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2007 Review of the implementation status of corporate governance disclosures: case study China

**A note by the UNCTAD secretariat and the Research Centre for Corporate Governance of
Nankai University**

Executive summary

This report is a case study of corporate governance disclosure in China. The case study employs the benchmark of good practices in corporate governance disclosure of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). The ISAR benchmark is based on the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure* and consists of 53 disclosure items covering five broad subject categories: (a) financial transparency; (b) ownership structure and exercise of control rights; (c) board and management structure and process; (d) corporate responsibility and compliance; and (e) auditing. The sample of enterprises selected for the study is composed of 80 companies selected at random from the China Stock Index (CSI) 300, the most commonly used index to measure the performance of the Chinese capital market. The study consists of two parts: (a) a brief overview of key recent developments in China related to corporate governance disclosure, including reforms to the regulatory framework; and (b) the presentation and analysis of the results of the review of corporate disclosure practices among leading enterprises in China.

The main findings of the review suggest relatively high rates of corporate governance disclosure among the CSI 300 enterprises compared to the ISAR benchmark. Some items, however, are not widely reported, and the category of corporate responsibility and compliance is the subject of the lowest levels of disclosure. In other categories, however, the level of corporate governance disclosure in China is comparable to the international averages identified in early UNCTAD studies.

The reader should note that, as in UNCTAD's previous annual reviews, this study is not intended as a measure of the quality of the disclosure of individual items, but is a measure of the existence of the selected disclosure items.

Among other conclusions of this study, it appears that the many recent reforms to China's corporate regulations and listing practices have had the effect of increasing the rate of corporate governance disclosure in China. Although disclosure in the category of corporate responsibility and compliance is relatively low, new guidelines on this subject are also being introduced in China.

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I. Introduction

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has been working in the area of corporate governance since 1989 (E/C.10/AC.3/1989/6). During the twenty-first session of ISAR in 2004, the group of experts requested the development of an annual study to assess the state of reporting on corporate governance. This resulted in a series of annual reviews presented at each of the subsequent ISAR sessions, including the twenty-second and twenty-third sessions. At the twenty-third session, ISAR considered the document 2006 Review of the implementation status of corporate governance disclosures (TD/B/COM.2/ISAR/CRP.3) (hereafter the “2006 Review”). These annual reviews examined corporate governance disclosure practices across the world, including a number of enterprises from different world regions. These studies were facilitated by the development of ISAR’s benchmark of good practices in corporate governance disclosure. This benchmark consists of 53 disclosure items and is explained in more detail in the UNCTAD publication *Guidance on Good Practices in Corporate Governance Disclosure*. This publication was the outcome of ISAR deliberations, particularly those of the twenty-second session.

2. This report is a case study of corporate governance disclosure in China. It was conducted in cooperation with Nankai University¹ and with support from the China Life Insurance Company. The study utilizes the ISAR benchmark and the general methodology employed by the UNCTAD secretariat in the 2006 Review.

3. The objectives of this study are to: (a) provide a brief overview of key recent developments in China related to corporate governance disclosure; and (b) present and analyse the results of the review of corporate disclosure practices among leading enterprises in China. The overview of recent developments is provided in chapter I, which also examines the statutory framework in China related to corporate governance and recent reforms to China’s capital markets and rules and regulations related to corporate practices. Chapter II presents and analyses the results of the review, looking in detail at disclosure rates for each individual item in the ISAR benchmark.

II. Overview of recent developments in the area of corporate governance disclosure

4. Since China’s economic reforms began in the late 1970s, the idea and practice of corporate governance has been steadily developing. Corporate governance reform in China has strengthened investor confidence, and reinforced the economic sustainability of Chinese enterprises. This chapter provides an overview of recent developments in this reform process that effect corporate governance, disclosure practices and capital markets in China.

A. Share structure reform

5. On 23 August 2005, the China Securities Regulatory Commission (CSRC), the State-owned Assets Supervision and Administration Commission (SASAC), the Ministry of Finance, the People’s Bank of China and the Ministry of Commerce jointly issued Guidance Notes on the Split Share Structure Reform of Listed Companies. This joint guidance was a milestone in the reform of China’s capital markets. The “split share structure” refers to the existence of both tradable shares on the stock exchange and a large volume of non-tradable shares owned by the state and legally defined entities in China’s A-share market. This share reform measure is intended to address historical problems related to these non-tradable shares, and to enhance the overall functioning of the stock market in China. The share reform process in China is proceeding step by step, taking into account the views of all

¹ This document was prepared and edited by the UNCTAD secretariat based on research conducted by the Research Centre for Corporate Governance of Nankai University, under the leadership of Professor Li Weian (<http://www.cg.org.cn/english/>).

stakeholders while seeking to enhance the value of listed companies. The reform process includes a focus on the regulation of securities companies' operations, the building of stock market institutions and the development of new securities products. The share reform is designed to float the formerly non-tradable shares, rather than for the purpose of selling State-owned shares through the open market. The authorities have indicated that they currently have no intention of selling the State-owned shares in listed companies through the domestic capital market.

6. With a view to standardizing the work relating to the split share structure reform of listed companies, the Administrative Measures on the Split Share Structure Reform of Listed Companies was enacted, in accordance with the Company Law of the PRC, Securities Law of the PRC, Provisional Regulations on the Administration of Share Issuance and Trading, Guidelines of the State Council for Promoting the Reform and Opening-up and Sustained Development of the Capital Market, and the Guidance Opinions on the Split Share Structure Reform of Listed Companies.

B. Amendments to the Company Law of the People's Republic of China

7. The Company Law of the People's Republic of China was revised for the third time at the 18th session of the 10th National People's Congress on 27 October 2005. The revisions affect corporate governance in three main ways. Firstly, the new company law protects the interests of minority shareholders by allowing small shareholders to withdraw from the company under certain conditions, and by allowing listed companies to set up a cumulative voting system. Secondly, the new company law seeks to improve the board system by removing the requirement that the chair of the board of directors is the legal representative of the company and by prescribing more detailed regulations regarding the process for meetings of the board of directors. Thirdly, the new company law strengthens the role of the board of supervisors by expanding its power and scope, and it also requires that workers have a minimum number of seats on the supervisory board.

