

The Directors are pleased to submit their report together with the audited financial statements of SCMP Group Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Company is an investment holding company. The principal activities of the Group during the year comprised the publishing, printing and distribution of the *South China Morning Post*, *Sunday Morning Post* and other print and digital publications. The Group was also involved in video and film post-production and property investment through its subsidiaries.

An analysis of the Group's performance for the year by business segment is set out in note 5 to the financial statements.

### MAJOR SUPPLIERS AND CUSTOMERS

During the year, whilst the Group purchased more than 30% of its goods from its five largest suppliers, sales to the five largest customers accounted for less than 30% of the total sales for the year.

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	22.4%
– five largest suppliers combined	60.6%
Sales	
– the largest customer	3.5%
– five largest customers combined	15.4%

As far as the Directors are aware, neither the Directors, their associates, nor shareholders who own more than 5% of the Company's share capital had any interest in the five largest suppliers and customers.

### FINANCIAL RESULTS

The profit of the Group for the year and the state of affairs of the Company and the Group as at 31 December 2005 are set out in the financial statements on pages 66 to 70.

### DIVIDEND

During the year, an interim dividend of HK5 cents per share was paid. The Directors recommend the payment of a final dividend of HK10 cents per share in respect of the year ended 31 December 2005 to the shareholders whose names appear on the register of members of the Company on Wednesday, 24 May 2006.

### FIVE YEAR FINANCIAL SUMMARY

The summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 111. To reflect the change of financial year end date to 31 December, an additional summary for the calendar year 2005 and previous calendar years is set out on page 112.

### FIXED ASSETS AND INVESTMENT PROPERTIES

Movements in the fixed assets and details of investment properties of the Group are disclosed in notes 15 and 16 to the financial statements, respectively.

## SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 31 December 2005 are set out in note 33 to the financial statements.

## ASSOCIATES

Particulars of the Group's principal associates as at 31 December 2005 are set out in note 33 to the financial statements.

## BANK LOANS

Particulars of bank loans of the Group as at the balance sheet date are set out in note 24 to the financial statements.

## SHARE CAPITAL

Details of the authorised and issued share capital of the Company are set out in note 27 to the financial statements.

## DISTRIBUTABLE RESERVES

Details of the reserves of the Company available for distribution to shareholders as at 31 December 2005 are set out in note 28 to the financial statements.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## RESERVES

Movements in the reserves of the Company are disclosed in note 28 to the financial statements. Movements in the reserves of the Group are disclosed in the consolidated statement of changes in equity on page 67.

## CHARITABLE DONATIONS

During the year, the Group made charitable donations totaling HK\$192,118.

## DIRECTORS

The Directors who held office during the year and up to the date of this report were:

### *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**

In accordance with Bye-Law 99 of the Company's Bye-Laws, Mr. Roberto V. Ongpin, Dr. The Hon. Sir David Li Kwok Po and Ms. Kuok Hui Kwong shall retire by rotation and are eligible for re-election at the forthcoming Annual General Meeting of the Company. They offer themselves for re-election.

#### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the Directors 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 otherwise notified to the Company and the Hong Kong Stock Exchange (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"):

Name of Director	Ordinary shares of the Company		
	Capacity/ Nature of interests	Number of shares held	Approximate % of issued share capital*
Mr. Kuok Khoon Ean (Note 1)	Corporate	340,000	0.022%
Tan Sri Dr. Khoo Kay Peng (Note 2)	Corporate	87,119,145	5.581%
Dr. The Hon. Sir David Li Kwok Po	Personal	4,778,000	0.306%

Notes:

- The interests in the 340,000 shares are in respect of deemed corporate interests held by Mr. Kuok Khoon Ean through Allerlon Limited, which is wholly owned by Mr. Kuok and his spouse.
- The interests in the 87,119,145 shares are in respect of deemed corporate interests held by Tan Sri Dr. Khoo Kay Peng through (i) MUI Media Ltd. as to 70,969,145 shares and (ii) Bonham Industries Limited as to 16,150,000 shares. As at 31 December 2005, Dr. Khoo was deemed to have an interest in approximately 32.35% of the issued capital of Pan Malaysian Industries Berhad which in turn holds approximately 46.56% of the issued capital of Malayan United Industries Berhad ("MUI Berhad"). MUI Media Ltd. is wholly owned by MUI Berhad. As at 31 December 2005, Dr. Khoo held 99.9% of the entire issued capital of Bonham Industries Limited.

