

Research on Voting Rights Collection System

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Keywords: Voting right, Proxy, Proxy fights.

Abstract. This paper starts with the concept of voting rights collection system, introduces the status quo of legislation and practice of voting rights collection in China. On this basis, it analyzes the necessity of voting rights collection system legislation from two aspects, legislative significance and practical needs, and analyzes some specific issues involved.

1. An overview of voting rights collection system

Voting right means the right of a shareholder to express his consent, approval or waiver of resolutions at shareholders' meetings by himself [1]. Proxy refers to the system in which shareholders authorize others to exercise their voting rights at a shareholders' meeting [2]. It is essentially the agency by mandate of voting rights. The collection of voting rights is a special case of proxy, in that it means that "the agent actively requests the shareholders to grant their voting rights" [3].

A concept similar to the collection of voting rights is "proxy fights", but the two are different. The essence of proxy fights is a method of company acquisition, that is, the purchaser collects the voting rights of shareholders and influences the company's decision-making at the shareholders' meeting to realize the control of the company. The connection between the two is that the voting rights collection system is the main means used in the "proxy fights" [4]. Actual control of the company is the goal and result of the collection of voting rights by the collector [5].

The birth of the voting rights collection system stems from the detachment of company ownership and management [6]. In a joint stock limited company, the shareholder is the owner of the company, and the shareholder obtains the equity by means of capital contribution to the company, but the shareholder is often not the managing entity of the company. The management including the company's directors and managers is the actual managing entity of the company. In the case that the company's management does not own equity, the stock price fluctuations generated according to the company's operating conditions and business reputation will not have a direct impact on the company's management's interests. Therefore, the company's management disregards the company's interests and shareholders' interests. The risk of acting for the management's own interest is very easy to happen.

Based on the primary logic that the management of the company is detached from its ownership, the shareholders' meeting as the company's authority becomes an important way for shareholders to monitor the company's management, influence the company's decision-making, and safeguard the company and their own interests. The Company Law in China stipulates the power of the shareholders' meeting. Important company decisions, including the revision of the company's articles of association, shall be approved at the shareholders' meeting [7]. Article 103 of the Company Law also stipulates the principle of one share and one power, that is, each share has one vote [8]. This regulation makes sense in the following two aspects: first, shareholders with a large shareholding share have a greater say in the shareholders' meeting, and they are more likely to influence the company's decision-making; second, small shareholders can compete with powerful big shareholders only by joining other small shareholders. The voting rights agency system provides such opportunities for minority shareholders. If the company's management infringes on the

company's interests, then the minority shareholders can make their voice heard at the shareholders' meeting by collecting the voting rights, thus affecting the company's decision-making. Even small shareholders who are committed to improving the company's operations can, in this way, elect themselves or elect others to become board members and manage the company's affairs more directly [9].

2. The status quo of legislation and practice of voting rights collection in China

2.1 Legislative status

Article 106 of the Company Law only makes general provisions on the voting rights agency, but does not make more specific provisions for the special circumstances of voting rights collection [10]. Article 65 of the Interim Provisions on the Management of the Issuing and Trading of Stocks makes general provisions on the collection of voting rights. At the same time, it requires large-scale solicitors of voting rights to perform information disclosure obligations, and authorizes the CSRC to make specific provisions. However, the CSRC has not yet issued relevant regulations on the specific requirements for the procedures and contents of information disclosure and reporting obligations [11].

Article 61 of the Guidelines on the Bylaws of Listed Companies stipulates what shall be contained in the power of attorney, including the name of the agent, whether it has the right to vote, and the instructions of the shareholders to vote on the agent [12]. Article 62 of the Guidelines on the Bylaws of Listed Companies stipulates that the power of attorney shall make it clear whether the agent can vote according to his own opinion if the shareholder does not make a voting instruction [13]. The Guidelines on the Bylaws of Listed Companies specifically stipulates the contents of the power of attorney in the voting rights agency, but there is still no provision for special regulation of voting rights collection.

