

MANAGEMENT'S REPORT



NEWSPAPER PUBLISHING

The year brought to a close the year-long celebration of the centenary of the Group's flagship publication, the *South China Morning Post*, which kicked off in November 2003. The Group marked the occasion by hosting a multi-sectoral business forum on the future of Hong Kong and a cocktail reception with the Chief Executive of the Hong Kong SAR Tung Chee-hwa as guest of honour.

We have learned from a century of publishing that a newspaper and the business of running it must continually adapt, innovate and grow if it is to endure and remain competitive. At the same time, it must stay focused on achieving its long-term objectives and exercising cost discipline to enhance shareholder value.

Circulation and Readership

South China Morning Post and *Sunday Morning Post* reported increases in circulation during the year. The gains were attributable to higher retail, corporate and overseas sales, particularly in mainland China and Macau.

The circulation of *South China Morning Post* increased 8% and 6% in the first half and second half of 2004, respectively compared with the same periods in 2003.

The circulation of *Sunday Morning Post* increased 5% and 8% in the first half and second half of 2004, respectively compared with the same periods in 2003.

In addition to increasing circulation, we continue to win more local Chinese readers and attract high quality readers that support our high yield advertising business.

We continue to make progress in establishing a brand presence in mainland China. *South China Morning Post* obtained exclusive rights to sell newspapers at the first Formula One Grand Prix held in Shanghai in September 2004 and was the only English newspaper available during the Shanghai International Industry Fair held in November 2004. We hosted our annual Pearl River Delta conference in mainland China (in Zhongshan) for the first time in three years. Our newspapers are carried by several mainland China and regional airlines on in-bound flights to China. Our newspapers are available at most five-star international hotels in Beijing, Shanghai, Guangzhou and Shenzhen.

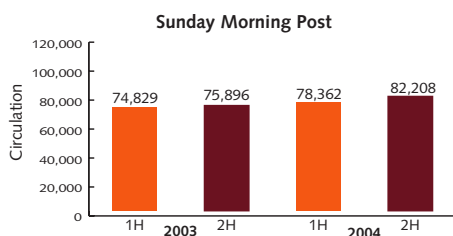
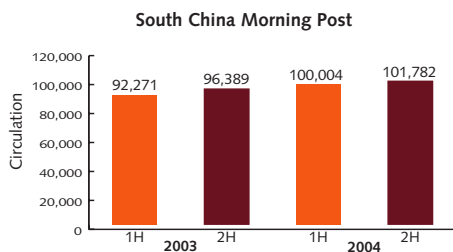
Our editorial direction is to offer relevant content focused on important areas of interest to readers to strengthen the newspaper as a platform for advertisers who want a more targeted reach. In 2005, our focus is to increase circulation by attracting more local Chinese and occasional readers. Initiatives are underway in the areas of market research, product improvement, distribution and marketing to support our readership and circulation targets.

Display Advertising

The recovery in display advertising, which started in the fourth quarter of 2003, continued in 2004. Display revenues increased 23% in 2004 compared with 2003, outpacing the growth in total ad spending in newspapers of 19%. Advertising rates were flat while advertising volume increased.

We produced a record number of advertising supplements, including 12 which attracted advertisers mainly from mainland China. We see increasing opportunities to attract advertisers from mainland China who are looking to build their brand and profile as well as promote their products and services in Hong Kong.

We expanded our offering of creative formats and executions to increase the effectiveness of our publications and differentiate them in the market. We continue to invest in our print products and printing facilities. In November 2005, four new presses will be commissioned, increasing our color printing capacity. This additional capacity will be deployed to increase high yield color advertising revenues.



Note: Figures are audited except second half 2004 circulation numbers.

Management's Report

In 2005, besides increasing the percentage of high yield ads, we will adopt a more integrated approach to growing our advertising business to make full use of our portfolio of publications and print and digital platforms.

Classified Advertising

The classified advertising market made a strong recovery in 2004 after several years of weakness. Classified ad revenues grew 33% as a result of a 51% increase in recruitment ad revenues and a 31% increase in business notices revenues.

Recruitment advertising was a key driver of profitability in 2004. As the economy grew and business expanded, companies across all sectors hired more people. As confidence was restored and salaries in some sectors increased, more people changed jobs, increasing recruitment activity even further. As a result, recruitment ad volume increased 40%. The strong recruitment ad market also enabled us to increase ad yield by 7% through a higher sell through of front page positions and color ads at premium rates. We offered incentives to lock in several major advertisers and to increase the ad spend commitment of others.

We enhanced the editorial coverage of key sectors to include hiring and salary trends and career development opportunities. At the same time, we established partnerships with several professional associations to produce industry-focused recruitment supplements that not only provided a more targeted and effective platform for our advertisers but also enhanced our value and market position to our readers.

We invested in market research and conferences to establish our position as an authority in the recruitment market. In 2004, we commissioned Nielsen Media Research to conduct quarterly market surveys. The results were published in *Classified Post* and in the quarterly newsletter to advertisers. We organized and sponsored conferences, seminars and events that reinforced our leading position in the market.