\* Approximate percentage calculated based on the 1,560,945,596 ordinary shares of the Company in issue as at 31 December 2005.

All the interests stated above represent long positions in the shares of the Company.

Save as stated above, none of the Directors (including their spouses and children under 18 years of age) had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations during the year.

Apart from the aforesaid, as at 31 December 2005, none of the Directors 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.

### SUBSTANTIAL INTERESTS IN SHARE CAPITAL

As at 31 December 2005, the following persons (other than Directors 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	Approximate % of issued share capital*
Kerry Media Limited (Note 1)	Beneficial owner	524,730,000	33.62%
Kerry 1989 (C.I.) Limited (Note 2)	Interest of controlled corporations	525,036,000	33.64%
Kerry Holdings Limited (Notes 3 & 4)	Interest of controlled corporations	594,576,000	38.09%
Kerry Group Limited (Note 4)	Interest of controlled corporations	594,576,000	38.09%
Silchester International Investors Limited (Notes 5 & 6)	Investment manager	203,005,000	13.01%
Brandes Investment Partners, L.P. (Notes 5 & 7)	Investment manager	109,421,125	7.01%
Sprucegrove Investment Management Ltd. (Notes 5 & 8)	Investment manager	104,918,000	6.72%

Notes:

- The interests in the 524,730,000 shares held by Kerry Media Limited are duplicated in the respective interests reported above for Kerry 1989 (C.I.) Limited, Kerry Holdings Limited and Kerry Group Limited.
- The interests in the 525,036,000 shares held by Kerry 1989 (C.I.) Limited are duplicated in the respective interests reported above for Kerry Holdings Limited and Kerry Group Limited.
- The interests in the 594,576,000 shares held by Kerry Holdings Limited are duplicated in the interests reported above for Kerry Group Limited.
- The Company has been notified informally that as at 31 December 2005, Kerry Group Limited and Kerry Holdings Limited were interested in 601,290,000 shares (representing approximately 38.52% of the Company's issued share capital) and this increase in shareholding was not required to be disclosed under Part XV of the SFO.
- Investment manager acting on behalf of clients and not connected with the Company.
- Silchester International Investors Limited has informally notified the Company that as at 31 December 2005, it held 214,159,000 shares (representing approximately 13.72% of the Company's issued share capital) and this increase in shareholding was not required to be disclosed under Part XV of the SFO.
- Brandes Investment Partners, L.P. has informally notified the Company that as at 31 December 2005, it had acquired for and on behalf of its investment advisory clients, 114,406,478 shares (representing approximately 7.33% of the Company's issued share capital) and this increase in shareholding was not required to be disclosed under Part XV of the SFO.
- Sprucegrove Investment Management Ltd. has informally notified the Company that as at 31 December 2005, it held 99,297,000 shares (representing approximately 6.36% of the Company's issued share capital) and this decrease in shareholding was not required to be disclosed under Part XV of the SFO.

\* Approximate percentage calculated based on the 1,560,945,596 ordinary shares of the Company in issue as at 31 December 2005.

All the interests stated above represent long positions in the shares of the Company.

Save as stated above, as at 31 December 2005, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## SHARE OPTION SCHEME

### (1) Summary of terms

The Company has a share option scheme (the "Scheme") which was approved by shareholders on 27 October 1997 (the "Effective Date"). The Scheme was amended with shareholders' approval on 6 November 2000 and further amended at the annual general meeting held on 29 May 2002 in conformity with the amended Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). It is a part of the Group's policy to reward employees for their past contributions to the Group and motivate them to optimize their future contributions and enable the Group to attract and retain individuals with experience and ability. Under the Scheme, the Board of Directors of the Company (the "Board") may grant options to subscribe for shares of the Company to any full-time employee or Executive Director of the Company or any of its subsidiaries (the "Executive").

