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Mainland China and Hong Kong Dissent on Voting Resolutions

This insight discusses three voting resolutions with significant dissent rate in mainland China and Hong Kong during 2018-2020. They include related party transactions that involve a financial services agreement, the approval of issuance without pre-emptive rights and equity incentive plans.

本文探讨了 2018-2020 年中国内地与香港股东大会上的部分议案类型，主要包括涉及金融服务协议的关联方交易、批准发行不含优先认购权的股份和股权激励计划。

1. Related party transactions involving financial services agreement (Average dissent rate: 16.5%)

涉及金融服务协议的关联方交易（平均异议率：16.5%）

In order to improve capital efficiency, large Chinese listed companies, especially state-owned enterprises, usually establish their own finance companies with which they sign financial service agreements. This kind of related party transaction requires shareholders' approval. Proxy advisors and shareholders are often concerned about the inherent risks and generally do not support such related party transaction unless there is a compelling justification (98% of the time for ISS in the past three years). A robust internal monitoring and approval procedure to ensure proper financial conduct of the finance company can help mitigate the concerns. An independent committee's (such as an internal control committee) oversight of such transaction and an independent financial adviser opinion on the transaction can also help gather shareholders' support.

大型的中国上市公司（尤其是国有企业）经常通过建立财务公司并签署金融服务协议以提升资本效率。此类议案需要获得股东的批准，但是投票顾问公司和股东们通常会担心上市公司由此产生的资本流动风险。因此，除非有十分充足的理由，投票顾问公司一般不支持此类关联方交易（2018-2020 三年间，ISS 在 98% 的相关议案中持反对意见）。为确保适当的金融行为，财务公司可通过搭建一个健全的内部控制和审批流程，以消除投票顾问公司和投资人的担忧。独立董事组成的委员会（如内控委员会）对此类关联方交易的监管和独立财务顾问出具的建议书也会使股东考虑支持此类交易。

2. Approval of issuance without pre-emptive rights and reissuance of purchased shares (Average dissent rate: 10.3%)

发行不含优先认购权的股份及购回股份之一般许可（平均异议率：10.3%）

The Hong Kong Stock Exchange permits listed companies to issue up to 20% of issued share capital at a discount of up to 20% to the market price under the general mandate, subject to shareholders' approval. In general, proxy advisers and many institutional investors do not support this resolution due to concerns about potential excessive dilution, despite their respect for the flexibility allowed for companies to raise capital. Many advocate 10% as a hard-stop threshold for both issuance (including the reissuance of purchased shares) limit and discount limit. Some companies such as Techtronic Industries, Geely Auto, AIA and Link REIT set voluntary self-imposed limits lower than the regulator's requirement. Sometimes investors will make an exception if companies demonstrate their genuine need for capital raising.

香港交易所允许上市公司经股东批准后，寻求最高 20% 已发行股本且按照市场价格最高折价 20% 的一般发行授权。尽管股份发行增加了公司融资方面的灵活性，但一般来说投票顾问公司与大部分机构投资者出于对过度股权稀释的担忧而不支持此类议案。许多投资者主张股份发行（包括股份再发行）与对应折价最高均不超过 10%。部分公司的自设上限甚至低于监管要求，比如创科集团、吉利汽车、友邦保险与领展。如果公司充分展现其融资的必要性和/或其正在经历加速发展与动态变化，投资者有时会例外投赞成票。

3. Equity based plans, especially related to stock option plan (Average dissent rate: 8.3%)

与股份期权计划相关的激励方案（平均异议率：8.3%）

Market views towards equity incentive schemes, especially related to stock option plans, remain divided. While companies aim to incentivize management, inadequate disclosure of schemes' performance hurdle and the perceived conflicts of interest (if the scheme beneficiaries are also the scheme administrators) often result in a vote AGAINST recommended by proxy advisers (84% of the time by ISS, 51% by Glass Lewis in the past three years). Proxy advisers and many European-based institutional investors generally do not support share options as they often compound the risk of share price manipulation, which may incentivize management decisions that are misaligned to long-term value. However, taking into consideration the below-average total quantum of executive pay in mainland China and Hong Kong, some investors may override proxy advisers' recommendations and support management on a case-by-case basis.

市场对于股权激励方案的看法长期存在分歧，尤其是针对股份期权计划。尽管公司希望激励高管，但它们在激励计划的绩效评估标准和潜在利益冲突（当激励计划的受益者与管理者相同时）方面的不充分披露使投票顾问公司对相关议案持反对意见（2018-2020 三年间，ISS 和 Glass Lewis 分别在 84% 和 51% 的相关议案中持反对意见）。由于担心股份期权计划带来的股价操控风险可能使得高管的决策与公司长期价值相悖，投票顾问公司和许多欧洲的机构投资者普遍不支持以股份期权作为高管员工激励的形式。然而，部分投资者考虑到在中国内地和香港，高管薪酬总额低于平均水平，可能会根据逐案评估情况推翻投票顾问公司的意见并支持管理层。

How We Add Value

To summarize, investors' support for management on these items still depend on the companies' actual situation and the items' legitimacy. From our past experience with mainland Chinese and Hong Kong companies, putting forward the right message and information and proactively engaging with shareholders prior to proxy voting help increase the support rate of the resolutions. Our team can tailor corporate governance advisory solutions to help companies better prepare for their shareholder meetings.

综上，投资者是否在上述议案中支持管理层，仍取决于公司的实际情况和议案的合理性。基于我们过去在中国内地和香港公司的服务经验，在代理投票前发布正确的信息及资料，并积极与股东沟通，能够提高议案的支持率。我们的团队提供定制化的公司治理咨询解决方案，帮助公司更好地为股东大会做足准备。

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Janet is responsible for our APAC ESG & Corporate Governance Advisory solutions. She focuses on ESG and Governance risk, best-practice disclosure, reporting and engagement and strategic ESG and governance advisory. Janet joined from Hermes EOS.



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Emily is responsible for advising issuers on corporate governance risk and investor engagement for different transactions and shareholder meeting resolutions. She also has experience in elevating corporate ESG performances in various leading indices, rankings, or ratings that result in the alignment of ESG and business interest.

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