

# OPERATIONS REVIEW

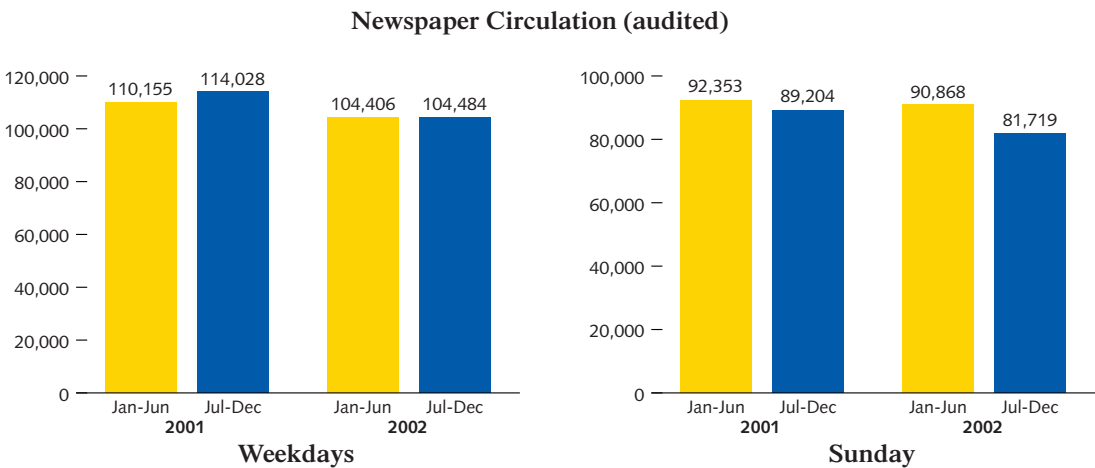
## NEWSPAPERS, MAGAZINES AND BOOKS

### South China Morning Post Publishers Limited

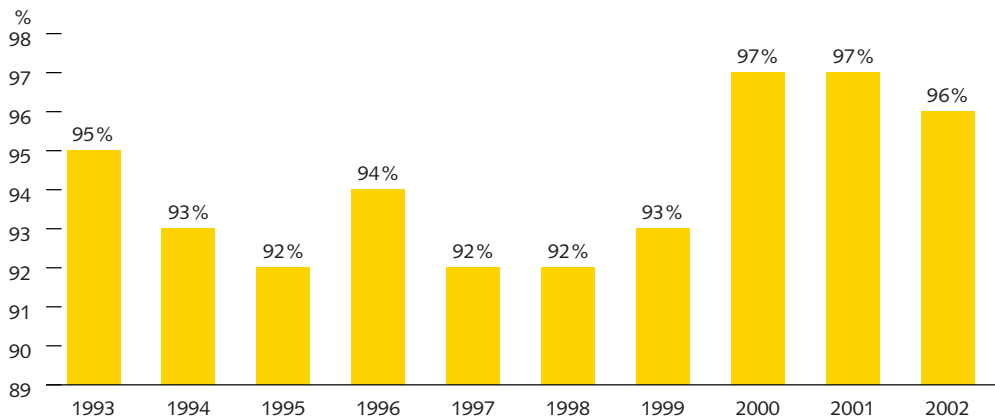
The emphasis in 2002 was on improving the quality and presentation of our products as we approach our centenary year in 2003. This has meant great changes within our editorial team and the appointment of our Deputy Chairman, Thaddeus Thomas Beczak, as Publisher, as well as resources and infrastructure upgrades. As part of our efforts, we strengthened the opinion pages and consolidated the business sections into one. On 4 March 2003, we relaunched the *South China Morning Post* anchored on three sections to offer readers a sharper, focused read around key areas of interest. The Main news section provides integrated news coverage of Greater China and the world, together with informed analysis, opinions and commentaries on pressing issues. The Business section is devoted to companies and markets news while the City section covers news of local interest, as well as lifestyle, listings and sports. Reader and advertiser feedback to these changes, as well as the paper's cleaner, more modern design, has been highly encouraging, and will form a solid platform on which to drive future growth in circulation and readership.

### Circulation and Readership

The average circulation of *South China Morning Post* and *Sunday Morning Post* declined in 2002 year-on-year, due to the continuing weak economy. Although hotel and airlines subscriptions have recovered from the aftermath of 11 September 2001, subscription sales from agents and newsstands have declined as Hong Kong faces record levels of redundancies and closure of small businesses and offices. However, we are confident that circulation sales will recover when the economy improves, in the same way circulation sales recovered after the Asian financial crisis in 1999.



