SCMP

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 2014

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 2014. 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 2014** ***HK$'000***	(Audited) 31 December 2013 *HK$'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*3*	**548,419**	565,527
Investment properties	*4*	**1,720,600**	1,720,600
Intangible assets		**164,900**	160,449
Deposits paid for property, plant and equipment		**2,062**	140
Investment in associates		**49,966**	56,384
Available-for-sale financial assets		**183,266**	214,877
Defined benefit plan's assets		**52,936**	64,530
Deferred income tax assets		**528**	668
		2,722,677	2,783,175

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

	Notes	(Unaudited) 30 June 2014 HK$'000	(Audited) 31 December 2013 HK$'000
Current assets			
Inventories		**23,375**	24,148
Accounts receivable	5	**265,371**	307,747
Prepayments, deposits and other receivables		**19,355**	22,501
Amount due from an associate		**124**	55
Cash and bank balances		**443,319**	395,511
		751,544	749,962
Total assets		**3,474,221**	3,533,137
EQUITY			
Capital and reserves			
Share capital	6	**156,106**	156,106
Reserves		**2,858,964**	2,882,606
Proposed dividend		**34,343**	65,564
		2,893,307	2,948,170
Shareholders' funds		**3,049,413**	3,104,276
Non-controlling interests		**63,061**	50,474
Total equity		**3,112,474**	3,154,750
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**88,931**	91,327
		88,931	91,327
Current liabilities			
Accounts payable and accrued liabilities	7	**219,663**	237,890
Amounts due to associates		**2,795**	2,782
Subscriptions in advance		**19,470**	28,208
Current income tax liabilities		**26,088**	18,180
Loan from a non-controlling shareholder		**4,800**	-
		272,816	287,060
Total liabilities		**361,747**	378,387
Total equity and liabilities		**3,474,221**	3,533,137
Net current assets		**478,728**	462,902
Total assets less current liabilities		**3,201,405**	3,246,077

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	(Unaudited) For the six months ended 30 June **2014** *HK$'000*	2013 *HK$'000*
Revenue	*2*	**597,925**	509,096
Other income		**2,136**	4,082
Staff costs		**(265,925)**	(236,888)
Cost of production materials		**(107,229)**	(77,628)
Rental and utilities		**(14,977)**	(14,278)
Depreciation and amortisation		**(33,636)**	(28,961)
Advertising and promotion		**(18,710)**	(17,146)
Other operating expenses		**(87,189)**	(76,669)
Fair value gain on investment properties	*1*	**-**	59,568
Operating profit		**72,395**	121,176
Finance income		**2,416**	2,235
Share of (losses)/profits of associates		**(3,113)**	2,236
Profit before income tax		**71,698**	125,647
Income tax expense	*8*	**(10,935)**	(10,188)
Profit for the period		**60,763**	115,459
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit plan obligation		**(5,916)**	52,718
Share of remeasurement of defined benefit plan obligation of an associate		**(371)**	-
		(6,287)	52,718
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on available-for-sale financial assets		**(31,607)**	(30,404)
Currency translation difference		**205**	(180)
		(31,402)	(30,584)
Other comprehensive (loss)/income for the period, net of tax		**(37,689)**	22,134
Total comprehensive income for the period		**23,074**	137,593

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

		(Unaudited) For the six months ended 30 June	
		2014	2013
	Notes	***HK$'000***	*HK$'000*
Profit attributable to:			
Shareholders of the Company		**48,176**	105,183
Non-controlling interests		**12,587**	10,276
		60,763	115,459
Total comprehensive income attributable to:			
Shareholders of the Company		**10,487**	127,317
Non-controlling interests		**12,587**	10,276
		23,074	137,593
Earnings per share	*9*		
Basic		**3.09 cents**	6.74 cents
Diluted		**3.08 cents**	6.73 cents
		HK$'000	*HK$'000*
Dividends	*10*	**34,343**	31,221

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 2014 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 2013, 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 2013.

