

Norms, Efficiency & Focus on Core Duties

— **Practical Achievements of the China Chengtong Group**

Board of Directors



Ma Zhengwu, Chairman

Shanghai, March 29, 2007



Outline

- Background to the Trial Boards of Directors of the National Assets Committee (NAC)
 - Practical Achievements of the China Chengtong Group (CCT Group)
 - Recommendations for Improving Governance of SOEs
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Background: NAC Trial Boards of Directors

❖ **Chronology of the NAC Trial Boards**

- ❖ June 2004: The State Council issues a circular instituting trial boards of directors for SOEs under the NAC, thus formally launching the initiative.
- ❖ Dec. 2004: The NAC issues provisional guidelines for managing external directorships for the BODs of the trial enterprises.
- ❖ Since June 2005: A number of BOD training sessions have been conducted, that include consideration of the advanced governance experience of Singapore and other countries.
- ❖ 2005 – 2006: Recruitment proceeds for external directors to BODs of trial enterprises and Boards begin substantial operation.
- ❖ At present, some 19 central SOEs are engaged in the trials, in 14 of which external directors form a majority. 66 external directors have been engaged (30 of whom serve on 2 BODs).



Background: NAC Trial Boards of Directors

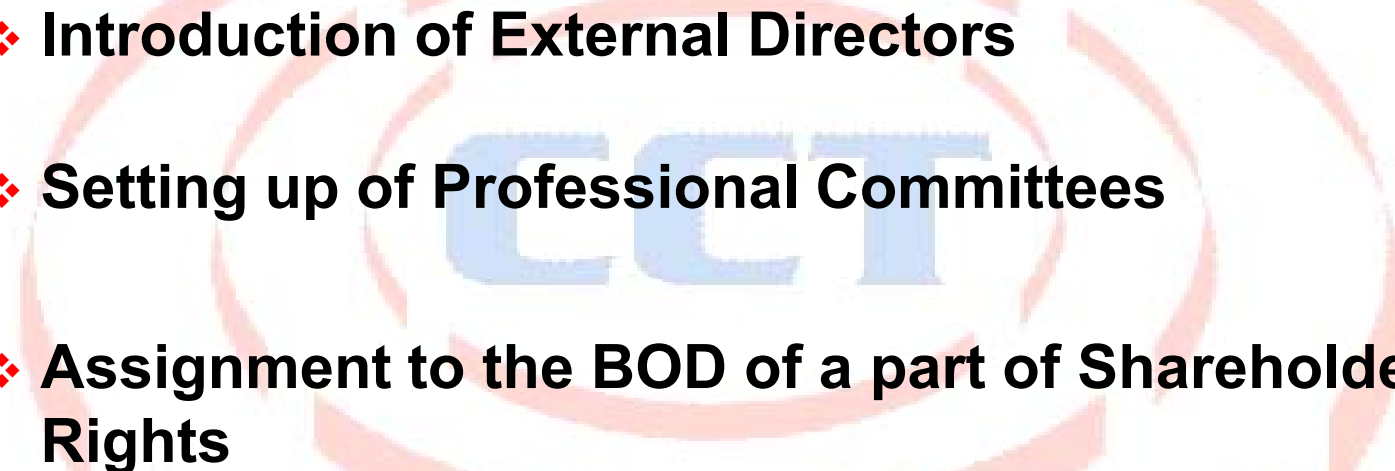
❖ Objectives of the NAC Trial Boards

- ❖ To promote reform of share-holding systems
- ❖ To encourage modern institutional infrastructures in companies with sole State ownership
- ❖ To support the NAC in its investor functions



Background: NAC Trial Boards of Directors

❖ Framework for the NAC Trial Boards

- ❖ Introduction of External Directors**
 - ❖ Setting up of Professional Committees**
 - ❖ Assignment to the BOD of a part of Shareholder Rights**
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Background: NAC Trial Boards of Directors

❖ Outcomes of the NAC BOD Trials

- ❖ Improved focus of company management
 - ❖ Improved transparency in company operations
 - ❖ Accountability introduced to company regulatory responsibilities
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Practical Achievements of the CCT Group

❖ **Formation of the Board of Directors**

- ❖ Dec. 1 2005: A new BOD is formally established.
- ❖ Sept. 2006: External directors take up their seats. There are 6 external and 5 non-external directors (one of whom is an employee director).
- ❖ The BOD sets up 5 Professional Committees: General Affairs; Strategy; Nomination & Governance; Remuneration & Assessment; Audit.

