

CHAIRMAN'S LETTER

Dear Shareholders,

I am pleased to bring you this report which covers the financial results of the SCMP Group over an 18-month period ended 31 December 2001.

This period which began in July 2000 started off satisfactorily with Hong Kong's economy remaining buoyant and registering a growth of 10.7% in 2000. Advertising volumes for both display advertisements and recruitment classifieds remained strong. However, this changed in March 2001 when the local economy began to slow down. In particular, a large number of companies began to restructure their business operations resulting in increased redundancies and a rising level of unemployment.

As with publishing companies around the world, our business has been severely affected by the global economic downturn in 2001 and by the subsequent effects of the September 11 terrorist attacks in the United States.

On a calendar year basis, Group revenue in 2001 was 18% down from 2000, with the largest drop seen in classified recruitment revenue, down by 41%. Display advertising revenue also dropped, by some 26% from the previous year. In light of such difficult market conditions, we implemented a two-fold strategy from May 2001 – financial discipline and customer focus.

“Financial Discipline” – Recognising the importance to contain costs in such a depressed operating environment, management undertook cost reduction measures throughout the Group. This included progressively reducing staff numbers during the year from all divisions, imposing a freeze in salaries since July 2000, sub-contracting out certain services within the Group, such as distribution and cleaning, and re-negotiating with our suppliers and contractors for further costs savings. We rigorously reviewed all of our products and businesses and suspended or closed those showing low financial viability. In this respect, we suspended the publication of several magazine titles, namely, *Champion Sports*, *Revolution* and *PC Home*, and closed the operations of *Capital Artists*. We also focused on conserving cash to provide the Group with maximum flexibility in the future.

“Customer Focus” – We looked at ways to strengthen, build and position our business with our readers and advertisers. With the newspaper, we launched *Education* to cater to the education sector for both readers and advertisers and re-launched *Business Post* into two sections, to give greater focused coverage of the Mainland and analysis of key business issues. We continue to maintain our market position, capturing some 97% of the English language newspaper readership in Hong Kong (source: ACNielsen RARD Report), despite the newspapers' circulation falling slightly in the period July to December 2001, reflecting the downturn in the economy. Recognising the decline in the advertising market, we focused more efforts on publishing special reports and supplements and initiated several joint supplements with newspapers on the Mainland. We continued to host events, seminars and joint promotions with our recruitment advertisers to further reinforce the brand of *Classified Post* with jobseekers.

We implemented our strategy to divest of non-core businesses. In November 2001, we completed the sale of the sports and recreation clubs (SCMP Recreation Clubs Limited) and in March of this year, we completed the sale of our 89% interest in the kindergarten business (Sun Island English Kindergarten Limited). The sales raised a total of HK\$56 million. In respect of TV City, we have received approval from the Government to rezone its usage to mixed residential and commercial. We shall seek to divest of our investment properties at the appropriate time and will continue to dispose of our share portfolio in 2002.

Whilst we look at ways to further control costs, we are equally focused on product development and upgrading our systems infrastructure. This includes installing two new Geoman colour press units by September 2002, as well as replacing the existing editorial pagination and advertising management systems, which are now over 15 years old. These new operating systems include advanced features to enhance client relationship management functions.

To expand our market share in recruitment advertising we launched *Jiu Jik* in June of 2001. This is a weekly bilingual recruitment magazine targeted at entry and mid level jobseekers, a segment of the market which previously had not been served by *Classified Post*. In March 2002, we were awarded the contract to provide a classified magazine at the MTR stations; *Jiu Jik* will serve as the basis for this opportunity.

With our Web site, *SCMP.com*, we completed the convergence of print and online editorial functions, resulting in fewer staff and lower operating costs, whilst continuing to build on its readership base and pageviews. In February 2002, we launched a paid subscription service online, *SCMP.com Premium View*.

In our Magazines Division, we launched *CosmoGIRL!* in September 2001 in partnership with Hearst Corporation, although in a rather weak advertising market. Our other titles with Hearst – *COSMOPOLITAN* and *HARPER'S BAZAAR* continued to perform satisfactorily despite the unfavourable market conditions. Our car title *AUTOMOBILE* published in partnership with Haymarket UK faced growing competition from several new car titles and a depressed advertising market. Although earnings were depressed it still remains a profitable title and retains market leadership in audited circulation. In December 2001, we terminated our commercial arrangements with the Guangzhou publisher of *Autoworld* and *TechMag* and entered into a new co-operation and licensing arrangement with a Shanghai based publisher for the publication of *AUTOCAR* and *STUFF*. We will look for opportunities to expand on this co-operation relationship for other titles on the Mainland.

Over the past 18 months, the Group had undertaken a major re-organisation within its senior management team to better define roles and responsibilities. The focus for the Group in 2002 will be directed at expanding our publishing business both locally in Hong Kong and on the Mainland. We have already made a start with our magazine business in Shanghai, and intend to expand on our online recruitment business there into print. In our retailing business, we continue to focus on building up the *Daily Stop* chain of convenience outlets, which at the end of December 2001 comprised 72 outlets.

Whilst the business outlook for 2002 remains uncertain and difficult, the Group will benefit from an improved cost base and lower newsprint prices. Through the efforts of the management team, we are well positioned to take advantage of a recovery in the Hong Kong economy. The Group also has the financial strength to take advantage of any opportunities that may arise.

This past year has been extremely challenging for our staff in their efforts to maximize revenues and streamline costs, whilst maintaining the quality and integrity of our products and service to our customers. I wish to thank our management and staff for their exceptional efforts and resolve in facing up to the difficult challenges.

I also wish to thank our Directors for their guidance and strong support in helping management to stay focused and attain a high standard of corporate governance. We all take our responsibilities to shareholders very seriously.

I wish to record the Board's and management's deep regrets on the passing of Mr. Paul Bush, our Director. The Board remains deeply thankful for Mr. Bush's good guidance and contribution over many years as a Director and member of the Audit and Remuneration Committees. The Board also records its deep appreciation of Mr. Lindley Holloway who resigned in August 2001.

Last but not least, I wish to thank all our readers, advertisers, clients and shareholders for their continued support and trust.

Kuok Khoon Ean
Chairman
Hong Kong, 25 March 2002