

CHAIRMAN'S LETTER

Dear Shareholders,

In November 2003, the *South China Morning Post* celebrated its 100th Anniversary. In this historic year, it is my privilege to present the annual report, which covers the financial results of the SCMP Group, for the twelve months ending 31 December 2003.

2003 turned out to be one of the most unpredictable and difficult years in decades for our Company and our clients. For Hong Kong, the defining event of 2003 was without doubt the Sars outbreak. Through it all, the people of Hong Kong responded with courage, resilience and compassion.

The *South China Morning Post* played an important role in keeping the public informed about Sars. In response to the outbreak, the newspaper launched 'Project Shield' to raise money to buy protective clothing and medical equipment for Hong Kong's medical workers. What started out as a call for readers' pledges ended up rallying support from the entire Hong Kong community. Project Shield raised more than HK\$21 million from more than 10,000 individuals, organisations and companies, reaffirming the strength and standing of the *South China Morning Post* brand within the local community.

Sars significantly weakened the economy of Hong Kong and the overall business of the SCMP Group. Immediately after the WHO travel alert on Hong Kong in March, visitor arrivals to the city plummeted to unprecedented low levels, forcing airlines and hotels to take drastic measures to reduce loss. Throughout this period, our newspapers and magazines suffered from significant declines in advertising activity and subscription sales. Our retailing business was also adversely affected as most people stayed indoors during the outbreak and passenger traffic fell in MTR and KCR stations where a significant portion of our retail outlets are located.

Centenary

In the same year that we faced these unprecedented challenges, we also recorded an extraordinary moment in the Company's history. In November 2003, we celebrated the centenary of our flagship publication, the *South China Morning Post*. Highlights included the publication of *Post Impressions*, a book of superb quality, containing 360 select photographs illustrating ten decades of Hong Kong's history in good times and bad. We also organised a photographic exhibition that toured all the major retail shopping malls across the city and sponsored the South China Morning Post Centenary Cup horse race at Happy Valley.

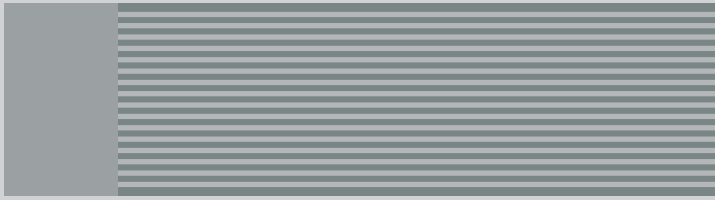
The front page of the Centenary edition of the *South China Morning Post* featured Chinese calligraphy and included a 48-page special section chronicling the birth and evolution of the newspaper. The newspaper's founder, Tse Tsan-tai, who was also an aviation pioneer, would have been delighted with the front-page story covering the visit to Hong Kong of the first Chinese astronaut. The issue also came with an 8-page souvenir reprint of the very first edition that appeared on 6 November 1903.

Financial Performance

The Sars outbreak, combined with Hong Kong's already weak economy, had an adverse effect on the financial performance of the SCMP Group.

Net revenues declined by 6% to \$1,280 million. Net earnings before revaluation deficit were \$113.8 million, or HK7.29 cents per share. Including the revaluation deficit, net earnings were \$1.8 million, or HK0.11 cents per share. The Directors are recommending a final dividend distribution of HK4 cents per share.

The SCMP Group continued with its cost management programme that began in 2001. We consolidated our city offices under one location and renewed our lease at more favourable terms. Our headcount declined 4% to 1,247, mostly through attrition. In response to Sars, many of our staff took a voluntary 5% and 10% pay cut.



Junction of Nathan Road and Gascoigne Road in 1950. On the left is the Alhambra Theatre.



In view of the continuing uncertainty in the property market in 2003, the Directors have considered it prudent to make an additional provision of \$112 million (net of revaluation gain on other properties) for TV City and Leighton Road properties during the year. At the same time, we are continuing with an application for conversion of TV City land to residential use with a view to maximising its value.

We re-evaluated our investments in a number of areas, including China, based on our conviction that each business must create compelling opportunities to enhance our service to our clients and create shareholder value.

Looking Ahead

Although we cannot control the external forces that shape our operating environment, we can control how we manage our business and execute our strategy. The SCMP Group's emphasis for 2004 is on profitable market share and operating discipline.

We are executing strategies on several fronts aimed at steadily improving our business. We believe the way to build on the franchise of *South China Morning Post* and our other publications is to refresh and reinvigorate them, making them relevant and exciting to readers and advertisers alike. We are focusing on aligning editorial and commercial efforts across our mastheads. With the rollout of an enterprise advertising system scheduled for completion in 2004, we will bring more resources to bear on our publications and offer better quality and service to our clients. We will continue to look at new consumer magazine titles that expand our revenue streams, even as *COSMOPOLITAN* maintains its position as the leading women's title in Hong Kong.

We will continue to grow our retailing business organically, building a critical mass of close to 100 outlets and will look at ways to maximise returns from our remaining non-core assets.

An Expression of Thanks

On behalf of the Board, I wish to thank the Management and staff for their dedication and enthusiasm as we navigated through an extraordinary year. The professionalism and capabilities of our staff were highlighted as each team quickly and efficiently deployed contingency plans to cope with the challenge of the Sars crisis. The generosity of those who took a voluntary pay cut matched by Directors who took a cut in fees to help the Company get through this prolonged downturn is especially appreciated.

I would like to thank my fellow board members for their valued counsel and support. The Board also records its appreciation of Mr. Tad Beezack who resigned as Publisher of South China Morning Post Publishers Limited on 31 December 2003.

Hong Kong and its residents have shown that they can respond remarkably well to challenges and adversity. Over the last century, much has changed and much has been accomplished. As we look forward with a renewed sense of purpose and confidence, we believe that Hong Kong is poised for an exceptional future. In anticipation of the continued support of readers, advertisers, clients and shareholders, thank you.

Kuok Khoon Ean

Chairman

Hong Kong, 30 March 2004