

# CHAIRMAN'S LETTER

Dear Shareholders,

I am pleased to bring you this report, which covers the financial results of SCMP Group for the year ended 31 December 2002.

The operating environment for our core businesses, namely newspapers and magazines publishing and retail, remained challenging throughout the year. Hong Kong's economy was sluggish, registering a weak 2.3% growth in 2002. Advertising volumes for both display advertising and recruitment classifieds continued to fall from previous year's levels, with unemployment at a record high.

The Group's revenues in 2002 was down some 19.4% compared with 12-month period ended 31 December 2001 both as result of lower advertising volumes as well as from disposal of the recreation and education businesses and suspension of the production operation of the entertainment business. Earnings per share, before the provision of a revaluation deficit in our investment property values, amounted to HK10.42 cents. Including the revaluation deficit, earnings per share was HK6.02 cents.

Cost control measures undertaken during the year (aided by lower newsprint prices) saw operating costs down 14.9% year-on-year. Regrettably, in carrying out these measures we were unable to avoid redundancies within the Group. Total headcount was down 17.6%, from 1,570 at the beginning of the year to 1,293 at the end of the year, although disposal of the kindergarten business accounted for part of the headcount loss.

Along with addressing our operating cost structure, Management continued to focus on manpower development and enhanced productivity at all levels. A new performance management system has been put in place to motivate and develop staff to their full potential. This will assist Management to better define how the Group's resources are best deployed and ensure greater accountability and improvement to the quality of our products and services. The recent redesigns and enhancements to the *South China Morning Post* and *Sunday Morning Post* partly reflect the changes that are taking place within the organisation.

With the weak economy, we witness a slight decline in our subscription sales from agents and newsstands during the year; the *South China Morning Post* continues to command an average of 96% market share of the English language newspaper readership in Hong Kong. Readership surveys carried out reinforced our leadership position in several categories amongst other leading Hong Kong newspapers. We are confident that circulation sales will recover as the economy improves.

In 2002, the Group organised two conferences in Hong Kong. The success of these two conferences confirms the market need for high quality conferences focused on Greater China issues. Management will continue to develop on this opportunity in 2003.

Most of our major capital expenditure items will complete by the end of 2003. The two new Geoman colour presses became fully operational in August 2002 and the additional colour capacity they provide has been well received by our advertisers. The new editorial publishing system commissioned in 2002 is being phased in and should complete by October 2003, allowing for greater flexibility in the management of editorial work process. New advertising and circulation management systems have been selected and are expected to be implemented by the end of 2003. With these new systems in place, Management will focus on making qualitative improvements to our core publications and further streamline operations.

Our Magazines division, which comprises four titles in Hong Kong and two in joint co-operation on the Mainland, continues to make steady progress, and remains profitable despite the weak advertising market in Hong Kong. Management will look for opportunities to expand on the Mainland in 2003.

In our retail business, we continue with the strategy to grow the *Daily Stop* chain of outlets, currently at 83 outlets in December of 2002 (compared with 72 a year ago) and aim to reach 98 by the end of 2003.

We have received in-principle approval from the Town Planning Board to change the land use of TV City to a principally residential development. Government has gazetted the rezoning, and we have submitted the revised master layout plan to comply with Government's latest requirements for approval by the Town Planning Board. As stated in the last Annual Report, we shall look to dispose of this and our other investment properties and listed share portfolio at the appropriate time.

In September 2002, the Company undertook a share repurchase exercise which reduced its issued capital by 10%. 173.4 million shares were repurchased (and cancelled) at a cost of HK\$624.4 million by way of a general offer to all shareholders. In future, the Company will consider on-market share repurchases, subject to the Hong Kong regulatory framework, provided such repurchases enhance shareholder value by increasing earnings per share in future years.

Over the past 12 months, Management has strengthened the Group's core competencies whilst looking out for the right opportunities to expand its revenue sources and to dispose of its non-core businesses and assets. Several new product initiatives have been undertaken, and some progress has been made on the Mainland, through a co-operation agreement with a Shanghai based publisher for a recruitment publication in Shanghai. This collaboration widens the scope for our recruitment classifieds business with cross sale potential for advertisers with recruitment needs on the Mainland and Hong Kong. Management's focus in 2003 will be to develop and expand such opportunities.

On 6 November 2003, the *South China Morning Post* (the "Post") celebrates its Centenary. Throughout its 100 years, the *Post* has faithfully and accurately recorded and profiled the events, happenings and people that shaped Hong Kong to what it is today. I am confident that the commitment and dedication of all the staff at the Group will see the *Post* continuing to play its part in Hong Kong's development and growth. Hong Kong's future success will evolve as it continues to integrate within the Pearl River Delta in the 21st Century.

On behalf of the Board, I wish to acknowledge and thank our Management and staff for their discipline, dedication and hard work during these challenging times. The Board also records its deep appreciation of Mr Chye Kuok Khoon Ho who resigned as a Non-executive Director in December 2002.

Lastly, I wish to thank the Board members for their guidance and strong support throughout the year.

**Kuok Khoon Ean**  
Chairman

Hong Kong, 24 March 2003