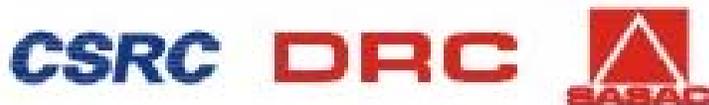




OECD-China Policy Dialogue on Corporate Governance

**DONGJIAO STATE GUEST HOTEL
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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:

**ABIDING BY INTERNATIONAL BEST PRACTICES -BUILDING A MODEL FOR A
HARMONIOUS AND EFFICIENT BOARD OF DIRECTORS FOR CHINA LIFE**

YANG CHAO, CHAIRMAN, CHINA LIFE

Honourable Deputy Chairman of the CSRC, Mr. Gui Minjie;

Honourable President of the Shanghai Stock Exchange, Mr. Zhu Congjiu;

Honourable Mr. Chairman;

Honoured guests, Ladies and Gentlemen:

It is a great honour for me to be invited to attend this Policy Dialogue on Corporate Governance in China as organized by the OECD and the Shanghai Stock Exchange and to have the opportunity to participate in the discussions of the first session, relative to the OECD Principles and Boardroom Practices.

1. Corporate governance allows for a variety of quite different practices, but it is important in this regard to seek convergence and consistency. Their difficulty and importance have made the issues of corporate governance a hot topic in recent years all around the world. The OECD Principles of Corporate Governance and the best practices of companies from many countries have exerted a great influence on efforts to put in place in China a model for corporate governance with Chinese characteristics. Creating such a model must take into account the legal institutions, the cultural and historical background, and the corporate systems of a country so as to allow for practical diversity and variation. More important, however, is to abide by the effective principles of corporate governance that have been shaped through practices around the world so as to achieve convergence and consistency in the practices to be adopted.

2. The essence of the OECD Principles is to achieve the conditions for international approval in designing the structures and mechanisms of corporate governance. International standards require that corporate governance favour the definition and achievement of a company's objectives and support its

sustainable development; that shareholder interests be paramount and steady value growth be attained; that company resources be allocated in the most beneficial manner to achieve best results at the least cost; that balance be maintained among the various stakeholder interests so as to promote harmonious development; and, that its practices enhance a company's competitive profile and reduce management risk. The most important foundation through which to satisfy these conditions and requirements is a model for efficient and orderly operations of boards of directors.

3. Corporate governance practices at China Life have led to great increases in share premiums. Since its reorganization in 2003 and listing on the Hong Kong, New York and Shanghai stock exchanges, China Life has striven to put in place sound governance structures supported by systematic and efficient governance mechanisms and has developed some notable features in its governance practices. State-owned group holdings became the foundation of governance at China Life, and the Board of Directors became the corporate decision-making centre. Corporate governance structures were adopted that satisfy regulatory requirements in the USA, Hong Kong and China itself, and checks and balances have been introduced as safeguards for our governance practices, which are also supported by stronger service platforms.

Efforts and innovation these recent years have allowed China Life to establish the Board of Directors as the nucleus of decision-making procedures. The company has: put in place management models based on shareholder interests and centred on operational efficiency; formulated clearly-defined developmental strategies and goals; established sound mechanisms for information disclosure; comprehensively bolstered risk management, internal controls and compliance procedures; enhanced the quality of our services to shareholders and investors. These various achievements have significantly enhanced investor confidence in China Life both domestically and abroad and have been accompanied by a significant share price premium. Since our market listing, the price of company H shares has increased six-fold and our total market value has exceeded 900 billion yuan, making us by far the largest listed life insurance company in the world and the third listed insurance company overall. On March 12th this year, China Life was incorporated into Hong Kong's Hang Seng Index as the only blue-chip insurance stock it lists.

4. A key focus of governance at China Life has been building up its Board of Directors. There are a few special features to Board operations at China Life, one of which is the mechanism developed for director selection, which has optimized the board structure. According to the company charter and market-listing regulations, sound systemic norms and processes are required to govern the nomination and approval of board members as well as their resignation or retirement. Through these arrangements, the company's Board of Directors now includes members who are experts in their respective fields, which include finance, insurance, investment, law, macro-economics, etc. A second feature is that independent directors now constitute a majority of the Board, accounting for six of the ten members. This is in fact a quite high proportion when viewed in the context of average levels in the world's leading 500 listed insurance companies. High rates of participation of independent directors in Board activities strengthen the independence of the Board as a whole and balance the varying interests of various shareholder types. They fortify the checks and balances of the Board and improve oversight of management, while through their experience, knowledge and abilities also enhance the scientific and logical character of the Board's policy making processes.