C. Improved internal control

8. Guidelines on internal control for companies listed on the Shanghai Stock Exchange were released on 5 June 2006 and came into effect on 1 July 2007. These guidelines were designed to provide direction to companies listed on the Shanghai Stock Exchange in their establishment of complete, reasonable and effective internal control systems and to protect the legitimate interests of investors. The guidelines require a number of factors that must be considered when establishing and implementing internal control systems, including goals of internal control, corporate culture, risk assessment and evaluation, risk management strategy, information management, inspection and supervision.

9. The guidelines require listed companies to include their subsidiaries and the trading of financial derivatives in their internal control systems. A listed company should also create a special office directly under its board of directors to conduct regular and ad hoc inspections on the company's implementation of its internal control systems. Any material risks discovered in such inspections must be disclosed to the public through the exchange. Listed companies must also include a self-evaluation report with respect to their internal control systems in their annual reports.

D. Independent directors and employee representatives

10. In February 2004, SASAC put forward a proposal to improve the governance of solely State-owned enterprises. In June 2004, it issued documents that specified the main framework and procedures for a pilot project and at the same time determined the first batch of companies to participate in the project. Establishing and strengthening the system of outside directors is one of the more significant features of the pilot project, and one that marks the biggest difference between State-owned enterprise boards under the new rules and State-owned enterprise boards of the past.

11. Under the SASAC proposal, outside directors are entitled to evaluate the performance of top managers in the companies and also determine their compensation. When the number of outside directors is more than half of the whole board, SASAC will transfer key responsibilities to the company's board, including the authority to selecting the chief executive officer and determine the corporate investment plan.

12. SASAC rules also stipulate that the board of directors at State-owned enterprises shall comprise representatives of the employees. While other members of the board of directors shall be designated by SASAC, representatives of the employees shall be elected through the meeting of the employees of the company.

13. In a joint stock limited company, the supervisory board should include both representatives of shareholders and an appropriate percentage of representatives of the company's employees. The percentage of the employee representatives shall account for not less than one third of all the supervisors, but the exact percentage shall be specified in the articles of association. The representatives of employees who serve as members of the board of supervisors shall be democratically elected through a meeting of employee representatives, employees themselves or by other means. No director or senior manager may also act as a member of the supervisory board.

E. Stock incentive plans and insider trading rules

14. The Administrative Measures on Stock Incentives by Listed Companies, enacted in December 2005 and effective since January 2006 require that directors, supervisors and senior executives fulfill their fiduciary duty in the process of granting stock options and protecting the interests of their corporations and all the shareholders. To prevent the assets of the listed companies from being misappropriated, these measures also identify some basic information that must be included in a stock incentive scheme, outline procedures for using a stock incentive scheme, and define some additional disclosure and filing requirements. The new procedures include requirements for discussion and resolutions regarding stock incentives at board meetings attended by independent directors and by special board committees, as well as shareholder input via voting mechanisms at the company's annual general meetings.

15. On 5 April 2007, the CSRC issued its Rules on the Management of Shares Held by the Directors, Supervisors and Senior Management Officers of Listed Companies and the Changes Thereof. The purpose of these rules is to strengthen the regulation of insider trading for listed companies. The rules cover the trading of shares held by senior officials of the company, including the directors, supervisors and senior management. Disclosure of the changes of shareholdings has already been put in practice through the website of both the Shenzhen Stock Exchange and the Shanghai Stock Exchange.

F. Procedures for annual general meetings and voting

16. On 16 March 2006, the CSRC issued the Rules for the General Meetings of Shareholders of Listed Companies. These rules provide listed firms with clear regulatory guidance on holding annual general meetings (AGMs). The rules require, for example, that listed companies clearly state the time of AGMs and procedures for voting, as well as procedures attached to "network voting". One month later, on 20 April 2006, the Shenzhen Stock Exchange issued a complementary set of rules (Detailed Implementation Rules of Network Voting on Shareholders' Meeting of Listed Companies of Shenzhen Stock Exchange, 2006 Amendment), which set regulations on the timing and notice of AGMs and the voting methods to be used. The reforms focused on strengthening the procedures of AGMs were further addressed in March 2007, when the CSRC issued the Notice on Carrying out Related Measures about Strengthening Special Activities of Corporate Governance. This notice requires that listed companies make the responsibilities of AGMs clear, and use a network voting system on major issues.

G. Regulations on information disclosure of listed companies

17. On 30 January 2007, the CSRC issued its Regulations on Information Disclosure of Listed Companies. According to China's laws, including the Corporate Law and Securities Law and administrative bylaws, these regulations are formulated in order to standardize the information disclosure of stock issuers and listed companies, strengthen the management of information disclosure and protect the legitimate interests of investors. According to the new regulations, the directors, supervisors and senior managers of the issuers and listed companies shall faithfully and assiduously fulfill their obligation of information disclosure, which shall be authentic, accurate, complete, prompt

and fair. Documentations to be disclosed include a share offering prospectus, a pro rata offering prospectus, listing announcements, and annual reports.

H. Investor relationship management

18. In order to enhance guidance on the investor relationship management practices of listed companies, regulate the work of investor relationship management of listed companies, and protect the legitimate rights and interests of investors, especially public investors, the CSRC formulated and promulgated the Working Guidelines for the Relationship between Listed Companies and Investors. This includes the purpose, basic principles, contents of communication and main duties of investor relationship management.

19. In order to establish a long-term regulatory framework for securities trading companies and investment fund companies, the Implementation Measures for the Payment of Securities Investor Protection Funds by Securities Companies was put into practice on 1 July 2005. The act is expected to enhance the stability of the capital markets, serve the public interest and protect the legitimate rights and interests of investors. It gives detailed regulations on the duties of investment fund companies and organizations, on how funds are raised and used, and on the management and supervision of investment fund companies.

I. Corporate social responsibilities

20. The Guidelines on Corporate Social Responsibilities for Companies Listed on the Shenzhen Stock Exchange, released by Shenzhen Stock Exchange on 25 September 2006, are intended to urge listed companies to produce a social responsibility report along with their annual reports. These guidelines require listed companies to fulfill corporate social responsibilities in the following six areas: (a) protection of shareholders and creditor interests; (b) protection of employees' rights; (c) protection of suppliers, customers and consumers' rights; (d) environmental protection and sustainable development; (e) public relations and community activities; and (f) information disclosure.

