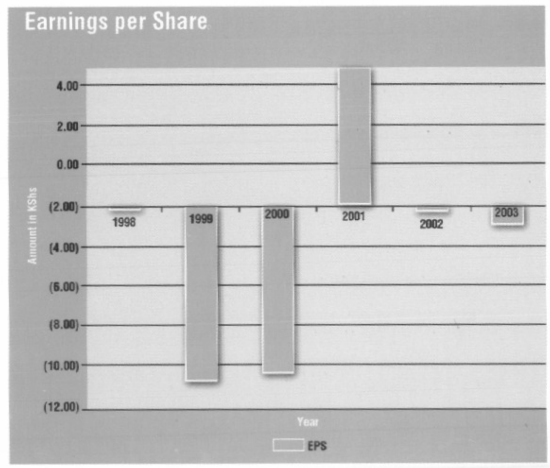
Profit Before Tax in KShs '000'



Turnover in KShs '000'



Profit after Tax in KShs '000'



Earnings per Share

CHAIRMAN

Robin Sewell *British

DIRECTORS

Tom Mshindi
Group Managing Director
Appointed: 1 August, 2003

Chris Kisire
Group Finance Director
Appointed: 17 January, 2003

Andrew Macauley *British

Ian Fernandes
Group IT/Production Director and Managing Director KTN

Ben Chepkoit

Conrad Nkutu
Commercial Director

David Davies
Group Managing Director
Resigned: 31 May, 2003

Wachira Waruru
Group Editorial Director
Resigned: 22 August, 2003

IMAGE REGISTRARS

8th Floor, Transnational Plaza, PO Box 72133, Nairobi

AUDITORS

KPMG Kenya, Lonrho House, 16th Floor, Standard Street,
PO Box 40612, 00100 Nairobi GPO

ADVOCATES

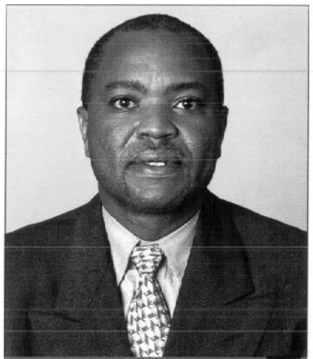
Mohammed & Muigai Advocates, Hazina Towers, PO Box 61323, Nairobi

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

The Standard Newspapers Group Limited, Likoni Road,
PO Box 30080, Nairobi

PRINCIPAL BANKERS

Kenya Commercial Bank Limited, Moi Avenue, PO Box 30081, Nairobi

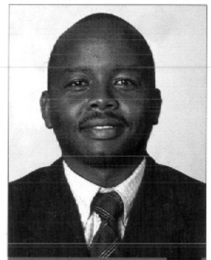


Tom Mshindi
Group Managing Director

Mr. Mshindi was appointed the Group Managing Director in August 2003 and is in charge for the Group's operations. He has a wealth of experience in the local media industry spanning over 16 years and joined the Group from the UN for which he worked in New York and Nigeria for five years. He is holder of a BA (Hons.) degree in Political Science and Literature from the University of Nairobi, a post-graduate diploma in Journalism and is registered for an MA in International Affairs at Columbia University in New York.

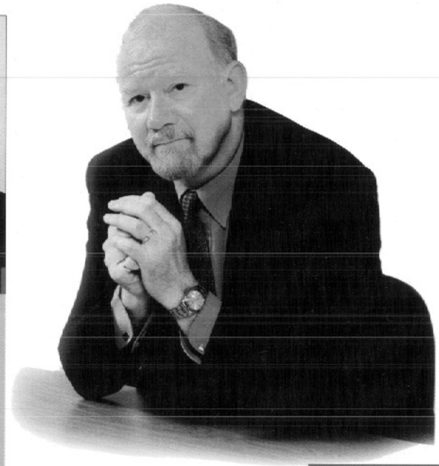
Ian Fernandes
Group Production/IT Director (MD-KTN)

Mr. Fernandes is the head of Printing, Pre-Press and IT departments, The Standard limited and Managing Director Baraza Limited since January 2002. He is a qualified engineer with a BSc. Degree in Electrical and Electronic Engineering from the University of Nairobi with over 10 years experience in Information Technology and the Media industry.



Chris Kisire
Group Finance Director

Mr. Kisire was appointed the Group Finance Director in January 2003. He is a holder of Bcom. Accounting option & MBA both from University of Nairobi and CPA(K). He has worked for more than 10 years in this field both locally and internationally (Zimbabwe and UK). He is a member of the Institute of Certified Public Accountants (ICPAK).

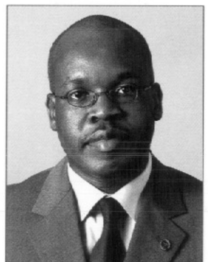


Robin Sewell
Chairman

Mr. Sewell is a partner in MGI Midgley Snelling, an English firm of chartered accountants. He is a fellow of the Institute of Chartered Accountants in England and Wales.

Ben Chepkoit
Director

Mr. Chepkoit is the Managing Director of Sovereign Group Limited. He is a holder of Bachelor of Science degree in Accounting, Finance & Business Development, Master of Science in Management Information Systems from the USA and is currently completing a PhD in Information Systems Technologies. He holds directorships in various companies both locally and USA. He is a member of (IEEE).



Conrad Nkutu
Commercial Director

Mr. Nkutu is head of the Advertising and Marketing departments and also heads the PDS Division. He is a graduate of Makerere University, Uganda. He holds a B.A degree in Political Science and a Post Graduate Diploma in Printing and Publishing Management from London College of Printing (Lon). Mr. Nkutu has worked for 10 years in the media industry in various capacities.

Andrew Macauley
Director

Mr Macauly is a director of Naumann Trading Limited in the UK. He has and continues to hold directorships in several companies, quoted and unquoted, in the UK, and was formerly an IBM fellow at Manchester Business School (University).

