

Shareholders' Rights & Shareholder Activism 2026

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China: Law and Practice

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Law and Practice

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1. Types of Company, Share Classes and Shareholdings

1.1 Types of Company

Under PRC law, the main types of companies include:

- the limited liability company (LLC), which is the most common choice for private businesses and foreign-invested enterprises (FIE), which offers flexibility in governance; and
- the joint stock limited company (JSC), which is typically used by larger enterprises and those seeking to list on public markets in the PRC.

1.2 Types of Company Used by Foreign Investors

Under PRC law, the LLC is the go-to vehicle for most foreign investors because it strikes the right balance between operational flexibility, legal protection, and administrative simplicity. To be specific:

- **Flexible Governance:** An LLC can be run with a lean structure (eg, one director). It does not require a mandatory board of directors.
- **Simpler Set-Up:** Registration and ongoing compliance procedures are more straightforward.
- **Capital Contribution Flexibility:** Shareholders may agree on the amount and timing of capital contributions in the articles of association, without the rigid par-value and issuance rules that apply to JSC.
- **Standard for FIEs:** Whether you set up a wholly foreign-owned enterprise or a joint venture (JV), the underlying legal form is almost always an LLC.

- **Broad Business Coverage:** An LLC can engage in manufacturing, trading, consulting, and most other permitted business activities not listed under the Special Administrative Measures (Negative List) for Foreign Investment Access (the “Negative List”) published by the National Development and Reform Commission and the Ministry of Commerce.
- **Limited Liability Shield:** Shareholders are liable only up to the amount of their subscribed capital, which is the same protection offered by a JSC but with far less red tape.

Unless the foreign investor is planning a public listing in PRC, an LLC is almost always the most efficient and practical choice.

1.3 Types or Classes of Shares and General Shareholders’ Rights LLCs

Under PRC law, LLCs do not have a statutory system of share classes. Instead, shareholders of an LLC create customised “classes of rights” through the shareholders’ agreement (SHA) and the articles of association (AOA).

The following rights are commonly customised in the SHA and the AOA:

- **Voting Rights:** PRC law allows the AOA to grant voting rights that are not strictly tied to capital contributions.

- Profit Distribution: The AOA may provide that profits are distributed other than in strict proportion to capital contributions.
- Rights of First Refusal (ROFR): Existing shareholders may be granted a right of first refusal in respect of equity transfers.
- Liquidation Preference: The AOA can specify priority payouts upon the liquidation of the company.
- Transfer Restrictions: The AOA can impose consent requirements or lock-up periods on equity transfers.

For LLCs, the Company Law of the People's Republic of China (the PRC Company Law) establishes the baseline legal framework, while the AOA is the principal instrument through which such rights are legally customised and structured.

JSCs

JSCs have a more formal share-class framework under PRC law. The main share types include ordinary shares and other class shares.

Ordinary shares

These are the default. Their core rights come from the PRC Company Law, but the AOA can fine-tune certain aspects.

Rights rooted in the PRC Company Law (mandatory baseline) are:

- voting rights – one share, one vote at shareholders' meetings;
- dividend rights – right to receive dividends in proportion to shares held;
- liquidation rights – right to remaining assets after creditors are paid, distributed in proportion to shares held; and
- information rights – rights to inspect company accounting books, resolutions, and financial reports.

The AOA can customise (within statutory limits):

- profit distribution methods (eg, fixed annual dividends for certain shareholders);
- pre-emptive rights – right to subscribe to new share issuances in proportion to existing holdings;

- voting procedures for specific matters (eg, super-majority thresholds); and
- transfer restrictions on shares (eg, lock-up periods, consent requirements).

Ordinary-share rights are primarily statutory. The AOA can supplement or adjust them on non-mandatory matters, but cannot strip shareholders of their mandatory statutory protections.

Class shares

These are created under the AOA. The PRC Company Law provides the statutory framework, while the specific rights and restrictions attaching to each class must be specified in the AOA and registered with the company registration authority, and cannot violate mandatory provisions of the PRC Company Law.

The types of class shares permitted under the PRC Company Law are as follows:

- differentiated voting rights – multiple votes per share (eg, ten votes per share); used by founders to retain control;
- differentiated profit/liquidation rights – priority or fixed dividends; preferential distributions upon liquidation;
- transfer restrictions – shares subject to transfer restrictions, such as requiring company consent or statutory lock-up periods; and
- other categories – any other type authorised by the State Council.

1.4 Variation of Shareholders' Rights

For both LLCs and JSCs, shareholder rights may be established by law, the SHA or AOA. However, as noted in **1.3 Types or Classes of Shares and General Shareholders' Rights**, no arrangement may exceed the statutory framework or violate mandatory provisions of PRC laws.

To amend shareholder rights going forward:

- Update Both Documents: Both the SHA and the AOA must be revised accordingly.
- Follow AOA Procedures: All amendments must be approved and executed in accordance with the procedures prescribed in the existing AOA.

- Unanimous Consent for the SHA: Amendments to the SHA require the unanimous consent and execution of all shareholders.
- Shareholders' Resolution for the AOA: Amendments to the AOA must be approved by a shareholders' resolution.

1.5 Minimum Share Capital Requirements

Under the PRC Company Law, the current position on the minimum registered capital of LLCs and JSCs is as follows:

LLCs

- No Statutory Minimum: The PRC Company Law no longer sets a minimum registered capital amount for ordinary LLCs. Shareholders may register any amount they agree is appropriate for the business.
- Five-Year Contribution Deadline: All shareholders must fully pay in their subscribed capital within five years from the date of incorporation. This is a new mandatory provision under the PRC Company Law.
- Industry Exceptions: Certain regulated sectors (including but not limited to banking and insurance) still have higher minimum capital requirements set by specific regulations.

JSCs

- No Statutory Minimum: There is no statutory minimum registered capital for ordinary non-public JSCs.
- Full payment at incorporation: Unlike LLCs, a JSC must have its entire registered capital fully paid up at the time of incorporation. Instalment contributions are not permitted for the initial set-up.
- Industry Exceptions: Certain regulated sectors (including but not limited to banking and insurance) still have higher minimum capital requirements set by specific regulations.

