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China

Corporate Governance

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This country-specific Q&A provides an overview of corporate governance laws and regulations applicable in China.

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China: Corporate Governance

1. What are the most common types of corporate business entity and what are the main structural differences between them?

China has two main types of corporate business entities:

- **Limited Liability Companies (LLCs)**: Private companies where shareholders appoint and remove directors, and decisions require shareholder approval.
- **Companies Limited by Shares (CLS)**: Includes both private and public companies. CLS may adopt a cumulative voting system for electing directors and supervisors, and decisions require majority shareholder approval.

In an LLC, shareholders' equity is based on the amount or ratio of subscribed capital rather than equal shares. In contrast, in a CLS, each shareholder's equity is determined by the number of shares they have since the total registered capital must be divided equally among them.

Small and medium-sized companies typically choose to operate as LLCs, while larger companies opt for CLS legal structures. Companies planning to go public must initially adopt a CLS legal form.

2. What are the current key topical legal issues, developments, trends and challenges in corporate governance in this jurisdiction?

Key Legal Issues and Developments

The latest amendments to the PRC Company Law (2024 Company Law) came into effect on July 1, 2024, reshaping Chinese company law in various ways, with a particular focus on corporate governance. The revised law aims to modernise corporate governance structures to align with international standards. It aims to address historical loopholes, introduce flexible financing tools, and align with global governance standards to support economic adaptation and market modernization. This includes more robust mechanisms for board oversight and clearer delineation of responsibilities among directors and executives.

These amendments include stricter capital contribution requirements for shareholders, enhanced director and management accountability, and improved shareholder rights. Directors and senior officers face expanded responsibilities, including liability for improper profit distributions or debt evasion. Controlling shareholders and actual controllers are now held accountable for abuses of corporate structures.

The revised corporate law system integrates Joint Ventures (JVs) into China's unified corporate framework, eliminating the dual-track system that previously treated foreign-invested entities differently. JVs now follow the same rules as domestic companies for shareholder rights, director duties, and creditor protections, ensuring a level playing field. Dispute resolution (e.g., shareholder derivative suits, capital contribution disputes) now follows standardized procedures under the Company Law, reducing jurisdictional ambiguities. However, foreign-invested enterprises face complexities in revising joint venture contracts and articles of association to align with the new Company Law and Foreign Investment Law.

Trends

There is a noticeable trend towards increasing the accountability of corporate directors and executives. This is reflected in the new legal requirements for capital contributions and the enhanced rights of creditors to demand immediate payment in cases of insolvency.

The amendments are part of a broader effort to align China's corporate governance practices with international standards. This is intended to make China a more attractive destination for foreign investment and to foster a more transparent and responsible business environment.

Challenges

With the formal implementation of the new Company Law in China, businesses face multifaceted compliance challenges. According to the Foreign Investment Law of the People's Republic of China, foreign-invested enterprises must complete compliance adjustments with the Company Law by the end of 2024, giving the new legislation particular significance during this transition period. For companies established before the enactment of the new law, adjusting existing practices to meet new standards has become an urgent priority.

Although the new law aims to reduce regulatory burdens and improve operational efficiency, effective implementation still faces numerous tests. Currently, understanding and correctly applying the legal provisions has become the primary task for enterprises and their legal advisors. Particularly in key areas such as corporate governance structures and compliance obligations for management, many detailed issues still require further clarification and exploration through judicial interpretations and practical cases.

To align with the revised Company Law, JVs must update their articles of association (AoA), joint venture contracts, and operational practices in several key areas. For example, the governance structure shall be revised by establishing shareholders' meetings and defining decision-making authority for major matters like capital adjustments and profit distribution in the AoA. Voting thresholds should be adjusted, such as requiring a two-thirds majority for critical resolutions, replacing the previous need for unanimous board of directors' approval under the old JV laws. Additionally, the roles of the board should be split by removing clauses that grant the board authority over shareholder-level decisions, such as amendments to the AoA, and clarifying the board's operational powers, like approving annual budgets. Where applicable, supervisory boards should be replaced with audit committees, with clear definitions of committee composition and oversight responsibilities.

It is advisable to closely monitor the evolving impact of the New Company Law. Consulting internal or external legal advisors can provide a comprehensive understanding of specific compliance requirements and the potential legal consequences of any violations.

3. Who are the key persons involved in the management of each type of entity?

In China, the management structure of companies varies depending on the type of entity. there are certain key positions to be appointed within a Chinese company; namely, a legal representative, executive director or board of directors, supervisor or board of supervisors, and general manager.

Legal representative: The legal representative acts as the company's sole statutory agent in legal, regulatory, and contractual matters (e.g., signing binding documents, initiating lawsuits). They must actively participate in management, with the law emphasizing substantive involvement rather than nominal roles. For example, resigning as a director/manager automatically terminates their legal representative status. The 2024 Company Law broadens the eligibility criteria, allowing any director or general manager who manages corporate affairs on behalf of the company to serve as its legal representative. Additionally, it specifies the procedures for registering changes to this role and outlines the liabilities of legal representatives, particularly focusing on instances of non-compliance or misconduct.

Directors: The board of directors or a single director in small LLCs, is responsible for the overall management and strategic direction of the company. The board of directors is responsible for implementing the resolutions made by the shareholders. Resolutions related to regular business operations require the approval of shareholders representing a majority of the voting rights. Resolutions regarding amendments to the articles of association, changes in registered capital, mergers, demergers, dissolution or changes in the company's structure require the approval of shareholders representing more than two-thirds of the voting rights. Individual directors lack unilateral authority to represent the company unless designated as legal representatives.

Supervisors: The board of supervisors oversees the company's financial and operational activities to ensure compliance and prevent misconduct. Directors and senior management personnel shall not concurrently serve as supervisors. Specifically, the 2024 Company Law allows companies to opt out of the compulsory requirement for a board of supervisors or sole supervisor entirely if: (1) an audit committee within the board of directors is established as an alternative (Article 69, 121, 2024 Company Law), or (2) for LLCs small in scale or with a limited number of shareholders, their shareholders unanimously agree (Article 83, 2024 Company Law).

Senior management: The general manager handles the day-to-day operations of the company and reports to the board of directors. Senior management refers to the company's managers, deputy managers, financial officers, secretaries of the board of directors of listed companies, and other personnel specified in the company's articles of association. The general manager position is no longer a legally mandated role. If a company decides to retain this position, its responsibilities and authority will be defined by the board's authorisations rather than solely by the articles of association (Article 74, 126, 2024 Company Law).

Communist Party Organisation:

Perhaps of special consideration for Chinese enterprises is the role of the Communist Party organisation. From a formal requirement perspective, according to the Constitution of the Communist Party of China, any enterprise with three or more formal Party members must establish a primary-level Party organisation within the enterprise. This requirement also extends to foreign-invested entities, including joint ventures and wholly foreign-owned enterprises. The Company Law, under Article 18, requires companies to provide the necessary conditions (such as space, funding, and time) to support Party organisation activities.

However, it is important to note that Party organisations only play a substantive role in state-owned enterprises (SOEs). Article 170 of the Company Law explicitly grants Party organisations a leadership role, requiring them to discuss major business decisions—such as mergers, investments, and executive appointments—before these decisions proceed to the board of directors.

4. How are responsibility and management power divided between the entity's management and its economic owners? How are decisions or approvals of the owners made or given (e.g. at a meeting or in writing)?

In China, the division of responsibility and management power between a company's management (directors, supervisors, and senior management (DSMs)), and its shareholders is clearly defined by the Company Law.

In LLCs, shareholders have the legal right to appoint and remove directors according to the procedures specified in the articles of association.

The general rights of all shareholders are:

- To call, attend, address, make enquiries, and vote at shareholders' meetings
- To receive dividend payments
- To review and take copies of company documents

Decision-Making Process

Shareholders make key decisions through meetings, voting mechanisms, and written resolutions.

Shareholders' Meetings: Companies are required to hold Annual General Meetings (AGMs) once a year to approve financial statements, profit distribution, and the election of directors and supervisors. For urgent matters, Extraordinary General Meetings (EGMs) can be convened, and shareholders holding more than 10% of voting rights have the right to request such a meeting.

Voting Mechanisms: Shareholders can vote in person at AGMs or EGMs, and resolutions are generally passed by a majority of votes. Those unable to attend may appoint a proxy to vote on their behalf.

Written Resolutions: For matters that do not require a physical meeting, shareholders can adopt written resolutions. These provide flexibility and efficiency in decision-making but must be signed by the required majority to be valid.

Approval requirements for resolutions differ based on their nature. Ordinary Resolutions need approval from shareholders holding over half of the voting rights and are for routine business decisions or minor changes to the articles of association. Special Resolutions, requiring at least two-thirds of the voting rights, are reserved for major changes like mergers, dissolutions, or significant amendments to corporate governance structures.

Shareholders have increased access to company records, such as accounting vouchers and financial information of wholly owned subsidiaries. This enhancement promotes transparency and empowers minority shareholders by providing them with crucial financial data. Any resolution passed at a shareholders' meeting is deemed invalid if it breaches the law or administrative regulations. In CLSs and LLCs, any shareholder can request a court to confirm that a shareholders' resolution is invalid. Shareholders holding more than 10% of the voting rights can request the board to convene an EGM. If the board fails to do so, the shareholders themselves may convene the meeting, ensuring that their concerns are addressed in a timely manner.