Article 31, Section 4 of the Rules for the Shareholders' Meetings of Listed Companies [14] makes general provisions on the collection of agency rights, but it is not clear whether a third party other than the shareholders of the company can openly collect voting rights. For the shareholders who meet the relevant conditions, there are no provisions for the relevant conditions. In addition, the provisions of the article on the information disclosure obligations of the collector are too simple to provide guidance on the behavior of the collector.

It can be seen that although the Company Law and other laws and regulations have made some provisions on the voting rights agency and voting rights collection, but overall it is still imperfect and not effective.

2.2 Current status of practice

Although the legal provisions on the collection of voting rights are not perfect, in practice there have been many cases of voting rights collection. According to the identity of the collector, these cases can be divided into two types: one is the company's board of directors or independent directors as the collector, and the other is the company's shareholders as the collector.

2.2.1 Board of directors or independent directors as the collector

The board of directors as the solicitor publicly solicits voting rights from all the shareholders mainly to successfully pass the crucial resolutions concerning the company's operations. The Company Law of Taiwan also stipulates that when shareholders attend the shareholders' meeting, their voting rights must meet the minimum amount [15]. Therefore, if the shareholders of the company are not allowed to entrust the voting rights to others, it is likely that their voting right cannot meet the requirement of percentage stipulated by law, resulting that the meeting fails to be held [16]. Under this circumstance, collecting voting rights by the board of directors is helpful to meet the minimum voting number. The Company Law in China does not stipulate the minimum percentage of voting rights of shareholders attending the meeting. This problem does not exist. Therefore, in most of the cases, the purpose of the board of directors or independent directors to collect is mainly to realize the company decisions. On December 12, 2000, Lu Jiahao, an

independent director of Zheng Baiwen, a listed company, in order to rescue the company and successfully pass the restructuring plan proposed by the strategic investor Shandong Sanlian, publicly solicited voting rights from other shareholders of the company. In the end, Lu Jiahao enlisted a delegation of 91 people, accounting for 4% of the company's total share capital [17]. On November 24, 2018, the board of directors of Midea Group, as the collector, publicly solicited the voting rights of the third extraordinary shareholders' meeting of 2018 from the target shareholders. The purpose was to pass the relevant motions at the shareholders' meeting to acquire the shares of Wuxi Little Swans through an issuance of A shares by the Midea group [18].

2.2.2 Shareholders as the collector

In the case where the company's ownership and management are separated and the minority shareholders cannot directly influence the company's decision-making, the shareholders' meeting is an important way for shareholders with a small number of shares to play a role in the company's management. In view of the resolutions of the shareholders' meeting in accordance with the capital majority rule, it is often difficult for minority shareholders holding small shares to have an impact on company resolutions. The voting rights collection system provides important measures for small shareholders to supervise the management, influence the decision-making process and even reorganize the board of directors. On November 24, 2000, Sofitel, which holds 2.27% of the original ST Kangda of the listed company, and 1.17% Tianjie Xiaoyu Company collected voting rights from other shareholders of the company and recommended two director candidates. "Obviously, the goal of collecting voting rights is to reorganize the board of directors of Kangda and replace the board members." [19] On July 2, 2003, Zhao Gang, a minority shareholder of ST Jinan Qingqi, publicly collected voting rights from other small and medium shareholders of the company, requesting to authorize him to vote at the company's 2002 annual shareholders' meeting [20]. On July 12, 2005, Yan Yiming, a lawyer of Shanghai Yanyiming Law Firm, collected the voting rights from other shareholders as a minority shareholder of Kelon Electric and proposed to remove the original six directors and elect three others including himself as new independent directors [21].

