China (corrected August 2013)

Summary of Current Shareowner Rights

Percentages cited reflect information gathered by GMI Ratings about 108 companies in China as of 31 August 2012.

Shareowners in China have adequate shareowner rights protections, although many companies have controlling shareowners. Board members may be removed without cause, and supermajority votes are required to approve mergers and to amend a company's articles of association. Cumulative voting is permitted, and shareowners have the right to request special meetings and submit proposals at annual general meetings.

Issue	Current Standard or Usual Practice	Level of Practice Adoption, Exceptions to Usual Practice, and Trends (if any)
What is the average percentage of independent board members on public company boards (% independent board members)?	36%	
What percentage of companies have fully independent audit committees?	53.7%	
What percentage of publicly traded companies have a controlling shareowner (e.g., family, government, majority block holder)?	61.1%	
Is voting by proxy permitted?	Yes	Always allowed
Must shares be deposited or blocked from trading in order to vote?	No	
Are there share ownership limitations in this market?	Yes	A foreign ownership limitation exists for all Chinese companies, but foreign ownership is usually quite small. Institutional investors are prohibited from owning more than 10% of a company's shares. Some companies have state-owned controlling shareowners that hold non-tradable shares.Foreign investors are prohibited from investing in the "prohibited" industry category, which includes companies related to military and national defense/security.

Issue	Current Standard or Usual Practice	Level of Practice Adoption, Exceptions to Usual Practice, and Trends (if any)
Are there (other) common restrictions on the rights of shareowners to vote in person or by proxy?	No	Tradable and non-tradable shares have the same voting rights.
Do companies adhere to a majority voting standard in the election of board members?	Sometimes	
Do companies allow for cumulative voting in the election of board members?	Yes	The Company Law of the People's Republic of China, as revised in 2005, permits cumulative voting.
Are shareowners able to affect a company's remuneration policy through shareowner approval (binding or nonbinding) of the remuneration committee report, the proxy's Compensation Discussion and Analysis section, or something comparable?	Rarely	Shareowners are not usually given any vote (binding or nonbinding) on general remuneration issues or on a remuneration report. In some cases (e.g., Bank of China Ltd.), however, shareowners have been asked to approve specific remuneration, such as bonuses; in such cases, the vote has been binding in nature.
Are shareowners able to affect remuneration policy through binding shareowner approval of specific equity-based incentive plans or something comparable?	Yes	
Are shareowners permitted to introduce dissident resolutions (binding or nonbinding) at an annual meeting?	Yes	Shareowners of 3% or more of a company's shares may submit resolutions.
Do shareowners have a right to convene a general meeting of shareowners outside the annual meeting process (e.g., an extraordinary general meeting or special meeting) if only 10% or less of the shares are represented in the group requesting the meeting?	Yes	Shareowners holding a minimum of 10% of the voting rights may submit requests for special meetings.
What percentage of companies include golden shares in their capital structure?	0%	
Are shareholder rights plans (poison pills) allowed in this market?	No	Shareholder rights plans would effectively violate the Company Law because companies are prohibited from issuing shares at a discount in order to dilute the capital of a bidder.
If shareholder rights plans are in use, do they have to be approved by shareowners?	na	

(continued)

Issue	Current Standard or Usual Practice	Level of Practice Adoption, Exceptions to Usual Practice, and Trends (if any)
Do all shareowners have the right to approve significant company transactions, such as mergers and acquisitions?	Yes	This right is a legal requirement.
Do companies require a supermajority vote to approve a merger?	Yes	The Company Law states that mergers require approval by shareowners holding two-thirds of the voting rights.
Are companies subject to a fair price provision, either under applicable law or as stated in company documents (such as the charter or bylaws)?	Yes	
Are class action suits commonly used in this market?	No	Chinese law does not currently permit securities class action lawsuits. Under Chinese law, there is a representative action similar in some ways to class actions (i.e., if the number of litigants is fixed, the litigants can elect representatives to conduct the litigation, and the representatives' actions bind the litigants).
Are derivative suits commonly used in this market?	No	Derivative suits are permitted under Chinese law but are not common.

na = not applicable.

Current Engagement Practices and Shareowner Rights Developments

Shareowner activism in the People's Republic of China has a short history and currently is characterized by a low level of engagement, most notably because share ownership of publicly traded companies in China is a recent development. The Shanghai and Shenzhen stock exchanges began operations in the early 1990s, and the China Securities Regulatory Commission (CSRC) was established in 1992. Securities investment funds began operating in 1991, but other institutional investors, such as insurance companies, pension funds, and commercial banks, have only recently become active stock market participants. China's securities laws and regulations do not impose any unusual restrictions on shareowner rights, but shareowner engagement is not common. Shareowners in China are mainly passive, but there have been some instances of shareowner activism.

The ownership structure of many listed companies in China is a major obstacle to minority shareowner rights. Majority controlling shareowners dominate corporate boards, and tradable shares constitute less than half of all outstanding shares of listed companies. Under Chinese law, those who hold shares in companies with controlling shareowners may submit proposals, but they lack incentive to do so because they stand little chance of succeeding. Institutional investors are also prohibited by Chinese law from owning more than 10% of a listed company's shares.

The market for corporate control in China has been limited by both the large number of controlling shareowners and the existence of non-tradable state-owned shares. The implementation of the 2005 share reform plan, however, increased the number of tradable shares and the number of shares owned by minority shareowners.

China's takeover rules do not impose significant restrictions on takeover bids. Shareholder rights plans (poison pills) have not been adopted by Chinese companies primarily because the Company Law prohibits them from issuing shares at a discount for the purpose of diluting the capital of a bidder.

