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THE REPRESENTATIVE POWER OF THE SHAREHOLDERS’ GENERAL MEETING UNDER CHINESE LAW

Charles Zhen Qu†

Abstract: Under China’s company law regime, the power to represent the company resides not in the board of directors but in an individual person called a legal representative (fading daibaoren) who is a senior officer of the company. The mechanism of legal representative, however, is often rendered ineffective as it is inherently susceptible to abuse. The mechanism becomes dysfunctional when the legal representative is unavailable. The legal representative’s unavailability, especially when the board of directors is also ineffective, raises the question of whether the general meeting has the power to control corporate actions. To answer this question, this Article considers the legal nature of the legal representative’s role, examines the allocation of the company’s decisionmaking and representative powers, and reviews a small corpus of recent cases which have been or could have been decided on the basis of the general meeting’s power of representation. This Article argues that the legal representative should be regarded as an agent rather than as an organ of the company, and a company’s general meeting should be able to exercise the company’s decision-making and representative power when both the board of directors and the legal representative are ineffective, given the nature of the legal representative’s role and the power allocation under the company law regime in China.

I. INTRODUCTION

A company’s ability to conduct proceedings is crucial to the protection of its interests and the interests of its stakeholders. It is, therefore, important to ensure that the company will be able to maintain its litigation competence at all times and in all circumstances. A company, as a legal abstraction, must act through natural persons.1 Under China’s civil law2 and company law regimes, the power to represent the company is not vested in the board3 but in an individual person, termed the legal representative.4 The legal

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1 PAUL L. DAVIES, GOWER AND DAVIES’ PRINCIPLES OF MODERN COMPANY LAW 129 (Sweet & Maxwell 7th ed. 2003).

2 The phrase “civil law” is used here to mean the law of civil or private rights rather than the Western European system of codified laws.

3 See infra text accompanying notes 54-56. There are exceptions in some specified circumstances.

4 In contrast, a company incorporated in a common law jurisdiction normally acts through two groups of individuals, namely, the board of directors and the shareholders’ general meeting. The board of directors is, in ordinary circumstances, granted the power to manage the affairs of the company, which includes the power to represent the company in corporate proceedings. See DAVIES, supra note 1, at 294;
The legal representative of a company is normally the chairperson of the board of directors, or if the company does not have a board, the executive director or company manager. The legal representative’s appointment must be approved by and registered with the Bureau of Industry and Commerce Administration ("BICA"), the government department responsible for company registration.

The mechanism of the legal representative, however, is often rendered inefficient because it is inherently susceptible to abuse. The mechanism becomes ineffective when the legal representative who is capable of faithfully implementing decisions of the company is unavailable. The requirement that the BICA approve and register the legal representative often creates circumstances where the company does not have a legal representative, for example, in circumstances where a legal representative is dismissed and the BICA does not complete approval and registration of the replacement legal representative. The previous legal representative whose name still appears on the BICA's registry before the re-registration is complete has opportunities to take unauthorized actions against the interests of the company. The representative is also unavailable when the legal representative decides not to act or to act inconsistently with the shareholders' interests. Because the power of representation is vested in a single person, the legal representative often has opportunities to take unauthorized transactional or litigational actions in the name of the company. These actions are often tainted with conflicts of interests or

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A legal person is "[a]n entity on which a legal system confers rights and imposes duties." BUTTERWORTHS AUSTRALIAN LEGAL DICTIONARY 680 (1997).


A limited liability company shall appoint a manager to manage the day-to-day business of the company to implement the decisions of the board of directors. Company Law (promulgated by the Standing Comm. Nat’l People’s Cong., Oct. 27, 2005, effective Jan. 1, 2006), art. 50, translated in ISINOLAW (last visited Aug. 11, 2007) (P.R.C.). Similarly, a company limited by shares is required to appoint a manager to manage the day-to-day business of the company to implement the decisions of the board of directors. Id. art. 114.

A legal representative, for example, will hardly ever be willing to implement the company’s decision to sue that legal representative. There have long been calls to abolish the legal representative system in China. However, after considering the aforementioned calls for its abolition, lawmakers in the 2005 amendment to China’s Company Law (“2005 Company Law”) reaffirmed the role of the legal representative, making its abolition unrealistic in the near future. To live with this system of representation, it is necessary to find ways to remedy the deficiencies of the system in a principled manner and consistent with legal doctrine. This Article first suggests that the legal representative should be regarded as an agent, rather than an organ, of the company. Then, when the legal representative becomes dysfunctional for any number of reasons, the company’s general meeting should be permitted to exercise the company’s decision-making and representative power for the company.

The remainder of this Article is organized into four parts. Part II charts the development of the company law regime in China. Part III provides an overview and background of the 2005 Company Law and its salient features regarding a company’s governance structure. Part IV examines the role of the legal representative. Part V considers the circumstances in which, and the doctrinal bases on which, the general meeting has been, or should have been, given power to represent the company in litigation.

II. THE DEVELOPMENT OF THE COMPANY LAW

China’s first company law legislation was promulgated by the late Qing Dynasty in 1904 for the purpose of competing against the foreign fraud. A legal representative, for example, will hardly ever be willing to implement the company’s decision to sue that legal representative.

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II. THE DEVELOPMENT OF THE COMPANY LAW

China’s first company law legislation was promulgated by the late Qing Dynasty in 1904 for the purpose of competing against the foreign
enterprises present in China. The legislation was based on the 1856 Joint Stock Companies Act of the United Kingdom and the Commercial Code of Japan. The company law statute of the Qing era was hardly used until the Qing Dynasty was overthrown in 1912. Two years later, the government of the Republic of China promulgated Company Regulations using the structure of Japan’s Commercial Code. In 1929, the Nanjing Nationalist government continued the reform by enacting a new piece of legislation, the Company Law. This statute went on to become the foundation of Taiwan’s Company Code.

The 1929 Company Law became invalid in October 1949 when the People’s Republic of China (“PRC”) was established. Between 1949 and 1979, no official company legislation was enacted. In 1979, after adopting the open door policy, the PRC enacted the Sino-Foreign Equity Joint Venture Enterprises Law (“EJV Law”), which governed the formation and operation of Sino-foreign equity joint venture companies. The EJV Law was enacted in response to the perceived urgent need for a predictable legal framework that would help foreign investors to invest in China.

In contrast, the need to enact a domestic company law was less urgent, given that most of the companies at that stage were state-owned or collectively-owned enterprises. Between 1979 and 1993, the PRC enacted numerous statutes and regulations regulating foreign investment and domestic company activities. In 1993, the PRC enacted the Company Law (“1993 Company Law”), the first company legislation applicable to domestic companies. By the end of the last century, it became clear that

14 Graham Brown & Wei Xin, Introduction to Company Law, in 1 CHINA COMPANY LAW GUIDE, supra note 13, ¶ 10-110, ¶ 10-120. Brown & Wei Xin refer to the 1856 Act as “the British Company Law of 1856,” although it is generally referenced as the Joint Stock Companies Act.
15 Id.
16 Id.
17 Id.
18 Id.
19 Id. ¶ 10-130.
20 Id. Cf. id. (discussing a small number of regulations issued to regulate privately owned-enterprises during the relevant period, including Provisional Regulations on Privately Owned Enterprises, 1950, and relationships among state-owned enterprises, such as Regulations on the Working Relations Between State-Owned Manufacturing Businesses (Draft) 1961).
21 Law on Chinese-Foreign Equity Joint Ventures (promulgated by the Standing Comm. Nat’l People’s Cong., July 1, 1979, effective July 8, 1979), translated in 1 P.R.C. LAWS 150.
22 Brown & Wei Xin, supra note 14, ¶ 10-130.
23 Id.
25 See Brown & Wei Xin, supra note 14, ¶ 10-140.
the 1993 Company Law was inadequate and had become an impediment to China’s economic reform. This led to a minor revision of the 1993 Company Law in 1999 and a major amendment in 2005. The 2005 Company Law came into effect on January 1, 2006.