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

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

The investment properties were valued by an independent professional valuer to determine their fair value as at 30 June 2014. The Group has adopted such valuation, which remains unchanged from the valuation as of 31 December 2013. Accordingly, no fair value gain or loss was recognised for the period. The principal assumptions underlying management's estimation of fair values of the investment properties and the basis of valuation are consistent with those applied in the annual financial statements for the year ended 31 December 2013.

The following amendment to existing standard is relevant to the Group and mandatory for the first time for the financial year beginning 1 January 2014:

HKAS 32 (amendment) 'Financial instruments: Presentation on asset and liability offsetting'

HKAS 32 (amendment) clarifies some of the requirements for offsetting financial assets and financial liabilities. The adoption of HKAS 32 (amendment) has no impact on the presentation of the Group's assets and liabilities.

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 derives revenue through leasing out its properties.

During the six months ended 30 June 2014, the Group has established a new outdoor media business. The operating results from advertising billboards, originally included in the Property segment, has been transferred to the new business. The segment information for the six months ended 30 June 2013 has been restated accordingly. The assets and operating results of the outdoor media business have not exceeded the quantitative thresholds for a reportable segment. Hence, its results have been grouped under "Others" in the segment information that follows.

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 in the annual financial statements for the year ended 31 December 2013 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.

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 2014 and 2013 were HK$597,925,000 and HK$509,096,000 respectively.

2. REVENUE AND SEGMENT INFORMATION (continued)

The segment information for the six months ended 30 June 2014 and 2013 is as follows:

(a) Reportable segment profit or loss

	(Unaudited)				
	Newspaper *HK$'000*	**Magazine** *HK$'000*	**Property** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
For the six months ended 30 June 2014					
Total segment revenue	**406,148**	**158,099**	**15,409**	**22,896**	**602,552**
Inter-segment revenue	**(794)**	**(2,499)**	**(1,334)**	**-**	**(4,627)**
Revenue from external customers	**405,354**	**155,600**	**14,075**	**22,896**	**597,925**
Reportable segment profit	**15,692**	**38,724**	**8,844**	**3,531**	**66,791**
	Newspaper *HK$'000*	Magazine *HK$'000*	Property *HK$'000* *(Restated)*	Others *HK$'000* *(Restated)*	Total *HK$'000*
For the six months ended 30 June 2013					
Total segment revenue	365,489	124,696	14,794	8,376	513,355
Inter-segment revenue	(1,413)	(1,731)	(1,115)	-	(4,259)
Revenue from external customers	364,076	122,965	13,679	8,376	509,096
Reportable segment profit	5,572	34,564	68,454	7,380	115,970

(b) Reconciliation of reportable segment profit or loss

	(Unaudited) For the six months ended 30 June	
	2014 *HK$'000*	2013 *HK$'000* *(Restated)*
Profit for reportable segments	**63,260**	108,590
Profit for other segments	**3,531**	7,380
	66,791	115,970
Reconciling items:		
Share of (losses)/profits of associates under equity method of accounting	**(3,113)**	2,236
Dividend received from an associate	**(3,548)**	(2,762)
Deferred tax on undistributed profit of an associate	**633**	15
	(6,028)	(511)
Profit for the period	**60,763**	115,459

3. PROPERTY, PLANT AND EQUIPMENT

	(Unaudited)				
	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 2014	**288,421**	**204,387**	**71,066**	**1,653**	**565,527**
Additions	**-**	**1,236**	**5,589**	**2,746**	**9,571**
Depreciation	**(4,876)**	**(12,974)**	**(8,871)**	**-**	**(26,721)**
Disposals	**-**	**-**	**(1)**	**-**	**(1)**
Reclassification	**-**	**500**	**1,193**	**(1,693)**	**-**
Acquisition of a subsidiary	**-**	**-**	**43**	**-**	**43**
Net book value at 30 June 2014	**283,545**	**193,149**	**69,019**	**2,706**	**548,419**
At 30 June 2014					
Cost	**420,375**	**844,152**	**179,070**	**2,706**	**1,446,303**
Accumulated depreciation	**(136,830)**	**(651,003)**	**(110,051)**	**-**	**(897,884)**
Net book value at 30 June 2014	**283,545**	**193,149**	**69,019**	**2,706**	**548,419**

