SCMP Group Limited

南華早報集團有限公司 *

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

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013

## INTERIM RESULTS

The Directors of SCMP Group Limited (the "Company") are pleased to announce the unaudited interim results of the Company and its group of companies (the "Group") for the six months ended 30 June 2013. These results have been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and by the Audit Committee of the Company. The review report of the auditor will be included in the interim report sent to the shareholders of the Company.

## CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | **(Unaudited) 30 June 2013** ***HK$'000*** | (Restated) 31 December 2012 *HK$'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *3* | **558,443** | 521,674 |
| Investment properties | *4* | **1,693,000** | 1,633,200 |
| Intangible assets | | **121,131** | 122,825 |
| Deposits paid for property, plant and equipment | | **808** | 38,676 |
| Investment in associates | | **56,408** | 57,746 |
| Available-for-sale financial assets | | **194,834** | 225,241 |
| Defined benefit plan's assets | | **48,409** | 3,030 |
| Deferred income tax assets | | **181** | 272 |
| | | **2,673,214** | 2,602,664 |
| **Current assets** | | | |
| Inventories | | **21,141** | 23,138 |
| Accounts receivable | *5* | **232,679** | 275,162 |
| Prepayments, deposits and other receivables | | **25,591** | 17,375 |
| Amount due from an associate | | **11** | - |
| Short-term bank deposits | | **43,065** | 25,917 |
| Cash and bank balances | | **359,199** | 344,115 |
| | | **681,686** | 685,707 |
| **Total assets** | | **3,354,900** | 3,288,371 |

## CONDENSED CONSOLIDATED BALANCE SHEET (continued)

| | Notes | (Unaudited) 30 June 2013 HK$'000 | (Restated) 31 December 2012 HK$'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 6 | **156,106** | 156,095 |
| Reserves | | **2,792,893** | 2,696,051 |
| Proposed dividend | | **31,221** | 70,248 |
| | | **2,824,114** | 2,766,299 |
| Shareholders' funds | | **2,980,220** | 2,922,394 |
| Non-controlling interests | | **52,405** | 42,129 |
| **Total equity** | | **3,032,625** | 2,964,523 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **91,286** | 92,977 |
| | | **91,286** | 92,977 |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 7 | **184,016** | 183,659 |
| Amounts due to associates | | **2,819** | 2,615 |
| Subscriptions in advance | | **17,781** | 26,689 |
| Current income tax liabilities | | **17,373** | 8,908 |
| Loan from a non-controlling shareholder | | **9,000** | 9,000 |
| | | **230,989** | 230,871 |
| **Total liabilities** | | **322,275** | 323,848 |
| **Total equity and liabilities** | | **3,354,900** | 3,288,371 |
| **Net current assets** | | **450,697** | 454,836 |
| **Total assets less current liabilities** | | **3,123,911** | 3,057,500 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | (Unaudited) For the six months ended 30 June 2013 HK$'000 | 2012 HK$'000 (Restated) |
|---|---|---|---|
| **Revenue** | *2* | **509,096** | 458,122 |
| Other income | | **4,082** | 5,400 |
| Staff costs | | **(236,888)** | (188,450) |
| Cost of production materials | | **(77,628)** | (73,823) |
| Rental and utilities | | **(14,278)** | (10,486) |
| Depreciation and amortisation | | **(28,961)** | (26,522) |
| Advertising and promotion | | **(17,146)** | (12,852) |
| Other operating expenses | | **(76,669)** | (77,177) |
| Fair value gain on investment properties | | **59,568** | 122,100 |
| **Operating profit** | | **121,176** | 196,312 |
| Finance income | | **2,235** | 2,601 |
| Share of profits/(losses) of associates | | **2,236** | (178) |
| **Profit before income tax** | | **125,647** | 198,735 |
| Income tax expense | *8* | **(10,188)** | (14,543) |
| **Profit for the period** | | **115,459** | 184,192 |
| **Other comprehensive income** | | | |
| Item that will not be reclassified subsequently to profit or loss: | | | |
| Remeasurement of defined benefit plan obligation | | **52,718** | (12,218) |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Fair value (loss)/gain on available-for-sale financial assets | | **(30,404)** | 21,243 |
| Currency translation difference | | **(180)** | 5,087 |
| | | **(30,584)** | 26,330 |
| **Other comprehensive income for the period, net of tax** | | **22,134** | 14,112 |
| **Total comprehensive income for the period** | | **137,593** | 198,304 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

