MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

- **Total turnover: $1,280.0 million**
- **Net profit attributable to shareholders: $1.8 million**
- **Net profit before revaluation deficit: $113.8 million**
- **Earnings per share: HK0.11 cents**
- **Earnings per share before revaluation deficit: HK7.29 cents**
- **EBITDA: $259.8 million**
- **EBITDA margin: 20.3%**

OPERATING RESULTS OF THE GROUP

The SCMP Group's consolidated operating results for the year ended 31 December 2003 and 2002 were as follows:

(HK$ million, except per share amounts)	2003	(Restated) 2002	% change
Turnover	**1,280.0**	1,364.9	(6)
Operating cost before depreciation and amortisation	**(1,020.2)**	(1,108.2)	(8)
EBITDA	**259.8**	256.7	1
Depreciation and amortisation	**(83.2)**	(79.0)	5
Deficit on revaluation of investment properties	**(112.0)**	(75.0)	49
Loss on disposal of long-term investment shares	**(2.3)**	–	100
(Loss)/gain on disposal of subsidiaries and associates	**(2.0)**	25.1	(108)
Provision for asset impairment	**(0.8)**	–	100
Office relocation expenses	**(10.9)**	–	100
Other revenue	**4.1**	8.8	(53)
Finance costs	**(5.2)**	(1.1)	373
Operating profit	**47.5**	135.5	(65)
Net profit attributable to shareholders	**1.8**	108.8	(98)
Earnings per share (HK cents)			
Basic	**0.11**	6.38	(98)

We faced an extremely challenging business environment in 2003. Continued economic weakness was made worse by the outbreak of Sars. Nevertheless, core results were better than expected on the back of a strong recovery in display and business notices advertising in the fourth quarter, lower production costs and substantial reductions in operating expenses.

The SCMP Group's turnover declined 6% from $1,364.9 million in 2002 to $1,280.0 million in 2003. Profit attributable to shareholders amounted to $1.8 million. Earnings per share were HK0.11 cents based on the weighted average shares in issue during the year of 1,560,945,596 (2002: 1,704,448,053).

The reported earnings in 2003 included the following:

- Deficit in revaluation of investment properties of $112 million;
- Office relocation expenses of $10.9 million;
- Charges due to changes in accounting standard on deferred tax and corporate tax rate of $8.5 million;
- Loss on disposal of long-term investment shares of $2.3 million;
- Loss on disposal of subsidiaries and associates of $2.0 million; and
- Provision for asset impairment of $0.8 million.

Excluding the revaluation deficit, net profit attributable to shareholders amounted to $113.8 million or earnings per share of HK7.29 cents.

Operating Costs and Expenses

Operating costs and expenses for the year ended 31 December 2003 and 2002 were as follows:

HK$ million	2003	2002	% change
Staff costs	**368.8**	417.2	(12)
Cost of production materials/sales	**410.4**	427.6	(4)
Rental and utilities	**83.5**	98.0	(15)
Advertising and promotion	**15.3**	31.4	(51)
Other operating expenses	**142.2**	134.0	6
Operating costs before depreciation and amortisation	**1,020.2**	1,108.2	(8)
Depreciation and amortisation	**83.2**	79.0	5
Total operating costs and expenses	**1,103.4**	1,187.2	(7)

In response to the business downturn, we implemented several cost saving measures. Operating costs decreased by 7% or $83.8 million. Staff costs decreased by 12% or $48.4 million as a result of a one-off voluntary salary reduction program from June to December 2003, a reduction in year-end bonus, and lower headcount from 1,293 in 2002 to 1,247 in 2003. Production costs fell 4% or $17.2 million. The average cost of newsprint fell 15% to US$420 per metric ton in 2003 from US$494 per metric ton in 2002. Newsprint usage dropped 6% with a decline in advertising volume. Rental and utilities decreased by 15% or $14.5 million with the sale of Health Plus in June 2003 and the education businesses in 2002 and savings from the office relocation in June. Further savings will come from the renewal in November 2003 of an existing lease on office premises at lower rental. Advertising and promotion expenses were cut back by 51% or $16.1 million in light of the uncertain and difficult business environment.

