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SCMP

SCMP Group Limited

南華早報集團有限公司 *

(Incorporated in Bermuda with limited liability) (Stock Code: 583)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

FINAL RESULTS

The Directors of SCMP Group Limited (the "Company") are pleased to announce the consolidated final results of the Company and its group of companies (the "Group") for the year ended 31 December 2012 as follows:

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Notes	**31 December 2012 *HK$'000***	31 December 2011 *HK$'000* *(Restated)*	1 January 2011 *HK$'000* *(Restated)*
ASSETS				
Non-current assets				
Property, plant and equipment	*3*	**521,674**	544,064	566,324
Investment properties	*4*	**1,633,200**	1,462,550	1,224,900
Intangible assets		**122,825**	19,589	15,690
Deposits paid for property, plant and equipment		**38,676**	-	-
Investment in associates		**57,746**	53,870	57,478
Available-for-sale financial assets		**225,241**	190,252	267,965
Defined benefit plan's assets		**63,131**	62,429	56,400
Deferred income tax assets		**272**	429	-
		2,662,765	2,333,183	2,188,757
Current assets				
Inventories		**23,138**	26,408	20,813
Accounts receivable	*5*	**275,162**	244,224	195,618
Prepayments, deposits and other receivables		**17,375**	11,746	11,226
Amount due from an associate		**-**	39	61
Short-term bank deposits		**25,917**	76,117	-
Cash and bank balances		**344,115**	324,818	432,663
		685,707	683,352	660,381
Total assets		**3,348,472**	3,016,535	2,849,138

CONSOLIDATED BALANCE SHEET (continued)
As at 31 December 2012

	Notes	**31 December 2012** ***HK$'000***	31 December 2011 *HK$'000* *(Restated)*	1 January 2011 *HK$'000* *(Restated)*
EQUITY				
Capital and reserves				
Share capital	*6*	**156,095**	156,095	156,095
Reserves		**2,756,152**	2,500,111	2,310,743
Proposed dividend		**70,248**	62,438	62,438
		2,826,400	2,562,549	2,373,181
Shareholders' funds		**2,982,495**	2,718,644	2,529,276
Non-controlling interests		**42,129**	22,785	21,855
Total equity		**3,024,624**	2,741,429	2,551,131
LIABILITIES				
Non-current liabilities				
Deferred income tax liabilities		**92,977**	83,001	83,876
		92,977	83,001	83,876
Current liabilities				
Accounts payable and accrued liabilities	*7*	**183,659**	158,737	163,102
Amount due to associates		**2,615**	2,864	3,171
Subscriptions in advance		**26,689**	24,870	23,041
Current income tax liabilities		**8,908**	5,634	24,817
Loan from a non-controlling shareholder		**9,000**	-	-
		230,871	192,105	214,131
Total liabilities		**323,848**	275,106	298,007
Total equity and liabilities		**3,348,472**	3,016,535	2,849,138
Net current assets		**454,836**	491,247	446,250
Total assets less current liabilities		**3,117,601**	2,824,430	2,635,007

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Revenue	2	**1,019,610**	946,083
Other income		**8,390**	11,826
Staff costs		**(382,585)**	(364,319)
Cost of production materials		**(170,587)**	(134,160)
Rental and utilities		**(25,588)**	(19,584)
Depreciation and amortisation		**(55,027)**	(52,588)
Advertising and promotion		**(38,736)**	(29,939)
Other operating expenses		**(157,797)**	(147,927)
Fair value gain on investment properties		**170,650**	237,650
Operating profit		**368,330**	447,042
Finance income		**4,818**	4,471
Share of profits of associates		**6,773**	1,492
Profit before income tax		**379,921**	453,005
Income tax expense	8	**(33,991)**	(30,154)
Profit for the year		**345,930**	422,851
Other comprehensive income/(loss)			
Fair value gain/(loss) on available-for-sale financial assets		**34,981**	(93,750)
Currency translation difference		**6,732**	(2,329)
Other comprehensive income/(loss) for the year, net of tax		**41,713**	(96,079)
Total comprehensive income for the year		**387,643**	326,772

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)
Year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000 (Restated)
Profit attributable to:			
Shareholders of the Company		**329,059**	409,921
Non-controlling interests		**16,871**	12,930
		345,930	422,851
Total comprehensive income attributable to:			
Shareholders of the Company		**370,772**	313,842
Non-controlling interests		**16,871**	12,930
		387,643	326,772
Earnings per share	*10*		
Basic and diluted		**21.08 cents**	26.26 cents
Dividends	*9*	**117,076**	124,876

