



Corporate Governance Assessment
Summary Report on the Top 100
Chinese Listed Companies for 2011



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Foreword

The capital market in China has witnessed 20 years of development. Being the cornerstone of the Chinese economy, it lays a strong foundation for the re-orientation of economic activities in the current market. The pace of development can be seen by the fact that over the past two decades, the capital markets in China witnessed what took more than a century to be effected in developed countries. These developments include building of a regulatory framework based on the Company Law and the Securities Law; emergence of an investor base made up of institutional investors and individual investors; rapid development of a multi-level capital market system composed of the Main Board, the Small and Medium-sized Enterprises (SME) Board, the Growth Enterprise Market (GEM) Board, and the B-share market; and implementation of a series of major regulatory reforms represented by the non-tradable share reform. These changes have laid the foundation for the future development of the capital market.

The most important and eminent contribution of China's capital market to the Chinese economy is the breeding of the mainstay of the market economy – the listed companies. After having experienced the turbulence of the market and its impact on the economy, more and more Chinese listed companies are recognizing the value and importance of sound corporate governance in strengthening international competitiveness and achieving long-term sustainable growth. In China, corporate governance has always been a major issue besetting the micro-economy. After substantial efforts, state-owned enterprises have finally implemented a modern enterprise system in which the shareholding system is the main body of the reform. Most state-owned enterprises and private companies have established the basic framework for corporate governance in accordance with the Company Law and the Securities Law. Driven by globalization, the Chinese enterprise system reform coincides with the international corporate governance reform, accelerating the convergence of China's corporate governance framework towards the international corporate governance structure.

The establishment of effective corporate governance is one of the greatest challenges for the current micro-economy in China. Compared to countries with matured market economy, China's economic system is still in the transition period and encounters some specific issues on corporate governance. Nevertheless, improvement of corporate governance remains an important and urgent imperative for China.

Through conducting a systematic assessment of the corporate governance standards in the top 100 Chinese listed companies and benchmarking these against internationally recognized corporate governance standards, this report aims to highlight the trend of corporate governance at leading Chinese listed companies, as well as uncover prevailing major corporate governance issues and risks faced by these major companies, in a comprehensive and objective manner. This report also aims to provide a useful source to assist in the improvement of corporate governance. Enhancing the structure and efficiency of corporate governance at Chinese companies in order to strengthen their competitive advantage has always been our primary objective. In the context of accelerated globalization of the economy today, China's economy is growing rapidly in the world. And, it is integral to the future development of China's economy to have more world-class Chinese enterprises participate in the international market and achieve sustainable growth in the highly competitive environment. Sound corporate governance is the discipline and basis for ensuring continuous success for enterprises. We hope that based on our several years of studies and collaborative efforts with listed companies, this assessment could help promote the improvement and advancement of corporate governance practices at Chinese listed companies.

I. Assessment Methodology

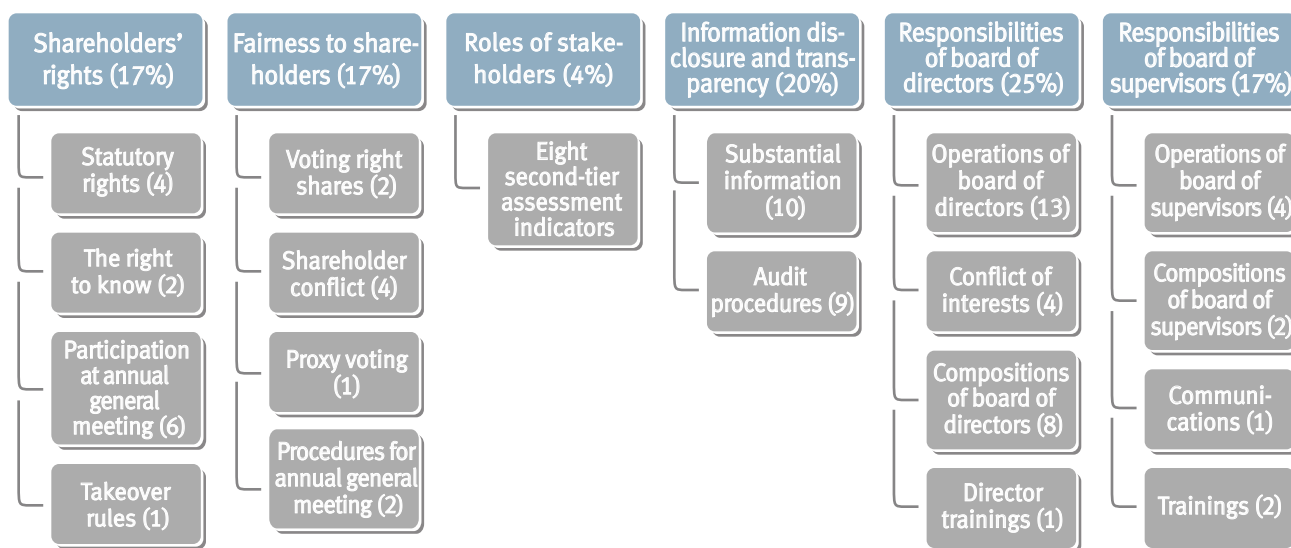
1. Assessed companies

The purpose of this assessment is to analyze and examine the performance, characteristics and issues of corporate governance among the top 100 Chinese listed companies, and identify improvement opportunities. The top 100 Chinese listed companies based on market value were selected. This year's assessed companies came from 13 major industries, such as financial services, manufacturing, mining and quarrying, transportation and storage, information technology, real estate and social services. The aggregate market value of these top 100 listed companies accounted for 83% of the total market value in China's A-share market; the assets of these 100 companies accounted for 86% of the total asset value of A-share listed companies; and the profits of these 100 companies accounted for 90% of the total profit of A-share listed companies. This indicates that these top 100 listed companies represent the dominant group in the Chinese economy. Due to their significant position in the economy, their performance in corporate governance would directly affect the development of the economy.

2. Assessment indicators

In conducting this assessment, references were made to the Principles of Corporate Governance issued by the Organization for Economic Co-operation and Development (OECD), the Company Law of China, the Securities Law of China, as well as other relevant laws and regulations. This assessment was systematically conducted under the six corporate governance (CG) categories: shareholders' rights, fairness to shareholders, roles of stakeholders in corporate governance, information disclosure and transparency, responsibilities of board of directors and responsibilities of board of supervisors. A total of 84 indicators across these 6 categories were selected for this year's CG assessment.

Diagram 1 Assessment indicators



In order to ensure an impartial and verifiable assessment, the assessment was based on data gathered from official and/or publicly available information, such as annual reports, Articles of Association, websites of stock exchanges and company websites. The data collected for this report was as of 31st December 2010. Information gathered from the companies' annual reports was based on their 2009 Annual Reports. To minimize subjectivity, information gathering, scoring and review of assessment results of each listed company were conducted by different individuals respectively.

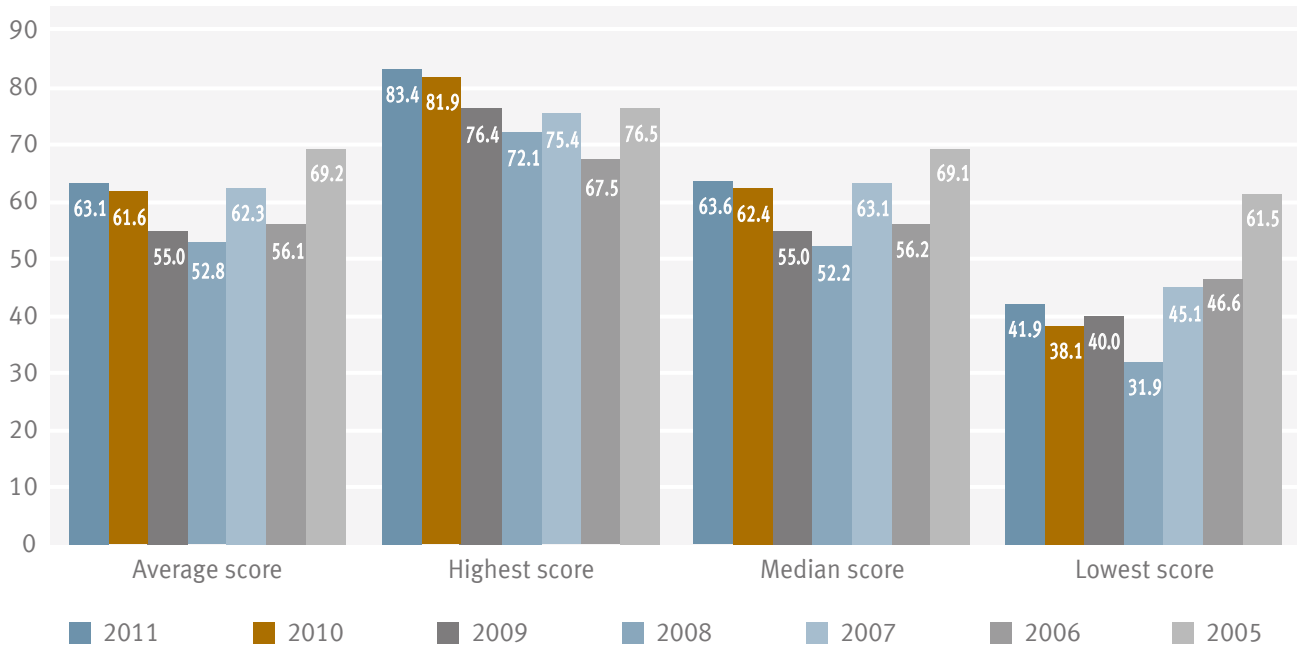
Moreover, in order to gain in-depth insights on the corporate governance standards of the listed companies, research, inspection and case study were performed to obtain information on the current state of corporate governance.

II. Data and Analysis¹

1. Aggregate analysis

The highest combined score for the assessed companies was 83.4 for 2011, the lowest score was 41.9, the average score was 63.1 and the median score was 63.6.

Diagram 2 Comparison of combined scores of assessed companies from 2005 to 2011



Among this year's top 100 listed companies, the difference in scores between companies with the best and worst corporate governance performance was 41.5, whereas between 2005 and 2010, the differences in scores were 15, 21, 30, 40, 36.4 and 43.8 respectively. Diagram 3 (see page 4) shows the variation in scores between companies with the best and worst corporate governance performance (No.100/No.1).

The top 100 Chinese listed companies were divided into three groups according to their market value. Diagram 4 (see page 4) shows that the average score (68.3) for the listed companies in the first group (of highest market value) was much higher than the average score for those in the other two groups, with a gap of 8 marks. The average scores for the second and third groups were almost the same, just meeting the "pass mark". China Merchants Bank Company Limited ranked first in this year's CG assessment and was part of the first group. The median and the lowest scores for the companies in the first group were both higher than those for companies in the second and third groups, indicating that listed companies of a higher market value performed better in corporate governance than those of lower market value.

¹ To enable comparisons, all scores were converted to a 100-point scale.