Contribution by Business Segment

Our core publishing business contributed 60% of turnover, 66% of EBITDA and 50% of operating profit before revaluation deficit. Retailing contributed 31% of turnover and an insignificant portion of EBITDA. Investment properties accounted for 6% of turnover, 30% of EBITDA and 49% of operating profit before revaluation deficit.

	Contribution to Turnover		
HK$ million	2003	2002	% change
Newspapers, magazines and other publications	**773.9**	831.8	(7)
Retailing	**398.6**	418.6	(5)
Investment properties	**81.4**	79.7	2
Video and film post-production	**20.2**	19.5	4
Entertainment and education services	**5.9**	15.3	(61)
Total	**1,280.0**	1,364.9	(6)

HK$ million	Contribution to EBITDA 2003	2002	% change	Contribution to Operating Profit 2003	2002	% change
Newspapers, magazines and other publications	**172.4**	176.1	(2)	**79.1**	109.8	(28)
Retailing	**2.1**	1.3	62	**(0.7)**	(1.6)	56
Investment properties	**79.1**	76.4	4	**(32.9)**	17.2	(291)
Video and film post-production	**1.3**	(0.5)	360	**(2.3)**	(3.8)	39
Entertainment and education services	**4.9**	3.4	44	**4.3**	13.9	(69)
Total	**259.8**	256.7	1	**47.5**	135.5	(65)

FINANCIAL REVIEW BY BUSINESS

Publishing

HK$ million	2003	2002	% change
Turnover			
Newspaper	**684.9**	742.0	(8)
Magazines and other publications	**89.0**	89.8	(1)
Total turnover	**773.9**	831.8	(7)
EBITDA	**172.4**	176.1	(2)
Operating profit	**79.1**	109.8	(28)

Publishing revenues fell 7% to $773.9 million, mostly from a decline in newspaper publishing revenue. Due to lower production costs and cost saving measures, EBITDA fell only slightly from $176.1 million in 2002 to $172.4 million in 2003. Operating profit declined 28% to $79.1 million due to exceptional items. Before exceptional items, operating profit would have been $92.6 million, a decline of 16%. The strong rebound in display advertising and business notices revenue in the fourth quarter of 2003 accounted for better than expected performance.

Newspaper circulation revenue declined 4% for both the weekday and Sunday editions. The price of *Sunday Morning Post* increased from $7.00 to $8.00 in April 2003.

Newspaper display advertising revenue fell 9% on a 4% decline in volume and 5% decline in yield. Classified advertising revenue fell 12% . Business notices volume increased slightly due to several large capital markets transactions in late 2003 and yield was flat.

Magazine publishing revenue was stable. The strong performance of most of the titles in the first four months and last quarter of 2003 offset the impact of Sars for the rest of the year. Operating profit improved slightly due to cost saving measures.

Retailing

HK$ million	2003	2002	% change
Turnover	**398.6**	418.6	(5)
EBITDA	**2.1**	1.3	62
Operating loss	**(0.7)**	(1.6)	56

Retailing revenue declined 5% to $398.6 million and operating loss was reduced to $0.7 million. As at the end of 2003, Daily Stop had 88 outlets compared with 83 in December 2002.

On 1 June 2003, Health Plus and Highlight Trading were sold at a gain of $0.6 million. The gain on disposal was offset against operating loss.

Investment properties

HK$ million	2003	2002	% change
Turnover	**81.4**	79.7	2
EBITDA	**79.1**	76.4	4
Operating (loss)/profit	**(32.9)**	17.2	(291)

Rental income from investment properties increased due to new leases and additional income from advertising billboards. The main lease on the TV City property, which accounted for $65.8 million of revenue, expired on 31 December 2003. A revaluation deficit of $112 million was recognised on investment properties of which $90 million relates to the TV City property. We will continue to explore various options to maximize the value of the TV City property, including an application to change the land use to principally a residential development, which has received in-principle approval from the Town Planning Board. Given that the application process is expected to take some time, we will continue to consider the property's potential for rental income as investment property.