A. The Structure of the Company Law

The 2005 Company Law regulates the incorporation, governance, and operation of two types of companies: limited liability companies and companies limited by shares. These two types of companies are roughly equivalent to what are termed “private companies” and “public companies” recognized under the company legislation of commonwealth jurisdictions.

B. Salient Features of the Governance Structure

The governance structure under the 2005 Company Law features the following five salient characteristics.

1. A Company Functions Through Three Organs

A company in China, regardless of its type, normally has three corporate organs: the shareholders’ general meeting, the board of directors, and the supervisory board. Critics contend that a company may have a company manager and the company’s legal representative as a...
Where the scope of business or the number of shareholders is relatively small, however, the company may have one executive director instead of a board of directors, and one or two supervisors in lieu of a supervisory board.

2. Corporate Powers Are Statutorily Allocated

Under the 2005 Company Law, the general meeting is regarded as the company’s power organ. The powers of the general meeting include the power to determine the company’s management policies and investment plans; appoint and dismiss directors and supervisors while determining the remuneration of the directors and supervisors; examine and approve reports prepared by the directors and supervisors; and examine the budget plan, accounting plan, and distribution plan. The general meeting also has control over the board of directors, as well as power to amend the company’s constitution, change the amount of the company’s registered capital, and issue debt securities. The shareholders’ general meeting forms the company’s will and intention in the sense that the most important matters of the company are determined by the general meeting.

The board of directors is the company’s executive organ. It manages the company by exercising its powers in formulating various types of business plans, implementing the general meeting’s resolutions, determining the company’s internal management structure, and appointing management and financial staff. The board reports to the general meeting and must implement the resolutions of the general meeting. The board has the power, upon a request by the shareholders in writing, to bring actions against

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36 See supra note 11, arts. 51, 52.
37 See supra note 35, art. 37.
38 See supra note 11, arts. 38, 100.
39 See infra note 53 and accompanying text.
40 See supra note 11, arts. 38, 100.
42 This is not expressly provided in the 2005 Company Law. However, the Legal System Working Committee of China’s Parliament, the National People’s Congress, states in its interpretation of the 2005 Company Law that the board of directors is a compulsory, permanent management decision-making organ of the company. See THE NATIONAL PEOPLE’S CONGRESS LEGAL SYSTEM WORK COMMITTEE, supra note 12, at 73.
43 See supra note 11, art. 47; WANG BAOSHU & CUI QINZHI, supra note 41, at 114, 211-12.
44 See supra note 11, art. 47.
an errant member of the supervisory board if the company has suffered a loss because of the defaulting supervisor’s breach of law, regulations, or the company’s constitution. The board of directors forms the company’s management will and intention.

The supervisory board is the company’s supervisory organ. It supervises the activities of the board of directors. It has the power to examine the financial affairs of the company and to make recommendations about the removal of directors or senior executives who have breached the law, administrative regulations, the company’s constitution, or the resolutions of the general meeting. The board also has the power to bring legal action against directors or senior executives upon the request of a shareholder if the company has suffered a loss because of these officers’ breach of the law, administrative regulations, or the company’s constitution. The supervisory board forms the company’s supervisory will and intention in the sense that the board makes the decision to remove—or to commence proceedings against—defaulting directors or senior officers.

3. No General Power of Management Is Granted to the Board of Directors

The powers that the 2005 Company Law allocates to the three corporate organs are all specific. Unlike in common law jurisdictions, the 2005 Company Law allocates no general power of management to the board of directors. The power allocation provisions in company constitutions tend to be identical or similar to the power allocation provisions of the 2005 Company Law.

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45 Id. art. 152. See also infra note 77 and accompanying text.
46 WANG BAOSHU & CUI QINZHI, supra note 41, at 114, 211-12; SHI SHAOXIA, supra note 41, at 232. Note, however, that the directors are subject to the absolute control of the general meeting. They have a statutory obligation to implement the resolutions of the general meeting. 2005 Company Law, supra note 11, arts. 47(2), 109.
47 2005 Company Law, supra note 11, arts. 54, 119.
48 “Senior officers” is defined to mean the company manager, the deputy manager, the chief finance officer, the secretary of a listed company, and other people defined as senior officers in the company’s constitution. Id. art. 217.
49 Id. arts. 54(6), 150, 152. The supervisory board was not given the power to sue delinquent directors under the 1993 Company Law.
50 See 1993 Company Law, supra note 24, arts 48, 126; 2005 Company Law, supra note 11, arts. 54, 55, 119, 152.
51 In common law jurisdictions, the power of managing the business of the company is normally vested in the board of directors by virtue of a division of power regulation in the company’s constitution. FORD ET AL., supra note 31, at 216; Charles Zhen Qu, Some Reflections on the General Meeting’s Power to Control Corporate Proceedings, 36(3) COMMON L. WORLD REV. 231, 232 (2007).
52 See, e.g., Guang gao jing ying gong si zhang cheng [the model company constitution for an advertising company], CHINALAWINFO (last visited Dec. 20, 2007) (P.R.C.); see also ZUI XIN JING BIAN
4. **The General Meeting Has Ultimate Control**

The general meeting is in a position to control the board of directors. The board is obliged to implement the resolutions of the general meeting, and a director who refuses to do so may be removed.\(^{53}\) Even though this feature of the general meeting has already been stated above, it should be stressed here again because of its central importance when considering the general meeting’s litigational representative power.

5. **The Representative Power Resides in the Legal Representative**

Under the General Code of the Civil Law of the PRC (“GCCL”),\(^{54}\) which is China’s provisional civil code, a legal person exercises its powers through its “legal representative.”\(^{55}\) Under the 2005 Company Law, the legal representative of a company represents the company by entering into transactions and prosecuting proceedings on behalf of the company in normal circumstances.\(^{56}\) However, the aforementioned litigational powers of the board of directors and supervisory board\(^{57}\) supplement the representative power of the legal representative.

The adoption of the legal representative mechanism was not based on any doctrinal considerations. In fact, this mechanism originated from the former Soviet Union.\(^{58}\) This system was first adopted in the revolutionary bases before the founding of the PRC in 1949 to ensure the productive efficiency of, and the party’s leadership in, the war industry.\(^{59}\) Since 1949, state-owned enterprises have used the system.\(^{60}\) The notion of the legal representative was codified for the first time in 1979 when the EJV Law Implementation Rules were enacted.\(^{61}\) Rule 37 of the Implementation Rules provides that the chairperson of an EJV company is the legal representative

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\(^{53}\) 2005 Company Law, supra note 11, arts. 47(2), 54(2), 109.

