

# CHAIRMAN'S LETTER

To Our Shareholders,

I am pleased to report to you that 2004 has been a year of real achievement for the Company. After two years of flat or declining revenues we saw real growth in our businesses. Our revenues reached HK\$1,375 million, an increase of 7%. Our earnings increased to HK\$317 million from HK\$2 million in 2003. As a result, there was a substantial increase in earnings per share. Taking into account the Company's strong operating performance, the Directors and I are proposing a final dividend of HK7 cents per share and a special dividend of HK3 cents per share from the sale of our retail business.

## 2004 HIGHLIGHTS

In 2004, our newspaper publishing business contributed 62% of the Company's revenues and 90% of the Company's recurring operating profits.

We registered increases in both the *South China Morning Post* and *Sunday Morning Post* circulation and continue to dominate the market with a 96% share of English language readership.

Growth in our advertising revenues outpaced the market. Recruitment advertising, in particular, recovered significantly and was key in driving profitability and improving margins. SCMP.com achieved record revenues and turned profitable in 2004.

Expenses grew 1%, despite significantly higher newsprint costs and increases in advertising and other operating expenses.

The newspaper publishing business continues to generate high levels of cash. We used the Company's strong liquidity position to invest in new printing presses and increase the dividend payout to around 78% of profits after tax but before the gain on sale of the retail business.

## EXCELLENCE IN JOURNALISM

We are proud of our staff's coverage of many newsworthy events that took place during the year and their role in fostering informed debate about issues that are important to Hong Kong and its community. Pollution in the Pearl River Delta, reclamation of Victoria Harbour, the West Kowloon cultural project and education reform were just some of the many issues that were analysed and debated extensively in our pages throughout the year.

We made significant progress in extending our imprint on mainland China. For the first time in three years of organizing the Pearl River Delta conference, the conference was held across the border to increase participation and involvement from the mainland. Our series of travel guides featuring several destinations in the Pearl River Delta to promote tourism and other commercial activities in the region were well received by readers and mainland advertisers alike. The *South China Morning Post* was a major media partner in the inaugural Sinopec China Formula 1 Grand Prix and was the only English newspaper distributed at the Shanghai International Industry Fair.

At the cocktail party held in November to draw our centenary year celebrations to a close, our guest of honour Hong Kong SAR Chief Executive Tung Chee-hwa remarked that since its first edition on 6 November 1903, *South China Morning Post* "has been chronicling the Hong Kong story without fear or favour, faithfully reporting the triumphs, the tragedies, the politics, the personalities and the trivia that have kept its readers informed of how our great city has progressed over the past century. As we face the next 100 years, I am sure the SCMP, its editors and reporters will be on the scene to bring its readers the latest developments in the ever-changing stories of Hong Kong, of mainland China and of the wider world".

Whilst we take pride in our flagship publication's over one hundred years of history we remain dedicated to its vibrant future.

## **EMBRACING THE COMMUNITY**

A newspaper is inextricably linked to the community it serves and SCMP is no exception.

For the past 17 years, *South China Morning Post* together with our partner Radio 3 Hong Kong, have been running Operation Santa Claus, an annual fund raising campaign which has raised to date over HK\$67 million for 39 charities in Hong Kong. In addition to generating much needed funds, this annual December campaign increases public awareness and understanding of the disabilities and issues that these charities seek to address. In 2004, the campaign had added significance when a tsunami struck parts of Asia on 26 December 2004. We extended the campaign for an additional two weeks to raise funds for the children affected by the natural disaster. The Operation Santa Claus Save the Children of the Asian Tsunami campaign raised HK\$10.2 million for UNICEF in less than two weeks, a heart-warming response that reflects the caring and generous nature of the people living in Hong Kong.

## **LOOKING AHEAD**

We see continuing signs that the economy is growing, albeit more slowly, and the advertising market is improving. The unemployment rate at the start of the year has fallen to a three-year low of 6.4%. This environment should benefit our businesses.

Our priorities for the year ahead remain unchanged. We will continue to raise the quality of our publications and invest in editorial features to grow circulation, expand on our base of loyal readers and attract more local readers. We will continue to align editorial and commercial efforts and focus our advertising initiatives through greater cross selling to win advertising support across key categories. We will strive for better yields through our new advertising system, which is fully operational in 2005, and by investing in four new press units that will add colour printing capacity. We will continue to manage our costs as an ongoing priority.

We will carefully assess growth opportunities and pursue them where they contribute to our strategic direction of expanding on our publishing businesses and increase shareholder value. Toward this end, we sold our retailing business carried out through Daily Stop for HK\$101.5 million. The Company recorded an after tax gain of HK\$77 million from the sale which was completed in November 2004.

I want to thank our board of directors for their guidance and support in helping the Company focus on long-term value while achieving short-term goals. I also wish to thank our staff, our customers, our partners and our shareholders for their commitment and support.

**Kuok Khoon Ean**  
Chairman

Hong Kong, 1 April 2005

