

# Corporate Governance & Social Responsibility

## **Commitment to Corporate Governance**

The Board is committed to upholding principles of corporate governance that will lead to the enhancement of shareholders' value and further the management strength of the Company. The Board deals with strategic and policy decisions and approves corporate plans, budgets and monitors the work of management.

## **Internal Control**

The internal control and accounting systems of the Company are designed to ensure that assets are safeguarded against unauthorised use or disposition, that transactions are executed in accordance with the instructions of management, and that accounting records are prepared in a timely and accurate manner. Qualified personnel throughout the Company will work in joint efforts to ensure that the highest standards of accounting practice are implemented, monitored and maintained.

The Board is committed to maintaining the highest possible level of business ethics in financial reporting and complying with local legislation, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and accounting requirements. The Board maintains direct control over strategic, financial, organisational and compliance issues, and ensures that lines of authority are followed in the delegation of duties.

## **Investor Relations and Communications**

The Company continues to uphold a high level of contact and communication with its Shareholders. It conducts regular meetings with institutional shareholders and analysts. All shareholders are given 21 days' notice of the annual general meeting at which the Directors are available to directly answer questions on the Company's operations or financial information.

Furthermore, the Company also maintains a website (<http://www.cmhico.com>) which provides investors with corporate information. This is in addition to other corporate communications with shareholders, such as circulars, notices, announcements, and annual and interim reports.

### Commitment to Staff Development

The Directors recognise that human capital is a key asset of the Company. To this extent, the Company is committed to providing extensive staff training and has implemented a policy of sponsoring staff to attend job-related training courses and self-improvement programs. The Directors believe training is crucial to developing a multi-talented staff which can bring about maximum value to shareholder investment and contribute to the growth of the Company as a whole.

### Community Service

Since its establishment in the 19th Century, the China Merchants Group (comprising the ultimate holding company of the Company and its subsidiaries) has been committed to serving the community in which it operates. As far back as 1872, the China Merchants Group sponsored Chinese students to study in the United States. The China Merchants Group also founded the predecessor to the current Communications University 交通大學 in China (formerly the “Nan Yang University” — 南洋大學). The China Merchants Group also provided practical assistance to various administrations such as the provisional government headed by Dr. Sun Yat Sun (孫中山) and supported China in the war against the aggressors during the Second World War. Also, in order to ensure a high standard of management service to the Shareholders, the first manager with a

*The first group of Chinese students to study aboard was sponsored by China Merchants in 1872. The group was made up of 30 young boys. This photo was taken at the headquarters of China Merchants in Shanghai.*



PhD, who was educated in France, was employed in the 1880s and the first major merger and acquisition (of a US shipping company) was carried out in 1877 so as to improve the China Merchants Group’s and China’s competitiveness in the shipping industry.

All these activities have shown that the China Merchants Group and CMHI have been trying to fulfil their role as good corporate citizens since the early days of operation. A more recent development in this direction will be for our paint manufacturing business to undergo the business environmental protection compliance certification process.



*The China Merchants Group has played an important role in the development of the Communications University, one of the top tier universities in China, which was originally founded by the China Merchants Group and was formerly the Nan Yang University (南洋大學). This, among others, highlights the China Merchants Group’s commitment to fulfil its role as good corporate citizen.*

Being one of the largest infrastructure operators in China, the Group’s commitment to the development and enhancement of China’s overall economy, especially in the development of infrastructure, remains strong.

## Proposed amendments to Articles of Association

The Board has proposed that the articles of association of the Company (the “Articles”) should be amended to implement certain reporting procedures for the benefit of Shareholders.

### *Summary Financial Reports*

Prior to the recent amendments to the Companies Ordinance (Cap. 32 of the Laws of Hong Kong) (“Companies Ordinance”), the Company was required to send to each Shareholder a copy of the annual report and accounts (the “Annual Report”). On 4 January 2002, new legislation came into force in Hong Kong which permits the Company to offer Shareholders the choice to receive, in place of the Annual Report, a summary financial report (the “Summary Financial Report”) which is derived from and summarises the Annual Report. The Summary Financial Report will be more concise than the Annual Report and, therefore, is expected to be relatively more user-friendly for Shareholders than the Annual Report.

The recently amended Companies Ordinance also permits the Company to offer Shareholders the choice to receive a printed copy of the Annual Report or the Summary Financial Report or to read such documents as published on the Company’s web-site.

In the present form, Article 130 of the Articles does not permit the Company to distribute the Summary Financial Report to Shareholders who would prefer to receive the Summary Financial Report in place of the Annual Report. Article 130 also prevents Shareholders from choosing to read the Annual Report or the Summary Financial Report as published on the Company’s web-site instead of receiving printed copies of these documents.

Consequently, a special resolution for amendments to Article 130 and the introduction of new Articles 130A (for the distribution of the Summary Financial Report) and 130B (for the publication of the Annual Report and/or Summary Financial Report on the Company’s web-site) to supplement the amended Article 130 will be proposed at the annual general meeting of the Company to be convened on 5 June 2002 (the “AGM”), a notice of which is set out in pages 87 to 91 of this 2001 Annual Report.

The Company currently has no definitive plan in preparing and distributing the Summary Financial Report to Shareholders in place of the Annual Report or publishing the Annual Report or the Summary Financial Report on the Company’s web-site in place of despatching printed copies of the Annual Report or the Summary Financial Report to Shareholders. Any decision to prepare and distribute the Summary Financial Report and to publish the Annual Report and/or the Summary Financial Report on the Company’s web-site in place of distributing the printed versions will only be made after ascertaining the wishes of the Shareholders and in full compliance with the relevant provisions of the Companies Ordinance and the Listing Rules.

### *Corporate Communications through Electronic Means*

With the advent of the Internet, electronic mail and other information technologies, the Company recognises the flexibility and convenience that can be made available to Shareholders if the Company can offer Shareholders the additional choice of receiving corporate communications from the Company through electronic means or such other means that are available as a result of technological development. The Company believes that, by utilising these additional means, it may be able to better

as well as more efficiently and cost-effectively communicate with its Shareholders.

Recent amendments to the Listing Rules also recognise that the advent of new technologies has broadened the ways through which a company can communicate with its shareholders. The amended Listing Rules now permit a company to despatch or make available corporate communications to shareholders through electronic means.

In the present form, however, Articles 1(6)(a) and 132 of the Articles do not permit the Company to despatch or make available corporate communications to Shareholders through electronic means. Consequently, a special resolution to amend Articles 1(6)(a) and 132 and to insert a new Article 137A (when notice sent by electronic means is deemed to have been given) will be proposed at the AGM. The special resolution will also propose amendments to be made to Article 138 (notice to deceased or bankrupt members) as notice to such persons via electronic means is not currently possible under the Articles. The deletion of Article 135 and amendments to Article 136 will also be proposed; presently Article 135 suggests that notice of general meeting to Shareholders can only be sent by post. The deletion of Article 135 and the amendment to Article 136 will provide that, subject to the Companies Ordinance, the Articles and the Listing Rules, notice will be deemed to be sufficiently given to Shareholders if published in the newspapers.

Any decision of the Company to despatch or make available corporate communications to Shareholders through electronic means will only be made in full compliance with the relevant provisions of the Companies Ordinance and the Listing Rules.

*Recommendation*

The Directors believe that the amendments to the Articles are in the best interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that at the AGM, the Shareholders should vote in favour of the resolutions relating to the amendments to the Articles in the terms as set out in the notice of the AGM.