5. What are the principal sources of corporate governance requirements and practices? Are entities required to comply with a specific code of corporate governance?

China enforces corporate governance norms for listed companies through a 'comply or explain' approach. The rights and obligations of companies are primarily outlined in the 2024 Company Law, along with supplementary judicial interpretations from the Supreme People's Court and administrative regulations from the State Council and its committees. The main pieces of legislation that regulate corporate governance in China are as follows:

- the Company Law (newly revised and effective from 1 July 2024) and judicial interpretations, which apply to both private and listed companies;
- the Minutes of the National Courts' Civil and Commercial Trial Work Conference, although not considered law, are often referred to by the courts at all levels;
- the Foreign Investment Law (effective since 1 January

2020), which applies to foreign-invested companies and replaces the Wholly Foreign-Owned Enterprise Law, the Sino-foreign Equity Joint Venture Law and the Sino-foreign Cooperative Joint Venture Law, along with their respective implementation rules;
- the Securities Law, specific to the corporate governance of listed companies;
- the Code of Corporate Governance for Listed Companies and related administrative measures, guidelines, rules and explanatory notes issued by the China Securities Regula-tory Commission (CSRC);
- the listing rules issued by Chinese stock exchanges (i.e., Shanghai Stock Exchange, Beijing Stock Exchange and Shenzhen Stock Exchange) and other designated trading venues; and
- the rules and guidelines respectively issued by the National Financial Regulatory Administration (NFRA) (incorporated by China Banking and Insurance Regulatory Commission in 2023) and CSRC, which apply to companies in the sectors of banking, insurance and securities.

6. How is the board or other governing body constituted? Does the entity have more than one? How is responsibility for day-to-day management or oversight allocated?

The constitution of a company's board or other governing bodies depends on the type of company. The law provides for a flexible governance framework, allowing companies to adopt either a single-tier or a two-tier structure.

Under the single-tier model, governance responsibilities are concentrated in the board of directors, with the audit committee overseeing financial and compliance matters. Under the two-tier model (optional for some companies), there may still be a board of supervisors to monitor the board of directors.

For LLCs, the board of directors is the primary governing body, typically consisting of 3 to 13 directors. Small-scale LLCs may choose to have only one executive director instead of a full board. Directors are appointed by shareholders and serve for a term specified in the company's articles of association. The board is responsible for major business decisions, strategic planning, and supervising senior management.

For CLSs, the board must consist of at least 3 directors. Listed companies must have at least one-third independent directors, including at least one accounting professional. A Board of Supervisors is required, consisting of at least 3 members, with representation from both shareholders and employees. An audit committee can replace the board of supervisors.

In China, directors must be natural persons. Corporate entities are only allowed to exercise authority through the appointment of a natural person representative who acts on their behalf.

The board of directors delegates daily management to the general manager (CEO) and other senior executives. The appointment mechanism for the general manager is determined by the board of directors, typically formalized through both an employment contract and an appointment agreement. Unlike in some jurisdictions, China does not require a separation of the board chair and CEO roles.

Responsibilities and Oversight

The board of directors makes high-level business decisions and ensures corporate compliance. The audit committee (if established) supervises financial reporting and internal controls. Supervisory boards (if retained) focus on director accountability and corporate governance.

7. How are the members of the board appointed and removed? What influence do the entity's owners have over this?

The general meeting of shareholders can elect or dismiss a director without cause through a shareholder meeting or passing a valid resolution if shareholders unanimously expressed their agreement in writing during the director's tenure (Articles 59 and 112, 2024 Company Law).

Appointment of Board Members

Board members are elected by the shareholders' meeting. This is the primary mechanism through which shareholders exercise their influence over the composition of the board. Shareholders can nominate candidates for the board. The articles of association may specify the nomination process and criteria.

The term of office for directors is specified in the company's articles of association but cannot exceed three years. Directors can be re-elected for consecutive terms.

Removal of Board Members

Shareholders have the authority to remove board members through a resolution passed at a shareholders' meeting. The removal process must comply with the procedures outlined in the company's articles of association. Typically, a simple majority vote is required for removal.

Directors can be removed for legal violations, breaches of duty, or failure to perform their responsibilities. Poor performance or failure to meet the company's strategic goals can also be grounds for removal.

Directors' Right to Information upon Removal: Removed directors can seek judicial relief if they believe their removal was unjust or if they are denied access to necessary information. Directors have the right to access company information necessary for performing their duties during their tenure. Even after removal, directors may retain the right to access certain information related to their period of service, especially if it pertains to legal or regulatory matters.

Influence of Shareholders

Voting Rights: Shareholders with a majority of voting rights have significant influence over the appointment and removal of board members. Minority shareholders also have rights and can propose the removal of directors if they hold a certain percentage of shares, typically more than 10%.

Articles of Association: The articles of association can be customised to include specific provisions regarding the appointment and removal of directors, giving shareholders flexibility in governance.

8. Who typically serves on the board? Are there requirements that govern board composition or impose qualifications for board members regarding independence, diversity, tenure or succession?

LLCs typically require a board of directors with at least three members, except for small-scale or closely held companies where a single director may be sufficient. For LLCs with over 300 employees, employee representatives should serve on the board of directors unless this role is fulfilled by a separate board of supervisors.

CLSs must also have a board of directors. If the company adopts a one-tier governance model without a board of supervisors, the directors will be entitled to form an audit committee of more than three members in which at least half of them should not be in any connection with the CLS that may affect the independent and objective judgement or be appointed for other positions within the CLS.

Listed companies are mandated to have at least one-third independent directors. The Company Law expressly requires that at least a third of board members of a listed company must be independent directors, including at least one accounting professional. Independent director is defined as a director who does not hold any position in the listed company other than director and who has no relationship, directly or indirectly, with the listed company and its principal shareholders, or the de facto controller that could hinder independent and objective judgements of the directors.

In solely state-owned enterprises, at least half of the directors should be external directors. External directors refer to those who are not employed by the solely state-owned enterprises, which may also include independent directors in the state-owned listed companies.

Qualifications:

Except for independent directors who are subject to particular regulations, the law does not set out any unified criteria a director or a supervisor should meet; however, it provides a negative list and any person that falls under this list cannot be a director or a supervisor:

- a person who has no civil capacity (under the age of 18 or unable to account for their own conduct) or limited civil capacity (under the age of 18 or unable to fully account for their own conduct);
- a person who has been convicted for corruption, bribery, conversion of property or disruption to the order of socialist market economy and a five-year period has not elapsed since the expiry of the execution period or a person who has been stripped of political rights for being convicted of a crime and a five-year period has not elapsed since the expiry of the execution period;
- a person who acted as a director, factory manager, manager in a company that has been declared bankrupt or liquidated and who is personally accountable for the bankruptcy or liquidation of the company and a three-year period has not elapsed since the completion of bankruptcy or liquidation of this company;
- a person who has acted as a legal representative of a company that has had its business licence revoked or has been ordered to close down for a breach of law and who is personally accountable and a three-year period has not elapsed since the revocation of the business licence of such company; and
- a person who is unable to repay a relatively large amount of personal debts.

9. What is the role of the board with respect to setting and changing strategy?

Under the 2024 Company Law, the board of directors holds a pivotal role in shaping and adjusting a company's strategy, operating within a framework established by the shareholders' meeting. The key duties of the strategic committee are to study the company's long-term development strategies and major investment decisions and make recommendations thereto.

Strategic Formulation

Business and Investment Plans: The board is tasked with formulating the company's business and investment plans, translating the broader policies approved by the shareholders into actionable strategies.

Profit Distribution and Major Decisions: It proposes plans for profit distribution and is responsible for decisions regarding mergers, divisions, and other significant operational matters.

Strategic Adaptation

Autonomous Adjustments: The board has the authority to modify or adjust specific strategies to respond to market dynamics, provided these changes align with the overarching policies set by the shareholders.

Shareholder Approval for Major Changes: Significant strategic shifts that deviate from established policies, such as entering new markets or large-scale restructuring, require ratification by the shareholders' meeting.

Implementation Oversight

Management Supervision: The board appoints and oversees the general manager and senior management, ensuring that daily operations align with the company's strategic objectives.

Reporting and Accountability: It is accountable to the shareholders, providing reports on strategic execution and seeking approval for critical matters, including amendments to the articles of association.

10. How are members of the board compensated? Is their remuneration regulated in any way?

In both an LLC and a CLS, the remuneration of board members is typically determined by the shareholders' meeting. This ensures that the compensation aligns with the interests of the shareholders (Articles 59 and 112, 2024 Company Law). The company's articles of association may also specify the procedures and standards for determining board members' compensation.

A CLS must regularly disclose to its shareholders information on remuneration received by directors (Article 129, 2024 Company Law). There is no similar disclosure requirement for LLCs.

For listed companies, pursuant to the Guidelines on Governance of Listed Companies, the board of directors must set up an audit committee and may establish the relevant specialised committees, such as a remuneration and appraisal committee, as required. The remuneration and appraisal committee should study the appraisal standards for directors and senior management personnel, conduct appraisal and make recommendations thereto and study and examine remuneration policies and schemes for directors and senior management personnel. Members of the special committees should be composed of directors. Moreover, independent directors should constitute the majority of the members of the audit committee, the nomination committee and the remuneration and appraisal committee and act as the convener. The convener of the audit committee must be an accounting professional.

