



# **OECD-China Policy Dialogue on Corporate Governance**

**DONGJIAO STATE GUEST HOTEL  
1800 Jin Ke Road  
Pudong, Shanghai 200121  
CHINA  
29-30 March 2007**

Co-hosted by the Shanghai Stock Exchange  
in co-operation with the State Assets Supervision and Administration  
Commission (SASAC), the Chinese Securities Regulatory Commission  
(CSRC) and Development Research Center (DRC)



# In partnership with

The Japanese Government

The Global Corporate Governance Forum (GCGF)



and Millstein Center for Corporate Governance and Performance at the  
Yale School of Management



THE MILLSTEIN CENTER  
FOR CORPORATE GOVERNANCE AND PERFORMANCE

## SPEECH

### MR. SHI WANG, CHAIRMAN, VANKE PROPERTY, CHINA

Good afternoon, ladies and gentlemen.

It is a great pleasure to attend this conference jointly organized by the Shanghai Stock Exchange and the OECD.

Corporate governance is an issue that cannot be ignored by any company that has any sort of long-term ideals. And by long-term ideals, I mean quite simply the intention to make a mark as an enterprise that lasts a century or more. The history of modern commercial activity in China extends for barely more than two decades so at the moment it is impossible to tell whether hundred-year-old businesses are a natural phenomenon or not – even 20-year old businesses are pretty hard to find. And while over these 20 years, a great number of businesses have soared to sudden prominence, not many have in fact withstood the various tests of the marketplace and retained their vitality and winning momentum. Many businesses experience only a brief moment of ephemeral glory before falling to the wayside and this is a pity to observe.

Our company, however, Vanke Property, has been more fortunate. Vanke was founded in 1984, restructured with a new share system in 1988, and was among the first batch of Chinese companies to be listed on the stock market in 1991. And among these, it is said, Vanke is the only one to have maintained profitable growth over 16 years. Indeed we have achieved over these 16 years a compound annual growth rate of 28.3% in prime operating revenue, and of 34.1% in net profits. These same rates over the past five years have registered 32% and 42% respectively, and over the past three years, 40.9% and 58.3% respectively. We see, therefore, that this growth is gathering speed.

In terms of future prospects, Vanke has marked the period of 2006 through 2008 as one of high-speed growth. In 2006 our sales volume grew 52.2% and net profit by 59.6%, and comparable figures are forecast for 2007 and 2008. And while it may not be fitting at the moment to talk in concrete terms of the period after 2009, one thing does seem clear, and that is that Vanke will be accelerating its involvement in housing industrialization. This will represent something of an overthrow of our current business model, but perhaps only then will the true potential strengths of Vanke become apparent.

Vanke Property is a company with long-term ideals and has been for some time now a company with pretty good results. Of course, that Vanke has been able to achieve what it has is the outcome of the synergy of many factors, among which corporate governance plays a quite important role.

And as I mention corporate governance theory, I see before me many scholars in the field, and indeed I myself have come here to learn. Today, however, I also have the opportunity to speak, and I think the reason for this is that in terms of governance, Vanke has performed certain experiments and that society at large has a comparatively good impression of our company. Of course, whether Vanke is really so well managed or whether Vanke is just lucky, I dare not say. I can, however, bring certain of our methods and situations to your attention and I do welcome your comments as to how we might improve.

To begin with, Vanke's shareholding structure presents two rather special features compared to other listed companies. The first is that shareholding is both diversified and not diversified. When I say diversified, I am referring to the fact that the biggest shareholder holds only 16.3% of shares, which is rather uncommon among companies owned by the general public. And when I say not diversified, it is because there are many institutional investors. So Vanke has never had the problem of "one dominant shareholder", nor has it suffered the problems of having too diverse an ownership.

Another feature is our high float ratio, which before the share reform reached as high as 86.63%. With a shareholding structure like this, our managers have always attached great importance to investor relations, which has facilitated our upholding the interests of small and medium shareholders.