The Eighty Sixth Annual General Meeting of The Standard Newspapers Group Limited will be held at the Norfolk Hotel, Harry Thuku Road, Nairobi on Thursday 27th May 2004 at 11.00 a.m. to transact the following business:-

AGENDA

1. To confirm the Minutes of the 85th Annual General Meeting held on 29th May 2003.
2. Matters Arising Therefrom.
3. To receive and consider the Accounts for the year ended 30th September 2003 together with the Reports of the Chairman and the Directors, and the Auditors report thereon.
4. To approve payment of dividend to the holders of 8% Preference Shares for the year ended 30th September 2003.
5. To re-elect Directors, and approve their remuneration for the year ended 30th September 2003. In accordance with Article 69 of the Company's Articles of Association, Mr R. Sewell and Mr I. Fernandes retire by rotation and being eligible offer themselves for re-election.
6. In accordance with Articles 75 of the Company's Articles of Association, Mr Tom Mshindi who was appointed as a director during the year retire and being eligible offers himself for re-election.
7. To note that the present auditors, KPMG, will continue in office in accordance with Section 159(2) of the Companies Act, and to authorise the Directors to fix their remuneration.

By Order of the Board

PETER KEMEI

COMPANY SECRETARY

Date: 3rd May 2004

NOTE: A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his stead. If the member is a corporation, the proxy shall be appointed in accordance with Articles of the Company or represented in accordance with Article Such a proxy need not be a member.

A proxy form is attached herewith, and if used, shall be deposited with the Secretary of the Company not later than 48 hours before the time appointed for holding the meeting.

In its commitment to transparency and to uphold the highest standards of corporate governance, The Standard Newspaper Group Limited has set up important committees to ensure that it is ethically managed, and that information about the way its business is conducted is continually gathered and fed back to improve the management process.

Board of Directors

The board of directors is the top governing organ and is made up of nine directors, with a non-executive chairman. In the year under review, five of the directors were serving as executive directors, a situation that will be reviewed to reduce the number of executive directors on the board. More non-executive directors will facilitate a more objective evaluation of management's performance and benefit management with more views and opinions from a more diverse selection of highly experienced business people. The non-executive directors are totally independent of management. Two of the current directors, including the chairman, are based in the UK.

In the ordinary course of business, the board meets quarterly to receive and evaluate management reports, analyse the financial situation and review the risks and opportunities confronting the business. The day to day running of the business has been delegated to the group managing director and the executive directors.

To assist management, the board this year set up two committees, the Internal Audit Committee and the Director's Remuneration Committee.

The Internal Audit Committee

It currently comprises three directors and is chaired by a non-executive director. The Group Managing Director is a member and the Group Finance Director can attend on invitation.

The internal audit function reports directly to this committee through the Group Managing Director to ensure its independence vis-a-vis the finance function. Its core functions are to review the integrity of management and internal control systems, support management in enhancing the performance of the various processes and deliberating on the issues arising from the internal and external audits. An efficient board sub-committee on audit should enhance the shareholder confidence in the credibility and stability of the institution.

The Directors Remuneration Committee

It is also a three-person subcommittee chaired by a non-executive director. It reviews the compensation given to the executive directors to ensure that they are realistic and that they compare well with comparator companies. It is guided by the principle that it is our commitment to employ the best people at the most competitive rates. The sub-committee also reviews and fixes the fees paid to non-executive directors. This sub-committee meets once or twice a year when there are issues that need its intervention.

The board is aware that as a media organisation, it is very important that an editorial committee be set up comprising some non-executive directors, top management and the key editors. This will be responsible for upholding the principles of fairness, balanced and conscientious reporting espoused in the editorial policy and for protecting journalists against any attempts to influence their judgement.

Social Responsibility

The EAS corporate social responsibility plan for 2002/2003 entailed support of two major causes namely "Famine Relief /Disaster Relief Fund" and HIV related projects. We also supported a number of other causes, including the Christian Compassion Outreach, Gender Sensitivity issues such as working with FIDA (Federation of Women Lawyers) and COWAVW (Coalition Of Women Against Violence on Women). Our support included publicity for fund raising efforts of the Heart Foundation, Cerebral Palsy Association and organizations dealing with various disabilities.

The Famine Relief Fund was launched in response to calls from the public after KTN highlighted the plight of famine victims in Baringo District. We invited the government, non-governmental organisations and the private public to join us in raising funds and contributing foodstuff towards this cause. Partners who included the Christian Children's Fund, Salina Transporters, Kenya Institute of Management, Kenya Red Cross and The Anglican Church among others, donated cash or their services.

Flag Off: Hon Linah Kilimo,Minister of State in the Office of the Vice President,is flanked by the Assistant Minister Kivutha Kibwana, KTN's Catherine Kasavuli on the right, KTN's Managing Director Ian Fernandes and EAS Commercial Director Conrad Nkutu on the left,during the flagging off ceremony of the final consigment of the Group's Disaster Fund conributions.

Standard Newspaper Group donated over Kshs 100,000, which included Kshs 40,000 from staff members. This was used to facilitate the opening of the account and purchase foodstuffs. To create awareness, a 3-month campaign was carried in the EAS and on KTN.

After the famine came the Budalangi Floods which were declared a national disaster by the government. We therefore renamed the project "Disaster Relief fund" to enable us collect funds for the flood victims. The final consignment of food was flagged off on 6th August 2003. Contributors included organizations such as KCB, Standard Chartered Bank, Uchumi Supermarket, Sovereign Group as well as individuals. Over KShs 2m in cash and foodstuffs was collected.

The Compassion Outreach is a project of the Standard /KTN Christian Fellowship. The group has traditionally organized visits to children's homes and slum areas during the Christmas season.

In 2002 a publicity campaign was carried in the press and on TV between October and December. Donations were received from well wishers and distributed to the various needy homes.