An improvement in market sentiment also led to an increase in capital markets transactions. As a result, business notices ad revenue increased 31% compared with 2003. Our share of main board listings increased from 38% in 2002, to 68% in 2003 and 78% in 2004.

We intend to build on the gains achieved this year to grow the business in 2005. Effective communication and partnerships with our major advertisers are keys to success in our business. We will continue to improve the quality of our recruitment publications to maintain readership, which is what our advertisers look to first.

We will invest more in research to provide advertisers with clear hard facts to support the value of our publications. We will expand our partnerships with professional associations and organize or participate in events that demonstrate our reach, the breadth and depth of our market knowledge, and our commitment to the development of human resources in Hong Kong. We will exploit new and emerging digital technologies to enhance our print offering. Our goal is to provide the best recruitment and job search solutions to our advertisers and readers.

SCMP.com

Another cornerstone of our publishing business is SCMP.com which offers regular and breaking news, feature articles and a wealth of news and photo archives. In addition, it offers increasingly interactive features, such as regular "On the Spot" sessions with some of the most popular columnists of *South China Morning Post*, and multi-platform content.

SCMP.com achieved record revenues and reported an operating profit in 2004. These results were due in large part to a range of revenue streams which showed significant growth during the year. SCMP.com derives its revenues from subscription fees, display advertising, content syndication and archive sales. In 2004, 39% of revenues was from subscription, 37% was from advertising and 24% was from content syndication. In 2004, SCMP.com was the leading news site in Greater China with 20,000 subscribers.

SCMP.com helped set the online industry standard by being one of the first websites in the world to change from a free access to a paid subscription website in 2002. We were the first newspaper in Hong Kong to deliver SMS alerts in 2004 through SCMP.com. We were the first news website to offer interactive communication with newspaper columnists and reporters. We will continue to innovate to grow digital advertising and marketing revenues. We will use new and emerging technologies to develop further our content syndication business. For example, 3G mobile technology has enabled us to deliver news and photos to PDA and mobile phone users. Going forward, SCMP.com is an integral part of our business strategy to offer multi-platform services to advertisers and readers.



Outlook

The prospects in 2005 are positive although we expect the newspaper publishing business to grow at a slower pace than in 2004, which started from a very low base. Ad spending is expected to continue to grow in 2005 and beyond fuelled by a strong rebound in economic activity and consumer confidence. Many companies have indicated they would continue to recruit new staff in 2005.

In 2005, we will continue to improve the quality of our publications to strengthen our position among readers and advertisers. Commercially, we will focus on high rate categories and strive for more cross selling across platforms to win a greater share of advertising revenues in all key categories. We will continue to focus on building our brand image in mainland China and step up our efforts to tap ad spending from there. We will draw on the lessons we learned during Sars and the economic downturn to remain disciplined on costs.

MAGAZINE PUBLISHING

Cosmopolitan, Harper's Bazaar and CosmoGirl!

2004 was a year of growth for the SCMP Hearst titles. The advertising market upturn, which started in the fourth quarter of 2003, was sustained in 2004. The growth in ad spending with women's magazines was led by the cosmetics and skin care categories. International luxury brands launched a succession of new products. On the other hand, circulation gains were modest. Competing titles cut cover prices, putting pressure on sales of newsstand copies.

In December 2004, *Cosmopolitan* marked 20 years of publication in Hong Kong. The anniversary issue had 846 pages, the highest ever for women's magazines in local publishing history. In 2004, the magazine also recorded its highest ad revenues since publication, demonstrating its continuing commercial success.

Harper's Bazaar maintained its reputation with international brands. The magazine benefited from an increase in ad spending by luxury brands.

CosmoGirl! recorded growth in advertising and circulation revenues. Audited circulation figures continue to rise, helping establish the magazine's credibility in the youth market. The magazine's audited circulation was 39,341 in the first half of 2004.

Automobile

Despite the economic recovery, car sales in Hong Kong did not grow significantly. The car magazine market, therefore, remained very competitive in 2004. In addition some ad spending shifted to newspapers, billboards and even women's magazines for certain car models.

The magazine was revamped and it regained its leading market position with a circulation of 28,310 in 2004 compared with audited circulation of 24,157 in 2003. We expect advertising and circulation revenues to improve in 2005.

Maxim

Maxim Hong Kong was launched in April 2004 under a license agreement with Dennis Publishing. The magazine targets 25- to 35-year old affluent men in Hong Kong. For the first three issues, *Maxim's* audited circulation was 29,299, making it the best-selling men's magazine in Hong Kong.

In 2005, we are cautiously optimistic about the prospects for growth in advertising and circulation revenues. We will continue to invest in its content, look and feel to develop the full potential of the magazine.