Diagram 3 Discrepancies in combined scores between assessed companies from 2005 to 2011

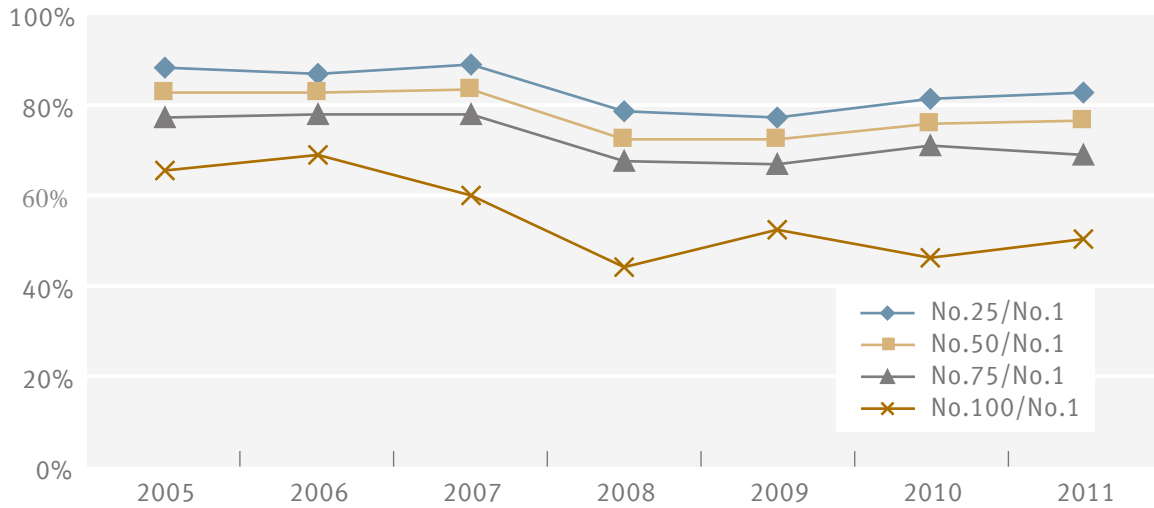


Diagram 4 Comparison of combined scores of assessed companies by market values

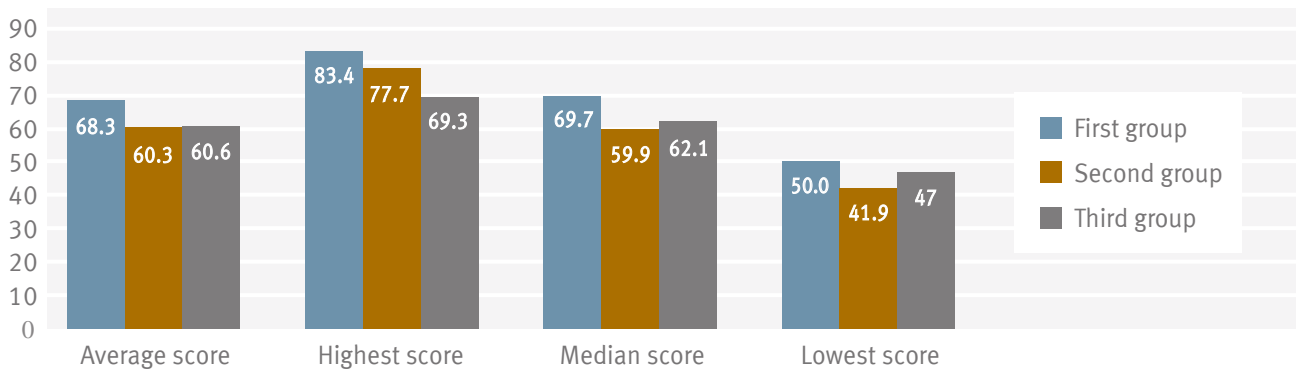
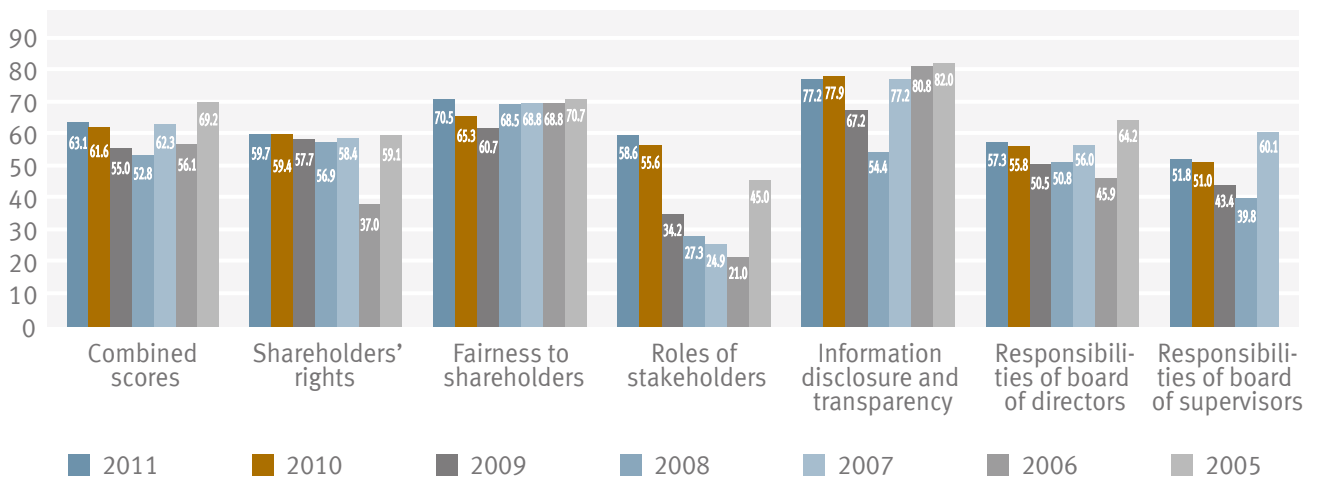


Diagram 5 Comparison of combined scores and individual scores in the six corporate governance categories from 2005 to 2011



2. Data analysis by categories

(1) Comparison of scores between listed companies in the seven major state-owned industries and listed companies in other industries

Out of the top 100 listed companies for 2011, 20 were from state-owned industries². As shown in Diagram 6 and Diagram 7 below, the state of corporate governance at state-owned enterprises was slightly lower than at other companies. In terms of the six CG categories, state-owned enterprises achieved better performances in “shareholders’ rights”, “roles of stakeholders” and “information disclosure and transparency” than the other companies for this year, whereas in 2010, state-owned enterprises only showed advantages in “roles of stakeholders”. Scores of “responsibilities of board of directors” for both groups of companies were similar; however, state-owned enterprises achieved a much lower score in “responsibilities of board of supervisors”, indicating that their board of supervisors served as a mere formality without substance.

Diagram 6 Comparison of combined scores between listed companies in state-owned industries and listed companies in other industries for 2011

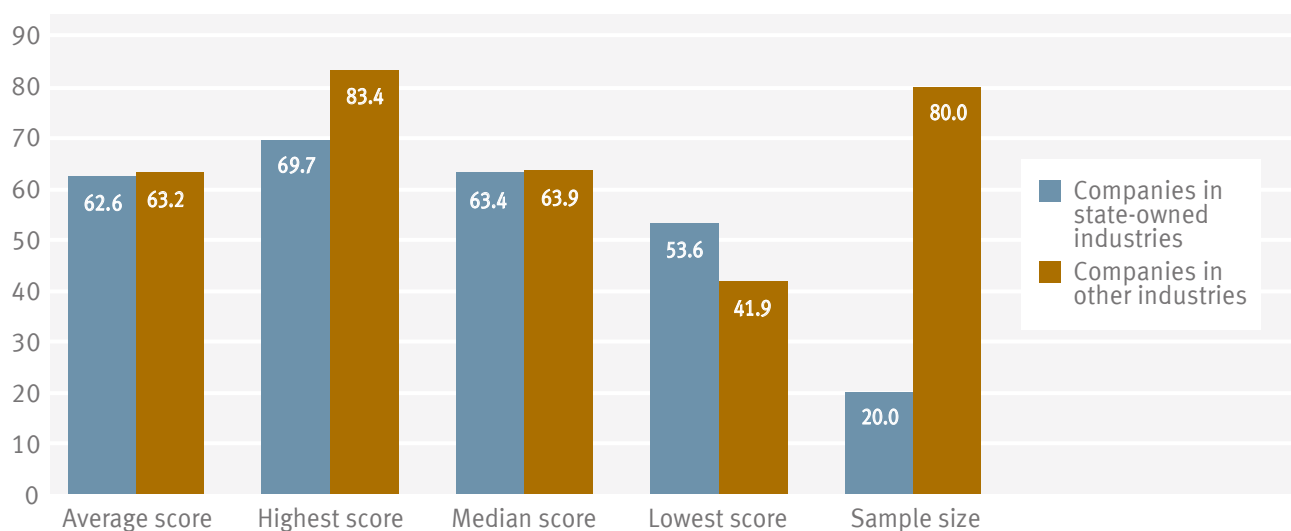
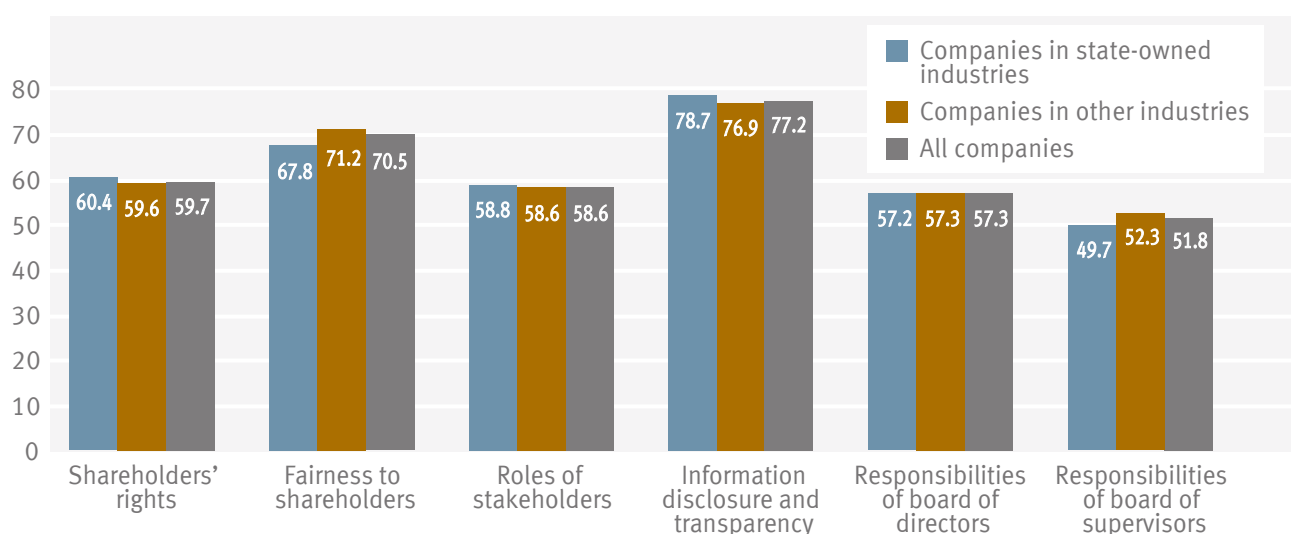


Diagram 7 Comparison of individual scores in the six corporate governance categories between listed companies in state-owned industries and listed companies in other industries for 2011



² In accordance with the classification of state-owned industries indicated in the Guiding Opinion of the SASAC about Promoting the Adjustment of State-Owned Capital and Reorganization of State-Owned Enterprises.

(2) Comparison of scores by industries

This year's assessed companies came from 13 major industries, including manufacturing, financial services, mining and quarrying, and transportation and storage. A total of 80 listed companies came from these four industries, and the remaining 20 listed companies came from other industries.

As shown in Diagram 8, manufacturing companies achieved the lowest score in corporate governance. Among the 39 manufacturing companies, the difference in scores between companies with the best and worst corporate governance performance was 28, which was the widest gap among all industries.

Financial companies achieved the best performance in corporate governance among all industries, with an average score of 73.5. The difference in scores between financial companies with the best and worst corporate governance performance was 15, which was the smallest gap among all industries.