In 2002 the Standard Group co-sponsored a concert to raise funds for establishing VCT centers. We contributed advertisements in print and on TV for the publicity, Kshs 160,000 for the fund raising dinner and a VCT centre in Mwingi at a cost of KShs 500,000.

Principal shareholders as at 30 September 2003

NAME OF SHAREHOLDER	NUMBER OF SHARES HELD	%TOTAL SNGL SHARES
1. S. N. G. Holdings Limited	45,084,354	69.20
2. Trade World Kenya Limited	7,111,945	10.90
3. Miller Trustees Limited	6,874,378	10.60
4. The Heritage All Insurance	404,432	0.60
5. Kirtesh Premchand Shah	252,337	0.40
6. Julius Kariuki Gecau	176,315	0.30
7. Savintaben Velji Shah	166,156	0.30
8. Parashottam D Metha	151,725	0.20
9. Freight Forwarders Kenya Limited	144,153	0.20
10. Eufrazio Juliao Goes	120,969	0.20

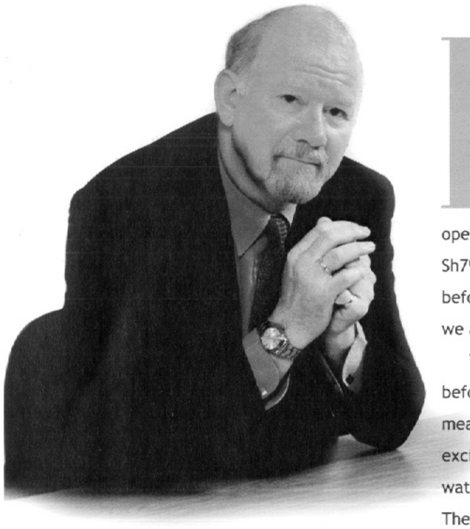
DISTRIBUTION OF SHARE HOLDING AS AT 30 SEPTEMBER, 2003

Shareholding (Number of Shares)	Number of Shareholders	Number of Shares Held	% Shareholding
Less than 5,000	1,127	1,422,986	2.2%
5,001 – 50,000	200	2,868,263	4.4%
50,001 – 150,000	7	620,468	1.0%
Over 150,000	8	60,221,642	92.5%
	1,342	65,133,359	100.0%

Robin Sewell – Chairman

Tom Mshindi – Group Managing Director

March 15, 2004



I am glad to report that despite a tough and unpredictable economic and political climate, the Group's turnaround that started in2002 continued into 2003 with the turnover increasing by some 14% to Sh1.5 billion from Sh1.3 billion. The gross operating profit also rose by close to 21% from Sh795 million to Sh963 million. The Group profit before tax was an impressive Sh75 million although we are reporting a retained loss of Sh49 million.

The Standard achieved a profit of Sh59 million before tax and exceptional items, thanks in large measure to strict financial controls and a generally exciting news environment that climaxed with the watershed General Elections at the end of 2002. The advertising team did very well to achieve their budget in an environment of increased competition, diminishing advertising spend and a highly discriminating clientele.

Our television station KTN also recovered from a profit of Sh2 million before tax and exceptional items in 2002 to post a profit of Sh18 million. This success was as a result of prudent management practices and aggressive marketing by the sales team.

Management intends to continue its rigorous approach to cost controls to achieve a reduction in the trading costs that otherwise eat into the profit. The internal audit function will be strengthened and recommendations made by the team will be diligently followed.

The Kenyan economy has remained in a slump, unemployment has continued to soar, electricity costs have remained prohibitively high and infrastructure - especially roads - continued to deteriorate. There has been little disposable income among a large section of our potential customers and rural areas have been particularly hard hit because of their heavy dependence on agriculture.

Following the relaxation of government controls on media licensing, the industry, particularly FM radio stations, exploded. This increase in the number of media options available to advertisers has put considerable pressure on an already shrinking advertising revenue and this is a trend that we think will continue until there is a general improvement in the economy.

Our Publishers Distribution Services (PDS) for the first time in many years did not make a profit mainly because of high return levels which reflects the continuing general contraction in the country's tourism industry. Management took this on board and in 2002, significant personnel changes were made in an effort to streamline operations and place PDS on a recovery path. Already, there are positive projections for 2004.

In 2002, following a stringent review, the Group started writing off old debts that had remained outstanding well beyond the allowable date. As at September 30th 2003 we have made total bad debt provisions of some Sh143 million, which was 48% of these old debts. Management has now instituted a constant review of the age of debts, introduced tighter credit controls and is pursuing a policy of very rigorous debt collection.

To increase our operational efficiency, the Group has invested significantly in a new motor vehicle fleet for our bureau offices and the circulation sales team. Out of a planned 26 vehicles, 10 have so far been purchased. In total, the Group has a Capital expenditure budget of close to Sh360 million and will be seeking the assistance of the major shareholders, hopefully through a re-injection of capital - to refurbish the printing presses and systems, improve management information systems, automate the editorial and advertising systems and embark on a major marketing campaign.

Looking ahead, management has made good progress in the relocation of KTN and the Standard to the I & M building in the city centre in the first quarter of 2004. This comes at a very fortuitous time for the Group as it coincides with a concerted effort to rebrand and relaunch our products and the move will provide a good opportunity to promote a new corporate image for the Standard Group.

With the whole Group housed in one building, there will be considerable synergy which should translate into more efficiency in the use of common services, especially in administration and production. Significant cost savings should impact positively on the bottom line.

The product development process will culminate in a major product re-design and re-launch in the second quarter of 2004. The success of the re-launch will depend significantly on the public's acceptance of our new editorial policy which will emphasize editorial independence, balanced reporting and professionalism.

Building on the goodwill and interest generated by changes to the top management at the end of the 2003 financial year, the focused product development policy at both the Standard and KTN, the strengthening of the sales teams and the re-organisation of the newspaper's distribution system and network, the Group hopes to maintain or even improve on profitability for the current year. Whilst the cost of the move to the I & M Building is expected to have a significant effect on next year's profits we believe that the benefits of the move in the long run will justify the cost.

