

CORPORATE GOVERNANCE



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

Over the years, the Group has evolved sound corporate governance mechanisms to ensure it adheres to the highest ethical and business standards. The key test of corporate governance mechanisms is whether they align the interests of management with those of shareholders to adequately protect and promote shareholder 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.

Throughout the year the Group has complied with the Code of Best Practice of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") except that during the year the Non-executive Directors were not appointed for a specific term, but were subject to retirement by rotation and re-election in accordance with the Company's Bye-Laws.

The Group, however, has strived to do more and do better in its corporate governance practices. Set out below are our current framework of governance and the ways forward.

THE BOARD OF DIRECTORS

The Board recognises its responsibility to represent the interests of shareholders. The Board has eight Directors. Six are Non-executive Directors, including three Independent Non-executive Directors who represent more than one-third of the Board. The biographies of all the Directors are set out on pages 14 to 15 of this Annual Report.

Each Director brings a wide range and years of business experience to the Board. The Directors' combined knowledge, expertise and experience are extremely valuable in overseeing the Group's business.

The Board exercises its powers and performs its functions to consider or approve key matters including the following:

- Strategic direction
- Budgets
- Audited financial statements

- Interim and final results
- Interim and annual reports
- Significant investments
- Major acquisitions and disposals
- Major financings, borrowings and guarantees
- Material contracts
- Risk management

In addition the Board discusses major operating issues, evaluates opportunities and business risks, and considers corporate communications and human resources issues. In relation to financial reporting, all Directors acknowledge their responsibilities for preparing the accounts of the Group.

The Board holds at least four meetings annually at quarterly intervals. Agenda of Board meetings are approved by the Chairman and presented to the Directors for comments. The Board is provided with adequate, timely and reliable information about the Group's business and developments before each Board meeting at which the Directors actively participate and hold informed discussions. To ensure accurate records of Board discussions and decisions are kept, all Directors are asked to review and comment on the Board minutes within a reasonable time after the meetings. The number of Board meetings held and meetings attended by each of the Directors during the year were:

Directors	Meetings attended	Meetings held during directorship
Mr. Kuok Khoon Ean	4	4
Mr. Roberto V. Ongpin	4	4
Mr. Ronald J. Arculli	4	4
Tan Sri Dr. Khoo Kay Peng	3	4
Ms. Kuok Hui Kwong (Note 1)	4	4
Mr. Peter Lee Ting Chang	4	4
Dr. The Hon. David Li Kwok Po	4	4
Mr. Robert Ng Chee Siong (Note 2)	2	3
Mr. Thaddeus Thomas Beczak (Note 3)	1	1

Notes:

1. Ms. Kuok Hui Kwong was appointed on 6 February 2004.
2. Mr. Robert Ng Chee Siong was appointed on 24 May 2004.
3. Mr. Thaddeus Thomas Beczak retired at the annual general meeting held on 24 May 2004.

Corporate Governance

All the Directors have access to the advice and services of the Company Secretary to ensure all board procedures are followed. Before each Board meeting, the Directors update the Board regarding offices held in public and private companies and organisations. There are also written procedures for the Directors to obtain independent professional advice at the Company's expense. Insurance has been arranged to cover the liabilities of the Directors and senior executives of the Group. The Board has also adopted specific procedures for meetings to be convened among all Non-executive Directors including the Independent Non-executive Directors in the absence of any Executive Director.

Independence of Independent Non-executive Directors

The Board has received from each of the Independent Non-executive Directors a confirmation of his independence according to the guidelines set out in Rule 3.13 of the Listing Rules. The Board is of the view that all Independent Non-executive Directors of the Company are independent and is grateful for the contribution and independent advice and guidance that they have been giving to the Board and the Board Committees.

BOARD COMMITTEES

The Board has established a number of Board Committees to oversee certain aspects of the Group's affairs. Each Board Committee is appointed with written terms of reference and each member of the Board Committee has a formal letter of appointment setting out key terms and conditions relating to his appointment. Each Committee meets as frequently as required by business developments and the operation of the Group. Board Committee members are provided with adequate and timely information before each meeting or discussion. All Committee members are asked to review and comment on the minutes of their meetings within a reasonable time after the meetings.