Diagram 8 Comparison of combined scores of assessed companies by industries for 2011

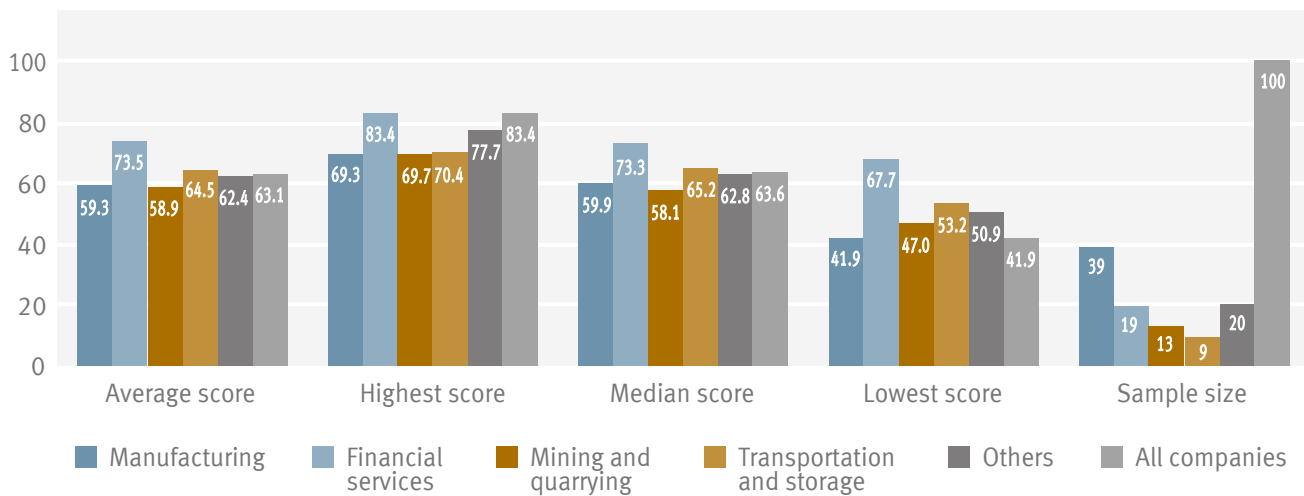
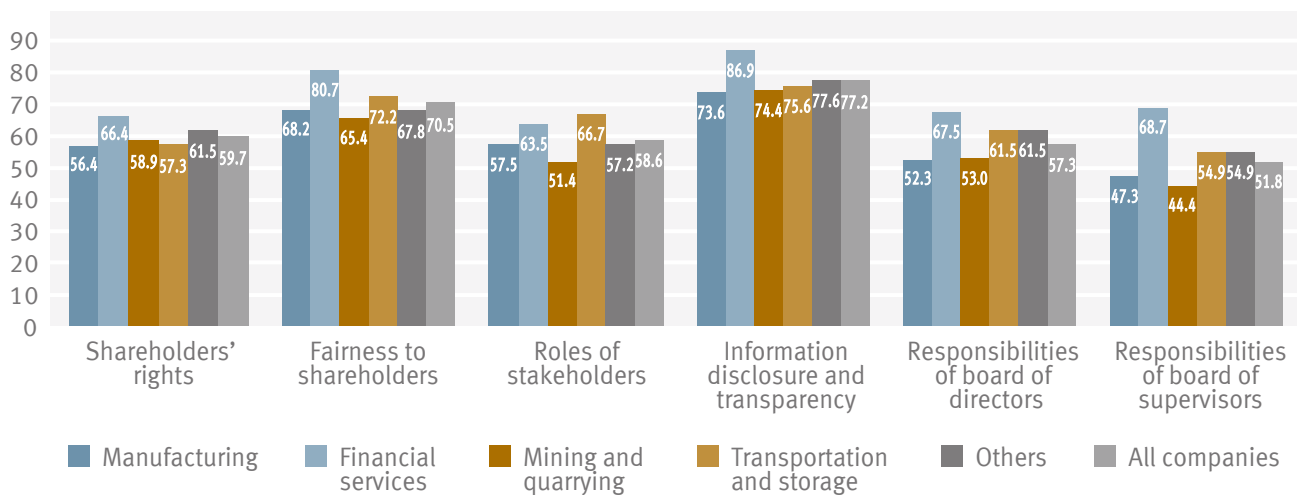


Diagram 9 Comparison of individual scores in the six corporate governance categories by industries for 2011



(3) Comparison of scores by nature of the largest shareholder

This year, we classified the top 100 listed companies into three groups based on the nature of their largest shareholder - namely, state-owned enterprises, private companies, and other companies. As indicated in Table 1, listed companies whose largest shareholder was from “other companies” outperformed the other two groups in corporate governance with an average score of 67.9.

Moreover, analysis was performed on Return on Equity (ROE)³. Listed companies whose largest shareholder was a private company achieved the highest ROE, followed by other companies and state-owned enterprises. Among the top 100 listed companies, there were 86 state-owned enterprises indicating their overwhelming majority.

Table 1 Comparison of corporate governance scores and financial performance indicators of listed companies for 2011

	Average score of corporate governance	ROE	Number of companies
State-owned enterprises	62.9	0.1388	86
Private companies	61.1	0.2084	8
Other companies	67.9	0.1744	6

(4) Comparison of scores of outperforming and underperforming companies

Based on their ranking in corporate governance assessment, companies were divided into outperforming companies (top 20) and underperforming companies (remaining 80). As shown in Diagram 10 and Table 2 (see page 8), the gaps between outperforming companies and underperforming companies in all six CG categories were mostly larger than 10 marks. The gaps were widest in the areas of “responsibilities of board of directors”, “information disclosure and transparency” and “responsibilities of board of supervisors”. This indicated that improvement in corporate governance was an imperative of these companies to secure competitive advantage, whereas for the underperforming companies, corporate governance was still a mere compliance activity.

As indicated in Table 2, the average total assets of the outperforming companies was CNY2,347.295 billion, which was 8.7 times more than that of the underperforming companies. However, the average gross profit of the former was just 1.5 times more than that of the latter. ROE reflects the profitability of investment; a higher ROE indicates a higher profit from investment. The average ROE of the outperforming and underperforming companies was 4.65% and 6.09% respectively. Assessment results indicated that companies outperforming in corporate governance did not possess significant advantage in enhancing their economic effectiveness.

³ In this report, ROE is calculated as: earnings per share / net assets per share. Information on earnings per share and net assets per share was gathered from the companies' annual reports.

Diagram 10 Comparison of individual scores in the six corporate governance categories for “20 vs 80” companies

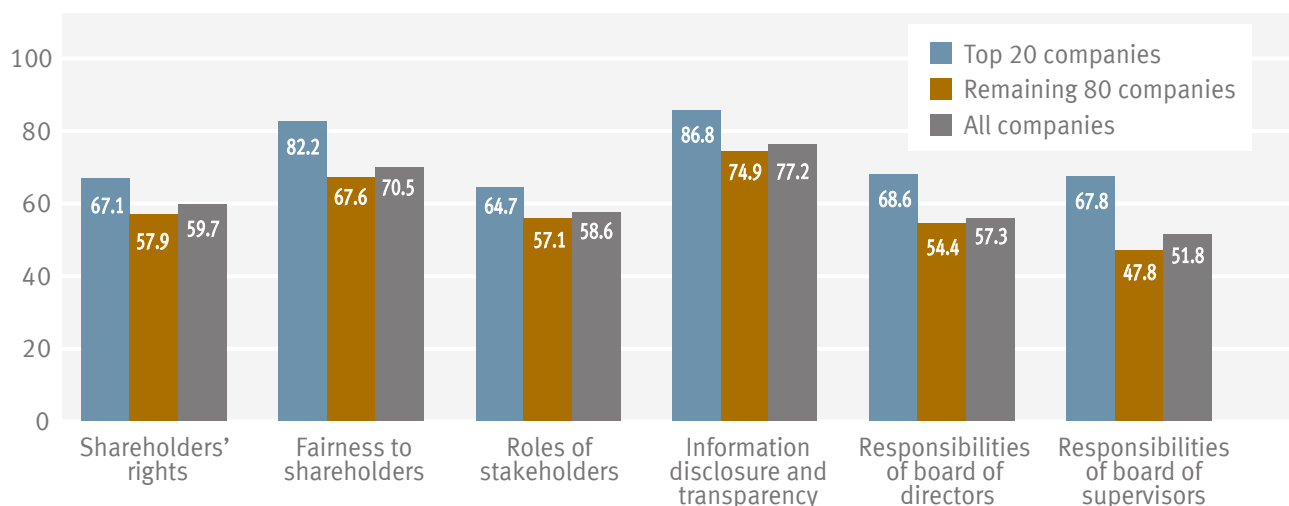


Table 2 Comparison of financial performance indicators for “20 vs 80” companies

	Average total assets (in CNY100M)	Average gross profits (in CNY100M)	Average earnings per share (in CNY)	Average net assets per share (in CNY)	Average ROE
Top 20 companies	23,472.95	329.8169	0.89755	5.7418	4.65%
Remaining 80 companies	2,692.62	224.8785	0.831225	7.9788	6.09%

In enhancing the corporate governance of the Chinese listed companies, one issue that should be considered is that contemporary corporate governance relies on the board of directors and focuses on “performance guarantee” and “compliance assurance”. To ensure compliance, the boards of directors need to “define accountabilities” and “perform oversight”; to achieve performance, the boards of directors need to “set strategy” and “establish policies”. In the past, corporate governance improvement was focused on achieving compliance. However, compliance can only reduce the mistakes made by the board of directors; it does not help the company in gaining competitive advantage. Previously, regulators and even the listed companies themselves placed utmost importance on the “disciplines” of corporate governance. This skews our understanding of corporate governance for the past decade and even equalizes corporate governance and tighter regulation. The focus on “disciplines” and “compliance” may have positive effects in the early stage of corporate governance evolution. However, after years of development, focusing on “compliance” may lead to corporate governance which is mere formality without substance.

III. Topic Study

1. Structure of shareholding

(1) Structure of shareholding of the top 100 listed companies

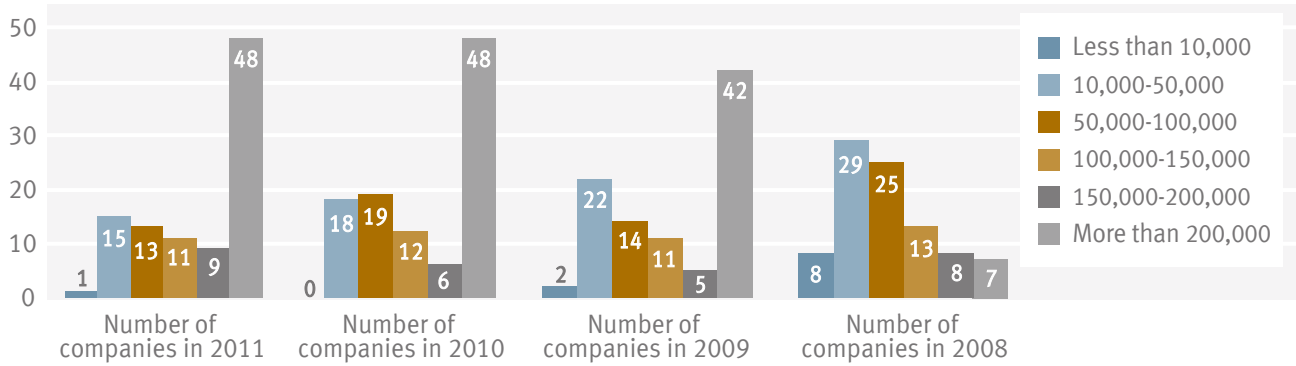
The efficiency of corporate governance is directly impacted by the structure of shareholding. As a result, the enhancement of shareholding structure is fundamental to corporate governance improvement. The enhancement of shareholding structure has two aspects:

- The first aspect is to reduce the concentration level of shareholdings whenever possible in order to increase the diversification of share ownerships. Studies indicate that at companies with high shareholding concentration, especially those with controlling shareholders, conflict of interests between controlling shareholders and minority shareholders is inevitable. Controlling shareholders could not only share residual income in proportion to their shareholding ratio, but could also exercise their controlling right in the company to gain private benefits. The term “tunneling” is used to describe the expropriation from minority shareholders by controlling shareholders.
- The second aspect of enhancing shareholding structure is associated with the types of shareholders, which include the government, industrial companies, banks, foreign strategic investors, local institutional investors, individuals and employees. International experiences indicate that companies should, as far as possible, aim at increasing the number of institutional and strategic investors. These investors, considered to be “pure” shareholders, gain benefits from bonus and capital appreciation without having any other channels to gain benefits from the company. As the government itself does not have sound corporate governance, shareholders may not be able to exercise their rights and management override may exist. Even though the government is not the majority shareholder, it has dominant influence over other shareholders and has negative impact on the governance structure such as directly intervening in the board’s decision-making or even directly participating in the company management. At state-owned enterprises where the majority of shares are owned by the government, the formation of a strategic board of directors demonstrating independence and professionalism is a difficult challenge.