11. Do members of the board owe any fiduciary or special duties and, if so, to whom? What are the potential consequences of breaching any such duties?

Generally, directors have a duty of loyalty and diligence to the company and cannot damage shareholders' interests. They shall take measures to avoid conflicts between personal and company interests and must not abuse their positions for improper gains. When performing their duties, they shall exercise the level of care ordinarily expected of managers to maximise the company's interests and avoid harming shareholders' rights (Article 180, 2024 Company Law). In particular, directors are not allowed to do any of the following in relation to the company:

- Damage the company's interests by taking advantage of their affiliated relationships (that is, relationships between the director and enterprises directly or indirectly con-trolled by the director).
- Accept any bribe or illegal income by taking advantage of their power.
- Misappropriate of any of the company's property.
- Embezzle the company's funds or assets.

- Deposit the company's funds into an account in their own name or any other person's name.
- Lend the company's fund to a third party or use the company's assets to provide a guarantee to a third party, either:
- in violation of the company's articles of association; or
- without the required consent of the shareholders' meeting or board meeting.
- Enter into a contract or conduct a transaction with the company either:
- in violation of the company's articles of association; or
- without the required consent of a shareholders' meeting.
- Conclude a contract or transaction with the company which is against the company's interest, or make an originally valid contract or transaction either invalid or revocable.
- Without the consent of the shareholders or the board, seek business opportunities that belong to the company for themselves or any other person or engage in the same type of business as the company by taking advantage of their position.
- Personally accept commissions from transactions between the company and a third party.
- Disclose confidential information of the company.
- Conduct other activities that breach their fiduciary duty to the company.

(Articles 181 to 184, 2024 Company Law.)

A director who contributes to a resolution resulting in significant losses for the company is responsible for the damages incurred. Chinese law does not clearly address whether directors' liability towards the company or shareholders can be restricted or waived. The sole relevant provision states that a director may avoid liability for a board resolution that breaches laws, regulations, the company's articles of association, or shareholders' resolutions and leads to substantial loss if:

- The director proves that they raised an objection to the resolution.
- The objection is recorded in the minutes.

(Article 125, 2024 Company Law.)

Under the provisions of the Company Law, if a supervisor, director or senior executive violates any law, administrative regulation or the articles of association while performing their duties, resulting in a loss to the company, they can be held liable for compensation. Shareholders who individually or collectively hold 1 per cent or more of the total shares for a continuous period of 180 days or longer have the right to request the board of supervisors (in the case of a supervisor's violation) or the board of directors (in the case of a director's violation) to initiate a lawsuit in the people's court. If the board of supervisors or the board of directors refuses to initiate a lawsuit after receiving a written request from the shareholders or fails to file a lawsuit within 30 days of receiving the request, the shareholders have the right to directly initiate a lawsuit in the people's court on behalf of the company.

12. Are indemnities and/or insurance permitted to cover board members' potential personal liability? If permitted, are such protections typical or rare?

China has established a comprehensive framework for protecting board members through both insurance and indemnification mechanisms. The regulatory landscape for these protections has evolved significantly since 2002, with recent updates in the 2024 Company Law further strengthening the framework.

Directors' and Officers' (D&O) Insurance

The Company Law added a provision that the company may insure the directors for D&O liability insurance during their tenure against liabilities incurred for discharging their duties. (Article 193, 2024 Company Law) The company may pay the premium and the board of directors should report to the shareholders' meeting in respect of the insured amount, the insured range and premium rate.

It is quite common for listed companies to insure for their directors and officers in China, though it comes with specific regulatory requirements. Companies must obtain prior approval from the shareholders' general meeting, and the coverage details must be clearly outlined in employment or service contracts. The board of directors is required to report to shareholders regarding the specifics of the insurance, including the insured amount, coverage range, and premium rates. Importantly, the company is permitted to pay these insurance premiums, though coverage explicitly excludes liabilities arising from breaches of laws, regulations, or the company's articles of association.

Indemnification

Regarding indemnification, China's legal framework takes a relatively permissive approach, though without explicit regulatory constraints. The cornerstone of this protection is found in Article 191 of the Company Law, which establishes that companies should bear the liability for actions taken by directors and senior managers in the course of their duties. However, this protection is not absolute – directors and senior managers can be held personally liable in cases involving intention or gross negligence.

Special consideration is given to legal representatives within the company structure, who may also serve as directors, executive directors, or general managers. When these individuals engage in civil activities within legal bounds and in accordance with the company's articles of association, the company assumes responsibility for any legal consequences. This extends to liability for harm caused to third parties during the discharge of their duties. While the company must initially indemnify affected third parties, it retains the right to seek recoupment from legal representatives who have caused or contributed to the harm.

13. How (and by whom) are board members typically overseen and evaluated?

There is no mandatory requirement or practice that requires the evaluation of the board in LLCs or CLSs. They may implement their own evaluation mechanism in the articles of association.

Shareholders have the authority to evaluate and oversee the board of directors. They can propose the removal of directors for legal or regulatory violations and initiate lawsuits for breaches of duty of loyalty or care. Shareholders exercise their oversight through general meetings, where they can discuss and vote on key issues, including the performance of the board. Any shareholder of an LLC, or a shareholder of a CLS who individually or collectively has held at least 1% of the company's shares for at least 180 consecutive days, can request the company's board of supervisors or supervisor(s), in writing, to initiate proceedings against directors.

For listed companies, board evaluations follow structured procedures outlined in the *Guidelines on Governance of Listed Companies*. These assessments, conducted by the board itself, a remuneration and appraisal committee, or external firms, measure directors' attendance, decision-making quality, and strategic contributions. Evaluation results must be reported to shareholders and included in annual disclosures.

In contrast, non-listed companies are not subject to mandatory evaluation requirements but may implement their own performance review systems through their articles of association.

14. Is the board required to engage actively with the entity's economic owners? If so, how does it do this and report on its actions?

Under the laws of the People's Republic of China (PRC), the board of directors has a legal obligation to engage with the company's shareholders and act in their best interests.

The revised Company Law explicitly outlines the duties of loyalty and diligence applicable to directors, supervisors, and senior executives, reinforcing their responsibilities towards the company and its shareholders.

I. Board's Duty to Engage with Shareholders

The obligation to engage with shareholders is particularly stringent for CLSs, especially publicly listed companies, whereas LLCs have more flexibility depending on their Articles of Association.

Under the law, directors, supervisors, and senior executives must uphold a duty of loyalty to the company, ensuring their actions align with the company's best interests. They must actively avoid conflicts of interest and are prohibited from exploiting their positions for personal gain (Article 180, 2024 Company Law).

Additionally, they are bound by a duty of diligence, which requires them to exercise care comparable to that of a competent manager under similar circumstances. This obligation ensures that corporate officers act prudently and responsibly while prioritizing the company's well-being.

II. Methods of Engagement and Reporting

The board of directors engages with shareholders through several key mechanisms applicable to all types of companies:

1. General Rules for All Companies

(1) Reporting to Shareholders

The board is responsible for convening shareholders' meetings and presenting reports on its activities (Article 67, 2024 Company Law).

These requirements also apply to the boards of directors of CLSs (Article 120, 2024 Company Law).

(2) Responding to Shareholder Inquiries

When requested, directors, supervisors, and senior executives must attend shareholders' meetings and address inquiries posed by shareholders (Article 187, 2024 Company Law).

(3) Executing Shareholders' Resolutions

The board must implement decisions made by the shareholders' meeting (Article 67(2), 2024 Company Law).

These provisions are also applicable to CLSs (Article 120, 2024 Company Law).

(4) Formulating and Implementing Profit Distribution Plans

The board is responsible for drafting proposals on profit distribution and loss recovery (Article 67(4), 2024 Company Law).

Once a profit distribution resolution is passed by the shareholders' meeting, the board must ensure implementation within six months (Article 212, 2024 Company Law).

These rules apply equally to CLSs (Article 120, 2024 Company Law).

2. Special Rules for LLCs

(1) Verification of Capital Contributions

Upon an LLC's establishment, the board must verify shareholders' capital contributions. If a shareholder fails to meet their financial obligations in full and on time, the company must issue a formal written demand for payment (Article 51, 2024 Company Law).

The 2024 Company Law explicitly assigns this verification duty to the board for the first time, emphasizing its role in monitoring shareholder contributions, ensuring capital adequacy, and enforcing compliance. This responsibility reflects the board's duty of loyalty and diligence.

3. Special Rules for Listed Companies

(1) Directors' Commitment and Diligence

In addition to the general requirements of loyalty, diligence, and prudence applicable to all companies (Article 21, 2018 Code), the 2018 Code specifically emphasises that directors of listed companies must dedicate sufficient time and effort to fulfilling their responsibilities (Article 22, 2018 Code).

(2) Independent Directors and Shareholder Protection in Listed Companies

Unlike other types of companies, listed companies are required to appoint independent directors (Article 136, 2024 Company Law).

