



Management Report

The financial year ended 31 December 2005 was a successful one for the SCMP Group Limited (Group or SCMP). The South China Morning Post, the Group's flagship publication, demonstrated that the publishing business is very much alive and well. In a year marked by fierce competition for advertising and circulation, the newspaper and magazine divisions achieved a 15% and 108% growth in recurring operating profit, respectively.

At the end of 2005, the Group is in a strong financial position, the operational side of the business is stable and the future looks promising. Within this dynamic operating environment management strongly believes that it is through the building and strengthening of the publishing business that shareholder value can best be delivered.

Financial Review

The Group achieved a 12% rise in recurring operating profit to \$287.3 million in 2005. This result reflected a solid performance from the core publishing business in a competitive market environment. The increase in publishing profit was partly offset by lower contribution and losses from other subsidiaries.

Turnover rose 10% to \$1.1 billion. Net profit attributable to shareholders reached \$246.4 million, compared with \$317.1 million in 2004. The 2005 result included a revaluation surplus of \$50.4 million and a provision for asset impairment of \$35.7 million. The 2004 result included a one-time gain on the sale of the retail business of \$76.8 million and a revaluation surplus of \$18.1 million.

Boosted by a recovery in consumer spending and solid GDP growth, display advertising rose 13% while classified advertising grew 11%. Advertising rates improved across all products except for business notices, where rates remained on par with 2004. At the same time, weekday circulation showed a 4% and 3% gain in the first and second half, respectively, compared with the same periods in 2004.

Revenue at the magazine publishing division rose 19%, despite a competitive environment for advertising and circulation. The SCMP's three women's titles fared well, with Cosmopolitan marking a record year in advertising pages sold.

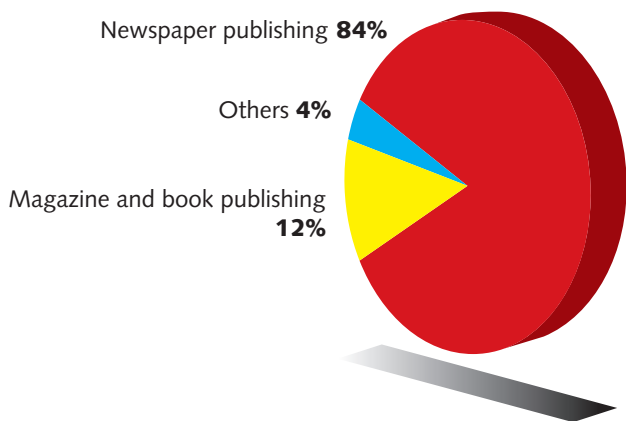
Operating costs and expenses from continuing operations rose 9% to \$833.1 million. Staff costs increased 8% and average newsprint cost rose 18% from US\$476 to US\$563 per metric ton. Staff and newsprint costs made up about half of total expenses.

Operational Overview

Given the sale of the retail business in 2004, the 2005 financial result reflects the first full year impact of refocusing on the publishing business. 96% of revenue is generated by publishing, up from about 70% in 2004.

The Regioman press is the largest investment the SCMP Group has made in its publishing business in recent years. This state-of-the-art press allows the SCMP to produce a better quality range of products for readers and advertisers alike

Revenues

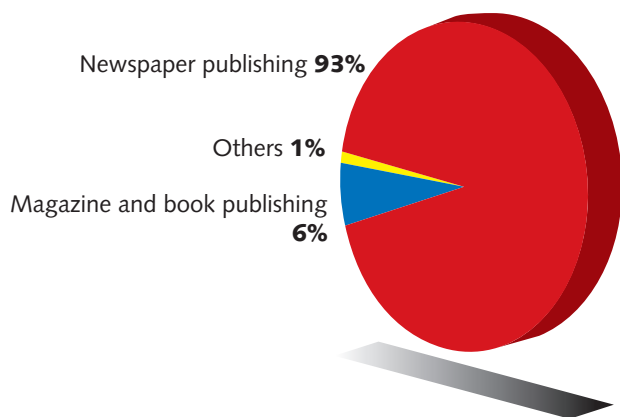


During the year, executives and editors were promoted to key leadership roles to produce a new corporate and editorial strategy. It was a strong year for editorial content, with the SCMP winning numerous awards for journalism, newspaper design and technical excellence.

New printing presses were commissioned in November 2005. This was the largest investment the Group has made in recent times. With full colour capability these presses will increase the attractiveness of the SCMP as an advertising medium, improve on advertising yields and deliver an even more attractive newspaper to readers.

Creative executions provided display and classified advertisers with new options. The sales teams introduced products that made better and more creative use of print media. To reinforce the value of the newspaper to advertisers the SCMP invested in market research and readership surveys.

Recurring Operating Profit



The SCMP used the strength of its brand to introduce digital products and services. A leader in product innovation, the SCMP was the first Asian news website to offer interactive dialogue. Columnists and reporters now interact with readers through "On the Spot" sessions. SCMP was also the first publisher to launch podcasts on the website and on MP3 players in Hong Kong. The website also carries vidcasts and syndicates content to 3G mobile operators.