1.6 Minimum Number of Shareholders

Under the PRC Company Law, both LLCs and JSCs may be formed with just one shareholder.

Regarding the domicile requirements:

- LLCs: There is no requirement that LLC shareholders be domiciled in China. Foreign individuals and entities may wholly own an LLC.

- JSCs: More than half of the sponsors (ie, the founding shareholders at incorporation) must have a domicile in the PRC. This requirement applies only at the time of formation; it does not restrict subsequent share transfers to non-residents.

1.7 Shareholders' Agreements/Joint Venture Agreements

Shareholders' agreements and joint venture agreements are commonly used for private companies.

1.8 Typical Provisions in Shareholders' Agreements/Joint Venture Agreements

Under the PRC Company Law, there is no mandatory list of clauses that a shareholders' agreement or joint venture agreement must contain. The contents are driven by commercial negotiation.

In practice, these agreements typically cover –

- capital contributions – amount, schedule, and form of each shareholder's investment;
- corporate governance – decision-making frameworks and internal controls;
- board/supervisor appointments – right to nominate directors and supervisors;
- voting mechanics – quorum requirements and voting thresholds;
- reserved matters – decisions requiring supermajority or unanimous shareholder consent;
- profit distribution – dividend policies and timing;
- information rights – access to financial statements, budgets, and material records;
- transfer restrictions – lock-ups, consent requirements, and rights of first refusal;
- pre-emptive rights – priority to participate in future capital increases;
- anti-dilution protections – adjustments to protect shareholders from down-round issuances;
- exit mechanisms – drag-along, tag-along, put/call options, and initial public offering (IPO) pathways;
- default and remedies – consequences of breach and enforcement procedures; and
- dispute resolution – governing law, jurisdiction, and arbitration clauses.

These agreements are contracts under the PRC law. They are enforceable so long as they meet the gen-

eral validity requirements for contracts (eg, genuine consent, lawful purpose, and capacity of the parties).

In addition, the agreement itself is not a public document and is not filed with any government authority. However, certain equity-related information must be disclosed to the public through the National Enterprise Credit Information Publicity System, including:

- for LLCs – each shareholder’s subscribed and paid-in capital, contribution method, and payment date; and
- for JSCs – the number of shares subscribed by each sponsor.

2. Shareholders’ Meetings and Resolutions

2.1 Types of Meeting, Notice and Calling a Meeting

Annual General Meeting (AGM)

LLCs

- AGM Requirement: The PRC Company Law requires a regular meeting to be held as prescribed in the AOA. It does not use the term “AGM”, but the effect is the same – an annual meeting to review the company’s affairs.
- Notice period: The notice period is 15 days before the meeting. Such period is permitted to be shortened as provided otherwise under the AOA, or all shareholders of the LLC may agree to a shorter period.

JSCs

- AGM Requirement: The PRC Company Law requires an annual shareholders’ meeting to be held once every calendar year.
- Notice period: The notice period is 20 days before the meeting. Such period is a mandatory statutory requirement under the PRC Company Law and cannot be shortened by the AOA or any agreement.

Matters That Are Normally Discussed and Approved at the AGM

Such matters include:

- electing and replacing directors and supervisors, and determining their remuneration;
- reviewing and approving the board of directors’ report;
- reviewing and approving the board of supervisors’ report;
- reviewing and approving the company’s profit distribution plan and loss recovery plan;
- resolving on any increase or reduction of the company’s registered capital;
- resolving on the issuance of corporate bonds;
- resolving on any merger, division, dissolution, liquidation, or change of corporate form;
- amending the AOA; and
- any other authority prescribed in the AOA.

Other General Meetings (Extraordinary/Special Meetings)

LLCs

- Extraordinary/Special Meeting: Under the PRC Company Law, extraordinary/special meetings may be held when triggered.
- Calling: Such meetings must be called upon proposal by: (i) shareholders representing $\geq 10\%$ of voting rights; (ii) $\geq 1/3$ of directors; or (iii) the board of supervisors/sole supervisor/audit committee.
- Notice Period: The notice period is 15 days before the meeting. Such period is permitted to be shortened as provided otherwise under the AOA, or all shareholders of the LLC may agree to a shorter period.

JSCs

- Extraordinary/Special Meeting: Under the PRC Company Law, extraordinary/special meetings may be held when triggered.
- Calling: Such meetings must be called within two months if: (i) the number of directors falls below the statutory or AOA minimum (by $1/3$); (ii) unrecovered losses reach $\geq 1/3$ of total paid-in share capital; (iii) shareholder(s) holding individually or jointly $\geq 10\%$ of the shares request it; (iv) the board of directors deems it necessary; (v) the board of supervisors/audit committee proposes it; or (vi) other circumstances prescribed in the AOA occur.
- Notice Period: The notice period is 15 days before the meeting. Such period is a mandatory statutory

requirement under the PRC Company Law and cannot be shortened by AOA or any agreement.

2.2 Procedure and Criteria for Calling a General Meeting

Who Can Call a General Meeting

LLCs

At the first general meeting, the shareholder who has subscribed the largest registered capital is responsible for calling the meeting and presiding over it.

For regular general meetings, the board of directors or the executive director is responsible for calling the meeting. The chairman or executive director presides over the meeting.

If the chairman is unable or refuse to preside, the vice chairman will preside. If the vice chairman is also unable or refuse to do so, a director designated by a majority of the directors will preside.

JSCs

For regular general meetings, the board of directors is responsible for calling the meeting, and the chairman presides over it.

If the chairman is unable or refuse to preside, the vice chairman will preside. If the vice chairman is also unable or refuse to do so, a director elected by a majority of the directors will preside.

Can Shareholders Demand a Meeting?

The shareholders can demand a meeting but the thresholds and procedures differ.

LLCs

Shareholders representing $\geq 10\%$ of voting rights, $\geq 1/3$ of directors, or the board of supervisors/sole supervisor/audit committee may propose an extraordinary meeting.

If the board/supervisor fails to call it, shareholders representing 10% of voting rights may call and preside over the meeting themselves.