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2012

	Attributable to shareholders of the Company							
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Contributed surplus** *HK$'000*	**Other Reserves** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*	**Non-controlling interests** *HK$'000*	**Total equity** *HK$'000*
Balance at 1 January 2011, as previously reported	156,095	40,971	865,672	175,200	1,199,086	2,437,024	21,855	2,458,879
Adjustment for change in accounting policy	-	-	-	4,404	87,848	92,252	-	92,252
Balance at 1 January 2011, as restated	156,095	40,971	865,672	179,604	1,286,934	2,529,276	21,855	2,551,131
Comprehensive income								
Profit for the year, as restated	-	-	-	-	409,921	409,921	12,930	422,851
Other comprehensive loss	-	-	-	(96,079)	-	(96,079)	-	(96,079)
Total comprehensive income / (loss)	-	-	-	(96,079)	409,921	313,842	12,930	326,772
Transactions with shareholders								
Employee share-based compensation benefits	-	-	-	402	-	402	-	402
Dividends	-	-	(62,438)	-	(62,438)	(124,876)	(12,000)	(136,876)
Total transactions with shareholders	-	-	(62,438)	402	(62,438)	(124,474)	(12,000)	(136,474)
Balance at 31 December 2011, as restated	156,095	40,971	803,234	83,927	1,634,417	2,718,644	22,785	2,741,429
Balance at 1 January 2012, as previously reported	**156,095**	**40,971**	**803,234**	**79,523**	**1,507,356**	**2,587,179**	**22,785**	**2,609,964**
Adjustment for change in accounting policy	**-**	**-**	**-**	**4,404**	**127,061**	**131,465**	**-**	**131,465**
Balance at 1 January 2012, as restated	**156,095**	**40,971**	**803,234**	**83,927**	**1,634,417**	**2,718,644**	**22,785**	**2,741,429**
Comprehensive income								
Profit for the year	**-**	**-**	**-**	**-**	**329,059**	**329,059**	**16,871**	**345,930**
Other comprehensive income	**-**	**-**	**-**	**41,713**	**-**	**41,713**	**-**	**41,713**
Total comprehensive income	**-**	**-**	**-**	**41,713**	**329,059**	**370,772**	**16,871**	**387,643**
Transactions with shareholders								
Employee share-based compensation benefits	**-**	**-**	**-**	**2,345**	**-**	**2,345**	**-**	**2,345**
Dividends	**-**	**-**	**-**	**-**	**(109,266)**	**(109,266)**	**(13,500)**	**(122,766)**
Non-controlling interest arising on business combination	**-**	**-**	**-**	**-**	**-**	**-**	**15,973**	**15,973**
Total transactions with shareholders	**-**	**-**	**-**	**2,345**	**(109,266)**	**(106,921)**	**2,473**	**(104,448)**
Balance at 31 December 2012	**156,095**	**40,971**	**803,234**	**127,985**	**1,854,210**	**2,982,495**	**42,129**	**3,024,624**

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ADOPTION OF NEW/REVISED HKFRS

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and available-for-sale financial assets.

(b) Changes in accounting policy and disclosures

(i) The following amendments to standards that are relevant to the Group are mandatory for the first time for the financial year beginning 1 January 2012.

HKAS 12 'Income Taxes'

In December 2010, the HKICPA amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

The Group has adopted this amendment retrospectively for the financial year ended 31 December 2012 and the effects of adoption are disclosed as follows.

As disclosed in Note 4, the Group has investment properties measured at their fair values totalling HK$1,462,550,000 as of 1 January 2012 (HK$1,224,900,000 as of 1 January 2011). As required by the amendment, the Group has re-measured the deferred tax relating to investment properties according to the tax consequence on the presumption that they are recovered entirely by sale retrospectively. The comparative figures for 2011 have been restated to reflect the change in accounting policy, as summarized below.

Effect on consolidated balance sheet	**31 December 2012**	31 December 2011	1 January 2011
	HK$'000	*HK$'000*	*HK$'000*
Decrease in deferred tax liabilities	**159,622**	131,465	92,252
Increase in asset revaluation reserve	**4,404**	4,404	4,404
Increase in retained profits	**155,218**	127,061	87,848

Effect on consolidated income statement	**For the year ended 31 December**	
	2012	2011
	HK$'000	*HK$'000*
Decrease in income tax expense	**28,157**	39,213
Increase in net profit attributable to shareholders of the Company	**28,157**	39,213
Increase in basic and diluted earnings per share	**1.80 cents**	2.51 cents

(ii) New standards, amendments and interpretations, that are relevant to the Group, have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted.

