



# 2024 Korean AGM Season Review

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# Introduction

## Cas Sydorowitz

Global CEO

[cas.sydorowitz@georgeson.com](mailto:cas.sydorowitz@georgeson.com)



We are proud to present the [second] edition of Georgeson's Korea AGM Season Review, in which we analyse the trends we have observed at AGMs held by Korean companies in 2024.

Founded in 1935, Georgeson is the world's oldest proxy solicitor and is now a global market leader in strategic shareholder communications, corporate governance and ESG advisory. Our unrivalled market expertise, coupled with our strong relationships with investors around the world, allows us to deliver the highest quality support to all our clients. It also gives us a holistic view of how shareholder priorities are changing and how this affects AGM voting behaviours. This report highlights the AGM trends across Korea, a market in which we have operated for over nine years.

The concentration of Korean AGMs continued in 2024, with 99.6% of AGMs taking place during March, 82.2% in the last week of March.

Shareholder proposals, at 137, were down on 2023 but a record 24.1% passed, after steady increases over eight years. There were significant increases in the number of proposals to elect outside directors and audit committee members; to repurchase stock and retire treasury stock; and on remuneration caps and inside directors. These show that shareholders are prioritising the supervisory functions of the board and unlocking value, and are

prepared to take action when dissatisfied with executive remuneration and management strategies.

We include in this Review a number of case studies showing how prominent shareholders and some overseas-based activist investors have challenged boards on transactions they feel benefit some shareholders at the expense of others. Some of these challenges succeeded and led to change but others were defeated, both outcomes occurring through the mobilisation of supportive shareholders. These and other examples show that, while Korea's listed companies have been attracting overseas investors with higher governance expectations, they have not always been willing to change some of their longer-established governance practices accordingly.

Finally, we explain how the Korean government has announced measures during 2024 to improve laws and regulations regarding:

- > Treasury stock - with new requirements banning transfers, increasing disclosure obligations and closing loopholes relating to acquisition or disposal of treasury stock under a trust contract;
- > Corporate mergers and acquisitions - with a strengthening of relevant disclosure, improvements to external assessment requirements and changes to how merger values are calculated.

The latter changes, in particular, have already led to complaints from some market participants that they do not go far enough and exclude affiliated company transactions where there is more likelihood of general shareholders being treated less favourably than controlling shareholders. Both sets of changes are due to be finalised and the revised bills and regulations implemented during the third quarter of 2024.



# KOREA HIGHLIGHTS

**99.6%** of KRX-listed companies held their AGM in March, **82.1%** in the last week of March.

Across the KOSPI 100, **three** companies had board-proposed agenda items rejected by shareholders. Korea Zinc's board proposed five agenda items regarding amendments to articles of incorporation, **one** of which was rejected by shareholders.

We observed **137** shareholder proposal submissions, a decrease of 20.8% from 2023, of which 33 (24.1%) passed. Among the main shareholder proposals:

- > **City of London** and four other institutional shareholders jointly submitted a shareholder proposal to Samsung C&T on two agenda items, both of which failed to pass.
- > **Industrial Bank of Korea** submitted a shareholder proposal to KT&G on one agenda item, and its nominee was elected as outside director.
- > **CY Lim and JH Lim** jointly submitted a shareholder proposal to Hanmi Science on seven agenda items, and all of their nominees were elected as directors.

Major Korean proxy advisors **KCGS**, **KRESG**, and **Sustinvest** made voting recommendations on 2,501, 4,528 and 1,608 agenda items, respectively. They made Against recommendations on 13.7%, 11.3%, 10.0% of these respectively.

On governance, the **Korean government** announced measures to improve laws and regulations regarding M&A, despite controversies on their effectiveness, and regarding treasury stock, and both will be implemented in 3Q24.



# 1. Voting in Korea in 2024

## 1.1 AGM Scheduling

The concentration of AGMs in the last week of March has significantly increased over the last 3 years. 99.6% of KRX-listed companies held their AGM in March 2024, 82.1% in the last week of March. AGMs were most concentrated on March 28, 29, 26, when 32.8%, 27.8% and 10.3% of all meetings were held, respectively.

Some investors are concerned by this concentration and have suggested holding AGMs in April, but at this stage there are no plans by regulators to change anything.

