

MANAGEMENT'S REPORT



Memorable *South China Morning Post* front pages in 2003. From bottom: China's first astronaut, Sars, the first Christmas Day edition.

NEWSPAPER PUBLISHING

2003 marked the centenary of the SCMP Group's flagship publication, the *South China Morning Post*. Since 1903, the newspaper and its ownership have changed many times over but its brand and market leadership have endured. This has allowed us to face an exceptionally difficult year from a position of strength – in independent journalism, client relationships and financial base.

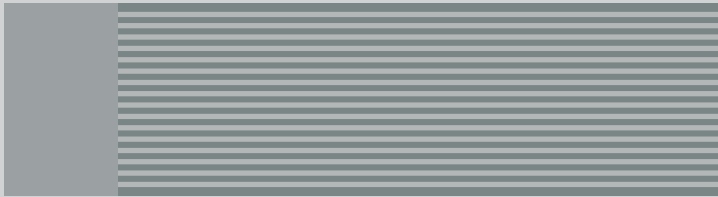
The centenary was an editorial highlight of the year resulting in a number of special supplements. On 6 November 2003, we published a special report covering the newspaper's role in Hong Kong over the past 100 years. On the same day, we printed and distributed an eight-page reproduction of the first edition published on 6 November 1903 as a souvenir. And on 9 November 2003, a bumper 108-page edition of the *Post Magazine* traced a century of news highlights. Another insert showed how advertisers and advertisements have evolved over the years.

Circulation and Readership

One of the biggest challenges we faced in 2003 was to maintain circulation and readership amid continued economic weakness. Newspaper sales to airlines, hotels and other business establishments declined significantly due to the Sars outbreak.

Circulation of the *South China Morning Post* in the first half of 2003 declined by 12% compared to the same period in 2002. Circulation in the second half declined by 8% compared to the same period in 2002 due to some recovery from the impact of Sars.

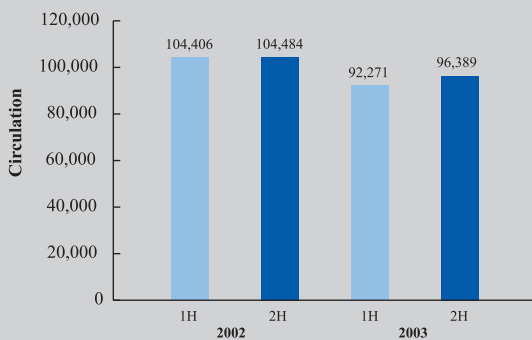
Circulation of the *Sunday Morning Post* was similarly affected, declining 18% and 7% in the first and second half of 2003, respectively compared with the same period in 2002. The increase in cover price of the *Sunday Morning Post* from \$7 to \$8 in April led to an increase in revenue but a decline in copy sales.



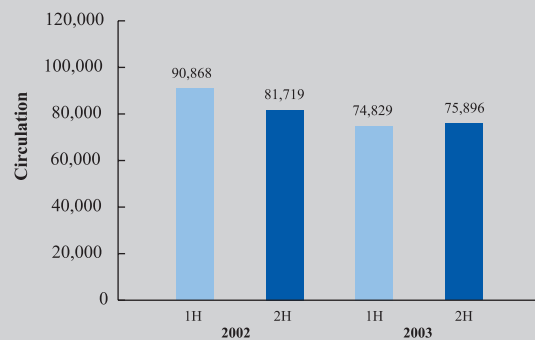
Wyndham Street in 1920



South China Morning Post



Sunday Morning Post



Note: All circulation figures are audited except for 2H 2003

We launched several marketing campaigns to counter the impact of Sars, including a newspaper sampling campaign targeted at new and infrequent readers and subscription and copy sales promotions tied to our centenary activities.

We maintained our long-term dominance of English language newspaper readership in Hong Kong with 96% market share as at June 2003 (AC Nielsen Media Index 2003 Mid-year Report).

A core strategy in maintaining readership of our newspapers is to refresh and reinvigorate them so that they continue to be relevant to our readers. In March, we relaunched *South China Morning Post* anchored on three sections – main, business and city – to offer a sharper, focused read around key areas of interest and to strengthen the newspaper as a platform for advertisers who want a more targeted reach.