| | Notes | (Unaudited) For the six months ended 30 June 2013 HK$'000 | 2012 HK$'000 (Restated) |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Shareholders of the Company | | **105,183** | 177,656 |
| Non-controlling interests | | **10,276** | 6,536 |
| | | **115,459** | 184,192 |
| **Total comprehensive income attributable to:** | | | |
| Shareholders of the Company | | **127,317** | 191,768 |
| Non-controlling interests | | **10,276** | 6,536 |
| | | **137,593** | 198,304 |
| **Earnings per share** | *9* | | |
| Basic | | **6.74 cents** | 11.38 cents |
| Diluted | | **6.73 cents** | 11.38 cents |
| | | ***HK$'000*** | *HK$'000* |
| **Dividends** | *10* | **31,221** | 46,828 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information ("interim financial information") for the six months ended 30 June 2013 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Except as described below, the accounting policies and methods of computation used in the preparation of this interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2012.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The investment properties were valued by an independent professional valuer to determine their fair value as at 30 June 2013. The Group has adopted such valuation and recognised a fair value gain of HK$59,568,000 accordingly.

The following new/revised standards and amendment to existing standard are relevant to the Group and mandatory for the first time for the financial year beginning 1 January 2013:

HKAS 1 (amendment) 'Presentation of financial statements – Presentation of items of other comprehensive income'

HKAS 1 (amendment) require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

HKFRS 13 'Fair value measurement'

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in the interim report. The adoption of HKFRS 13 has no impact on the fair value measurements of the Group's assets and liabilities.

HKAS 19 (revised) 'Employee benefits'

HKAS 19 (revised) introduces a number of amendments to the accounting for defined benefit plans. Among them, HKAS 19 (revised) eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. HKAS 19 (revised) also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

There is a new term "remeasurements". This is made up of actuarial gains and losses, the difference between actual investment returns and the return implied by the net interest cost.

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

The Group has adopted this amendment retrospectively for the financial period ended 30 June 2013, with the accumulated effects of the change in accounting policy recognised in retained profits. The effects of adoption are disclosed as follows:

| | As previously reported *HK$'000* | Effect of adopting HKAS 19 (revised) *HK$'000* | As restated *HK$'000* |
|---|---|---|---|
| Condensed consolidated balance sheet as at 1 January 2012 | | | |
| Defined benefit plan's assets | 62,429 | (32,375) | 30,054 |
| Retained profits | 1,634,417 | (32,375) | 1,602,042 |
| Condensed consolidated balance sheet as at 31 December 2012 | | | |
| Defined benefit plan's assets | 63,131 | (60,101) | 3,030 |
| Retained profits | 1,854,210 | (60,101) | 1,794,109 |
| Condensed consolidated statement of comprehensive income for the six months ended 30 June 2012 | | | |
| Staff costs | 182,061 | 6,389 | 188,450 |
| Total comprehensive income attributable to shareholders of the Company | 210,375 | (18,607) | 191,768 |
| Basic earnings per share | 11.79 cents | (0.41 cents) | 11.38 cents |

## 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 and contract printing. 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 earnings before interest, tax, depreciation and amortisation (EBITDA) 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 in the annual financial statements for the year ended 31 December 2012 and note 1 above, 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, 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 six months ended 30 June 2013 and 2012 were HK$509,096,000 and HK$458,122,000 respectively.

The segment information for the six months ended 30 June 2013 and 2012 is as follows:

**(a) Reportable segment profit or loss**

| | (Unaudited) | | | | |
|---|---|---|---|---|---|
| **For the six months ended 30 June 2013** | **Newspaper** *HK$'000* | **Magazine** *HK$'000* | **Property** *HK$'000* | **Other** *HK$'000* | **Total** *HK$'000* |
| **Total segment revenue** | **365,489** | **124,696** | **23,170** | **-** | **513,355** |
| **Inter-segment revenue** | **(1,413)** | **(1,731)** | **(1,115)** | **-** | **(4,259)** |
| **Revenue from external customers** | **364,076** | **122,965** | **22,055** | **-** | **509,096** |
| **Reportable segment profit** | **5,572** | **34,564** | **73,594** | **2,240** | **115,970** |