The board approved a restructuring of the inter-company loans to give a more realistic picture of our capital structure which should assist the company when it seeks financial support from various sources.

Other significant operational initiatives during the year included the setting up of two important sub-committees - the audit sub-committee and the directors remuneration sub-committee. These will assist the Group in fulfilling it's responsibilities for corporate accountability as they will help improve the inter-face between the board and management in these two critical areas.

The major restructuring and renewal processes, the move of offices and the Capital Expenditure program that I have outlined above means that again regrettably, we cannot recommend any dividend this year however, the prognosis is excellent and I hope that in the near future, the board will be in a position to recommend dividend payments.

In conclusion, the board wishes to express its thanks to the management, staff and shareholders for their continued support and confidence in the future of the Group.

Robin Sewell – Chairman
Date: January 7, 2004

FOR THE YEAR ENDED 30 SEPTEMBER 2003

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 September 2003.

1. **Principal Activities**

   The principal activities of the group comprise the publishing of "The East African Standard" and "The Sunday Standard" newspapers, distribution of selected local and overseas newspapers, magazines and periodicals and television broadcasting under the trade name KTN.

2. **Group Results**

   The Group's retained loss for the year was KShs 49,463,000 (2002 - KShs. 12,040,000).

3. **Restucturing**

   During the year, the directors continued with the restructuring programme and approved the waiver of the subsidiaries indebtedness to the holding company, The Standard Newspapers Group Limited. This undertaking has enhanced the working capital base of the two operating subsidiaries. In addition, the continued improvement in the operating performance of these subsidiaries has further strengthened the group's competitiveness in the market. This trend is expected to continue in the coming year.

   In view of the above, the directors consider it appropriate to prepare these financial statements on a going concern basis.

4. **Dividends**

   The directors do not recommend the payment of a dividend (2002 - Nil).

5. **Directors**

   The directors who served during the year are set out on page 4.

6. **Auditors**

   The auditors, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486).

7. **Approval of financial statements**

   The financial statements were approved at a meeting of the directors held on 7th January 2004.

BY ORDER OF THE BOARD

PETER KEMEI
Secretary
Date: 7th January 2004.

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

FOR THE YEAR ENDED 30 SEPTEMBER 2003

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and the company as at the end of the financial year and of the operating results of the group for that year. It also requires the directors to ensure the group and the company keep proper accounting records which disclose with reasonable accuracy the financial position of the group and the company. They are also responsible for safeguarding the assets of the group.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards promulgated by the International Accounting Standards Board and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and the company and of the group's operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement.

Chris Kisire
Group Finance Director

Tom Mshindi
Group Managing Director

Date: 7th January 2004.

➢ REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE STANDARD NEWSPAPERS GROUP LIMITED

We have audited the financial statements set out on pages 14 to 38 which have been prepared on the basis of the accounting policies set out in Note 2. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and to provide a reasonable basis for our opinion. The balance sheet of the company is in agreement with the books of account.

Respective responsibilities of the directors and independent auditors

As stated on page 12, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the group and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the company and the group at 30 September 2003 and of the group's operating results and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and comply with the requirements of the Companies Act.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the financial statements which refers to restructuring initiatives that are in progress. On the basis that these activities are successfully concluded, the directors have prepared these financial statements on a going concern basis.

KPMG Kenya

Date: January 7, 2004.

➢ CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	Notes	2003 KShs '000	2002 KShs '000
Turnover		1,510,214	1,321,611
Cost of sales		(547,656)	(526,838)
Gross profit		**962,558**	**794,773**
Other operating income	4	3,336	4,464
Selling and distribution costs		(171,904)	(135,444)
Administrative expenses		(698,120)	(643,190)
Profit from operations		**95,870**	**20,603**
Net finance costs	6	(20,697)	(19,148)
Profit before taxation	7	**75,173**	**1,455**
Income tax expense	8	(27,477)	(13,495)
Net profit/(loss) for the year		**47,696**	**(12,040)**
Minority interest		(97,159)	-
Retained loss for the year		**(49,463)**	**(12,040)**
Basic loss per share	9	KShs (**0.95**)	**KShs (0.23)**

The notes set out on pages 19 to 38 form an integral part of these financial statements.

AS AT 30 SEPTEMBER 2003

		Group		Company	
ASSETS	Note	2003 KShs'000	2002 KShs'000	2003 KShs'000	2002 KShs'000
Non Current Assets					
Property, plant and equipment	10	233,620	221,487	-	-
Subsidiaries	11	6,060	6,060	9,552	480,829
Deferred tax asset	12	68,123	95,600	-	-
		307,803	323,147	9,552	480,829
Current assets					
Stocks	13	84,689	59,453	-	-
Debtors	14	288,715	290,922	1,555	4,988
Taxation		6,473	6,128	736	639
Term deposit		17,817	47,212	17,817	47,212
Cash and Bank balances		8,890	10,016	923	1,609
		406,584	413,731	21,031	54,448
TOTAL ASSETS		**714,387**	**736,878**	**30,583**	**535,277**
EQUITY AND LIABILITIES					
Capital and Reserves (Page 8)					
Share capital	15	325,769	325,769	325,769	325,769
Share premium		44,473	44,473	44,473	44,473
Revenue reserves		(270,641)	(221,178)	(364,167)	131,180
Shareholders funds		99,601	149,064	6,075	501,422
Minority interest	16	97,247	88	-	-
Non Current Liabilities					
Bank Loan	17	2,407	17,750	-	17,750
Term Loan	18	75,458	71,640	-	-
		77,865	**89,390**	-	**17,750**

CONTINUED ON NEXT PAGE

AS AT 30 SEPTEMBER 2003

	Note	Group 2003 KShs'000	Group 2002 KShs'000	Company 2003 KShs'000	Company 2002 KShs'000
Current Liabilities					
Current portion of bank loan	17	15,450	3,000	11,290	3,000
Bank Overdraft	19	65,988	51,777	-	-
Creditors	20	352,807	438,130	7,789	7,676
Dividends payable		5,429	5,429	5,429	5,429
		439,674	498,336	24,508	16,105
TOTAL EQUITY AND LIABILITIES		**714,387**	**736,878**	**30,583**	**535,277**

The financial statements on pages 14 to 38 were approved by the Board of Directors on 7th January 2004 and were signed on its behalf by:

Chris Kisire
Group Finance Director

Tom Mshindi
Group Managing Director

The notes set out on pages 19 to 38 form an integral part of these financial statements.