4. INVESTMENT PROPERTIES

	(Unaudited)	(Audited)
	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
Opening balance	**1,720,600**	1,633,200
Additions	**-**	232
Fair value gain	**-**	87,168
Ending balance	**1,720,600**	1,720,600

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 2014		(Audited) 31 December 2013	
	Balance	**Percentage**	Balance	Percentage
	HK$'000	***%***	*HK$'000*	*%*
Current	**143,864**	**53.4**	169,988	54.7
Less than 30 days past due	**61,507**	**22.9**	26,920	8.7
31 to 60 days past due	**10,232**	**3.8**	63,928	20.6
61 to 90 days past due	**34,772**	**12.9**	36,398	11.7
Over 90 days past due	**18,775**	**7.0**	13,276	4.3
Total	**269,150**	**100.0**	310,510	100.0
Less: Allowance for impairment	**(3,779)**		(2,763)	
	265,371		307,747	

6. SHARE CAPITAL

	(Unaudited) 30 June 2014		(Audited) 31 December 2013	
	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	**1,561,057,596**	**156,106**	1,560,945,596	156,095
Shares issued under share option scheme	**-**	**-**	112,000	11
Ending balance	**1,561,057,596**	**156,106**	1,561,057,596	156,106

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, with cash proceeds of HK$166,000. There were no shares issued under share option scheme during the period ended 30 June 2014.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	(Unaudited) 30 June 2014		(Audited) 31 December 2013	
	Balance	**Percentage**	Balance	Percentage
	HK$'000	***%***	*HK$'000*	*%*
0 to 30 days	**24,497**	**65.7**	32,281	67.4
31 to 60 days	**9,596**	**25.7**	11,765	24.6
61 to 90 days	**1,579**	**4.3**	1,962	4.1
Over 90 days	**1,614**	**4.3**	1,878	3.9
Total accounts payable	**37,286**	**100.0**	47,886	100.0
Accrued liabilities	**182,377**		190,004	
Total accounts payable and accrued liabilities	**219,663**		237,890	

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided for at a rate of 16.5% (2013: 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 rates used for the six months ended 30 June 2014 and 2013 were 15.3% and 8.1% respectively. The lower tax rate in the first half of 2013 was due to the fair value gains on investment properties which were not taxable.

	(Unaudited) For the six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**13,293**	11,512
Overseas taxation	**355**	276
Deferred income tax		
Other deferred tax credits	**(2,713)**	(1,600)
	10,935	10,188

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to shareholders of HK$48,176,000 (2013: HK$105,183,000) and 1,561,057,596 weighted average number of shares in issue (2013: 1,561,010,568 weighted average number of 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 with reference to the latest market share price of the Company's shares) 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 1,561,057,596 (2013: 1,561,010,568 weighted average number of shares in issue) which is the weighted average number of shares in issue during the period plus the weighted average number of 1,320,245 shares (2013: 1,183,901 shares) deemed to be issued if all outstanding share options granted under the Company's share option scheme has been exercised.

10. DIVIDEND

A 2013 final dividend of HK4.2 cents per share, totaling HK$65,564,000 was paid out of the Company's retained profits in June 2014. 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.

The Directors have declared an interim dividend of HK2.2 cents per share for the period, totaling HK$34,343,000 (2013: HK2 cents per share, totaling HK$31,221,000).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS OF THE GROUP

The Group's consolidated operating results for the six months ended 30 June 2014 and 2013 were as follows:

(HK$ millions, except per share amounts)	For the six months ended 30 June **2014**	2013	% Change
Revenue	**597.9**	509.1	17
Staff costs	**(265.9)**	(236.9)	12
Production costs	**(107.2)**	(77.6)	38
Rental and utilities	**(15.0)**	(14.3)	5
Advertising and promotions	**(18.7)**	(17.1)	9
Other operating expenses	**(87.2)**	(76.7)	14
Operating costs before depreciation and amortisation	**(494.0)**	(422.6)	17
Depreciation and amortisation	**(33.6)**	(29.0)	16
Adjusted operating profit^	**70.3**	57.5	22
Other income	**2.1**	4.1	(49)
Fair value gain on investment properties	**-**	59.6	(100)
Operating profit	**72.4**	121.2	(40)
Net interest income	**2.4**	2.3	4
Share of (losses)/profits of associates	**(3.1)**	2.2	*
Taxation	**(10.9)**	(10.2)	7
Profit for the period	**60.8**	115.5	(47)
Non-controlling interests	**(12.6)**	(10.3)	22
Profit attributable to shareholders	**48.2**	105.2	(54)
Earnings per share (HK cents)	**3.1**	6.7	(54)

** 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 2014 was $48.2 million, compared with $105.2 million in 2013, which included fair value gains on investment properties of $59.6 million. Carving out the property revaluation gains in 2013, net profit from normal operations has grown 6% in the first half of 2014. The growth was mainly driven by strong advertising sales, both print and online, from our newspaper and magazine businesses, as well as contribution from the contract printing business.

Revenue for the first half of 2014 was $597.9 million, 17% higher than last year. The growth was due to higher revenue from advertising and marketing solutions, contract printing business, existing magazine titles as well as new titles such as *HK Magazine*, *Esquire* and *Elle Men*. Operating costs and expenses increased in line with the revenue growth. As a result, the adjusted operating profit increased to $70.3 million, or by 22%, compared with $57.5 million for the same period last year.

Staff costs rose 12% or $29 million due to increase in headcount and salary increment. Production costs increased 38% or $29.6 million, mainly due to inclusion of production cost of our new magazine titles as well as higher cost from our event business. Increase in rental and utilities, advertising and promotions and other operating expenses was also because of our investment in new magazine titles and new businesses. Overall operating costs and expenses increased 17% in line with the revenue growth.

FINANCIAL REVIEW BY BUSINESS

Newspaper Publishing

Revenue from the Newspaper division increased 11% or $40.6 million to $406.1 million. It was contributed by Advertising & Marketing Solutions, Circulation & Syndication Business and our contract printing business. Net profit attributable to shareholders increased almost threefold to $15.7 million, driven by higher ad sales and online subscription.

Revenue from Advertising & Marketing Solutions increased 10% from the same period last year. Revenue of special execution increased 93%, driven by increasing demand from our customers. IPO advertisement also increased significantly, as the IPO market has become active towards the end of the period. Revenue from our marketing solutions department has also increased significantly, due to a number of large-scale projects and events during the period.

Recruitment & Education Business revenue was stable. While print recruitment ad from *Classified Post* continued to face a challenging environment due to the overall trend to move onto online platform, the decline in print revenue was compensated by increase in online recruitment ad and ad revenue from the *Education Post*.

Despite a slight drop in print circulation for *South China Morning Post* and *Sunday Morning Post*, the decrease in print circulation revenue was more than offset by our growth in digital subscription revenue. Overall, total circulation revenue for the first half of 2014 increased by 5% against last year. The number of new subscriptions for scmp.com was 74% higher and we have also secured a number of IP licensing subscription contracts with institutions from the education sector.

Magazine Publishing

Magazine division had a strong first half of 2014. Total revenue increased 27% to $158.1 million. Net profit attributable to shareholders increased 7% to $26.1 million. The increase in profit was mainly driven by growth in print and online ad revenue from *Cosmopolitan* and *Elle*.

During the period, we have added *Esquire* and *Peak* to our portfolio of magazine titles to strengthen our position as market leader in the industry.

Property

Rental income increased 4% to $15.4 million. The growth was due to rental reversion for the Bank of America property and Seaview Estate upon lease renewal.

The Group's investment property portfolio comprises of a vacant property in TV City, certain floors of the Bank of America Tower, Ko Fai Industrial Building and Seaview Estate. The original cost of the portfolio was $913 million and the carrying value as of 30 June 2014 was $1,720 million.

