

Vote Bulletin: Zhejiang Expressway Co., Ltd.

Company	Zhejiang Expressway Co., Ltd. (HK: 0576)
Market and Sector	Hong Kong, Transportation
Meeting Date	Annual General Meeting (AGM): 4 May 2023 Extraordinary Shareholder Meeting (EGM): 24 July 2023
Key Resolutions ^{1, 2}	AGM: Item 9 - Amend Articles of Association (resolution withdrawn) EGM: Item 1 - Rights Issue
Key Topics	Corporate governance, capital management
Board Recommendation	AGM: The board WITHDREW Item 9 for consideration by shareholders EGM: The board recommended shareholders vote FOR Item 1
BlackRock Vote ³	BlackRock voted FOR Item 1 at the July 2023 EGM

Overview

Zhejiang Expressway Co., Ltd. (Zhejiang Expressway) is a company principally involved in the investment, development and operation of high-grade roads. The company also has a securities business.⁴

BlackRock Investment Stewardship (BIS) engages with companies to better understand how company leadership identifies and manages the material risks and opportunities in their business model that, in our assessment, can impact their ability to deliver durable financial performance for long-term investors like BlackRock’s clients. BIS also engages to provide a long-term investor perspective on corporate governance practices.

BIS has had multiyear engagements with Zhejiang Expressway to better understand the company’s governance and strategy and how these align with the financial interests of our clients as long-term, minority investors. In 2023, BIS engaged with the company prior to their annual general meeting (AGM) and extraordinary general meeting (EGM), to discuss, respectively, proposals by management to amend the company’s articles of association (AOA) in response to recent regulatory changes and to approve a rights issue.

¹ Zhejiang Expressway, “[Notice of 2022 Annual General Meeting](#)”, April 11, 2023.

² Zhejiang Expressway, “[Notice of Extraordinary General Meeting](#)”, June 25, 2023.

³ BIS conducts proxy voting for those clients who authorize us to vote on their behalf. As part of BlackRock’s Voting Choice program, eligible clients can have a say in the proxy voting process by selecting their own proxy voting policy or one of 14 available third-party policies. 47% (\$2.3 trillion of \$4.8 trillion) of our index equity assets are eligible to participate in Voting Choice, and clients representing 25% of the \$2.3 trillion in eligible assets are enrolled in Voting Choice. Currency shown in USD. Source: BlackRock. Data as of June 30, 2023.

⁴ Zhejiang Expressway, “[2022 Annual Report](#)”, March 31, 2023.

Rationale for BlackRock's vote

AGM Item 9: Amend Articles of Association (WITHDRAWN)

Zhejiang Expressway included a management proposal at the 2023 AGM to amend the company's AOA. The amendments, if approved by shareholders, would remove the need for certain agenda items – such as rights issues – to receive shareholder approval in separate class meetings.⁵ Instead, such items would only require approval in a combined meeting that included the company's controlling shareholder.⁶

Ahead of the 2023 AGM, BIS engaged with the company to communicate concerns that the amended AOA could risk removing an important mechanism to protect minority shareholder interests. Prior to the AGM, the company released a statement announcing that the board had decided to withdraw the AOA amendments from consideration by shareholders at the AGM, citing “a number of concerns raised by the Shareholders in relation to the Proposed Amendments, in particular those relating to the cancellation of class meetings.”⁷

Had the AOA amendments remained on the AGM agenda, BIS would not have voted in support of management's recommendation. As discussed above, BIS maintains it would be in our clients' best long-term economic interests as minority shareholders to have separate class meetings, both as a mechanism to protect minority shareholder interests, as well as an important channel for shareholder feedback. As stated in our [Global Principles](#), in our experience, companies are responsible for ensuring they have appropriate governance structures to serve the interests of shareholders and other key stakeholders. BIS will continue to engage with issuers in the Greater China market to understand their perspectives and approaches to the regulatory updates, including the processes they have in place to consider the interests of independent minority shareholders.