| For the six months ended 30 June 2012 | Newspaper *HK$'000* (Restated) | Magazine *HK$'000* | Property *HK$'000* | Other *HK$'000* | Total *HK$'000* (Restated) |
|---|---|---|---|---|---|
| Total segment revenue | 370,444 | 74,263 | 17,572 | - | 462,279 |
| Inter-segment revenue | (376) | (2,776) | (1,005) | - | (4,157) |
| Revenue from external customers | 370,068 | 71,487 | 16,567 | - | 458,122 |
| Reportable segment profit | 31,952 | 21,517 | 131,344 | 2,190 | 187,003 |

**(b) Reconciliation of reportable segment profit or loss**

| | (Unaudited) For the six months ended 30 June | |
|---|---|---|
| | **2013** *HK$'000* | 2012 *HK$'000* (Restated) |
| Profit for reportable segments | **113,730** | 184,813 |
| Profit for other segments | **2,240** | 2,190 |
| | **115,970** | 187,003 |
| Reconciling items: | | |
| Share of profits/(losses) of associates under equity method of accounting | **2,236** | (178) |
| Dividend received from an associate | **(2,762)** | (2,633) |
| Deferred tax on undistributed profit of an associate | **15** | - |
| | **(511)** | (2,811) |
| Profit for the period | **115,459** | 184,192 |

## 3. PROPERTY, PLANT AND EQUIPMENT

| | (Unaudited) | | | | |
|---|---|---|---|---|---|
| | **Leasehold land and buildings** *HK$'000* | **Plant & machinery** *HK$'000* | **Other fixed assets** *HK$'000* | **Assets in progress** *HK$'000* | **Total** *HK$'000* |
| At 1 January 2013 | **298,174** | **158,117** | **64,863** | **520** | **521,674** |
| Additions | **-** | **235** | **3,514** | **56,506** | **60,255** |
| Depreciation | **(4,876)** | **(11,149)** | **(7,457)** | **-** | **(23,482)** |
| Disposals | **-** | **-** | **(4)** | **-** | **(4)** |
| Reclassification | **-** | **-** | **847** | **(847)** | **-** |
| **Net book value at 30 June 2013** | **293,298** | **147,203** | **61,763** | **56,179** | **558,443** |
| At 30 June 2013 | | | | | |
| Cost | **420,375** | **776,277** | **152,025** | **56,179** | **1,404,856** |
| Accumulated depreciation | **(127,077)** | **(629,074)** | **(90,262)** | **-** | **(846,413)** |
| **Net book value at 30 June 2013** | **293,298** | **147,203** | **61,763** | **56,179** | **558,443** |

## 4. INVESTMENT PROPERTIES

| | **(Unaudited) 30 June 2013** *HK$'000* | (Audited) 31 December 2012 *HK$'000* |
|---|---|---|
| Opening balance | **1,633,200** | 1,462,550 |
| Fair value gain | **59,568** | 170,650 |
| Additions | **232** | - |
| Ending balance | **1,693,000** | 1,633,200 |

## 5. ACCOUNTS RECEIVABLE

The Group allows an average credit period of 7 to 90 days to its trade customers. An ageing analysis of accounts receivable by due date is as follows:

| | **(Unaudited) 30 June 2013** | | (Audited) 31 December 2012 | |
|---|---|---|---|---|
| | **Balance** *HK$'000* | **Percentage** *%* | Balance *HK$'000* | Percentage *%* |
| Current | **133,070** | **56.3** | 153,240 | 55.0 |
| Less than 30 days past due | **57,498** | **24.4** | 21,144 | 7.5 |
| 31 to 60 days past due | **8,553** | **3.6** | 55,135 | 19.8 |
| 61 to 90 days past due | **26,006** | **11.0** | 33,940 | 12.2 |
| Over 90 days past due | **11,151** | **4.7** | 15,278 | 5.5 |
| Total | **236,278** | **100.0** | 278,737 | 100.0 |
| Less: Allowance for impairment | **(3,599)** | | (3,575) | |
| | **232,679** | | 275,162 | |