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	Note	2003 KShs'000	2002 KShs'000
Cash flows from operating activities	22(a)	**16,686**	**(73,200)**
INVESTING ACTIVITIES			
Proceeds from sale of equipment		3,303	2,837
Purchase of plant and equipment		(65,646)	(64,507)
Cash outflow from investing activities		(62,343)	(61,670)
FINANCING ACTIVITIES			
Net bank loan repaid		(2,893)	(3,000)
Term loans received		3,818	(116,760)
Proceeds from issue of shares		-	306,081
Cash inflow from financing activities		925	186,321
Net (decrease)/increase in cash and cash equivalents	22(b)	**(44,732)**	**51,451**

The notes set out on pages 19 to 38 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	Share capital KShs'000	Share premium KShs'000	Revenue reserves KShs'000	Total KShs'000
Group:				
At 1 October 2001	64,161	-	(209,138)	(144,977)
Share capital issued in the year	261,608	44,473	-	306,081
Net loss for the year	-	-	(12,040)	(12,040)
At 30 September 2002	**325,769**	**44,473**	**(221,178)**	**149,064**
Net loss for the year	-	-	(49,463)	(49,463)
At 30 September 2003	**325,769**	**44,473**	**(270,641)**	**99,601**
Company:				
At 1 October 2001	64,161	-	133,918	198,079
Share capital issued in the year	261,608	44,473	-	306,081
Net loss for the year	-	-	(2,738)	(2,738)
At 30 September 2002	**325,769**	**44,473**	**131,180**	**501,422**
Net loss for the year	-	-	(495,347)	(495,347)
At 30 September 2003	**325,769**	**44,473**	**(364,167)**	**6,075**

The notes set out on pages 19 to 38 form an integral part of these financial statements.

1. **RESTRUCTURING**

During the year, the directors continued with the restructuring programme and approved the waiver of the subsidiaries' indebtedness to the holding company, The Standard Newspapers Group Limited. This undertaking has enhanced the working capital base of the two operating subsidiaries. In addition, the continued improvement in the operating performance of these subsidiaries has further strengthened the group's competitiveness in the market. This trend is expected to continue in the coming year.

In view of the above, the directors consider it appropriate to prepare these financial statements on a going concern basis.

2. **SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) **Basis of preparation**

The financial statements are prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. The financial statements are prepared under the historical cost convention.

(b) **Consolidation principles**

The consolidated financial statements include the financial statements of the company and some of its subsidiaries made up to 30 September 2003.

Separate disclosure of minority in a consolidated subsidiary is only made to the extent that losses applicable to the minority do not exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority are charged against the majority interest. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority share of losses previously absorbed by the majority has been recovered.

A listing of the major subsidiaries is set out on page 38.

(c) **Investment in subsidiaries**

Investments in subsidiaries that are excluded from the consolidated financial statements are accounted for as available for sale financial assets and are carried at fair value.

Fair value is the amount that is expected to be realised from the sale of the investment.

Gains or losses arising from change in the fair value are recognised in the profit and loss account.

(d) **Revenue recognition**

Revenue is recognised upon delivery of goods to customers and when advertisements are aired on the television, respectively.

(e) **Translation of foreign currencies**

All assets and liabilities expressed in foreign currencies are converted into Kenya Shillings at the exchange rate ruling at the balance sheet date. Transactions in foreign currencies during the year are converted at the rates ruling at the date of the transaction. The resulting differences are dealt with in the profit and loss account.

(f) **Segmental reporting**

Segment information is presented in respect of the group's business segments which is the primary format and is based on the two major operating divisions in which the group operates. The group has no distinguishable geographical segments.

Segment results, assets and liabilities include items directly attributable to a segment. Inter-segment pricing is determined on an arms length basis.

(g) **Property, plant and equipment**

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets. The annual rates of depreciation used are as follows:

■ Plant, machinery and equipment	10 - 33%
■ Motor vehicles	25%
■ Furniture and fittings	10%

(h) **Impairment**

The carrying amounts of the group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

(i) **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs of purchase and other charges incurred in bringing the stocks to their present location and condition.

The cost of inventories is based on the weighted average cost. If the purchase cost is higher than the net realisable value, stocks are written down to net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and selling expenses.

(j) Trade and other debtors

Trade and other receivables are stated at nominal value, less write-down for any amounts considered to be irrecoverable.

(k) Trade and other payables

Trade and other payables are stated at cost.

(l) Financial instruments

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise.

(i) Classification

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the group has the interest and ability to hold to maturity. These mainly include term deposits.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the group, or held to maturity. Available-for-sale instruments include cash and bank balances and other investments.

(ii) Recognition

The group recognises available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised in the profit and loss account.

Held to maturity assets are recognised on the day they are transferred to the group.

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition, all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) **Fair value measurement principles**

The fair value of financial instruments is based on their market price at the balance sheet date without any deduction for transaction costs.

(v) **Gains and losses on subsequent measurement**

Gains and losses arising from a change in the fair value of available-for-sale assets and trading instruments are recognised in the profit and loss account.

(vi) **Derecognition**

A financial asset is derecognised when the group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the group commits to sell the assets. The group uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments are derecognised on the day they are transferred by the group.