Independent directors must actively fulfil their responsibilities, gaining a thorough understanding of the company's operations and board agenda items. They are responsible for protecting the interests of the company and all shareholders, with particular attention to safeguarding minority shareholders' rights. Independent directors must submit annual reports to the shareholders' meeting. If conflicts arise between shareholders or directors that significantly impact the company's operations and management, independent directors must take proactive steps to safeguard the company's overall interests. (Article 37, 2018 Code)

15. Are dual-class and multi-class capital structures permitted? If so, how common are they?

While historically uncommon, dual-class and multi-class capital structures are now legally permitted in China under the 2024 Company Law. However, their practical adoption remains limited to specific use cases, particularly for companies seeking greater flexibility in governance. Publicly listed companies must adhere to additional exchange-specific regulations, whereas LLCs retain broader discretion in structuring shareholder rights.

In general, these structures allow a company to issue different classes of shares with varying shareholder rights. This governance model is commonly referred to as "same shares, different rights" or "same class, same rights".

For a long time before the 2024 revision of the Company Law, China adhered strictly to the one-share, one-vote principle, ensuring proportional shareholder rights in voting, dividend distribution, and residual asset allocation. At that time, deviations from this principle were not permitted, prompting many Chinese tech giants—such as Baidu, Youku, Alibaba, JD.com, and iQIYI—to pursue overseas listings in markets like the United States, where dual-class share structures were allowed.

With the enactment of the 2024 Company Law, China has formally introduced a class share system, allowing companies to issue shares with preferential or subordinated rights in profit and asset distribution, differential voting rights, and restricted transferability, provided such provisions are included in the company's

Articles of Association.

LLCs

LLCs enjoy greater flexibility in structuring voting rights. Shareholders can agree on customised voting arrangements through the Articles of Association. If no special provisions are specified, the default rule is that voting rights are determined based on each shareholder's proportion of capital contribution (Article 65, 2024 Company Law).

CLSs

Under Article 144 of the 2024 Company Law, companies may issue the following four types of class shares:

1. Shares with preferential or subordinated rights regarding profit or residual asset distribution.
2. Shares with differential voting rights, where each share carries more or fewer votes than ordinary shares.
3. Shares with restricted transferability, requiring company approval for transfer.
4. Other types of class shares as stipulated by the State Council, allowing for future regulatory innovation.

(Article 144, 2024 Company Law)

Article 145 of the 2024 Company Law mandates that companies issuing class shares must specify the following in their Articles of Association:

1. The order of profit and asset distribution for class shares.
2. The voting rights assigned to each class of shares.
3. Restrictions on the transfer of class shares.
4. Measures to protect the rights of minority shareholders.
5. Any other matters deemed necessary by the shareholders' meeting.

Special Rules for Listed Companies

Different stock exchanges in China—including the Shanghai Main Board, STAR Market, and ChiNext Market—impose specific requirements for differential voting rights, including financial thresholds, timing, procedural rules, shareholder eligibility, conversion of special voting shares into ordinary shares, and disclosure requirements. Companies seeking to implement multi-class share structures should refer to the detailed listing rules of each exchange.

16. What financial and non-financial information must an entity disclose to the public? How does it do this?

I. LLC

1. Financial Information Disclosure

(1) Annual Financial Reports (Article 209, 2024 Company Law)

LLCs must prepare annual financial reports and provide them to shareholders within the timeframe stipulated by the company's articles of association.

(2) Registered Movable Assets (Article 6, Provisional Regulations on Enterprise Information Disclosure, 2024 Revision)

LLCs must disclose information related to their registered movable assets through public channels, with regulatory authorities publishing it via the National Enterprise Credit Information Publicity System.

(3) Capital Contributions and Reduction of Registered Capital (Articles 40, 224, 2024 Company Law)

LLCs must disclose:

- Subscribed and paid-up capital contributions, contribution method, and dates.
- Asset-liability statements and a list of assets in case of capital reduction.
- Notification to creditors within 10 days and public announcement within 30 days.

(4) Financial and Equity Information (Articles 40, 2024 Company Law; Article 9, Provisional Regulations on Enterprise Information Disclosure, 2024 Revision)

LLCs must disclose:

- Total assets, liabilities, guarantees, owners' equity, total revenue, net profit, and tax payments.
- Shareholder and equity changes, including equity pledges.
- Investments in or acquisition of shares in other companies.

(5) Corporate Restructuring (Articles 220, 222, 2024 Company Law)

- Mergers: Notify creditors within 10 days and announce the merger within 30 days.
- Divisions: Notify creditors within 10 days and announce the division within 30 days.

(6) Liquidation and Dissolution (Articles 224, 229, 2024 Company Law; Article 9, Provisional Regulations on Enterprise Information Disclosure, 2024 Revision)

LLCs must disclose liquidation proceedings, including:

- Notifying creditors within 10 days and publicizing within 30 days.
- Reasons for dissolution, including expiration of business term, shareholder resolution, forced closure, or court dissolution.

(7) Company Deregistration (Articles 240, 241, 2024 Company Law)

- Simplified Deregistration: Public announcement via the National Enterprise Credit Information Publicity System for at least 20 days before application.
- Compulsory Deregistration: If the company fails to apply for deregistration within three years of business license revocation, the registration authority may announce and complete deregistration after a 60-day notice period.

2. Non-Financial Information Disclosure

(1) General Company Information (Article 4, Company Registration Management Implementing Rules; Article 9, Provisional Regulations on Enterprise Information Disclosure, 2024 Revision)

LLCs must disclose:

- Name, registered address, and legal representative.
- Company type, business scope, registration authority, and date of establishment.
- Contact details (postal address, telephone, email).
- Number of employees.
- Company website and online business operations.

(2) Administrative Punishments (Article 6, Provisional Regulations on Enterprise Information Disclosure, 2024 Revision)

Any administrative penalties imposed on the company must be disclosed.

(3) Administrative Permits (Article 40, 2024 Company Law; Articles 7 and 10 Provisional Regulations on Enterprise Information Disclosure, 2024 Revision)

LLCs must disclose any granted, altered, or cancelled administrative permits.

3. Disclosure Methods

(1) Annual Reports Submission

LLCs must submit annual reports through the National Enterprise Credit Information Publicity System, with certain financial data being optional for public disclosure.

(2) Public Announcements

Mergers, divisions, capital reductions, liquidation, and deregistration must be publicly announced within stipulated timeframes.

II. CLS

Non-listed CLSs are generally subject to the same information disclosure requirements as LLCs under PRC law.

III. Overview of Information Disclosure for Listed Companies

The information disclosure of listed companies is primarily divided into periodic reports and provisional reports, covering the company's financial status, operating conditions, and other significant matters that may affect investors' decision-making.

1. Periodic Reports

Periodic reports, including annual reports and interim reports, are intended to regularly update the company's operational and financial status.

(1) Annual Report

Disclosure Timeline and Content

Listed companies shall disclose the annual report within four months after the end of each fiscal year. The contents of the annual report include:

- Basic company information (business model, corporate governance, etc.);
- Key accounting data and financial indicators (revenue, net profit, assets, liabilities, etc.);
- Issuance and changes of company stocks and bonds (total stock and bond amounts at the end of the period, total number of shareholders, shareholding of the top ten shareholders, etc.);
- Shareholders holding 5% or more, controlling shareholders, and actual controllers (changes in equity of shareholders and actual controllers);
- Appointment, shareholding, and remuneration of directors, supervisors, and senior management personnel;
- Board of directors' report (summary of company operations and future outlook);
- Management discussion and analysis (management's

assessment and judgment of the company's operations);
- Major events during the reporting period and their impacts (such as significant transactions, litigation, asset impairments, and changes in the business environment);
- Full financial and audit reports (including audited financial statements);
- Other matters prescribed by the China Securities Regulatory Commission ("CSRC").

(Article 79, 2019 Securities Law; Article 14, 2021 Administrative Measures for Information Disclosure of Listed Companies)

(2) Interim Report

Disclosure Timeline and Content

Listed companies shall disclose an interim report within two months after the end of the first half of each fiscal year. The interim report is relatively concise compared to the annual report but still includes:

- Basic company information;
- Key accounting data and financial indicators;
- Issuance and changes of company stocks and bonds (total number of shareholders, shareholding of the top ten shareholders, changes in controlling shareholders and actual controllers, etc.);
- Management discussion and analysis;
- Major litigation, arbitration, and other significant events during the reporting period and their impacts;
- Financial reports (unaudited financial statements);
- Other matters prescribed by the CSRC.