Video and film post-production

HK$ million	2003	2002	% change
Turnover	**20.2**	19.5	4
EBITDA	**1.3**	(0.5)	360
Operating loss	**(2.3)**	(3.8)	39

This division was profitable on an EBITDA basis. Operating loss was $2.3 million on revenue of $20.2 million. The company is in the process of expanding into China to tap the expanding market for high quality corporate videos.

Entertainment and education services

HK$ million	2003	2002	% change
Turnover	**5.9**	15.3	(61)
EBITDA	**4.9**	3.4	44
Operating profit	**4.3**	13.9	(69)

Capital Artists, whose operation was suspended in October 2001, generated royalties and income from record sales in the second half of 2003 due to a strong demand for old music recordings of Leslie Cheung. The education businesses were sold in March 2002.

CAPITAL EXPENDITURES

We continued to invest in new technology to improve operating efficiency and increase our competitiveness. Capital expenditures for the year ended 31 December 2003 amounted to $58.6 million, of which (i) $25 million was spent on new editorial, advertising, circulation and retailing systems; (ii) $18 million was spent on production equipment; and (iii) $8 million was spent on renovation works. The remaining capital expenditures represented investment in new Daily Stop outlets and computer hardware and software. Actual expenditure was 32% lower than budgeted mainly because of delays in systems rollout due to Sars and postponement of non-critical items.

In 2004, the SCMP Group's capital expenditure budget is estimated at $58.6 million, of which $38.9 million is allocated for (i) the advertising, circulation and retailing systems, (ii) new Daily Stop outlets, (iii) video-film production equipment, (iv) computers and technology related equipment and software. The balance of $19.7 million is allocated for replacement items.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $214.6 million for the year ended 31 December 2003, compared with net inflow of $255.9 million for the year ended 31 December 2002. Cash was used primarily for payment of dividends, taxation and capital expenditures.

Net cash outflow from financing activities was $176.7 million for the year ended 31 December 2003, compared with net outflow of $384.8 million for the year ended 31 December 2002. During the year, the Group paid $80 million of its $310 million bank loan and paid dividends of $93.7 million.

Cash generated from the SCMP Group's operations and the funds available from external sources are expected to be adequate to cover all cash requirements, including working capital needs and planned capital expenditure.

As at 31 December 2003, the SCMP Group had total borrowings of $232.8 million. Of this amount, $230 million is an unsecured Hong Kong dollar term loan at floating interest rate repayable within two years. The remaining $2.8 million is a bank overdraft in renminbi repayable within one year. The SCMP Group has no significant exposure to foreign exchange fluctuations.

The ratio of current assets to current liabilities was 2.3 times as at 31 December 2003 compared to 2.1 times as at 31 December 2002.

As at 31 December 2003, the SCMP Group had a gearing ratio of 5% compared with 11.2% as at 31 December 2002 calculated by dividing the total borrowings of $232.8 million (2002: $310 million) net of available cash of $159.8 million (2002: $139 million) by shareholders' funds of $1,470 million (2002: $1,528.8 million).

DEFERRED TAXATION

With effect from January 2003, the SCMP Group adopted a new accounting policy for deferred tax to comply with Hong Kong SSAP 12 (revised) "Income Taxes". In previous years, partial provision was made for deferred tax arising from timing differences using the income statement liability method except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (revised) requires the adoption of a balance sheet liability method, whereby deferred tax liabilities are recognised in full in respect of all temporary differences while deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the temporary differences can be utilised.

The new accounting policy has been applied retroactively, resulting in prior year adjustments. The opening retained earnings as at 1 January 2003 was reduced by $8,313,000 (2002: $14,532,000) representing the cumulative effect of the change in policy on retained earnings prior to 2003. The opening asset revaluation reserve as at 1 January 2003 was reduced by $178,000 (2002: $186,000), representing the deferred tax liability recognised in respect of the asset revaluation surplus on the SCMP Group's land and building. The net deferred tax liabilities and minority interests as at 31 December 2002 were restated at $91,248,000 and $8,692,000, respectively.

For the year ended 31 December 2002, profit and loss accounts and asset revaluation reserve were credited by $6,219,000 and $8,000 respectively.


Classified Post
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