\(^{54}\) China does not have a comprehensive civil code yet. The General Code of the Civil Law serves as a provisional civil code. See generally General Code of the Civil Law, supra note 6.

\(^{55}\) Id. art. 38.

\(^{56}\) 2005 Company Law, supra note 11, art. 13.

\(^{57}\) See supra text accompanying notes 45, 49.

\(^{58}\) Yang Ji, supra note 9, at 125.

\(^{59}\) Id.


\(^{61}\) Yang Ji, supra note 9, at 125.
of that company.\footnote{ Regulations for the Implementation of the Law on Sino-Foreign Equity Joint Ventures (promulgated by the St. Council, Sept. 20, 1983), art. 34, \textit{translated in} \url{http://english.mofcom.gov.cn/article/lawsdata/chineselaw/200301/20030100064563.html} (last visited Dec. 23, 2007) (P.R.C.).} The concept of the legal representative was subsequently adopted in the GCCL\footnote{ General Code of the Civil Law, \textit{supra} note 6, art. 38.} and in the 1993 Company Law.\footnote{1993 Company Law, \textit{supra} note 24, arts. 45, 113.} As previously noted,\footnote{See \textit{supra} note 12 and accompanying text.} the concept and functions of the legal representative were kept intact under the 2005 Company Law.

### IV. The Role of the Legal Representative in Corporate Proceedings

The way in which the legal representative is conceptualized affects and changes the options available to the company when no legal representative is available or the legal representative is ineffective. When the legal representative conducts proceedings in the name of the company, the representative acts either as the company itself or as the company’s agent. The legal representative can be regarded as the company itself only if the individual can be conceptualized as one of the company’s organs. This section suggests that the legal representative should be viewed as an agent rather than an organ of the company.

#### A. Is the Legal Representative an Organ of the Company?

Neither the 2005 Company Law nor the GCCL contains express provisions on the nature of the relationship between the company and its legal representative. Article 38 of the GCCL provides that the legal representative is the person responsible for representing a legal person in the exercise of their rights and powers (\textit{zhiquan}) in accordance with statutory provisions or provisions of the legal person’s constitution.\footnote{ General Code of the Civil Law, \textit{supra} note 6, art. 38.} Article 13 of the 2005 Company Law stipulates the types of company officers who may be appointed as the company’s legal representative.\footnote{2005 Company Law, \textit{supra} note 11, art. 13.} Neither Article 38 nor Article 13, however, refers to the capacity in which the legal representative represents the company to exercise its rights and powers. Most scholars of Chinese company law and civil law seem to agree that the legal representative, like the shareholders’ general meeting, the board of directors, and the board of supervisors, functions as an organ rather than as an agent of...
the company. None of them, however, has defined the meaning of “organ” or has based their claims on any proper legal authorities.

Most common law jurisdictions define corporate organs as certain groups of people in whom the company law vests an original authority to commit the company to the legal consequences of the decisions made for it or to delegate to others. According to this definition, the corporate organs of a company mean the board of directors and the general meeting. The Chinese judiciary seems to accept this conception of a corporate organ. For example, the Beijing Higher People’s Court expresses the view in its company law adjudication guidelines that board and general meeting resolutions constitute corporate acts. According to this notion of a corporate organ, however, the legal representative cannot be regarded as a corporate organ. The 2005 Company Law does not vest any power in the representative to commit the company or make any corporate decisions. The legal representative must act according to the will and intention of the company, which are formed in normal circumstances by the general meeting, the board of directors, and the board of supervisors.

Admittedly, a limited liability company, in practice, may authorize through its constitution the chairperson of the board of directors, or the executive director where the company does not have a board, to make decisions on transactions if their amount does not exceed a certain limit. However, this practice does not mean that the legal representative is granted decision-making power in relation to litigation matters. The 2005 Company Law is silent on the location of decision-making powers with respect to litigation. If a company’s management will and intention is formed by the board of directors, and if the power to litigate falls within the general

69 FORD ET AL., supra note 31, at 212. See also DAVIES, supra note 1, at 178.
70 FORD ET AL., supra note 31, at 212.
72 But see supra text accompanying notes 47-50 (China’s company law regime regards the supervisory board as one of the company’s organs).
73 WANG BAOSHU & CUI QINZHI, supra note 41, at 47-48.
74 See supra text accompanying notes 41, 46, and 50.
75 Interview with Jiang Da Xing, Professor, Nanjing University of Law School (Aug. 20, 2007).
76 See supra text accompanying notes 42, 46.
power of management, then normally the power to make decisions about litigation should reside in the board of directors.

In addition, the possibility for the company to delegate power to an executive officer to commit the company for certain transactional purposes does not mean that the legal representative is an organ of the company. When a company officer is appointed as the company’s legal representative and has been granted the power to make a transactional decision, that power lies in the officer’s capacity as the company’s executive officer (if the individual is the board chairperson or the company manager) or the company’s executive organ (if the individual is the company’s executive director where the company does not have a board), not the officer’s capacity as the company’s legal representative. The 2005 Company Law does not confer any decision-making powers on the legal representative.

If the word “organ” is used to describe the legal representative as the implementation organ for the company’s decisions, then the usage of that word becomes conceptually inconsequential. Such usage cannot prevent the legal representative from being recognized as an agent of either the company or a company organ in which the power to commit the company is vested.

B. Can the Legal Representative Be Treated as an Agent of the Company?

The GCCL defines an agent (daili) as a person who performs civil juristic acts in the name of the principal within the scope of the granted authority. A civil juristic act is a legitimate act of a person or a legal person to establish, change, or terminate civil rights or obligations. The

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78 This is indeed the opinion of the Legal System Working Committee of the National People’s Congress, although the view on the board of directors’ power to litigate is expressed in a special context (where a need for suing a defaulting member of the supervisory board arises). *The National People’s Congress Legal System Work Committee, supra* note 12, at 218. The supervisory board’s power to litigate where the alleged defendant is a director is apparently provided to address the concern that the board of directors is often reluctant to sue their board colleagues. *See* J.E. Parkinson, *Corporate Power and Responsibility: Issues in the Theory of Company Law* 237-38 (1993).

79 The executive director of a company that does not have a board of directors constitutes the executive organ of the company. *The National People’s Congress Legal System Work Committee, supra* note 12, at 218.

80 *See* supra text accompanying notes 72-73.

81 General Code of the Civil Law, *supra* note 6, art. 63.

82 *Id.* art. 54.
principal is responsible for the liability that the agent has incurred within the scope of the individual’s authority.83

Under the GCCL definition, the kind of service that an agent performs on behalf of the principal is restricted to civil juristic acts.84 The concept of agency, however, can be broadly understood. If a person confers power on another to engage in activities with legal consequences, in so far as the former is bound by the legal consequence of the act done by the latter on the former’s behalf,85 the latter can be arguably viewed as the agent of the former, even if the act done on behalf of the former does not amount to a civil juristic act.86

There is no problem in considering the legal representative as an agent of the company for transactional purposes even under the definition provided in the GCCL. The legal representative represents the legal person, the company, to exercise its powers granted by the law, including the power to do civil juristic acts.87 The liability incurred within the scope of the legal representative’s business activities is attributable to the legal person or the company.88 To the extent that the power of the legal representative is exercised to perform civil juristic acts, there is no conceptual problem in treating the legal representative as an agent of the legal person.