A third feature of note is that the chairpersons of all the professional committees are independent directors. There are four of these committees at China Life at present, addressing audit, nominations and remuneration, risk, and strategy respectively, and in order to ensure that they function to best effect, the chair of each committee is chosen from among the independent directors.

Fourth is that the Board fully exercises its powers to discuss and set policy. Our first Board of Directors was in office for three years, during which time it met a total of twenty-one times, or seven times per year. Our second Board, in contrast, has already met six times since coming to office in June last year.

If these are added such accessory events as communication meetings, seminars, training sessions, etc., the number grows again and far exceeds the average number of Board meetings held by the world's top 500 insurance firms (the average figure for this group being 6.5 meetings per year). This fact amply illustrates the commitment and dedication of China Life's current Board of Directors.

Fifth is that the Board has confirmed strategy management, process monitoring and performance appraisal as among its basic responsibilities. The powers and responsibilities proper to the Board are moreover clearly defined in our "Rules and Procedure of the Board of Directors". Over the past few years, such matters as the company's long-term developmental planning, strategies and objectives, annual business plans and budgets, agency set-ups, executive recruitment, major investments and risk management, a series of basic institutional rules, and major social welfare undertakings have all been referred to the Board, and doing so has ensured that the company follow the right direction and keep the right goals in mind.

Sixth is the assessment mechanisms put in place to monitor Board fulfilment of its responsibilities. Remuneration for executive directors is divided between a basic salary and a performance incentive so that a linkage is drawn between fulfilment of a director's professional responsibilities and company performance. For independent directors, a similar arrangement is in place whereby their fees are divided between a fixed sum and a further assessed sum that is directly linked to the individual's rate of attendance at Board meetings.

Seventh, finally, is that a clear definition of roles has been put in place to draw borders between the responsibilities of the Board and those of management, while mechanisms to facilitate communication between these two parties have also been established. The Chair of the Board of Directors meets on a regular basis with the CEO, while, so as to resolve any problems in a timely manner, management also holds regular meetings with the Board to report on the situations encountered in the process of implementing Board and management resolutions.

5. Adequate technical support is needed to ensure Board efficiency. In order to ensure the high efficiency of Board operations and the maximum impact of Board decisions, China Life has built up the support and services it provides to directors. Measures adopted include:

A Secretariat has been established for the Board that is resourced with Board and company secretaries, external legal counsel, financial experts, etc.

A specific regulatory framework has been put in place for Board operations that includes our *Rules and Procedure of the Board of Directors* as well as similar rules for the respective professional committees. In particular, a mechanism independent of management has been created for reporting to the audit committee so as to forestall the risk of financial improprieties, as required by the Sarbanes-Oxley Act¹.

All types of data and information are made available to the Board on a timely and adequate basis. These range from new rules emanating from regulatory agencies or stock exchanges to Board meeting agenda items, important management issues, market activity, etc.

Activities of various types are arranged for Board members on a regular basis. These may include training sessions with respect to corporate governance, trips to observe insurance operations and governance practices in the markets of Europe and the Americas, or visits by independent directors to

¹ The *Public Company Accounting Reform and Investor Protection Act* of 2002, USA.

company premises to inspect operations and to familiarize themselves with the company's basic management and risk control situation.

There is one further point to emphasize: a critical element in ensuring the quality of Board operations is the cultivation of a favourable Board culture. Because the Board is composed of a number of differing elements that are spread across different institutions, it does not usually sit together as a single body, reserving such occasions for when singular problems must be addressed. It follows that the Board must ensure a high quality of operation, and to this end, individual Board members must have an elevated sense of responsibility, take it upon themselves to study where necessary and to familiarize themselves with company operations. During Board meetings, they must have the fortitude to express their own judgments and independent views so as to contribute to a good culture of discussion and debate.

To build a Board of Directors is of course not simply a matter of laws and theory; it is far more a practical issue which requires sustained processes of improvement and innovation. As the only Chinese financial corporation to be listed on stock exchanges in Hong Kong, New York and Shanghai, China Life hopes further to strengthen its links of close cooperation with the OECD and other international organizations. We also hope to achieve widespread interaction with capital markets worldwide, to learn from companies with advanced experience in corporate governance and to continue to strengthen our own governance structures so as to put in place the sound and effective mechanisms that will raise governance practices at China Life to new levels.

Thank-you very much!