The non-tradable share reform is an important step in enhancing corporate governance. However, full circulation itself cannot improve corporate governance. In order to realize the effect of capital market on corporate governance improvement, merger and acquisition activities among listed companies should be accelerated. This would promote diversification of share ownership through market-driven factors.

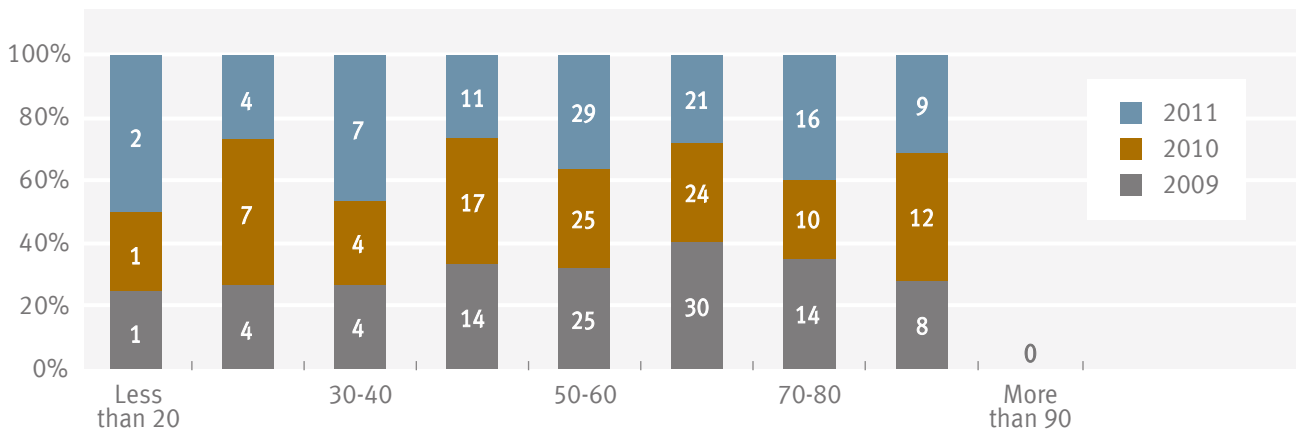
According to WIND statistics, as of end of 2010, the market value of A-share market has accounted for 71.9% of the total market value, indicating that full circulation was basically achieved. Many large-cap stocks are no longer restricted from circulation. Among the 16 bank stocks, nine of them (including the Industrial and Commercial Bank of China and the Bank of China) could now be fully circulated. Other enterprises such as China National Petroleum, China Petroleum and Chemical, China Life Insurance and Ping An Insurance have also entered into the full circulation era. Diagram 11 (see page 10) shows that over the four years from 2008 to 2011, shareholding structure of the top 100 listed companies became more diversified and the number of shareholders increased significantly. The number of companies with the number of shareholders exceeding 200,000 increased from 7 in 2008 to 48 in 2011.

Diagram 11 Statistics on the total number of shareholders of assessed companies from 2008 to 2011



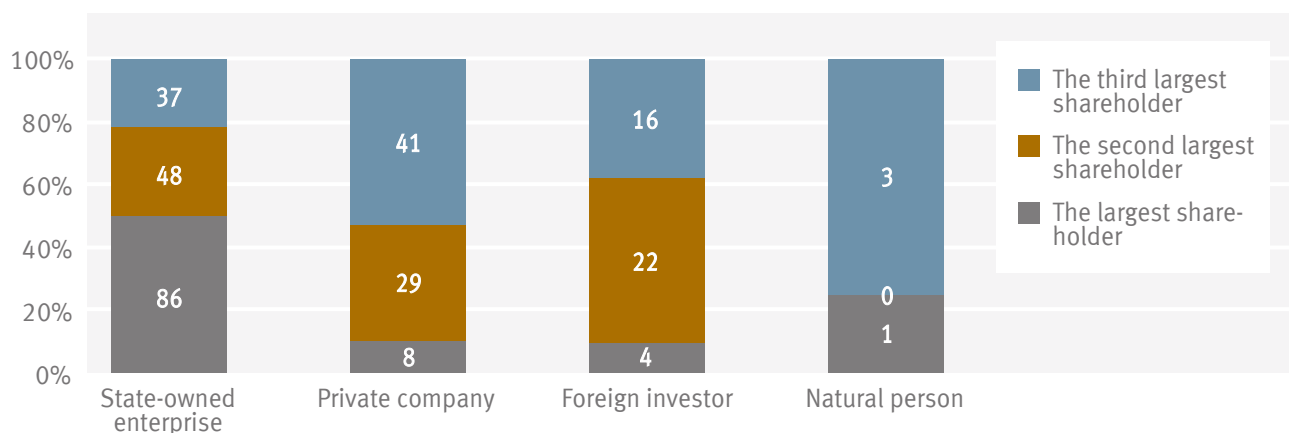
In terms of the shareholding structure of listed companies, the introduction of full circulation did not change the concentration level of shareholdings. Shareholdings of large listed companies were still mainly held by the five largest shareholders. The diagram below indicates that, over the past three years, companies had their five largest shareholdings making up 40%-80% of their total shareholdings.

Diagram 12 Percentages of total shareholdings made up by the five largest shareholdings of assessed companies from 2009 to 2011



In terms of the nature of shareholders, state-owned shares still dominated among the large listed companies. The largest shareholder in 86% of the top 100 listed companies was a state-owned entity, the second largest shareholder in 48% of the assessed companies was a state-owned entity, and the third largest shareholder in 37% of the assessed companies was also a state-owned entity. It should be noted that the status of private companies and foreign investors decreased, indicated by the significant drop in the number of these companies being the second largest shareholder. In 2009, the second largest shareholder in 32% of the top 100 listed companies was a state-owned entity, the second largest shareholder in 48% of the assessed companies was a private company, and the second largest shareholder in 17% of the assessed companies was a foreign investor. In 2011, the percentage of companies whose second largest shareholder was a state-owned entity increased from 32% to 48%, and the percentage of companies whose second largest shareholder was a private company decreased from 48% to 29%. In 2009, the third largest shareholder in 23% of the assessed companies was a state-owned entity; this percentage increased to 37% in 2011. The percentage of companies whose third largest shareholder was a private company decreased from 52% in 2009 to 41% in 2011. This indicated that, in terms of shareholders' nature, state-owned shares became more dominant and privately-owned shares diminished. The controlling power of state-owned shareholders has further intensified due to their dominance in the shareholding pattern.

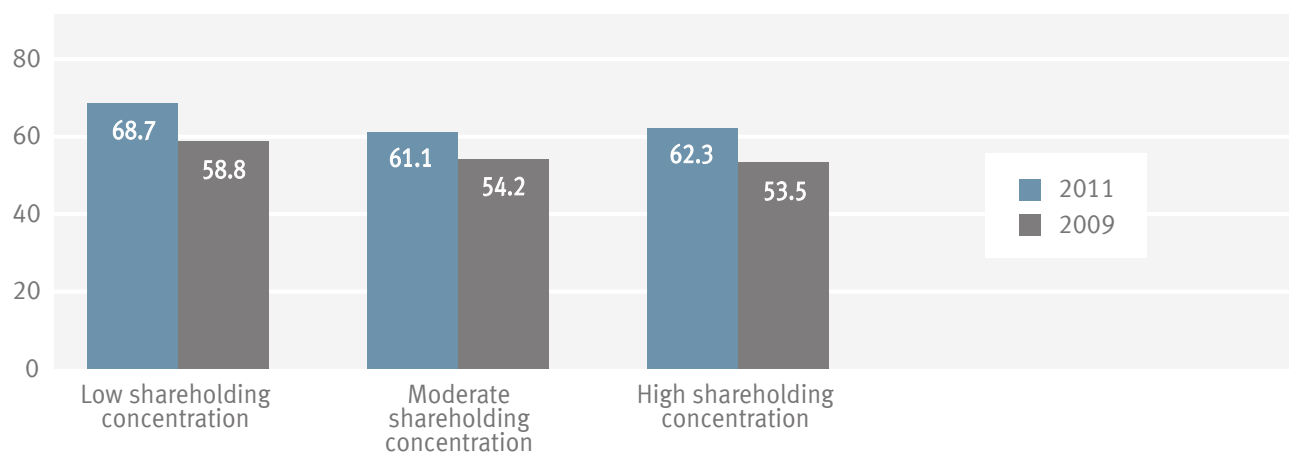
Diagram 13 Natures of the three largest shareholders of assessed companies for 2011



(2) Comparison of scores of companies with different shareholding structures

The top 100 listed companies were classified into three groups on the basis of their shareholding concentration level. Companies whose largest shareholder held less than 30% of the companies' equity were classified as "low shareholding concentration" group; companies whose largest shareholder held 30%-59% of the companies' equity were classified as "moderate shareholding concentration" group; and companies whose largest shareholder held more than 60% of the companies' equity were classified as "high shareholding concentration" group. Assessment results indicated that the average combined score of corporate governance for the "low shareholding concentration" group was 68.7, which was significantly higher than that for the other two groups. Moreover, the corporate governance improvement rate for the "low shareholding concentration" group was the fastest among the three groups. Compared to 2009, the average combined score of corporate governance for the "low shareholding concentration" group increased from 58.8 to 68.7 - an improvement rate of 16.84%. The corporate governance improvement rates for the "moderate shareholding concentration" group and the "high shareholding concentration" group were 12.73% and 16.44% respectively. This illustrated that it is favorable for the improvement of corporate governance to appropriately lower the shareholding concentration level, especially the shareholding ratio of the largest shareholder.

Diagram 14 Relationship between shareholding concentration and corporate governance scores

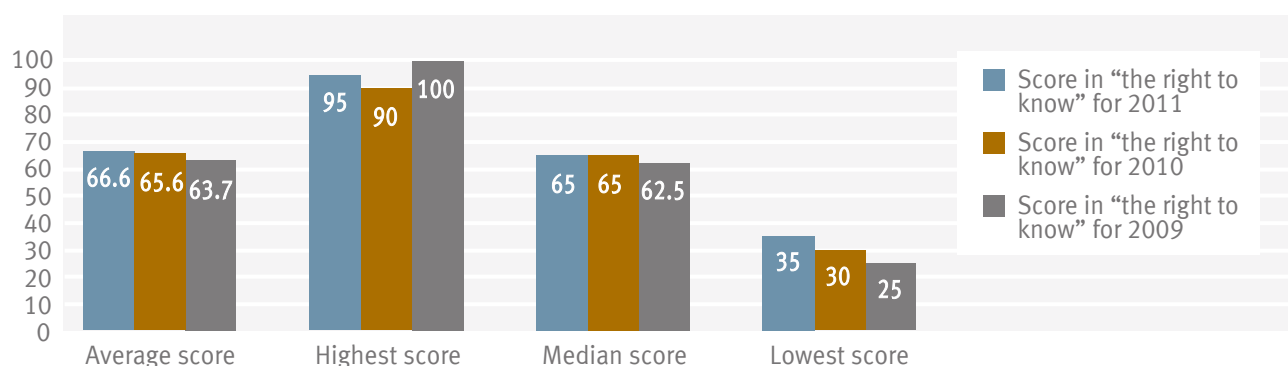


2. Rights of shareholders

In China, the standard of corporate governance increased after the introduction of non-tradable share reform. However, activities such as insider dealing, market manipulation, distortion of information disclosure, as well as infringement of the interest of minority shareholders by majority shareholders continue to exist, which have, to a certain extent, affected the development of holding companies and the capital market. In November 2010, The China Securities Regulatory Commission (CSRC) and other four authorities jointly issued the Opinion on Combating and Safeguarding against Insider Trading in the Capital Markets in Accordance with the Law, aiming at preventing insiders from extracting private gains from the listed companies. Corporate governance at Chinese listed companies needs to make a breakthrough in protecting the minority shareholders' interests and their rights.