(Article 79, 2019 Securities Law; Article 15, 2021 Administrative Measures for Information Disclosure of Listed Companies)

(3) Performance Forecast

If a listed company anticipates a loss or a significant change in its operating performance, it shall promptly issue a performance forecast to ensure market transparency and protect investors' right to know. (Article 17, 2021 Administrative Measures for Information Disclosure of Listed Companies)

(4) Performance Leakage Disclosure

If market rumours or abnormal fluctuations in securities and derivatives transactions occur before the periodic report is released, the company shall promptly disclose relevant financial data to prevent market confusion. (Article 18, 2021 Administrative Measures for Information Disclosure of Listed Companies)

2. Provisional Reports

Provisional reports are used to disclose material events that may have a significant impact on stock prices. Listed companies and their subsidiaries shall immediately issue announcements upon the occurrence of such events, disclosing their cause, current status, and potential impact. (Articles 22 and 26, 2021 Administrative Measures for Information Disclosure of Listed Companies)

(1) Material Events

A. Content of Material Events

Material events include those significantly affecting stock prices and bond trading prices. The interim report must disclose material events, including but not limited to:

- Significant changes in business strategy and scope;
- Major investment activities, including acquisitions and disposals exceeding 30% of total company assets or key operational assets pledged, mortgaged, sold, or scrapped exceeding 30% of their value;
- Signing major contracts, providing significant guarantees, or engaging in related transactions that may significantly impact the company's assets, liabilities, equity, and business results;
- Occurrence of significant debt defaults or major losses;
- Major changes in external operating conditions;
- Changes in directors, one-third or more of supervisors, or general managers, or if the chairman or general manager is unable to perform their duties;
- Substantial changes in the shareholding or control of shareholders holding 5% or more of the company, or changes in actual controllers engaging in the same or similar business as the company;
- Dividend distribution, capital increase plans, major changes in equity structure, capital reduction, mergers, splits, dissolution, bankruptcy applications, or regulatory-imposed closure;
- Major litigation, arbitration, or invalidation of general meetings and board resolutions;
- Investigations into the company, controlling shareholders, directors, supervisors, or senior executives for suspected crimes, or major administrative penalties imposed by relevant authorities;
- Large compensation liabilities or significant asset impairment provisions;
- Negative shareholder equity;
- Bankruptcy proceedings of major debtors where the

- company lacks sufficient bad debt reserves;
- Newly issued laws, regulations, or policies affecting the company;
- Stock incentive plans, share buybacks, major asset restructurings, or asset spin-offs;
- Court rulings restricting controlling shareholders from transferring shares;
- Freezing, pledge, judicial auction, custody, or trust of shares exceeding 5% of company equity, or risks of forced transfer;
- Major asset seizures, freezes, or bank account restrictions;
- Business performance forecast indicating significant losses or fluctuations;
- Suspension of primary or all business operations;
- Additional earnings significantly impacting financial performance;
- Changes in appointed auditors;
- Major changes in accounting policies or estimates;
- Corrections of previously disclosed errors or regulatory-mandated amendments;
- Criminal penalties, regulatory investigations, or major administrative penalties on company executives;
- Detention or disciplinary actions affecting executives' ability to perform duties.

(Article 80, 2019 Securities Law; Article 22, 2021 Administrative Measures for Information Disclosure of Listed Companies)

B. Timing of Disclosure

A listed company shall promptly fulfil its obligation to disclose significant events at the earliest occurrence of any of the following points:

- When the board of directors or supervisory board passes a resolution on a material event;
- When parties sign a letter of intent or agreement;
- When directors, supervisors, or senior executives become aware of the event;
- If any of the following circumstances occur prior to the time specified in the previous paragraph, the listed company shall promptly disclose the current status of the relevant matters and the risk factors that may affect the progress of the event:
    - The significant event is difficult to keep confidential;
    - The significant event has been disclosed or rumours regarding the event have emerged in the market;
    - Abnormal trading activities have occurred with the company's securities and their derivatives.

(Article 24, 2021 Administrative Measures for Information Disclosure of Listed Companies)

C. Follow-Up Disclosure

If disclosed material events undergo developments significantly impacting the securities' prices, the company must update and disclose relevant changes. (Article 25, 2021 Administrative Measures for Information Disclosure of Listed Companies.)

3. Disclosure of Significant Changes and Abnormal Trading

(1) Disclosure of Equity Changes

If a listed company experiences a significant change in its total share capital, shareholders, or actual controllers due to events such as acquisitions, mergers, spin-offs, stock issuances, or stock buybacks, the person responsible for information disclosure shall fulfil the reporting and announcement obligations in accordance with the law and disclose the changes in equity interests. (Article 27, Management Measures for Information Disclosure by Listed Companies (2021).)

(2) Monitoring Abnormal Market Trading

A listed company must closely monitor abnormal trading activities of its securities and their derivatives, as well as relevant information reported by the media. If abnormal trading or market rumours could impact the company's securities transactions, the company must promptly investigate and disclose the true situation. (Article 28, Management Measures for Information Disclosure by Listed Companies (2021).)

(5) Disclosure of Abnormal Trading Fluctuations in Securities and Derivatives

If the trading of the company's securities or their derivatives is recognised as abnormal by the China Securities Regulatory Commission ("CSRC") or a securities exchange, the company must promptly disclose the factors that caused the abnormal trading fluctuations. (Article 29, Management Measures for Information Disclosure by Listed Companies (2021).)

4. Disclosure of Other Changes in Information

If a listed company undergoes changes in its name, stock abbreviation, articles of association, registered capital, registered address, principal office address, or contact information, it must disclose such changes immediately to ensure investors are promptly informed of any changes in the company's basic information. (Article 23, Management Measures for Information Disclosure by

Listed Companies (2021).)

Disclosure Methods

Disclose information on stock exchanges (such as the Shanghai Stock Exchange or Shenzhen Stock Exchange) and in media outlets that meet the China Securities Regulatory Commission (CSRC) requirements. Disclosures must also be available at the company's registered address and the exchange for public inspection.

For listed companies, full disclosure documents must be filed with the securities authority and posted on relevant websites, including summaries of key reports.

It is prohibited to replace required filings with press releases or media interviews. Similarly, interim reports should not be substituted for periodic filings. (Article 8, 2021 Administrative Measures for Information Disclosure of Listed Companies)

17. Can an entity's economic owners propose matters for a vote or call a special meeting? If so, what is the procedure?

In China, the registered shareholders are commonly recognised as the economic owners. The law stipulates that the shareholders' register serves as the official record of ownership, and the rights and obligations of shareholders are determined by their registration status, regardless of any underlying agreements or arrangements.

I. Proposal of Matters for a Vote

CLSs

Shareholders who individually or collectively hold more than 1% of the company's shares may propose an interim agenda item for the shareholders' meeting. This proposal must be submitted to the board of directors in writing at least 10 days prior to the meeting. The interim proposal must clearly specify the issues to be discussed and the resolutions to be proposed. Upon receipt of the proposal, the board of directors is required to notify all other shareholders within two days and include the proposal in the agenda for the shareholders' meeting, unless the proposal violates laws, administrative regulations, or the company's articles of association, or falls outside the scope of the shareholders' meeting's authority. The company is prohibited from increasing the shareholding percentage required to propose such interim items. (Article 115, 2024 Company Law)

II. Calling a Special Meeting

An interim shareholders' meeting, also known as a special shareholders' meeting, can be called to address specific matters arising between annual meetings. Reasons for convening a special meeting may include, but are not limited to:

- Urgent corporate matters, such as approvals for mergers, acquisitions, major asset purchases or sales, or other significant transactions.
- Financial matters requiring immediate shareholder approval.
- Any other urgent matters that require shareholder input outside the scope of a regular annual meeting's agenda.

LLCs

A special meeting must be called if shareholders representing more than 10% of the voting rights, or the board of directors or supervisory board (if representing more than one-third of their members), request a meeting. (Article 62, 2024 Company Law)

CLSs

In a CLS, an interim shareholders' meeting must be held within two months of the occurrence of any of the following events:

- If the number of directors is less than two-thirds of the number required by the 2024 Company Law or the company's articles of association.
- If the company's accumulated losses reach one-third of the total share capital.
- If requested by shareholders under Article 114 of the 2024 Company Law.
- If deemed necessary by the board of directors.
- If proposed by the board of supervisors.
- If otherwise specified in the company's articles of association.

(Article 113, 2024 Company Law)

Requesting a Special Meeting

Shareholders who hold, individually or collectively, more than 10% of the company's shares for a period exceeding 90 consecutive days may either:

- Convene and chair the annual shareholders' meeting if the board of directors or the board of supervisors fails to meet their obligation to convene the meeting; or
- Request the board of directors or board of supervisors to convene an interim shareholders' meeting. Upon

receiving such a request, the board of directors and the board of supervisors must, within ten days, decide whether to call the interim meeting and notify the requesting shareholders in writing. (Article 114, 2024 Company Law)

Notice of Shareholders' Meeting

The company must notify shareholders of the time, location, and agenda of the shareholders' meeting at least 20 days prior to the meeting. For an interim shareholders' meeting, notice must be given to shareholders at least 15 days before the meeting. (Article 115, 2024 Company Law)

Special Rules for Listed Companies

For companies listed on the stock exchange, an interim shareholders' meeting must be notified through a public announcement. (Article 115, 2024 Company Law)

18. What rights do investors have to take enforcement action against an entity and/or the members of its board?

I. Lawsuits Against the Company

1. LLC & CLS

(1) Action to Annul Company Resolutions

Shareholders may seek judicial relief by exercising their right to file a lawsuit in cases where company resolutions are defective. Resolutions that are "invalid," "revocable," or "non-existent" may be contested by shareholders.

A. Request for Court Annulment of Company Resolution

If a shareholders' meeting or board of directors violates the legal, administrative, or corporate governance procedures, or if a resolution violates the company's articles of association, shareholders may request the court to annul the resolution within 60 days from the date it was made. However, if the procedural defects are minor and do not materially affect the resolution, no annulment can be requested.

