



Management Report

The SCMP Group Limited (Group) delivered a solid financial performance for the fiscal year ended 31 December 2006. *South China Morning Post (SCMP)*, the Group's flagship publication and main contributor to revenues and profit, achieved revenue growth in a competitive market. The focus throughout the year was to strengthen the core publishing business to create shareholder value.

Hong Kong reported GDP growth of 6.8% in 2006, down slightly from 7.5% in 2005. A strong economy produced a 7.3% growth in ad spend in all media (based on gross rates) for a total of \$49 billion. The market share of the newspaper industry was 33% of that total, second only to television at 39%. New media had less than a 3% share of the Hong Kong advertising market.

Economic expansion and a corresponding rise in ad spend produced significant growth in display advertising and maintained recruitment advertising at 2005 levels. A record breaking year in mainland IPOs on the Hong Kong Stock Exchange fuelled a rise in notices advertising.

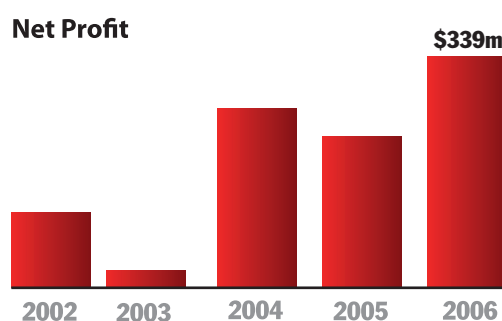
Financial Review

The Group announced a 37% rise in profit attributable to shareholders for the financial year ended 31 December 2006, the highest level in six years.

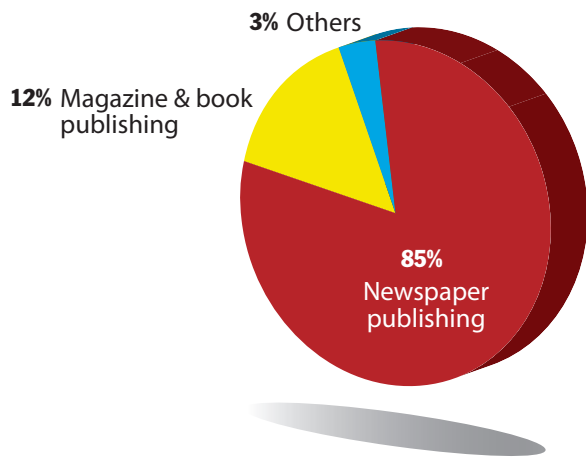
Group revenue rose 8% to \$1.2 billion, compared to \$1.1 billion in 2005. Net profit attributable to shareholders reached \$338.6 million, compared with \$246.4 million in 2005.

Five Years of Growth

(HK\$ millions)



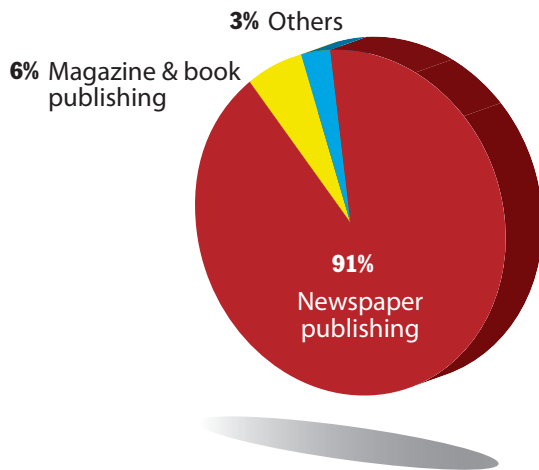
Revenues



Increases in staff, production, rental and utilities expenses were offset by savings in other operating expenses and lower depreciation. Production costs rose 5% as a result of newsprint cost, while newsprint consumption fell 2% due to the efficiency of new printing presses and better control of ad ratios. Rental and utilities rose 14% as a result of lease renewals, rates and utility expenses of vacant properties for lease and construction of billboards.

Publishing revenues grew 9% and accounted for 97% of revenue. Newspaper circulation was stable in the first half and dropped 2% in the second half. Display advertising rose 10%. Classified advertising grew 13% of which recruitment revenue increased 1% despite a much larger drop in positions advertised in recruitment publications, and notices revenue increased 42%.