The Group's investment properties were revalued at 30 June 2014 by independent professionally qualified valuers, DTZ Debenham Tie Leung Limited, who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use. The revaluation gains or losses are shown as "Fair value gain or loss on investment properties" in the income statement. Fair values of the office buildings and industrial properties are derived using the income capitalisation approach and fair value of the vacant property is derived using the residual method. There were no changes to the valuation techniques during the period.

TV City

SCMP acquired TV City in 1996 and continues to hold this piece of property for long-term investment. We have explored different options to enhance value of this property. As one of the options, the Company is looking into the feasibility of developing the property into a residential project. However, the development process is complex, in view of the size of the development and the adjacent parcel of different ownership, the Government authorities are processing our application alongside with the adjacent plot owners' application. As a result of change in environmental legislations, the Company, together with the owners of the adjacent plot, has revised the Master Layout Plan which has been submitted to the Town Planning Board for approval. As of the date of this announcement, the Company has not been notified by the Government of the amount of land premium.

LIQUIDITY AND CAPITAL RESOURCES

Cash and bank balances are held predominantly in Hong Kong dollars and Renminbi. Apart from the deposits in Renminbi, the Group has no significant exposure to foreign exchange fluctuations.

As at 30 June 2014, the Group had total borrowing of $4.8 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 2014. The ratio of current assets to current liabilities was 2.8 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. Management is mindful of the Buyback Proposal more thoroughly discussed under the section "Public Float" and has started to look into the funding arrangement of this option.

Operating Activities

Net cash generated from operating activities for the six months ended 30 June 2014 was $123.2 million, compared with $133.4 million in 2013. The decrease in operating cash flows was mainly due to a change in the timing of staff bonus payment. Bonus for 2013 was paid in January 2014, whereas bonus for 2012 was paid in December 2012.

Investment Activities

Net cash outflow from investing activities for the period was $14.7 million, which included capital expenditure of $15.4 million and partial payment for the acquisition of Destination Macau of $6.2 million, offset by $6.9 million dividend and interest received from our investments.

Financing Activities

Net cash used in financing activities was $60.8 million, which represented dividend paid to the Company's shareholders of $65.6 million, offset by a loan received from a non-controlling shareholder of $4.8 million.

OUTLOOK

The Hong Kong market has experienced a slow first half with total investment turnover almost 30% lower year-on-year than 2013*, and both retail sales value and volume^ lower during the same comparative period. Additionally, macro factors such as the deceleration of China's growth, uncertainty over US Federal Reserve rate adjustments, and lingering concerns over the Eurozone's recovery are among considerations leading to a softened business environment.

In spite of those macro concerns, the Group's core business remains sturdy, with topline growth driven by display advertising sales in both print and online, an improving IPO market, as well as contribution from the contract printing business in the first half. Moreover, the Group continued to consolidate the benefits of its growth thrust strategy implemented in 2013 to diversify its revenue streams through Magazines, Outdoor Media, Events and Conferences, and the Education business.

Magazines continued to grow as *Cosmopolitan* and *Elle* continue to fortify their industry leading position, while new titles *Esquire*, *Peak* and *Elle Men* made their debut, and are starting to make contributions to the overall performance of our growing magazine publishing business.

The group further grew its market share in South China's media space with the acquisition of luxury lifestyle magazines *Destination Macau* and its ultra high-end sister publication *DM Exclusive*. Published in both English and Simplified Chinese, the *Destination Macau* acquisition, together with its broad distribution network, will give the SCMP Group access to Macau's growing hospitality and MICE economy, as well as one of the world's fastest growing luxury retail market.

SCMP Outdoor Media Limited continued to expand its business with new site acquisitions. In the first half, the Outdoor business was awarded the exclusive rights to represent Top Glory Tower in Causeway Bay, the reconstructed Jumbo Court Car Park in Island South, and the restricted area of the Macau Ferry Terminal in Central. The addition of these outdoor assets coupled with the *Destination Macau* acquisition gives SCMP Group an added edge in our media offering to luxury lifestyle and hospitality brands.

The Events and Conferences business made further strides with the continuation of its popular Redefining Hong Kong Debate Series that featured many of the city's most respected business and thought leaders who shared exclusive views on Hong Kong's business and policy environment. In addition, an inaugural Luxury Experience Summit was organized with attendance by the who's who of Hong Kong's luxury business. A busier second half calendar of events beckons.