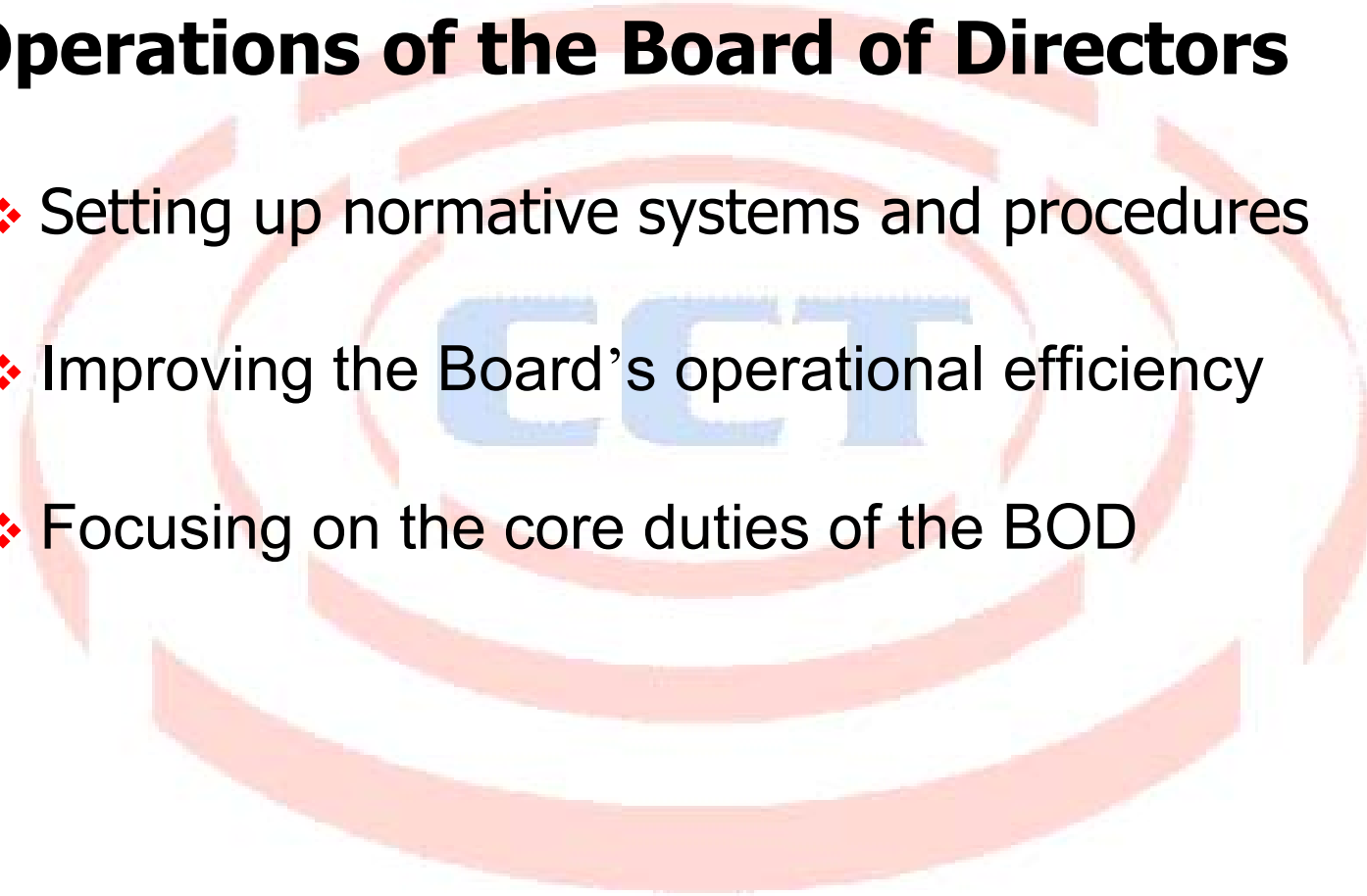
Practical Achievements of the CCT Group

Professional Committee	No. of Members		Chairman	
	Non-Ext.	External	Non-Ext.	External
General Affairs	3	2	√	
Strategy	3	2	√	
Nomination & Governance	2	3		√
Remuneration & Assessment	1	4		√
Audit	1	4		√



Practical Achievements of the CCT Group

❖ **Operations of the Board of Directors**

- ❖ Setting up normative systems and procedures
 - ❖ Improving the Board's operational efficiency
 - ❖ Focusing on the core duties of the BOD
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Practical Achievements of the CCT Group