J. Self-inspection report

21. On 9 March 2007, the CSRC issued its Notice on the Matters concerning Carrying out a Special Campaign to Strengthen the Corporate Governance of Listed Companies. These requirements were set to strengthen the basic institutions of China's capital markets, to promote adaptation to the requirements of the newly revised Company Law and Security Law, and also to the new requirements of the share-trading reform of listed companies. The first stage of this special campaign is that each listed company undergoes a process of self-inspection. The CSRC requires that the stock exchanges improve their supervision of the self-inspection reports and the reorganization plans of listed companies. One aim of this special campaign is clarifying the functioning of AGMs and the role of shareholders. The campaign aims toward the strengthening of specific rules to guide the procedures of AGMs, as well as institutional arrangements which could facilitate public investors to participate in the decision-making process, and the use of electronic voting systems on important matters.

K. Chapter conclusion

22. China's rapidly developing capital markets have been the subject of a number of reforms in recent years. Many of these are focused on corporate governance and the disclosure practices of enterprises listed on China's stock exchanges. In addition to new disclosure requirements being placed on listed companies in China, additional reforms are taking place to ensure that investors have an opportunity to effectively participate in AGMs and make use of the information disclosed by enterprises.

III. Status of implementation of good practices in corporate governance disclosure at the company level

A. Background and methodology

23. The purpose of this survey is to evaluate the level of implementation of corporate governance disclosure among companies listed on Chinese stock exchanges. The reader should note that, as in UNCTAD's previous annual reviews, this study is not intended as a measure of the *quality* of the disclosure of individual items; rather, it is a measure of the *existence* of the selected disclosure items.

24. This study was undertaken by the Research Centre for Corporate Governance of Nankai University, in cooperation with the UNCTAD secretariat. The study uses the UNCTAD methodology employed in UNCTAD's earlier 2006 Review, presented at the twenty-third session of ISAR. This methodology compares actual company reports with the ISAR benchmark of 53 disclosure items explained in more detail in UNCTAD's 2006 publication *Guidance on Good Practices in Corporate Governance Disclosure*. A number of comparisons were made between the data gathered in this 2007 study of Chinese company practices and the data found in UNCTAD's 2006 Review, which covered 105 enterprises from 70 economies around the world.

25. As in the 2006 Review, the 53 disclosure items in the ISAR benchmark are grouped into five broad categories, or subject areas, and are presented and analysed by category in section B below. These categories are:

- (a) Financial transparency;
- (b) Ownership structure and exercise of control rights;
- (c) Board and management structure and process;
- (d) Corporate responsibility and compliance; and
- (e) Auditing.

26. The sample of Chinese enterprises reviewed in this study consists of 80 companies that were randomly selected from among the CSI 300 (*Hu Shen 300*). The CSI 300, jointly produced by the Shanghai Stock Exchange and the Shenzhen Stock Exchange, is the leading equity index in China and is widely used to benchmark the performance of the Chinese capital markets (specifically, the China A share market). The CSI 300 is designed for use as a performance benchmark, as well as a basis for derivatives products and index tracking funds. Of the 80 enterprises selected, 56 are from the Shanghai Stock Exchange and 24 are from the Shenzhen Stock Exchange. The enterprises included in the survey represent a wide range of industries including: energy, financial services, telecommunications, pharmaceuticals, manufacturing and retail, among others.

27. An array of corporate reports was surveyed for the 2007 Review in China, including annual reports, corporate governance reports, and other information available from financial databases and enterprise websites. These included: (a) company websites; (b) annual reports; (c) financial reports; (d) proxy circulars/proxy statements; (e) company by-laws; (f) corporate social responsibility reports/sustainability reports/corporate citizen reports/environmental reports; (g) corporate governance reports/corporate governance charters (codes); (h) board of directors charters; (i) risk management policies; (j) audit and risk management committee charters; (k) shareholders charters; and (l) board of supervisors rules of procedure.

B. Main outcomes of the survey: overview of all disclosure items

28. Table 1 below presents the results of the survey of Chinese enterprises. The table displays the average percentage rates of firms reporting on each of the five broad disclosure categories discussed above, alongside the findings of UNCTAD's 2006 Review. The category averages in this table are compiled by averaging the percentage of firms reporting on each individual item, within each category. This allows readers to see in very general terms the rate of reporting for each of the disclosure subject categories.

Table 1. Main findings of survey on corporate governance disclosure: category overview
(number of enterprises in parentheses)

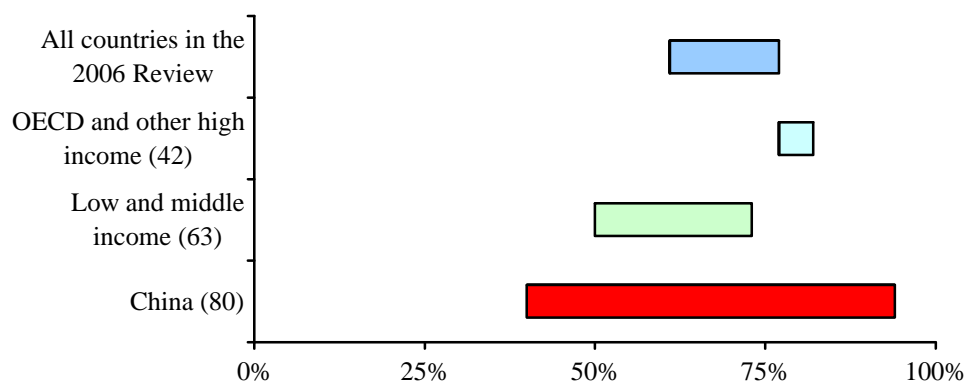
Number of firms reporting on disclosure items, by category (in percentage)	Findings of UNCTAD's 2006 Review						
	China (80)	All (105)	Type of listing		Country income		SOE
			Inter- national listing (72)	Only local listing (29)	OECD* & other high income (42)	Low & middle income (63)	SOEs (24)
Financial transparency and information disclosure	94	77	82	69	82	73	78
Ownership structure and exercise of control rights	88	70	77	59	78	65	70
Board and management structure and process	71	70	80	52	82	63	66
Auditing	62	61	71	43	79	50	54
Corporate responsibility and compliance	40	64	73	45	77	55	55

* Organization for Economic Cooperation and Development.

29. As shown in table 1, the Chinese enterprises in the study demonstrate relatively high rates of reporting on corporate governance issues for the categories of financial transparency and ownership structure. Indeed, for these two disclosure categories, the percentage of Chinese enterprises surveyed that report on these subjects is significantly higher than the average for all enterprises in the 2006 Review, and also higher than the average for internationally-listed enterprises and enterprises from high-income countries. For the two categories of board and management structure and auditing, the level of reporting for Chinese enterprises is a little higher than the average for all enterprises in the 2006 Review, but is lower than the average level for internationally-listed enterprises and enterprises from high-income countries. Concerning corporate responsibility, the average level of reporting on disclosure items for Chinese enterprises remains significantly lower than the average for all enterprises in the 2006 Review, and also lower than the average for enterprises from low- and middle-income countries.