The basic rights of shareholders include the right to know, the right to participate in decision-making, and the right to enjoy asset gain.

Diagram 15 Combined scores in “the right to know” from 2009 to 2011



(1) Significant variation in shareholders' right to know

The assessment of investors' right to know covered the following three aspects:

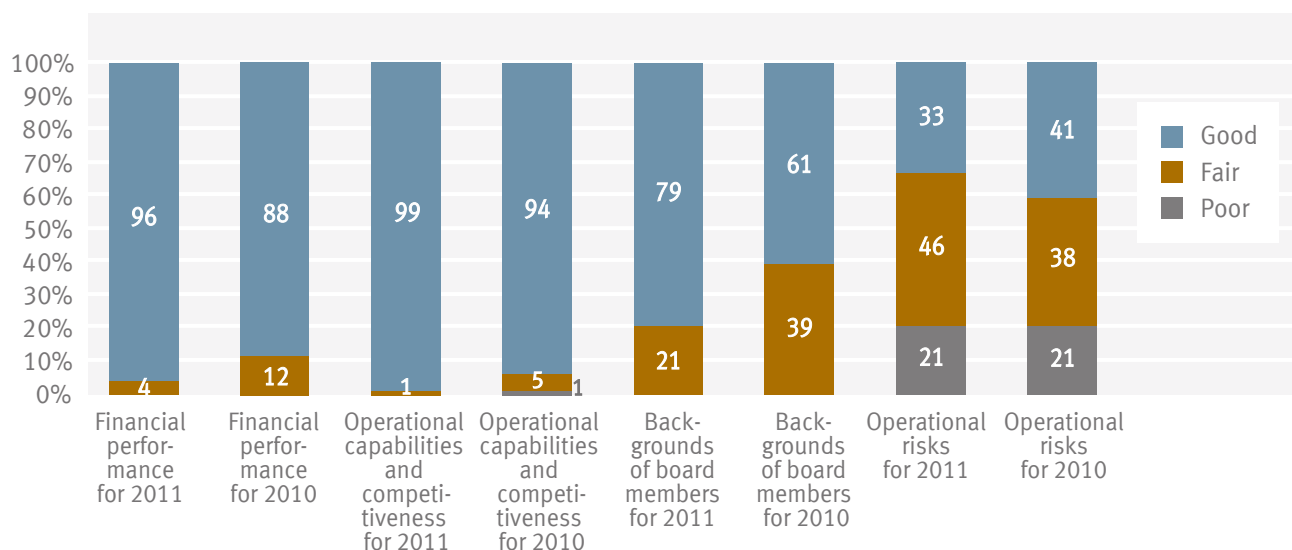
- Quality of notice for shareholders' meetings;
- Quality of annual reports; and
- Management of investor relations.

The average score of shareholders' right to know for 2011 was 66.55. The scores in shareholders' right to know from 2009 to 2011 met the “pass mark” but did not show an increasing trend. There was a significant variation in the quality of information disclosed by listed companies. The variations in scores between companies with the best and worst information disclosure performance from 2009 to 2011 were 75, 60 and 60 respectively. Performances in this area had not improved over the three years. This indicated that despite the stringent regulations, many companies did not comply with the regulatory requirements, disregarding the rights of shareholders. For companies that did not satisfy the information disclosure requirements, admonishment and advice on rectification did not have sufficient effect.

Annual report is a primary channel to obtain information about listed companies. Since the Chinese Ministry of Finance adopted the new accounting standards system, which includes Accounting Standards for Business Enterprises, there has been substantial convergence between the Chinese accounting standards and International Financial Reporting Standards (IFRS). The implementation of the new accounting standards has had positive impacts on promoting information disclosure improvement, protecting shareholders' rights and enhancing transparency of the capital market.

In assessing the annual reports of listed companies, we focused on four areas: (1) financial performance; (2) operational capabilities and competitiveness; (3) backgrounds of board members; and (4) operational risks.

Diagram 16 Comparison of quality of annual reports of assessed companies for 2010 and 2011



As shown in Diagram 16, obvious improvements were found in the disclosures of “financial performance”, “operational capabilities and competitiveness” and “backgrounds of board members” for 2011, whereas the disclosure of “operational risks” was better in 2010.

Concerning the management of investor relations, assessment results indicated that 54.6% of the top 100 listed companies had established an investor relations section on their websites and provided detailed and timely information in that section. 15.7% of the companies had established an investor relations section; however the information provided was insufficient and not up-to-date. 29.7% of the companies had not established an investor relations section or the information provided in that section was very limited.

Assessment results also showed that, 64.3% of the companies had established policies on investor relations management which were available readily to the public. Over 70% of the companies actively communicated with investors through multiple channels (e.g., participation in investment forums, analyst conference, press conference and road shows).

In order to truly understand the communication between investors and listed companies, we examined the operation of investor hotlines at the listed companies. Examination results indicated that 83% of the listed companies had not set up a hotline for investors, 5% of the listed companies provided a hotline number but no one answered the call during office hours. In other words, only 12% of the listed companies had their investor hotlines operating normally. This indicated the limited effectiveness in promoting the establishment of policies and structures of investor relations management despite the release of various guidance documents by the regulators in recent years such as Guidelines on Investor Relations. Investor relations management should not be a mere formality, and should not focus only on the relations with institutional investors and majority shareholders while neglecting the needs of minority shareholders.

(2) Shareholders’ right to participate in decision-making: still dominated by the majority shareholders

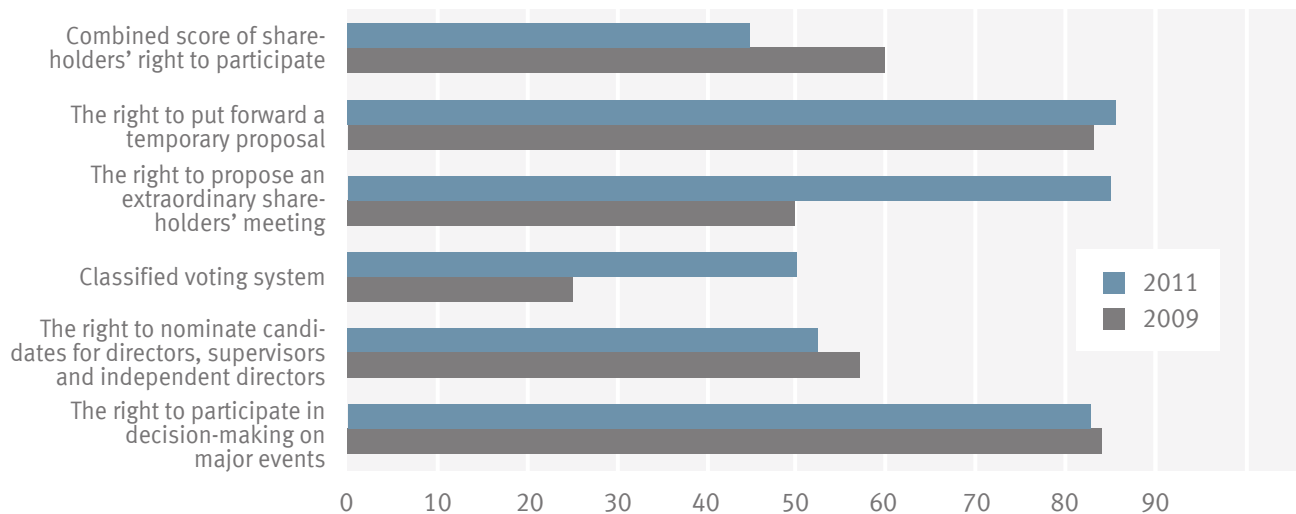
Given that listed companies in China have highly concentrated shareholdings, and the shareholdings are dominated by the government, the majority shareholders directly participate in the companies’ governance and management by nominating candidates for directors, supervisors and senior executives. Minority shareholders have limited influence on the decision-making on major events.

The right of shareholders to participate in decision-making includes the right to put forth a proposal, the right to propose a shareholders’ meeting, and the right to vote on resolutions. Shareholders may exercise their rights directly by voting on resolutions on related agenda items at shareholders’ meetings and special shareholders’

meetings. They may also exercise their rights indirectly by restricting the composition of the board of directors and the board of supervisors. Therefore, the required shareholding ratio for shareholders to nominate candidates for directors, independent directors and supervisors plays an important part in the exercise of shareholders' rights.

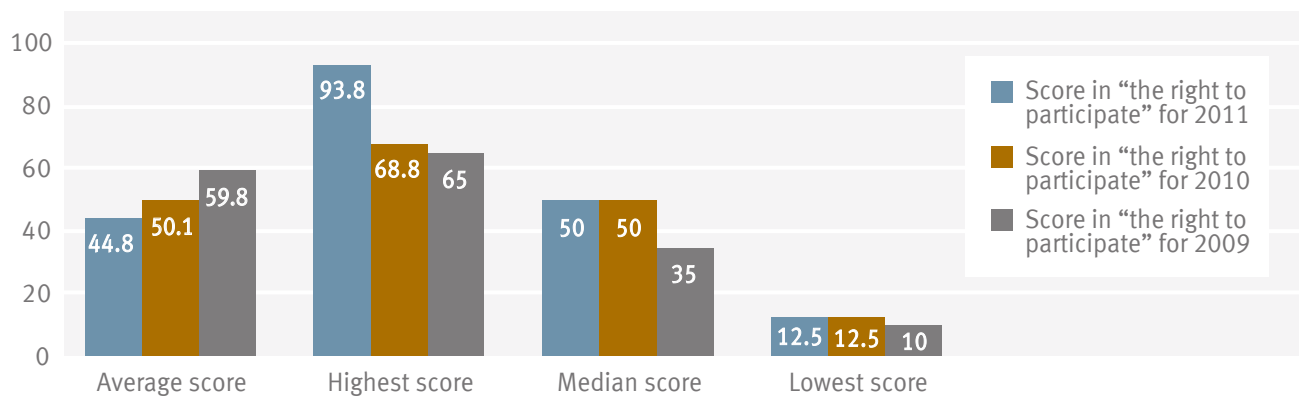
Shareholders' right to participate was assessed in five areas, namely, "the requirements for putting forward a temporary proposal", "the requirements for proposing an extraordinary shareholders' meeting", "the adoption of a classified voting system", "the right to nominate candidates for directors, supervisors and independent directors", and "the right to participate in decision-making on major events".

Diagram 17 Scores for various indicators of "the right to participate"



Assessment results revealed that the average score in "the right to participate" for the top 100 listed companies was 44.75 for 2011, which was the lowest among the three basic rights of shareholders.

Diagram 18 Combined scores in "the right to participate" from 2009 to 2011



It was also noted that, although minority shareholders' right to participate was limited, some companies achieved satisfactory performance in protecting shareholders' rights. Among the 100 assessed companies, the highest score in "shareholders' right to participate" was 93.75 this year, whereas in 2009 and 2010, the highest scores for this indicator were 65 and 68.75 respectively. This indicates that the protection of minority shareholders' right to participate is not impossible if a company is determined enough to do it.