JSCs

Shareholder(s) holding $\geq 10\%$ of the shares (individually or jointly) may request an extraordinary meeting.

The board must convene the meeting within two months.

If the board fails to call it, the board of supervisors/audit committee must step in.

If the supervisor also fails to act, the shareholder(s) who have held $\geq 10\%$ of the shares for 90 consecutive days may call and preside over the meeting themselves.

Procedure and Criteria Summary

Please refer to the above and 2.1 Types of Meeting, Notice and Calling a Meeting.

2.3 Information and Documents Relating to the Meeting

Shareholders' Entitlement to Notice

As provided under 2.1 Types of Meeting, Notice and Calling a Meeting, all shareholders are entitled to notice.

Information Rights

Shareholders have statutory inspection and copying rights over core company documents. Directors, in turn, must ensure accurate records are maintained and disclosed at shareholders' meetings.

What shareholders can request (by law)

Shareholders of both LLCs and JSCs have an unconditional right to inspect and copy the AOA, shareholder register, minutes of shareholder meetings, resolutions of the board of directors and supervisors, and financial and accounting reports.

Shareholders have a conditional right to inspect accounting books. For LLC shareholders, the shareholders must submit a written request stating a proper purpose, and the company may refuse if it believes the purpose is improper. For JSC shareholders, the shareholders must (i) have held shares continuously for 180+ days; (ii) hold $\geq 3\%$ of shares (alone or in aggregate); and (iii) submit a written request stating a proper purpose.

What directors must disclose

At the AGM, directors must present the annual board report, financial statements, and profit-distribution proposal.

Directors have a fiduciary duty of loyalty and diligence and must report to the board on company operations. For listed companies, independent directors and the audit committee have additional disclosure obligations.

Right to Inspect Company Registers

The PRC Company Law requires the company to maintain a shareholder register and make it available for shareholder inspection. If the company refuses a lawful inspection request, the shareholder may file a lawsuit to compel disclosure.

2.4 Format of Meeting

The PRC Company Law allows the shareholders' meeting to be held virtually or remotely.

2.5 Quorum, Voting Requirements and Proposal of Resolutions

The PRC Company Law does not provide mandatory provisions on the quorum requirements for a general meeting. Such quorum requirements can be customised through the AOA.

2.6 Types of Resolutions and Thresholds **Types of Resolutions and Voting Thresholds** **LLCs**

For special resolutions, the voting threshold is at least two-thirds of voting rights represented by shareholders regarding the matters of (i) resolving on any increase or reduction of the company's registered capital; (ii) resolving on any merger, division, dissolution, liquidation, or change of corporate form; and/or (iii) amending the AOA.

For ordinary resolutions, the voting threshold is more than half of voting rights represented by shareholders regarding matters other than the three types of matters listed above.

JSCs

For special resolutions, the voting threshold is at least two-thirds of voting rights represented by sharehold-

ers present at the meeting regarding the matters of (i) resolving on any increase or reduction of the company's registered capital; (ii) resolving on any merger, division, dissolution, liquidation, or change of corporate form; and/or (iii) amending the AOA.

For ordinary resolutions, the voting threshold is more than half of voting rights represented by shareholders present at the meeting regarding the matters other than the three types of matters listed above.

For listed companies, certain additional matters (eg, related-party transactions above a threshold, major asset restructuring) may require higher thresholds or separate approval rules under securities regulations.

What Determines Which Resolution is Required

- **Statutory Mandatory Rules:** The PRC Company Law itself lists matters that must be approved by special resolution (ie, (i) resolving on any increase or reduction of the company's registered capital; (ii) resolving on any merger, division, dissolution, liquidation, or change of corporate form; and/or (iii) amending the AOA). These cannot be overridden by the AOA.
- **AOA:** The AOA can add other matters to the special resolution list, raise the voting threshold for ordinary resolutions, and/or specify quorum requirements. But the AOA cannot lower the statutory two-thirds requirement for the mandatory special resolution matters.
- **SHA:** Contractual arrangements among shareholders can impose additional consent requirements (eg, unanimous investor veto rights), but these operate contractually between shareholders and do not override the statutory resolution framework.

2.7 Shareholder Approval

Matters Typically Requiring Shareholder Approval

Please refer to 2.1 Types of Meeting, Notice and Calling a Meeting.

Percentage of Approval Required

Please refer to 2.6 Types of Resolutions and Thresholds.

2.8 Voting Requirements

Who Can Vote

The PRC Company Law allows a shareholder to vote in person or to vote by using a voting proxy mechanism so long as the shareholders provide a written authorisation to grant such a voting proxy arrangement.

How to Vote

The PRC Company Law does not use the common-law “show of hands” framework explicitly. Instead, voting is conducted by counting voting rights, which is functionally equivalent to a poll. The AOA may set meeting procedures, but the resolution is valid only if the statutory voting-rights threshold is met.

Weighted Voting Rights

The weighted voting rights are allowed under the PRC Company Law, but the mechanism differs between LLCs and JSCs.

LLCs

The AOA can allocate voting rights independently of capital contribution.

The non-proportional voting formula can be provided directly into the AOA.

Such weighted voting rights cannot override mandatory shareholder protections (eg, special resolutions still require 2/3 of voting rights).

JSCs

The weighted voting rights are only allowed and achieved through class shares. Ordinary shares must follow “one share, one vote”. Differentiated voting rights must be created as a formal share class in the AOA and be registered with the company registration authority.

Listed companies generally cannot issue new voting-differentiated class shares post-IPO.

Electronic Voting

The PRC Company Law allows the shareholders’ meetings to be held and voted on electronically.

The validity of electronic voting does not generally depend on express authorisation in the AOA, because the PRC Company Law expressly permits meetings and voting by electronic means, unless the AOA provides otherwise.

2.9 Shareholders’ Rights Relating to the Business of a Meeting

The shareholders of LLCs and non-listed JSCs are entitled to request a specific issue be considered, or resolution put forward, at a shareholders’ meeting. Please refer to 2.2 Procedure and Criteria for Calling a General Meeting.

