



2014

INTERIM REPORT



SCMP Group Limited

(Incorporated in Bermuda with limited liability)

Stock Code : 583



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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*, *The 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 Southern 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

* 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



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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 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 organised with attendance by the who's who of Hong Kong's luxury business. A busier second half calendar of events beckons.

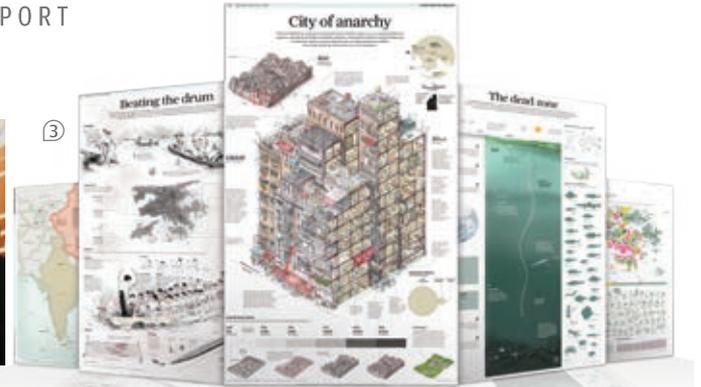
The Education business offering maintained its growth trajectory with the introduction of new products in the form of sponsored eBooks and a new leisure learning website called *Learnsomething.hk* targeting a growing segment of lifestyle interest course offerings in Hong Kong.

- ① SCMP Outdoor Media - Top Glory Tower
- ② SCMP Outdoor Media - One Leighton Road
- ③ SCMP Outdoor Media - Jumbo Court Car Park
- ④ SCMP Outdoor Media - Macau Ferry Terminal
- ⑤ Education Post - Hong Kong's leading online education website
- ⑥ Education Post - Learnsomething.hk
- ⑦ The "GWYNETH PALTROW at LANDMARK" event
- ⑧ Luxury Experience Summit
- ⑨ The Redefining Hong Kong Debate Series II
- ⑩ Student of the Year



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- ① The South China Morning Post wins the most accolades for a local newspaper organisation at the SOPA 2014 Awards.
- ② At the Hong Kong News Awards 2013, the South China Morning Post bags 9 wins.
- ③ The South China Morning Post snatches up an unprecedented 28 global design awards at the Society for News Design 2014.

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 features and form factors 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 98 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 organisation 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 in 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.



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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 is set out on page 19.

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 | 5 | 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 |
| Current assets | | | |
| Inventories | | 23,375 | 24,148 |
| Accounts receivable | 6 | 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 | 7 | 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 | 9 | 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 |

The notes on pages 9 to 18 form an integral part of these condensed consolidated interim financial information.

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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 | 11 | 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 | 12 | (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 |
| 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 | 13 | | |
| Basic | | HK 3.09 cents | HK 6.74 cents |
| Diluted | | HK 3.08 cents | HK 6.73 cents |

The notes on pages 9 to 18 form an integral part of these condensed consolidated interim financial information.

| | | HK\$'000 | HK\$'000 |
|-----------|----|----------|----------|
| Dividends | 14 | 34,343 | 31,221 |

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Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

| | (Unaudited) | | | | | | | | |
|--|------------------------------|------------------------------|------------------------------------|---|---------------------------------|------------------|-------------------|--|-----------------------------|
| | Attributable to shareholders | | | | | | Total HK\$'000 | Non- controlling interests HK\$'000 | Total equity HK\$'000 |
| | Share capital HK\$'000 | Share premium HK\$'000 | Contributed surplus HK\$'000 | Other reserves (Note 8) HK\$'000 | Retained profits HK\$'000 | | | | |
| Balance at 1 January 2014 | 156,106 | 41,126 | 803,234 | 111,287 | 1,992,523 | 3,104,276 | 50,474 | 3,154,750 | |
| Profit for the period | - | - | - | - | 48,176 | 48,176 | 12,587 | 60,763 | |
| Other comprehensive loss | - | - | - | (31,402) | (6,287) | (37,689) | - | (37,689) | |
| Total comprehensive income | - | - | - | (31,402) | 41,889 | 10,487 | 12,587 | 23,074 | |
| Transaction with shareholders: | | | | | | | | | |
| Dividends declared and paid (Note 14) | - | - | - | - | (65,564) | (65,564) | - | (65,564) | |
| Employee share-based compensation benefits | - | - | - | 214 | - | 214 | - | 214 | |
| Total transactions with shareholders | - | - | - | 214 | (65,564) | (65,350) | - | (65,350) | |
| Balance at 30 June 2014 | 156,106 | 41,126 | 803,234 | 80,099 | 1,968,848 | 3,049,413 | 63,061 | 3,112,474 | |
| Balance at 1 January 2013 | 156,095 | 40,971 | 803,234 | 127,985 | 1,794,109 | 2,922,394 | 42,129 | 2,964,523 | |
| Profit for the period | - | - | - | - | 105,183 | 105,183 | 10,276 | 115,459 | |
| Other comprehensive (loss)/income | - | - | - | (30,584) | 52,718 | 22,134 | - | 22,134 | |
| Total comprehensive income | - | - | - | (30,584) | 157,901 | 127,317 | 10,276 | 137,593 | |
| Transaction with shareholders: | | | | | | | | | |
| Dividends declared and paid (Note 14) | - | - | - | - | (70,248) | (70,248) | - | (70,248) | |
| Employee share-based compensation benefits | - | - | - | 591 | - | 591 | - | 591 | |
| Shares issued upon exercise of share options | 11 | 155 | - | - | - | 166 | - | 166 | |
| Total transactions with shareholders | 11 | 155 | - | 591 | (70,248) | (69,491) | - | (69,491) | |
| Balance at 30 June 2013 | 156,106 | 41,126 | 803,234 | 97,992 | 1,881,762 | 2,980,220 | 52,405 | 3,032,625 | |

The notes on pages 9 to 18 form an integral part of these condensed consolidated interim financial information.