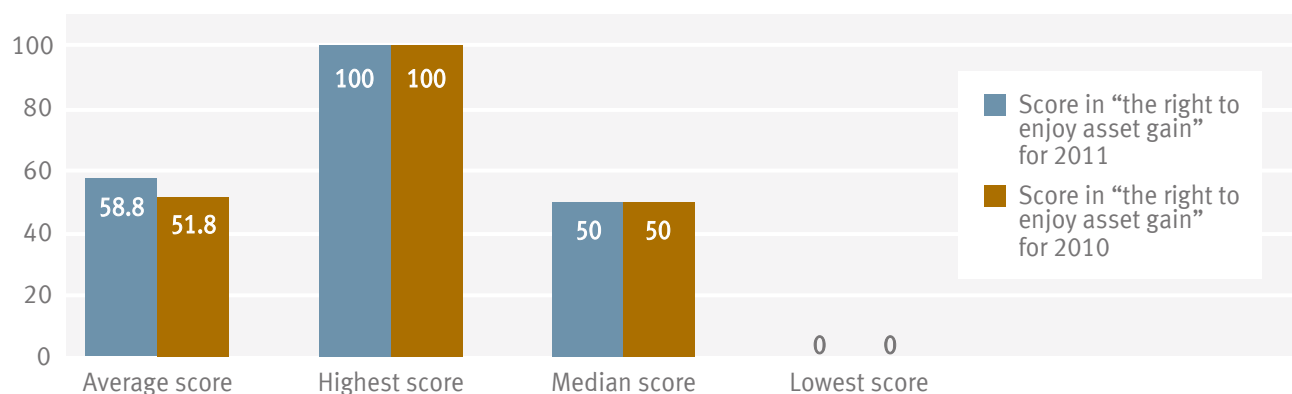
Regarding the ease on the part of shareholders in exercising their right to participate, proxy voting was used at most listed companies. However, the adoption of online voting at shareholders' meeting was not satisfactory. While most listed companies stipulated in their Articles of Association that they provide web-based voting platform to facilitate shareholders' meetings, only 20% of the assessed companies used online voting at their shareholders' meetings last year. According to the Several Provisions on Strengthening the Protection of the Rights and Interests of Public Shareholders (2004) issued by the CSRC, more than half of the voting rights of the public shareholders present at the shareholders' meeting shall be secured to pass the following proposals: public offering of new shares of the listed company, public offering of corporate convertible bonds, placing of new shares to existing shareholders, and major assets restructuring, among others. Moreover, it also stipulated that online voting is required for the resolutions. However, there is no stipulation of voting method for ordinary proposals at shareholders' meetings. This indicates that online voting is not a common practice among the Chinese listed companies in China. The purpose of online voting is to enhance the participation of shareholders in voting at shareholders' meetings, as well as to reduce the voting cost. Listed companies should be encouraged to adopt both on-site voting and online voting for all resolutions at shareholders' meetings, in order to enhance the participation of minority shareholders in decision-making.

Regarding the adoption of "classified voting system", many national and regional company laws have stipulated a classified voting system – if a resolution may infringe the interest of a particular class of shareholders, apart from voting at the shareholders' meeting, that particular class of shareholders shall hold a special shareholders' meeting to vote on the resolution. As Chinese listed companies in China have highly concentrated shareholdings which are dominated by the government, classified voting on major events such as public offering of new shares, placing new shares to existing shareholders and major assets restructuring may help to restrict the abuse of controlling rights and manage the conflict of interest between the majority and the minority shareholders.

Opinions of the State Council on Promoting the Reform, Opening and Steady Growth of Capital Markets promulgated in 2004 clearly stipulated that "the legitimate rights of investors, especially public investors, should be effectively protected." This helps restrict the abuse of controlling rights at listed companies and provides support to the classified voting system. However, classified voting system in China was a transitional measure for the non-tradable share reform. There is no clear rule on the adoption of classified voting system after the completion of non-tradable share reform by the listed companies. Most listed companies are adopting a wait-and-see attitude. It is encouraging to see that among the top 100 listed companies, half of them adopted the classified voting system. The number of companies using the classified voting system showed an increasing trend in the past few years.

(3) Shareholders' right to enjoy asset gain: showed significant improvement when compared to last year

Diagram 19 Combined scores in "the right to enjoy asset gain" for 2010 and 2011



To encourage listed companies to pay cash dividends, the CSRC issued the Decisions on Revising Several Provisions for Cash Dividends by Listed Companies, specifying new requirements on the procedures and transparency of cash dividend payment of listed companies. According to the Decisions, “cumulative bonuses distributed in cash in the most recent three years must not be less than one-third of the annual average distributable profits during that time period.” This mandatory requirement forces listed companies to pay dividends in cash. In 2009, both the number of listed companies paying cash dividends and the amount of dividends paid broke the historical record of China’s A-share market.

3. Internal Control System

Internal control has been incorporated into the daily monitoring of listed companies

Internal control and risk management are the hot topics among regulators and business communities around the world. The global financial crisis, triggered by subprime mortgage crisis in the United States, has raised the alarm about the importance of strengthened corporate governance and risk management. The collapse of many banks and financial institutions in the crisis, including Lehman Brothers, has led to a wave of action by countries around the world to strengthen internal control and regulatory measures.

On 26 April 2010, the Ministry of Finance, together with the China Securities Regulatory Commission, the National Audit Office, the China Banking Regulatory Commission and the China Insurance Regulatory Commission, jointly released the Enterprise Internal Control Supplemental Guidelines (Supplemental Guidelines). The Supplemental Guidelines comprise of the Application Guidelines on Enterprise Internal Control (18 in total), the Evaluation Guidelines on Enterprise Internal Control and the Audit Guidelines on Enterprise Internal Control. Following the promulgation of the Basic Standard for Enterprise Internal Control in 2008, the introduction of the Supplemental Guidelines represents another milestone in the establishment of an enterprise internal control framework in China. The Supplemental Guidelines were formulated on the notion of an enterprise internal control framework that centers on risk prevention and fraud management, is driven by clearly defined control standards and assessment criteria, and is well structured, cohesive, scientific and comprehensive. The implementation of the guidelines made China the third country to adopt comprehensive enterprise internal control system, following the United States and Japan.

The implementation dates for the Supplemental Guidelines are as follows:

- effective from 1 January 2011 for companies that are listed both domestically and abroad, and
- effective from 1 January 2012 for companies that are listed on the Main Boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

The Supplemental Guidelines will be selectively applied to companies listed on the Small and Medium-sized Enterprises Board and the Growth Enterprise Market Board. Listed enterprises shall conduct self-assessments on the effectiveness of their internal controls and issue self-assessment reports on an annual basis, as well as appoint accounting firms to audit the effectiveness of their internal controls over financial reporting and issue auditors’ reports thereon.

Regarding the internal control development at Chinese listed companies in recent years, it is noted that the listed companies leading in enterprise-wide risk management are mainly the foreign-listed companies, especially those companies listed in the United States where compliance with Sarbanes-Oxley Act is mandatory. The implementation of internal control system and enterprise-wide risk management usually includes three stages, namely, establishment of internal control infrastructure, improvement of management processes through internal control, and integration of internal control with management processes. The infrastructure of internal control is mainly established through the compilation of an internal control manual and a self-assessment manual, aiming at developing internal control rules and a risk repository, as well as improving the company’s capability of managing significant risks. In the second stage, internal control measures are executed and assessed to continuously improve the company’s management and business processes; establish policies and procedures; and achieve an optimized organizational structure, resulting in an overall improvement of the company’s management. The focus of this stage is to align internal control with management processes in order to further improve risk management capability. The third stage of internal control implementation aims to incorporate the concepts and methodologies of risk management and internal control into the company’s various management activities, and subsequently results in the integration of internal control into the company’s daily management activities.

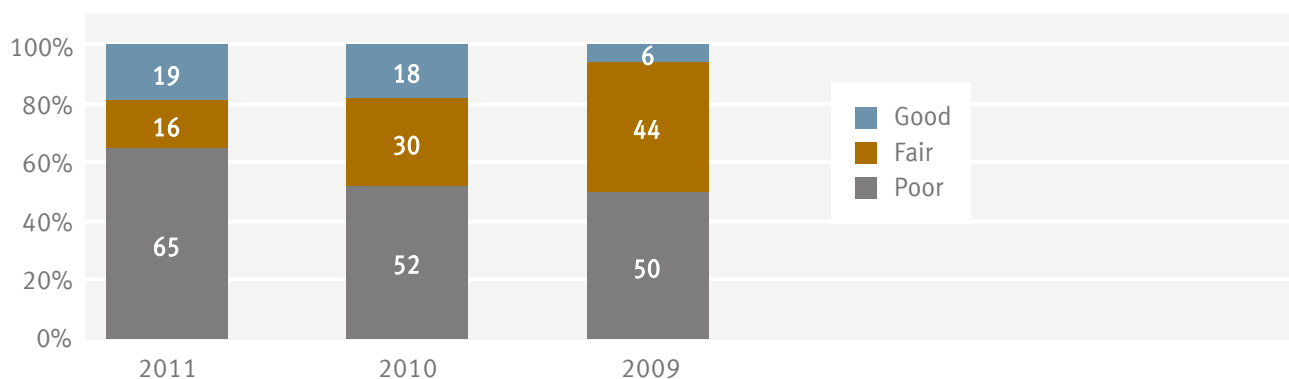
For most Chinese listed companies, implementation of internal control still remains at the initial stage of infrastructure establishment. Annual internal control assessment reports issued by the listed companies revealed that the progress and effectiveness of internal control implementation vary greatly under different internal control environments.

The assessment results revealed that the top 100 Chinese listed companies had further strengthened their risk management, with the average score of internal control moving up from 39.6 for 2009 to 51.5 this year.

- Most companies had already established a corporate internal control system, although some were more comprehensive than others. 63 listed companies scored very well with regard to the four specific indicators under “Does the company establish a comprehensive internal control system, including an effective internal audit system? (E2i)” These companies disclosed the operation of corporate internal control system in detail in their annual reports: many companies had established specific internal control measures for their subsidiaries and derivative transactions; internal audit departments of these companies performed high-level monitoring and were responsible for conducting periodic risk assessment and testing of existing risk management activities.
- This year’s assessment results indicated that risk management improvement had become a priority for the top 100 listed companies. In the area of “Does the company establish its own risk management department, risk assessment and management system?”, 90% of the assessed companies scored very well.
- Audit committee or risk control committee of the board of directors were responsible for leading and monitoring the companies’ internal control whereas the full board was directly accountable for the accuracy and integrity of the companies’ internal control report.
- Self-assessment reports of the listed companies indicated that their internal control systems were basically in compliance with the requirements of the Basic Standard for Enterprise Internal Control which stipulated that an enterprise shall conduct systematic analysis of its internal control framework from the five perspectives of internal environment, risk assessment, control activities, information and communication, and internal monitoring.

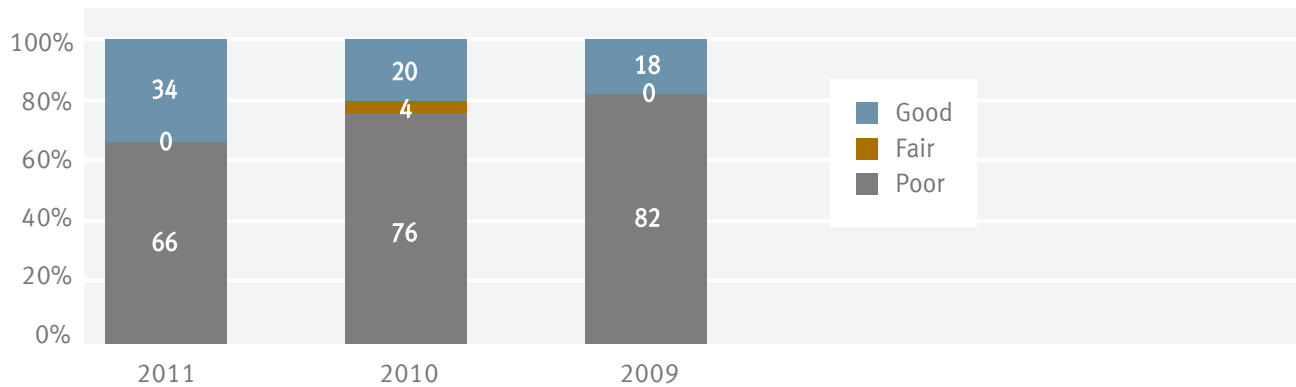
Current practices of internal control at listed companies indicate that the supporting role of corporate culture in internal control and risk management is not appreciated by the companies. Risk monitoring and assessment performed by the management is less effective, if information is not communicated consistently within the company. The most comprehensive rules and policies can only be effective when they are executed by people. Hence, the fundamental assurance of a company’s effective risk control are its employees, with strong risk awareness and ethics. Key challenges for today’s executives include establishing a culture of compliance across the company, conveying the value of integrity to employees, and enhancing the employees’ compliance consciousness. When asked “Has the board of directors provided all directors and employees with company’s code of ethics or code of conduct? (E3ii)”, less than 20% of the top 100 listed companies indicated that they had established clearly defined corporate code of ethics or code of business conduct, whereas 65% of the companies indicated that they did not have such policies in place (see below diagram).