In the cases where the majority shareholder's solicit voting rights from others, their goal is usually to reorganize the board of directors and compete for actual control. In 1999, the shares owned by Shandong Shengli Group, the largest shareholder of the listed company Shengli Limited, were auctioned by the court. Guangzhou Tongbaihui, a shareholder of Shengli Limited, won 30 million shares of Shengli Limited through the bidding and became the largest shareholder. Later, Shengbang became the company's first largest shareholder by transferring legal person shares. Tongbaihui Company became the second largest shareholder only with a difference of 0.69%. Tongbaihui Company publicly solicited voting rights from other shareholders in order to control the board. It is the typical case where the company's major shareholder is a collector [22]. On January 30, 2002, Jinjiang Hesheng, the largest shareholder of Chongqing Dongyuan, issued a "Report" to collect voting rights from shareholders on various proposals to be considered at the Chongqing Dongyuan extraordinary shareholders' meeting on February 9, 2002. The reason was that the company failed to enter the company's board of directors at the first extraordinary shareholders' meeting in 2001 [23].

3. Necessity of legislation of voting rights collection system

The collection of voting rights is of great significance as an important means of protecting the interests of small and medium shareholders. Judging from the legislation of various jurisdictions, the practice conditions and legislative environment of Germany, Japan and Taiwan are different, but they have established a legislative system for the collection of voting rights. The following is analyzing the necessity of enacting the legislation of voting rights collection system in China from the perspectives of legislative significance and practical needs.

3.1 The legislative significance of the voting system

3.1.1 *Protect the interests of minority shareholders*

As mentioned above, the shareholders' meeting is an important way for small and medium shareholders to supervise management and participate in company management. In China, the boards of most listed companies is often controlled by major shareholders, and the major shareholders may also be board members. Therefore, management, including directors and managers, may be influenced by personal factors and make decisions that harm the interests of the company and shareholders with a small number of shares. In terms of information, there is a serious information asymmetry between major shareholders and small and medium-sized shareholders. If small and medium-sized shareholders want to understand the company's operation and financial status, they will pay more. The resolution of the shareholders' meeting was followed by a one-vote majority rule. If the major shareholder uses the equity advantage to squeeze the small and medium shareholders, then the latter can only "vote with the feet" and choose to withdraw from the company. The legislative trend of China's "Company Law" is also biased towards the interests of small and medium shareholders for the purpose of protecting vulnerable groups. The voting rights collection system can unite small shareholders with weak strength, help them pool more voting rights, and exercise the right to take part in the company's operation in the way of attending the shareholders' meeting. In addition, even if the small and medium shareholders fail to collect a sufficient amount of voting rights, they can use this to pressure the current management to fulfill their loyalty and diligence obligations [24].

3.1.2 *Reduce shareholder indifference*

"Shareholder rationalism theory believes that the phenomenon of 'shareholder indifference' is easy to occur in the case of scattered stocks." [25] There is a "free rider" [26] mentality in small and medium-sized shareholders. Although the company's operating conditions are related to its own interests, it is out of cost and benefit considerations to choose not to take any action, but wait for others to act in order to enjoy the results of others' efforts without any cost [27]. Therefore, most small and medium shareholders will think that the cost of attending the shareholders' meeting, such as time cost and money cost, is too high to participate, and rarely pay attention to the company's current operating conditions [28]. This kind of "voting indifference" has two costs: on the one hand, the small and medium-sized shareholders have to bear the agency costs, that is, the loss of the shareholder caused by the company's management; on the other hand, the controlling shareholder may draw the company's resources and properties, which damages the interests of the company and shareholders with a small number of shares [29]. In the concentration of voting rights, the will of small and medium shareholders can be taken seriously, which can improve the enthusiasm of small and medium shareholders to participate in corporate governance to a certain extent. This situation is particularly evident in China. The stock market of listed companies in China is far less dispersed than in the United States, and the shareholding ratio is very different [30]. At this time, the voting rights agency system is usually applied to the fights between several major shareholders, and the parties in the competition often pay more attention to the opinions of small and medium shareholders in order to obtain more voting rights from small and medium shareholders. As a result, the phenomenon of "shareholder indifference" can be improved.