1. BASIS OF PREPARATION AND ADOPTION OF NEW/REVISED HKFRS (continued)

(b) Changes in accounting policy and disclosures (continued)

	Applicable for accounting periods beginning on / after
HKFRS 7 and HKFRS 9 (amendments), 'Mandatory effective date and transition disclosures'	1 January 2015
HKFRS 9, 'Financial Instruments'	1 January 2015
HKFRS 10, 'Consolidated Financial Statements'	1 January 2013
HKFRS 12, 'Disclosure of Interests in Other Entities'	1 January 2013
HKFRS 13, 'Fair Value Measurements'	1 January 2013
HKAS 1 (amendment), 'Presentation of Items of Other Comprehensive Income'	1 July 2012
HKAS 19 (amendment), 'Employee Benefits'	1 January 2013
HKAS 27 (revised 2011), 'Separate financial statements'	1 January 2013
HKAS 28 (revised 2011), 'Associates and Joint Ventures'	1 January 2013
HKAS 32 (amendment), 'Financial instruments: Presentation' on asset and liability offsetting	1 January 2014

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

2. REVENUE AND SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Chief Executive Officer of the Group, who reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The Group has three reportable segments: newspaper, magazine and property. Newspaper segment is engaged in the publication of *South China Morning Post*, *Sunday Morning Post* and other related print and digital publications. It derives its revenue mainly from advertising and sales of newspapers. Magazine segment is engaged in the publication of various magazines in Chinese language and related print and digital publications. Its revenue is derived from advertising and sales of magazines. Property segment holds various commercial and industrial properties in Hong Kong. It also owns advertising billboards for outdoor advertising. It derives revenue through leasing out its properties and billboards.

The chief operating decision-maker assesses the performance of the operating segments based on a number of measures, including adjusted EBITDA (defined as earnings before interest, tax, depreciation and amortisation, other income and fair value gain on investment properties) and profit or loss after tax. The Group considers that the measurement principles for profit or loss after tax are most consistent with those used in measuring the corresponding amounts in the Group's financial statements. Hence, profit or loss after tax is used for reporting segment profit or loss.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that interest in the profit or loss of an associate is accounted for on the basis of dividend received or receivable in segment profit or loss while such interest is accounted for under the equity method in the Group's consolidated financial statements.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different marketing strategies. Transactions between reportable segments are accounted for on arm's length basis.

2. REVENUE AND SEGMENT INFORMATION (continued)

Turnover consists of revenue from all of the Group's reportable segments, which comprise newspaper, magazine and property, as well as other segments whose contributions to the Group's revenue and profit or loss are below the quantitative threshold for separate disclosures. The turnover for the year ended 31 December 2012 and 2011 were HK$1,019,610,000 and HK$946,083,000 respectively.

Revenue from newspapers, magazines and other publications included revenue of HK$4,989,000 (2011: HK$4,261,000) arising from exchanges of goods or services with third parties.

Substantially all the activities of the Group are based in Hong Kong and below is segment information by reportable segments:

(a) Reportable segment profit or loss

For the year ended 31 December 2012

	Newspaper *HK$'000*	Magazine *HK$'000*	Property *HK$'000*	All other *HK$'000*	Total *HK$'000*
Total segment revenue	**773,640**	**218,846**	**35,885**	**-**	**1,028,371**
Inter-segment revenue	**(981)**	**(5,770)**	**(2,010)**	**-**	**(8,761)**
Revenue from external customers	**772,659**	**213,076**	**33,875**	**-**	**1,019,610**
Finance income	**3,306**	**13**	**-**	**1,499**	**4,818**
Depreciation and amortisation	**(45,149)**	**(4,350)**	**(5,528)**	**-**	**(55,027)**
Income tax	**(17,118)**	**(11,259)**	**(4,059)**	**-**	**(32,436)**
Reportable segment profit	**97,492**	**54,173**	**188,966**	**4,322**	**344,953**