The 2004 Minority Shareholder Protection Provisions addressed the issue of controlling shareowners. They require holders of tradable shares to approve major corporate transactions, such as cash offers, rights offers, convertible bond issues, substantial asset reorganizations, equity-for-debt swaps, and foreign listing of subsidiaries. Shareowners of a majority of the tradable shares must approve cash offers if the new shares issued exceed 20% of the outstanding shares.

In 2002, listed companies in China were required to have at least two independent board members; in 2003, the minimum was changed to one-third of the board. The 2005 revision to the Company Law codified the one-third independent board member requirement into law. The law states that the maximum allowable proportion of inside board members serving on the board overall is 50%.

In the past, fund manager conflicts of interest have contributed to the low level of shareowner engagement. The CSRC addressed this issue by implementing the 2004 Measures for the Administration of Securities Investment Fund Management Companies. These measures seek to minimize such conflicts by requiring fund management companies to establish systems for corporate governance and for development that (1) ensure the fund management business is not subject to interference by any particular shareowners and (2) protect against any particular shareowner seeking assistance with its own securities underwriting or investment business. These measures are designed to avoid interference in the fund management company's business by investment banks and securities firms that own stakes in the fund management company. In addition, at least one-third of the boards of fund management companies must be independent.

Shareowner engagement in China is largely limited to domestic investors. Foreign investors may purchase A-shares[1] through the Qualified Foreign Institutional Investor (QFII) scheme, but the amount of capital that foreigners are allowed to invest is so small that these investors currently have little opportunity to influence Chinese companies. The total amount of foreign investment in A-shares permitted by Chinese law is USD30 billion, and investment by QFII investors in 2008 amounted to only 4% of China's stock market capitalization.

In 2012, the China Association for Public Companies (CAPCO) was established by the CSRC. It is charged with promoting good governance and director training. The CSRC has also created an investor protection bureau to draft laws for domestic investors and to help establish an education and service system for them.

Legal and Regulatory Framework

The CSRC is China's security market regulator and operates under the supervision of the State Council of the People's Republic of China. The State Council implements policies and laws that are established and passed by the National People's Congress, which is the highest legislative body in China and is controlled by the Chinese Communist Party.

The State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) supervises state-owned enterprises (excluding banks) under the supervision of the central government and makes decisions concerning the top management and investments of these enterprises. In this way, it is often the government, and not a board or shareowners, that chooses corporate leaders.

Shareowner rights are included in the Company Law and the Securities Law, both of which were revised in October 2005. Other sources of securities rules and regulations include the rules and guidelines issued by the CSRC, the Securities Investment Fund Law, the Special Regulations of the State Council, the Ministry Rules, and the self-regulation rules of the

[1] A-shares are shares of companies based in mainland China that trade on Chinese stock exchanges. A-shares are generally only available for purchase by mainland citizens; foreign investment is allowed only through the Qualified Foreign Institutional Investor (QFII) system.

Securities Association of China and the Shanghai and Shenzhen stock exchanges. The overall legal and regulatory framework for shareowner rights in China remains underdeveloped, but basic laws, regulations, and enforcement mechanisms are in place.

The Company Law and the Securities Law in China contain provisions for shareowner engagement of listed companies. Shareowners of Chinese companies may engage the board of directors and influence the direction of the company by voting at shareowner meetings and by submitting shareowner proposals. Shareowners who own 3% or more of a company's shares may submit shareowner proposals, and owners of 10% or more of shares may request special meetings. All holders of common shares of listed companies may vote in person or by proxy, and some companies provide internet proxy voting.

Board members of China's listed companies may be removed without cause, and a supermajority two-thirds shareowner vote is required to amend a company's articles of association. Substantial corporate transactions, such as mergers, must be approved by a two-thirds shareowner vote. Share-based compensation schemes must also be approved by a two-thirds shareowner vote. Cumulative voting is allowed and may be used at the discretion of each company.

Shareowners who own at least 1% of the shares of listed companies and who have held the shares for 180 or more consecutive days may request that the supervisors initiate a derivative lawsuit in a people's court when a board member, manager, or supervisor violates a law, an administrative regulation, or a company's articles of association. Securities class action lawsuits are not currently permitted, but lawsuits with a fixed number of litigants are allowed.

CSRC enforcement activity has increased in recent years, and in 2008, the government announced reforms to the Chinese securities law enforcement system. The reform measures established an Administrative Punishment Committee of the CSRC, merged the First and Second Inspection Bureaus into a single Inspection Bureau, established an Inspection Division, and increased the inspection staff of local CSRC agencies.

Note that the CSRC and other law enforcement authorities in China have taken action to address the problem of insider trading. In February 2008, a Chinese court convicted and sentenced to prison three people for insider trading of Zhejiang Hangxiao Steel Structure shares. This case was the first time an official of a listed company in China was imprisoned for insider trading.

Key organizations with information relevant to shareowner rights in China include the following:

China Banking Regulatory Commission (www.cbrc.gov.cn)

China Securities Regulatory Commission (www.csrc.gov.cn)

Shanghai Stock Exchange (www.sse.com.cn)

Shenzhen Stock Exchange (www.szse.cn)

Ministry of Commerce of the People's Republic of China (www.mofcom.gov.cn)

Ministry of Finance (www.mof.gov.cn)

LawInfoChina (www.lawinfochina.com)

People's Bank of China (PBC) (www.pbc.gov.cn)

State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) (www.sasac.gov.cn)