In fact, the legal representative is viewed as an agent in China’s civil law framework. An example is Article 50 of the PRC Contract Law, which provides that the legal person will not be bound to a contract entered into on its behalf where the legal representative has exceeded the limit of his or her authority if the other party to the contract knew or ought to have known

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83 Id. art. 63.

84 Id.

85 It is a basic tenet of agency law in both civil law and common law jurisdictions that the principal is bound to the legal consequence of the act done by her agent who acted within the scope of her authority. On the position in civil law jurisdictions, see M安静, arts. 99-101, translated in MINISTRY OF JUSTICE, THE CIVIL CODE OF JAPAN (TRANSLATION) (1972); Burgerliches Gesetzbuch [BGB] [Civil Code] Aug. 18, 1896, Reichsgesetzblatt [RGB] 164-66 (F.R.G.). On the common law side, see F.M.B. REYNOLDS, BOWSTEAD AND REYNOLDS ON AGENCY 1, 303 (Sweet & Maxwell 17th ed. 2001); W.A. Seavey, The Rationale of Agency, 29 YALE L.J. 859, 869 (1920).


87 General Code of the Civil Law, supra note 6, art. 38.

88 General Code of the Civil Law, supra note 6, art. 43; Zui gao ren min fa yuan guan yu guan che zhi xing “zhong hua ren min gong he guo min shi fa tong ze” ruo gan wen ti de yi jian (shi xing) [Some Opinions of the Supreme People’s Court on the Implementation of the PRC General Principles of Civil Law (Trial)] Fa (Ban) Fa 1988 No. 6, art. 58.
about this fact. The principle underlying Article 50 is the doctrine of apparent authority, which is a principle of agency.

It is also possible to conceptualize the legal representative as an agent of the company for litigational purposes, at least once the broader notion of agency is adopted. A person who engages another person to conduct proceedings on that person’s behalf will be bound by the consequence of the litigation so conducted. It is, therefore, conceptually possible to treat the person who conducts legal proceedings on behalf of another person as the agent of the latter-mentioned person. It is generally accepted in China that the relationship between a litigant and a person who conducts the litigant’s civil proceedings is governed by the principles of agency.

In a civil law jurisdiction, a person who has the power to conduct the corporate proceedings can be technically treated as a statutory agent of the company for the purpose of civil litigation. The 1992 Code of Civil Procedure of Japan, for example, expressly provides that its provisions on statutory agents are applicable mutatis mutandis to the representative of a legal person, and a statutory agent of a person without litigation capacity shall be appointed pursuant to, among other things, the provisions of the Civil Code.

If the legal representative does not constitute one of the company’s organs and if it is conceptually and technically possible to regard the legal representative as an agent of the company for both transactional and litigational purposes, then in the absence of contrary provisions, the legal representative should be viewed as an agent of the company.

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90 General Code of the Civil Law, supra note 6, art. 66; MU XIAOYUAN, supra note 86, at 50.
91 MU XIAOYUAN, supra note 86, at 15.
92 There may be some difference between the role of a company’s legal representative and that of a lawyer who is retained to conduct proceedings on behalf of the company. However, insofar as the act of the legal representative in representing the company in its proceedings binds the company, the nature of the relationship between the company and the legal representative is comparable to that between the company and a litigation agent.
94 The phrase “statutory agent” is used here to mean a person who acts as a litigation agent for a minor, an incompetent person, or half-incompetent person, etc. See MINSOH [Code of Civil Procedure], ch. III, sec. 1, translated in EHS LAW BULL. SER. no. 2300 (2005).
95 Id. art. 37.
96 Id. art. 28.
V. **RECENT CASES AFFIRM THAT THE GENERAL MEETING CAN BE GIVEN CONTROL OVER A COMPANY’S LITIGATION**

Several cases decided since 2002 demonstrate the need to recognize the representative power of the general meeting. These cases illustrate that the general meeting’s power of representation may be at issue when the company needs to make and/or implement decisions respecting litigation and both the board of directors and the validly registered legal representative are unavailable. A validly registered legal representative may be unavailable for the following reasons: the previous legal representative has been removed but no replacement has been made yet, the attempted registration for the replacement legal representative is invalid, the registration of the replacement legal representative has not been completed, the legal representative is physically unavailable, or the legal representative’s qualifications to continue as the legal representative are in doubt.

A. **Case Study: When the Previous Legal Representative Has Been Removed but No Replacement Has Been Appointed**

During the interim between the removal of a company’s previous legal representative and the appointment of his or her replacement, the company does not have a legal representative. In this situation, the people’s courts have shown a willingness to permit the general meeting to make a decision to litigate on behalf of the company where the board of directors is not in a position to act.

This principle is demonstrated in *Jiangsu Cold Roll-Forming Steel Association v. Wang Xigen*, although the court did not base its judgment on the recognition of the general meeting’s power of representation. In *Jiangsu*, the two plaintiff companies founded Jiangsu Province Jinxing Cold Roll-Forming Steel Commodities Sales Co. (“Jinxing”) in September 1996. The plaintiff companies were the only two shareholders in Jinxing. Wang Xigen was appointed as the chairperson of Jinxing’s board of directors, as the company’s legal representative, and as its general manager.

The company did not, however, operate properly under Wang’s management. On March 25, 2002, the board of directors purportedly held a

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98 *Id.*
99 *Id. at 223.*
100 *Id. at 224.*
101 *Id. at 223.*
meeting in which they resolved that Wang be discharged from all positions he previously held in Jinxing and that he return the company’s financial books, company seal, and other company property in his possession within two days.\footnote{Id. at 224-25.} No replacement legal representative, however, was appointed after the meeting. A similar resolution was subsequently passed in a second general meeting demanding that Wang return the company’s property and the company seal within five days.\footnote{Id. at 225.} Despite being notified, Wang failed to attend either of the two meetings.\footnote{Id.} Wang further refused to comply with the resolutions of both the board and the general meeting.\footnote{Id.} The company’s two shareholders brought an action against Wang to recover Jinxing’s property.\footnote{Id. at 224.}

The trial court dismissed the action because both the purported board meeting and the general meeting suffered from procedural defects.\footnote{Id. at 225-26.} The court pointed out that Articles 43 and 48 of the 1993 Company Law required general meetings be chaired by the chairperson of the board of directors, and that board meetings similarly be called and chaired by the chairperson of the board.\footnote{Id. at 225.} Both the board meeting and the general meeting of Jinxing, however, were not called or chaired by Wang.\footnote{Id.}

The appellate court, the Nanjing Intermediate People’s Court, upheld the shareholders appeal.\footnote{Id. at 226.} The court ruled that the resolutions of both the board and the general meeting were effective and ordered Wang to return the company property within ten days.\footnote{Id. at 226-27.} The court reasoned that although both the board meeting and the general meeting suffered from minor procedural defects, the resolutions of the two meetings, the content of which was lawful, reflected the will and intentions of the shareholders.\footnote{Id. at 226.}