The main news section features the major headline news in Hong Kong, Greater China and the rest of the world, together with informed analysis, opinions and commentaries on pressing issues. The business section continues to provide the most thorough coverage of Hong Kong and China business stories and analysis, particularly developments in the Pearl River Delta and how they impact Hong Kong business and the economy. The city section covers news of local interest, as well as lifestyle, listings and sports.

In August, we launched a weekly tabloid supplement covering soccer matches following the legalisation of soccer betting in Hong Kong.

One of our priorities in 2004 is to increase China news coverage. Economic integration and cooperation between Hong Kong, the Pearl River Delta and Shanghai are gaining momentum. Preparations for the 2008 Beijing Olympics and 2010 Shanghai World Expo are underway, creating much anticipation. Currently, we have one of the largest teams of correspondents in the mainland among international newspapers with six correspondents in Beijing, two in Shanghai, one in Guangzhou and one in Shenzhen. We will continue to distinguish ourselves by our expertise, breadth and depth of reporting and analysis on Hong Kong and China.

Display Advertising

With the exception of the first and fourth quarters, 2003 was marked by cutbacks in ad spending. Business travel, banking, retail and property were particularly affected. Our strategy throughout the Sars period was to offer more value added services to advertisers while keeping our rates flexible.

The second half of the year benefited from aggressive marketing campaigns notably from hotels and restaurants, airlines and other tourism-related businesses backed by the government's economic stimulus measures. To provide greater incentives to advertisers, we worked in partnership with them to promote consumer spending after Sars. Some of the initiatives included partnerships with property developers to promote their shopping malls and with hotel and restaurant groups. Other promotion schemes were tied to newspaper readers' benefits.

We expanded our efforts to help advertisers reach visitors from the mainland through special supplements, including a bilingual special report distributed by the Hong Kong Tourism Board. In 2004, we will create more platforms for advertisers to reach a Chinese audience by developing more bilingual special supplements and joint special reports with mainland newspapers. At the same time, we intend to expand our sales team to aggressively pursue advertising opportunities with mainland companies looking to raise their profile in Hong Kong.

Our core readership in Hong Kong remains strong, supporting our premium rates. The *South China Morning Post* is the clear leader in many categories important to advertisers.

- Over 74% of readers are college or university graduates
- 49% of readers are visible achievers, typically 35 years old or younger, tertiary educated and holding professional or managerial positions
- 30% of readers earning more than \$25,000 a month are decision makers
- 37% of readers own properties in Hong Kong and 12% intend to buy one within a year
- 45% of readers own properties overseas and 22% intend to buy one within a year
- 25,000 readers take six or more business trips a year
- 38% of readers earning more than \$25,000 a month own a platinum card
- 50,000 readers dine out at least once a month
- 93% of readers own a computer at home, 22% own more than one computer

Classified Advertising

One of the main challenges in 2003 was to maintain revenues amid record high unemployment and intense competition in recruitment advertising. An already weak economy was further undermined by Sars. Recruitment activity almost came to a halt, particularly in the second quarter, as companies took drastic steps to cope with the impact of Sars.

In this environment, we took steps to turn adversity into opportunity. Starting in May, we offered a 25% discount to all recruitment advertisers. The discount was reduced to 20% in June and 15% in July until December. We also distributed promotional copies of *Classified Post* in selected high traffic areas. These moves increased our market share and improved response rates during the period. To increase revenue and expand job offerings in a weak market, *Classified Post* produced industry supplements in partnership with professional associations.

Our recruitment magazine, *Jiu Jik*, has developed a loyal readership through its MTR network distribution and is now widely recognised as an effective recruitment channel for junior positions. Rates however, continue to be under pressure from competition.

Business notices stayed strong, particularly in the last quarter, as investor confidence returned and capital markets activities resumed. We achieved a 68% market share of the main board listings in 2003, more than double our market share in 2002.

Our classified franchises remain strong, with opportunities to provide continuing growth. Notwithstanding the softness in recruitment advertising over the last few years which has affected advertising volumes and yields, we are well positioned to benefit from a recovery. Our brands remain the strongest in the market. We have strategies in place, offering total solutions in print and online, to provide the best platforms for recruitment branding and advertising and to be the best source of jobs for our readers.



This man-eating tiger was shot near Fanling in 1915

SCMP.com

In 2003, SCMP.com became profitable on an earning before interest, tax, depreciation and amortisation (“EBITDA”) basis. This turnaround in performance was achieved through growth in subscription, advertising and content sales revenue and a sharp reduction in operating expenses, in particular staff costs and fees to online information providers.