We maintained our leading market position in English language newspaper readership in Hong Kong with an average 96% market share in 2002 (source: ACNielsen RARD Report-year end). We set out below *South China Morning Post's* market share over the 10 year period, 1993 to 2002:



Source: ACNielsen RARD Report (year end)

*South China Morning Post* continues to rank first in several readership categories according to the ACNielsen Media Index (2002 Mid Year Report) which surveys the *South China Morning Post* and other leading Hong Kong newspapers as follows:

- the most effective newspaper in reaching the PME (professionals, management and executive) Group with the highest household income, reaching 57% of PME with monthly household income of HK\$40,000+;
- the highest percentage (76%) of male readers (aged 20+) who are PME, trader or proprietor;
- the highest percentage (72%) of female readers who travelled in the last 12 months;
- the highest number of readers who travelled six times or more in a year;
- the largest number of readers who visited shopping centers, consumed wine and purchased insurance;
- the highest percentage of readers who had bought or own personal computer; and
- the largest number of readers who spent more than HK\$400 at Park N' Shop supermarket.

These findings were reinforced in a survey of our own readers conducted by ACNielsen in October and November 2002. The key findings (based on a sample size of 2000) were as follows:

- Demographics: Our readers are the elite in their profession, senior executives or top professionals in a wide range of industries; 39% are postgraduate or 49% university degree holders; 72% are married; 58% are of Chinese or Asian origin; 55% have an annual household income of HK\$1 million and above; and 47% earn over HK\$50,000 per month.
- Lifestyle, spending and investment: Our readers enjoy a high quality lifestyle, own luxury items and consumer electronics; over 60% invest in shares and foreign currencies; 45% own overseas property and 37% own Hong Kong property; are frequent travelers staying an average of 19 nights abroad a year; 69% make an average of four business trips a year; 66% make an average three leisure trips a year; almost 50% stay in five-star hotels for leisure; and 65% live in accommodations of over 1000 square feet.
- Attitude towards life: Our readers are goal-driven, confident, independent and see "change" as a constant in life and are able to adapt to it.

We took our first steps into conference management in 2002 with two conferences: "*The Pearl River Delta: Forging A New Force*" and "*Corporate Governance in Hong Kong and China: No Time for Complacency*". The success of these two conferences confirms the demand for high quality conferences focused on Greater China. Besides strengthening the *South China Morning Post* brand and its leadership positioning, these conferences capitalise on the *South China Morning Post's* unique ability to bring together opinion leaders across all industries and create a forum that encourages idea generation.

### **Capital Expenditures**

The major capital expenditure programme started some two years ago is close to completion, with:

- the HK\$60 million investment in two Geoman colour presses, which came into full operation in August 2002, giving us production flexibility and more colour capacity, which in turn allow our sales team to offer more creative ad formats to advertisers. This is already reflected in new creative ad campaigns in the newspaper, as well as more colour ad campaigns in *Classified Post*, *Jiu Jik* and *Classified Plus*. Enhanced printing and colour capacity will give us significant leverage and revenue potential when the advertising market improves;
- the new editorial publishing system is in the final stages of implementation and staff training is in progress. This is a HK\$27 million investment in the latest newsroom technology, replacing the 15-year old J11 system. The Education section was migrated to the new system in early March 2003, to be followed by the Main section, City and Business, with a complete rollout expected by October. As more users move over to the new system, the Editorial Division will benefit from faster, more efficient news production, enhanced design capabilities and tighter communication with remote bureaus;
- the HK\$20 million investment in advertising and circulation management systems, which will streamline operations and enhance sales functions, have been commissioned and are expected to be completed at the end of the year; and
- near completion of the digitisation of 150,000 selected images from our archives, to add to the existing inventory of 130,000 images. *Photo.scmp.com* was launched in December 2002 with a current inventory of 160,000 images for online purchase.

With the near completion of these investments to strengthen our core business and the disciplined cost controls measures put in place in the last two years, the company is in a strong position to maximise revenue potential and profitability when market conditions improve.