## 6. SHARE CAPITAL

| | **(Unaudited) 30 June 2013** | | (Audited) 31 December 2012 | |
|---|---|---|---|---|
| | **Number of shares** | **Amount *HK$'000*** | Number of shares | Amount *HK$'000* |
| Authorised: | | | | |
| Ordinary shares of HK$0.10 each | **5,000,000,000** | **500,000** | 5,000,000,000 | 500,000 |
| Issued and fully paid: | | | | |
| Opening balance | **1,560,945,596** | **156,095** | 1,560,945,596 | 156,095 |
| Shares issued under share option scheme | **112,000** | **11** | - | - |
| Ending balance | **1,561,057,596** | **156,106** | 1,560,945,596 | 156,095 |

Pursuant to the employee share option scheme of the Group, 112,000 options were exercised during the period ended 30 June 2013 which resulted in the equal number of shares being issued (30 June 2012: Nil), with cash proceeds of HK$166,000 (30 June 2012: Nil).

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Included in accounts payable and accrued liabilities are set out as below:

| | **(Unaudited) 30 June 2013** | | (Audited) 31 December 2012 | |
|---|---|---|---|---|
| | **Balance *HK$'000*** | **Percentage *%*** | Balance *HK$'000* | Percentage *%* |
| 0 to 30 days | **25,147** | **76.0** | 22,375 | 61.7 |
| 31 to 60 days | **6,350** | **19.2** | 9,487 | 26.2 |
| 61 to 90 days | **622** | **1.9** | 3,541 | 9.8 |
| Over 90 days | **966** | **2.9** | 829 | 2.3 |
| Total accounts payable | **33,085** | **100.0** | 36,232 | 100.0 |
| Accrued liabilities | **150,931** | | 147,427 | |
| Total accounts payable and accrued liabilities | **184,016** | | 183,659 | |

## 8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at a rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the period is 8.1% (2012: 7.3%).

## 8. INCOME TAX EXPENSE (continued)

| | (Unaudited) For the six months ended 30 June | |
|---|---|---|
| | **2013** | 2012 |
| | ***HK$'000*** | *HK$'000* |
| Current income tax | | |
| Hong Kong profits tax | **11,512** | 15,171 |
| Overseas taxation | **276** | 263 |
| Deferred income tax | | |
| Other deferred tax credits | **(1,600)** | (891) |
| | **10,188** | 14,543 |

## 9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of HK$105,183,000 (2012: HK$177,656,000) and 1,561,010,568 weighted average shares in issue (2012: 1,560,945,596 shares in issue) during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares arising from exercise of all outstanding share options granted under the Company's share option scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The calculation of diluted earnings per share is based on 1,561,010,568 (2012: 1,560,945,596 shares in issue) which is the weighted average number of shares in issue during the period plus the weighted average of 1,183,901 shares (2012: Nil) deemed to be issued if all outstanding share options granted under the Company's share option scheme has been exercised.

## 10. DIVIDEND

A 2012 final dividend of HK4.5 cents per share, totaling HK$70,248,000 was paid out of the Company's retained profits in June 2013. A 2011 final dividend of HK4 cents per share, totaling HK$62,438,000 was paid out of the Company's retained profits in June 2012.

The Directors have declared an interim dividend of HK2 cents per share for the period, totaling HK$31,221,000 (2012: HK3 cents per share, totaling HK$46,828,000).

## 11. EVENT OCCURRING AFTER THE BALANCE SHEET DATE

On 3 May 2013, South China Morning Post Publishers Limited, a wholly-owned subsidiary of the Company, entered into a binding agreement with Asia City Media Group Limited, an independent third party, for the acquisition of a group of media companies in Hong Kong. The companies being acquired are involved in the publication of magazine titles and their associated guides, operation of associated websites, mobile and tablet applications, and organization of events in Hong Kong, namely *HK Magazine*, *Where HK*, *The List*, *Where CN*, *HK Online*, *Happy Hour Finder* iPhone app and *HK Magazine* iPad app. Total consideration for the acquisition was HK$28,490,000, which was funded by the Group's internal resources. The acquisition was completed on 18 July 2013. As of the date of this report, the purchase price allocation process is ongoing and has yet to be finalised. The financial impact of the acquisition will be reflected in the consolidated financial statements of the Group for the year ending 31 December 2013 upon the finalisation of the purchase price allocation.

## MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS OF THE GROUP

The Group's consolidated operating results for the six months ended 30 June 2013 and 2012 were as follows:

| *(HK$ millions, except per share amounts)* | For the six months ended 30 June **2013** | 2012 (Restated) | % Change |
|---|---|---|---|
| **Revenue** | **509.1** | 458.1 | 11 |
| Staff costs | **(236.9)** | (188.5) | 26 |
| Production costs | **(77.6)** | (73.8) | 5 |
| Rental and utilities | **(14.3)** | (10.5) | 36 |
| Advertising and promotions | **(17.1)** | (12.9) | 33 |
| Other operating expenses | **(76.7)** | (77.1) | (1) |
| Operating costs before depreciation and amortisation | **(422.6)** | (362.8) | 16 |
| Depreciation and amortisation | **(29.0)** | (26.5) | 9 |
| **Adjusted operating profit^** | **57.5** | 68.8 | (16) |
| Other income | **4.1** | 5.4 | (24) |
| Fair value gain on investment properties | **59.6** | 122.1 | (51) |
| **Operating profit** | **121.2** | 196.3 | (38) |
| Net interest income | **2.3** | 2.6 | (12) |
| Share of profits/(losses) of associates | **2.2** | (0.2) | * |
| Taxation | **(10.2)** | (14.5) | (30) |
| **Profit for the period** | **115.5** | 184.2 | (37) |
| Non-controlling interests | **(10.3)** | (6.5) | 58 |
| **Profit attributable to shareholders** | **105.2** | 177.7 | (41) |
| **Earnings per share (HK cents)** | **6.7** | 11.4 | (41) |

* *Represents a change 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 first half of 2013 was $105.2 million, compared with $177.7 million in the first half of 2012. The results include fair value gains on investment properties of $59.6 million and $122.1 million for 2013 and 2012 respectively. Carving out these gains, net profit fell 18% from $55.6 million in 2012 to $45.6 million in 2013 mainly due to higher staff costs. Revenue for the first half year was $509.1 million, 11% higher than last year. The increase was mainly driven by higher advertising sales from Magazine publishing business and higher rental income from our investment properties. However, revenue from Newspaper publishing business remained static as a result of the slowdown in local economy and the inactive recruitment market.

Staff costs rose 26% or $48.4 million due to increase in headcount, salary increment and provision for staff bonus. Production costs increased 5% or $3.8 million mainly due to inclusion of *ELLE*'s production cost of $12 million. This was offset by lower newsprint cost mainly due to lower consumption and decline in average unit cost. Other than inclusion of *ELLE*'s advertising and promotion and rental expenses in the current year, we also spent more on the promotions for celebrating SCMP 110$^{th}$ year anniversary and our newly launched digital products.

**FINANCIAL REVIEW BY BUSINESS**

**Newspaper Publishing**

Total newspaper revenue was $365.5 million, down 1% from the same period last year. The revenue drop was mainly due to the inactive recruitment market, reduced revenues from notices, special reports and customized publishing.

Revenue from Advertising & Marketing Services was $221.8 million, behind last year by $3.0 million or 1%. Due to the slowdown of the economy, revenue from tender and other notices related advertising and special reports dropped. However, the revenue loss was largely made up by contribution from special execution, large events and creative projects and the newly launched *48 Hours* magazines. Online advertising revenue has grown by $1.2 million, or 19%. *scmp.com* continued the upward trend. *Directory.com*, iPad and mobile apps revenue also had significant growth over last year.

Recruitment revenue dropped 6% compared with last year. The decline mainly came from *Classified Post*. Hiring activity was inactive across all sectors, with only Government section ads recorded a positive growth. During the period, mobile and tablets apps for both *Classified Post* and *SmartJob* were launched to enhance brand awareness and drive recruitment ad response. The number of downloads for these apps for the first half of the year has been very encouraging.

Cover price for *South China Morning Post* increased by $1 to $9 since January this year. The online subscription fee for *scmp.com* has also increased in late June 2013. Despite the increase in price, the circulation figures remained stable. The unaudited first half 2013 circulation figures (including online subscriptions) of *South China Morning Post* and *Sunday Morning Post* were 107,629 and 87,761 respectively.

**Magazine Publishing**

For the six months ended 30 June 2013, the Magazines division generated revenue of $124.7 million and net profit attributable to shareholders of $24.3 million, both significantly higher than last year. The growth in revenue and profit was mainly due to inclusion of *ELLE*'s results which was acquired in July 2012. Other women's titles remain strong. *Harper's Bazaar*, in particular, reported a 9% growth in revenue and 8% growth in EBITDA.