Operating Profit From Principal Activities

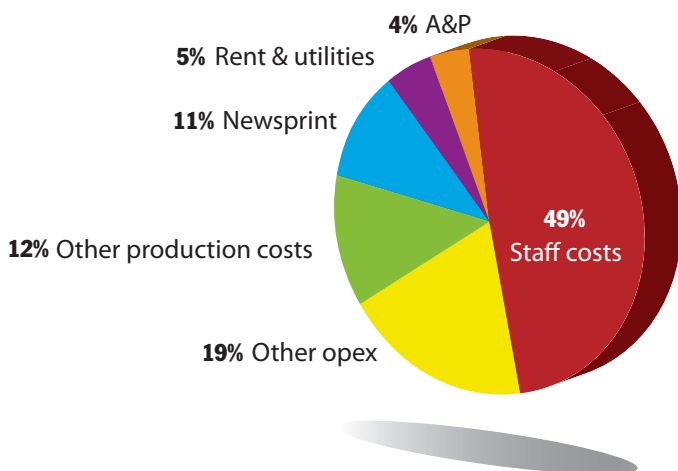


The Magazine Division posted an 83% increase in net profit as a result of the strong performance of *Cosmopolitan* and *Harper's Bazaar* and cost cutting at unprofitable titles.

Non-publishing businesses made a positive contribution except for Video and Film Post-production. Rental income from investment properties increased due to contribution from billboards. The operating profit from investment properties of \$52.7 million includes a revaluation surplus of \$40.1 million compared with \$50.4 million in 2005.

The operating loss of \$16.5 million in Video and Film Post-production includes a provision for asset impairment of \$12.5 million relating to the Guangzhou operation. The Hong Kong operation became profitable following a restructuring in 2005. Finally, net profit for Music Publishing rose 29% with the release of new DVDs & VCDs and improved royalty income.

Cost Structure



Operational Overview

This year was a challenging one on the operational front for the Group. The print media industry faced intense competition. The free Chinese dailies once again cut into paid newspaper circulation (although *SCMP* was not affected), some women's titles engaged in a cover price war and new media becomes increasingly popular especially among young adults.

Last year's results were made possible by the strategic direction we have taken the past few years to focus on our publishing business and optimize it. Editorial changes were made to enhance China and business news coverage. We reinforced our premium readership and retooled and sharpened our sales strategy.

On the advertising front, classified advertising produced a strong performance, supported by a rise in notices due to listings by mainland companies on the Hong Kong Stock Exchange. Display advertising posted strong gains. Magazine profitability rose solidly despite a saturated market.

SCMP.com celebrated its tenth anniversary in 2006, a year spent on the design and development of a new multimedia website. The results of this investment will be seen in 2007 when the site is relaunched.

Corporate Social Responsibility (CSR)

During the year, the Group stepped up CSR efforts. The initiatives are described in more detail in the CSR section of this report.

Internal Developments

The Group improved internal communications this year. To this end the quarterly company newsletter was enhanced and a series of "town hall" meetings were held. These town hall meetings were well received by staff and the program is to be expanded.

Outlook

In 2007, the Hong Kong economy is expected to grow, but at a more moderate pace than last year. The government forecasts GDP growth at 4.5% to 5%. This favorable economic environment should benefit the publishing business, which derives revenues primarily from advertising.

Circulation is expected to be stable, although it is declining for the industry as a whole. Display advertising should outperform the market due to the attractiveness of the readership profile of the newspaper and magazine titles. The editorial coverage of the newspaper will be strengthened with a focus on China and business coverage. The revamp of websites and launch of new products will further enhance digital capabilities and advertising opportunities.

There are significant risks to ongoing business growth. The Hong Kong Stock Exchange is phasing out the requirement for listed companies to publish announcements in newspapers in mid-2007. The volatile nature of revenue from IPOs, which was a major growth driver in 2006, is outside the control of management. The online trend in recruitment advertising will continue to have an effect on print recruitment advertising.

The focus in 2007 and beyond is to build on the strengths of the core publishing business. There is still much that can be done to generate reliable profits and cash flow. In addition, the prudent development of new multimedia products and business models are the future growth drivers.

A Final Word

As can be seen throughout this Management Report, SCMP has not rested on its laurels. Everyone has pressed forward in 2006 and this activity will carry into 2007. Clearly, the Group faces a changing and competitive environment. The Group intends to address these challenges and a strategic plan is in place to deliver results for both the traditional and new media businesses.

SCMP appreciates the loyalty of its shareholders and looks forward to delivering another solid year of performance.

Nancy Valiente

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