### **Advertising**

The weak Hong Kong and global economy continued into 2002 compounded by the highly volatile political situation in the Middle East. As a result, our revenues have come under extreme pressure as companies reduce costs and expenses, especially in marketing and advertising areas, and the volatile and weak stock markets continue to restrict corporate and fund raising activities. Recruitment advertising is severely affected by the high unemployment rate in Hong Kong. In view of the difficult business environment, our advertising teams have reinforced their sales and marketing efforts to maintain and grow the client base.

**Display Advertising:** Advertising activities continued to shrink across several sectors including fashion, retail, finance/investment products and airlines, all of which are major advertising categories in the paper. The weak market sentiments amongst advertisers and the soft retail market had driven most advertisers to cut back on their advertising spend. To maintain our premium pricing strategy, we introduced value added packages using creative bundling of our various products. We also restructured the advertising rates of some sections to make them more attractive to new advertisers. We published more China-related special reports during the year resulting in a slight growth of ad spend from our Mainland advertisers. Efforts to expand our Mainland customer base in the coming year will continue.

**Classified Advertising:** The year saw a downturn in recruitment activity for the second year running. Although classified advertising was more stable this year compared to 2001, business conditions remained challenging as some companies continued to freeze or reduce headcount and other companies that continue to hire saw their advertising budgets cut.

In the face of a prolonged advertising recession, we focused on strategic initiatives that position our products well when the economy recovers. We also entered into exclusive advertising contracts with several advertisers. *Classified Post* started carrying editorial sections every Saturday to draw readership. Limited copies of *Classified Post* targeted at jobseekers that are not subscribers of the newspaper are now sold every Saturday in over 500 newsstands and convenience stores.

In March 2002, we won the exclusive rights to distribute a recruitment magazine in MTR stations, gaining access to a large pool of office and service staff as well as professionals comprising the MTR's passenger base. Starting in July, *Jiu Jik* is distributed in MTR stations every Tuesday and Friday. The change in *Jiu Jik's* distribution channel from retail outlets to MTR stations was well received by advertisers and enabled *Jiu Jik* to gain market share in a relatively short period.

In November, *Classified Plus*, a new classified section every Friday, was introduced to diversify the classified advertising base and reduce reliance on recruitment advertising.

We also commissioned ACNielsen to conduct readership surveys for *Classified Post* and *Jiu Jik*. *Classified Post's* strength clearly comes from its readership, of which 57% are professionals, managers and executives and 12% hold senior management positions. The survey shows a remarkable 82% of *Classified Post* readers responded to positions advertised; and because *Classified Post* readers are better educated, bilingual and motivated to change or find jobs, 66% of those who applied for jobs received offers.

*Jiu Jik* is building up a strong and loyal readership since its launch in the MTR in July. 66% read every issue or almost every issue and 72% pass on their copy to others. *Jiu Jik* readers are career-minded and are keen to upgrade themselves with further education.

### **SCMP.com**

*SCMP.com* launched its paid subscription model on 19 February 2002. The move to the subscription-based model has been positive with the web site currently attracting some 17,000 paid subscribers. Renewal rates in the first month of 2003 had been encouraging. Operating losses had been reduced significantly and as a result, we expect the web site to become breakeven by end of 2003.

### **SCMP Hearst Publications Limited**

Our joint venture company with the Hearst Magazines International publishes the Chinese editions of *COSMOPOLITAN*, *HARPER'S BAZAAR* and *CosmoGIRL!* for the Hong Kong market.

*COSMOPOLITAN* reported strong results, reflecting the strength of the title in a weak market environment where advertisers tend to stay with the market leader. *HARPER'S BAZAAR*, which operates in a more volatile upscale fashion market, saw profits decline as luxury brands reduced advertising dollars significantly.

The year has been a challenging one for the newly launched title *CosmoGIRL!*. Advertising revenue remains weak, although circulation has gradually increased to a level where the title is building good position in the teens magazine market. We will continue to invest in the title to develop its full potential.

### **SCMP Haymarket Publishing Ltd.**

The titles published by the joint venture company during the year were *AUTOMOBILE*, *Amoeba*, and the business title, *CEI Asia Pacific*. Through a co-operation and licensing arrangement with a Shanghai based publisher, the company also publishes the Chinese editions of *AUTOCAR* and *STUFF*, two titles from the Haymarket portfolio.

*AUTOMOBILE* continues to win market recognition with the highest audited circulation amongst the car titles in Hong Kong. The company suspended the publication of *Amoeba* in May 2002 in view of a significant drop in advertising revenue and increasing losses incurred.