If a shareholder was not notified of a shareholders' meeting, they may request annulment within 60 days from the date they knew or should have known of the decision. If no request is made within one year from the date the resolution was passed, the right to annul the resolution expires. (Article 26, 2024 Company Law)

B. Request for Court Declaration of Resolution Invalidity

If a company resolution violates the law or administrative regulations, shareholders may request the court to declare the resolution invalid. (Article 25, 2024 Company Law)

The Supreme People's Court's "Provisions on Several Issues Regarding the Application of the Company Law of the People's Republic of China (Amended in 2020)" stipulate that the court shall accept actions brought by shareholders, directors, or supervisors to confirm that resolutions of shareholders' meetings or board meetings are invalid or non-existent.

C. Request for Court Declaration of Resolution Non-existence

A company's resolution may be declared non-existent if any of the following conditions are met:

- The shareholders' meeting or board did not convene a meeting to adopt the resolution;
- The meeting did not vote on the resolution;
- The number of attendees or voting rights did not meet the statutory or bylaw requirements;
- The number of votes in favour did not meet the required thresholds.

(Article 27, 2024 Company Law)

The Supreme People's Court mandates that courts accept requests from shareholders, directors, or supervisors to confirm the invalidity or non-existence of shareholder or board resolutions.

(2) Shareholder Right to Information Action

Articles 57 and 110 of the 2024 Company Law provides that if a shareholder has followed the relevant procedures and the company refuses to provide access to the company's accounting books and vouchers, the shareholder may file a lawsuit with the court. This provision also applies to requests for access to materials related to wholly-owned subsidiaries. (Articles 57 and 110, 2024 Company Law)

(3) Action for Forced Dissolution of the Company

Under Article 231 of the 2024 Company Law, if the company is experiencing severe operational difficulties, and continued operation would cause significant loss to shareholders, shareholders holding more than 10% of the voting rights may request the court to dissolve the company. (Article 231, 2024 Company Law)

(4) Shareholder Disqualification Actions

The new company law introduces the system of registered capital being paid within five years. In this system, shareholders who fail to pay capital contributions within the prescribed time may be disqualified from holding their shares. If a shareholder disagrees with the disqualification, they can file a lawsuit within 30 days of receiving the notice of disqualification. (Articles 52 and 107, 2024 Company Law)

2. Legal Actions Available for LLCs Only

(1) Action for Obstruction of Share Transfer Registration

In a limited liability company, if a shareholder is attempting to transfer shares and the company refuses or fails to respond within a reasonable time, the shareholder or transferee may file a lawsuit with the court to request the company to process the share transfer registration. (Article 86, 2024 Company Law)

(2) Action for Share Repurchase by Dissenting Shareholders

Under Article 89 of the 2024 Company Law, a shareholder who dissents from a company resolution may request the company to repurchase their shares if certain conditions are met, such as:

- The company fails to distribute profits for five consecutive years despite being profitable during those years.
- The company undergoes a merger, division, or transfer of major assets.
- A decision is made to continue the company's existence beyond the specified term or upon other dissolution events.

If no agreement is reached within 60 days of the shareholders' meeting, the shareholder may file a lawsuit within 90 days from the meeting date. (Article 89, 2024 Company Law)

II. Lawsuits Against Directors

Lawsuits against directors are not divided into LLCs or CLSs. For both LLCs and CLSs, shareholders have the right to sue the board for the following reasons:

1. Direct Legal Action

Any shareholder can take legal action directly against a director (or directors) if they violate the law, administrative regulations, or the company's articles of association, thereby causing harm to the shareholders' interests. (Article 190, 2024 Company Law)

2. Shareholder Derivative Action

A shareholder derivative action is one where, if the company fails to act in the face of harm to its interests, a shareholder may bring a lawsuit on behalf of the company. Shareholders of an LLC, or those of a CLS who have held at least 1% of the company's shares for 180 consecutive days, may request the board of supervisors or board of directors to take legal action against directors who violate the law, regulations, or articles of association and cause harm to the company.

If the board of supervisors or the board of directors refuses to initiate proceedings or fails to act within 30 days of receiving the shareholder's request, or if there is an urgent need to protect the company's interests, the shareholder may initiate proceedings on behalf of the company in their own name. (Article 189(1) and (2), 2024 Company Law)

3. Double Derivative Action – Action Against Subsidiary Directors

In cases where directors of a wholly-owned subsidiary violate laws, regulations, or the company's articles of association during the course of their duties, causing harm to the subsidiary, shareholders of the parent company may request the subsidiary's board of supervisors or directors to take legal action. Alternatively, shareholders can directly file a lawsuit in their own name. (Article 189(4), 2024 Company Law)

4. Dismissal of Directors by the General Meeting

The general shareholders' meeting may also dismiss a director without cause by passing a valid resolution during the director's term. (Articles 59 and 112, 2024 Company Law)

19. Is shareholder activism common? If so, what are the recent trends? How can shareholders exert influence on a corporate entity's management?

I. Shareholder Activism

Shareholder activism is not yet widespread in China. However, in recent years, there has been a trend of increasing shareholder dispersion in publicly listed companies, which provides a foundation for shareholder activism. While this activism has gained attention, it remains relatively less common.

II. Recent Trends:

The recent trend of shareholder activism has garnered more attention as shareholders look for ways to influence company management. This influence can be exerted through various mechanisms, which include but are not limited to the following:

III. Methods for Shareholders to Exert Influence:

1. Exercising Shareholder Right to Information:

Shareholders can request to inspect the company's accounting books and records if the company refuses to provide access, as stipulated under Articles 57 and 110 of the 2024 Company Law.

2. Shareholder Proposals:

Shareholders may propose matters for discussion at shareholder meetings. For further details, please refer to Section 17 of this document.

3. Exercise of Voting Rights (Proxy Voting):

LLCs:

According to Article 66 of the 2024 Company Law, unless otherwise specified by law, the method and procedures for shareholder meetings and voting are governed by the company's articles of association. Resolutions are adopted by shareholders representing a majority of the voting rights. However, resolutions to amend the articles of association, increase or decrease registered capital, or approve significant corporate changes such as mergers, splits, dissolution, or changes in company structure must be approved by shareholders holding at least two-thirds of the voting rights. (Articles 66, 2024 Company Law).

CLSs:

Similarly, according to Article 116 of the 2024 Company Law, resolutions are passed by shareholders representing a majority of the voting rights of those present at the meeting. Resolutions related to changes in the articles of association, capital structure, or significant corporate actions such as mergers, splits, dissolution, or changes in company structure must be approved by shareholders holding at least two-thirds of the voting rights. (Articles 116, 2024 Company Law).

4. Election of Directors and Supervisors:

Shareholders can influence management by electing directors and supervisors during shareholder meetings. (Articles 117, 2024 Company Law).

As provided in Article 117 of the 2024 Company Law, shareholders may employ cumulative voting procedures, where each share carries voting rights equal to the number of directors or supervisors to be elected. Shareholders may concentrate their voting power on one or more candidates, thereby influencing the board composition.

5. Shareholder Litigation:

Shareholders can take legal action against the company or its management. For more information, refer to Section 18 of this document.

6. Engagement and Communication:

Shareholders can engage in direct dialogue with the company's management and board members to express their concerns and suggestions. Through these discussions, shareholders can aim to reach a consensus or encourage the company to take specific actions. This communication serves as a platform for sharing perspectives on current situations and finding solutions to resolve any disputes.

20. Are shareholder meetings required to be held annually, or at any other specified time? What information needs to be presented at a shareholder meeting?

I. Shareholder meetings

Shareholder meetings are typically divided into regular and interim meetings.

LLCs:

Regular shareholder meetings are governed by the company's articles of association. The board of directors or board of supervisors is generally required to hold at least one meeting per year, with the exact timing defined by the articles of association (Article 63, 2024 Company Law).

Interim shareholder meetings can be called if shareholders holding at least one-tenth of the voting rights make a request (Article 62, 2024 Company Law).

CLSs:

Shareholders themselves typically cannot call meetings directly. The board of directors or board of supervisors must convene an annual shareholders' meeting as mandated by the company's articles of association (Articles 113, 114, 2024 Company Law). The meeting's details, such as the date, place, and topics for discussion, must be communicated to shareholders at least 20 days before the meeting (Article 115, 2024 Company Law).

Shareholders who own over 10% of the company's shares for more than 90 consecutive days can, in some cases, call for a meeting:

- If the board fails to organise the annual meeting, they can call it themselves.
- They can request the board to arrange an interim shareholder meeting, and the board must respond within ten days (Article 114, 2024 Company Law).

An interim meeting may be required within two months if certain conditions arise, such as when the number of directors falls below two-thirds of the required number, when the company's unrecovered losses exceed one-third of total capital, or when certain other events outlined in the company's articles of association occur (Article 113, 2024 Company Law).

Special Rules for Listed Companies:

For listed companies, the annual general meeting must be held within six months after the close of the fiscal year (Article 4, Rules on Shareholders' General Meetings of Listed Companies).

II. Information to be Presented at Shareholder Meetings:

1. At the Annual Shareholders' Meeting:

- Review of the company's financial performance, including the presentation of financial statements and plans for profit distribution or loss recovery.
- Appointment or reappointment of directors and supervisors.
- Discussion of day-to-day business matters such as major company policies, budget approval, and other matters specified in the company's articles of association.

