

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 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 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.

In 2005, the corporate governance practices of the Group were updated to take into consideration the Code on Corporate Governance Practices ("Stock Exchange Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), which came into effect on 1 January 2005. The Group's corporate governance practices comply with all the code provisions of the Stock Exchange Code except where stated and explained below. The Group also adheres to the recommended best practices of the Stock Exchange Code insofar as they are relevant and practicable.

The Group believes that its current corporate governance practices, which combine practices which have served the Group well for many years and new practices set out in the Stock Exchange Code, provide the Group with a sound and sensible framework for balancing the business of the Group and the interests of its shareholders. The Group will continue to evaluate its corporate governance practices in light of its business needs, regulatory changes and new corporate governance philosophies.

Set out below are our current framework of governance and explanations about how the provisions of the Stock Exchange Code have been applied.

## THE BOARD OF DIRECTORS

The Board recognises its responsibility to represent the interests of shareholders. The Board has eight Directors. Two are Executive Directors and six are Non-executive Directors, including three Independent Non-executive Directors. Independent Non-executive Directors represent more than one-third of the Board.

### *Executive Directors:*

Mr. Kuok Khoon Ean (Chairman)  
Ms. Kuok Hui Kwong

### *Non-executive Directors:*

Mr. Roberto V. Ongpin (Deputy Chairman)  
Tan Sri Dr. Khoo Kay Peng  
Mr. Robert Ng Chee Siong

### *Independent Non-executive Directors:*

The Hon. Ronald J. Arculli  
Mr. Peter Lee Ting Chang  
Dr. The Hon. Sir David Li Kwok Po

The biographies of all the Directors, including their relationships, are set out on page 48 of this Annual Report.

The Board is chaired by the Executive Chairman, Mr. Kuok Khoon Ean. He oversees the management of the Board and the Group's business with the assistance of the Group's senior management team.

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 sets the strategic direction and oversees the performance of the Group's business and management. The following key matters must be approved by the Board before decisions are made on behalf of the Company:

- 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. Decisions and conduct of matters other than those specifically reserved to the Board are delegated to Management.

In 2005, the Board has reviewed the arrangements between the responsibilities of the Board and the matters delegated to Management and took the view that they remain appropriate to the needs of the Group and its business.

## Board Proceedings

The Board holds four regular meetings annually, usually quarterly, and also meets at such other times as are necessary. 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. All Directors are asked to review and comment on the Board minutes within a reasonable time after the meetings to maintain accurate records of Board discussions and decisions.

The number of Board meetings held and meetings attended by each of the Directors during the year were:

| Directors   | Meetings<br>attended | Meetings<br>held during<br>2005 |
|---|----------------------|---------------------------------|
| Mr. Kuok Khoon Ean                                | 4                    | 4                               |
| Mr. Roberto V. Ongpin*                            | 4                    | 4                               |
| The Hon. Ronald J. Arculli <sup>+</sup>           | 4                    | 4                               |
| Tan Sri Dr. Khoo Kay Peng*                        | 4                    | 4                               |
| Ms. Kuok Hui Kwong                                | 3                    | 4                               |
| Mr. Peter Lee Ting Chang*                         | 4                    | 4                               |
| Dr. The Hon. Sir<br>David Li Kwok Po <sup>+</sup> | 4                    | 4                               |
| Mr. Robert Ng Chee Siong*                         | 2                    | 4                               |

\* *Non-executive Director*

<sup>+</sup> *Independent Non-executive Director*

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.

The Board has also adopted specific procedures for meetings to be convened among Non-executive Directors including the Independent Non-executive Directors in the absence of any Executive Director.

#### Appointment, Re-election and Removal of Directors

The Board confirms the term of appointment and functions of all Non-executive Directors and Board Committee members with formal letters of appointment.

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. In addition, every Director, including every Non-executive Director, shall retire from office no later than the third annual general meeting after he was last elected or re-elected. The Bye-Laws were amended by a special resolution passed at the Company's annual general meeting held on 25 May 2005 so that one-third of the Directors, be they Executive Directors or Non-executive Directors, are required to retire by rotation from office at every annual general meeting. A retiring Director is eligible for re-election.

#### 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 9 to the financial statements of this Annual Report on page 90.

The remuneration policy of the Group is set out on page 91 of this Annual Report.

#### Securities Transactions of Directors and Senior Executives

The Board of Directors had adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code for securities transactions for its Directors and senior executives.

All Directors of the Company have confirmed their compliance with the required standard set out in the Model Code during the year.

Interests in the Company's shares (including share options) held by the Directors as at 31 December 2005 are set out in the Directors' Report section of this Annual Report on page 57.

#### 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.

#### Other matters relating to the Board

In relation to financial reporting, all Directors acknowledge their responsibilities for preparing the accounts of the Group.

The Group has appropriate insurance in place to cover the liabilities of the Directors and senior executives of the Group.

#### CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Group has an Executive Chairman. No individual has been appointed as a chief executive officer. The Executive Chairman oversees the management of the Board and the Group's business with the assistance of the Group's senior management team. The Executive Chairman oversees the overall management of the Group. Other functions normally undertaken by a chief executive officer of a company are delegated to members of the Group's senior management team.

This structure deviates from the code provision of the Stock Exchange Code that requires the roles of the chairman and the chief executive officer to be separate and not performed by the same individual. The Board has considered this matter carefully and decided not to adopt the provision. The Board believes that the current management structure has been effective in facilitating

the operation and development of the Group and its business for a considerable period of time and that the necessary checks and balances consistent with sound corporate governance practices are in place. The Board consists of high calibre individuals who have many years of experience in serving public companies and who are highly committed to the good running of the Group. Accordingly, the Board does not believe the Group should change its current management structure. However, the Board will review the management structure from time to time to ensure it continues to meet these objectives.

### BOARD COMMITTEES

The Board has established the Audit, Remuneration and Nomination Committees with mandates to deal with certain corporate governance aspects of the Group. The remits of these Committees are published on the Company's website – [www.scmgroup.com](http://www.scmgroup.com).

From time to time, the Board also establishes other board committees to deal with specific aspects of its business.

Each Committee is appointed with written terms of reference and each member of the 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. 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.

The procedures and arrangements relating to the meetings of the Board are applied to meetings of the Board Committees whenever it is appropriate.

#### 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 principal roles of the Audit Committee are to ensure that the Company has formal and transparent arrangements for considering matters relating to the Group's financial reporting and internal controls and for maintaining an appropriate relationship with the Company's internal and external auditors.

The duties of the Audit Committee, as set out in its terms of reference, adhere to the code provisions of the Stock Exchange Code.

The Audit Committee holds two regular meetings annually and also meets at such other times as are necessary. Any Audit Committee member may convene a meeting of the Committee. The external auditors may also request the Committee Chairman to convene a meeting of the Audit Committee. The Audit Committee may invite the external auditors and/or members of Management to attend any of the meetings. Special meetings may be called at the discretion of the Committee Chairman or at the request of Management to review significant internal control or financial issues. The Committee Chairman reports to the Board at least twice a year on the Committee's activities and highlights any significant issues.

In 2005, the Audit Committee met with the external auditors in the absence of Management to understand the auditors' work and views.

The number of meetings of the Audit Committee held and attended by each of the Audit Committee members during the year were:

| Directors                            | Meetings<br>attended | Meetings<br>held during<br>2005 |
|--------------------------------------|----------------------|---------------------------------|
| Mr. Peter Lee Ting Chang             | 3                    | 3                               |
| The Hon. Ronald J. Arculli           | 3                    | 3                               |
| Dr. The Hon. Sir<br>David Li Kwok Po | 3                    | 3                               |

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
- External auditors' audit service plan
- Terms of reference of the Audit Committee
- Internal audit strategy and plan
- Group's malpractice protocol

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.

#### 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 Khoo 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 duties of the Remuneration Committee, as set out in its terms of reference, adhere to the code provisions of the Stock Exchange Code.

The Committee meets once a year and at such other time as is necessary. Any Committee member may convene a meeting of the Remuneration Committee.

The number of meetings of the Remuneration Committee held and attended by each of the Remuneration Committee members during the year were:

| Directors                  | Meeting attended | Meeting held during 2005 |
|----------------------------|------------------|--------------------------|
| Mr. Peter Lee Ting Chang   | 1                | 1                        |
| The Hon. Ronald J. Arculli | 1                | 1                        |
| Mr. Kuok Khoon Ean         | 1                | 1                        |

Key matters reviewed by the Remuneration Committee during the year were:

- Group's remuneration policy
- Remuneration package and performance of Executive Directors
- Remuneration of Non-executive Directors
- Remuneration package of senior management
- Group's current share option scheme
- Performance and membership of the Group's retirement plan

#### Nomination Committee

The Nomination Committee was established in 2005. 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.

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 remit of the Nomination Committee is to identify candidates for appointment to the Board and to review the size, structure and composition of the Board. Before an appointment is made, the Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. If deemed appropriate, external consultants may be used to identify suitable candidates.

The duties of the Nomination Committee, as set out in its terms of reference, adhere to the recommended best practices of the Stock Exchange Code.

The Nomination Committee meets at such time as the Committee Chairman shall require. Any Committee member may convene a meeting of the Nomination Committee.

The number of meetings of the Nomination Committee held and attended by each of the Nomination Committee members during the year were:

| Directors                  | Meeting attended | Meeting held during 2005 |
|----------------------------|------------------|--------------------------|
| Mr. Peter Lee Ting Chang   | 1                | 1                        |
| The Hon. Ronald J. Arculli | 1                | 1                        |
| Mr. Kuok Khoon Ean         | 1                | 1                        |

During the year, the Nomination Committee reviewed the size, structure and composition of the Board and recommended to the Board that its current size, structure and composition were suitable for the Company.

