

Investment Stewardship

Vote Bulletin: CSPC Pharmaceutical Group Limited

Company	CSPC Pharmaceutical Group Limited (HK: 01093)
Market and Sector	Hong Kong, Pharmaceuticals
Meeting Date	28 May 2024
Key Resolutions ¹	Item 3(a)(i): To re-elect Mr. CAI Dongchen as an executive director Item 7: To grant a mandate to the Directors to grant options under the Share Option Scheme of the Company
Key Topics	Board quality and effectiveness, incentives aligned with financial value creation
Board Recommendation	The board recommended shareholders vote FOR Item 3(a)(i) and Item 7
BlackRock Vote ²	BlackRock voted AGAINST Item 3(a)(i) and Item 7

Overview

CSPC Pharmaceutical Group Limited (CSPC) is a company that manufactures pharmaceutical products. It is listed on the Hong Kong Stock Exchange, and exports its products globally.³

As part of our fiduciary duty to our clients, BlackRock Investment Stewardship (BIS) promotes sound corporate governance as an informed, engaged shareholder on their behalf. In our experience, sound governance is critical to long-term financial value creation and the protection of investors' interests.

BIS takes a constructive, long-term approach to engagement with companies and focuses on the management and oversight of the drivers of risk and financial value creation in a company's business model. Engagement may also help inform our voting decisions for those clients who have given us authority to vote on their behalf.

Over the past several years, BIS has engaged with CSPC on a range of business-relevant risks and opportunities. These have included its capital management, and how its compensation practices are aligned with long-term financial value creation for shareholders.

¹ CSPC Pharmaceutical Group Limited, "[Circulars and Notice of Annual General Meeting](#)," May 2024.

² BIS conducts proxy voting for those clients who authorize us to vote on their behalf. As part of BlackRock's Voting Choice program, eligible institutional and retail clients can have greater access to the proxy voting process where legally and operationally viable. Read more about Voting Choice [here](#).

³ CSPC Pharmaceutical Group Limited, "[2024 1Q Results](#)," May 2024.

Rationale for BlackRock's vote

Item 3(a)(i): To re-elect Mr. CAI Dongchen as an executive director (AGAINST)

BIS did not support the re-election of CSPC's Chairman, who also chairs the board's Nomination Committee, due to concerns about board independence.

As explained in [our approach to engagement on board quality and effectiveness](#), BIS looks to boards to establish robust and effective corporate governance practices. The board nomination process is, in our view, key to ensuring that companies nominate directors who have relevant skills and experiences, as well as the independence to ensure objectivity in the board's decision-making processes and oversight of management.

In the Hong Kong market, local listing rules permit companies' nomination committees to be chaired by the chairman of the board, or by an independent non-executive director.⁴ However, as we outline in our [proxy voting guidelines for Hong Kong securities](#), we find that independent leadership of the nomination committee helps protect long-term shareholders' interests by preventing the over-concentration of power in a single director.

At its May 2024 annual general meeting (AGM), CSPC's Chairman – who is also its founder and former CEO – and related shareholders (the management group) held a 30% controlling stake in the company.^{5, 6} Long-term investors like our clients, who are often minority shareholders, benefit when companies are careful to avoid potential overconcentration of power. In this instance, the Chairman's position as controlling shareholder and leader of the nominating committee may not support effective board oversight.

For these reasons, BIS did not support the re-election of CSPC's Chairman at the company's May 2024 AGM.

Item 7: To grant a mandate to the Directors to grant options under the Share Option Scheme of the Company (AGAINST)

BIS did not support the management-proposed share option scheme as, in our assessment, it is not aligned with long-term financial value creation for shareholders.

Included on the ballot of CSPC's May 2024 AGM was a management proposal seeking approval to provide a mandate to the Directors of the Board to grant options under the company's share option scheme. The scheme was originally approved by shareholders at a December 2015 extraordinary general meeting (EGM),⁷ and allows the Board to grant options to participants to subscribe for shares. It has a term of 10 years and will expire in 2025.