(m) **Employee benefits**

The group's employees are eligible for retirement benefits under a defined contribution plan provided through a separate fund arrangement.

Contributions to the defined contribution plan are charged to the income statement as incurred.

The employees are entitled to accumulated compensated absences that are carried forward and can be utilised in future periods if the current year's entitlement is not taken in full.

(n) **Taxation**

Tax on the operating results for the year comprises both current tax and change in deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is computed using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rate currently enacted.

(o) **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and at bank net of bank overdrafts.

3. SEGMENTAL REPORTING

	Publishing		Broadcasting		Other		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
External sales	1,118,330	1,044,900	391,884	276,711	-	-	-	-	1,510,214	1,321,611
Inter-segment sales	10,136	12,933	10,180	13,873	-	-	(20,316)	(26,806)	-	-
Total sales	**1,128,466**	**1,057,833**	**402,064**	**290,584**	-	-	**(20,316)**	**(26,806)**	**1,510,214**	**1,321,611**
Segment profit/(loss) from operations	78,796	27,627	18,428	2,457	(1,354)	(9,481)			95,870	20,603
Net finance (costs) /income	(19,935)	(25,865)	(608)	(26)	(154)	6,743			(20,697)	(19,148)
Exceptional items	152,169	-	341,670	-	(493,839)	-	-	-	-	-
Income tax debit	(23,735)	(8,784)	(3,742)	(4,711)	-	-	-	-	(27,477)	(13,495)
Net profit/(loss)	**187,295**	**(7,022)**	**355,748**	**(2,280)**	**(495,347)**	**(2,738)**		-	**47,696**	**(12,040)**
Minority interest									(97,159)	-
Retained loss for the year									**(49,463)**	**(12,040)**

OTHER INFORMATION:

	Publishing 2003	Publishing 2002	Broadcasting 2003	Broadcasting 2002	Other 2003	Other 2002	Eliminations 2003	Eliminations 2002	Consolidated 2003	Consolidated 2002
Segment assets	385,561	516,979	307,211	288,798	30,583	535,277	(8,968)	(604,175)	714,387	736,878
Segment liabilities	384,285	702,998	108,746	446,082	24,508	33,855	-	(595,120)	517,539	587,814
Capital expenditure	32,323	9,469	33,323	55,038	-	-	-	-	65,646	64,507
Depreciation expense	24,737	24,238	26,168	15,395	-	-	-	-	50,905	39,633

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

4. OTHER OPERATING INCOME

	2003 KShs '000	2002 KShs '000
Sale of dubbings	908	462
Profit on sale of equipment	695	1,566
Voice overs	235	851
Rent	1,324	390
Waterworld	2	248
KTN Birthday Club	138	80
Re-edits	34	867
	3,336	**4,464**

5. PERSONNEL EXPENSES

	2003 Kshs'000	2002 Kshs'000
Salaries and Wages	229,779	197,067
Contributions to retirement benefit scheme	5,069	5,022
Allowances and benefits	50,421	46,955
Others	94,927	84,128
	380,196	**333,172**

The average number of employees engaged during the year were 527 (2002 - 546).

6. NET FINANCE COSTS

	2003 KShs '000	2002 KShs '000
Interest income	(754)	-
Interest expense	22,478	18,965
Foreign exchange (gain)/loss	(1,027)	183
	20,697	19,148

7. PROFIT BEFORE TAXATION

	2003 KShs '000	2002 KShs '000
Profit before taxation is arrived at after charging:-		
Depreciation	50,905	39,633
Directors emoluments:		
- Fees	2,302	2,000
- Other	63,285	24,925
Auditors remuneration:		
- Current year	2,530	2,530
- Prior year under provision/(overprovision)	87	(107)

8. INCOME TAX EXPENSE

	2003 KShs'000	2002 KShs'000
Current tax expense at 30%	-	-
Deferred tax (Note 12)	27,477	13,495
	27,477	13,495

No provision for corporation tax has been made in these financial statements as the entities in the group have accumulated tax losses amounting to KShs 234,437,000 (2002 - KShs 364,660,067).

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8. **INCOME TAX EXPENSE** (CONTINUED)

The tax on the group's profit before taxation differs from the theoretical amount using the basic tax rate as follows:

	2003 KShs'000	2002 KShs'000
Accounting profit	75,173	1,455
Tax at the applicable rate of 30%	22,552	437
Tax effect of non-deductible costs and non-taxable income	4,925	13,058
Income tax charge	27,477	13,495

9. **BASIC LOSS PER SHARE**

	2003	2002
Loss attributable to ordinary shareholders - Kshs'000	(49,463)	(12,040)
Weighted average number of shares in issue during the year	52,052,984	52,052,984
Basic loss per share - KShs	(0.95)	(0.23)

There is no difference between the basic earnings per share and the diluted earnings per share.

10. PROPERTY, PLANT AND EQUIPMENT

Group:	Plant & machinery KShs'000	Motor vehicles KShs'000	Furniture & fittings KShs'000	Total KShs'000
Cost				
At 1 October 2002	344,636	44,908	47,404	436,948
Additions	38,223	15,912	11,511	65,646
Disposals	-	(11,684)	(2,078)	(13,762)
At 30 September 2003	382,859	49,136	56,837	488,832
Depreciation				
At 1 October 2002	160,672	28,576	26,213	215,461
Charge for the year	34,358	9,876	6,671	50,905
On disposals	-	(9,344)	(1,810)	(11,154)
At 30 September 2003	195,030	29,108	31,074	255,212
Net book value				
At 30 September 2003	**187,829**	**20,028**	**25,763**	**233,620**
At 30 September 2002	**183,964**	**16,332**	**21,191**	**221,487**

11. SUBSIDIARIES

Group:	2003 KShs'000	2002 KShs'000
KTN Limited (in receivership)	6,060	6,060

This represents equity investment in KTN Limited (in receivership) stated at fair value. This subsidiary has not been consolidated as in the opinion of the directors, control is intended to be temporary as the subsidiary is held with a view to subsequent disposal.