⁵ Mandatory Provisions announced in 1993 required companies listed on offshore exchanges to provide additional rights to shareholders through their AOA. One requirement was to have separate share class meetings both for shares listed on offshore exchanges (like in Hong Kong, called H shares) as well as onshore shares (called domestic shares). Though these shares were listed in different markets and had separate meetings, they enjoyed the same rights. For example, resolutions that could have an impact on the rights of shareholders of the other class of shares, such as issuance or repurchase of shares, required approval from both domestic and H share owners to provide a mechanism to protect shareholders' interests from proposals with potentially inequitable outcomes for either share class.

In early 2023, new regulations superseded earlier Mandatory Provisions, and the Hong Kong Exchange proposed consequential amendments to the Listing Rules that removed the requirement for the separate class meetings and would allow issuers that successfully amend their AOAs to only need approval from shareholders in a single, combined meeting for certain resolutions. BIS sees a potential risk that the removal of separate class meetings for domestic and H shareholders reduces shareholder protections for both groups and could potentially result in inequitable outcomes. Furthermore, companies can in fact benefit from the perspectives of H shareholders – who are often minority shareholders – and whose perspectives may be shaped by international corporate governance norms. Further, repealing the class meeting requirement could risk potentially reducing incentives for domestic shareholders, who often include controlling shareholders, to consider the interests and feedback of minority shareholders.

In July 2023, HKEX published conclusions to its consultation, removing the Listing Rules requirements that reflect the Mandatory Provisions such as the class meeting and related requirements for issuance and repurchase of shares. However, the Exchange specified that until and unless issuers voluntarily amend their AOA to remove such provisions, the class meeting requirements would remain valid and binding, and in general such amendments still require the approval of domestic and H shareholders at separate class meetings. The Listing Rule amendments came into effect on August 1, 2023.

⁶ As of March 31, 2023, the company's issued share capital is comprised of 33% H shares, held by investors such as BlackRock's clients, and 67% domestic shares, not currently listed on any exchange and held by the company's controlling shareholder.

⁷ Zhejiang Expressway, “[Withdrawal of a Resolution at the AGM, H Shares Class Meeting and Domestic Shares Class Meeting to be held on May 4, 2023](#)”, April 26, 2023.

EGM Item 1: Rights Issue

As mentioned in our [proxy voting guidelines for Hong Kong securities](#), BIS considers a company's capital structure to be critical to shareholders as it can have a direct impact on the value of their investment and the priority of their economic interests in the company relative to that of other equity or debt investors. Pre-emptive rights are a key protection for shareholders against the dilution of their economic interests.

In May 2023, the company's board proposed a rights issue of domestic and H shares on the basis of up to 3.8 rights shares for every 10 shares to raise no more than RMB6.5 billion, for use in reconstruction and expansion projects of existing expressways as well as for daily operating expenses.⁸ The rights issue is subject to approval both by domestic and H shareholders at the respective class meetings.⁹

In advance of the EGM, BIS engaged with Zhejiang Expressway to better understand the proposed issuance. In our assessment, the rights issue is based on fair terms and valid business justifications, and is aligned with our client's long term economic interests. BIS therefore voted in support of management's recommendation. The item passed the EGM and both domestic share and H share class meetings.¹⁰ BIS notes that the opportunity for each class of shareholders to opine separately on the proposal would not have been possible had the AOA amendments to remove class meetings been approved at the AGM earlier this year.

⁸ Zhejiang Expressway, "[Proposed Rights Issue of Domestic Shares and H Shares and Shareholders' Return Plan for the Next Three Years \(2023 - 2025\)](#)", May 23, 2023.

⁹ Zhejiang Expressway, "[Circular](#)", June 25, 2023.

¹⁰ Zhejiang Expressway, "[Announcement On Resolutions Passed At Extraordinary General Meeting, H Shares Class Meeting And Domestic Shares Class Meeting](#)", July 24, 2023.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability-related risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹¹

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with durable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹¹ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.