Reform and Corporate Governance of SOEs in China

Mr. Qin Yongfa,
Deputy Direct General, Bureau of Enterprise Restructuring (Board Pilot Project Office), State-owned Assets Supervision & Administration Commission of the State Council (SASAC), People’s Republic of China

（May. 24th, 2010, Malaysia）
Contents

1. SOEs’ reform in China
2. The ongoing progress of setting up standardized BOD in Chinese central SOEs
3. Problems which need further inquiry in setting up standardized BOD
1. SOEs’ Reform in China

Chinese SOEs are independent legal persons.

Chinese SOEs enjoy entire legal persons’ property rights and autonomous operation rights.

1. It is clearly stipulated in laws that Chinese SOEs are independent market players.

The rights of Chinese SOEs and their investors are clearly distinguished from each other.

Chinese SOEs set up relatively sound corporate governance.
Property right management of Chinese SOEs changed significantly.

1. Number of SOEs listed in foreign and domestic stock markets
   - Listed stake-holding companies: more than 900
   - Listed companies whose actual controllers are central SOEs: 307

2. Up to the end of 2008, majority of SOEs’ quality assets have been injected into the listed companies:

<table>
<thead>
<tr>
<th>Index</th>
<th>Total Assets</th>
<th>Net Assets</th>
<th>Total Profit</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed SOEs (RMB)</td>
<td>12.41 trillion</td>
<td>6.01 trillion</td>
<td>723.51 billion</td>
<td>613.83 billion</td>
</tr>
<tr>
<td>Proportions in All SOEs</td>
<td>29.16%</td>
<td>35.22%</td>
<td>54.37%</td>
<td>62.87%</td>
</tr>
</tbody>
</table>
3. The total assets, net assets, total profit and net profit of listed companies held by central SOEs respectively accounted for 48.17%, 57.74%, 73.8% and 88.11% of those in all central SOEs.

4. Most SOEs have implemented the reform of adopting company system and joint-stock system.

5. Set up corporate governance according to the “The Company Law”

- Listed companies
- Non-listed companies with multiple investors
- State-funded corporations
Chinese SOEs highlight commercial operation

- SOEs operate independently and are in accordance with the market rules
- Stakeholders perform their rights according to laws
- Market-oriented transfer of state-owned property rights
- Market-oriented recruitment of managers
- Bonus compensation system of SOEs is gradually improved
2. The Ongoing Progress of Setting up Standardized BOD in Chinese Central SOEs

- Set up scientific and reasonable BOD
- Bring up numbers of well-educated directors
- Establish mechanisms to make sure that BOD could play an important role
- Set up BOD operating in standardized manner
Features of BOD structure and bring up new directors

- **Time of Point**
  - Scientific BOD Structure
    - Proportions of external and internal directors
    - The quality, ability and experiences of directors
    - Source of external directors
    - Different functions between Chair of the BOD and General Manager

- **Trends**
  - Dynamic adjustment according to the real situation of enterprises
  - Terms of directors
  - Training of directors

Dynamic Optimization of BOD
Establish mechanisms to make sure that BOD could play an important role

External Factors
- Investors
  - Well-defined responsibility
  - Proper authorization
  - Unified communication channels
  - Clear requirement

Internal Factors
- Features
- BOD and directors
- Internal control
  - Independent and fair
  - Diligent and dedicated
  - Update of information and knowledge
  - BOD culture
Set up BOD operating in standardized manner

External

- Relevant Laws
- State as Investor
- Society and Market

On the Bases of Culture, Morals, Tradition and Customs

Internal: Articles of Association or Corporate Rules
3. Problems Which Need Further Inquiry in Setting up Standardized BOD

- **Difficulties:**
  - Internal Control – authorizing, supervising and evaluating BOD
  - Risk of Morality – designing and implementing incentive mechanism; assessing, rewarding and punishing both directors and senior managers

- **Source of External Directors**

- **Coordination Mechanism in Corporate Governance**
Thank you!