Audit Committee

The Audit Committee was established in 1998. The members of the Committee are Messrs. Peter Lee Ting Chang as Committee Chairman, Ronald J. Arculli and David Li Kwok Po, who are all Independent Non-executive Directors. The Committee members have professional qualifications and experience in financial

matters that enable the Committee to exercise its powers effectively and provide the Board with independent views and recommendations in relation to financial matters. The Audit Committee's main duties include:

- Reviewing the completeness, accuracy and fairness of interim and annual financial statements
- Reviewing the external auditors' qualifications, independence and performance
- Reviewing and approving the nature and scope of audit, other terms of engagement and remuneration of the external auditors
- Reviewing the results of audits performed by the external auditors and actions required on significant audit findings and control weaknesses
- Reviewing the system of internal controls in place
- Acting as a communication channel between the Board, Management and external auditors

The Audit Committee meets at least twice a year. Special meetings may be called at the discretion of the Chairman or at the request of Management to review significant control or financial issues. The Audit Committee also meets with the external auditors in the absence of Management to understand the auditors' work and views. The Chairman of the Audit Committee reports to the Board at least twice a year on the Committee's activities and highlights any significant issues. The members attended all Committee meetings held in 2003 and 2004. Key matters reviewed by the Audit Committee during the year were:

- Audited financial statements
- Final and interim results
- Report from the external auditors on the audit of the Group's accounts
- Re-appointment of the external auditors
- Proposals from Management to set up an internal audit function
- Terms of reference of the Audit Committee

During the year, the Board has not taken any view that is different from that of the Audit Committee nor rejected any recommendation presented by the Audit Committee.



The terms of reference of the Audit Committee are available in the Group's corporate website www.scmpgroup.com.

Remuneration Committee

The Remuneration Committee was established in 2000. A majority of its current members are Independent Non-executive Directors. The members of the Committee are Messrs. Peter Lee Ting Chang as Committee Chairman, Ronald J. Arculli and Kuok Khoon Ean. The Committee determines the remuneration packages of all Executive Directors and senior management of the Group. The Committee also gives recommendations to the Board on the remuneration of Non-executive Directors. The Committee reviews human resources policies of the Group, including retirement benefits and share options under the Company's Share Option Scheme.

The terms of reference of the Remuneration Committee are available in the Group's corporate website www.scmpgroup.com.

Nomination Committee

The Nomination Committee was established recently by the Board to identify candidates for appointment to the Board and to review the size and composition of the Board. The members of the Committee are Messrs. Peter Lee Ting Chang, Ronald J. Arculli and Kuok Khoon Ean. The Chairman of the Nomination Committee is Mr. Peter Lee Tang Chang. Prior to the establishment of the Nomination Committee, the Board was responsible for agreeing to the appointment of its members and nominating them for election and re-election by the Company's shareholders.

The terms of reference of the Nomination Committee are available in the Group's corporate website www.scmpgroup.com.

Share Option Scheme Committee

The Share Option Scheme Committee was established in 1998. The Committee assisted the Board in reviewing proposals to grant share options to senior executives of the Group, giving recommendations to the Remuneration Committee and then to the Board. During the year, the members of the Committee were Messrs. Peter Lee Ting Chang, Ronald J. Arculli, David Li Kwok Po and Kuok Khoon Ean.

Since the Remuneration Committee has been assisting the Board in the review of share option grants, the Board recently approved a resolution to dissolve the Share Option Scheme Committee and empower the Remuneration Committee to review all grants of share options by the Company to the senior executives of the Group under the Company's Share Option Scheme.

Investment Committee

The Investment Committee was established in 1995. The Committee assisted the Board in reviewing and monitoring the Group's share investment portfolio and giving recommendations to the Board on investment decisions. During the year, the members of the Committee were Messrs. Kuok Khoon Ean and Roberto V. Ongpin.

In recent years, it has been the Group's practice to present major investment matters to the Board for deliberation and approval. As a result, the Board recently approved a resolution to dissolve the Investment Committee and present major investment matters to the Board for approval.