3.1.3 *Reduce the negative effects of voting rights collection*

The collection of voting rights is a "double-edged sword", which has a "negative effect" while protecting the interests of small and medium shareholders [31]. If the current directors, managers and other shareholders of the company collect voting rights from shareholders at the time of election to management, they are "proxy contests or proxy fighting" [32]. In this battle, the competing parties will often disregard the interests of the company for their own interests and affect the operation and survival of the company. For the current management, they may not disclose the true operating and financial status of the company to the solicited shareholders in order to maintain their position; for the opposition shareholders, if they aim to take control of the company rather than properly operate the company, then even if it wins in the battle for competition, the fact that the opposition is in power may not be more beneficial to other minority shareholders than the current

management [33]. Whether they are in power or in the wild, as a collector, they are not equal to the status of the person being recruited. Specifically, the voting items of the shareholders' meeting are determined by the collectors, and the collected persons are often in a passive position relative to the collectors. And the collector is very clear about the authorization result, and the shareholders lose control of the voter [34]. Therefore, only the careful legislation on the collection of voting rights can reduce the negative effects of the system and make it truly play a role in protecting the interests of small and medium shareholders.

3.2 The practical needs of the voting rights collection system

Judging from the practice of collecting voting rights in China, there are still many unresolved problems, mainly caused by the imperfection of the legislation of China's voting rights system. As pointed out, "because of the lag of legislation, many details in the operation of voting agency rights lack clear norms. These issues include the way of disclosure, the content and standards of disclosure, the determination of voting powers, the investigation into the truthfulness of the trustee's statement and responsibility for false statements, paid collections, commitments for collecting fees, etc." [35]

Taking the dispute over the control of Shengli shares as an example, Tongbaihui Company uses the Internet and other newspapers and periodicals to collect voting rights through its own websites and other channels [36]. The question is whether the information disclosed in the above advertisements and publicity legally binds Tongbaihui and whether it is sufficient to protect the shareholders' right to know [37]. Some people believe that the above-mentioned behaviors are not necessarily legal procedures for collecting voting entrustment. The information released by Tongbaihui Company does not constitute part of the voting power of attorney, nor is it legally binding on the voting behavior of Tongbaihui Company [38]. The supervision department of the listed company of the China Securities Regulatory Commission also found that Tongbaihui's behavior of collecting voting rights violated the rules, requiring Tongbaihui to issue legal opinions and earnestly fulfill its information disclosure obligations [39]. It can be seen that the imperfection of legal norms will directly affect the application and development of the voting rights collection system in practice. As the equity of listed companies in China is increasingly dispersed, the situation of monopoly is decreasing, and the use of voting rights and collections will be more and more. Therefore, it is necessary to speed up legislation and formulate more operational and specific rules. The voting rights collection behavior is regulated to prevent the system from being abused [40].

4. Analysis of the specific system of voting rights collection

In the specific system design of voting rights collection legislation, we can learn from our legislative environment, practice status and existing laws and regulations, and draw on the legislative experience of other jurisdictions. In view of the limited length of this article and the author's level, only a few of the more controversial issues in the voting rights collection system are analyzed here. The specific clause design is still to be studied in the future.

4.1 Solicitor qualification

Regarding whether the subject of the collection requires the status of a company shareholder, the legislation of each country is different. A kind of legislation requires that the subject of the collection has the status of shareholders. Whether the company's articles of association can take precedence over the legal provisions is different [41]. Another type of legislation does not impose any restrictions on the identity of the subject. The third party other than the company's shareholders can also collect the right to vote, and such legislation is exemplified by US law [42]. China's existing regulations on whether the subject is subject to shareholders are very vague. Article 31, paragraph 4 of the Rules for Shareholders' Meeting of Listed Companies stipulates that "The board of directors, independent directors, and shareholders that meet relevant conditions may publicly solicit voting rights from shareholders." [43] However, whether a third party other than shareholders can publicly collect shareholder voting rights is not clear. There are different views on whether

agent qualification should be limited to company shareholders. Some people believe that from the perspective of protecting the interests of small and medium shareholders, in order to ensure that the voting rights can be reasonably exercised and the normal functioning of shareholders' meetings be realized, China's laws and regulations should not impose any restrictions on the subject of collection [44]. There are also views that in order to prevent malicious shareholders from obtaining a power of attorney for personal gain, and interfering with the normal operating of the company, the qualification of the agent should be limited [45]. The author believes that China's law should not limit the subject qualification of the collector, for the following reasons:

First, starting from the interpretation theory, Article 106 of the Company Law stipulates that shareholders can entrust an "agent" to attend the general meeting of shareholders, and there is no restriction on the identity of the agent. Article 55 of the Guidelines for the Articles of Association of Listed Companies stipulates that the agent of a shareholder need not be a shareholder of the company. It can be seen that the provisions of Article 31, Section 4 of the Rules of the General Meeting of Listed Companies, that shareholders who meet the relevant conditions can publicly solicit the voting rights are arbitrary provisions rather than mandatory provisions [46]. Moreover, the "Company Law" has a higher level of effectiveness. Even if it is interpreted as a mandatory provision, in the event of a conflict between the upper law and the lower law, the above law shall prevail.

Second, the solicitor should fully disclose the resolutions, voting intentions, etc. to the collected persons when collecting the voting rights of the shareholders. Whether the shareholders of the company entrust others to vote should be a rational choice after they fully understand the voting matters and the consequences of the entrustment. The company's shareholders can instruct their agents to vote in favor, against or abstain according to their true meaning. Those small shareholders who entrust others to vote without fully understanding the information should also be responsible for their own actions and bear the corresponding risks. Therefore, under the premise that the solicitor fulfills the obligation of information disclosure, the qualifications should not be limited, otherwise it will hinder the development of the voting rights system.

Third, based on China's existing laws and regulations, even if the solicitor is required to be a shareholder of the company, there is no limit to its shareholding ratio and shareholding period. In this case, a third person who intends to solicit voting rights may obtain shareholder status by transferring the shares in the trading market. Therefore, only requiring the collector to be the shareholder of the company cannot be a hindrance to the third party who intends to collect voting rights. For example, in the case of Yan Yiming collecting the voting rights of all shareholders of Kelon Electric, Yan Yiming was not a shareholder of Kelon Electric, and bought 100 shares for the convenience of participation [47]. This shows that there is no need to set legal barriers to the identity of the collector.

Fourth, judging from the existing laws and regulations in China, even if there is no restriction on the identity of the collector, it is difficult for the collector to reorganize the boards and obtain control of the company. The most important step of entering the board of directors is to present a proposal at the shareholders' meeting. The key proposals include the proposal to reorganize the boards and the proposal to revise the company's bylaws [48]. Article 102, paragraph 2, of the Company Law stipulates the shareholding ratio requirement of the shareholder's proposal right, that is, only shareholders with more than 3% of the shares have the right to submit a written provisional proposal to the boards [49]. A collector who does not have a shareholder status does not have the right to make a proposal. In addition, Article 100 of the Company Law stipulates the shareholding requirement for the right to request the holding of interim shareholders' meeting, that is, only shareholders who hold more than 10% of the shares have the right to request the convening of an extraordinary meeting [50]. Article 101, paragraph 2, of the Company Law stipulates the shareholding ratio requirement of the shareholders' own convening right, that is, only shareholders with more than 10% of the shares have the right to hold and preside over the shareholders' meeting if the board of directors or the board of supervisors fails to perform their duties. The requirement for the shareholding period is 90 days or more [51]. It can be seen that the convener who does not have

the status of shareholders does not have the right to propose convening or convening. In the absence of an extraordinary general meeting of shareholders, the solicitor can only exercise the voting power at the annual general meeting, which greatly reduces the space available for operation. In summary, the author believes that there is no need to limit the identity of the collector.

4.2 Whether paid collection is allowed

“With the need to pay the consideration as the standard, the collection of proxy rights includes free collection and paid collection.” [52] Whether the power of attorney can be a commodity and the subject of trading is questionable [53]. The voting rights enjoyed by shareholders are private rights. Of course, selling is one of their powers [54], but many countries and regions do not allow paid collection. The Rules of the General Meeting of Listed Companies passed by the China Securities Regulatory Commission clearly prohibits paid collection [55]. Most scholars in China also recognize the prohibition of paid collections.