2.10 Challenging a Resolution

The shareholders may challenge resolutions on three distinct grounds, as outlined below.

Void: Content Violates Mandatory Provisions

A resolution is void if its substance violates mandatory provisions of law or administrative regulations.

It is invalid from inception; no court action is required to invalidate it.

Revocable: Procedural Defect or AOA Violation

A resolution is deemed revocable if the convening procedure or voting method violates laws, regulations, or the AOA, or the content violates the AOA.

The time limit is within 60 days from the date the resolution was passed.

The court will not revoke a resolution for a minor procedural defect that did not materially affect the outcome.

Non-Existent: Fundamental Procedural Failure

A resolution is deemed never to have been validly formed if: (i) no shareholders’ meeting was actually convened unless signed by all of the shareholders; (ii) the meeting did not vote on the matter; or (iii) the quorum or voting threshold required by law or the AOA was not met.

If a court declares a resolution void, revoked, or non-existent, the company must apply to the registration authority to cancel any filings made pursuant to that

resolution. However, civil legal relationships formed between the company and a bona fide third party in reliance on the resolution remain unaffected.

2.11 Institutional Shareholder Groups

Under the PRC Company Law, institutional investors and shareholder groups influence and monitor a company through a combination of statutory rights, contractual protections, and governance structures:

- statutory rights (available to all shareholders, such as voting power, information rights, meeting convening rights, resolution challenges, and derivative actions);
- contractual protections (negotiated in the SHA and AOA):
 - (a) board representation – the right to appoint one or more directors (or a board observer);
 - (b) reserved matters (veto rights) – a list of decisions requiring such investors’ or unanimous shareholders’ consent, such as an annual budget and business plan, related-party transactions; change of control; or IPO decisions;
 - (c) information and reporting covenants – such as monthly/quarterly financial reports, audit rights and access to material contracts; and
 - (d) transfer restrictions and exit rights – such as tag-along, put/call options and mandatory IPO provisions to ensure liquidity and alignment;
- governance structure oversight – the right to:
 - (a) appoint one or more supervisors or members of the audit committee; and
 - (b) appoint one or more directors or board observer.

2.12 Holding Through a Nominee

The PRC Company Law prohibits the nominee arrangement regarding JSCs while remaining silent on the nominee arrangement regarding LLCs. In practice, PRC courts generally uphold nominee agreements regarding the shareholding nominee arrangement of an LLC unless they are used to circumvent mandatory laws.

For the nominee arrangement of an LLC, the company deals only with the registered shareholder. Therefore, statutory information and voting rights expressly belong to the nominee, and the beneficial owner’s

rights are purely contractual; they depend entirely on the strength and enforceability of the nominee agreement.

2.13 Written Resolutions

Under the PRC Company Law, if all shareholders unanimously consent in writing, they may pass a resolution without holding a shareholders’ meeting. The written resolution must be signed or sealed by every shareholder.

3. Share Issues, Share Transfers and Disclosure of Shareholders’ Interests

3.1 Share Issues

Under the PRC Company Law, existing shareholders of an LLC have a statutory pre-emptive right when a company issues new shares or increases registered capital. However, the default rule for LLCs can be overridden by the AOA or by a shareholders’ meeting resolution. For a JSC, the existing shareholders do not enjoy the pre-emption rights, but this default rule can also be overridden by the AOA or by a shareholders’ meeting resolution.

3.2 Share Transfers

Under PRC law, share transfer restrictions vary significantly depending on whether the company is an LLC, a JSC, or a listed company, and whether foreign investment rules are triggered.

LLCs

- Internal Transfers: Shareholders may freely transfer equity among themselves as a whole or in part.
- External Transfers: A shareholder transferring to a non-shareholder must give written notice to all other shareholders specifying:
 - (a) quantity of equity to be transferred;
 - (b) price;
 - (c) payment method; and
 - (d) payment timeline.

Other shareholders have a right of first refusal under the same terms.

- AOA Override: The AOA may impose stricter or different transfer rules (eg, board consent require-

ments, lock-up periods, or tag-along rights). If the AOA is silent, the statutory pre-emptive right rule applies.

JSCs

- **General Rule:** Shareholders may transfer shares to other shareholders or to third parties freely, unless the AOA provides otherwise.
- **Trading Venue Requirement:** Share transfers must be conducted through a legally established securities trading venue or in a manner prescribed by the State Council.
- **Shareholder Register:** After transfer, the company must record the transferee in the shareholder register.

Additional Restrictions for Listed Companies and Senior Management

- **Pre-IPO Lock-up:** Shares issued before a public offering may not be transferred for one year from the date the company's shares begin trading on a stock exchange.
- **Management Transfer Caps:** Directors, supervisors, and senior management:
 - (a) may transfer no more than 25% of their total shareholding in the company per year;
 - (b) may not transfer any shares within one year of the company's listing; and
 - (c) may not transfer any shares within six months of leaving their position.
- **Securities Law:** Under the Securities Law of the People's Republic of China (the PRC Securities Law), any securities subject to statutory transfer restrictions cannot be transferred during the restricted period.

Foreign Investment Considerations

If a share transfer results in a company becoming an FIE, or changes the proportion of foreign ownership or control, the following apply:

- **Negative List:** Under the Foreign Investment Law of the People's Republic of China, foreign investors cannot invest in prohibited sectors. Investment in restricted sectors must comply with the conditions set out in the Negative List.

- **Industry Permits:** The transfer may trigger the need for new or updated industry-specific licences or approvals.
- **Foreign Direct Investment Filing:** The transaction may be subject to foreign investment information reporting requirements with the commerce authorities.

3.3 Security Over Shares

Under PRC law, shareholders may grant security interests (pledges) over their shares or equity interests.

3.4 Disclosure of Interests

Under PRC law, disclosure obligations depend heavily on whether the company is private or publicly listed, and whether it is an FIE.