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Condensed Consolidated Statement of Cash Flows

| | Note | (Unaudited) | |
|---|------|----------------------------------|----------|
| | | For the six months ended 30 June | |
| | | 2014 | 2013 |
| | | HK\$'000 | HK\$'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 129,217 | 136,759 |
| Hong Kong profits tax paid | | (5,616) | (3,063) |
| Overseas tax paid | | (355) | (276) |
| Net cash generated from operating activities | | 123,246 | 133,420 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment, intangible assets | | (15,370) | (27,682) |
| Increase in short-term bank deposits with original maturity of more than three months | | - | (17,148) |
| Decrease in restricted bank deposits | | - | 9,699 |
| Acquisition of subsidiaries | | (6,224) | (10,000) |
| Interest received | | 2,439 | 2,288 |
| Dividends received from: | | | |
| Listed investments | | 930 | 1,526 |
| Associates | | 3,548 | 2,762 |
| Proceeds from sale of property, plant and equipment | | 3 | - |
| Net cash used in investing activities | | (14,674) | (38,555) |
| Cash flows from financing activities | | | |
| Dividend paid to the Company's shareholders | | (65,564) | (70,248) |
| Proceeds from short term loan from a non-controlling shareholder | | 4,800 | - |
| Proceeds from shares issued | | - | 166 |
| Net cash used in financing activities | | (60,764) | (70,082) |
| Net increase in cash and cash equivalents | | 47,808 | 24,783 |
| Cash and cash equivalents at 1 January | | 395,511 | 318,857 |
| Cash and cash equivalents at 30 June | | 443,319 | 343,640 |
| Analysis of cash and cash equivalents: | | | |
| Cash and bank balances | | 443,319 | 359,199 |
| Less: Restricted bank deposit | 15 | - | (15,559) |
| | | 443,319 | 343,640 |

The notes on pages 9 to 18 form an integral part of these condensed consolidated interim financial information.

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.

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2. Revenue and segment information (continued)

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.

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 |
| 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 |

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2. Revenue and segment information (continued)

(b) Reconciliation of reportable segment profit or loss

| | (Unaudited) | |
|---|----------------------------------|------------|
| | For the six months ended 30 June | |
| | 2014 | 2013 |
| | HK\$'000 | 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 HK\$'000 | Plant & machinery HK\$'000 | Other fixed assets HK\$'000 | Assets in progress HK\$'000 | Total 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 |

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5. Intangible assets

| | (Unaudited) | | | | | | |
|---------------------------------------|-------------------------------|----------------------------|----------------------|------------------------------------|-------------------------------------|--------------------------------|-------------------|
| | Publishing titles HK\$'000 | Software costs HK\$'000 | Goodwill HK\$'000 | Customer relationships HK\$'000 | Other intangible assets HK\$'000 | Assets in progress HK\$'000 | Total HK\$'000 |
| At 1 January 2014 | 8,846 | 22,080 | 58,686 | 58,919 | 10,383 | 1,535 | 160,449 |
| Additions | - | 1,016 | - | - | - | 2,861 | 3,877 |
| Reclassification | - | 1,283 | - | - | - | (1,283) | - |
| Amortisation | (244) | (4,172) | - | (2,270) | (229) | - | (6,915) |
| Acquisition of a subsidiary | 1,927 | - | 3,708 | 1,843 | 73 | - | 7,551 |
| Translation differences | (15) | - | (31) | (15) | (1) | - | (62) |
| Net book value at 30 June 2014 | 10,514 | 20,207 | 62,363 | 58,477 | 10,226 | 3,113 | 164,900 |
| At 30 June 2014 | | | | | | | |
| Cost | 1,830,941 | 93,258 | 62,363 | 67,015 | 11,007 | 3,113 | 2,067,697 |
| Accumulated amortisation | (1,820,427) | (73,051) | - | (8,538) | (781) | - | (1,902,797) |
| Net book value at 30 June 2014 | 10,514 | 20,207 | 62,363 | 58,477 | 10,226 | 3,113 | 164,900 |

6. 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 HK\$'000 | Percentage % | Balance HK\$'000 | Percentage % |
| 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 | |

7. 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.

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8. Other reserves

| | (Unaudited) | | | | |
|--|--|---------------------------------------|---------------------------------|---|-------------------|
| | Investment revaluation reserve HK\$'000 | Asset revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Employee share-based compensation reserve HK\$'000 | Total HK\$'000 |
| At 1 January 2014 | 102,929 | 26,117 | (21,162) | 3,403 | 111,287 |
| Other comprehensive (loss)/income | | | | | |
| Available-for-sale financial assets | | | | | |
| - Fair value loss charged to equity | (31,607) | - | - | - | (31,607) |
| Exchange difference on consolidation | - | - | 205 | - | 205 |
| Total other comprehensive (loss)/income | (31,607) | - | 205 | - | (31,402) |
| Employee share-based compensation benefits | - | - | - | 214 | 214 |
| At 30 June 2014 | 71,322 | 26,117 | (20,957) | 3,617 | 80,099 |

| | Investment revaluation reserve HK\$'000 | Asset revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Employee share-based compensation reserve HK\$'000 | Total HK\$'000 |
|--|--|---------------------------------------|---------------------------------|---|-------------------|
| | At 1 January 2013 | 117,530 | 26,117 | (18,409) | 2,747 |
| Other comprehensive loss | | | | | |
| Available-for-sale financial assets | | | | | |
| - Fair value loss charged to equity | (30,404) | - | - | - | (30,404) |
| Exchange difference on consolidation | - | - | (180) | - | (180) |
| Total other comprehensive loss | (30,404) | - | (180) | - | (30,584) |
| Employee share-based compensation benefits | - | - | - | 591 | 591 |
| At 30 June 2013 | 87,126 | 26,117 | (18,589) | 3,338 | 97,992 |

9. 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 HK\$'000 | Percentage % | Balance HK\$'000 | Percentage % |
| 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 | |

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10. Capital commitments

| | (Unaudited) 30 June 2014 HK\$'000 | (Audited) 31 December 2013 HK\$'000 |
|---|---|---|
| Capital commitments for property, plant and equipment | | |
| Contracted, but not provided for | 12,270 | 14,489 |
| Authorised, but not contracted for | 58,023 | 70,399 |
| | 70,293 | 84,888 |

11. Finance income

| | (Unaudited) For the six months ended 30 June 2014 HK\$'000 | 2013 HK\$'000 |
|---|---|------------------|
| Interest income on bank deposits | 1,674 | 1,493 |
| Interest income on available-for-sales financial assets | 742 | 742 |
| | 2,416 | 2,235 |

12. 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 HK\$'000 | 2013 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 |

13. 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.