The question that needs further discussion is how effective is the paid collection. Then it is necessary to answer whether the provision of “no compensation for collection” is a mandatory provision. The author believes that the provision is a mandatory provision, and the legal action made in violation of the provision shall be invalid, and the consideration obtained shall be returned. The reasons are as follows:

The key to distinguishing between mandatory provisions and administrative mandatory provisions in civil law is that the former often does not allow behavior to occur on behalf of the law, while the latter allows the parties to make certain modifications on the premise of consent. The provisions of the Company Law that “prohibits paid collections” reflect the protection of the interests of majority shareholders. As some scholars have pointed out, “Resulting from the separation of voting rights and equity, there is an asymmetry between economic ‘expenditure’ and ‘reward’.”[56] Specifically, minority shareholders obtain the company’s management rights through the purchase of power of attorney, but due to the low proportion of shares, it is impossible to obtain sufficient income from the stock price increase to make up for the expenses incurred in purchasing the power of attorney. In order to make up for this part of the interests, minority shareholders are more inclined to ignore the company’s operation and development for personal benefit. The consequences of poor management and falling stock prices can only be borne by other majority shareholders [57]. Moreover, as mentioned above, in the voting power set, the status of the collector and the collected person is not equal, and the information of the two is not completely symmetrical. Therefore, the law specifically protects the interests of the majority of shareholders, and does not allow the parties to make a change.

In summary, the author believes that the collection of compensation is not allowed, and the collection of compensation is invalid.

4.3 Remedy for violation of rules

In the process of collecting voting rights, if the collector harms the interests of the shareholders in the solicitation activities, the shareholders can provide relief through litigation.

From the nature of behavior, the collector and the person being recruited are principal-agent relationships [58]. The solicitor should at least send two documents to the shareholders: the power of attorney, which contains the shareholder’s authorization to appoint a person to participate in the general meeting and exercise voting rights, and the agency agreement [59]. Therefore, when the collector fails to perform or does not fully perform the contractual obligations, the solicited shareholder may request the collector to bear the liability for breach of contract, including continued performance and compensation for losses. In addition, if the solicitor has fraudulent behavior in the solicitation activity, causing the collected shareholder to fall into error and make a representation to grant the agent’s proxy right, the solicited person may request to cancel the contract. The problem to be noted is whether the validity of the resolution exists in the case where the solicitor has exercised the voting right at the general meeting. The author believes that although the resolution act and the contract are both in the scope of legal acts, the two are different. The premise of forming a contract is that the meanings of the parties are consistent, and flaw in any

party's meaning will affect the effectiveness of the legal act. In the resolution of the general meeting of shareholders, the group meaning formed is not premised on the consensus of all shareholders, and whether each individual shareholder's meaning is true does not affect the effectiveness of the resolution, unless the flaw of the meaning will result in the failure to fulfill the requirement of percentage specified in the Company Law or the company's bylaws [60].

Of course, when the shareholders' meeting violates laws, administrative regulations or the company's articles of association due to procedural issues, such as convening procedures, voting methods, etc., shareholders have the right to cancel the resolution. In addition, if the director makes an act that harms the interests of the shareholders in the agency collection activity, the shareholders may file a direct shareholder lawsuit against the company director to request damages.

5. Summary

In recent years, the development of China's securities market has been very rapid. Although there are no perfect laws and regulations, there have been many cases of voting rights in listed companies. As China's securities market continuously develops, the phenomenon of scattered shares of listed companies will become more obvious, so that the realistic basis of voting rights collection in China will be more powerful. It is true that the market environment and the maturity of investors will have an impact on the application of voting rights, but perfect laws and regulations are more indispensable as institutional guarantees. Therefore, there is a very good reason for establishing a perfect voting rights collection system in China. We should base ourselves on the practice of China's securities market and learn from the experience of foreign countries to make the voting rights really play its due role.

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