### **SCMP Book Publishing Limited**

Demand in the market continues to be weak and competition is extremely keen, although the books published under “*Book One*”, targeting the younger market, performed well. On average, two to three new titles were listed on the monthly top 10 or 20 bestsellers list of major bookstores in 2002. The company expanded its activities to include one-off projects, such as sponsored books, e.g. “Imperial Bird’s Nest Recipes”, commissioned premiums such as “Yau Tin Yuen’s Fortune Guide” and non-book publications like “Twins 2003 Calendar”.

### **The Post Publishing Public Company Limited**

The Group has a 20.3% interest in The Post Publishing Public Company Limited, the publisher of the *Bangkok Post*. For the year ended 31 December 2002, the company reported revenues of Baht 1,036 million and a net profit of Baht 104 million (2001: Baht 969 million and Baht 96 million, respectively).

## **RETAIL**

### **SCMP Retailing (HK) Limited**

SCMP Retailing operates a chain of 83 *Daily Stop* outlets and 18 *Health Plus* shops, which are strategically located in the MTR and KCR stations, major shopping malls and housing estates.

The *Daily Stop* operations recorded higher sales in 2002, but profits declined slightly primarily due to keen price competition and higher rent at several MTR outlets. Although financial performance was slightly weaker than last year, overall operation efficiency has improved. During the year, 16 *Daily Stop* outlets were opened and 5 were closed. We target to open another 15 outlets in 2003.

*Health Plus* continues to operate in a difficult and highly competitive market. Nine unprofitable shops were closed during the year as their leases expired, reducing the number of shops to 18 from 27 a year ago.

### **Dymocks Joint Venture**

The Group has a 45% interest in a joint venture with Dymocks Franchise Systems (NSW) Pty Ltd of Australia. The joint venture’s principal business is to franchise the Dymocks Bookstore chain in Hong Kong. The company has franchised five stores.

## **OTHER BUSINESS**

### **Video-Film Productions Limited**

The corporate videos and documentary tape businesses were severely affected by the economic downturn. As a result, focus had been shifted to the video transfer business for clients such as Walt Disney, Warner Brothers and Universal Pictures. In addition, the company was successful in securing from Celestial Movie Channel the business for dubbing transfer of 100 titles from the old Shaw Brothers’ film library.

## **CORPORATE AFFAIRS**

### **Our People**

The Group places strong reliance on the commitment, talent and industry of its employees to achieve its objectives. In 2002, we worked with line managers to implement a new performance management system for all staff to measure and reward performance. Through the new system, employees are appraised of their performance on a regular basis against the objectives and competencies specific to their roles and responsibilities. The system demonstrates the Group’s firm belief in rewarding and developing employees based on work performance.

Share options provide compensation tied to long-term corporate performance and maximise shareholder value in the longer term. During the year, no share option was granted by the Board. As at 31 December 2002, share options have been granted to 113 employees to subscribe for a total of 10,108,500 ordinary shares of the Company. We expect that past and future awards will provide an important element of incentive compensation for staff.

*South China Morning Post* offers a cadetship programme for graduates from local universities who aspire to become journalists. In 2002, we substantially increased the number of cadets and modified the content of the training in order to derive maximum benefits from the programme.

As we move towards a more knowledge and technology-based operation, the drive to enhance employee capabilities, to cultivate multi-tasking and improve competencies has become one of the Group's key human resources initiatives.

## **Community Services**

### ***Donations***

During the year, the Group made charitable donations amounting to HK\$114,968.

### ***Reader Pledges***

In 2002, the *South China Morning Post* received the following donations from its readers:

- (a) two containers of medical supplies, clothing, bedding, educational material, toys and a whole range of other items for charitable organisations in East Timor; and
- (b) emergency relief contributions to provide food, housing and medical supplies for people made homeless by devastating floods on the Mainland.

### ***Braille Post***

Improving technology has now provided more than 5,000 members of the Hong Kong Society for the Blind with access to the electronic version of *Braille Post*, one of the world's first daily newspapers for the blind, providing the visually impaired access to in-depth news coverage and information. Since the first edition in August 1990, *Braille Post* has developed from a paper featuring 15 stories to one with more than 100 braille general pages comprising more than 50 stories. Another 150 pages provide business stories, stocks and foreign exchange prices. In November 1997, the *South China Morning Post* became the first newspaper to offer daily braille editions through the Internet as part of its long association with the Hong Kong Society for the Blind.