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14. 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).

15. Restricted bank deposit

The Group has an undrawn banking facility which was secured by cash deposit of EUR924,150 (HK\$15,559,000) as at 30 June 2013. Such facility expired in second half of 2013 and no cash deposit was used to secure any kind of banking facility as at 30 June 2014.

16. Acquisition of a subsidiary

On 3 April 2014, South China Morning Post Publishers Limited, a wholly-owned subsidiary of the Company, acquired Destination Macau Limited ("DM"), a media company in Macau, for MOP\$7,000,000 (HK\$6,797,000).

DM is involved in the publication of a number of magazine titles in Macau, including *Destination Macau* and *DM Exclusive*. The goodwill of HK\$3,708,000 arising from the acquisition is attributable to acquired economies of scale from combining the operations of the Group and DM. None of the goodwill recognised is expected to be deductible for income tax purpose.

The following table summarises the consideration paid for DM, the fair value of assets acquired, liabilities assumed and goodwill at the acquisition date:

| | (Unaudited) HK\$'000 |
|---|-------------------------|
| Consideration: | |
| At acquisition | |
| Cash | 6,408 |
| Payable | 389 |
| Total consideration | 6,797 |
| Recognised amounts of identifiable assets acquired and liabilities assumed | |
| Publication titles | 1,927 |
| Customer relationship | 1,843 |
| Backlog | 73 |
| Tangible fixed assets | 43 |
| Accounts receivable | 1,452 |
| Prepayment, deposits and other receivables | 49 |
| Cash and cash equivalent | 184 |
| Accounts payable and accrued liabilities | (1,611) |
| Current income tax liabilities | (231) |
| Unearned revenue | (179) |
| Deferred tax liabilities | (461) |
| Total identifiable net assets | 3,089 |
| Goodwill | 3,708 |
| | 6,797 |
| Consideration | 6,797 |
| Less: Cash and cash equivalent of the subsidiary acquired | (184) |
| Less: Balance of consideration | (389) |
| Net consideration paid | 6,224 |

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16. Acquisition of a subsidiary (continued)

Acquisition-related costs for DM of HK\$316,000 have been charged to other operating expenses in the consolidated statement of comprehensive income for the period ended 30 June 2014.

The revenue included in the consolidated statement of comprehensive income since 3 April 2014 contributed by the acquired business was HK\$1,131,000. Profit arising from this business for the same period was HK\$314,000.

Had DM been consolidated from 1 January 2014, the condensed consolidated statement of comprehensive income would show pro-forma revenue of HK\$599,505,000 and profit of HK\$62,106,000.

17. Fair value measurement of financial instruments

(a) Financial assets measured at fair value

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets that are measured at fair value at 30 June 2014 and 31 December 2013.

| | Level 1 30 June 2014 HK\$'000 | Level 1 31 December 2013 HK\$'000 |
|-------------------------------------|-------------------------------------|---|
| Recurring fair value measurement | | |
| Financial assets: | | |
| Available-for-sale financial assets | | |
| - Equity securities | 157,373 | 188,560 |
| - Debt investments | 25,893 | 26,317 |
| | 183,266 | 214,877 |

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at amortised cost, including accounts and other receivables, amounts due from/to associates, cash and bank balances, accounts payable and loan from a non-controlling shareholder, are not materially different from their fair values as at 30 June 2014 and 31 December 2013.

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18. Related party transactions

Kerry Media Limited, a company incorporated in the British Virgin Islands, is the immediate holding company of the Company. Kerry Group Limited, a company incorporated in the Cook Islands, is the ultimate holding company of Kerry Media Limited. The directors regard Kerry Group Limited as the ultimate holding company of the Company as of the balance sheet date.

(a) Transactions with Kerry Group

Significant transactions with Kerry Group Limited and its subsidiaries ("Kerry Group"), which were carried out in the normal course of the Group's business at terms determined and agreed by both parties, are as follows:

| | (Unaudited) For the six months ended 30 June | |
|-----------------------------------|---|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| Rendering of services | | |
| - Advertising revenue | 373 | 783 |
| - Magazine production service fee | 685 | 3,221 |
| | 1,058 | 4,004 |

(b) Balances arising from transactions with Kerry Group

| | (Unaudited) 30 June 2014 HK\$'000 | (Audited) 31 December 2013 HK\$'000 |
|---|---|---|
| Receivables arising from advertising services | 67 | 154 |
| Receivables arising from magazine production services | - | 126 |
| | 67 | 280 |

(c) Transactions with HCl group

Hearst Communications Inc. ("HCl"), a company formed under the laws of the State of Delaware in the United States of America, through its subsidiaries, exercises significant influence over SCMP Hearst Publications Limited, SCMP Hearst Hong Kong Limited and SCMP Hearst Magazines Limited, all of which are indirect subsidiaries of the Company. During the period, the Group has the following significant transactions with HCl and its subsidiaries:

| | (Unaudited) For the six months ended 30 June | |
|--|---|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| Rendering of services | | |
| - Royalty expenses | 6,721 | 5,410 |
| - Payment in respect of advertising sales/agency agreement | 4,160 | 3,714 |
| | 10,881 | 9,124 |

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18. Related party transactions (continued)

(d) Balances arising from transactions with HCI group

| | (Unaudited) 30 June 2014 HK\$'000 | (Audited) 31 December 2013 HK\$'000 |
|--|---|---|
| Royalty expenses payable | 5,171 | 773 |
| Amount payable in respect of advertising sales/agency agreements | 98 | 468 |
| | 5,269 | 1,241 |

(e) Key management personnel compensation

| | (Unaudited) For the six months ended 30 June | |
|---|---|------------------|
| | 2014 HK\$'000 | 2013 HK\$'000 |
| Salaries and other short-term employee benefits | 14,531 | 15,649 |
| Post-employment benefits | 303 | 254 |
| Employee share-based compensation benefits | 156 | 336 |
| | 14,990 | 16,239 |

19. Approval of the interim financial information

This interim financial information was approved by the Board of Directors on 21 August 2014.