Neither the trial court nor the appellate court appeared concerned about the nature of the action, even though the issue of the plaintiff’s standing was quite apparent. The cause of action belonged to the company, yet the plaintiffs were the company’s only two shareholders rather than the company itself. This might suggest that the action be considered a derivative action, but a closer reading reveals that it is not.
The 1993 Company Law did not provide for derivative actions. The circumstances and the manner under which a derivative action could be brought were provided in the relevant guidelines issued by the higher people’s court of the individual province or of the municipality with provincial status. The guidelines issued by the Higher People’s Court of Jiangsu province, where the Jiangsu case was decided, stipulated that a shareholder might bring a derivative action only when the company was

113 In practice, however, derivative actions were permitted before the enactment of the 2005 Company Law, which provides for such actions. Derivative actions taken before January 1, 2006 were based on a judicial interpretation provided by the Supreme People’s Court in 1994 entitled, Zui gao ren min fa yuan guan ju zhong wei hai he zi jing ying qi ye de wai fang ju mai fang jing ji he tong ji ren fen, kong zhi he ying qi ye de wai fang ju mai fang you li hai guan xi, he ying qi ye de zhong fang ying qi shi de ming yi xiang ren min fa yuan qu su wen ti de fu han [Reply of the Supreme People’s Court on When Chinese-Foreign Equity Joint Venture Has an External Controversy over Economic Contract, and the Foreign Side Which Controls the Joint Venture, Has Direct-Interest Relations with the Seller, in Whose Name Shall the Chinese Side of the Joint Venture File a Lawsuit to the People’s Court] (promulgated by the Sup. People’s Ct., Nov. 4, 1994), CHINALAWINFO. In the above-mentioned judicial interpretation, the Supreme People’s Court expressed the view that, where the board of directors had made a decision not to sue a party who was connected to the controller of the company and who had injured the interests of the company, a shareholder should be permitted to take an action on behalf of the company. The judicial interpretation, however, did not mention whether the action should be taken in the shareholder’s own name. It was not necessary to do so, given that the contract in the case in question contained an arbitration clause and the Supreme Court expressed the view that the dispute should be resolved through arbitration, not a court action. For a case where derivative actions were allowed under the previous company law regime, see Dong shi zhang de xing wei sun hai gong si li li yi, gu dong shi fang yu quan xiang qi qu xi song [Does an individual shareholder have the right to sue the chairperson of the board of directors where the chairperson has injured the interests of the company?] in 2 YI FA SHUO FA—GONG SI HE HUO JIU FEN AN LI [DISCUSSING LAW THROUGH THE LAW—CASES ON COMPANY AND PARTNERSHIP DISPUTES] 128-85 (Wang Ming & Song Caifa eds., 2006) [hereinafter Individual Shareholder]. See also Yan Gongbin, Dui yi qi gu dong pai sheng su song an de fa lü fen xi [A Legal Analysis of a Case on Derivative Actions] in GONG SI FA YI NAN WEN TI HE XI [ANALYSIS ON DIFFICULT COMPANY LAW ISSUES] 204 (Qi Qi & Zhou Bihua eds., 2d ed. 2005). It has always been recognized in China that a company’s right can only be enforced by the company itself, and derivative actions were and are permitted only where the company fails to exercise the right. See Individual Shareholder, supra at 184. On the right of shareholders to take derivative actions under the current company law regime, see 2005 Company Law, supra note 11, art. 152.


116 Jiangsu Opinion, supra note 114, § 17.
unable, or otherwise failed, to take action against a senior company officer or a controlling shareholder who had allegedly injured the interests of the company. The guideline also stated, “[t]he company shall be joined in the action as a third party.”\textsuperscript{116}

A people’s court may allow a third party to join a proceeding where the outcome of the litigation will affect the interests of the third party.\textsuperscript{117} Where this occurs, the name of the third party participating in the action will normally appear in the court judgment.\textsuperscript{118} In \textit{Jiangsu}, there was no indication that the company itself was unable, or otherwise failed, to take action against Wang before the proceeding was commenced. In addition, Jinxing’s name is not recorded in the judgment of the case, proving that the company did not join the action as a third party. The proceeding, therefore, could not have been a derivative action.

It is also impossible to view the action against Wang as having been brought by Jinxing’s board of directors. The plaintiffs were not directors of Jinxing even though they each nominated a director to the board.\textsuperscript{119} Nor did the purported board meeting on March 25, 2002 result in a decision to take a legal action against Wang.\textsuperscript{120}

The proceedings of the \textit{Jiangsu} case can, however, be considered as having been authorized and raised by the general meeting because the two plaintiffs were the only shareholders of the company.\textsuperscript{121} Although the general meeting was not held to specifically make a decision on the commencement of the action against Wang, the result of such a meeting, even if held, would be the same.\textsuperscript{122} If the purported general meeting on April 15, 2002 could not be rendered ineffective based on procedural defects, as the court held,\textsuperscript{123} then the lack of such a procedure should not bar viewing the shareholders’ decision as a decision of the general meeting. Indeed, under the 2005 Company Law, unanimous consent by the

\begin{itemize}
\item \textsuperscript{116} Id. (emphasis added).
\item \textsuperscript{118} Interview with Sun Jian Han, Judge, Huzhou Intermediate People’s Court (Nov. 1, 2006).
\item \textsuperscript{119} See \textit{Wang}, supra note 97, at 224.
\item \textsuperscript{120} Id. at 224-25.
\item \textsuperscript{121} Id. at 224.
\item \textsuperscript{122} Id. at 224.
\item \textsuperscript{123} This is the position taken by common law courts. See, e.g., Justice Neville’s observation in \textit{Marshall’s Valve Gear Company, Ltd. v. Manning Wardle & Co. Ltd.,} (1909) 1 Ch 267, 272 (U.K.).
\end{itemize}
shareholders is the equivalent to a decision of the general meeting, even if no general meeting has been held.124

In Jiangsu, the court appears to have recognized the representative power of the general meeting. The court’s approval of an action brought by the only shareholders of the company, which, as stated previously,125 can be seen as an action commenced by the general meeting, must be based on the court’s recognition of the general meeting’s representative power.

As discussed in Part IV, there is no doctrinal barrier to recognizing the general meeting’s representative power. The legal representative can be treated as the company’s agent in litigation. When this agent is unavailable or ineffective, the company should be able to act on its own behalf through one of its organs, such as the general meeting. Even if the legal representative functions as the company’s “implementation organ,” where the original implementation organ is ineffective or unavailable, a decision-making organ should be able to implement its own decision through another servant or a lawyer.

From a doctrinal perspective, is it more desirable to insist on having the action brought by the company’s new legal representative, once appointed, rather than allowing the general meeting to represent the company? Probably not. There is often a temporal gap between the company’s decision to change its legal representative and the amending of the BICA legal representative registration. Denying the general meeting’s power to represent the company in such a situation may deprive the company of its ability to control its own litigation during the temporal gap. A suspension of the company’s ability to defend its interests and vindicate its rights through legal proceedings may cause injury to the interests of the company and its investors. It may also have the effect of holding up commercial activities and hampering economic development. The circumstances involving such a temporal gap are discussed in the next two cases.

B. Case Study: When the Attempted Registration of the Replacement Legal Representative Is Invalid

An attempted registration of the replacement legal representative may be invalid if the company does not follow prescribed procedures. When this occurs, the company does not have a legal representative because the previous legal representative has been removed and a replacement has not

124 Id. art. 38.
125 See supra text accompanying note 121.
been appointed. In these cases, the people’s courts have tended to recognize the general meeting’s power to exercise control over corporate decisions on conducting legal proceedings.