* Source: CRBE Hong Kong, "Hong Kong Investment MarketView Q2 2014"
^ Source: Census and Statistics Department of HKSAR, Hong Kong Monetary Authority, Rating and Valuation Department, Hong Kong Tourism Board, CEIC, Hang Seng Bank

The Education business offering maintained its growth trajectory with the introduction of new products in the form of sponsored eBooks and a new leisure learning website called *Learnsomething.com.hk* targeting a growing segment of lifestyle interest course offerings in Hong Kong.

In terms of our core product, the *South China Morning Post*, the launch of a brand new constantly updated mobile app was warmly received and proved especially popular with working professionals hungry for breaking news. An all-time high in mobile traffic figures driven by breaking news of the MH370 tragedy was recorded. We expect mobile traffic to continue to grow as feature and form factor of smart phones continue to improve, together with telecommunications infrastructure.

Editorially, the *South China Morning Post* continued its award-winning tradition with a record-breaking 81 awards scooped up by the newsroom and the marketing department in the first half alone. This year's awards include a large haul for best scoop with our worldwide exclusive on whistleblower Edward Snowden, top awards in infographics from global competitions, wins at the 18th Annual Human rights Press Awards, and the most accolades won for a local newspaper organization at the regional SOPA 2014 Awards. On the marketing side, the SCMP won 6 top awards from the International News Media Association including silver for Best of Show.

Entering the second half, we hold a cautious forward-looking view as luxury brand spending remains restrained, and the overall retail market is less buoyant than last year. While the IPO market has enjoyed a strong first half, advertising from the financial and property sectors remain sluggish.

Systematically investing in organic and inorganic growth thrusts in the past two years has enabled the Group to withstand economic uncertainty while broadening revenue streams. Consistent with our practice, the Group will continue to actively manage costs while casting an eye on continued growth and development on strategic opportunities in the traditional and new media space to complement our assets, and to maintain our continued growth path.

STAFF

The success of the Company hinges on the performance and commitment of our employees. As the Company continues to grow, the Company's compensation philosophy is designed to provide employees with the opportunity to excel and grow, while aligning with our business strategies and values. The Group's remuneration policy aims to recognize outstanding performance, retain and attract key talents and ensure alignment with the interests of our businesses, and thereby enhancing shareholder value. As at 30 June 2014, the Group had 1,110 employees compared with 1,070 as at 31 December 2013.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK2.2 cents per share (2013: HK2 cents per share), amounting to HK$34,343,000, payable to shareholders whose names appear on the Register of Members of the Company on Thursday, 25 September 2014 and payable on Wednesday, 8 October 2014.

BOOK CLOSURE

The Register of Members of the Company will be closed from Monday, 22 September 2014 to Thursday, 25 September 2014, 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, 19 September 2014 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 2014.

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 2014 are in line with the corporate governance statement as set out in the Company's 2013 Annual Report. During the period, the Group's corporate governance practices have complied with all the code provisions of the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Group also adheres to the recommended best practices of the Corporate Governance Code insofar as they are relevant and practicable.

AUDIT COMMITTEE

The Company established an Audit Committee in 1998 with written terms of reference. With effect from 3 June 2014, Dr. David J. Pang was appointed a member of the Audit Committee in place of Mr. Ronald J. Arculli. The Audit Committee currently comprises two Independent Non-executive Directors, namely Mr. Wong Kai Man as Committee Chairman and Dr. the Hon. Sir David Li Kwok Po, and the Non-executive Chairman, Dr. David J. Pang. The Audit Committee met once in the first six months of 2014. The Audit Committee has reviewed the Group's unaudited interim results for the six months ended 30 June 2014.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee in 2000 with written terms of reference. With effect from 3 June 2014, Mr. Ronald J. Arculli ceased as a member of the Remuneration Committee. The Remuneration Committee currently comprises two Independent Non-executive Directors, namely Dr. the Hon. Sir David Li Kwok Po as Committee Chairman and Mr. Wong Kai Man and an Executive Director, Ms. Kuok Hui Kwong.