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羅兵咸永道

**REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF SCMP GROUP LIMITED**
(incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information set out on pages 5 to 18, which comprises the condensed consolidated balance sheet of SCMP Group Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2014 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 August 2014

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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.

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Revenue

During the period, our advertising board business has been transferred from the Property segment to a new business unit set up to develop the outdoor media market. Accordingly, the revenue by business segment for 2013 has been restated. The consolidated revenue for the six months ended 30 June 2014 and 2013 by business segment and for the Group were as follows:

| (HK\$ millions) | For the six months ended 30 June | | |
|----------------------------|----------------------------------|--------------------|-----------|
| | 2014 | 2013 (Restated) | % Change |
| Newspaper publishing | 406.1 | 365.5 | 11 |
| Magazine publishing | 158.1 | 124.7 | 27 |
| Property | 15.4 | 14.8 | 4 |
| Others [#] | 22.9 | 8.4 | * |
| Inter-segment eliminations | (4.6) | (4.3) | 7 |
| Total revenue | 597.9 | 509.1 | 17 |

* Represents a change in excess of 100%

[#] Includes the outdoor media business

Operating Costs and Expenses

Operating costs and expenses for the six months ended 30 June 2014 and 2013 were as follows:

| (HK\$ millions) | For the six months ended 30 June | | |
|---|----------------------------------|--------------|-----------|
| | 2014 | 2013 | % Change |
| 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 |
| Depreciation and amortisation | 33.6 | 29.0 | 16 |
| Total operating costs and expenses | 527.6 | 451.6 | 17 |

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.

Adjusted EBITDA and Operating profit

Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortisation, other income and fair value gain on investment properties. Adjusted EBITDA and adjusted operating profit for the six months ended 30 June 2014 and 2013 by business segment and for the Group were as follows:

| (HK\$ millions) | Adjusted EBITDA | | | Adjusted operating profit | | |
|----------------------|-----------------|--------------------|-----------|---------------------------|--------------------|-----------|
| | 2014 | 2013 (Restated) | % Change | 2014 | 2013 (Restated) | % Change |
| Newspaper publishing | 36.1 | 23.5 | 54 | 10.1 | 0.8 | * |
| Magazine publishing | 50.8 | 44.5 | 14 | 46.4 | 41.0 | 13 |
| Property | 13.4 | 12.3 | 9 | 10.8 | 9.5 | 14 |
| Others | 3.6 | 6.2 | (42) | 3.0 | 6.2 | (52) |
| Total | 103.9 | 86.5 | 20 | 70.3 | 57.5 | 22 |

* Represents a change in excess of 100%

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FINANCIAL REVIEW BY BUSINESS

Newspaper Publishing

| (HK\$ millions) | For the six months ended 30 June | | |
|---|----------------------------------|-------|----------|
| | 2014 | 2013 | % Change |
| Revenue | 406.1 | 365.5 | 11 |
| Adjusted EBITDA | 36.1 | 23.5 | 54 |
| Adjusted operating profit | 10.1 | 0.8 | * |
| Net profit attributable to shareholders | 15.7 | 5.6 | * |
| Adjusted EBITDA margin | 9% | 6% | |
| Adjusted operating profit margin | 2% | 0.2% | |

* Represents a change in excess of 100%

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

| (HK\$ millions) | For the six months ended 30 June | | |
|---|----------------------------------|-------|----------|
| | 2014 | 2013 | % Change |
| Revenue | 158.1 | 124.7 | 27 |
| Adjusted EBITDA | 50.8 | 44.5 | 14 |
| Adjusted operating profit | 46.4 | 41.0 | 13 |
| Net profit attributable to shareholders | 26.1 | 24.3 | 7 |

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 *The Peak* to our portfolio of magazine titles to strengthen our position as market leader in the industry.

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Property

| (HK\$ millions) | For the six months ended 30 June | | % Change |
|--|----------------------------------|--------------------|----------|
| | 2014 | 2013 (Restated) | |
| Revenue | 15.4 | 14.8 | 4 |
| Adjusted EBITDA | 13.4 | 12.3 | 9 |
| Adjusted operating profit | 10.8 | 9.5 | 14 |
| Net profit attributable to shareholders [#] | 8.9 | 68.5 | (87) |

[#] Net profit for first half of 2013 included \$59.6m fair value gains on investment properties. There was no valuation gain or loss for first half of 2014.

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 report, the Company has not been notified by the Government of the amount of land premium.

LIQUIDITY AND CAPITAL RESOURCES

The Group's main source of liquidity is recurring cash flows from the publishing business. The Group's financial position as at 30 June 2014 and 31 December 2013 were as follows:

| (HK\$ millions) | 30 June 2014 | 31 December 2013 | % Change |
|------------------------|--------------|------------------|----------|
| Cash and bank balances | 443.3 | 395.5 | 12 |
| Shareholders' funds | 3,049.4 | 3,104.3 | (2) |
| Current ratio | 2.8 | 2.6 | 8 |

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.

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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*, *The 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 Southern 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 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 organised with attendance by the who's who of Hong Kong's luxury business. A busier second half calendar of events beckons.

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.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 features and form factors of smart phones continue to improve, together with telecommunications infrastructure.

* 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

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Editorially, the *South China Morning Post* continued its award-winning tradition with a record-breaking 98 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 organisation 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 in 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.

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DIRECTORS

The Directors of the Company during the six months ended 30 June 2014 and up to the date of this report were:

Non-executive Directors

Dr. David J. Pang (Chairman)
Mr. Roberto V. Ongpin (Deputy Chairman)
Tan Sri Dr. Khoo Kay Peng

Independent Non-executive Directors

Dr. Fred Hu Zu Liu
Dr. the Hon. Sir David Li Kwok Po
Mr. Wong Kai Man
Mr. Ronald J. Arculli (retired with effect from 3 June 2014)

Executive Director

Ms. Kuok Hui Kwong

Board of Directors

NON-EXECUTIVE DIRECTORS

Dr. David J. Pang

Chairman

Dr. Pang was appointed a Non-Executive Director of the Company in December 2007 and became the Non-Executive Chairman in January 2009. He has been a director of Kerry Holdings Limited, a substantial shareholder of the Company, since 15 March 2007. Dr. Pang also serves as chief executive officer of Kerry Group Kuok Foundation Limited, a charitable organisation and on the board of Visa Inc. (listed on the New York Stock Exchange). He previously held senior global business management positions with multinational corporations and taught at universities in North America and Asia. Dr. Pang served as chief executive officer of Airport Authority Hong Kong from January 2001 to February 2007 after a successful career with the conglomerate E.I. DuPont, where he was corporate vice president in charge of DuPont worldwide nonwovens business and chairman, DuPont Greater China. During his career with DuPont, Dr. Pang held a number of progressively senior positions across various DuPont businesses and with responsibilities spanning the Asia Pacific, North America, Europe and South America since 1980.