This is illustrated in *Yan Yu Cheng v. Nanjing Shihua Construction Supervision Co.*\(^{126}\) Nanjing Shihua Construction Supervision Co. ("Shihua") was incorporated as a limited liability construction company on January 28, 2000.\(^{127}\) The four initial shareholders of the company were Yan, the appellant in the case, Fang Xuechu, Yang Lisheng and Xi Yang Yang Enterprise Co.\(^{128}\) Yan, being the majority shareholder, was elected as the executive director and the legal representative of the company at Shihua’s first general meeting.\(^{129}\)

At the second general meeting held on August 14, 2000, the company passed a resolution to reorganize the company’s shareholding and organizational structures.\(^{130}\) The meeting resolved to establish a board of directors and appointed Wang Liangxi, not Yan, to be the chairperson of the board of directors and the company’s legal representative.\(^{131}\) All shareholders, except Yan, signed the minutes of this meeting.

On September 16, 2000, Yan chaired a shareholders’ office meeting (gudong bangong huiyi) attended by Fang and Yang.\(^{132}\) The meeting resolved that, *inter alia*, Yan needed more time to consider the resolution of the second general meeting. This same meeting further resolved that if the three attendees of the office meeting failed to reach a consensus on the rearrangement of the company’s capital structure by September 22, 2000, the resolution of the second general meeting should be implemented.\(^{133}\) On September 18, Yan informed the general meeting in writing that he wished to withdraw his contribution towards the company’s registered capital and to resign from all posts he held within the company.\(^{134}\)

On September 22, the third general meeting resolved to accept Yan’s resignation and reconfirm the resolution of the second general meeting to

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\(^{127}\) *Id.*

\(^{128}\) *Id.* at 227.

\(^{129}\) *Id.*

\(^{130}\) *Id.*

\(^{131}\) *Id.*

\(^{132}\) *Id.*

\(^{133}\) *Id.*

\(^{134}\) *Id.*
appoint Wang as the chairperson of the board and as the company’s legal representative.\textsuperscript{135} Accordingly, Shihua submitted an application to BICA to update the registration of the company’s legal representative.\textsuperscript{136} BICA approved the application on December 13, 2000.\textsuperscript{137} The general meeting held its fourth meeting on December 29, 2001 and again resolved to reaffirm the validity of the resolution passed in the second general meeting on the change of legal representative.\textsuperscript{138}

Shihua then requested several times in vain that Yan return, in particular, the company’s registration certificates and the company seal.\textsuperscript{139} In June 2001, Wang, in his capacity as the company’s legal representative, commenced a legal proceeding against Yan to recover the company’s property.\textsuperscript{140} The trial court ordered Yan to return to Shihua company property that was in his possession, reasoning that the legal rights of a duly incorporated company were protected by law.\textsuperscript{141}

Yan appealed the case to the Nanjing Intermediate People’s Court on the grounds that, \textit{inter alia}: 1) Shihua used a false seal to execute the statement of claim (as the original seal was still in the possession of the defendant, Yan), and 2) the trial court erred by validating Wang’s appointment as chairperson of the board of directors (and hence the legal representative) of the company.\textsuperscript{142} Yan further alleged that the resolution of the second general meeting regarding Wang’s appointment as chairperson of the board contravened Order No. 16 of the Ministry of Construction.\textsuperscript{143}

Order No. 16 provided that to change the legal representative of a construction supervision company, the company must complete the replacement procedures through an original qualifying department before applying to BICA.\textsuperscript{144} Shihua, however, did not complete the preliminary reappointment procedures before filing to change the legal representative registration with BICA,\textsuperscript{145} making the appointment of Wang as Shihua’s legal representative arguably invalid.\textsuperscript{146}
It followed, argued the appellant, that whether Wang was capable of initiating a proceeding on behalf of the company was uncertain. The respondent replied that Shihua’s general meeting had replaced the appellant with Wang as the company’s legal representative through lawful procedures. The respondent also argued that it was the company’s will and intention to change its legal representative and to commence the proceeding against the appellant.

The appellate court dismissed Yan’s appeal on the ground that commencing the proceeding against the appellant was the company’s will and intention, which was formed and expressed by the company’s general meeting. The court observed that Shihua, as a limited liability company, was entitled to determine who had the right to custody of its certificates and company seal. The court pointed out that the crux of the case was not whether Wang was able to act as the company’s legal representative in relation to the proceeding against Yan, but whether it was the company’s true will and intention to commence the legal action.

The court reasoned that a company’s will and intention are expressed by its organs. In general, a company’s will and intention can be evidenced by the signature of the company’s legal representative and the company seal. In special circumstances, such as where there is friction among shareholders, or, as in Shihua, a change of legal representative, or where the effect of the two different seals is in question, the general meeting has the power to represent the company to express the company’s will and intention. This is because the general meeting is the company’s supreme power organ and its resolutions are binding on all shareholders.

The appellate court also pointed out that both the second and fourth general meetings resolved by a two-thirds majority to relieve the appellant from his position as the company’s legal representative and to require him to return company property that was in his possession. This meant that taking an action against the appellant was the will and intention of Shihua, rather than the personal will of Wang, who purported to act as the legal

147 Id.
148 Id. at 228.
149 Id.
150 Id. at 229-30.
151 Id. at 229.
152 Id.
153 Id. at 226, 229.
154 Id.
155 Id.
156 Id.
157 Id.
representative of the company.\textsuperscript{158} Shihua’s power to commence legal proceedings, therefore, was not affected by whether Wang could be appointed as the legal representative of the company or whether the registration of the new legal representative was valid.\textsuperscript{159}

Theoretically, the court did not need to determine the general meeting’s representative power to decide the case. The same result could have been reached by curing the procedural defects relating to Wang’s appointment. This could have been done, for example, by undoing the BICA registration of Wang as the company’s legal representative and asking the company to complete the pre-registration approval procedures as required under Order No. 16 before re-lodging the change of legal representative registration with BICA. The court had general power to stay proceedings under the PRC Civil Procedure Law.\textsuperscript{160} The court could, therefore, have chosen to stay the proceeding to allow time to remedy the defects in Wang’s appointment. Once Wang had been properly appointed by curing the procedural defects, the proceeding could have been resumed as originally planned.

A broad ruling on the general meeting’s representative power, however, makes better sense. It takes time to cure the procedural defects relating to the reappointment of a legal representative. An order to stay proceedings would leave a temporal gap between the dismissal of the legal representative and the finalization of the process to approve and register the replacement. For this reason, the court’s determination of the general meeting’s representative power will help protect the interests of the company and its investors as well as promote commercial activities.

Doctrinally, the court’s judgment in \textit{Shihua} was sound. The judgment was based squarely on its decision that the general meeting has the power to represent a company in litigation proceedings. As previously discussed in Part IV, there was no doctrinal barrier to recognizing the representative power of the general meeting for litigation purposes.