For the year ended 31 December 2011

	Newspaper *HK$'000*	Magazine *HK$'000*	Property *HK$'000* *(Restated)*	All other *HK$'000*	Total *HK$'000*
Total segment revenue	779,158	142,151	32,318	-	953,627
Inter-segment revenue	(672)	(5,331)	(1,541)	-	(7,544)
Revenue from external customers	778,486	136,820	30,777	-	946,083
Finance income	2,964	12	-	1,495	4,471
Depreciation and amortisation	(45,882)	(1,216)	(5,490)	-	(52,588)
Income tax	(18,195)	(8,085)	(3,874)	-	(30,154)
Reportable segment profit	120,523	43,236	255,553	4,502	423,814

(b) Reportable segment information

For the year ended 31 December 2012

	Newspaper *HK$'000*	Magazine *HK$'000*	Property *HK$'000*	All other *HK$'000*	Total *HK$'000*
Capital expenditure	**70,938**	**2,280**	**363**	**-**	**73,581**

For the year ended 31 December 2011

Capital expenditure	32,290	1,332	630	-	34,252

2. **REVENUE AND SEGMENT INFORMATION (continued)**

(c) Reconciliation of reportable segment profit or loss to profit for the year

	For the year ended 31 December	
	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Profit for reportable segments	**340,631**	419,312
Profit for all other segments	**4,322**	4,502
	344,953	423,814
Reconciling items:		
Share of profits of associates under equity method of accounting	**6,773**	1,492
Dividend received from an associate	**(4,241)**	(2,455)
Deferred tax on undistributed profit of an associate	**(1,555)**	-
	977	(963)
Profit for the year	**345,930**	422,851

3. **PROPERTY, PLANT AND EQUIPMENT**

	Leasehold land and buildings	**Plant & machinery**	**Other fixed assets**	**Assets in progress**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January 2012	**307,927**	**167,228**	**64,140**	**4,769**	**544,064**
Additions	**-**	**10,392**	**11,233**	**2,766**	**24,391**
Disposals	**-**	**(1)**	**(443)**	**-**	**(444)**
Transfer	**-**	**3,820**	**3,195**	**(7,015)**	**-**
Depreciation	**(9,753)**	**(23,322)**	**(15,250)**	**-**	**(48,325)**
Translation differences	**-**	**-**	**3**	**-**	**3**
Acquisition of a subsidiary	**-**	**-**	**1,985**	**-**	**1,985**
Net book value at 31 December 2012	**298,174**	**158,117**	**64,863**	**520**	**521,674**
At 31 December 2012					
Cost	**420,375**	**776,042**	**147,874**	**520**	**1,344,811**
Accumulated depreciation and impairment losses	**(122,201)**	**(617,925)**	**(83,011)**	**-**	**(823,137)**
Net book value at 31 December 2012	**298,174**	**158,117**	**64,863**	**520**	**521,674**

4. INVESTMENT PROPERTIES

	31 December 2012 *HK$'000*	31 December 2011 *HK$'000*
Opening balance	**1,462,550**	1,224,900
Fair value gain	**170,650**	237,650
Ending balance	**1,633,200**	1,462,550

5. ACCOUNTS RECEIVABLE

The Group allows an average credit period of 7 to 90 days to its trade customers and an ageing analysis of accounts receivable is as follows:

	2012		2011	
	Balance *HK$'000*	**Percentage** *%*	Balance *HK$'000*	Percentage *%*
Current	**153,240**	**55.0**	134,640	54.3
Less than 30 days past due	**21,144**	**7.5**	21,570	8.7
31 to 60 days past due	**55,135**	**19.8**	52,352	21.1
61 to 90 days past due	**33,940**	**12.2**	29,411	11.9
Over 90 days past due	**15,278**	**5.5**	9,889	4.0
Total	**278,737**	**100.0**	247,862	100.0
Less: Allowance for impairment	**(3,575)**		(3,638)	
	275,162		244,224	

6. SHARE CAPITAL

	2012 *HK$'000*	2011 *HK$'000*
Authorised:		
5,000,000,000 shares of HK$0.10 each	**500,000**	500,000
Issued and fully paid:		
1,560,945,596 (2011: 1,560,945,596) shares of HK$0.10 each	**156,095**	156,095

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are the following accounts payable by invoice date:

	2012		2011	
	Balance	**Percentage**	Balance	Percentage
	HK$'000	***%***	*HK$'000*	*%*
0 to 30 days	**22,375**	**61.7**	26,302	76.2
31 to 60 days	**9,487**	**26.2**	5,489	15.9
61 to 90 days	**3,541**	**9.8**	2,158	6.2
Over 90 days	**829**	**2.3**	586	1.7
Total accounts payable	**36,232**	**100.0**	34,535	100.0
Accrued liabilities	**147,427**		124,202	
Total accounts payable and accrued liabilities	**183,659**		158,737	

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which Group operates.