Shareholders to Disclose Their Interests

Private companies (LLC and non-listed JSC)

- **No General Public Disclosure Requirement:** Shareholders of a private company are generally not required themselves to publicly declare their shareholdings, although certain shareholder or sponsor information is subject to company-level registration and/or public disclosure requirements.
- **Company-Level Disclosure:** The company itself must file certain equity information through the National Enterprise Credit Information Publicity System, including:
 - (a) for LLCs – shareholders' subscribed and paid-in capital, contribution method, and payment date; and
 - (b) for JSCs – the number of shares subscribed by each sponsor (founding shareholder).
- **Ultimate Beneficial Owner (UBO) Registration:** Under the Administrative Measures on Beneficial Owner Information, companies must register their beneficial owners through the relevant registration system. Beneficial owners include natural persons who ultimately own more than 25% of the equity or shares, enjoy more than 25% of the economic or voting rights, or otherwise exercise actual control, including through contractual arrangements.

Listed companies

- **Strict Disclosure Regime:** Under the PRC Securities Law and China Securities Regulatory Commission (CSRC) rules, the following apply:

- (a) Any investor whose interests, alone or together with persons acting in concert, reach 5% of a listed company's shares must file a disclosure report within three days and suspend further trading during that window.
- (b) After crossing the 5% threshold, any subsequent 5% increase or decrease triggers further reporting and announcement obligations, while each 1% increase or decrease requires notification to the listed company and a public announcement.
- (c) Creeping acquisition rules apply – shareholders acting in concert must aggregate their holdings.

A Company Can Require Disclosure of Interests

- Contractual Right: A company may require shareholders to disclose their interests through:
 - (a) the AOA;
 - (b) an SHA; and/or
 - (c) applicable know-your-customer/anti-money laundering policies.
- Common disclosure triggers are:
 - (a) UBO details;
 - (b) related-party transactions and conflicts of interest, where disclosure is required by applicable law, regulation, the AOA or a SHA;
 - (c) pledges or encumbrances over shares, where registration or disclosure is required under applicable law or contractual arrangements; and
 - (d) changes in control or indirect ownership, where they trigger beneficial ownership, FIE, listed-company or other applicable reporting requirements.
- Enforcement: Failure to disclose may trigger contractual remedies, including forced buyback, dilution, or termination of shareholder rights.

Shareholders' Notification of Changes in Shareholding

Private companies

- No Direct Shareholder Filing: The company (not the individual shareholder) is responsible for updating registration records with the State Administration for Market Regulation (SAMR) within a statutory timeframe after equity change. Not every transfer of shares in a JSC constitutes a SAMR registration change.

- FIE Requirements: For FIEs, changes to reportable investor or ownership information may require an updated Foreign Investment Information Report with the commerce authority. Special thresholds apply to foreign-invested listed companies and National Equities Exchange and Quotations-listed companies.

Listed companies

- Direct Shareholder Obligation: An investor reaching the 5% threshold, and each subsequent 5% increase or decrease, is generally required to report to the CSRC and the relevant stock exchange, notify the listed company and make a public announcement. After reaching 5%, each subsequent 1% increase or decrease requires notification to the listed company and a public announcement.
- Short-Swing Profit Rule. Insiders (directors, supervisors, senior management, and 5%+ shareholders) must disgorge profits from matching buy-sell transactions within six months.

4. Cancellation and Buybacks of Shares

4.1 Cancellation

Under the PRC Company Law, issued shares or equity interests can be cancelled, but only through specific statutory mechanisms. A company cannot simply cancel shares at will.

Capital Reduction

This is the most common method. The company reduces its registered capital and cancels the corresponding shares or equity interests.

How it works

- The shareholders' meeting passes a special resolution ($\geq 2/3$ voting threshold).
- The company notifies creditors and publishes a public announcement.
- Creditors have the right to demand repayment or security.
- After the statutory waiting period, the company cancels the shares and files the capital reduction with SAMR.

Simplified reduction

If the reduction is funded by surplus reserves to cover losses (not cash returned to shareholders), the creditor-notification requirement may be streamlined.

Share Repurchase Followed by Cancellation

A company may repurchase its own shares and then cancel them.

LLC

An LLC may repurchase a shareholder's equity interest if:

- the shareholder votes against a merger, division, or transfer of major assets, and demands a buyout;
- the company has no profit distribution for five consecutive years despite being profitable, and the shareholder votes against it; or
- the AOA or shareholders' agreement specifies other repurchase triggers.

After repurchase, the company must transfer or cancel the equity interest within six months and complete the capital-reduction registration.

JSC

A JSC may repurchase its shares in limited circumstances:

- to reduce registered capital;
- to merge with another company holding its shares;
- for employee stock ownership plans (ESOP) or equity incentives;
- for convertible bonds; and/or
- to protect the company and shareholder interests in listed companies (subject to CSRC rules).

Key restriction

Shares repurchased for ESOP or convertible bonds must generally be transferred or cancelled within three years. Shares repurchased for capital reduction must be cancelled promptly.

Forfeiture for Failure to Contribute Capital

- If a shareholder fails to pay their subscribed capital within the five-year deadline, the board may issue a written notice requiring payment within a 60-day grace period.

- If the shareholder still fails to pay, the board may resolve that the shareholder forfeits the unpaid equity interest or shares.
- The forfeited equity/shares must then be:
 - (a) transferred to another shareholder or third party; or
 - (b) cancelled through capital reduction within six months.
- If neither transfer nor timely cancellation occurs, the other shareholders must contribute pro rata to cover the shortfall.

4.2 Buybacks

Please refer to 4.1 Cancellation.

5. Dividends

5.1 Payments of Dividends

Under the PRC Company Law, dividends may be distributed only after certain legal prerequisites are met. The rules apply to both LLCs and JSCs, with some differences in proportionality.

Legal Requirements Before Paying a Dividend

A company cannot lawfully declare a dividend unless the following conditions are satisfied:

- **Cover Prior Losses First:** Any accumulated losses from prior years must be fully offset before current profits are distributed.
- **Extract Statutory Reserve:** The company must allocate 10% of after-tax profit to a statutory surplus reserve until the cumulative reserve reaches 50% of the company's registered capital.
- **No Distribution From Capital:** Capital reserves (eg, share premium) cannot be directly distributed as dividends, although they may be used for the purposes permitted, including covering losses in prescribed circumstances.
- **Shareholders' Resolution Required:** Dividends must be approved by the shareholders' meeting, generally by an ordinary resolution unless the AOA provides otherwise. The board proposes the distribution plan; shareholders vote to approve it.