Mr. Roberto V. Ongpin

Deputy Chairman

Mr. Ongpin was appointed as the Deputy Chairman of the Company in October 1993. He is the chairman of PhilWeb Corporation, Alphaland Corporation, Atok-Big Wedge Co., Inc. and PAL Holdings Inc., all of which are listed on the Philippine Stock Exchange, Inc. ("PSE"). He is also a director of Philippine Airlines, Inc. and a non-executive director of Forum Energy PLC, a listed company on the London Stock Exchange. Mr. Ongpin retired as a non-executive director of Shangri-La Asia Limited, a company listed on The Stock Exchange of Hong Kong Limited, and as director of Makati Shangri-La Hotel & Resort, Inc. on 29 May 2014. He also retired on 20 May 2014 as director of Petron Corporation and 10 June 2014 as director of San Miguel Corporation. Mr. Ongpin served as chairman of Developing Countries Investment Corp. (Bahamas) and Eastern Telecommunications Philippines, Inc. until 2011, and Acentic GmbH (Germany) until November 2013. Mr. Ongpin was co-chairman of Philippine Bank of Communications until 2012, and was director of Ginebra San Miguel, Inc. until May 2013, Araneta Properties, Inc. and Philex Mining Corporation until 2009, and ISM Communications Corporation until November 2013, all of which are listed on the PSE. He was a director of E2-Capital (Holdings) Limited (presently known as CIAM Group Limited), listed on The Stock Exchange of Hong Kong Limited, until 2008. Prior to 1979, Mr. Ongpin was the chairman and managing partner of the SGV Group, the largest accounting and consulting firm in Asia. He was the Minister of Trade and Industry of the Republic of the Philippines from 1979 to 1986. He has an MBA from Harvard University and is a Certified Public Accountant (Philippines).

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Tan Sri Dr. Khoo Kay Peng

Tan Sri Dr. Khoo is the chairman and chief executive of The MUI Group, which is a business corporation with diversified operations in the Asia Pacific, the United States of America (“USA”) and the United Kingdom (“UK”). Tan Sri Dr. Khoo is the chairman and chief executive of Malayan United Industries Berhad and MUI Properties Berhad, both are public companies incorporated in Malaysia and listed on Bursa Malaysia Securities Berhad. He is also the chairman of Pan Malaysian Industries Berhad, a public company incorporated in Malaysia, and a director of Metrojaya Berhad and MUI Continental Berhad, both are public companies incorporated in Malaysia. Dr. Khoo is also the chairman of Laura Ashley Holdings plc (listed in London) and Corus Hotels Limited, UK. He is also a director of The Bank of East Asia, Limited (listed in Hong Kong). He was the chairman of Morning Star Resources Limited (listed in Hong Kong) until October 2010. Dr. Khoo is a trustee of the Regent University, Virginia, USA and a board member of Northwest University, Seattle, USA. He also serves as a Council Member of the Malaysian-British Business Council, the Malaysia-China Business Council and the Asia Business Council.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Fred Hu Zu Liu

Dr. Hu is chairman and founder of Primavera Capital Group, a China-based global investment firm. He was formerly a partner, managing director and chairman of Greater China at Goldman Sachs and was instrumental in building the firm’s franchise in the region. He also served as an economist at the I.M.F. in Washington D.C., where he was engaged in macroeconomic research, policy consultations and technical assistance for member country governments including China. He has been co-director at the National Center for Economic Research and professor at Tsinghua University since 1996 and is a member of the editorial board for several academic journals and a columnist for China’s leading business magazines. Dr. Hu has advised the Chinese government on financial and pension reform, SOE restructuring and macroeconomic policies. He is a member of the advisory committees of Harvard China Fund, Stanford Center for International Development and the Chazen Institute of Columbia Business School. He is also a trustee of China Medical Board and a trustee of the Nature Conservatory’s China Board. Dr. Hu is an independent non-executive director of Hang Seng Bank Limited (listed in Hong Kong) and an external supervisor of Shanghai Pudong Development Bank Co., Ltd. (listed in Shanghai). He was an independent director of Shanghai Pudong Development Bank Co., Ltd. from 2002 to 2008. Dr. Hu holds a master in engineering science from Tsinghua University, and a master and PhD in economics from Harvard University.

Dr. the Hon. Sir David Li Kwok Po

GBM, GBS, OBE, JP, MA Cantab. (Economics & Law), Hon. LLD (Cantab), Hon. DSc. (Imperial), Hon. LLD (Warwick), Hon. DBA (Edinburgh Napier), Hon. D.Hum.Litt. (Trinity, USA), Hon. LLD (Hong Kong), Hon. DSocSc (Lingnan), Hon. D.Litt. (Macquarie), Hon. DSocSc (CUHK), FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCI Arb, Officier de l’Ordre de la Couronne, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Commandeur dans l’Ordre National de la Légion d’Honneur

Sir David is chairman and chief executive of The Bank of East Asia, Limited (listed in Hong Kong). He is the chairman of The Chinese Banks’ Association, Limited. He is also a member of the Council of the Treasury Markets Association. Sir David is an independent non-executive director of Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited and Vitasoy International Holdings Limited (all listed in Hong Kong). He is a director of CaixaBank, S.A. (listed in Spain). Sir David was an independent non-executive director of China Overseas Land & Investment Limited and COSCO Pacific Limited (both listed in Hong Kong), a non-independent non-executive director of AFFIN Holdings Berhad (listed in Malaysia) and a member of the Legislative Council of Hong Kong from 1985 to 2012.