The subscription price of the options shall not be less than whichever is the highest of: (i) the nominal value of a share of the Company; (ii) the closing price of a share of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of the Board's approval of grant of the option (the "Offer Date"); and (iii) the average of the closing prices of a share of the Company in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date. An offer of the grant of an option shall remain open for acceptance by the Executive concerned at no consideration for a period of 28 days from the date on which an option is offered to the Executive. No option may be exercised earlier than one year after it has been granted or later than ten years after the Effective Date of the Scheme, i.e. 27 October 2007. The remaining life of the Scheme is up to 27 October 2007.

The maximum number of shares of the Company which may be issued upon exercise of all options to be granted under the Scheme may not exceed 10% of the shares of the Company in issue as at 29 May 2002. The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to any one Executive (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the shares of the Company in issue from time to time. As at the date of this report, the total number of shares available for issue under the Scheme was 162,991,399, representing approximately 9.40% of the issued share capital of the Company as at 29 May 2002 and 10.44% of the issued share capital of the Company as at the date of this report.

None of the substantial shareholders of the Company has been granted any share option under the Scheme. None of the suppliers of goods or services to the Group has been granted any share option under the Scheme. No participant of the Scheme has been granted share options in excess of the maximum entitlement of each participant.

### (2) Movements of options granted

The outstanding shares in respect of options granted under the Scheme as at 31 December 2005 are summarised below:

	Number of shares in respect of options granted
Outstanding at 1 January 2005	8,326,000
Granted during the year	-
Exercised during the year	-
Cancelled during the year	-
Lapsed during the year	(973,000)
Outstanding at 31 December 2005	7,353,000

Details of the movements during the year in the share options granted under the Scheme are as follows:

(i) Options granted to Directors

None of the Directors of the Company has been granted any share option under the Scheme.

(ii) Options granted to employees

Date of grant	Exercise period	Exercise price/share HK\$	Number of shares involved in the options				
			Outstanding at 01/01/2005	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31/12/2005
02/08/1999	02/08/2000 – 27/10/2007	5.00	1,092,500	–	–	–	1,092,500
11/01/2000	11/01/2001 – 27/10/2007	5.51	983,500	–	–	(103,000)	880,500
20/04/2000	20/04/2001 – 27/10/2007	6.05	3,430,000	–	–	(170,000)	3,260,000
28/06/2001	28/06/2002 – 27/10/2007	4.95	720,000	–	–	(300,000)	420,000
23/09/2003	23/09/2004 – 27/10/2007	3.90	2,100,000	–	–	(400,000)	1,700,000
Total			8,326,000	–	–	(973,000)	7,353,000

#### DIRECTORS' INTEREST IN COMPETING BUSINESS

Mr. Robert Ng Chee Siong, a Non-executive Director of the Company, informed the Board that as at 31 December 2005, he held interests and/or directorships in companies engaged in businesses of property investment, development and management and operation of hotels in Hong Kong.

The Board is satisfied that property investment, development and management and operation of hotels do not form part of the Company's core business. Publishing remains the core business and focus of the Company.

Save as stated above, none of the Directors of the Company has any interest in a business which competes or is likely to compete with the business of the Group during the year.

#### DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

#### DIRECTORS' SERVICE CONTRACTS

No Director proposed to be re-elected at the forthcoming Annual General Meeting has an unexpired service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

---

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES AS AT 31 DECEMBER 2005

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Company and its subsidiaries had certain transactions which constituted connected transactions under Chapter 14A of the Listing Rules and related party transactions under the Hong Kong Financial Reporting Standards.