30. Figure 1 below presents the spreading range of the rates of the five categories: that is, the range between the highest average reporting rate among the five categories and the lowest average reporting rate among the five categories. This range is provided for the findings of the survey of 80 Chinese enterprises and, for comparison, the findings of the 2006 Review, including its subgroups. The reporting rates of the average for all enterprises in the 2006 Review ranged from 61 per cent of firms to 71 per cent of firms. The reporting rates of enterprises from the OECD and other high-income countries gathered in the region from 77 per cent of firms to 82 per cent. The disclosure rates of enterprises from low- and middle-income countries ranged from 50 per cent to 73 per cent of firms. Finally, the rates of Chinese enterprises spread between 40 per cent and 94 per cent are shown. The very narrow range for enterprises from high-income countries indicates a much more consistent pattern of disclosure across all five categories. The disclosure rates for Chinese enterprises have the broadest range, showing a pattern with polarization: in some subject areas, Chinese enterprises have high rates of disclosure, and in other areas very low rates of disclosure.

Figure 1. Spreading range of disclosure rates compared
(number in parentheses indicates sample size)



31. These general observations are the subject of more detailed analysis in the following sections. Table 2 below provides the detailed findings of the study of Chinese enterprises alongside the findings of UNCTAD's 2006 Review.

Table 2. Main findings of the survey on corporate governance disclosure: detailed results
(number of enterprises in parentheses)

Number of firms reporting on disclosure items, by category (in percentage)	China (80)	Findings of UNCTAD's 2006 Review					
		All (105)	Type of listing		Country income		Special focus
			Inter-national listing (72)	Only local listing (29)	OECD & other high income (42)	Low & middle income (63)	SOEs (24)
Financial transparency and information disclosure (in percentage)							
Financial and operating results	100	100	100	100	100	100	100
Company objectives	100	92	96	86	95	90	88
Nature, type and elements of related-party transactions	98	94	99	90	100	90	88
Impact of alternative accounting decisions	96	75	82	66	86	68	67
Critical accounting estimates	94	90	96	79	98	84	83
Disclosure practices on related party transactions where control exists	91	47	51	41	52	43	50
Board responsibilities regarding financial communications	89	80	89	66	90	73	88
The decision-making process for approving transactions with related parties	89	53	57	48	52	54	63
Rules and procedures governing extraordinary transactions	88	59	65	48	62	57	75

Number of firms reporting on disclosure items, by category (in percentage)	China (80)	Findings of UNCTAD's 2006 Review					
		All (105)	Type of listing		Country income		Special focus
			Inter-national listing (72)	Only local listing (29)	OECD & other high income (42)	Low & middle income (63)	SOEs (24)
Ownership structure and exercise of control rights (in percentage)							
Ownership structure	100	90	93	90	93	89	96
Control rights	100	82	88	76	90	76	79
Availability and accessibility of meeting agenda	100	78	89	62	98	65	83
Changes in shareholdings	100	69	78	52	74	65	63
Control structure	99	86	86	86	86	86	92
Process for holding annual general meetings	96	91	96	86	98	87	92
Control and corresponding equity stake	91	75	88	52	88	67	58
Rules and procedures governing the acquisition of corporate control in capital markets	85	30	35	21	36	25	38
Anti-takeover measures	18	30	39	10	40	22	25
Board and management structure and process (in percentage)							
Composition of board of directors (executives and non-executives)	100	99	100	97	100	98	96
Qualifications and biographical information on board members	100	83	93	66	86	81	79
Independence of the board of directors	98	68	82	38	88	54	67
Role and functions of the board of directors	96	84	92	69	93	78	83
Duration of directors' contracts	96	76	88	55	98	62	63
Governance structures, such as committees and other mechanisms to prevent conflict of interest	90	88	96	72	98	81	83
Determination and composition of directors' remuneration	90	68	81	41	88	54	75
Number of outside board and management position directorships held by the directors	85	79	90	59	90	71	71
Types and duties of outside board and management positions	85	74	88	48	93	62	58

Number of firms reporting on disclosure items, by category (in percentage)	China (80)	Findings of UNCTAD's 2006 Review					
		All (105)	Type of listing		Country income		Special focus
			Inter-national listing (72)	Only local listing (29)	OECD & other high income (42)	Low & middle income (63)	SOEs (24)
"Checks and balances" mechanisms	81	88	93	79	93	84	83
Existence of procedure(s) for addressing conflicts of interest among board members	78	67	75	55	81	57	63
Availability and use of advisorship facility during reporting period	74	41	47	28	52	33	33
Composition and function of governance committee structures	74	86	94	66	90	83	75
Performance evaluation process	74	67	75	52	81	57	71
Risk management objectives, system and activities	59	89	96	76	95	84	83
Material interests of members of the board and management	31	57	68	34	64	52	58
Professional development and training activities	20	36	43	24	50	27	33
Existence of plan of succession	14	52	63	28	62	46	50
Compensation policy for senior executives departing the firm as a result of a merger or acquisition	10	38	54	3	55	27	21
Auditing (in percentage)							
Board confidence in independence and integrity of external auditors	95	58	69	34	83	41	50
Process for appointment of external auditors	89	81	92	62	90	75	75
Internal control systems	88	75	89	48	88	67	75
The scope of work and responsibilities for the internal audit function and the highest level of leadership to which it reports	86	84	92	69	95	76	75
Duration of current auditors	86	32	38	21	55	17	33
Process for interaction with external auditors	78	70	82	48	90	57	54
Rotation of audit partners	18	21	24	14	33	13	17
Process for interaction with internal auditors	9	74	82	59	95	60	63

Number of firms reporting on disclosure items, by category (in percentage)	China (80)	Findings of UNCTAD's 2006 Review					
		All (105)	Type of listing		Country income		Special focus
			Inter-national listing (72)	Only local listing (29)	OECD & other high income (42)	Low & middle income (63)	SOEs (24)
Auditors' involvement in non-audit work and the fees paid to the auditors	6	56	71	28	79	41	46
Corporate responsibility and compliance (in percentage)							
The role of employees in corporate governance	86	25	25	24	36	17	29
A code of ethics for the board and waivers to the ethics code	81	73	88	45	88	63	63
Mechanisms protecting the rights of other stakeholders in business	45	57	67	38	71	48	46
Policy and performance in connection with environmental and social responsibility	36	91	96	79	98	87	83
Impact of environmental and social responsibility policies on the firm's sustainability	16	78	82	66	88	71	63
A code of ethics for all company employees	11	72	86	45	83	65	67
Policy on "whistleblower" protection for all employees	1	50	64	21	71	35	33

32. As shown in table 2, in the category of financial transparency, the average level of reporting of the Chinese enterprises surveyed for each of nine items is higher than the average level of reporting on these items for all enterprises in the 2006 Review. In the category ownership structure, except for anti-takeover measures, the reporting levels of other items for Chinese enterprises are higher than for all enterprises in the 2006 Review.