NOMINATION COMMITTEE

The Company established a Nomination Committee in 2005 with written terms of reference. With effect from 3 June 2014, Dr. Fred Hu Zu Liu was appointed the Committee Chairman of the Nomination Committee in place of Mr. Ronald J. Arculli. The Nomination Committee currently comprises two Independent Non-executive Directors, namely Dr. Fred Hu Zu Liu 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 March 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 2014.

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.

Despite that the Company had endeavored to identify ways to restore public float, the Company has been unable to make further progress with the proposals previously considered by the Board (the "Previous Proposals") since it had not received support from its substantial shareholders essential for implementation thereof.

A special board meeting was held on 20 January 2014 to further discuss and explore appropriate methods to resolve the public float issue. Apart from the proposals to restore public float, the Board also considered and assessed other reasonable options (the "Latest Proposals"). One of the options was a delisting proposal with the exit cash offer to be made by the Company which may be made by share buy-backs by general offer (the "Buyback Proposal"). In light of the responses from the substantial shareholders of the Company to the Latest Proposals, the Buyback Proposal appears to be the only route (as amongst the Latest Proposals) that the Company may consider pursuing as it involves primarily a corporate action that could be initiated by the Company itself.

A further special board meeting was held on 25 February 2014 to consider and discuss the Buyback Proposal. The Board noted that although the Buyback Proposal could not restore the public float to 25%, it would at least offer an opportunity for the shareholders of the Company to exit from the Company and put an end to the current impasse. Further, the Board considered that the relevant documentation and regulatory procedures (such as inclusion of an independent financial adviser's opinion in the shareholders' circular) would assist the shareholders of the Company in making an informed decision.

Hence, the Board considered it appropriate to take the Buyback Proposal as a potential viable route for resolving the public float issue. Any exit cash offer under the Buyback Proposal would be made by the Company at an appropriate price which properly reflects the value of the Company's business and assets.

Accordingly, the Company has initiated discussions and consultation with the regulators to seek guidance and clearance on compliance aspects under the various regulatory regimes applicable to the Buyback Proposal and seek professional advice on the applicable regulatory regimes and the steps and procedures for potential implementation of the Buyback Proposal. The Company has appointed Platinum Securities Company Limited as financial adviser and DTZ Debenham Tie Leung Limited as property valuer to the Company to advise in relation to the Buyback Proposal.

An independent board committee comprising, subject to applicable regulatory requirements and clearance, Dr. Fred Hu Zu Liu, Dr. the Hon. Sir David Li Kwok Po and Mr. Wong Kai Man has been formed ("Independent Board Committee"). The Board has also approved the appointment of Investec Capital Asia Limited as the independent financial adviser to advise the Independent Board Committee as well as the independent shareholders (as defined under the applicable rules and regulations) in relation to the Buyback Proposal.

As the Buyback Proposal is subject to various regulatory regimes in Hong Kong, and due to complexity of the subject matter, the process of seeking guidance and approval from the regulators and taking the preparatory steps and procedures as required by the applicable laws, rules and regulations in connection with the Buyback Proposal may take considerable time.

In compliance with Rule 3.7 of the Codes on Takeovers and Mergers and Share Buy-backs (the "Takeovers Code"), monthly announcements setting out the progress of the aforesaid discussions and consultations, and the preparatory steps and procedures required, in respect of the Buyback Proposal have been made on 9 June 2014, 9 July 2014, 8 August 2014 and will be made until announcement of a firm intention by the Company to implement the Buyback Proposal and make an offer under Rule 3.5 of the Takeovers Code or of a decision by the Company not to proceed with the Buyback Proposal is made.

The Board is mindful that any effective course of action to resolve the public float issue would be contingent upon the support of the shareholders of the Company, including its substantial shareholders. The Board has continued, and will continue, to take such action and step as may be appropriate in the circumstances with a view to be in the interests of the Company and its shareholders as a whole.

On Behalf of the Board
David J. PANG
Chairman

Hong Kong, 21 August 2014

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
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*