	2012	2011
	HK$'000	*HK$'000*
		(Restated)
Current income tax		
- Hong Kong profits tax	**37,005**	34,604
- Over provision in prior year	**(3,454)**	(3,391)
- Overseas taxation	**424**	245
Deferred income tax		
- Other deferred tax credits	**(3,368)**	(1,776)
- Under provision in prior year	**3,384**	472
	33,991	30,154

9. DIVIDENDS

(a) Dividends attributable to the year:

	2012	2011
	HK$'000	*HK$'000*
Interim dividend paid, HK3 cents per share (2011: HK4 cents)	**46,828**	62,438
Final dividend proposed but not yet recognised, HK4.5 cents per share (2011: HK4 cents)	**70,248**	62,438
	117,076	124,876

Note: The proposed final dividend distribution of HK$70,248,000 for the year ended 31 December 2012 is to be paid out of the Company's retained profits.

9. DIVIDENDS (continued)

(b) Dividends paid during the year:

	2012	2011
	HK$'000	*HK$'000*
Interim dividend in respect of 2012, HK3 cents per share	**46,828**	-
Final dividend in respect of 2011, HK4 cents per share	**62,438**	-
Interim dividend in respect of 2011, HK4 cents per share	**-**	62,438
Final dividend in respect of 2010, HK4 cents per share	**-**	62,438
	109,266	124,876

10. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit for the year attributable to shareholders of HK$329,059,000 (2011: HK$409,921,000) and 1,560,945,596 (2011: 1,560,945,596) shares in issue during the year.

As at 31 December 2012 there were 9,400,000 share options (2011: 13,000,000 share options) outstanding that enable the holders to subscribe for shares in the Company. These share options could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they are antidilutive for the years presented.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results of the Group

The Group's consolidated operating results for the years ended 31 December 2012 and 2011 were as follows:

(HK$ millions, except per share amounts)	**For the year ended 31 December** **2012**	2011 *(Restated)*	% Change
Revenue	**1,019.6**	946.1	8
Staff costs	**(382.6)**	(364.3)	5
Production costs	**(170.6)**	(134.2)	27
Rental and utilities	**(25.6)**	(19.6)	31
Advertising and promotions	**(38.7)**	(29.9)	29
Other operating expenses	**(157.8)**	(147.9)	7
Operating costs before depreciation and amortisation	**(775.3)**	(695.9)	11
Depreciation and amortisation	**(55.0)**	(52.6)	5
Adjusted operating profit^	**189.3**	197.6	(4)
Other income	**8.3**	11.7	(29)
Fair value gain on investment properties	**170.7**	237.7	(28)
Operating profit	**368.3**	447.0	(18)
Net interest income	**4.8**	4.5	7
Share of profits of associates	**6.8**	1.5	*
Taxation	**(34.0)**	(30.2)	13
Profit for the year	**345.9**	422.8	(18)
Non-controlling interests	**(16.8)**	(12.9)	30
Profit attributable to shareholders	**329.1**	409.9	(20)
Earnings per share (HK cents)	**21.1**	26.3	(20)

* *represents an increase in excess of 100%*

^ *Adjusted operating profit is defined as operating profit before other income and fair value gain on investment properties*

Net profit for the year was $329.1 million, compared with $409.9 million in 2011. Excluding the fair value gain on investment properties of $170.7 million in 2012 and $237.7 million in 2011, net profit from normal operations decreased 8% from $172.2 million to $158.4 million.

Revenue was $1,019.6 million, $73.5 million or 8% higher than last year. The growth was driven by new revenue sources, including the newly acquired *ELLE* magazine and the contract printing business, and higher revenue contribution from Magazine publishing business. Due to our continuous investment on new digital business and lower profit margin of contract printing business, although we recorded higher revenue than last year, the Group's profits and earnings from normal operations dropped in 2012. Management believes that these new investments will bring in solid profit contribution to the Group on a long term basis.

Total operating costs and expenses increased 11% or $81.8 million.