33. The level of reporting varies significantly among the 19 items in the category board and management structure and process. Among these 19 items, the reporting rates for seven items are above 90 per cent of firms and are higher than the corresponding rates for all enterprises in the 2006 Review. The reporting rates for five items, however, are below 60 per cent of firms and lower than the corresponding rates for all enterprises in the 2006 Review.

34. In the category corporate responsibility, the level of reporting for Chinese enterprises is relatively low. The disclosure rates for five of the seven items in this category are below 50 per cent of firms and lower than the corresponding figure for all enterprises in the 2006 Review.

35. Table 2 also shows that the average level of reporting for Chinese enterprises fell below 50 per cent of firms for 13 of the disclosure items: one was in the category ownership structure; four were in the category board and management structure; three in auditing; and five in corporate responsibility. For these 13 items, the level of reporting for Chinese enterprises remains significantly lower than the average for all enterprises in the 2006 Review, and especially so for the internationally-listed enterprises and enterprises from high-income countries.

Table 3. Most prevalent and least prevalent disclosure items in China
(in percentage)

Top 10 most prevalent disclosure items among all 80 enterprises surveyed	Disclosure rate	Bottom 10 least prevalent disclosure items among all 80 enterprises surveyed	Disclosure rate
Financial and operating results	100	Professional development and training activities	20
Company objectives	100	Anti-takeover measures	18
Ownership structure	100	Rotation of audit partners	18
Control rights	100	Impact of environmental and social responsibility policies on the firm's sustainability	16
Availability and accessibility of meeting agenda	100	Existence of plan of succession	14
Changes in shareholdings	100	A code of ethics for all company employees	11
Composition of board of directors (executives and non-executives)	100	Compensation policy for senior executives departing the firm as a result of a merger or acquisition	10
Qualifications and biographical information on board members	100	Process for interaction with internal auditors	9
Control structure	99	Auditors involvement in non-audit work and the fees paid to the auditors	6
Nature, type and elements of related-party transactions	98	Policy on "whistleblower" protection for all employees	1

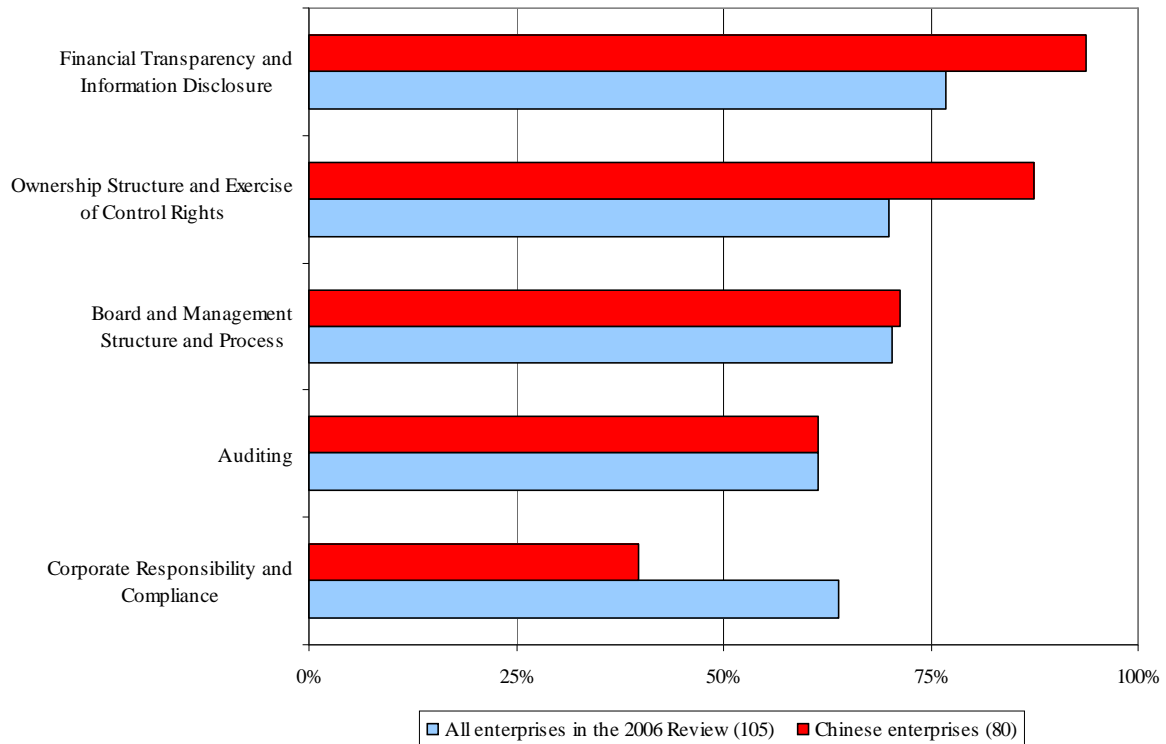
36. Concerning the most prevalent disclosure items (table 3), the top eight are reported on by all the Chinese enterprises in the study (100 per cent disclosure rates). Of these eight, four are in the category ownership structure, two are in board and management structure and two are in financial transparency. The high disclosure rates for these items may result from the requirements of the New Company Law.

37. As to the least prevalent disclosure items, all of the bottom 10 have reporting rates below 30 per cent. The items "policy on 'whistleblower' protection for all employees" and "auditors' involvement in non-audit work and the fees paid to the auditors" have reporting rates of only 1 per cent and 6 per cent, respectively, indicating these are not commonly reported items in China.