SCMP.com is Asia’s largest paid subscription news site, with over 20,000 subscribers. After putting in place a paid subscription model in 2002, 2003 was the first year we had to pursue a subscription renewal campaign. We rolled out a comprehensive marketing campaign with a target renewal rate of 50%. By expanding our regional and international subscriber base and focusing on value added products and services, we achieved a 62% renewal rate. Our international subscriber base grew 23% to over 30% of subscribers. To some extent, the Sars crisis promoted the news site as more people turned to the internet for up-to-date news and information.

We launched a number of innovations and new products, including a Chinese news digest, translating major news from Hong Kong’s Chinese press into English and making them available through the website. We also added interactive functions that enable both subscribers and non-subscribers to exchange views on current issues. Online advertising benefited from new advertising formats such as content marketing, which provided advertisers with a platform to sponsor editorial content.

Our strategy in 2004 is to provide subscribers with a more valuable online experience. We will continue to innovate to enhance the experience of our users. With more and more news sites moving to a paid access model, we are looking at raising subscription rates in 2004. We will continue to develop new online advertising formats to bundle with print ads to offer advertisers multi-media options.

Outlook

We anticipate that the coming year will continue to be unpredictable. Although there are some signs of improvement in display advertising in the second half of 2003 and in recruitment advertising in early 2004, advertisers are still fairly cautious.

MAGAZINE PUBLISHING

SCMP Hearst Publications Limited

We faced another competitive year in magazine publishing. Competing titles cut cover prices and ad rates, putting pressure on advertising and circulation revenue. To offset the decline in revenue especially in the second and third quarters, we reduced advertising and promotion activities and found ways to print more efficiently to lower production costs. We matched a fall in circulation sales with smaller print runs. HARPER’S BAZAAR was hardest hit by Sars due to its reliance on luxury goods advertising.

COSMOPOLITAN’s strong performance in the first and fourth quarters of the year cushioned the impact of Sars on advertising revenue. In 2003, despite the weak economy and strong competition, the title recorded its highest ever advertising revenue in its 19 years of publication.

CosmoGIRL! also recorded impressive growth in 2003. Its circulation increased 59% compared with 2002. The title’s audited circulation was 38,968 as at 31 December 2003.

Despite the strong performance from our titles, we are cautiously optimistic about the prospects for 2004. There is potential for growth, especially if the improvement in domestic demand is sustained. We will continue with subscription promotions to retain readership and circulation. We will also continue to invest in content, particularly for CosmoGIRL!, to drive its long-term profitability and brand recognition.

SCMP Haymarket Publishing Limited

The performance of AUTOMOBILE has been hit hard by Hong Kong’s weak car market. The announcement of an increase in motor vehicles’ first registration tax early in the year, followed by Sars, dampened demand. In view of the difficult business conditions, we focused on cost savings. Our efforts to maintain the title’s leading position in Hong Kong and to increase advertising revenue through new advertising categories will continue in 2004. The title is ideally positioned to capture opportunities in the car sector as the economy improves and car enthusiasts seek to fulfill long-delayed buying and replacement decisions.

On 2 March 2004, the SCMP Group and Haymarket entered into a termination and release agreement as a result of which the SCMP Group acquired Haymarket's 49% interest in the joint venture and will continue with the publication of AUTOMOBILE. Furthermore, Haymarket will continue with the publication of CEI Asia Pacific and the Chinese editions of AUTOCAR and STUFF, which are Haymarket's titles. The termination of the joint venture will allow us to focus on developing our existing titles in Hong Kong and to pursue opportunities to launch titles other than those in the Haymarket portfolio.

BOOK PUBLISHING

The book publishing business recorded growth in both sales and profitability. In response to increasing competition from China where books can be produced cheaply, we have focused on quality, market niches and certain areas of expertise. We also became involved in English language publishing during the year.

Our participation at the Hong Kong Book Fair generated the highest sales in five years. Our writers are receiving much critical praise. We are negotiating exclusive contracts with best-selling writers to maintain our competitive advantage.

We are positive about the prospects in 2004. We are developing a series of business books and will offer contract publishing. We intend to publish more English books, mainly translations of Chinese titles, some of which will be promoted in partnership with the *South China Morning Post*. We will develop new sales channels such as airport bookshops and online sales and will seek distribution opportunities in Singapore, Malaysia and the US.