Staff costs rose 5% or $18.3 million due to increase in headcount, retirement benefits and recruitment costs. Average headcount increased 8% from 825 to 889. Production costs increased 27% or $36.4 million partly due to increase in newsprint consumption for contract printing (+$11.5 million), which was covered by higher contract printing revenue. Production cost for Magazine publishing business went up largely attributable to *ELLE* operation (+$19.0 million).

Other than inclusion of *ELLE*'s operating expenses in the second half of the year, we also spent more advertising and promotions on the marketing campaigns for the launch of *scmp.com* and *smartjob.com* during the year. Other operating expenses raised by 7% or $9.9 million. This includes increase in legal and professional fee incurred for editorial workflow consultation and the acquisition of new business. Sales commission and volume discount also rose to drive revenue growth in Newspaper display advertising and Magazine publishing business.

FINANCIAL REVIEW BY BUSINESS

Newspaper Publishing

Revenue of the newspaper division dropped $5.6 million or 1% to $773.6 million. Net profit dropped 19% to $97.5 million as compared to 2011.

Revenue from advertising and marketing services decreased 2%. This was due to the significant drop in the number of IPOs during the year, which led to lower business notice revenue. Revenue from recruitment services decreased 16%, as the recruitment market was adversely affected by the Euro crisis and the slow down of China economy. The lower revenues from IPO and recruitment services were mostly compensated by the new revenue source generated from the contract printing service and stronger advertising revenue from *Post Magazine* and special reports. Online revenue saw a healthy growth, with the iPad app showing the strongest growth among our online products.

Though the shortfall in newspaper recruitment advertising and IPO revenues was partly compensated by the revenue from new contract printing business, its profit margin was lower than traditional print newspaper advertising. In addition, our investment on new digital business continues. As a result, newspaper profits and earnings from normal operations dropped.

The unaudited second half 2012 circulation figures of *South China Morning Post* and *Sunday Morning Post* were 107,426 and 89,669 respectively, increased by 4% and 12% respectively as compared with same period last year.

Magazine Publishing

Net profit for the division grew 23% to $37.3 million in 2012. Total advertising revenue from *Cosmopolitan*, *Harper's Bazaar* and *CosmoGIRL!* magazines outperformed a year ago by 13%. There was a considerable growth in advertising revenues across all market segments.

Property

2012 net profit included a revaluation gain of $170.7 million (2011: $237.7 million). Rental income increased 11% to $35.9m in 2012 mainly due to higher income from the advertising boards and renewed rental from other properties. Management continues its intention of holding TV City for long-term investment and is pursuing different options to enhance value of the property and discussing with relevant parties in that regard.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's short-term bank deposits with original maturity of more than three months are held in Renminbi. Cash and cash equivalents are held predominantly in Hong Kong dollars. Apart from the deposits in Renminbi, the Group has no significant exposure to foreign exchange fluctuations.

As at 31 December 2012, the Group had total borrowing of $9.0 million, which was an unsecured short-term loan from a non-controlling shareholder. The loan is repayable within one year. The Group had no gearing (after deducting cash and cash equivalents). The ratio of current assets to current liabilities was 3.0 times.

The Group managed to maintain a very strong cash position and expects its cash and cash equivalents, cash generated from operations and funds available from external sources to be adequate to meet its working capital requirements, to finance planned capital expenditures and to pay dividends.

Operating Activities

The newspaper publishing business continued to be the major source of the Group's cash flow from operating activities. Net cash generated from operating activities for the year ended 31 December 2012 was $217.2 million, compared with $145.9 million for the same period last year due to stronger cash flows from the Group's business and lower tax payment.

Investment Activities

Net cash outflow from investing activities for the year was $109.4 million, which includes the acquisition cost of *ELLE* of $75.1 million, capital expenditure of $71.7 million offset by decrease in short-term bank deposits of $50.2 million, which matured during the year. Capital expenditure for the year includes a $36.6 million deposit paid for new printing press, which will be used to support the Group's contract printing business in 2013. The remaining balance was mainly spent on production equipment, *scmp.com* revamp and investment in computer hardware and software to support the Group's business growth.

Financing Activities

Net cash used in financing activities was $113.8 million. During the year, $109.3 million dividend was paid to the shareholders of the Company and $13.5 million was paid to a non-controlling interest shareholder of a subsidiary. A short-term loan of $9.0 million was obtained from a non-controlling shareholder to support the operation of *ELLE*'s business.

OUTLOOK

We anticipate that the financial uncertainty of the past few years will continue into 2013, both in Hong Kong and global markets, but we remain cautiously optimistic both in the economy and in our own ability to weather the uncertainty.