Diagram 20 Comparison of indicator E3ii from 2009 to 2011



International experiences have demonstrated that setting up an independent whistle-blower hotline and establishing specific anti-fraud program (E3iii) are effective means for the companies to improve their risk control. Assessment results of the recent three years indicate that only some of the top 100 listed companies (about 30%) had realized the importance of establishing anti-fraud programs and taken proactive measures to prevent fraudulent activities. However, this best practice has not been widely adopted among the listed companies.

Diagram 21 Comparison of indicator E3iii from 2009 to 2011



The effectiveness of internal control system depends on the capabilities of a company to establish an effective information and communication system; clearly define the procedures for collecting, processing and transferring information related to internal control; and ensure the timely communication of such information. Companies should have clearly-defined policies on internal/external information management in place, and ensure that relevant information is communicated in an accurate and timely manner to their board of directors, board of supervisors and senior management to allow them to understand the operations and risk profiles of the company and the controlling subsidiaries. This can also help in ensuring that the company’s various risk exposures and internal control weaknesses are appropriately addressed. A secure and stable IT system is also an important part of an effective internal control system. When asked “Does the company develop formal and standard IT system policies and IT security policies?”, only 35 companies in the top 100 met the requirement, indicating their shortage in necessary supportive measures in this area.

Furthermore, as internal control and risk management are still at the nascent stage of development in China, the engagement of personnel with relevant knowledge and hands-on experience is another challenge faced by the Chinese listed companies in their establishment of internal control. Therefore, it is suggested that companies enhance their internal control training program and build a team of professionals who are knowledgeable in internal control and experienced in company management. Companies may also engage external consulting institutions and leverage their knowledge and experience to help develop practical work plans and build up their own skill sets.

4. Functioning of board of directors

This year, corporate governance of the top 100 Chinese listed companies showed no signs of continuous improvement, demonstrating a halting progress in recent years.

In line with the preceding year, board sizes continued to grow, with the average number of board members increasing from 12.01 to 12.15. The smallest board of directors still comprised of 7 members while the four common sizes were 9 members (19 companies), 11 members (18 companies), 13 members (12 companies) and 15 members (14 companies), covering 63 companies in total. The number of companies having dual boards of directors increased from 20 companies last year to 25 companies this year.

With regard to the composition of board of directors, this year's assessment results revealed a reverse trend compared to that of the past several years, with the number of executive directors increasing from 2.64 to 3.78 and the number of non-executive directors decreasing from 5.00 to 3.89. The number of independent directors continued to increase slightly, from last year's 4.37 to this year's 4.48.

Table 3 Statistics on basic characteristics of the board of directors (average)

	2011	2010	2009
Number of board members	12.15	12.01	11.65
Number of executive directors	3.78	2.64	2.91
Percentage of executive directors (%)	32.83	22.00	25.00
Number of non-executive directors	3.89	5.00	4.67
Percentage of non-executive directors (%)	29.39	41.60	40.10
Number of independent directors	4.48	4.37	4.07
Percentage of independent directors (%)	37.78	36.40	34.90
Number of directors represented by representatives of employees	0.09	0.08	0.08
Percentage of directors represented by representatives of employees (%)	0.74	0.70	0.70
Number of board meetings (times per year)	9.43	10.52	10.52
Percentage of attendance at board meetings (%)	91.05	92.27	82.86
Number of board sub-committees	3.84	3.84	3.70
Number of meetings of all sub-committees (times per year)	10.31	10.35	10.00
Number of members in Audit Committee	4.18	3.87	3.74
Number of meetings of Audit Committee (times per year)	3.74	-	-
Number of members in Compensation Committee	4.19	3.85	3.89
Number of meetings of Compensation Committee (times per year)	1.73	-	-
Number of members in Nomination Committee	3.61	2.78	2.85
Number of meetings of Nomination Committee (times per year)	1.88	-	-

The average number of board meetings held by the top 100 listed companies declined from last year's 10.52 to this year's 9.43, and this decline was found among all types of listed companies. The number of companies with "a board of mere formality" increased by 7 and the number of companies with "a board of superficial participation" also increased by 7. Meanwhile, the number of companies with "a board of normal participation" decreased by 1 and the number of companies with "a board of extensive participation" decreased by 13. In general, only 36 companies achieved the standard of "normal participation" this year, which showed a substantial decline when compared to 2010 and 2009 where the numbers were 50 and 55 respectively.

After experiencing a significant increase in 2010, the average attendance rate of directors at board meetings declined slightly from 92.27% to 91.05% this year. Among the 85 assessed companies whose attendance information was accessible, 7.06% of them reported an attendance rate lower than 75%, which was lower than that in 2009 (16.3%) but higher than that in 2010 (2.4%). A positive change was that the percentage of companies with an average attendance rate of 95% and above increased significantly from last year's 35.7% to this year's 48.41%, indicating an improvement in the diligence of directors at some companies.

Directors' attendance at board meetings represents their level of diligence. The performance of this indicator reflected the halting progress in corporate governance of the Chinese listed companies.

Table 4 Distribution of numbers of board meetings

	2011	2010	2009	Classification by degree of participation
4-6 times	22	15	18	Board of a mere formality
7-9 times	42	35	27	Board of superficial participation
10-12 times	23	24	31	Board of normal participation
13 times or above	13	26	24	Board of extensive participation
Times in average	9.43	10.52	10.52	
Number of effective samples	100	100	100	

The establishment and functioning of sub-committees of the board at the top 100 Chinese listed companies remained the same as last year and did not show further improvement. The average number of board sub-committees was the same as last year (3.84) and the average number of meetings conducted by these sub-committees decreased slightly from last year's 10.35 to this year's 10.31. The percentage of companies that had severely inadequate sub-committees under the board was 8%, which was slightly lower than last year's 9.1%. The percentage of companies where the meetings held by sub-committees being severely inadequate was 14.52%, experiencing a sharp increase from last year's 7.9%. Similar to the performance of directors' attendance rate at board meetings, a small portion of companies showed a trend of continuous improvement in the number of sub-committee meetings. The percentages of companies where the meetings held by sub-committees being "appropriate" and "good" both increased by around 2%, totaling 3.8%.

Overall, this year's assessment results demonstrated that the functioning of board of directors at the top 100 Chinese listed companies did not continue with their "continuous improvement" momentum; rather, they experienced a halting progress: a slight increase in the board size; an increase in the number of executive directors; a decrease in the number of non-executive directors and an increase in the number of independent directors. Both the average number of board meetings and the attendance of directors at board meetings experienced a decline. Apart from that, the assessment results also indicated that the number of board sub-committees as well as the number of meetings held by these committees remained unchanged.

5. Functioning of board of supervisors

The size of the board of supervisors (5.38) did not witness any change from that in the last year (5.36). With regard to the compositions, the percentage of external supervisors decreased significantly to 28.43%, which was even lower than that in 2008, but the percentage of supervisors assumed by employee representatives reached 37.17%, a slight increase from last year. This year, the top 100 Chinese listed companies did not continue with the direction of evolving towards having boards of supervisors independent of the company's internal personnel. From the 2010 assessment, the number of companies having four or more external supervisors among the top 100 Chinese listed companies reached 27, while the number dropped to 10 this year.

Table 5 Statistics on basic characteristics of the board of supervisors (average)

	2011	2010	2009
Number of members of board of supervisors	5.38	5.36	5.41
Number of external supervisors	1.53	2.62	2.58
Percentage of external supervisors (%)	28.43	48.88	47.69
Number of supervisors assumed by representatives of employees	2.00	1.93	1.94
Percentage of supervisors assumed by representatives of employees (%)	37.17	36.01	35.86
Number of meetings of board of supervisors	4.63	5.04	4.69
Attendance rate at meetings of board of supervisors (%)	76.60	84.09	87.11

While the percentage of external supervisors declined significantly, both the number of meetings held by board of supervisors and the attendance rate of supervisors at the meetings held by board of directors underperformed as compared to last year. The frequency of meetings held by the board of supervisors decreased from last year's 5.04 times to this year's 4.63 times. Meanwhile, the attendance rate of supervisors at meetings held by the board of directors continued to decline, from last year's 84.09% to this year's 76.60%. It was supervisors' mandatory responsibility to attend and monitor the meetings held by board of directors and, therefore, being absent from the meetings was equivalent to not fulfilling their obligations. Those supervisors, who did not regularly attend the meetings held by board of directors, were unlikely to contribute positively at meetings of board of supervisors.

A trend of "internalization" became evident in the compositions of both the board of directors and the board of supervisors, after several years of continuous increase in the number of non-executive directors and external supervisors. While the numbers of independent directors and employee-assumed supervisors remained stable in order to satisfy the statutory requirements, the numbers of non-executive directors and external supervisors which were subject to a company's own decision decreased. This might indicate a critical corporate governance challenge of ensuring that "information" is communicated effectively and sufficiently to external member of the board of directors and the board of supervisors, faced by the Chinese listed companies. Both the board of supervisors and the board of directors are facing the same conflict between "information and independence". External supervisors and external directors are independent but they do not have access to sufficient information; whereas internal supervisors and internal directors are able to obtain sufficient information but lack independence. The only way to reinforce the progress that has been made towards the independence of the board of directors and the board of supervisors is through further efforts being made in enhancing the quality of information provided to the board members. This would be very much related to the enhancement of the company's financial and auditing activities and even the entire internal control system.

6. Remuneration of senior management

From the assessment results, remuneration of senior executives at the top 100 Chinese listed companies experienced a stable growth after the sharp increase in 2009 (111.23%) and the steep decline in 2010 (-20.41%). With the total number of senior managers increasing by 1.63% (less than last year's 5.02%) this year, the total remuneration of all senior management positions increased by 8.57%.

Last year, the decline in the average remuneration of senior executives per capita that was exceedingly high previously led to the decline in the average remuneration of senior management per capita; similarly, for this year, the increase in the average remuneration of senior executives per capita that was exceedingly high previously resulted in the increase in the average remuneration of senior management per capita. In 2011, the minimum average remuneration of senior management per capita was CNY61,300 – CNY11,300 more than that of last year whereas the maximum amount was CNY5,977,400 – CNY3,330,000 more than that of last year. As a result, the gap in average remuneration of senior management at the top 100 Chinese listed companies widened (from last year's CNY2,590,000 to this year's CNY5,920,000), following a significant expansion of the range of deviation between the companies and an increase of the dispersion coefficient (from last year's 1.00 to this year's 1.42).

After the drastic fluctuations in the previous two years, remuneration of senior executives at the top 100 Chinese listed companies showed a trend of stable growth. Going forward, the focus would shift from the rate of increase in the remuneration of senior executives to the basis for such increase, as well as whether the increment is commensurate with the value that these executives have created for their companies and shareholders.

In recent years, many countries including the United Kingdom, Australia, the Netherlands, South Africa, Norway and Sweden have started to tighten rules regarding shareholder vote on executive compensation. The United States, where company autonomy is highly valued, has adopted the “say on pay” policies since January 2011. While China has in place policies regarding shareholder vote on executive compensation, the problem lies in the overlapping roles and interests between the senior executives and the major shareholders at Chinese listed companies. In view of this, in order to ensure the effectiveness of “say on pay”, the rights of controlling shareholders who “designate” the company's senior executives must be restricted with regard to voting on executive compensation, or companies may simply implement a classified voting system that allows the controlling shareholders and the non-controlling shareholders to vote separately.