**Property**

Rental income increased by 32% to $23.2 million in first half of 2013 mainly due to the higher rental from advertising boards and lease renewal at a higher rent for our properties in the Bank of America Tower.

Management continues its intention of holding all the properties for long-term investment and is pursuing different options to enhance value of the properties and discussing with relevant parties in that regard.

## LIQUIDITY AND CAPITAL RESOURCES

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 30 June 2013, 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. Other than this, the Group had no gearing (after deducting cash and cash equivalents) as at 30 June 2013. 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 six months decreased from $187.4 million in 2012 to $133.4 million in 2013, mainly because of normal working capital movement and lower operating profits.

**Investment Activities**

Net cash outflow from investing activities for the period was $38.6 million. Capital expenditure for the period amounted to $27.7 million, including payments made for the purchase of new printing presses. The Group also made a deposit of $10 million for the acquisition of a group of media companies, which was completed after the end of the reporting period.

**Financing Activities**

Net cash used in financing activities was $70.1 million. This amount mainly represents final dividend for 2012 paid to shareholders.

## OUTLOOK

Hong Kong has been experiencing a challenging first half, while the economy remains short on momentum. The impact of China's slowing economic growth and the Hong Kong Government measures to cool the property market were felt. The number of IPOs declined further and drops in consumer retail and luxury property spending are continuing to affect our traditionally strong advertising categories. Market uncertainty has also taken its toll on the recruitment sector, which has softened.

However, the group continues to strengthen our product portfolio and brands as we develop new revenue streams.

During the first half, we put the wheels in motion for a July acquisition of Asia City Media's Hong Kong business. This deal brings into our group a number of well established and profitable local lifestyle titles, including *HK Magazine*, *The List*, *Where Hong Kong*, *Where Guestbook*, *Where 玩儿*, and the *Happy Hour Finder* app. These plus additional titles incubated internally, including *ELLE Men*, will continue to broaden our magazine audience reach and advertising appeal.

We continue to enhance our existing digital offerings with new products, such as *SCMP News Pulse*, our new phone app designed to highlight the most shared and popular news stories. Mobile is the single fastest growing source of digital traffic and our efforts to develop mobile apps for all our products including our recruitment sites, is vital to sustaining a share of the digital economy.

We also launched *SCMPChinese.com*, our first Chinese site targeting well-educated mainland Chinese readers. The site focuses on providing quality news and reporting on Hong Kong and China, and useful information about living and investing in Hong Kong. It is steadily gaining traction and we hope to capture a share of the affluent Chinese market as the site reaches critical mass.

Other digital enhancements include improvements to our *Education Post* website, which have also boosted growth in pageviews and unique visitors. *Education Post* will also be launching a mobile app in the second half.

*South China Morning Post*'s print offering has also been enhanced with the introduction of a new weekend guide, *48 Hours*, which has been successful with advertisers and has opened up a new, younger readership demographic for us. Our newly relaunched *Style* magazine has also been very well received by advertisers and the marketing community and won Marketing Magazine's "Best Magazine Relaunch" award. *Post Magazine* won their "Best Inserted Magazine" award. In 2013 we celebrate the 40$^{th}$ Anniversary of *Classified Post*, and have implemented a significant overhaul of the content and layout, which has also received a very positive response.

This year also marks the commissioning of three new Manroland print presses, installed to support the contract printing business with our partners *AM730*. This is a noteworthy move in a market where large scale investment in new and added printing capacity is rare, and serves to ensure we benefit from the strong local freesheet market, which has grown to a 36.3% share of all newspapers in Hong Kong, with minimal investment risk and good revenue returns.

As we look forward to the second half of the year, we see both business opportunities and positive publicity stemming from our company-wide initiative "Celebrating Hong Kong", which is supported by multiple pillars of activity. The initiative, which was developed to support our 110th Anniversary celebration, features a combination of brand-enhancing, revenue generating and community engagement events, including the Redefining Hong Kong Debate Series, the Student of the Year Awards, the Spirit of Hong Kong Awards and more.