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Directors who are appointed to fill vacancies are subject to re-election at the first annual general meeting of the Company after his or her appointment. The Board has proposed amendments to the Company's Bye-Laws which would require all the Directors to be subject to retirement by rotation once every three years and each of the Non-executive Directors to be appointed for a specific term of three years. These proposed amendments will be presented for shareholders' approval at the Company's Annual General Meeting to be held in May 2005.

The Board also recently confirmed the terms of functions of all Non-executive Directors and Board Committee members with formal letters of appointment.

DIRECTORS' REMUNERATION

The Directors' fees and all other reimbursements and emoluments paid or payable to the Directors during the year are set out on an individual and named basis, in note 7 to the financial statements of this Annual Report on page 61.

Corporate Governance

BOARD'S DELEGATION OF POWERS AND MANAGEMENT FUNCTIONS

The Board sets the strategic direction and oversees the performance of the Group's business and management. The Board has the power to decide on all major or significant business matters of the Group under the written terms of the Board's powers and functions. In the written terms, the Board has also provided for specific delegation of powers and functions to Management and division of responsibilities between the Board and Management.

Management Committee

The Management Committee is composed of the Executive Chairman of the Board, chief officers of the Group and heads of the Group's divisions and key subsidiaries. Meetings are held regularly to:

- Ensure business activities are coordinated and profitable
- Discuss major operating issues
- Evaluate business and operating risks
- Review and propose strategic plans to achieve long term growth and profitability
- Review and approve major expenditures
- Approve partnerships, ventures and significant disposal of assets

Each of the Group's divisions also holds weekly or bi-monthly operational meetings with minutes of meetings circulated to the Management Committee.

SECURITIES TRANSACTIONS OF DIRECTORS AND SENIOR EXECUTIVES

The Board first adopted the Model Code of Securities Transactions by Directors in 1990. The Model Code requirements have been applied to govern securities transactions of senior executives of the SCMP Group since 1998. In 2004, the Board revised the Model Code to bring it in line with the amendments to the Listing Rules introduced by The Stock Exchange of Hong Kong Limited during the year.

The Director who had securities transactions in the Company's shares during the year had informed the Chairman of his intention of dealing prior to the transactions and provided the Company with details of the transactions thereafter in compliance with the Model Code. Interests in the Company's shares (including share options) held by the Directors as at 31 December 2004 are set out in the Directors' Report section of this Annual Report on page 26. All the Directors and senior executives have complied with the Model Code during the year.

CODE OF CONDUCT

We pride ourselves on our integrity and ethical standards. Our reputation is a priceless business asset and fundamentally depends on the fair and honest practices of all employees. We have adopted a Company Code of Conduct ("Code") to ensure that all Directors, managers and employees act with integrity. Employees are expected to share the responsibility of maintaining the Group's reputation and their own by performing their duties with objectivity, accuracy, fairness, and by strict compliance with all relevant laws of any applicable jurisdiction and the Code. Journalists are also expected to comply with the Hong Kong Journalists Association's Code of Ethics.

SHAREHOLDER RELATIONS & SHAREHOLDERS' RIGHTS

All of the Company's shares are ordinary shares carrying equal rights of vote. As at the date of this Annual Report, sufficient shares of the Company were on public float as required by the Listing Rules.

The Board and Management recognise their responsibility to look after the interests of the shareholders of the Company. Shareholder relations play an integral part in corporate governance. The Group keeps shareholders informed of its performance, operations and significant business developments in a number of ways.



We report on financial and operating performance to shareholders twice each year through annual and interim reports. We give shareholders the opportunity to raise concerns or propose recommendations to the Board at the Company's Annual General Meetings ("AGM"). A representative of the Company's external auditors is requested to attend the AGM to answer questions about the external audit and the audit report. Shareholders may visit our website www.scmpgroup.com for up-to-date financial and other information about the Group and its activities.

The Chairman of the Board and all former chairmen have attended all AGM and special general meetings of shareholders held by the Company throughout the years 1990 to 2004.