Table 6 Statistics on average annual compensation of senior management per capita (in CNY10,000)

		Minimum	Maximum	Average	Standard dispersion	Deviation coefficient
All senior executives	2011	6.13	597.74	50.05	1.42	591.61
	2010	5.00	264.06	47.16	1.00	259.06
	2009	5.72	769.99	58.39	1.61	764.22
	2011/2010 %	22.60	126.37	6.12	41.89	128.37
	2010/2009 %	-12.59	-65.71	-19.23	-37.80	-66.10
All directors	2011	1.19	240.07	32.90	1.09	238.88
	2010	0.80	227.71	37.02	1.05	226.91
	2009	1.56	754.55	46.92	1.83	752.99
	2011/2010 %	48.75	5.43	-11.01	4.21	5.27
	2010/2009 %	-48.72	-69.82	-21.11	-42.62	-69.86
Executive directors	2011	6.05	726.25	101.28	1.28	720.20
	2010	7.27	1,351.96	143.78	1.30	1,344.72
	2009	6.93	3,976.73	177.01	2.46	3,969.80
	2011/2010 %	-16.78	-46.28	-29.56	-1.40	-46.44
	2010/2009 %	4.91	-66.00	-18.77	-47.15	-66.13
Non-executive directors	2011	1.33	138.58	29.94	1.14	137.25
	2010	0.50	90.00	11.42	1.25	89.50
	2009	1.00	142.51	15.32	1.61	141.51
	2011/2010 %	166.00	53.98	162.18	-8.60	53.35
	2010/2009 %	-50.00	-36.85	-25.46	-22.36	-36.75
Independent directors	2011	1.00	84.40	13.50	0.94	83.40
	2010	1.20	80.75	13.98	0.95	79.55
	2009	1.00	55.58	11.72	0.91	54.58
	2011/2010 %	-16.67	4.52	-3.43	-0.53	4.84
	2010/2009 %	20.00	45.29	19.25	4.40	45.75
All supervisors	2011	1.73	209.40	29.64	1.12	207.67
	2010	1.73	127.48	29.09	0.91	125.74
	2009	1.73	207.29	28.56	1.17	205.56
	2011/2010 %	0.00	64.26	1.90	22.78	65.16
	2010/2009 %	0.00	-38.50	1.84	-22.22	-38.83
Supervisors assumed by representatives of employees	2011	2.60	445.17	50.78	1.18	442.57
	2010	1.62	474.23	51.16	1.31	472.60
	2011/2010 %	37.69	-6.53	-0.75	-11.39	-6.79
External supervisors	2011	0.00	108.00	10.03	2.01	108.00
	2010	0.00	156.80	14.75	1.91	156.80
	2011/2010 %	0.00	-45.19	-47.12	4.79	-45.19

IV. Conclusions and Recommendations

1. Overall trend: average performance improved; underperforming companies began to catch up

When comparing the overall corporate governance scores of 52.8 for 2008, 55 for 2009 and 61.6 for 2010, the overall performance of the top 100 Chinese listed companies this year had further improved (63.1) and showed a trend of improving corporate governance at well-performing, fairly-performing and underperforming companies.

In terms of the overall scores for the year, the median score (63.6) was still higher than the average score (63.1), but the gap (0.5) had narrowed when compared to that of last year (0.8), indicating that the overall score was less affected by the low scores of the underperforming companies. Such changes also demonstrated that while the leading companies had moved into continuous self-improvement phase, some underperforming companies had started to take proactive steps to enhance their corporate governance.

2. Structural changes: financial companies continued to lead the way; companies in state-owned industries still lagged behind

The corporate governance score of the 19 financial institutions (73.5) continued to significantly outperform the overall average score (63.1) and the gap between the two widened. From 2007 to 2010, the variations in scores between financial companies and the overall average score were 1.2, 6.7, 6.0 and 6.9 respectively while this year the gap widened to 10.4.

Table 7 Comparison of combined scores by industries from 2007 to 2011

	2011	2010	2009
Financial companies (A)	73.5	68.5	61.0
Companies in state-owned industries (B)	62.6	60.7	54.8
Overall average (C)	63.1	61.6	55.0
D=A-C	10.4	6.9	6.0
E=B-C	-0.5	-0.9	-0.2

Among this year's top 100 Chinese listed companies, only 20 were from state-owned industries, a further decrease when compared to 31 in 2009 and 23 in 2010. On average score, corporate governance of the 20 companies in state-owned industries (65.6) still lagged behind that of the 80 companies in other industries (63.2) with a narrowed gap of 0.6 compared to last year's 1.2. Apart from their leading position in the areas of "stakeholders' rights", "roles of stakeholders" and "information disclosure and transparency", the performances of companies in state-owned industries in the other three CG categories of "fairness to shareholders", "responsibilities of board of directors" and "responsibilities of board of supervisors" were lower than those of companies in other industries.

The reason behind the better performance of financial companies as compared to that of non-financial companies can be attributed to the more stringent regulations imposed by Chinese regulators on financial services industry in the wake of the global financial crisis, whereas the gaps between companies in state-owned industries and those in non-state-owned industries reflected the role of market competition in improving corporate governance of the latter.

3. Role of shareholders: concentration level of shareholding did not improve; momentum of further improvement was lacking

The number of shareholders at the top 100 Chinese listed companies for the year 2011 was not in line with last year's growth trend. The number of companies that had more than 200,000 shareholders remained at 48. Meanwhile the shareholding concentration level did not continue to decline, with the number of companies whose five largest shareholders held more than 50% of the companies' equity increasing to 75, which was 4 more than that last year.

In 2011, the trend of government acting as the controlling shareholder of the top 100 Chinese listed companies intensified. Not only did the number of companies with government being their largest shareholder increase to 86, but the number of companies with private companies or foreign invested companies being their second largest shareholder significantly reduced.

Corporate governance performances for companies with different concentration level of shareholding were assessed. The overall average score of corporate governance for companies whose largest shareholder held less than 30% of the companies' equity was 68.7, which was significantly higher than that for the other companies. Moreover, the corporate governance improvement rate for this "low shareholding concentration" group was the fastest among all the companies. As the direct controlling power of government increased, the top 100 Chinese listed companies lacked internal motivation and external pressure to further improve their corporate governance.

4. Role and composition of board of directors and board of supervisors: improvement was in halting progress

In 2011, the functioning of board of directors at the top 100 Chinese listed companies did not maintain sustainable "continuous improvement"; rather, they experienced a halting progress.

No further decline was observed in the percentages of internal personnel represented on both the board of directors and the board of supervisors. Meanwhile the percentages of independent directors and employee-assumed directors remained steady due to mandatory requirements, but the percentages of non-executive directors and external directors which were subject to a company's own decision decreased significantly. This change might be attributed to the increase of the total number of listed companies where the former non-executive directors and external directors from their parent companies were stripped of the identity of being "non-executive" and "external". As a result, companies would need to further increase the number of their non-executive directors and external directors in the future.

On the other hand, the trend of "internalization" demonstrated in the composition of board of directors and board of supervisors at the top 100 Chinese listed companies indicated a critical corporate governance challenge faced by the Chinese listed companies, i.e., to ensure that "information" is communicated effectively and sufficiently to external members of the board of directors and the board of supervisors. This would require the Chinese listed companies to make further efforts in enhancing the quality of the information provided to the board members. This would be very much related to the enhancement of the company's financial and auditing activities and even the entire internal control system.

What is of even greater concern is that no improvement was observed in the diligence of both the directors and the supervisors. The number of board meetings as well as the attendance rate of directors at these meetings declined; at the same time, the frequency of meetings held by the board of supervisors and the attendance rate of supervisors at board meetings also decreased.

5. Remuneration of senior management: stable growth trend was observed; compensation rules need to be further enhanced

From the assessment results, remuneration of senior executives at the top 100 Chinese listed companies experienced a stable growth after the sharp increase in 2009 (111.23%) and the steep decline in 2010 (-20.41%). With the total number of senior managers increasing by 1.63% (less than last year's 5.02%) this year, the total remuneration of all senior management positions increased by 8.57%.

After the drastic fluctuations in the previous two years, remuneration of senior executives at the top 100 Chinese listed companies showed a trend of stable growth. Going forward, the focus would shift from the rate of increase in the remuneration of senior executives to the basis for such increase, as well as whether the increment is commensurate with the value that these executives have created for their companies and shareholders.

Although China has in place policies regarding shareholder vote on executive compensation, the major issue lies in the overlapping roles and interests between the senior executives and the major shareholders at Chinese listed companies. In view of this, in order to ensure the effectiveness of “say on pay”, the rights of controlling shareholders who “designate” the company’s senior executives must be restricted with regard to voting on executive compensation, or companies may simply implement a classified voting system that allows the controlling shareholders and the non-controlling shareholders to vote separately.

6. Internal control: regulatory rules tightened; companies acted accordingly

In recent years, “internal control” has gradually replaced “corporate governance” as a new slogan used by Chinese regulators to drive “operational discipline” across Chinese companies. After the five authorities jointly released the Basic Standard and the Supplemental Guidelines on internal control, the top 100 Chinese listed companies acted accordingly by intensifying their risk management activities. This is proved by the drastic increase in average score of internal control from 39.6 in 2009 to 51.5 this year.

However, it is important to note that internal control cannot replace “corporate governance” – especially in the areas of rights of external shareholders; fiduciary responsibilities of directors, supervisors and senior management; as well as competition pressure from both the capital market and the commodity market. If these areas are not effectively addressed, focusing on strengthening internal control would only be able to prevent a company from exposing itself to significant risks and issues, but not be able to secure opportunities for the company.

Under the tightening control of the government over the market and resources, state-owned enterprises remain strong whereas private businesses are faced with enormous survival pressure, which has led to an asset bubble and inflation, accumulating significant systematic risks. It is suggested that the entire resource allocation system and the corporate governance system should be revamped and financial regulations should be relaxed in order to facilitate the development of direct financing market and capital market.

V. Appendix

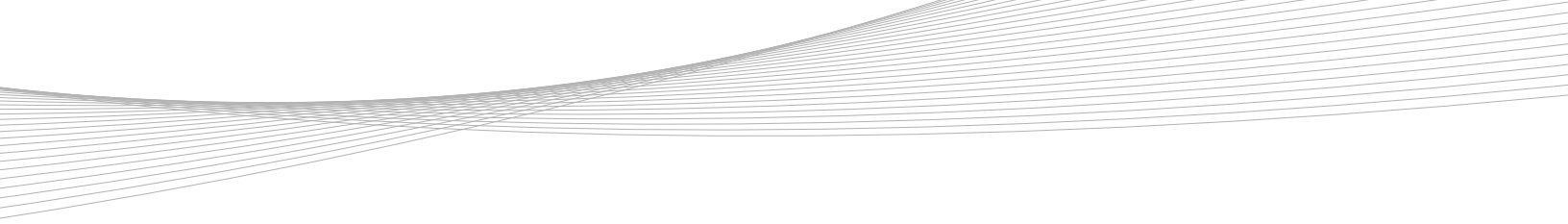
List of the top 10 ranks in “Corporate Governance Assessment of the Top 100 Chinese Listed Companies for 2011” for financial and non-financial companies

Table 1 List of the top 10 non-financial companies in “Corporate Governance Assessment of the Top 100 Chinese Listed Companies for 2011”

Ranking	Ranking by market value	Name of company
1	49	Suning Appliance Company Limited
2	27	China Railway Construction Corporation Limited
3	29	China COSCO Holdings Company Limited
4	6	China Petroleum & Chemical Corporation
5	92	Qingdao Haier Company Limited
6	75	Jiangsu Expressway Company Limited
7	100	Beijing Yanjing Brewery Company Limited
8	13	China Yangtze Power Company Limited
9	69	Gree Electric Appliances Inc of Zhuhai
10	7	China Shenhua Energy Company Limited

Table 2 List of the top 10 financial companies in “Corporate Governance Assessment of the Top 100 Chinese Listed Companies for 2011”

Ranking	Ranking by market value	Name of company
1	10	China Merchants Bank Company Limited
2	16	Industrial Bank Company Limited
3	17	China Minsheng Banking Corporation Limited
4	15	Citic Securities Company Limited
5	12	China Citic Bank Corporation Limited
6	2	Industrial and Commercial Bank of China Limited
7	4	Bank of China Limited
8	46	Shenzhen Development Bank Company Limited
9	8	Ping An Insurance (Group) Company of China Limited
10	33	Bank of Beijing Company Limited



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