Our editorial department continues to restructure its operations to create maximum efficiency and branch out deeper into the digital space with cross platform and round-the-clock publishing over print, web, mobile, and soon-to-launch tablet. The first half saw us winning, once again, a large number of awards, evidence that we have continued to strengthen on our quality. Given our editorial mission has been to focus on strong original content, the first half of the year was marked by a dramatic boost to our editorial brand recognition globally when we secured an exclusive with US whistleblower Edward Snowden, resulting in record setting traffic numbers to our website *scmp.com*.

We continue to grow our business organically, leveraging on our core competencies and skills. As we enter the second half of the year, we have many new projects to see to fruition. One is the introduction of a new *South China Morning Post* HTML5 tablet edition to replace our existing free iPad app. The introduction of an e-paper edition of the print product acknowledging the bridge between print and digital is in the pipeline. Our overview of the second half remains cautious. While we see some fashion brand advertisers investing into new store openings, retail business remains lethargic. There are some signs of activity in the banking and finance sectors, and the overseas property sector remains strong; however, the outlook for IPOs remains soft for the coming six months.

We will continue to look for ways to manage costs; however, as we prepare the business for change and expansion into new revenue sources, we will see inevitable increases in our single biggest expense: staffing costs. Expanding the business through acquisitions and new business areas has helped us weather a difficult few years, and we are poised today to continue on our trajectory of building future growth.

## 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 30 June 2013, the Group had 966 employees compared with 939 as at 31 December 2012.

## INTERIM DIVIDEND

The Directors have declared an interim dividend of HK2 cents per share (2012: HK3 cents per share), amounting to HK$31,221,000, payable to shareholders whose names appear on the Register of Members of the Company on Thursday, 19 September 2013 and payable on Tuesday, 24 September 2013.

## BOOK CLOSURE

The Register of Members of the Company will be closed from Monday, 16 September 2013 to Thursday, 19 September 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 Friday, 13 September 2013 so as to qualify for the interim dividend.

## 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 six months ended 30 June 2013.

## CORPORATE GOVERNANCE

The Board of Directors (the "Board") 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.

Over the years, the Group has put in place sound corporate governance practices to ensure it adheres to the highest ethical and business standards. The key test of corporate governance practices is if they align the interests of management with those of shareholders to adequately protect and promote shareholders' interests. The Group constantly reviews these guidelines and policies and implements new ones to ensure they remain relevant and practical in today's fast changing business environment and market expectations.

The corporate governance principles adopted by the Group during the six months ended 30 June 2013 are in line with the corporate governance statement as set out in the Company's 2012 Annual Report. During the period, the Group's corporate governance practices have complied with all the code provisions of the Corporate Governance Code ("Stock Exchange Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Group also adheres to the recommended best practices of the Stock Exchange Code insofar as they are relevant and practicable.

## 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. The Audit Committee met once in the first six months of 2013. The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2013.

With effect from 21 August 2013, Mr. Wong Kai Man will act as the Chairman of the Audit Committee in place of Dr. the Hon. Sir David Li Kwok Po. Save from the aforesaid, the composition of the Audit Committee remains unchanged.

## REMUNERATION COMMITTEE

The Company established a Remuneration Committee in 2000 with written terms of reference. The Remuneration Committee currently comprises two Independent Non-executive Directors, namely Mr. Wong Kai Man as Committee Chairman and Mr. Ronald J. Arculli, and an Executive Director, Ms. Kuok Hui Kwong.

With effect from 21 August 2013, Dr. the Hon. Sir David Li Kwok Po will be appointed as the Chairman of the Remuneration Committee in place of Mr. Wong Kai Man who remains a member of the Remuneration Committee. The Remuneration Committee will comprise of Dr. the Hon. Sir David Li Kwok Po as Committee Chairman, Mr. Ronald J. Arculli, Ms. Kuok Hui Kwong and Mr. Wong Kai Man.

## 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.

## 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. The Strategy Committee met once in the first six months of 2013.

## PUBLIC FLOAT

Trading in the shares of the Company had been suspended as from 26 February 2013 when the public float of the Company fell below 25%. The Stock Exchange of Hong Kong Limited indicated that the Company is required to suspend trading in the shares of the Company until the 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, 6 March 2013, 10 May 2013, 17 June 2013, 12 July 2013 and 13 August 2013.

On behalf of the Board
**David J. PANG**
*Chairman*

Hong Kong, 20 August 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*