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Mr. Wong Kai Man

BBS, JP

Mr. Wong is an accountant with 33 years of audit, initial public offering and computer audit experience. He was a member of the Growth Enterprise Market Listing Committee of The Stock Exchange of Hong Kong Limited from 1999 to 2003. He retired as an audit partner from PricewaterhouseCoopers, Hong Kong on 30 June 2005 and is currently a director of two charity foundations: Victor and William Fung Foundation Limited and Fung (1906) Foundation Limited, and an Honorary Associate Professor of the School of Business of the University of Hong Kong. He was an independent non-executive director of China Construction Bank Corporation (listed in Hong Kong and Shanghai)(expired on 12 December 2013). He is currently an independent non-executive director of Shangri-La Asia Limited (listed in Hong Kong and Singapore), SUNeVision Holdings Ltd. (listed in Hong Kong) and Vtech Holdings Limited (listed in Hong Kong). He is a non-executive director of the Securities and Futures Commission. In addition, he serves in a number of government committees and the board of certain non-governmental organisations. Mr. Wong obtained his bachelor of science in Physics from the University of Hong Kong and master of business administration from the Chinese University of Hong Kong, and is a fellow of the Association of Chartered Certified Accountants, United Kingdom and a fellow of the Hong Kong Institute of Certified Public Accountants.

EXECUTIVE DIRECTOR

Ms. Kuok Hui Kwong

Ms. Kuok was appointed an Executive Director of SCMP Group in February 2004 and became the Managing Director and Chief Executive Officer in January 2009 until she decided to step down in June 2012. She remains an Executive Director of the Company to work with the Board to focus on the overall growth strategy of the Company. Ms. Kuok is a director of Kerry Holdings Limited, a substantial shareholder of the Company and a director of Kerry Group Kuok Foundation Limited, a charitable organisation. She is also a board Director of The Post Publishing Public Company Limited (publisher of the Bangkok Post and listed in Thailand). Prior to joining SCMP Group in October 2003, Ms. Kuok worked as an analyst in the investment banking unit of JP Morgan. Ms. Kuok received her undergraduate degree from Harvard University.

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CORPORATE EXECUTIVES

Mr. Robin Hu Yee Cheng

Chief Executive Officer

Mr. Hu joined the SCMP Group as Chief Executive Officer in June 2012. Before joining SCMP, he was senior EVP with the Singapore Press Holdings overseeing its Chinese Newspaper Business and the group's Newspaper Services function. Prior to that, he held various senior management positions with Singtel's IT services arm NCS Ltd, the Singapore Economic Development Board based in Suzhou and Shanghai and later Asiacontent.com in Beijing where he was instrumental in launching and managing several portals for leading international media brands. Mr. Hu graduated from the University of Kent with a BSc in Mathematics and the University of Wales with an MSc in Computer Science.

Ms. Elsie Cheung Hoi Sze

Chief Operating Officer

Ms. Cheung was promoted to Chief Operating Officer of the SCMP Group in January 2011, and is in charge of all commercial operations within the newspaper group. Ms. Cheung began her career at the *South China Morning Post*, before building broad experience across other blue-chip media organisations including TVB, Hong Kong Telecom and SUNeVision. She returned to the SCMP Group in 2001 and continued growing her career, first within the Recruitment Services division, then as the director of Advertising and Marketing Services, before being promoted to her current position.

Mr. Alex Kam Kwong Fai

Chief Financial Officer

Mr. Kam joined the SCMP Group on 10 March 2011. With a career spanning Hong Kong, England and Sydney, Mr. Kam is a qualified Chartered Accountant with 30 years' experience that covers corporate finance, treasury, financial control and strategic planning. He was most recently in a general management position at the Airport Authority Hong Kong, where he has held multiple senior management positions over a period of 11 years. Prior to this he held senior positions at HSBC Markets, Chase Manhattan Asia Ltd, Credit Suisse First Boston HK and Citicorp International Ltd.

Mr. Wang Xiang Wei

Editor-in-Chief

Mr. Wang took up the role of Editor-in-Chief in February 2012, responsible for the editorial direction and newsroom operations. He started his 20-year career at the China Daily, before moving to the UK, where he gained valuable experience at a number of news organisations, including the BBC Chinese Service. In 1993, he moved to Hong Kong and worked at the *Eastern Express* before joining the *South China Morning Post* in 1996 as our China Business Reporter. He was subsequently promoted to China Editor in 2000 and Deputy Editor in 2007, a position he held for four years prior to being promoted to his current position. Mr. Wang has a master degree in Journalism, and a bachelor degree in English.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the Directors and Chief Executive Officer of the Company had the following interests or short positions in shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

(i) Company

| Name of Director | Capacity/ Nature of interests | Number of ordinary shares held | Approximate % of issued share capital |
|-----------------------------------|-------------------------------------|--------------------------------------|---|
| Dr. the Hon. Sir David Li Kwok Po | Personal | 4,778,000 | 0.31% ⁸ |

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(ii) Associated Corporations

| Name of Associated Corporation | Name of Director | Number of ordinary shares held | | | Number of underlying ordinary shares held under equity derivatives | Total | Approximate % of issued share capital |
|---------------------------------|--------------------|--------------------------------|---------------------|--------------------------|--|-------------|---------------------------------------|
| | | Personal interests | Corporate interests | Family/ Other interests | | | |
| Kerry Group Limited | Dr. David J. Pang | 1,500,000 | - | - | 500,000 ¹ | 2,000,000 | 0.13% ⁹ |
| | Ms. Kuok Hui Kwong | - | - | 179,762,263 ² | 2,000,000 ³ | 181,762,263 | 11.90% ⁹ |
| Kerry Properties Limited | Ms. Kuok Hui Kwong | 77,000 | - | 8,381,945 ⁴ | 1,100,000 ⁵ | 9,558,945 | 0.66% ¹⁰ |
| Kerry Logistics Network Limited | Ms. Kuok Hui Kwong | 38,500 | - | 4,865,973 ⁶ | - | 4,904,473 | 0.29% ¹¹ |
| Vencedor Investments Limited | Ms. Kuok Hui Kwong | 5 | - | 5 ⁷ | - | 10 | 10.00% ¹² |

Notes:

- This represents interests in options held by Dr. David J. Pang to subscribe for the relevant underlying ordinary shares in respect of option shares granted by Kerry Group Limited, details of which are set out in the section headed "Directors' and Chief Executive Officer's rights to acquire shares or debentures" below.
- This includes 1,500,000 shares held by the spouse of Ms. Kuok Hui Kwong and 178,262,263 shares held by discretionary trusts of which Ms. Kuok Hui Kwong and/or her spouse are contingent beneficiaries.
- This represents interests in options held by Ms. Kuok Hui Kwong and her spouse to subscribe for the relevant underlying ordinary shares in respect of option shares granted by Kerry Group Limited, details of which are set out in the section headed "Directors' and Chief Executive Officer's rights to acquire shares or debentures" below.
- This includes 100,000 shares held by the spouse of Ms. Kuok Hui Kwong and 8,281,945 shares held by discretionary trusts of which Ms. Kuok Hui Kwong and/or her spouse are contingent beneficiaries.
- This represents interests in options held by the spouse of Ms. Kuok Hui Kwong to subscribe for the relevant underlying ordinary shares in respect of option shares granted by Kerry Properties Limited, details of which are set out in the section headed "Directors' and Chief Executive Officer's rights to acquire shares or debentures" below.
- This includes 725,000 shares held by the spouse of Ms. Kuok Hui Kwong and 4,140,973 shares held by discretionary trusts of which Ms. Kuok Hui Kwong and/or her spouse are contingent beneficiaries.
- This represents interests held by the spouse of Ms. Kuok Hui Kwong.
- Approximate percentage calculated based on the 1,561,057,596 ordinary shares of the Company in issue as at 30 June 2014.
- Approximate percentage calculated based on the 1,528,037,914 ordinary shares of Kerry Group Limited in issue as at 30 June 2014.
- Approximate percentage calculated based on the 1,444,362,228 ordinary shares of Kerry Properties Limited in issue as at 30 June 2014.
- Approximate percentage calculated based on the 1,690,543,612 ordinary shares of Kerry Logistics Network Limited in issue as at 30 June 2014.
- Approximate percentage calculated based on the 100 ordinary shares of Vencedor Investments Limited in issue as at 30 June 2014.

All the interests stated above represent long positions in the shares of the Company or its associated corporations.

Apart from the aforesaid, as at 30 June 2014, none of the Directors and Chief Executive Officer of the Company had any interest or short position in any shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(i) Company

During the six months ended 30 June 2014, none of the Directors and Chief Executive Officer (including their spouses and children under 18 years of age) have any interest in, or had been granted, or had exercised, any rights to subscribe for shares or debentures of the Company required to be disclosed pursuant to the SFO.

(ii) Associated Corporations

(a) Kerry Group Limited

Dr. David J. Pang, Ms. Kuok Hui Kwong and her spouse have interests in the share options ("KGL Options") to subscribe for shares in Kerry Group Limited, an associated corporation of the Company (within the meaning of the SFO), during the six months ended 30 June 2014. Details are set out as follows:

| Name of Director | Date of grant | Number of KGL Options held as at 01/01/2014 | Number of KGL Options granted during the period | Number of KGL Options exercised during the period | Number of KGL Options held as at 30/06/2014 | Exercise price/share HK\$ | Exercise period |
|--------------------|-------------------------|---|---|---|---|---------------------------|-------------------------|
| Dr. David J. Pang | 19/07/2010 | 600,000 | - | (100,000) | 500,000 | 10.00 | 19/07/2010 - 15/07/2017 |
| Ms. Kuok Hui Kwong | 19/07/2010 ¹ | 1,000,000 | - | - | 1,000,000 | 10.00 | 19/07/2010 - 15/07/2017 |
| | 26/07/2010 | 1,000,000 | - | - | 1,000,000 | 10.00 | 26/07/2010 - 15/07/2017 |

Note:

1. The KGL Options were granted to the spouse of Ms. Kuok Hui Kwong.

(b) Kerry Properties Limited

The spouse of Ms. Kuok Hui Kwong has interests in the share options ("KPL Options") to subscribe for shares in Kerry Properties Limited, an associated corporation of the Company (within the meaning of the SFO), during the six months ended 30 June 2014. Details are set out as follows:

| Date of grant | Number of KPL Options held as at 01/01/2014 | Number of KPL Options granted during the period | Number of KPL Options exercised during the period | Number of KPL Options held as at 30/06/2014 | Exercise price/share HK\$ | Exercise period |
|---------------|---|---|---|---|---------------------------|--|
| 02/04/2008 | 300,000 | - | - | 300,000 | 47.70 | Tranche I (75,000) - 02/04/2009 - 01/04/2018 Tranche II (75,000) - 02/04/2010 - 01/04/2018 Tranche III (150,000) - 02/04/2011 - 01/04/2018 |
| 30/04/2012 | 300,000 | - | - | 300,000 | 35.45 | Tranche I (150,000) - 31/10/2012 - 29/04/2022 Tranche II (150,000) - 31/10/2013 - 29/04/2022 |
| 08/01/2014 | - | 500,000 | - | 500,000 | 26.88 | Tranche I (250,000) - 08/07/2014 - 07/01/2024 Tranche II (250,000) - 08/01/2015 - 07/01/2024 |

Save as stated above, at no time during the six months ended 30 June 2014 had any Directors and Chief Executive Officer (including their spouses and children under 18 years of age) have any interest in, or had been granted, or had exercised, any rights to subscribe for shares or debentures of the associated corporations of the Company required to be disclosed pursuant to SFO.