RETAILING

The difficulties we faced in 2003 prompted further restructuring of our operations. During the year, we paid close attention to product mix and category management to grow revenue. Unprofitable outlets were closed. Temporary rent reduction from some landlords were negotiated during the Sars period and other cost-saving measures were taken.

We opened 12 new outlets, including five along the new West Rail KCR, and closed seven unprofitable shops. As at 31 December 2003, there were 88 Daily Stop outlets in operation.

We took several measures to drive revenue and improve profitability. We are negotiating better terms with suppliers to improve margins. We offered new formats for point-of-sales advertising. Shop layouts were improved to drive more traffic and improve operating efficiency. We are rolling out a new point-of-sale system that will allow all outlets to receive payments through Octopus card. We worked closely with our publishing business, using Daily Stop's retail outlets for advertising, promotions and redemption activities for various publications. Every shop now prominently displays the daily headline of the *South China Morning Post* to boost its visibility and drive newspaper sales.

We sold the Health Plus outlets and related trading business in June. Prior to the sale, the operations were focused on shop consolidation and cost control.

In 2004, we will continue to take steps to bring the business back to profitability.

OTHER BUSINESSES

Video-Film Productions Limited

We saw an improvement in business performance with operations showing a profit on an EBITDA basis in 2003. Dubbing and transfer, the most profitable business line, continued to grow helped by the increase in the number of video channels around the region. We secured a prestigious video production contract from the Hong Kong Government to document the West Kowloon Development project. In addition, we saw a slight increase in demand for corporate video production.

To remain competitive and to better serve transfer and dubbing customers, we invested in new equipment and improvements. These included the purchase of a telecine – a machine used for transferring film to videotape.

Lee Lai-shan wins the Olympic gold medal for windsurfing in 1996, the first in Hong Kong's history.



The most exciting market for the company is the mainland, where demand for high quality corporate and commercial video is growing significantly. The introduction of CEPA, a trade agreement between Hong Kong and mainland China, will give rise to more opportunities to tap this market.

Capital Artists Limited

Capital Artists, whose operation was suspended in October 2001, generated royalties and posted record sales in the second half of 2003 due to a strong demand for its old music recordings by Leslie Cheung, a legendary performer who passed away in 2003. We foresee a similar demand in 2004 for Anita Mui's recordings following her demise in late 2003.

INVESTMENTS

The Post Publishing Public Company Limited

The SCMP 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 2003, the company reported revenues of Baht 1,490.6 million and a net profit of Baht 103.6 million.

Dymocks Franchise Systems (China) Limited

The SCMP 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 5 franchised stores in operation as at 31 December 2003.

STAFF

As at 31 December 2003, the Group had 1,247 employees compared to 1,293 as at 31 December 2002.

	2003	2002	% change
Newspapers	687	700	(2)
Retail	272	336	(19)
Magazines and other publications	141	107	32
Video and film post-production	48	47	2
Management and corporate services	99	103	(4)
Total	1,247	1,293	(4)

PROSPECTS

Our business will continue to be driven by the overall performance of the Hong Kong economy. In the last quarter of 2003, the economy rebounded strongly and the momentum continued in early 2004. Advertising and circulation sales have improved but the pace and strength of the recovery remains uncertain.

Our priorities in 2004 include:

- Maintaining the quality of our franchise. We take great pride in our publications and the important role it plays as a voice in the community. Regardless of the operating environment, we will strive to be relevant to our readers, provide the best platform for our advertisers, and maintain long-term relationships with our clients.
- Revenue growth and profitable market share. In our core publishing business, we will launch aggressive marketing and promotion campaigns to drive growth in readership and advertising. We will continue to introduce new and creative advertising formats and strive to drive revenue at each customer interaction. In our other businesses, we will continue to seek efficiency gains and find new ways of increasing profitability.
- Cost management. We will remain focused on disciplined cost control in all our businesses. Our recent and continuing investments in technology are lowering our cost base and improving efficiency. We will continue to take actions necessary to add to our bottom line in the years ahead.

Our long-term focus remains unchanged and on track: delivering relevant content to our readers, offering new platforms and enhancing our ability to serve our advertisers, and making strategic investments to enhance the value of our existing assets or extend our brand. These strategies combined with strong financial discipline place us in a strong position to pursue opportunities for growth as they arise.