2. At the Interim Shareholders' Meeting:

These meetings are typically convened to address specific issues that arise between annual meetings. Reasons for an interim meeting include:

- Urgent corporate actions like mergers, acquisitions, or significant asset transactions.
- Financial matters needing immediate attention.
- Other urgent issues requiring shareholder approval outside the regular annual meeting agenda.

21. Are there any organisations that provide voting recommendations, or otherwise advise or influence investors on whether and how to vote (whether generally in the market or with respect to a particular entity)?

In China, the proxy advisory industry is not as developed as it is in the United States or Europe. However, several organisations and institutions play influential roles in guiding and advising investors during the voting decision-making process.

For investors of listed companies, the China Securities Investor Services Centre (CSISC), established in 2014 under the supervision of the China Securities Regulatory Commission (CSRC), is a key organisation dedicated to protecting the rights and interests of small and medium-sized investors. CSISC not only provides voting recommendations but also actively exercises shareholder rights by holding shares in listed companies. Acting either independently or in collaboration with other shareholders, CSISC exercises various legal rights such as reviewing company records, making proposals, raising inquiries, voting, requesting the return of short-swing trading profits, nominating directors, filing lawsuits, and convening or presiding over shareholder meetings. According to the Provisional Rules on Shareholding and Exercising Shareholder Rights issued in 2019, CSISC develops voting recommendations and action plans based on multi-dimensional analyses of matters that may harm investors' interests. Its opinions, voting information, and calls for shareholder action are published on platforms such as the China Investor Services website and other information disclosure platforms designated by the China Securities Regulatory Commission (CSRC).

Additionally, institutional investors like fund management companies, securities firms, and insurance asset management companies publicly disclose their voting policies in accordance with the Trust Law, Securities Law, Securities Investment Fund Law, and relevant CSRC regulations. Before shareholder meetings, these institutions discloses whether they intend to vote for or against certain proposals. Such disclosures enhance the transparency of fund operations and voting mechanisms, serving as a valuable reference for retail investors.

The Shanghai Stock Exchange, Shenzhen Stock Exchange, and Beijing Stock Exchange, though not directly providing voting recommendations, influence voting decisions by issuing corporate governance guidelines and requiring listed companies to disclose shareholder meeting voting results. This helps investors understand the voting tendencies and positions of institutional investors and other shareholders.

Lastly, international proxy advisory firms like Institutional Shareholder Services (ISS) and Glass Lewis offer voting recommendations to foreign investors with holdings in Chinese companies, further influencing voting behaviour in China's capital markets.

22. What role do other stakeholders, including debt-holders, employees and other workers, suppliers, customers, regulators, the government and communities typically play in the corporate governance of a corporate entity?

The roles of stakeholders can be summarised as follows:

Role of Debt-holders:

Debt-holders are particularly influential in promoting financial security and risk management. Under the 2024 Company Law, creditors have the right to demand early debt repayment or request guarantees in certain circumstances, such as mergers, divisions, or capital reductions. Furthermore, the Enterprise Bankruptcy Law grants debt-holders a leading role in reorganisation, bankruptcy, and liquidation proceedings. Their influence becomes most pronounced when companies experience financial distress or engage in major financing transactions. Creditors, therefore, often closely monitor the financial health of borrower companies.

Role of Employees:

Employees play a significant role in corporate governance by participating in the Employee's Representative Congress (ERC). LLCs and CLSs are required to seek input from the ERC when making major decisions related to restructuring, dissolution, bankruptcy filings, or the development of important internal policies. Through the ERC, employees can voice their perspectives and concerns. Furthermore, employees have the opportunity to hold seats on the board of directors and the board of supervisors, and in certain situations, they may also be part of the audit committee. In wholly state-owned enterprises, it is compulsory for employee representatives to be included on the board of directors.

Role of Suppliers:

Although suppliers do not directly participate in daily operational decisions, they can exert a positive influence on corporate governance through effective communication, cooperation, and risk management processes. Increasing pressure from international markets and environmental, social, and governance (ESG) standards has prompted Chinese companies to conduct supplier audits focusing on labour practices, environmental compliance, and product quality.

Role of Customers:

Customers significantly impact corporate governance through their purchasing choices and complaints. The Consumer Rights Protection Law requires companies to prioritise product quality and after-sales service, pushing boards to maintain robust quality control systems. Consumer backlash, especially in the wake of product safety scandals, can severely damage a company's brand and prompt governance reforms. Increasing consumer awareness in sectors like food, apparel, and technology has also driven companies to integrate sustainability and responsible sourcing into their governance practices.

Role of Regulators:

Regulators play a pivotal role in shaping corporate behaviour beyond mere enforcement. The China Securities Regulatory Commission (CSRC) supervises public companies, ensuring compliance with disclosure obligations, governance standards, and market fairness. The State Administration for Market Regulation (SAMR) monitors anti-competitive behaviour, product safety, and advertising standards, while also addressing consumer complaints. Regulatory bodies frequently issue policy guidance or soft directives, encouraging companies to align their governance strategies with national priorities such as green development and financial stability

Role of the Government:

The Chinese government, both at the central and local levels, exerts a unique and far-reaching influence on corporate governance, especially concerning state-owned enterprises (SOEs) and strategically significant private enterprises. The State-Owned Assets Supervision and Administration Commission (SASAC) drives SOE reforms and exercises shareholder oversight, emphasising both financial performance and social responsibilities. In SOEs, key executives and directors are often appointed by government authorities, and corporate articles of association are drafted under state guidance, embedding state interests into governance structures. Even private companies align their strategies with national economic plans, industrial policies, and regional development goals to secure market access and government support.

Role of Communities:

Local communities primarily influence corporate governance by raising social and environmental concerns. Companies often support national strategies, such as rural revitalisation and regional development, by investing in community development projects, infrastructure, and disaster relief efforts. These actions help align corporate governance with local socio-economic needs and strengthen the relationship between businesses and the communities in which they operate.

23. How are the interests of non-shareholder stakeholders factored into the decisions of the governing body of a corporate entity?

In China, the interests of non-shareholder stakeholders—such as employees, creditors, customers, suppliers, local communities, and government authorities—are increasingly integrated into the decision-making processes of corporate governing bodies. This shift aligns with ongoing regulatory reforms, the country's economic modernisation, and the growing emphasis on ESG principles.

Since the issuance of the Guidelines on Governance of Listed Companies in 2018, a foundational framework for ESG information disclosure has been established with further requirements in listing rules issued by the Chinese stock exchanges. These guidelines highlight the protection of the rights and interests of creditors, employees, suppliers, customers, and consumers as part of corporate disclosure obligations. The 2024 Company Law further reinforces this approach. While it continues to prioritise shareholder rights and profit maximisation, it also requires companies to consider broader social and stakeholder interests, signalling a growing focus on stakeholder-oriented governance.

Employee interests are particularly prioritised within China's corporate governance framework, with the Labour Law and Labour Contract Law ensuring fair wages, safe working conditions, and protection from unfair dismissal. Companies actively involve employee representatives in governance, either through the Employee's Representative Congress (ERC) or by including them in board or supervisory roles.

Employees can also influence corporate decision-making through labour unions. According to the Labour Union Law, Labour Law, and related regulations, when a company has 25 or more employees or when employees actively request the formation of a trade union, the company is legally required to establish a trade union and provide the necessary support. Companies with fewer than 25 employees may establish a trade union either independently or jointly, such as by joining a regional or industry-based union.

Employers must not obstruct the formation of trade unions and are required to pay union fees. Failure to comply may result in administrative penalties or even criminal liability. Trade unions play a unique and significant role in negotiating collective contracts, mediating labour disputes, and supervising workplace safety. Their influence on corporate decision-making can vary depending on the specific enterprise.

Creditors also play a significant role, especially in insolvency situations. The Enterprise Bankruptcy Law grants creditors the right to participate in restructuring processes, influence corporate decisions, and ensure their financial interests are protected. Additionally, creditors can demand repayment or guarantees in the event of mergers, capital reductions, or corporate restructuring.

Customer interests are safeguarded by the Consumer Rights Protection Law, compelling companies to prioritise product quality, safety, and after-sales service to avoid legal and reputational risks. This focus is particularly important for companies in sectors like manufacturing, food production, and pharmaceuticals, influencing boardroom decisions and consumer protection strategies.

Suppliers are increasingly integrated into corporate governance due to their role in supply chain stability and risk management. Long-term supplier relationships are vital for ensuring consistent production and quality standards, and companies are mindful of the need to manage these relationships effectively, especially during disruptions like natural disasters or political tensions. The Government Procurement Law provides further protections for suppliers in procurement processes.

Government authorities, particularly at the local level, shape corporate decision-making through regulatory compliance, national policies, and regional development plans. Companies align their strategies with these goals to secure market access, financial support, and engage in public welfare or infrastructure initiatives that benefit local communities.

Local communities also influence corporate governance by raising social and environmental concerns. Companies often invest in community development and environmental protection, aligning their strategies with local needs and government-led initiatives, such as rural revitalisation.

Overall, Chinese companies are recognising the importance of balancing shareholder value with the interests of non-shareholder stakeholders. This is reflected in their risk management strategies, stakeholder consultation mechanisms, and the establishment of sustainability committees to oversee ESG performance, ensuring that a broad range of stakeholder interests are integrated into corporate strategy.