#### MANAGEMENT COMMITTEE

The Management Committee is chaired by the Executive Chairman of the Board and composed of senior executives of the Group and heads of the Group's operating divisions. 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.

## INTERNAL CONTROLS

The Group has established internal controls in all material aspects of its business including financial, operational, compliance and risk management functions. These internal controls are intended to safeguard the shareholders' investments and the Group's assets. To the extent relevant, the Group's internal controls framework uses aspects from the United Kingdom's Turnbull Guidance and the internal control and risk management framework proposed by the Hong Kong Institute of Certified Public Accountants. A checklist, based on the checklist proposed by the United Kingdom's Turnbull Guidance, has been drawn up by the Company to assist Directors in their review of the Group's internal control system.

The responsibilities for maintaining the Group's internal controls are divided between the Board and Management. The Board is responsible for setting and reviewing internal control policies to monitor the Group's internal control system. 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.

During the year, the Company established an internal audit function. An internal audit strategy and plan was reviewed by the Audit Committee and approved by the Board.

The Board acknowledges that it is responsible for the Group's system of internal controls and for reviewing its effectiveness. Preliminary reviews of the Group's financial controls, internal control and risk management systems prior to formal reviews by the Board have been delegated to the Audit Committee in accordance with its terms of reference. The Audit Committee reviews the Group's financial controls, internal control and risk management systems at its regular Audit Committee meetings. It should be noted, however, that while a sound and well-designed system of internal controls helps to provide reasonable safeguards to assist the Group in achieving its business objectives, the system itself cannot provide protection with certainty against the Group failing to meet its business objectives or against all material errors, losses, fraud or breaches of laws or regulations. For this reason, the Board's review of the internal controls should not be treated as an absolute assurance that one of the risks mentioned above would not materialize.

In 2006, the Board will review the effectiveness of the Group's material controls, including financial, operational and compliance controls and risk management functions.

## 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:

|                         | 2005<br>HK\$'000 | 2004<br>HK\$'000 |
|-------------------------|------------------|------------------|
| External audit          | 2,359            | 1,769            |
| Tax services            | 311              | 626              |
| Other advisory services | 335              | 990*             |

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

PricewaterhouseCoopers will retire and offer themselves for re-appointment at the annual general meeting of the Company to be held in May 2006.

A statement by PricewaterhouseCoopers about their reporting responsibilities on the accounts of the Group is set out in the Auditors' Report section of this Annual Report on page 65.

## 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 of Conduct") 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 of Conduct. Journalists are also expected to comply with the Hong Kong Journalists Association's Code of Ethics.

During the year, the Group adopted a Protocol on Malpractice Reporting and Investigation which sets out specific procedures to facilitate whistle-blowing reports and investigations thereof.

## SHAREHOLDER RELATIONS & SHAREHOLDERS' RIGHTS

All of the Company's shares are ordinary shares carrying equal voting rights. 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 by adopting a transparent and timely corporate disclosure policy which complies with the Listing Rules and provides all shareholders equal access to such information.

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

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 the year, senior management held 35 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 113 and our website [www.scmpgroup.com](http://www.scmpgroup.com).

The Company promotes fair disclosure of information to all investors and care is taken to ensure that analyst briefings and other disclosures made by the Company comply with the Listing Rules' prohibition against selective disclosure of price sensitive information. In addition to statutory reporting obligations, the Group provides timely information about corporate affairs by issuing press releases through the Corporate Communications Department.

From 1990 to 2005, all annual and special general meetings of shareholders held by the Company were attended by the then incumbent chairman of the Board.

Shareholders have specific rights to convene special general meetings under the Company's Bye-Laws. 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.

Any shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having the right to vote at a general meeting or not less than one hundred shareholders may, by a written requisition given to the Company not less than six weeks (in case of a requisition requiring notice of a resolution) or one week (in case of any other requisition) before the general meeting, move a resolution at the general meeting.

The Company held an annual general meeting in May 2005, during which matters including the final and special dividend distribution, re-election of retiring Directors, authorisation of the Board to fix Directors' fees, re-appointment of external auditors, amendments to the Bye-Laws of the Company, and grant of a general mandate for the issuance and repurchase of Company shares by the Group were presented for shareholders' approval. The amendments to the Company's Bye-Laws were made to comply with the amendments to the Listing Rules which came into effect during the year. During the annual general meeting, details of the poll voting procedures and the rights of shareholders to demand a poll were set out in the circular to shareholders and read out at the meeting. All proposed resolutions were voted by poll and approved by the shareholders present at the meeting. The results of the shareholders' votes were published in the newspaper the following business day.

The Company's next annual general meeting will be held on 25 May 2006 at Island Ballroom A, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Hong Kong.