C. Comparison between China and international average

38. Figure 2 below presents the average level of reporting within each category and compares the disclosure practices of Chinese enterprises with the average for enterprises around the world. The figure displays an average for each category of disclosure items: to produce an overview of the level of reporting for a subject area, this category average is calculated by taking the average percentage of enterprises reporting each disclosure item within a category. The upper line in figure 2 represents the sample of 80 Chinese enterprises surveyed, and provides a clear overview of the average level of reporting for the different categories. The lower line represents the average of a sample of 105 enterprises from around the world found in UNCTAD's 2006 Review.

Figure 2. Comparison between China and international average
(number in parentheses indicates sample size)



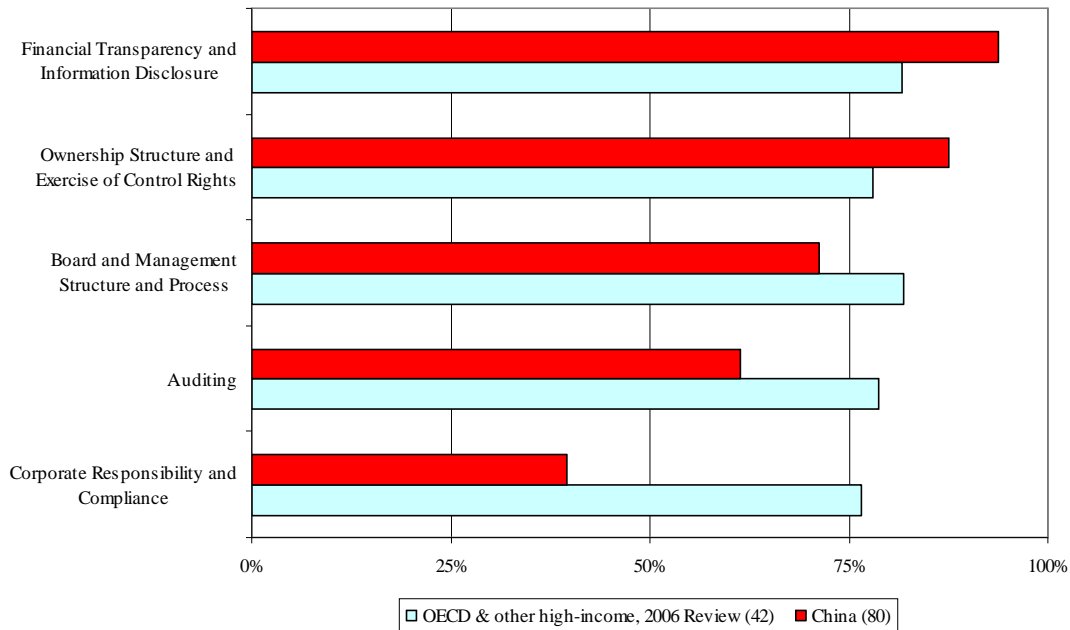
39. The results presented in figure 2 indicate that for four of the five categories, the level of reporting in China is higher than or equal to the international average found in the 2006 Review. The category of financial transparency, on average, is the subject of the highest rates of reporting for both Chinese enterprises and others around the world. In the two categories financial transparency and ownership structure, the level of reporting for Chinese enterprises is significantly higher than the international average from the 2006 Review. However, the level of reporting for the category corporate responsibility shows that Chinese enterprises have relatively lower levels of reporting on this subject compared to enterprises elsewhere in the world.

40. The results of this study show that the level of reporting of Chinese enterprises generally follows the same pattern as those of enterprises from around the world studied in the 2006 Review. Both studies show the same top three categories of reporting: financial transparency followed by ownership structure, followed in turn by board and management structure. One difference with the current study lies in the overall reporting rates for the categories auditing and corporate responsibility. The category with the lowest reporting rate for enterprises in China is corporate responsibility. In contrast, that of auditing is the lowest for the average of all enterprises in the 2006 Review.

D. Comparison between China and high-income countries

41. Figure 3 below examines the level of reporting among the Chinese enterprises surveyed compared with enterprises based in the OECD and other high-income countries. Among the five categories, figure 3 indicates that Chinese companies tended to show higher levels of reporting in two categories: financial transparency and ownership structure. However, the findings also show that Chinese enterprises have lower rates in the other three categories. The largest disparity in reporting practices between enterprises from China and high-income countries is found in the category corporate responsibility.

Figure 3 Comparison of disclosure rates between China and high-income countries
(number in parentheses indicates sample size)



42. According to the findings of the 2006 Review, enterprises based in the OECD and other high-income countries demonstrated a higher rate of corporate governance disclosure than enterprises from low- and middle-income countries. Although the average level of reporting of Chinese enterprises in this study exceeds those of the OECD and other high-income countries in two categories, enterprises from China have significantly lower levels of reporting for a number of individual items. Table 4 below presents the top five disparities between the reporting rates of enterprises from China and the OECD and other high-income countries.

Table 4. Top five highest disparities in disclosure rates, China and high-income countries
(number in parentheses indicates sample size)

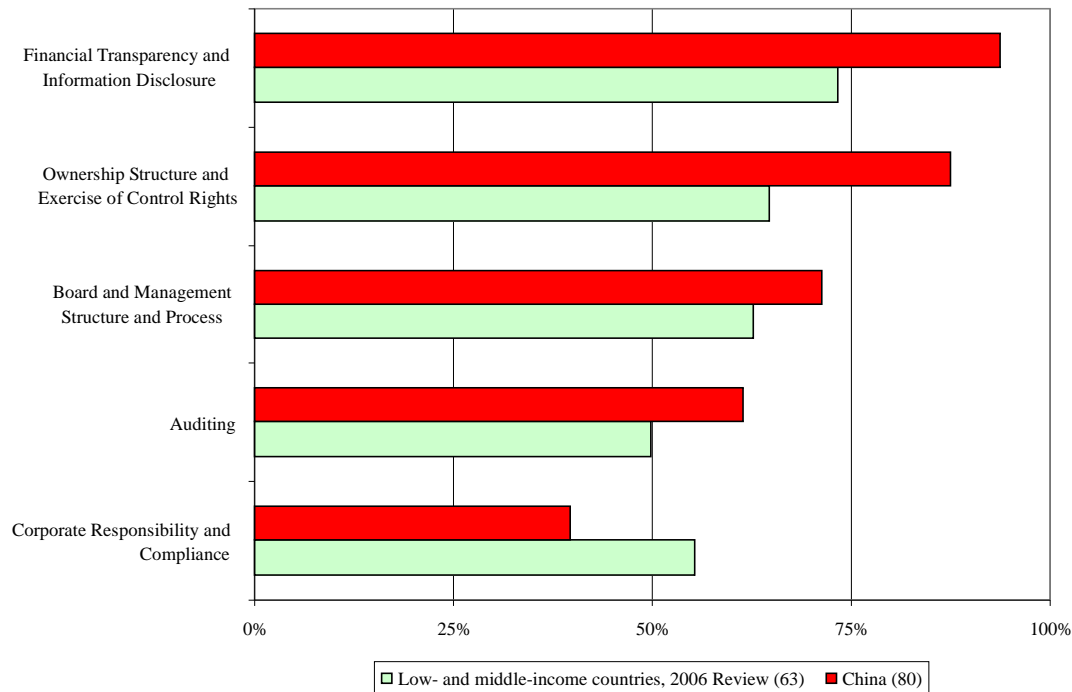
Disclosure item	Disclosure rates (in percentage)		
	China (80)	OECD and other high-income (42)	Disparity
Process for interaction with internal auditors	9	95	86
Auditors' involvement in non-audit work and the fees paid to the auditors	6	79	73
Impact of environmental and social responsibility policies on the firm's sustainability	16	88	72
A code of ethics for all company employees	11	83	72
Policy on "whistleblower" protection for all employees	1	71	70