The case did not, however, mention whether the board of directors, established pursuant to the resolution of the second general meeting, had reached any resolution on the commencement of the action against Yan. Assuming that the board held a meeting and reached a resolution on this matter, perhaps the reason the court did not rely on the resolution was because the replacement legal representative—who must be the chairperson

\begin{footnotes}
\begin{itemize}
\item \textsuperscript{158} \textit{Id.}
\item \textsuperscript{159} \textit{Id.}
\item \textsuperscript{160} \textit{Civil Procedure Law, supra note 117, art. 136(6).}
\end{itemize}
\end{footnotes}
of the board\textsuperscript{161}—was not first approved by the qualification control department as required under Order No. 16.\textsuperscript{162} Thus, there was no properly appointed chairperson of the board, and no board meeting can be held without a chairperson.\textsuperscript{163}

C. \textit{Case Study: When the Registration of the Replacement Legal Representative Has Not Been Completed}

The previous two cases involved circumstances where the company did not have a legal representative to represent itself. A similar situation occurs when the replacement of the representative has been made, but the registration of the replacement has not been completed. This was the situation that the court in \textit{Shanghai Tongxin Pharmaceutical Co. v. Shanghai Public Housing Assets Management Co. (“Shanghai”)} encountered.\textsuperscript{164} The plaintiff entered into a land use right transfer contract with the defendant.\textsuperscript{165} Zhou Guozhu, the legal representative and the chairperson of the board of directors, executed the agreement on behalf of the plaintiff company.\textsuperscript{166} Subsequently, a major change in shareholding took place.\textsuperscript{167} As a result, a new board chairperson and legal representative, Zhang Xinguo, was appointed.\textsuperscript{168} Before the change of the BICA registration regarding the replacement of the board chairperson and legal representative was completed, Zhou sought to rescind the land use right transfer contract.\textsuperscript{169}

The general meeting of the plaintiff company, held with the new shareholders in attendance, decided that the action commenced by Zhou was inconsistent with the best interest of the company and that the proceeding should be dropped.\textsuperscript{170} The application for the discontinuation of proceedings was executed with the signature of Zhang, the new legal representative, whose name had not appeared in the relevant registry.\textsuperscript{171} At the time the

\begin{itemize}
\item \textsuperscript{161} 1993 Company Law, \textit{supra} note 24, art. 45.
\item \textsuperscript{162} \textit{Shihua, supra} note 126, at 228.
\item \textsuperscript{163} 1993 Company Law, \textit{supra} note 24, arts. 48, 114.
\item \textsuperscript{164} Shen Li, \textit{You gu dong hui jue ding de fa ding dai biao ren ying ju you gong si de su song dai biao quan} [The Legal Representative Appointed by the General Meeting Should Have Power of Representation], http://www.companylawyer.com.cn/gdqy/zxgdqydbh/20051215113225.htm (last visited Dec. 17, 2007) (Shanghai Mun. First Interim. People’s Ct.) [hereinafter \textit{Shanghai}].
\item \textsuperscript{165} \textit{Id.}
\item \textsuperscript{166} \textit{Id.}
\item \textsuperscript{167} \textit{Id.}
\item \textsuperscript{168} \textit{Id.}
\item \textsuperscript{169} \textit{Id.}
\item \textsuperscript{170} \textit{Id.}
\item \textsuperscript{171} \textit{Id.}
\end{itemize}
application for discontinuation of proceedings was made, the above-mentioned change of registration had still not been completed.\(^{172}\)

The commentator on this case viewed the application for discontinuation as valid on the basis that the failure to complete the registration of the new legal representative only affected the quality of the publicity generated from the relevant company information, not the actual effect of the legal representative’s replacement in the company.\(^{173}\)

It is arguable whether a failure to complete registration will affect the legal representative’s replacement in the company. The person appointed as legal representative is only qualified to represent the company when the BICA registration has been completed.\(^{174}\) When the application for discontinuation was made in Shanghai, the company did not have a validly registered legal representative, given that Zhou, the previous legal representative, had already been removed. This means that the court’s decision to approve the company’s discontinuation application relied entirely on the strength of the general meeting’s resolution. The court’s decision was based on the recognition of the general meeting’s representative power. Zhang’s power of representation, if any, was granted by the general meeting. If Zhang had played a role in the discontinuation application, he would have acted as the delegate of the general meeting, rather than the company’s legal representative, because he had not been registered with BICA as such.

D. Case Study: When the Legal Representative Is Physically Unavailable or the Ability to Act as the Legal Representative Is in Doubt

The question of a general meeting’s power of representation may also crop up where the company’s legal representative is unavailable or where the ability to act as the company’s legal representative is in doubt. This can occur, for example, when the legal representative is under police custody. The recent case of *Wanhong Co. v. Beimai Import and Export Co.* (“*Wanhong*”)\(^{175}\) illustrates that the court may be willing to recognize the general meeting’s power to litigate under these circumstances, even though

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\(^{172}\) *Id.*

\(^{173}\) *Id.* The case commentator is Shen Li, an Assistant Judge of the Second Civil Law Division of Shanghai Higher People’s Court, where the case was decided. There is therefore reason to believe that Shen’s view is that of the court.

\(^{174}\) *Qi ye fa ren fa ding dai biao ren deng ji guan li gui ding* [Administrative Rules for Registering an Enterprise’s Legal Representative] (promulgated by St. Admin. for Indus. and Commerce, June 23, 1999), art. 3 CHINALAWINFO (last visited Jan. 20, 2008) (P.R.C.).

the court in Wanhong appears to have erred by agreeing with the defendant’s ungrounded argument regarding shareholders’ litigation rights.

The plaintiff company, the first defendant company, Heilongjiang Province Beimai Import and Export Trading Co. (“Beimai”), and Danwei Holdings Co. (“Danwei”) entered into an arrangement to jointly run an export business. Under the agreement, the plaintiff was responsible for obtaining a loan for the first defendant who was in charge of procuring the goods to be exported. Danwei was to act as the guarantor for the loan. The second defendant, Heilongjiang Province Beidahuang Wheat Industry Co. (“Beidahuang”), and the third defendant, Longxing Agricultural Development Co. (“Longxing”), were the only shareholders in the first defendant company, holding fifty-one percent and forty-nine percent of the shares issued by the company, respectively. The general manager of Beidahuang, which was the majority shareholder in Beimai, was appointed as the legal representative of Beimai.

It was alleged that the plaintiff company advanced a loan for RMB 17 million to Beimai in late 2002. The cooperative relationship between the plaintiff and Beimai ended in early 2003 due to market fluctuation. It was alleged that the latter, Beimai, still owed the plaintiff company RMB 7 million. The plaintiff brought an action against Beimai for the remaining debt and against Beidahuang and Longxing for failing to contribute or unlawfully withdrawing capital money in their capacity as shareholders. Evidence existed, however, that cast doubt on whether Beimai received the allegedly loaned money from the plaintiff company and whether Beidahuang and Longxing failed to contribute capital or had otherwise illegally withdrawn the capital funds they had contributed.

When the action commenced, Beimai was virtually non-existent. Both the financial books and the company seal were missing. Its legal representative was under police custody on a separate matter, and the

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176 Id. at 2.
177 Id. at 3.
178 Id.
179 Id. at 5.
180 Id. at 1.
181 Id. at 3.
182 Id.
183 Under the 2005 Company Law, the shareholders of a limited liability company must contribute the total amount of capital, which must be registered with the company registration authority. 2005 Company Law, supra note 11, arts. 26-32. See also Hu Zaichi, Limited Liability Companies, in 1 CHINA COMPANY LAW GUIDE, supra note 13, ¶ 45-130.
184 Beidahuang, supra note 175, at 6-7.
185 Id. at 7.
186 Id.
company’s actual location was unknown.\textsuperscript{187} Thus, the legal representative, or even the board, of Beimai was not in a position to defend the proceedings on behalf of the company. Longxing was a fly-by-night company and could also not be located.\textsuperscript{188} The only defendant that was worth suing was, therefore, Beidahuang.