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SUBSTANTIAL INTERESTS IN SHARE CAPITAL

As at 30 June 2014, the following persons (other than the Directors and Chief Executive Officer of the Company) had interests or short positions in the shares and underlying shares of the Company representing 5% or more of the voting power at any general meeting of the Company as recorded in the register required to be kept under Section 336 of the SFO:

| Name | Capacity/ Nature of interests | Number of ordinary shares held | Long position/ Short position | Approximate % of issued share capital ⁶ |
|--|-------------------------------------|--------------------------------------|----------------------------------|--|
| Kerry Group Limited | Interest of controlled corporations | 1,155,061,308 | Long position | 73.99% |
| Kerry Holdings Limited | Interest of controlled corporations | 1,155,061,308 ¹ | Long position | 73.99% |
| Kerry 1989 (C.I.) Limited | Interest of controlled corporations | 1,078,717,308 ² | Long position | 69.10% |
| Kerry Media Limited | Beneficial owner | 1,078,717,308 ³ | Long position | 69.10% |
| Silchester International Investors LLP | Investment manager | 221,365,000 | Long position | 14.18% |
| Silchester International Investors International Value Equity Trust | Beneficial owner | 108,275,634 ^{4,5} | Long position | 6.94% |

Notes:

1. The interests in the 1,155,061,308 shares held by Kerry Holdings Limited are duplicated in the interests reported above for Kerry Group Limited.
2. The interests in the 1,078,717,308 shares held by Kerry 1989 (C.I.) Limited are duplicated in the respective interests reported above for Kerry Group Limited and Kerry Holdings Limited.
3. The interests in the 1,078,717,308 shares held by Kerry Media Limited are duplicated in the respective interests reported above for Kerry Group Limited, Kerry Holdings Limited and Kerry 1989 (C.I.) Limited.
4. The Company has been notified informally that as at 30 June 2014, Silchester International Investors International Value Equity Trust was interested in 100,513,634 shares (representing approximately 6.44% of the Company's issued share capital) and this decrease in shareholding was not required to be disclosed under Part XV of the SFO.
5. The interests held by Silchester International Investors International Value Equity Trust are duplicated in the interests reported above for Silchester International Investors LLP.
6. Approximate percentage calculated based on the 1,561,057,596 ordinary shares of the Company in issue as at 30 June 2014.

Save as stated above, as at 30 June 2014, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in the shares and underlying shares of the Company.

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SHARE OPTION SCHEME

The Company has a share option scheme (the “Scheme”) which was approved at the annual general meeting of the Company held on 24 May 2010. The Scheme is designed to motivate the eligible persons, whose contributions are or will be beneficial to the performance, growth and success of the Group, to optimise their future contributions to the Group and reward them for their past contributions and enable the Group to attract and retain individuals with experience and ability.

No share option was granted under the Scheme during the six months ended 30 June 2014 (the “Period”).

The outstanding shares in respect of options granted under the Scheme as at 30 June 2014 are summarised below:

| | Number of shares in respect of options granted |
|-------------------------------|--|
| Outstanding at 1 January 2014 | 7,288,000 |
| Granted during the Period | - |
| Exercised during the Period | - |
| Cancelled during the Period | - |
| Lapsed during the Period | (300,000) |
| Outstanding at 30 June 2014 | 6,988,000 |

Details of the movements during the six months ended 30 June 2014 in the options granted under the Scheme are as follows:

(i) Options granted to Directors and Chief Executive Officer

None of the Directors and Chief Executive Officer of the Company has any outstanding options or has any options exercised, cancelled or lapsed during the six months ended 30 June 2014.

(ii) Options granted to employees

| Date of grant | Tranche | Number of options | | | | Outstanding at 30/06/2014 | Exercise price/share HK\$ | Exercise period |
|---------------|---------|---------------------------------|---------------------------------|-----------------------------------|--------------------------------|------------------------------|---------------------------------|-------------------------|
| | | Outstanding at 01/01/2014 | Granted during the Period | Exercised during the Period | Lapsed during the Period | | | |
| 28/11/2011 | 1 | 912,000 | - | - | - | 912,000 | 1.484 | 19/07/2012 - 27/11/2021 |
| 28/11/2011 | 2 | 342,000 | - | - | - | 342,000 | 1.484 | 19/10/2012 - 27/11/2021 |
| 28/11/2011 | 3 | 342,000 | - | - | - | 342,000 | 1.484 | 19/01/2013 - 27/11/2021 |
| 28/11/2011 | 4 | 366,000 | - | - | - | 366,000 | 1.484 | 19/04/2013 - 27/11/2021 |
| 28/11/2011 | 5 | 574,000 | - | - | (48,000) | 526,000 | 1.484 | 19/07/2013 - 27/11/2021 |
| 28/11/2011 | 6 | 505,000 | - | - | (18,000) | 487,000 | 1.484 | 19/10/2013 - 27/11/2021 |
| 28/11/2011 | 7 | 505,000 | - | - | (18,000) | 487,000 | 1.484 | 19/01/2014 - 27/11/2021 |
| 28/11/2011 | 8 | 505,000 | - | - | (18,000) | 487,000 | 1.484 | 19/04/2014 - 27/11/2021 |
| 28/11/2011 | 9 | 505,000 | - | - | (18,000) | 487,000 | 1.484 | 19/07/2014 - 27/11/2021 |
| 28/11/2011 | 10 | 579,000 | - | - | (21,000) | 558,000 | 1.484 | 19/10/2014 - 27/11/2021 |
| 28/11/2011 | 11 | 579,000 | - | - | (21,000) | 558,000 | 1.484 | 19/01/2015 - 27/11/2021 |
| 28/11/2011 | 12 | 579,000 | - | - | (21,000) | 558,000 | 1.484 | 19/04/2015 - 27/11/2021 |
| 28/11/2011 | 13 | 579,000 | - | - | (21,000) | 558,000 | 1.484 | 19/07/2015 - 27/11/2021 |
| 28/11/2011 | 14 | 104,000 | - | - | (24,000) | 80,000 | 1.484 | 19/10/2015 - 27/11/2021 |
| 28/11/2011 | 15 | 104,000 | - | - | (24,000) | 80,000 | 1.484 | 19/01/2016 - 27/11/2021 |
| 28/11/2011 | 16 | 104,000 | - | - | (24,000) | 80,000 | 1.484 | 19/04/2016 - 27/11/2021 |
| 28/11/2011 | 17 | 104,000 | - | - | (24,000) | 80,000 | 1.484 | 19/07/2016 - 27/11/2021 |
| Total | | 7,288,000 | - | - | (300,000) | 6,988,000 | | |

Note:

1. No options were granted, exercised or cancelled during the Period.

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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.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for securities transactions by Directors of the Company. All Directors of the Company have confirmed their compliance with the required standard set out in the Model Code during the period from 1 January 2014 to 30 June 2014.

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.

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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 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 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 of the Company 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.

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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 Company 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 of the Company. 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 of the Company as a whole.

On behalf of the Board
David J. PANG
Chairman

Hong Kong, 21 August 2014