The news and magazine publishing industries remain sensitive to the changes in technology, platforms, devices, and audience behaviour, and we are experiencing a media economy that is being repriced. Nonetheless, we will continue to strengthen our product portfolio and brands as well as seek ways to diversify our revenue sources to ensure we maintain a solid performance. Our readership and circulation figures for our core newspaper and magazine products remain strong and we are able to leverage the strength of our brands to grow new sources of revenue in events, custom publishing, new platform editions and other related products.

The acquisition of *ELLE* has been very positive for the Group in terms of revenue, market share and other synergies. We will continue to look for other acquisition opportunities that are compatible with our core competencies and serve to enhance our content and revenue potential.

Building on the continued success of our contract printing, we also will be looking for more opportunities to maximise our print capacity to optimise income from our presses. The AM730 contract will continue to be a significant and stable revenue source for us.

Our aim for 2013 is to further strengthen our portfolio of digital and print products, seek more effective ways to monetise both, and to further grow our events and marketing services businesses. We have made great progress in the past year in terms of digital development and will continue our path of growth with the introduction of more digital subscription platforms for *scmp.com*, from tablet and mobile apps to expanded online content. We intend to continue looking for ways to enhance monetisation of our digital products through the creation of creative new advertising options and through optimisation of our pageviews and impressions. We plan to grow beyond local audiences and appeal to overseas audiences through more global reach marketing and tailored subscription bundles. We also plan to expand *scmp.com* to corporate and hospitality channels in Hong Kong and overseas.

Our flagship title, the *South China Morning Post* will continue to be strengthened in content across both digital and print, and we foresee sustained advertising and subscription demand for Hong Kong's premier quality English language newspaper. In terms of advertising and marketing sales, while we believe there will be some growth in some of the softer sectors we've seen in 2012, such as the retail, property and IPO market, we remain conservative in our outlook. That said, we will be ready with a range of tailored products to capitalise on the demand when it returns.

In 2013 we plan more enhancements to our recruitment products *smartjob.com* and *Classified Post*, including introducing a new databank system to enhance database profiling and job matching efficiency. We will also expand our education business to events, conference and supplement publishing.

As we enter our 110th Anniversary year, a timely and landmark project that has been in development during 2012 will come to fruition. Scheduled for a launch in the second half of the year, *SCMPChinese.com* will be our first foray into a Chinese language news site. *SCMPChinese.com* finally gives our company a meaningful product to reach a vast Chinese audience already hungry for our content, as evidenced by the demand for Greater China Outlook, our current Chinese language sub-section in *scmp.com*. This highly anticipated news portal targets China's business elite and will feature translations of our core news and columnists and a significant portion of new original Chinese content, from insights and commentary to in-depth exclusive interviews and special features.

We enter 2013 with a well prepared and digitally savvy talent pool, and will see the positive impact of new hires and operational restructures that have been put in place over the past year to meet a stronger digital suite of products. In addition to skills training at every level, we began implementing a series of Leadership Development Programmes in November 2012, leveraging the expert advice of an external professional development consultancy to help us build a robust pipeline of future leaders within the Company.

With measures to enhance the strength of our talent pool and a wide range of product and service offerings in hand, we are well poised to meet the demands of our readers and advertisers both locally and overseas, and are confident that our brands will continue to build momentum throughout the year.

STAFF

The Company's remuneration policy is established to attract, motivate and retain high performing individuals. Salaries of employees are maintained at competitive levels while discretionary bonuses are granted based on individual and business performance. Other employee benefits include provident fund, medical insurance and share option scheme. As at 31 December 2012, the Group had 939 employees compared with 838 as at 31 December 2011.

DIVIDEND

Directors recommend to pay a final dividend of HK4.5 cents (2011: HK4 cents) per share from the retained profits. This final dividend, together with the interim dividend of HK3 cents per share, will make a total dividend of HK7.5 cents per share for the year ended 31 December 2012. The proposed final dividend, if approved, will be paid on Friday, 14 June 2013 to shareholders whose names appear on the Register of Members of the Company on Thursday, 6 June 2013.

BOOK CLOSURE

For determining the eligibility to attend and vote at the annual general meeting of the Company ("AGM") to be held on Wednesday, 29 May 2013, the Register of Members of the Company will be closed from Thursday, 23 May 2013 to Tuesday, 28 May 2013, both days inclusive. All transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited of Room no. 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 22 May 2013 so as to qualify for attending and voting at the AGM.