BOOK PUBLISHING

The book publishing business outperformed previous years' sales and operating profit due to cost control and the success of fiction books aimed at young adult readers. English books publishing, a fairly new initiative, continued to grow and is now contributing to revenue and profits. Several new books were promoted successfully with the *South China Morning Post*.

In 2005, we will focus on signing up more promising writers of Chinese books and developing new non-fiction titles. We will continue to work with the *South China Morning Post* in repurposing content to develop new English titles, signing independent authors and publishing trade directories.

RETAILING

In November 2004, we completed the sale of our retailing assets consisting of the Daily Stop chain of convenience stores. The sale is in line with our strategy to exit non-core business activities and to focus on our publishing business.

Management's Report

OTHER BUSINESSES

Video and Film Post-Production

Performance in 2004 was mixed. A slump in the local film industry had an adverse impact on the post-production business while revenues from origination and film transfer services continued to grow. In December 2004, we started our operations in Guangzhou after receiving a license as a wholly-owned foreign advertising production company under CEPA. This move would enable us to tap the commercial post-production market and the growing demand for high quality corporate video production in mainland China.

Music Publishing

Capital Artists delivered strong results in 2004 because of strong sales of old recordings by pop legends Leslie Cheung and Anita Mui who both passed away in 2003. A tribute album we released for Anita Mui topped the best-sellers' chart for weeks immediately after its release.

We also released an array of DSD remastered albums delivering high quality music to cater to more sophisticated customers. While we do not expect to deliver in 2005 the same results as in 2004, we will continue to exploit our music catalogue through licensing arrangements and publishing old recordings in new formats.

INVESTMENTS

The Post Publishing Public Company Limited

The Group owns 20.3% of The Post Publishing Public Company Limited ("Post Publishing"), the publisher of *Bangkok Post* and *Post Today*. For the year ended 31 December 2004, Post Publishing reported revenues of Baht 1,839 million and a net profit of Baht 194 million. The Group recorded income of HK\$7.6 million in 2004 and HK\$4.1 million in 2003 from this investment.

Dymocks Franchise Systems (China) Limited

The Group has a 45% interest in a joint venture with Dymocks Franchise Systems (NSW) Pty Ltd of Australia ("Dymocks"). The joint venture franchises the Dymocks Bookstore chain in Hong Kong. As at 31 December 2004, Dymocks had 7 franchised stores in operation. For the year ended 31 December 2004, the Group recorded income of HK\$0.4 million in 2004 and a loss of HK\$1.7 million in 2003 from this joint venture.

STAFF

As at 31 December 2004, the Group had 1,035 employees compared with 1,247 as at 31 December 2003.

	2004	2003	% Change
Newspaper publishing	714	697	2
Magazine and book publishing	144	124	16
Retailing	17	272	(94)
Video and film post-production	63	48	31
Management and corporate services	97	106	(8)
Total	1,035	1,247	(17)

Salaries of employees are maintained at competitive levels while bonuses are granted based on individual and business performance. Other employee benefits include provident fund, medical insurance and a share option scheme.

MADE IN HONG KONG

NIMBLE ENTREPRENEURS, HONG KONG BUSINESSMEN HAVE BEEN FAMOUSLY SWIFT TO NOTE A TREND AND FOLLOW A FAD. WHEN THE AGE OF AQUARIUS DAWNED IN THE 1960S, THE ANTHEM OF WESTERN YOUTH WAS THE MUSICAL HAIR. THE WIG CRAZE SAW MANY INDUSTRIALISTS SWITCH FROM PLASTIC PRODUCTS AND TOYS TO MANUFACTURING HAIRPIECES. SOON, THERE WERE 24,000 WIG-MAKERS EMPLOYED IN 300 MAJOR FACTORIES. IN 1966, HONG KONG EXPORTED WIGS WORTH \$430 MILLION. BY 1970, WIG EXPORTS TOTALLED \$1.5 BILLION. THE FAD FADED, THE FACTORIES CHANGED AGAIN. HONG KONG MADE WHAT THE WORLD WANTED. A FACTORY AT CHUNG HOM KOK, WHERE NONE OF THE 40 WORKERS HAD EVER SEEN A TROUT, WAS THE WORLD'S LARGEST PRODUCER OF DRY FLY LURES. ELECTRONICS, COMPUTERS, OPTICS, CAMERAS - IT WAS AN ERA WHEN THE MADE IN HONG KONG LOGO WAS ON SUPERMARKET SHELVES IN EVERY CORNER OF THE GLOBE. WHEN CHEAP LAND AND FACTORIES BECAME AVAILABLE ACROSS THE SHENZHEN RIVER, INDUSTRY MOVED THE FACTORIES NORTH, A VITAL PART OF THE CONTINENTAL ECONOMY OF HONG KONG AND

香港製造

香港商家最能洞悉時
無數工業家放棄製造
百多家假髮廠，僱
總值達四億三千萬
，當這風尚不再，
的觸覺敏銳。一
見過鮭魚，卻是
製品、照相機...
上。及至深圳特區
北移，形成香港