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11. **SUBSIDIARIES** (CONTINUED)

Company:	**2003 KShs'000**	**2002 KShs'000**
Shares at cost /valuation		
The Standard Limited	3,398	3,398
Baraza Limited	92	92
Agency Sales and Promotion Limited	2	2
Kenya Television Network Limited (in receivership)	6,060	6,060
Amounts due from subsidiaries		
The Standard Limited	-	262,774
Baraza Limited	-	208,503
	9,552	**480,829**

During the year, the Board of Directors resolved to restructure its inter group indebtedness in consultation with professional financial advisers. This is part of the group's continued restructuring programme.

12. **DEFERRED TAX ASSET**

Group

Movements during the year are as follows:

Arising from:	**At 1 /10/2002 KShs '000**	**Recognised in income KShs '000**	**At 30/09/2003 KShs '000**
Property, plant & equipment	20,368	(7,425)	12,943
Unrealised exchange losses	(410)	320	(90)
Tax losses carried forward	(109,401)	39,070	(70,331)
General provisions	(6,157)	(4,488)	(10,645)
Total	(95,600)	27,477	68,123

13. STOCKS

Group:

	2003 KShs'000	2002 KShs'000
Raw materials	26,452	11,400
Consumable stores	15,004	19,985
Goods in transit	19,149	6,895
Stocks for resale	24,084	21,173
	84,689	**59,453**

14. DEBTORS

Group:

	2003 KShs'000	2002 KShs'000
Trade debtors	417,130	385,091
Provision for doubtful debts	(169,826)	(136,929)
	247,304	**248,162**
Other debtors and prepayments	41,411	42,760
	288,715	**290,922**
Company:		
Other debtors	**1,555**	**4,988**

Management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers. The group does not require collateral in respect of trade debtors.

15. SHARE CAPITAL

Group and company:

	2003 KShs' 000	2002 KShs' 000
Authorised		
103,979,600 Ordinary shares of KShs 5 each	519,898	519,898
20,400 8% Preference shares of KShs 5 each	102	102
	520,000	**520,000**
Issued and fully paid		
At 1 October 2002 and 2001 respectively		
65,133,359 (2002 - 12,811,859) ordinary shares of KShs 5 each	325,667	64,059
20,400, 8% preference shares of KShs 5 each	102	102
New capital issued		
52,321,500 ordinary shares of KShs 5 each	-	261,608
	325,769	**325,769**

The new ordinary shares issued were allotted in January 2002 and rank "pari passu" with the existing ordinary shares of the company.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the company.

16. MINORITY INTEREST

	2003 KShs '000	2002 KShs '000
Balance at 1 October 2002 and 2001respectively	88	88
Share of results for the year	174,317	-
Cumulative losses absorbed by majority shareholders in prior years	(77,158)	-
At 30 September	97,247	88

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16. **MINORITY INTEREST** (CONTINUED)

As at 30 June 2001, The Standard Newspapers Group Limited disposed 49% of its shareholding in Baraza Limited. At that time the subsidiary's equity reflected a deficit of KShs 139,318,000. As such, the deficit applicable to the minority exceeded the minority share in the equity of the subsidiary and therefore the cumulative excess losses applicable to the minority up to 30 September 2002 had been charged to the majority.

During the year ended 30 September 2003, the subsidiary has reported profits giving rise to positive revenue reserves. Consequently, the minority share of the results for the year has been recognized after recovering all previous losses applicable to the minority that had been absorbed by the majority.

17. **BANK LOAN**

Group:	Transnational Bank Ltd Kshs'000	CFC Bank Ltd Kshs'000	2003 KShs '000	2002 KShs '000
Due in 1 year	11,290	4,160	15,450	3,000
Due after 1 year	-	2,407	2,407	17,750
	11,290	**6,567**	**17,857**	**20,750**

Company:	Transnational Bank Ltd Kshs'000	CFC Bank Ltd Kshs'000	2003 KShs '000	2002 KShs '000
Due in 1 year	11,290	-	11,290	3,000
Due after 1 year	-	-	-	17,750
	11,290	-	**11,290**	**20,750**

The loan by Transnational Bank Limited is repayable over three years ending 30 April 2004. Repayments during the year amounted to Kshs.9,460,000.

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17. BANK LOAN (CONTINUED)

The loan is secured by a guarantee by The Standard Newspapers Group Limited for KShs 25 million.
CFC bank loan is secured by first fixed and floating debenture over assets of The Standard Newspapers Group Limited in the amount of KShs 130 million. In addition, a first legal charge in favour of the bank in the amount of KShs 35 million over property LR NO 21277 registered in the names of Evenannon Limited and lien over fixed deposit No 8103269009 in the amount of KShs 17 million.

The weighted average effective interest rate during the year on the loans was 13.5% (2002 - Nil).

18. TERM LOAN

Group:	2003 KShs' 000	2002 KShs' 000
Oakside Limited		
At 1 October 2002 and 2001 respectively	71,640	188,400
Received/(repaid) during the year	3,818	(116,760)
At 30 September	**75,458**	**71,640**

The Oakside Limited loan is unsecured and attracts interest at 12% p.a. and has no fixed repayment date. Confirmation has been received from the lender that the loan will not be recalled in the next twelve months.

19. BANK OVERDRAFT

Group:	2003 KShs'000	2002 KShs'000
Kenya Commercial Bank Limited	21,565	51,777
CFC Bank Limited	44,423	-
	65,988	51,777

The overdraft facility with Kenya Commercial Bank Limited is unsecured.

The facility with CFC bank Limited shares the same security with the bank loan as disclosed in note 17 above.

The weighted average effective interest rate on the facilities was 17.5% (2002 - 26%).