## **Corporate Calendar 2002**

### ***February 2002: SCMP.com launches online subscription model***

*SCMP.com* launched its paid subscription model, charging users for access to its online news content. The new subscription-based service, branded *SCMP.com Premium View*, offers enhanced news and features. Subscribers enjoy full online access to the editorial content of the print edition, regular online updates throughout the day, daily e-newsletters, special reports and archives. An annual subscription costs HK\$249 (US\$32) with 10 complimentary articles from the archives. Residents of Hong Kong buying a one-year newspaper subscription directly from the *South China Morning Post* automatically receive online access to *SCMP.com* as part of the subscription package.

### ***February 2002: Fund Manager of the Year Awards***

The *South China Morning Post* Fund Manager of the Year Awards acknowledges the top performing funds and their respective fund managers, covering different global markets and all asset classes. Now in its 11th year, the awards have become the fund industry's most prestigious and coveted performance recognition benchmark. To mark the event, the *South China Morning Post* published an annual special report on the industry featuring all the winners, details of their performances and profiles of the fund management companies and their executives.

### ***July 2002: Jiu Jik distributes in MTR***

*Jiu Jik* launches in a blaze of publicity for exclusive distribution in MTR stations throughout Hong Kong. An integrated marketing campaign incorporating television, radio, outdoor and print advertising, and a lucky draw for 50 one-year MTR passes, is implemented to drive pick-up and achieve top-of-mind awareness. A press conference jointly organised by the Company and the MTR Corporation was held in a foyer of the Hong Kong MTR station and was well attended by local media and television stations. Other promotion activities continued throughout the year to ensure the success of this new partnership with the MTR.

#### **July 2002: SCMP's first conference**

Our first conference, titled “Pearl River Delta – Forging a New Force”, was co-organised with the Hong Kong General Chamber of Commerce. The one and a half day conference featured 20 distinguished speakers from Hong Kong and China and attracted over 450 participants. The Hon. Tung Chee-hwa, Chief Executive of HKSAR officiated at the event. In conjunction with the event, the *South China Morning Post* published a special print and online report.

#### **July 2002: SCMP Teachers' Seminar for secondary schools**

Since 1998, *South China Morning Post* has been holding an annual education forum for secondary English teachers to promote NIE (Newspaper in Education) teaching. The Group continues to initiate projects to help cultivate newspaper-reading habits among youth. This annual function is well received by English teachers in secondary schools. A total of 298 teachers from 151 schools attended the seminar.

#### **August 2002: Young Post hosts first pop concert**

*Young Post* organised its first mini pop concert, Pure Sound, for its readers. The event featured a number of top local pop acts including former *South China Morning Post* Sportsman of the Year and pop idol Alex Fong Lik-sun. Held at the Hong Kong International Trade and Exhibition Centre, it attracted more than 350 *Young Post* readers. *Young Post*, set up 16 years ago, continues to promote a light, modern and fun approach to English learning.

#### **August 2002: SCMP/Henley MBA Awards**

*Classified Post* and Henley Management College selected two recipients of the SCMP/Henley MBA Awards. The awards, now in its ninth year provide *Classified Post* readers an opportunity for post-graduate studies to enhance future career opportunities and advancement. The awards cover tuition, course materials and workshop fees for the distance-learning MBA programme. Through this scholarship scheme, *South China Morning Post* hopes to contribute to the development of Hong Kong's executives and managers who may become future leaders.

#### **October 2002: HARPER's BAZAAR's 14th Anniversary**

In celebration of its 14th Anniversary, the magazine presented the first ever “HARPER'S BAZAAR Fashion Awards 2002”. A cocktail reception was held at the Island Shangri-la Hotel to celebrate the magazine's birthday as well as to present the awards to the winners.

#### **November 2002: SCMP Group unveils new corporate identity**

The SCMP Group and its subsidiaries created a new corporate look and identity to better represent the Group and to consolidate the goodwill embodied in the many well-known brand names and businesses into a valuable asset and help build brand recognition and loyalty. The Group's stationery, advertising, merchandising, outdoor livery and business cards were redesigned. Some of the brand identities including *Jiu Jik*, *Classified Post* and *SCMP.com* were modified to bring them in line with the new identity. A corporate identity manual was created to guide all the businesses and their suppliers through the new system.