If dividends are paid in violation of these rules, shareholders must return the improperly distributed

amounts to the company. If the unlawful distribution causes loss to the company, the shareholders and any responsible directors, supervisors and senior managers may be liable to compensate the company for the loss.

How Dividends Are Paid

LLC

- By default, dividends in an LLC are distributed to shareholders in proportion to their paid-in capital contributions.
- All shareholders may prescribe a different allocation, which may be reflected in the AOA (eg, equal distribution, or weighted based on non-capital factors).
- Regarding the form of payment, dividends are normally paid in cash. In-kind distributions are rare and require valuation.
- Regarding the currency, for FIEs, dividends may be remitted in foreign currency subject to State Administration of Foreign Exchange procedures.

JSC

- By default, dividends in a JSC are distributed in proportion to shares held.
- The AOA may grant certain classes of shares priority or subordination in the distribution of profits. Ordinary shares receive dividends pro rata.
- The form of payment is the same as for an LLC.
- The currency requirements are the same as for an LLC.

When Dividends Are Paid

Timing is determined by the shareholders' meeting. The resolution approving the distribution plan should specify the record date and payment date. Once the shareholders' meeting has resolved to distribute profits, the board must complete the distribution within six months of the resolution.

6. Shareholders' Rights as Regards Directors and Auditors

6.1 Rights to Appoint and Remove Directors

Under the PRC Company Law, the appointment and removal of directors is a shareholders' meeting power,

but the procedure and flexibility differ between LLCs and JSCs.

General Rule

Directors are appointed and removed by resolution of the shareholders' meeting.

Directors who are employee representatives are elected by the employees, not by shareholders. A company with at least 300 employees must have an employee representative on its board unless its board of supervisors already includes an employee representative.

LLCs

- **Who Proposes Candidates:** The law does not prescribe a nomination process. In practice, candidates are proposed by:
 - (a) existing directors;
 - (b) shareholders (individually or in groups); or
 - (c) as agreed in the shareholders' agreement or AOA.
- **Voting Threshold:** An ordinary resolution (more than half of all voting rights) is sufficient unless the AOA requires a higher threshold.
- **Term of Office:** Directors serve for a term fixed by the AOA, not exceeding three years. They may serve consecutive terms if re-elected.
- **Removal:** Shareholders may remove a director before the end of their term by ordinary resolution. No cause is required – the shareholders' meeting may remove a director at will.
- **AOA Customisation:** Because LLC governance is flexible, the AOA may:
 - (a) grant specific shareholders the right to nominate a certain number of directors;
 - (b) require supermajority approval for director appointments; and/or
 - (c) specify removal procedures (eg, notice requirements).

JSCs

- **Board Composition:** A JSC must have a board of directors (minimum three members) unless it qualifies to use the single-director structure under Article 128 of the PRC Company Law. The shareholders' meeting elects and removes directors.
- **Cumulative Voting:** For electing directors, JSCs may use cumulative voting:

- (a) Each share carries as many votes as there are directors to be elected.
- (b) Shareholders may concentrate all their votes on one candidate or distribute them.
- (c) This helps minority shareholders secure at least one board seat.
- Term of Office and Removal: See above for LLCs.
- Independent Directors (Listed Companies): Listed companies must appoint independent directors (typically $\geq 1/3$ of the board). They are nominated by the board, the supervisory board, or shareholders holding $\geq 1\%$ of shares, and elected by the shareholders' meeting.

6.2 Challenging a Decision Taken by Directors

Under the PRC Company Law, shareholders have several tools to challenge directors' decisions or compel action.

Challenging a Board Resolution

If the decision was taken as a board resolution, any shareholder of an LLC or any shareholders of a JSC with standing may challenge it on the same three grounds that apply to shareholder resolutions (please refer to 2.10 Challenging a Resolution).

Derivative Actions

If directors breach their fiduciary duties (duty of loyalty or diligence) and damage the company, shareholders may sue on the company's behalf.

Procedure

The procedure involves sending a written request to the board of supervisors (or to the board, if the wrongdoer is a supervisor) asking them to sue. If they refuse or fail to act within 30 days, or if the matter is urgent, the shareholder may sue in their own name but for the company's benefit.

Standing requirements

For an LLC, any shareholder may bring a derivative action.

For a JSC, shareholders must have held the company's shares for at least 180 days and must individually or jointly hold at least 1% of the company's shares.

Remedy

Damages are paid to the company. Directors may also be disqualified.

Direct Action

If a director's conduct violates law or the AOA and directly infringes a shareholder's personal rights or interests (eg, blocking a lawful transfer, illegal dilution), the shareholder may sue the director directly for compensation.

Requiring Directors to Take Actions

Shareholders cannot unilaterally order a director to act – directors owe duties to the company, not to individual shareholders. However, shareholders can:

- pass a shareholders' resolution directing the board to pursue a specific course of action. The board must comply unless the instruction itself violates law or the AOA; and
- remove the director by ordinary resolution without cause if the director refuses to act.

6.3 Rights to Appoint and Remove Auditors Non-Listed Companies

The appointment and removal of the external audit firm is decided by the shareholders' meeting, the board of directors, or the board of supervisors – whichever the AOA designates.

Shareholder rights depend on the AOA:

- If the AOA assigns this power to the shareholders' meeting, shareholders may appoint or remove the auditor by resolution.
- If the AOA assigns it to the board or the supervisors or audit committee, shareholders do not have a standalone statutory right to unilaterally demand the appointment or removal of the auditor.

Listed Companies

Additional layers apply:

- Audit-Committee Pre-approval: Before the board votes to appoint or remove the audit firm, the resolution must first pass the audit committee by a majority of all its members.

- Independent-Director Rules: The same audit-committee pre-approval requirement applies under CSRC rules.
- Bottom Line: A listed-company shareholder's ability to influence the auditor appointment depends on a combination of:
 - (a) the AOA;
 - (b) the shareholders' meeting rules; and
 - (c) listed-company regulatory requirements.