20. CREDITORS

Group:	2003 KShs'000	2002 KShs'000
Trade Creditors	182,972	248,724
Other creditors and accruals	169,835	189,406
	352,807	438,130
Company:		
Other creditors	7,789	7,676

21. RETIREMENT BENEFIT OBLIGATIONS

The group contributes to a pension plan established for the benefit of the employees. The plan is a defined contribution scheme, whereby the group matches contributions to the fund made by employees up to 5% of the employee's pensionable salary. During the year, the group expensed KShs 5,069,000 (2002 - KShs 5,022,000) in contributions payable.

22. NOTES TO THE CASH FLOW STATEMENT

a) **Reconciliation of net profit before tax to cash flows from operating activities**

	2003 KShs'000	2002 KShs'000
Net profit before tax	75,173	1,455
Adjustments for:		
Depreciation	50,905	39,633
Gain on sale of equipment	(695)	(1,550)
Interest expense (net)	21,724	18,965
Operating profit before working capital changes	**147,107**	**58,503**
Increase in inventories	(25,236)	(23,100)
Decrease/(increase) in debtors	2,207	(20,986)
Decrease in creditors	(85,323)	(68,013)
Cash generated/(utilised) by operations	**38,755**	**(53,596)**
Tax paid	(345)	(639)
Interest expense (net)	(21,724)	(18,965)
Cash flows from operating activities	**16,686**	**(73,200)**

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

b) Movement in cash and cash equivalent

	2003 KShs'000	2002 KShs'000	Change in the year KShs'000
Cash and bank balances	26,707	57,228	(30,521)
Bank overdraft	(65,988)	(51,777)	(14,211)
	(39,281)	(5,451)	(44,732)

23. Statement required to be made by virtue of the provisions of paragraph 15 of the Sixth Schedule to the Companies Act:-

a) Group financial statements do not include the financial statements of one of the subsidiaries, KTN Limited (in receivership) as in the opinion of the directors control is intended to be temporary as the subsidiary is held with a view to subsequent disposal.

b) Net aggregate amounts of (losses)/profit of the subsidiary, so far as they concern members of the company:-

	Balance brought forward KShs '000	This year KShs '000	Balance carried forward KShs '000
Not dealt with in the financial statements of the company	(493,980)	1,287	(492,693)

Source: Un-audited management accounts (approved and signed by the directors) as at 30 September 2003.

24. CAPITAL COMMITMENTS

Group:	2003 KShs'000	2002 KShs'000
Authorised and contracted	-	24,901

25. RELATED PARTY TRANSACTIONS

Group:

Directors and executive directors

As at 30 September 2003 loans to directors amounted to KShs 970,550 (2002 - KShs 4,402,677):

	2003 KShs'000	2002 KShs'000
Total directors' remuneration included in personnel expenses are as follows:		
Directors' fees	2,302	2,000
Other Allowances	63,285	24,925

Company:

Amounts due from subsidiaries written off

During the year, the Board of Directors approved the waiver and write-off of the amounts due from the two operating subsidiaries as follows:

	2003 KShs'000	2002 KShs'000
The Standard Limited	286,321	-
Baraza Limited	207,518	-
	493,839	-

26. HIRE PURCHASE FACILITY

The two main subsidiaries have hire purchase facilities with a combined value of Kshs 8,005,482 for purchase of motor vehicles. The book value of these motor vehicles as at 30 September 2003 was Kshs 11,319,883 (2002 - Kshs 4,587,917). The facility attracts interest at a rate of 7.62% per annum.

Future hire-purchase payments:

	2003 KShs' 000	2002 KShs' 000
Within one year	3,677	1,906
More than one year and not later than five years	3,622	499
	7,299	2,405

27. FINANCIAL INSTRUMENTS

Interest rate risk

The table below summarises the interest rate profile of the group's financial assets and liabilities.

	Effective interest rate	On demand	Due between 1 and 5 years years	Due after 5 years	**Total**
2003:		KShs'000	KShs'000	KShs'000	**KShs'000**
Cash and bank balances		26,707	-	-	26,707
Bank loan		-	17,857	-	17,857
Term loan	12%	-	-	75,458	75,458
Bank overdraft		(65,988)	-	-	(65,988
2002:					
Cash and bank balances	-	57,228	-	-	57,228
Bank loan	-	-	(15,000)	(5,750)	(20,750)
Unsecured loan	12%	-	-	(71,640)	(71,640)
Bank overdraft	19%	(51,777)	-	-	(51,777)

Favourable cash and bank balances held at the end of the year are non-interest bearing. The interest rates quoted above are the range which prevailed in the current financial year.

28. CONTINGENT LIABILITIES

As at 30 September 2003, the group has outstanding contingent liabilities amounting to KShs 30 million (2002 - KShs. 30 million) in respect of litigation and claims occurring in the normal course of business.

29. PRINCIPAL SUBSIDIARIES

During the year, the following companies contributed to the net assets and results of the Group, with the main activities as described.

Subsidiary	Beneficial interest %	Principal activity
The Standard Limited	100	Publishers of "The East African Standard" and "The Standard on Sunday" newspapers and distribution of selected local and overseas newspapers, magazines and periodicals
Baraza Limited	51	Television station broadcasting in the name of KTN
Kenya Television Network Limited	100	In receivership
Agency Sales and Promotion Limited	100	Dormant

30. INCORPORATION

The company is incorporated in Kenya under the Companies Act.

31. CURRENCY

The financial statements are presented in Kenya Shillings (KShs).

➢ DETAILED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 30 SEPTEMBER 2003

	2003 KShs'000	2002 KShs'000
Trading income	-	-
Interest income	754	-
Interest expense	(908)	6,743
Gross income	(154)	6,743
Amounts due from subsidiaries written off	(493,839)	-
Expenses:		
Professional fees	-	(6,123)
Other administrative expenses	(1,354)	(3,358)
Loss before taxation	**(495,347)**	**(2,738)**