24. What consideration is typically given to ESG issues by corporate entities? What are the key legal obligations with respect to ESG matters?

Corporate entities in China are increasingly integrating ESG factors into their business practices, driven by regulatory developments, investor demand, and national sustainability goals.

For environmental considerations, companies are focusing on reducing carbon emissions, improving energy efficiency, and strengthening pollution control. Biodiversity protection, green supply chains, and recycling initiatives are becoming more common, particularly in response to China's carbon neutrality targets.

In the aspect of social concerns, companies are placing greater emphasis on employee rights, ensuring fair treatment, workplace safety, and equal employment opportunities. Supply chain oversight is improving, with audits addressing risk management and product quality. Companies are also enhancing consumer protection, prioritising product safety and responding swiftly to complaints. Contributions to rural revitalisation, public welfare, and technological innovation reflect the growing recognition of corporate social responsibility.

For governance issues, in LLCs, attention is given to the allocation of powers between the shareholders' meeting and the board of directors, ensuring a rational and scientifically sound governance structure. Strengthening internal control systems and clarifying the respective rights and responsibilities of the shareholders, directors, and senior executives are also key areas of focus.

For CLSs, listed companies are expected to establish an effective governance mechanism that promotes informed and scientific decision-making. Shareholder governance involves ensuring transparency in general meetings, formulating clear dividend distribution policies, and safeguarding the rights of minority shareholders. The fiduciary duties of directors and the supervision of related party transactions involving directors is another critical aspect of governance, designed to prevent conflicts of interest. Communication mechanisms with stakeholders, including shareholders, employees, and regulatory bodies, are being institutionalised. The policies for anti-commercial bribery and anti-corruption, as well as the prevention system for unfair competition, are also taken into account within the company.

As for the key legal obligations in regard of ESG matters, it is important to note that listed companies are subject to the duty of information disclosure of ESG. On 1 May 2024, both the Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) began implementing the Guidelines for Self-Regulatory Supervision of Listed Companies – Sustainable Development Reporting (Trial). These guidelines require companies listed on the SSE 180 Index, the STAR 50 Index, as well as companies listed both domestically and internationally, to fulfil mandatory ESG (Environmental, Social, and Governance) reporting obligations. The guidelines also provide guidance on the framework and content of the reports.

Environmental Protection:

- Article 20(1) of the Company Law states that companies, in conducting their business activities, must fully consider the interests of stakeholders, such as employees and consumers, as well as public interests such as ecological and environmental protection, thereby undertaking social responsibilities.
- In September 2018, the Guidelines on Governance of Listed Companies issued by the China Securities Regulatory Commission (CSRC) stated in Article 86 that "Listed companies should integrate environmental protection requirements into their development strategies and corporate governance processes, playing a leading role in pollution prevention, resource conservation, and ecological protection."

Social Responsibility:

- Article 20(2) of the Company Law encourages companies to participate in social welfare activities and publish social responsibility reports.
- The Guidelines on Governance of Listed Companies clearly stipulated in Article 87 that "While ensuring the continuous development of the company and protecting shareholders' interests, listed companies should actively undertake social responsibility in community welfare, disaster relief, and public welfare activities."
- In April 2022, the Guidelines for Investor Relations Management for Listed Companies issued by the CSRC listed environmental, social, and governance information as key content for communication with

investors.

Corporate Governance:

The new Company Law further improves the internal governance requirements for companies, optimising and simplifying their organisational structure. For example, smaller companies with fewer shareholders can opt to have only a board of directors without a supervisory board. Additionally, the introduction of the audit committee system allows for an audit committee, composed of directors, to exercise the supervisory board's powers according to the company's articles of association. Shareholders are also entitled to review and copy financial reports, ensuring the company's business management complies with regulations.

For LLCs, a new worker director system has been introduced, whereby, depending on the size of the company, one or more representatives from the workforce may be part of the board. The functions and powers of shareholder meeting and board of directors have also been adjusted to clearly separate ownership from management.

For CLSs, the emphasis has been placed on strengthening the duty of loyalty and diligence of directors, specifying restrictions on related-party transactions, and reinforcing disclosure obligations.

Sector-Specific Regulations:

Industry regulators have issued ESG-related policies tailored to their specific industries, setting targeted requirements and guidelines for companies' ESG responsibilities. For example, the China Banking and Insurance Regulatory Commission (CBIRC) issued the Green Finance Guidelines for the Banking and Insurance Industries, the People's Bank of China issued the Guidelines on Environmental Information Disclosure for Financial Institutions, the China Securities Association released the Special Evaluation Measures for Securities Companies' Social Responsibility (Trial), and the CSRC issued the Opinions on Accelerating the High-Quality Development of the Public Fund Industry.

25. What stewardship, disclosure and other responsibilities do investors have with regard to the corporate governance of an entity in which they are invested or their level of investment or interest in the entity?

Institutional investors, in particular, are expected to exercise shareholder rights diligently. This includes voting on significant matters, nominating directors and supervisors, and monitoring the performance of the company's governing bodies.

For example, fund management companies are generally required to maximise investment returns for fund investors while effectively managing risks. They fulfil their corporate governance responsibilities by exercising shareholder rights and actively participating in the governance of investee companies. The Securities Investment Fund Law, the Securities Law, and relevant regulatory and industry self-regulatory rules require fund management companies to establish robust internal risk control mechanisms, including strengthening financial and personnel management systems to prevent conflicts of interest.

Additionally, fund management companies must exercise their rights in accordance with the law and fund contracts and are prohibited from abusing shareholder rights in ways that harm the company or other shareholders. The shareholders, actual controllers, directors, supervisors, and senior executives of fund management companies are prohibited from using their positions for personal gain or to benefit third parties. They are also not allowed to delegate fund asset management to third parties and must accept supervision from the fund custodian.

Investors, particularly those involved in related-party transactions, must fulfil specific disclosure duties. Directors, supervisors, senior management, their close relatives, and entities under their control are required to report any transactions with the company to the board of directors or shareholder meeting. Approval must be obtained in accordance with the company's articles of association, and any interested directors must abstain from voting.

Additionally, investors must report potential conflicts of interest related to competing business activities. Directors, supervisors, and senior management of joint-stock companies are prohibited from exploiting corporate opportunities or engaging in competing businesses unless they disclose this to the board of directors or shareholder meeting and secure approval.

Investors must now closely monitor the status and deadlines of their capital payment obligations as the 2024 Company Law reinforces the requirement for shareholders to fulfil their capital contribution commitments within specified deadlines. Shareholders of LLCs registered before 30 June 2024 must fully pay their subscribed capital by 30 June 2032, while founders of joint-stock companies must complete their capital contributions by 30 June 2027.

Collectively, these responsibilities reflect the evolving regulatory focus on encouraging investors to take a more engaged and transparent approach to corporate governance in China, promoting accountability and safeguarding the interests of all stakeholders.

26. What are the current perspectives in this jurisdiction regarding short-term investment objectives in contrast with the promotion of sustainable longer-term value creation?

The Chinese government has played a key role in promoting long-term sustainability practices, with policy support driving its ongoing development.

The State Council's 2024 Government Work Report highlights that in carrying out government work, it is essential to fully implement the new development philosophy, accelerate the establishment of a new development framework, focus on promoting high-quality development, deepen reform and opening-up, and advance technological self-reliance and self-strengthening at a high level.

Regarding the 2024 government work priorities, the report outlines:

- Advancing the development of a modern industrial system and accelerating the growth of new productive forces, including optimizing and upgrading industrial and supply chains, fostering emerging and future industries, and promoting innovation in the digital economy.
- Expanding effective investments, leveraging government investment to amplify its impact, with a focus on supporting technological innovation, new infrastructure, and energy conservation, emission reduction, and carbon reduction in weaker economic and social sectors.
- Promoting comprehensive environmental governance, developing a green and low-carbon economy, deepening the energy transition, controlling fossil fuel consumption, and advancing new energy storage technologies to steadily achieve carbon peaking and carbon neutrality.

At a private enterprise symposium held in Beijing on 17 February 2025, President Xi Jinping acknowledged the current challenges faced by China's private sector. He emphasised that these difficulties are part of the broader process of reform, industrial transformation, and upgrading, and are localised rather than systemic, temporary rather than long-term, and solvable rather than insurmountable. He encouraged private enterprises and entrepreneurs to remain committed to high-quality development, focus on their core businesses, strengthen innovation, transform their growth models, and continuously improve corporate quality, efficiency, and competitiveness. He urged them to actively contribute to technological innovation, the development of new productive forces, the modern industrial system, rural revitalisation, regional economic coordination, and improvements in public welfare.

According to the Outline of the 14th Five-Year Plan (2021–2025) and the Long-Range Objectives for 2035, published by the National Development and Reform Commission (NDRC) in March 2021, China is committed to implementing the principles of innovation, coordination, environmental sustainability, openness, and shared development during the 14th Five-Year Plan period. The goal is to establish a new development framework, fundamentally transform the development model, and promote quality, efficiency, and momentum reforms to achieve higher-quality, more efficient, fairer, more sustainable, and safer development. Looking ahead to 2035, China aims to widely adopt green production and lifestyles, establish a new pattern of openness to the world, and significantly enhance its international economic cooperation and competitive advantages.

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