Certain subsidiaries of the Company had the following continuing connected transactions with subsidiaries of Kerry Group Limited, a substantial shareholder of the Company as defined in the Listing Rules. Details of the transactions are set out below:

- A Transactions in respect of the financial years ended 31 December 2004 and 2005
- (i) Advertising Services
- (a) An agreement dated 29 December 2003 made between South China Morning Post Publishers Limited ("SCMPP"), a subsidiary of the Company, and Kerry Holdings Limited ("Kerry Holdings"), a subsidiary of Kerry Group Limited, whereby SCMPP agreed to provide classified advertising and corporate notices services to Kerry Holdings and Kerry Group Limited and its subsidiaries ("Kerry Group") for a term of one year from 1 January 2004 to 31 December 2004.
  - (b) An agreement dated 23 October 2003 made between SCMPP and Kerry Holdings whereby SCMPP agreed to provide display advertising services to Kerry Holdings and other companies in the Kerry Group for a term of one year from 15 October 2003 to 14 October 2004.
  - (c) An agreement dated 11 October 2004 made between SCMPP and Kerry Holdings whereby SCMPP agreed to provide display advertising services to Kerry Holdings and other companies in the Kerry Group for a term of one year from 17 October 2004 to 16 October 2005. The term was subsequently extended to 31 December 2005 on the same terms and conditions.
  - (d) An agreement dated 3 December 2004 made between SCMPP and Kerry Holdings whereby SCMPP agreed to provide classified advertising and corporate notices services to Kerry Holdings and other companies in the Kerry Group for a term of one year from 1 January 2005 to 31 December 2005.

The service fees payable pursuant to the above agreements A(i)(a) to A(i)(d) were payable in cash by the end of the month following the month in which SCMPP issued invoices.

The aggregate amount of service fees received pursuant to the above agreements A(i)(a) to A(i)(c) for the financial year ended 31 December 2004 amounted to HK\$4,954,512.

The aggregate amount of service fees received or receivable pursuant to the above agreements A(i)(c) and A(i)(d) for the financial year ended 31 December 2005 amounted to HK\$4,413,924.

---

(ii) Logistics Services

- (a) An agreement dated 16 September 2002 made between SCMP Retailing (HK) Limited ("SCMP Retailing"), a subsidiary of the Company, and Kerry Logistics (Hong Kong) Limited ("Kerry Logistics"), a subsidiary of Kerry Properties Limited ("Kerry Properties") which is a subsidiary of Kerry Group Limited, wherein Kerry Logistics was engaged to provide central warehouse storage facilities to SCMP Retailing for a term of one year from 1 October 2002 to 30 September 2003. The term was extended on the same terms and conditions on several occasions, with the final extended term until 9 November 2004. SCMP Retailing and Kerry Logistics entered into another agreement dated 5 November 2004, wherein Kerry Logistics was engaged to provide central warehouse storage facilities services to SCMP Retailing for the period from 9 November 2004 to 31 December 2004, which was subsequently terminated on 30 November 2004.
- (b) An agreement dated 25 March 2003 made between SCMP Book Publishing Limited ("SCMP Book Publishing"), a subsidiary of the Company, and Kerry Logistics, wherein Kerry Logistics was engaged to provide distribution and delivery services for a term of one year from 1 March 2003 to 29 February 2004. The term was extended on the same terms and conditions on several occasions, with the final extended term until 28 February 2006.

The logistics service fees payable pursuant to the above agreements A(ii)(a) and A(ii)(b) were payable in cash by SCMP Book Publishing and SCMP Retailing upon presentation of invoices by Kerry Logistics.

The aggregate amount of logistics service fees paid pursuant to the above agreements A(ii)(a) and A(ii)(b) for the financial year ended 31 December 2004 amounted to HK\$2,232,965.

The aggregate amount of logistics service fees paid or payable under the above agreement A(ii)(b) for the financial year ended 31 December 2005 amounted to HK\$556,383.