Even more particular is that our biggest shareholder at the moment is China Resources, a company with very advanced ideals with respect to its role. For even though it is the biggest shareholder, it has on its own initiative placed itself on an entirely equal footing with the other shareholders, yet when the company needs assistance, it will, again on its own initiative, take on a greater share of responsibility. For example during the share reform, even though China Resources was not the only non-floating shareholder, it nonetheless shouldered all the responsibility. In Vanke's relationship with China Resources, we have always adhered one-hundred percent to the "five separate aspects" principle (separation from controlling shareholders in personnel, assets and financial affairs, and independence in institutions and business)<sup>1</sup>. In our mutual understanding of and support for this, Vanke and China Resources are inseparable.

So in terms of our shareholding structure, Vanke has some inherent advantages and this is why our luck is so good. With respect to Vanke's own contribution, meanwhile, this serves perhaps as a good example that confirms the importance of shareholding structure to a company's corporate governance.

I should note that Vanke was one of the earliest companies to put in place a professional management corps. A manager by profession is not beholden to any particular individual; he relies on skill and ability to secure his position and not on connections with the corporate leadership or personal sentimental factors. So when such a person leaves the company and leaves such-and-such a leader, he does not find himself also losing his ability to make an impact in his field. All our managers at Vanke are fully aware that they are responsible not to Mr. Shi Wang, but rather to the company's shareholders.

To establish a corporate culture of this nature requires, of course, a certain initiative on the part of the company's founder. In 1999, I came to realize that my discharging the functions of both Board chairman and CEO was the product of a very particular environment, and that to maintain that status for a long time would be detrimental to the company's prospects for healthy development. I therefore resigned from the Chief Executive's position and the facts have since proven that decision to have been the correct one. Indeed, with respect to orienting company development towards procedural standardization, it is exceptionally important to emphasize professionalism, to nurture mature management methodologies, and gradually to weaken the authority of the founder.

And standardization of procedures is an important basic value for us at Vanke, even though many people might say that choosing to abide by norms and standards when others do not amounts to tying one's own hands. We believe, however, that standardization is an inevitable trend in the development of a market economy, and that while there may be short-term downsides to insisting upon it, once a fair market is established, companies like Vanke that have insisted on standardizing their operations will enjoy a clear competitive advantage.

---

<sup>1</sup> Translator's note: The information in parentheses is added to explain these "5 aspects". Mr. Wang uses the phrase "五分开", which is explained in the Code of Corporate Governance for Listed Companies (上市公司治理准则) Ch. 2-2-22.

We have never wavered in our commitment to this principle, and on its basis, Vanke has shaped a quite particular corporate culture. Our bottom line is honesty and compliance with the law, and we promote a “sunshine system” in the working environment. We aim to do things simply and avoid complexity, to keep matters transparent and avoid secrecy, to follow standard procedures and avoid trickery – these are the principles we adhere to. They permeate every aspect of the job of every Vanke employee and they have an extremely positive influence on our internal governance.

Last year, Vanke introduced its first restricted-stock equity incentive plan, and achieved something of a breakthrough in putting in place mechanisms for benefits sharing between shareholders and our management corps. In terms of perfecting our mid- to long-term incentive mechanisms and improving our standards of governance, this has provided important safeguards, and when the plan was presented for resolution at our shareholder meeting it received enthusiastic support.

So one thing I have realized is that corporate governance can turn out to be a vicious circle or a virtuous circle. It’s like when you have a cake that you want to divide up - as long as people are just thinking about dividing the cake and trying to get a bit more for themselves, pretty soon the cake gets smaller and smaller and everybody is fighting more and more. That is a vicious circle. If, however, everyone pools their talents and focuses on how to make the cake bigger, then that cake will indeed get bigger and bigger, and everyone will feel more and more encouraged. They will come to trust one another all the more, and when the time does come to divide the cake, they will divide it all the more calmly. That is a virtuous circle.

So from this perspective, Vanke is a cake that is growing ever larger. Over the past three years, the profit accruing to every Vanke share has achieved a compound growth rate of 41.7%, and at the same time we have paid some 4.68 billion yuan in taxes. During the whole process, our shareholders, the Board of Directors, management and even society at large have benefited generously in return; indeed, everyone has been a winner.

In closing, may I express the wish for each and every listed company that their cakes get bigger and bigger! Thank-you very much.