For determining the entitlement to the proposed final dividend, the Register of Members of the Company will also be closed from Wednesday, 5 June 2013 to Thursday, 6 June 2013, both days inclusive. All transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Computershare Hong Kong Investor Services Limited of Room no. 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 4 June 2013 so as to qualify for the proposed final dividend, if approved at the AGM.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Board of Directors and Management are committed to upholding the Group's obligations to shareholders. We regard the promotion and protection of shareholders' interests as one of our priorities and keys to success.

During the year, the Group's corporate governance practices were governed by the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and such amendments and revisions under the Corporate Governance Code effective from 1 April 2012 (collectively, the "Stock Exchange Code"). During the year, the Group's corporate governance practices have complied with the applicable code provisions of the Stock Exchange Code. The Group also adheres to the recommended best practices of the Stock Exchange Code insofar as they are relevant and practicable.

A detailed Corporate Governance Report setting out the Group's framework of governance and explanations about how the provisions of the Stock Exchange Code have been applied will be included in the Company's Annual Report 2012.

AUDIT COMMITTEE

The Company established an Audit Committee in 1998 with written terms of reference. The Audit Committee currently comprises three Independent Non-executive Directors, namely Dr. the Hon. Sir David Li Kwok Po as Committee Chairman, Mr. Ronald J. Arculli and Mr. Wong Kai Man. Two meetings were held by the Audit Committee during the year. The Audit Committee has reviewed the Group's audited final results for the year ended 31 December 2012.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee in 2000 with written terms of reference. During the year, the Remuneration Committee comprises two Independent Non-Executive Directors, namely Mr. Wong Kai Man as Committee Chairman and Mr. Ronald J. Arculli, and a Non-executive Director, Mr. Kuok Khoon Ean. Mr. Kuok Khoon Ean resigned as a Non-executive Director and a member of the Remuneration Committee with effect from 18 January 2013. One meeting was held by the Remuneration Committee during the year.

Ms. Kuok Hui Kwong, an Executive Director of the Company, has been appointed as a member of the Remuneration Committee with effect from 25 March 2013.

NOMINATION COMMITTEE

The Company established a Nomination Committee in 2005 with written terms of reference. The Nomination Committee currently comprises two Independent Non-Executive Directors, namely Mr. Ronald J. Arculli as Committee Chairman and Mr. Wong Kai Man, and the Non-executive Chairman, Dr. David J. Pang. One meeting was held by the Nomination Committee during the year.

STRATEGY COMMITTEE

The Company established a Strategy Committee in 2010 with written terms of reference. The Strategy Committee currently comprises an Executive Director, Ms. Kuok Hui Kwong as Committee Chairman, the Non-executive Chairman, Dr. David J. Pang and an Independent Non-executive Director, Dr. Fred Hu Zu Liu. Two meetings were held by the Strategy Committee during the year.

PUBLIC FLOAT

Kerry Media Limited ("KML") exercised its rights under the option agreements by giving notices to the Grantees (as defined in the announcement dated 27 February 2009 issued by KML) on 7 February 2013 to require the Grantees to exercise the options in full in respect of a total of 225,000,000 shares of the Company and deliver 225,000,000 shares of the Company to KML on or after the Final Return Date (as defined in the said announcement of KML). The Stock Exchange of Hong Kong Limited had indicated that, assuming there were no other changes to the shareholding structure of the Company, the Company's percentage of public float was regarded as having fallen to approximately 10.5871% on Final Return Date and the Company was required to suspend trading in the shares of the Company on 26 February 2013 until the minimum public float is restored. Trading in the shares of the Company was suspended with effect from 26 February 2013 until minimum public float is restored. Details of the public float status have been disclosed in the Company's announcements dated 17 January 2013, 7 February 2013, 25 February 2013 and 6 March 2013.

On behalf of the Board
David J. PANG
Chairman

Hong Kong, 25 March 2013

As at the date of this announcement, the Board comprises:

Non-Executive Directors
Dr. David J. Pang (Chairman), Mr. Roberto V. Ongpin (Deputy Chairman) and Tan Sri Dr. Khoo Kay Peng

Independent Non-Executive Directors
Mr. Ronald J. Arculli, Dr. Fred Hu Zu Liu, Dr. the Hon. Sir David Li Kwok Po and Mr. Wong Kai Man

Executive Director
Ms. Kuok Hui Kwong

** For identification purpose only*