#### **November 2002 : RTHK/SCMP Short Story Competition**

This annual competition organised and judged jointly by Radio Television Hong Kong and *South China Morning Post* is now in its 17th year. The competition aims to promote English language writing skills in Hong Kong. Entries were received from a large pool of local literary talents. Winners were selected in two categories: Senior for 18 years or above, and Junior for 12 to 17 year olds. Winning stories were published in the *South China Morning Post* and *SCMP.com* and live interviews with the winners were aired on RTHK.

#### **November 2002: SCMP hosts Corporate Governance Conference**

The *South China Morning Post* and Hong Kong Exchanges and Clearing Limited jointly host a major conference on Corporate Governance bringing together leading political and business figures to discuss this vital issue. Mr. Frederick Ma Si Hang, Secretary for Financial Services and the Treasury gave the keynote address. To mark the event, the *South China Morning Post* published a special print and online report.

#### **November 2002: Daily Stop's 80th branch opening**

A series of consumer promotions were launched in November 2002 to celebrate the opening of *Daily Stop's* 80th branch. Over 100,000 Scratch & Win Game Cards were distributed to customers for lucky draw.

#### **November 2002: Health Plus' 10th Anniversary**

Marketing promotions offering storewide discounts were launched to celebrate the occasion.



***November 2002: IHRM Annual Conference***

*Classified Post* sponsored the Conference to reinforce its market leadership in recruitment advertising. The Conference provided an ideal platform to directly market to and network with over 1,000 delegates and visitors during the two-day conference period.

***November 2002: China STAFF Human Resources Awards***

*Classified Post* sponsored the Awards which recognised leading human resources professionals and consultants from Hong Kong and China.

***December 2002: DHL/South China Morning Post Hong Kong Business Awards***

Since its inception in 1990, the DHL/SCMP Hong Kong Business Awards, Hong Kong's most prestigious business awards, have recognised outstanding contributions to the development of the SAR's reputation as Asia's leading financial and business centre. Six awards are presented - Businessman of the Year, Executive Award, Owner-Operator Award, International Award, Enterprise Award, and Young Entrepreneur Award. Notable past winners of the Businessman of the Year include Li Ka Shing, Gordon Wu, William Purves, Cheng Yu Tung, Lee Quo Wei, Victor Fung, Peter Sutch, Dickson Poon, Allan Wong, Richard Li, Patrick Wang, Vincent Lo and Michael Ying.

***December 2002 : SCMP Wine Club***

The *South China Morning Post* launched a Wine Club inviting eight wine professionals and writers who conducted a blind tasting of 28 wines and recommended their 12 favourites. Both print and online readers were able to purchase the recommended wines at heavily discounted prices exclusively through *South China Morning Post*. Over 1,000 bottles of wine were sold during the one-month promotion.

***December 2002 : SCMP Car of the Year Awards 2002***

The *South China Morning Post* held its first Car of the Year Awards. A panel of eight judges selected winners in nine categories. Winning marques included Ferrari, Renault, BMW, Mercedes Benz, Acura, Honda and Rolls-Royce.

***December 2002: Operation Santa Claus***

Every December, individuals, community groups and corporations rally to lend their support to Operation Santa Claus to raise funds for a selected local children or youth charity. Since RTHK and *South China Morning Post* teamed up in 1987 to start Operation Santa Claus, it has raised more than HK\$53 million for charities in Hong Kong and the Mainland, benefiting causes ranging from an orphanage fund to burns victims. In 2002, Operation Santa Claus raised over HK\$3.2 million for the Pathways Foundation which is dedicated to helping children with specific learning disabilities.

# AUTOCAR

2003年3月刊 ¥12

## 轿车情报

# 国产SUV

## 初露端倪 渐受瞩目

● 速跑 ● 开拓者 ● 大切诺基



29元  
国产、进口  
车、MPV  
SUV性价

上海大众双  
● 劳斯莱斯

# BAZAAR

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圖書附

FASH  
米蘭·  
SPRING/S

# COSMOPOLITAN

朱茵 我嬌小但好強

**A Healthy New You**

告別肥伴指南

**Hottest Hair Trend**

擋不住型髮風潮

美髮新點新推介

# 2003

**Spring/Summer**

## Fashion Report

春夏時裝潮流大特集



Forum  
愛上好姊妹的男友，怎辦？

Cosmo Man

## 鄭中基