❖ **Setting up normative systems and procedures**

❖ **Defining an operational infrastructure**

—— a detailed order of operations is established for the work of the BOD

—— norms are established to structure meetings of the BOD

❖ **Setting up procedures for standardizing operations**

—— a clear order of operations for decision-making and approval of major projects

—— firm control of each stage in the BOD's decision-making process



Practical Achievements of the CCT Group

❖ **Improvement of the Board's operational efficiency**

❖ **More efficient decision-making**

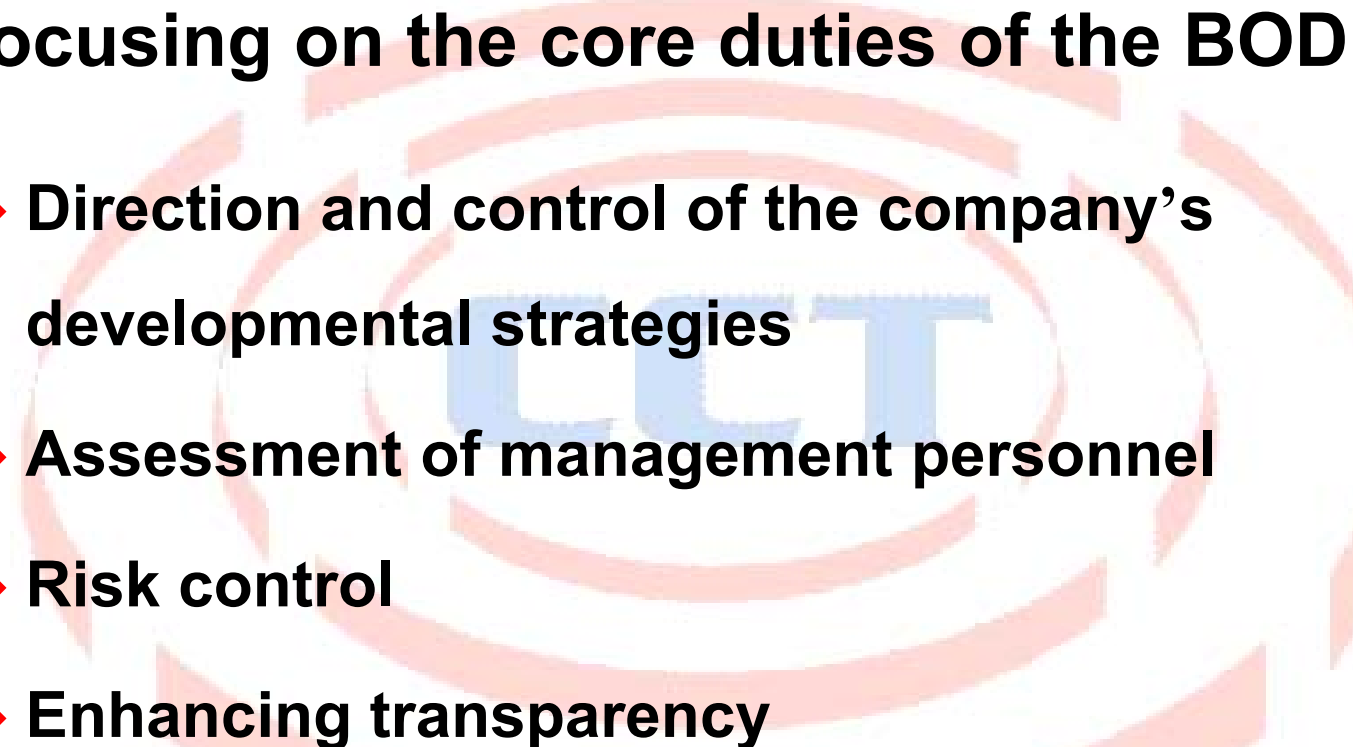
- Professional Committees fulfill their functions
- Information is shared across-the-board

❖ **Teamwork and cooperation**

- Personal development of each director
- Mutual encouragement and assistance



Practical Achievements of the CCT Group

- ❖ **Focusing on the core duties of the BOD**
 - ❖ **Direction and control of the company's developmental strategies**
 - ❖ **Assessment of management personnel**
 - ❖ **Risk control**
 - ❖ **Enhancing transparency**
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Practical Achievements of the CCT Group

- ❖ Direction and control of the company's developmental strategies
 - Eyes open upon the company's tomorrow
 - Guiding the development and execution of strategy by management
 - Monitoring, evaluating and adjusting strategic implementation when appropriate
- ❖ Assessment of management personnel
 - Determining a system of assessment guidelines
 - Signing of Statements of Management Responsibility
 - Work reports from members of the management team