(iii) Publication Services

- (a) An agreement dated 5 December 2003 made between SCMPP and Kerry Real Estate Agency Limited ("Kerry Real Estate"), a subsidiary of Kerry Properties, whereby SCMPP was engaged to publish one issue of "The Dress Circle" magazine for Kerry Real Estate in June 2004.
- (b) An agreement dated 11 June 2004 made between SCMPP and Kerry Real Estate, whereby SCMPP was engaged to publish one issue of "The Dress Circle" magazine for Kerry Real Estate in August 2004.
- (c) An agreement dated 14 October 2004 made between SCMPP and Kerry Properties, whereby SCMPP was engaged to publish four issues of "The Dress Circle" magazine for Kerry Properties.

The fees payable pursuant to the above agreements A(iii)(a) to A(iii)(c) are payable by the end of the month following the month in which SCMPP issued invoices.

The aggregate amount received pursuant to the above agreements A(iii)(a) to A(iii)(c) for the financial year ended 31 December 2004 amounted to HK\$1,392,305.

The aggregate amount received or receivable pursuant to the above agreement A(iii)(c) for the financial year ended 31 December 2005 amounted to HK\$989,100.



---

In accordance with Rule 14A.37, Chapter 14A of the Listing Rules, the Directors (including Independent Non-executive Directors) of the Company have reviewed the above continuing connected transactions (the "Transactions") and confirm that the Transactions were entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms; and
- (c) in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have also reviewed the Transactions and confirmed to the Directors in writing that:

- (a) the Transactions have been approved by the Board of Directors of the Company;
- (b) the Transactions are in accordance with the pricing policy of the Group;
- (c) the Transactions have been entered into in accordance with the relevant agreements governing the Transactions; and
- (d) the aggregate amount of the Transactions under the respective category of Advertising Services and Publication Services for the financial year ended 31 December 2005 does not exceed the annual cap of HK\$7 million and HK\$2 million, respectively as stated in the Company's announcement dated 3 June 2005.

**B Transactions in respect of the financial year ending 31 December 2006**

- (a) An agreement dated 23 December 2005 made between SCMPP and Kerry Holdings whereby SCMPP agreed to provide classified advertising and corporate notices services to Kerry Holdings and other companies in the Kerry Group for the period from 1 January 2006 to 31 December 2006.
- (b) An agreement dated 23 December 2005 made between SCMPP and Kerry Holdings whereby SCMPP agreed to provide display advertising services to Kerry Holdings and other companies in the Kerry Group for the period from 1 January 2006 to 31 December 2006.

The service fees payable pursuant to the above agreements B(a) and B(b) are payable in cash or by cheque by the end of the month following the month in which SCMPP issued invoices.

The Company expects that the maximum aggregate amount of service fees receivable under the above agreements B(a) and B(b) for the financial year ending 31 December 2006 to be HK\$7 million as stated in the Company's announcement dated 23 December 2005.

All the above continuing connected transactions are disclosed in accordance with Rule 14A.35, Chapter 14A of the Listing Rules.

---

## **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 year.

## **VALUATION OF PUBLISHING TITLES**

The Company has appointed American Appraisal China Limited (the "Valuer"), an independent valuer, to value two of the Group's publishing titles, *South China Morning Post* and *Sunday Morning Post* (the "Publishing Titles") on an open market basis. The Valuer had valued the Publishing Titles at HK\$4.369 billion as at 31 December 2004. The Directors have adopted the Valuer's valuation in their annual valuation of the Publishing Titles as at 31 December 2005.

The valuation is not reflected in the financial statements as the accounting principles generally accepted in Hong Kong and the accounting policies of the Company require publishing titles with indefinite useful lives to be stated at cost less accumulated impairment losses.

## **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 year.

## **CORPORATE GOVERNANCE**

The Company is committed to maintaining a high standard of corporate governance. Details of the Company's corporate governance practices are set out in the "Corporate Governance" section of this Annual Report on pages 42 to 47.

## **AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board  
**Kuok Khoon Ean**  
Chairman

Hong Kong, 6 April 2006