7. Corporate Governance Arrangements

7.1 Duty to Report

The PRC Company Law does not impose a blanket statutory duty on directors to report to shareholders on specific corporate governance matters. Instead, a director's reporting obligations are determined by:

- the AOA; and
- the scope of matters delegated by the shareholders' meeting to the board, including any express reporting requirements.

8. Controlling Company

8.1 Duties of a Controlling Company

Under the PRC Company Law, a controlling shareholder or actual controller does not automatically owe the same fiduciary duties merely by virtue of its controlling status. However, several statutory mechanisms impose duties and liabilities on controlling parties.

Prohibition on Abuse of Shareholder Rights

- Core Rule: Shareholders must not abuse their rights to harm the interests of the company or other shareholders.
- Consequence: If a shareholder's abuse of shareholder rights causes loss to the company or other shareholders, it must compensate for the damage.

Piercing the Corporate Veil

If a controlling shareholder abuses the independent legal personality of the company to evade debts and seriously harm the interests of the company's credi-

tors, the court may deny corporate personality and hold the controlling party jointly and severally liable for the company's obligations.

Liability for Instructing Directors

If a controlling shareholder or actual controller instructs a director or senior manager to act against the company's or other shareholders' interests (eg, approving a prejudicial related-party transaction), the controlling party bears joint and several liability with the director.

Related-Party Transactions and Conflicts of Interest

- Directors, supervisors and senior managers who directly or indirectly enter into contracts or transactions with the company must disclose conflicts of interest and obtain approval from the board or shareholders' meeting as required by the AOA for related-party transactions.
- If a controlling shareholder uses its influence to push through a self-dealing transaction that harms the company's interests, the controlling party may face compensation liability. Where the transaction is otherwise void or voidable under applicable law, it may also be challenged.

Duty of Loyalty and Diligence for De Facto Management

While the statutory duties of loyalty and diligence apply primarily to directors, supervisors, and senior managers, a controlling shareholder or actual controller that does not serve as a director but actually performs the company's affairs is expressly subject to the same duties under the PRC Company Law.

9. Insolvency

9.1 Rights of Shareholders of Insolvent Companies

When a company becomes insolvent (ie, unable to pay its debts as they fall due and its liabilities exceed its assets or it is manifestly unable to pay its debts), shareholders move to the back of the line. Their rights are heavily constrained because the law prioritises creditor protection over equity interests.

Shareholders' General Position in Insolvency

- **Limited Liability Shield Remains Intact:** In principle, shareholders are liable only up to their subscribed capital or subscribed shares. Beyond their capital contribution obligations, shareholders generally do not bear personal liability for the company's debts unless a statutory exception applies, such as piercing of the corporate veil (please refer to **8.1 Duties of a Controlling Company**).
- **Residual Claimants:** Shareholders are entitled to remaining assets only after all creditors are paid in full. In practice, this often means zero recovery.
- **Loss of Control:** Once insolvency proceedings begin, the court-appointed administrator generally takes control of the company's property and significant management functions. However, in a reorganisation, the debtor may, with court approval, continue to manage its property and business under the administrator's supervision.

Rights in Different Insolvency Proceedings

Under the Enterprise Bankruptcy Law of the People's Republic of China, there are three main pathways.

Liquidation

- There is no distribution to shareholders until creditors are satisfied. Secured creditors have priority over the specific collateral securing their claims. Bankruptcy expenses and common-benefit debts are paid from the debtor's property, followed by employee claims, certain social insurance contributions and taxes, and ordinary unsecured claims.
- Shareholders receive nothing if the estate is insufficient to cover creditor claims.
- Shareholders have no voting power in creditor meetings. They may participate and vote if they separately qualify as creditors. The creditors' committee consists of creditor representatives and an employee or trade union representative, rather than shareholders as such.

Reorganisation

- Shareholders may retain some value. If the reorganisation plan preserves equity value (rare in severe insolvency), existing shareholders may keep a portion of their stake.
- Where the reorganisation plan adjusts shareholders' interests, a separate shareholder group must

be established to vote on the relevant adjustment. The Enterprise Bankruptcy Law does not prescribe the same "majority in number plus two-thirds in amount" test that applies to creditor groups. For listed-company reorganisations, the adjustment is approved if shareholders holding at least two-thirds of the voting rights represented in the vote approve it.

- It is common for reorganisation plans to cancel existing shares or massively dilute shareholders to bring in new capital or convert debt to equity.

Composition

- Shareholders have minimal formal roles. The composition agreement is primarily between the company and its creditors. Shareholders do not vote on the composition plan.

Acceleration of Capital Contributions

- **Rule:** If the company is unable to pay its due debts, the company itself or a creditor whose claim is due may demand that shareholders with unpaid capital contributions (even if not yet due under the original schedule) make early payment.
- **Effect:** The five-year contribution grace period is voided upon insolvency. Shareholders must inject their subscribed capital into the company to satisfy creditors.
- **Who is Targeted:** All shareholders with outstanding capital obligations, regardless of whether they are majority or minority, are targeted.

Special Risks for Controlling Shareholders

Insolvency is where corporate veil-piercing and controlling-party liability most often bite. Please refer to **8.1 Duties of a Controlling Company**.

10. Shareholders' Remedies

10.1 Remedies Against the Company Resolution Challenges

Shareholders may bring an action to challenge a shareholders' meeting resolution or a board resolution on the grounds that the resolution is void, revocable, or non-existent. Please refer to **2.10 Challenging a Resolution** and **6.2 Challenging a Decision Taken by Directors**.

Information Access

Shareholders may sue the company to compel inspection of accounting books, financial reports, meeting minutes, or the shareholder register if the company unlawfully refuses.

In an LLC, any shareholder may sue.

In a JSC, shareholders who have held their shares for at least 180 days and who hold at least 3% of the company's shares may sue for accounting-book access; all shareholders may sue for other documents.