One of the questions presented by the case was whether Beidahuang, the majority shareholder, could defend the proceedings on behalf of Beimai on the issues brought before the court.\textsuperscript{189} The court answered this question in the affirmative.\textsuperscript{190} The court reasoned that the majority shareholder had standing to defend proceedings in the name of the company because a shareholder could take a derivative action against a defaulting company officer to vindicate the company’s rights.\textsuperscript{191}

While the result of the court’s judgment on this issue is justifiable, the basis of the judgment is questionable. In a derivative action, the shareholder who initiates a proceeding does so in her own name, rather than in the name of the company, against the person who has allegedly harmed the company. The court normally allows the company to join as a party in the litigation so that the company may be bound by the benefit of the judgment.\textsuperscript{192} The company itself is not, however, a claimant in such an action, as it has not consented to the action.\textsuperscript{193}

Proceedings against the company, on the other hand, can only be defended by the company itself. This means that only a person who has the power to represent the company has standing to defend proceedings in the name of the company. This person is, in ordinary circumstances, the legal representative of the company.\textsuperscript{194} A shareholder does not have this representative power and does not have the standing to defend an action against the company.

\begin{flushleft}
\footnotesize
\textsuperscript{187} Id. at 1.
\textsuperscript{189} Beidahuang, supra note 175, at 15.
\textsuperscript{190} Id.
\textsuperscript{191} Id.
\textsuperscript{192} Under the Civil Procedure Law, where a person’s interest will be affected by litigation to which he or she is not a party, the person may apply to join the litigation. Civil Procedure Law, supra note 117, art. 56. The court has the power to invite the person to be joined as a third party, even if neither of the parties in the litigation have a cause of action against the third party. Id. This is different from the practice in common law jurisdictions, where a company is normally joined as a defendant to achieve the same purpose. See Davies, supra note 1, at 454.
\textsuperscript{193} See Davies, supra note 1, at 454.
\textsuperscript{194} See supra note 56 and text accompanying.
\end{flushleft}
Despite the court’s mistake in determining the extent of the shareholder’s right, the court would have reached the same result had it taken into account the general meeting’s power to control corporate actions. As previously discussed, there are no doctrinal or practical barriers to allowing the general meeting to have control over corporate proceedings where the board of directors and the legal representative are both unavailable. In Wanhong, the Beidahuang was a majority shareholder, holding fifty-one percent of the issued shares. It would have been able to pass an ordinary resolution, which simply requires a majority of votes, at the general meeting with respect to the litigation.

The plaintiff company would naturally have rejected this view by arguing that no general meeting resolution could have existed if no general meeting had been held. This argument can, however, be countered. Where it is physically or practically impossible for the shareholders to hold such a general meeting, the failure to hold the meeting cannot deprive the majority shareholders of their ability to form the will and intention of the company. The Jinling court upheld the effect of a resolution from a general meeting despite procedural defects. This is because the defects were caused by the defaulting board chairperson who actually refused to call and chair the meeting.

By parity of reasoning, where the chairperson of the board and the only other shareholder are unavailable because they are under police custody or have simply disappeared, the impossibility of convening a general meeting should not affect the majority shareholder’s power to make decisions about litigation proceedings on behalf of the company. The result of such a meeting, if held, would be a foregone conclusion.

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195 Beidahuang, supra note 175, at 5.
196 See supra note 112 and text accompanying.
197 See supra note 112 and text accompanying.
198 Neither the 1993 Company Law, which was in force when the case was decided, nor the 2005 Company Law, provide for a quorum. The above view is based on the presumption that a meeting will not constitute a quorum unless at least two individuals entitled to attend it are present. This is the common law position. As stated by Lord President Cooper, “a ‘meeting’ is an assemblage where two or more persons meet, and that, unless the word ‘meeting’ can have assigned to it some special meaning, a meeting cannot be composed of one individual.” In re Prain & Sons [1947] S.C. 325, 328. The quorum required in England and other jurisdictions of British origin is normally two. See, e.g., Companies (Table A to F) Regulations, 1985, S.I. 1985/805, amended by S.I. 2007/2541 and S.I. 2007/2826, tbl. A, art. 40 (U.K.); Companies Ordinance, (2004) Cap. 32, § 114A(1)(c) (H.K.), available at http://www.legislation.gov.hk/eng/how.htm; Corporations Act, 2001, § 249T(1) (Austl.) (a replaceable rule).
199 See supra note 122 and text accompanying.
VI. CONCLUSION

The company representation mechanism is only functional when a person capable of representing the company is available. Such a person is unavailable when the person granted the power of representation is unable to faithfully perform duties or is physically unavailable. Ironically, the legal representative mechanism under China’s company law regime often creates situations where the legal representative is unavailable. Because the power of representation is statutorily vested in a senior executive officer, the legal representative’s performance is often self-biased. Furthermore, because the power of representation is vested in a single person, the company’s competence in controlling its legal proceedings is often questioned when the legal representative is physically unavailable or when the representative has not delegated his or her power of representation to another.200 The requirement that the appointment of the legal representative must be approved by and registered with the company registration authority often creates a temporal gap between the appointment and the subsequent processes with the registration authority.201

The unavailability of a company’s legal representative often places the courts in a dilemma between requiring compliance with the formal rules of legal representation and the substantive need for giving effect to the intentions of the company and enabling it to resolve disputes or defend its interests through court proceedings. The courts in the cases discussed in this Article demonstrate a consistent willingness to prefer the latter to the former. However, the courts have not always been able to identify and articulate the correct doctrinal basis for their decisions.

The cases discussed in Part V demonstrate that the issues in each case can all be resolved on the basis of the general meeting’s power to control corporate proceedings. Following the justifications discussed in Parts IV and V, when a company’s representative mechanism is dysfunctional, the general meeting should be regarded as having decision-making and representation powers over legal proceedings. The general meeting’s power to control company litigation can, therefore, serve as a doctrinal basis to retain the litigational power of the company when the company’s board of directors or the legal representative is unavailable or incompetent. The general meeting’s representative power should only be exercisable when a legal representative is unavailable, or otherwise incapable of discharging his or her role in an unbiased manner.

200 See Beidahuang, supra note 175.
201 As was the case in Wang, supra note 97, Shihua, supra note 126, and Shanghai, supra note 164.
With the general meeting’s power to control corporate actions, the inherent deficiency of the legal representative system will be cured. Additionally, Chinese companies will be able to enhance their ability to settle disputes and protect their interests through legal proceedings. More importantly, this will help strengthen corporate governance under the current company law regime by providing an additional avenue through which the company may seek to enforce its senior officers’ duties. Since case precedent does not have binding force in China,\textsuperscript{202} the recognition of the general meeting’s power to control company proceedings may be formalized by inserting a provision in the 2005 Company Law, or more realistically, by Supreme People’s Court judicial interpretation on this issue.\textsuperscript{203}