Practical Achievements of the CCT Group

❖ Risk control

- Close monitoring of decision-making for major projects
- Establishment of a risk management system

❖ Enhancing transparency

- Internal transparency in decision-making and operations
- Voluntary external disclosure of company information



Practical Achievements of the CCT Group

❖ **Lessons Learned from the CCT BOD Trial**

- ❖ It is essential that companies with sole state ownership establish BODs
 - A company's future must be considered
 - Companies should strive to transcend themselves
- ❖ **Introducing external directors has a clear positive effect on Board performance**
 - A broader view is brought to decision-making
 - Board members ensure mutual encouragement and assistance



Practical Achievements of the CCT Group

❖ **Smooth management of relationships at various levels can ensure positive outcomes from the BOD trials**

- The Board and management
- The Board, Party Committees and management

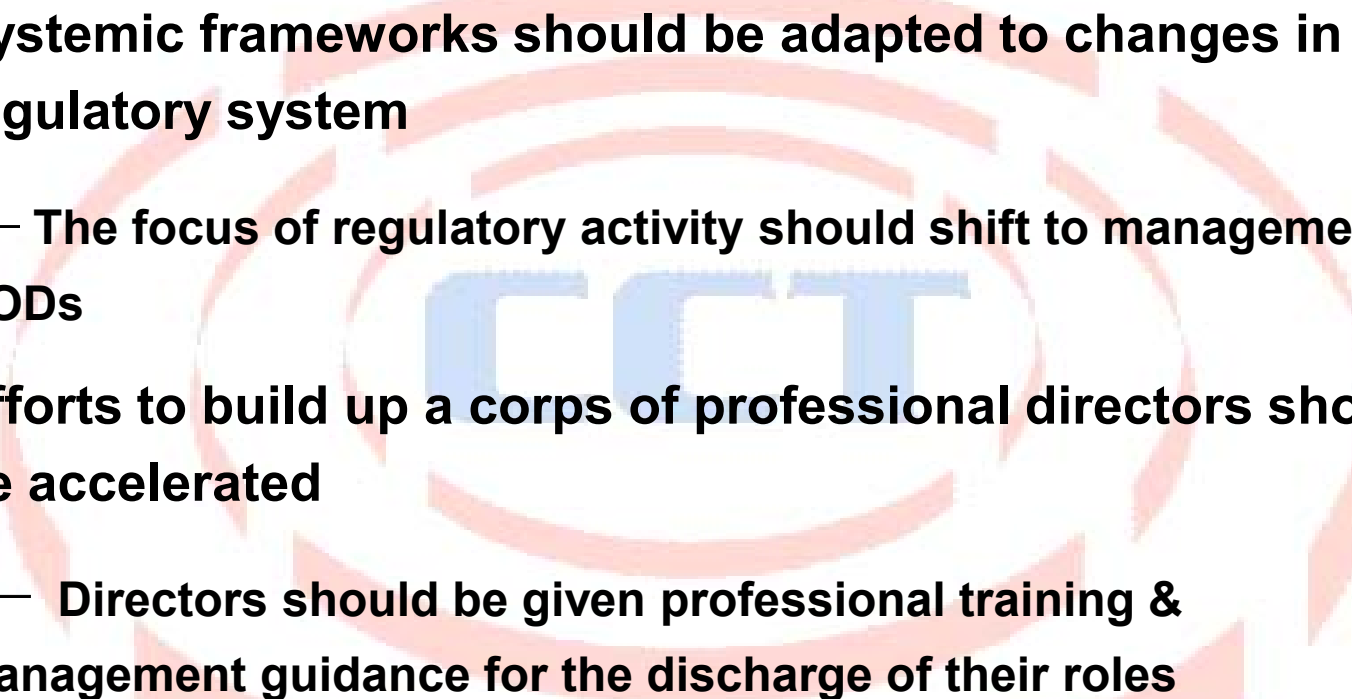


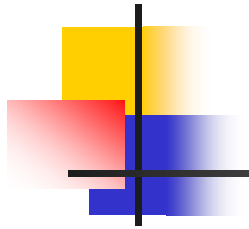
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Recommendations for Improving Governance of SOEs

- ❖ **Systemic frameworks should be adapted to changes in the regulatory system**
 - **The focus of regulatory activity should shift to management by BODs**
 - ❖ **Efforts to build up a corps of professional directors should be accelerated**
 - **Directors should be given professional training & management guidance for the discharge of their roles**
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Thank-you!

CCT

The China Chengtong Group

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