In compensation disclosures published in advance of the May 2024 AGM, CSPC stated that performance-related incentives for its management team are determined by the board's remuneration committee, and take into account the company's financial performance, recipients' individual performance and responsibilities, and market best practice. In BIS' assessment, however, there is insufficient disclosure regarding the methodology used to design the performance-based incentives, as well as how the scale and structure of the package are aligned with the long-term economic interests of minority shareholders.

⁴ [Hong Kong Main Board Listing rule 3.27A](#) requires an issuer must establish a nomination committee chaired by the Chairman of the board or an independent non-executive director and comprising a majority of independent non-executive directors.

⁵ CSPC Pharmaceutical Group Limited, "[Exercise of Share Options Under the Share Option Scheme](#)," April 2024.

⁶ [HKEX Main Board Rule 1.01](#) defines "controlling shareholder" as any person who is or group of persons who are together entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of the issuer.

⁷ CSPC Pharmaceutical Group Limited, "[Application for Whitewash Waiver, Proposed Adoption of the New Share Option Scheme, and Notice of EGM](#)," November 2015.

During CSPC's November 2023 EGM,⁸ the Board granted an aggregate of 50 million shares under the share option scheme to nine members of the company's senior management, including the Chairman. The share options vest in April 2024 and April 2025, and are contingent on the company achieving, respectively, single- and double-digit percentage growth compared to the previous year. CSPC's Chairman received 18 million shares under the share option scheme; the company also received a waiver in order to permit the management group to hold more than 30% of the company's shares without triggering a mandatory general offer.⁹

At the November 2023 EGM, BIS did not support the proposed share options grants. The company's disclosures do not provide a clear rationale for the option awards. In our assessment, the awards' vesting conditions are not rigorously designed, and the scheme lacks individual performance metrics. This, in our view, is not aligned with the long-term economic interests of our clients as shareholders.

In our assessment, CSPC has not provided shareholders with disclosures that explain why the share option scheme is in minority shareholders' economic interests. This is particularly the case given the Chairman and related shareholders' controlling – and increasing – stake in the company. Following the November 2023 EGM and the granting of the waiver, the recipients of the grant are able to further increase their share ownership by up to 2% annually, without triggering mandatory takeover measures that would require the controlling shareholder to make a general offer to all shareholders with an equal opportunity to exit their investment.¹⁰

⁸ CSPC Pharmaceutical Group Limited, "[Grant of Share Options, Application for Whitewash Waiver, and Notice of EGM](#)," October 2023.

⁹ CSPC Pharmaceutical Group Limited, "[Poll Results of the Further Adjourned EGM Held on 29 November 2023](#)," November 2023.

¹⁰ Securities and Futures Commission, "[Consultation conclusions on proposed amendments to the Codes on Takeovers and Mergers and Share Buy-backs](#)," September 2023.

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) promotes sound corporate governance as an informed, engaged shareholder on behalf of our clients. For those clients who have given us authority,¹¹ we vote proxies in line with our public [Global Principles and regional voting guidelines](#) and informed by our engagements, where relevant, as well as our analysis of company disclosures.¹² We vote with the sole objective to advance our clients' long-term financial interests.

As one of many shareholders, and typically a minority one, our role, on behalf of our clients as long-term investors, is to better understand how a company's leadership is managing risks and capitalizing on opportunities to help protect and enhance its ability to deliver long-term financial returns.

The BIS team of more than 65 dedicated professionals¹³ operates across nine offices globally, taking a localized approach while also benefitting from global insights. We focus most of our efforts on corporate governance as, in our experience, sound governance is critical to the success of a company, long-term financial value creation, and the protection of investors' interests.

We are committed to transparency in the stewardship work we do on behalf of clients. The BIS [Global Principles, regional voting guidelines, and five engagement priorities](#) (collectively, the BIS policies) set out the core elements of corporate governance that guide our investment stewardship program globally and within each regional market every year. These policies support effective stewardship processes and transparency and align with our commitment to pursue long-term financial returns for our clients as shareholders.

In addition, we inform clients about our engagement and voting policies and activities through direct communication and through various other 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 explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹² 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.

¹³ As of December 31, 2023.