Oppression and Exit

- If the company refuses to distribute profits for five consecutive years despite being profitable, a dissenting shareholder may demand the company buy out their equity interest at a fair price.
- The same right applies if the shareholder votes against a merger, division, or major asset transfer.
- The right also applies where the shareholder votes against a shareholders' resolution to amend the AOA to allow the company to continue in existence, where the business term specified in the AOA has expired or another dissolution event specified in the AOA has occurred.

Compulsory Dissolution

If the company's operations and management have encountered serious difficulties and its continued existence will cause significant losses to the shareholders' interests, any shareholder holding at least 10% of voting rights may petition the court to dissolve the company.

Directors' Liability to the Company (Indirect Shareholder Remedy)

Please refer to 6.2 Challenging a Decision Taken by Directors.

10.2 Remedies Against the Directors

Please refer to 6.2 Challenging a Decision Taken by Directors and 8.1 Duties of a Controlling Company.

10.3 Derivative Actions

Please refer to 6.2 Challenging a Decision Taken by Directors.

11. Shareholder Activism

11.1 Legal and Regulatory Provisions

Under PRC law, there is no formal statutory definition of "shareholder activism". However, the PRC Company Law and the PRC Securities Law provide certain legal and regulatory tools that enable activist shareholders to exercise influence and enforce their rights.

- For Non-listed Companies: Activism is predominantly channelled through statutory corporate governance mechanisms. Key tools include shareholders' rights to propose resolutions, convene extraordinary general meetings, replace directors, inspect company books and financial records, challenge corporate resolutions (void/revocable), and initiate derivative actions against directors or senior management.
- For Listed Companies: Activism operates within a stricter regulatory and disclosure framework governed by the PRC Securities Law and CSRC regulations.

11.2 Aims of Shareholder Activism

In the PRC context, the PRC Company Law, the PRC Securities Law, and related regulations have made several of the following aims more achievable, particularly for minority investors:

- Improve Corporate Governance: The PRC Company Law expands shareholder inspection rights, giving activists leverage to demand better governance.
- Hold Management and Controlling Shareholders Accountable: The PRC Company Law explicitly targets controlling shareholders who instruct directors to act against the company, a key tool for activists.
- Drive Strategic or Financial Restructuring: In LLCs, activists can use the oppression exit/buyout remedy if the company refuses to distribute profits for five consecutive years or blocks a value-creating transaction.
- Protect Minority Shareholder Rights: The 60-day resolution challenge window and compulsory dissolution petition are statutory backstops for minority activists facing deadlock or oppression.
- Advance ESG or Sustainability Agendas: While still emerging, ESG activism is growing among

institutional investors in listed Chinese companies, particularly those with global funders subject to EU or US ESG mandates.

11.3 Shareholder Activist Strategies

Please refer to 11.2 Aims of Shareholder Activism.

11.4 Recent Trends

In practice, traditional Western-style shareholder activism remains relatively uncommon in China due to highly concentrated ownership structures, where founder or state control predominates and minority shareholders rarely mount public governance campaigns.

- **Public Markets:** Most minority investors choose to exit rather than intervene. Public challenges are exceptional and mostly restricted to cash-rich or traditional sectors facing specific controversies over low dividend payouts, capital allocation, or related-party transactions.
- **Private Equity and Venture Capital Space:** In private markets – particularly technology, healthcare and advanced manufacturing – “activist” behaviour is less about corporate governance campaigns and more about post-investment rights enforcement. Private equity and venture capital funds may utilise statutory and contractual tools (such as information rights, redemption rights and founder liability claims) to protect their investment exits.

11.5 Most Active Shareholder Groups

Based on our observations, no single category of shareholders – such as Western-style activist hedge funds – is noticeably more active than others in the market. Given the prevailing concentrated ownership structures in China, engagement levels across different shareholder groups remain generally similar. Where minority shareholder participation does occur, it is usually event-driven and broadly spread across institutional investors, PE/VC funds, and individual shareholders during specific situations, such as major corporate restructurings, dividend proposals, or post-investment exit negotiations.

11.6 Proportion of Activist Demands Met

Based on our observations and market data regarding public-listed companies in China, precise statistical

data on the exact success rate of activist demands is limited, as many engagements are settled through private negotiations rather than formal public votes.

11.7 Company Prevention and Response to Activist Shareholders

Typical Strategies in Responding to Activist Shareholders

- **Private Dialogue and Commercial Compromise:** Controlling shareholders or management typically prioritise confidential, off-the-market discussions with challenging shareholders or PE/VC investors. Compromises – such as adjusting dividend payouts, negotiating share buybacks/exits, or refining transaction terms – are often used to resolve conflicts quietly before escalating to public disputes or litigation.
- **Procedural and Legal Verification:** Companies scrutinise the shareholder’s legal standing against the PRC Company Law, articles of association, and shareholders’ agreements (eg, verifying statutory holding thresholds and boundaries for books-and-records inspection). Companies also double-check that past board and shareholder resolutions strictly follow statutory procedures to prevent “resolution revocation or invalidity” lawsuits.
- **Targeted Negotiations and Restructuring:** In non-listed contexts, management may address individual investor demands by introducing new investors to buy out dissenting shares, amending valuation adjustment/buyout terms, or restructuring company debt and equity to avoid deadlock.

Practical Steps to Minimise the Risk of Activism

- **Tighten Articles of Association and Shareholders’ Agreements:** Companies should clearly delineate board and shareholder meeting powers within the legal framework of the PRC Company Law. For private/PE-backed firms, rigorously draft clauses governing inspection rights, veto limits, buyouts, and dispute resolution to prevent future operational impasses.
- **Standardise Related-Party Transactions and Governance:** Companies should strictly implement conflict-of-interest voting abstentions and ensure clear operational and financial boundaries between controlling shareholders and the company. Maintaining detailed governance and decision-making

records minimises exposure to “breach of fiduciary duty” or self-dealing claims.

- **Proactive Communication and Alignment on Returns:** Companies should maintain routine information-sharing channels with shareholders and financial investors. Establishing a balanced approach to dividend distributions or exit planning helps mitigate misunderstandings and reduces the main triggers for shareholder action.

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