Shareholders have specific rights under the Company's Bye-Laws to convene special general meetings. A shareholder or shareholders holding not less than one-tenth of the Company's shares may require the Directors to convene a special general meeting of the Company by depositing a signed requisition at the registered office of the Company stating the purpose of the meeting. Up to the date of this Annual Report, no shareholder has requested the Company to convene a special general meeting.

During the year, the Company held an AGM and a special general meeting. At the AGM held in May, matters including the final dividend distribution, re-election of retiring Directors, re-appointment of external auditors, amendments to the Bye-laws of the Company, grant of a general mandate for the issuance and repurchase of Company shares by the Group were presented for shareholders' approval. All proposed resolutions were approved by the shareholders present at the meeting. At the special general meeting held in October, the Board proposed for shareholders' approval the disposal of the Group's Daily Stop business and assets. The disposal was unanimously approved by the shareholders present at the meeting.

The Company made changes to its Memorandum of Association and Bye-Laws during the year to comply with the amendments to the Listing Rules which came into effect on 31 March 2004.

We host analyst briefings twice a year after the interim and final results are released. In addition, senior management meets regularly with investors to provide information about the Group's performance and business activities. During 2004, senior management held 24 group and one-on-one investor meetings.

The Legal and Corporate Secretarial department and Corporate Communications department respond to enquiries from shareholders and other interested parties throughout the year. They also present to the Board any enquiry addressed to the Board by any shareholder. Their contact details are set out in the Corporate Information section of this Annual Report on page 83.

The Group promotes fair disclosure of information to all investors.

EXTERNAL AUDITORS

PricewaterhouseCoopers was first appointed as the Group's external auditors in 2001.

During the year, PricewaterhouseCoopers provided the following audit and non-audit services to the Group:

	2004 HK\$'000	2003 HK\$'000
External audit	1,769	1,543
Tax services	626	449
Other advisory services	990*	250

* Includes HK\$732,000 for attending stock count services in relation to the sale of retail assets.

PricewaterhouseCoopers will retire and offer themselves for re-appointment at the AGM of the Company to be held in May 2005.

INTERNAL CONTROLS

The Board of Directors recognises its responsibility for the Group's internal control system and has reviewed the internal control policies in place and the progress report presented by Management.

Corporate Governance

The Board is responsible for setting and reviewing internal control policies to monitor the Group's overall financial position, to protect its assets and to prevent material financial loss and misstatements. The Board delegates the implementation of these policies to Management. Management is responsible for identifying and evaluating the risks faced by the Group and for designing, operating and monitoring an effective internal control system which implements the policies adopted by the Board.

The Group's internal control system has been designed to help the Group achieve its business objectives, to safeguard its assets against unauthorised use, to ensure maintenance of proper accounting records, to provide reliable financial information for internal use and for public disclosure, and to ensure compliance with relevant legislation and regulations. The internal control system includes:

- A clearly defined organisational structure with proper delegation of authority, which is regularly reviewed by senior management
- Strategic plans for achieving annual operating and financial targets, including the preparation of the Group's budget which involves all department heads and is presented to the Board for approval annually
- Comprehensive budgeting, forecasting and management accounting systems to provide financial and operational key performance indicators, and to generate variances against budgets which are reviewed by senior management
- Quarterly operating results, which are reviewed by the Board

The Group reviews its internal control system no less than once a year. We have recently appointed KPMG, an accounting firm, to advise on the Group's internal control system and to assist the Group in setting up an internal audit function. The external advisor's review is expected to be completed in April 2005. The Group intends to establish an internal audit function in 2005.

CORPORATE DISCLOSURE POLICY

We have a corporate disclosure policy that ensures full and timely disclosure of material information and to give all shareholders equal access to such information.

In the event any material information is required to be disclosed to the public by law or the Listing Rules, the Group notifies the public through announcements published in English and Chinese newspapers in Hong Kong. The Board reviews and approves the information disclosed. Only the Board is authorized to approve on behalf of the Group, any announcements before they are released by the Legal and Corporate Secretarial department.

In addition to statutory reporting obligations, the Group provides timely information about corporate affairs by issuing press releases through the Corporate Communications department.

\$16,851,275