E. Comparison of disclosure rates between China and low- and middle-income countries

43. Figure 4 below compares the reporting rates of enterprises from China with those from low- and middle-income countries in the 2006 Review. The analysis indicates that in four of the five categories, enterprises from China have higher rates of reporting on corporate governance items than enterprises from other low- and middle-income countries. Indeed, large differences exist in the rates

for two categories: financial transparency and ownership structure. Figure 4 also indicates that the category corporate responsibility continues to be the subject of relatively low rates of reporting among Chinese enterprises, even when compared to other low- and middle-income countries.

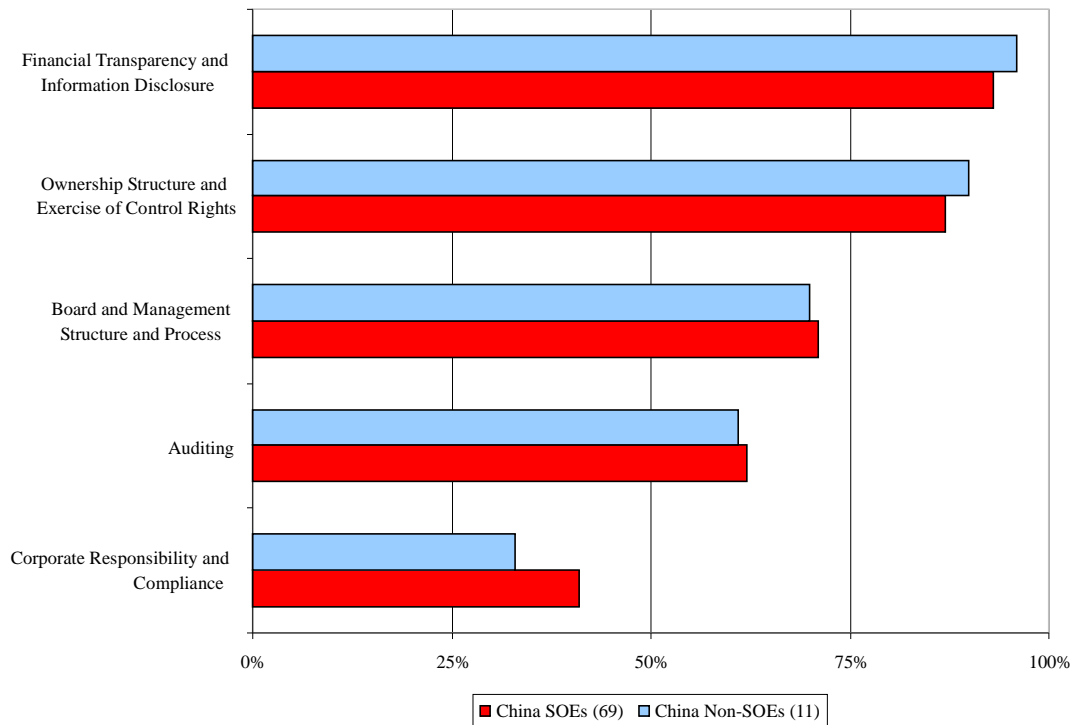
Figure 4 . Comparison of disclosure rates between China and low- and middle-income countries
(number in parentheses indicates sample size)



F. State-owned enterprises

44. One observation of the 2006 Review was that the State-owned enterprise model continues to be a common feature of the industrial strategy of many developing countries, where State-owned enterprises are often among the largest enterprises. This is true for China. In this survey, 69 of the 80 the enterprises studied in China were State-owned enterprises. However, the number of non-State-owned enterprises, while small, may nevertheless provide some useful comparisons. Figure 5 compares the level of reporting of State-owned enterprises and non-State-owned enterprises in China. The reporting practices of the two groups are relatively similar, with the only significant difference found in the category corporate responsibility, where State-owned enterprises have somewhat higher rates.

Figure 5. Comparison of disclosure practices between State-owned enterprises and non-State-owned enterprises in China
(number in parentheses indicates sample size)