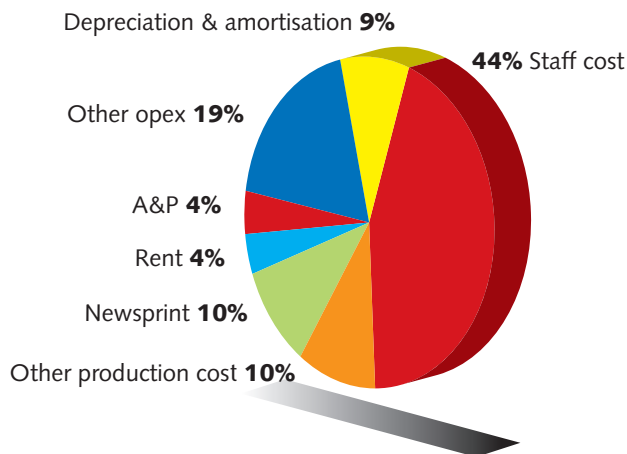
Brand Building

With over a century of daily publishing under its belt, the "South China Morning Post" brand is synonymous with the values of Hong Kong as well as the quality and independence of English language reporting on China. The SCMP is proud of its place amongst the elite of the publishing world when it comes to integrity, objectivity and professionalism. The Group understands the need to protect and nurture the brand as a valuable asset, especially in an industry where complacency is to be avoided at all cost.

Building the brand involves improving every aspect of the business. Key initiatives include:

- Strengthening the editorial team to improve and expand content on Hong Kong and China
- Providing display and classified advertisers with more options to reach affluent and influential readers
- Investing in technology to build a multimedia platform for content and advertising
- Building a sustainable and long-term presence in mainland China on the editorial, circulation and online fronts

Operating Costs



In line with its key initiatives, the SCMP plans to enhance coverage in Hong Kong and China to engage readers, advertisers and the community.

The Group wants to make sure that when Hong Kong, China and the world look for English language information on Greater China – on any platform – there remains no greater authoritative source than the SCMP. The effort to build a world class editorial team continues with the recent appointment of a new editor-in-chief. Although the SCMP already has the largest presence on the mainland of all international publications with 20 correspondents in the Beijing, Shanghai and Guangzhou bureaus, the China team will further expand in coming years.

One of the most important investment decisions near-term is how to apply digital tools to transform the SCMP from a newspaper into a content brand. In a world where content is king and digital delivery expands reach by disseminating information across many communications tools, the Group is evolving in the way content is provided. This entails the integration of print and online platforms to create a strong digital component to the brand.

SCMP is investing in a new content management system to improve the user experience on all websites, accelerate product development and create advertising options. This system is the foundation for the redevelopment of websites in areas such as recruitment and corporate announcements. There will also be more joint team efforts to maximize cross-media advertising sales.

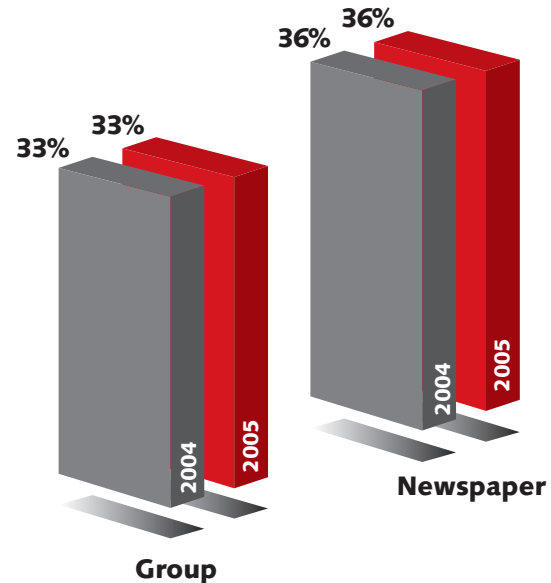
The Group has just begun to touch on how to expand its mainland presence. The management team is focused on meeting this challenge. In doing so, the Group will maintain a cautious and conservative stance. In the long run, SCMP is determined to build a powerful brand on the mainland to capture opportunities as they arise.

Outlook

The outlook for the SCMP Group in 2006 is positive. Stable economic growth is expected for both Hong Kong and China and this will bolster overall performance. A strong Hong Kong economy bodes well for advertising and circulation. In addition, the SCMP is expected to benefit from higher advertising rates.

The future is not without challenges. Circulation is under pressure. Readers and advertisers have more choices than ever before. Advertising revenues from business notices are at risk given a pending change in Hong Kong Exchange listing rules. Cost pressures from rising newsprint prices, salaries and rent remain a concern.

EBITDA margin



Notes: 2004 Group figures were restated to exclude retailing

The Group is responding to these challenges by building an editorial team that is committed to the highest standards of excellence, expanding and enhancing print and online platforms, creating products that provide advertisers with more choices to reach an affluent and influential audience as well as transforming editorial and commercial efforts to better serve readers and advertisers.

The success of these initiatives rests on a leadership team that is rethinking the way content is delivered, the way business is conducted and how to enhance the value of the South China Morning Post brand; a business that derives strength from distinctive content that attracts quality readership and advertising. Given the achievements of 2005 and steps to be taken in 2006, the Group is well-positioned to transform and grow the business long-term.

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