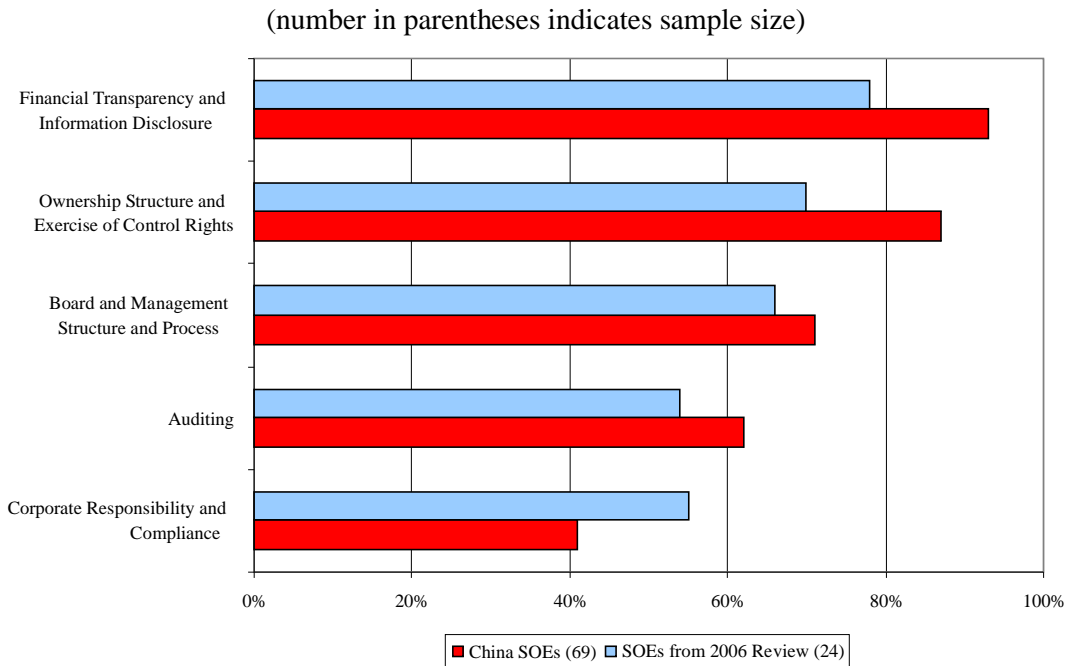


45. Table 6 below highlights the top five greatest disparities between reporting of individual items by State-owned enterprises and Non-State-owned enterprises. Two of the top three items with the greatest disparities belong to the category corporate responsibility. Table 6 also shows that among the items with the greatest disparity between State-owned enterprise and non-State-owned enterprise reporting, State-owned enterprises have the higher rate for four of the five items. It is only for the item “Existence of procedures for addressing conflicts of interest among board members” that the sample of non-State-owned enterprises has a higher rate of reporting than the State-owned enterprises in the study.

Table 6. Top five highest disparities in disclosure rates, by company type
(number in parentheses indicates sample size)

Disclosure item	Disclosure rates (in percentage)		
	Non-SOEs (11)	SOEs (69)	Disparity
Policy and performance in connection with environmental and social responsibility	9	41	32
Risk management objectives, system and activities	36	62	26
Impact of environmental and social responsibility policies on the firm’s sustainability	0	19	19
Rules and procedure governing extraordinary transactions	73	90	17
Existence of procedure(s) for addressing conflicts of interest among board members	91	75	16

Figure 6. Comparison of State-owned enterprise disclosure rates between China and other countries



46. Figure 6 above presents a comparison between the sample of State-owned enterprises surveyed in ISAR's 2006 Review and the State-owned enterprises from China surveyed in this study. As Figure 6 indicates, the State-owned enterprises from China demonstrate a higher level of reporting on corporate governance items across four of the five categories. The one category where the rates are relatively lower is that of corporate responsibility. This result is consistent with the findings elsewhere in this study that show a relatively low level of reporting among Chinese enterprises in this category.

IV. Conclusions

47. This report is part of a series of annual studies on corporate governance disclosure prepared for ISAR. This is the first report to specifically assess the corporate governance reporting practices of Chinese enterprises. The report was developed in cooperation between the UNCTAD secretariat and the Research Centre for Corporate Governance of Nankai University. It uses the ISAR benchmark of good practices in corporate governance disclosure and the general methodology of previous UNCTAD studies on corporate governance disclosure. The purpose of this report is to provide an indication of the current corporate governance disclosure practices of publicly listed enterprises in China. A sample of 80 enterprises was randomly selected from the CSI 300, a leading Chinese index that is broadly representative of the Chinese equity market.

48. The main findings of this case study show that Chinese enterprises have relatively high levels of reporting for four of the five categories studied. The exception is for the category corporate responsibility. Chinese enterprises have relatively low rates of reporting on this subject when compared to enterprises in other countries. Of all five categories, that of financial transparency has the highest level of reporting, while the category corporate responsibility is lowest. For the two categories financial transparency and ownership structure, the level of reporting among Chinese enterprises is significantly higher than the average for all enterprises in the 2006 Review. The reporting of Chinese enterprises on items in these two categories is also higher than the average among enterprises from high-income countries in the 2006 Review. For the two categories of auditing and board and management structure, the level of reporting for Chinese enterprises is nearly the same as the average for all enterprises in the 2006 Review, but is significantly lower than that for enterprises from high-income countries in the 2006 Review. Concerning corporate responsibility, the level of reporting

for Chinese enterprises remains significantly lower than for the enterprises in the 2006 Review. Compared with the State-owned enterprises surveyed in the 2006 Review, those from China demonstrate a higher rate of reporting on corporate governance items across all categories except the category corporate responsibility.

49. A number of factors contribute to the reporting practices of enterprises in any country. One factor that seems to be driving reporting practices in China is the number of reforms that have taken place in recent years. Chapter I discusses these reforms in more detail, but they include the Company Law of the People's Republic of China, the Securities Law, and a number of new rules and regulations introduced by the CSRC.

50. These rules have all sought to promote greater reporting and standardization of corporate information among listed companies in China. These changes have also strengthened the protection of small and medium-sized investors, by enhancing their effective participation in the decision-making process of companies. As a result, these investors are playing an increasingly important role in China, increasing demand for more corporate information. The results of this study, namely the relatively high rates of reporting among Chinese enterprises, are likely a result of these recent reforms.

51. Despite these reforms and the relatively high levels of reporting in other categories, there are several possible reasons for the lower level of reporting among Chinese enterprises in the category of corporate responsibility. Many Chinese enterprises have not adopted formal corporate responsibility management programmes, and specific mechanisms such as "whistleblower" protections are not widely implemented in Chinese companies. Thus, the low rate of reporting is likely indicative of the low rate of adoption of many of these practices, and not an indication of a lack of transparency. Going forward, this situation may change. In China, regulators and other institutional bodies are placing greater emphasis on corporate responsibility issues. The Shenzhen Stock Exchange, for example, published its Social Responsibility Listing Guidelines of the Shenzhen Stock Exchange which took effect on 25 September 2006. These guidelines are expected to have an influence on the reporting rates in this category, but this will probably first be seen in 2007 annual reports, published in 2008, which were not available at the time this study was conducted.

52. This study has established a useful picture of current practices of corporate governance disclosure in China. As noted earlier, this study is not intended as a measure of the quality of the disclosure of individual items; rather, it is a measure of the existence of the selected disclosure items. Future researchers may wish to revisit these results using the ISAR benchmark on good practices in corporate governance disclosure to gauge changes in company reporting.