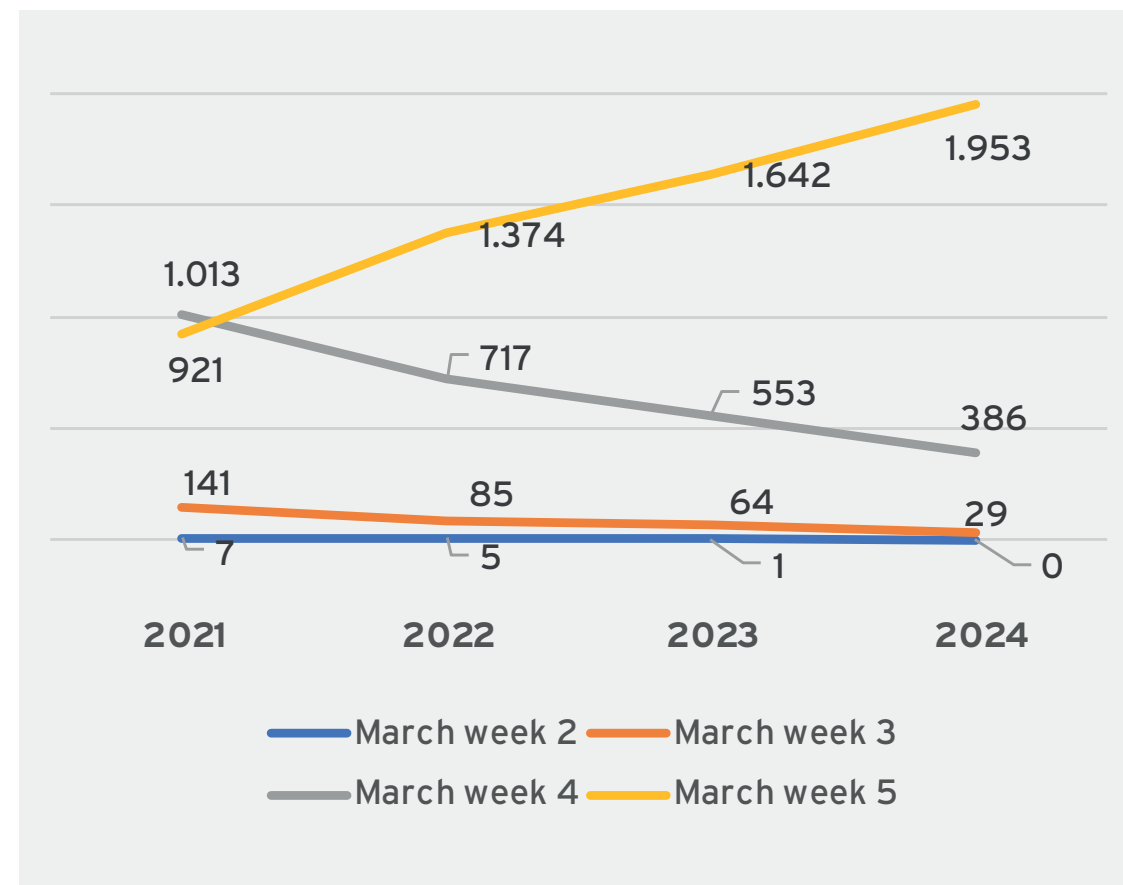


Figure 1: Numbers of AGMs of KRX-listed companies by week in March 2024

Month	Week	Mon	Tue	Wed	Thu	Fri	Sat	Total
Feb	5 <sup>th</sup>			1	4			5
	2 <sup>nd</sup>							0
Mar	3 <sup>rd</sup>		1	1	8	19		29
	4 <sup>th</sup>	5	12	56	146	166	1	386
	5 <sup>th</sup>	128	244	138	781	662		1,953
	1 <sup>st</sup>	1				1		2
Apr	2 <sup>nd</sup>	1						1
	3 <sup>rd</sup>		1					1
	4 <sup>th</sup>					1		1
	<b>Total</b>							<b>2,378</b>

Table 1: Number of AGMs of KRX-listed companies by week and day

(Source: Korea Listed Companies Association, KOSDAQ Listed Companies Association)





## 1.2 Rejected resolutions

Among our sample of KOSPI 100 companies, three companies had board-proposed agenda items rejected by shareholders during the 2024 AGM season. We take a closer look at one of the three, Korea Zinc (KOSPI: 010130), a major refined zinc-producing company headquartered in Korea.

### Case Study: Korea Zinc

Korea Zinc’s board proposed five agenda items regarding amendments to its articles of incorporation at its 2024 AGM, one of which was rejected by shareholders.

Agenda Number	Agenda Type	Voting Result	NPS	ISS	Glass Lewis
2-2	Amendments to Articles of Incorporation	Rejected	For ●	Against ●	For ●

Korea Zinc had kept treasury stock representing 6.3% of its issued shares for over 13 years since the mid to late 2000s without retiring it, and finally sold it all to external parties in 2022. It sold treasury stock totaling 3.2% of its issued shares to LG Chem and Hanwha in return for buying their treasury stock (0.5% and 7.3% of each) to form mutual cross-shareholdings. This is a common practice for some listed companies in Korea facing potential or actual management rights disputes. Korea Zinc announced that the purpose was to ‘build up strategic partnership relationships’.

Issuing new shares to non-shareholders is generally allowed only where there are rational reasons that justify the share dilution, and the Commercial Act (Article 418) limits it to where it is necessary to achieve the company’s operational objectives. Korea Zinc’s articles of incorporation restricted

persons who could purchase new shares from the company, other than shareholders, to ‘foreign joint ventures’; the provision seemed to be to facilitate business expansion in overseas markets.

Korea Zinc, however, issued new shares representing 10.0% of its issued shares to foreign subsidiaries of domestic companies, rather than foreign companies, i.e. to the Hanwha U.S. subsidiary and the Hyundai Motor Company U.S. subsidiary (5.0% to each), in 2022 and 2023 respectively. All other shareholders were thereby significantly diluted.

Korea Zinc’s board proposed to amend the articles of incorporation to let the company issue new shares to a broader base than the existing requirements allowed. The amendments were intended to expand the issuance to specific persons the board identified. Young Poong, Korea Zinc’s parent company, holding 25.2% of its shares, objected to its plans, expressing concerns that the amendment might lay the basis for the company to issue shares to entities friendly to the current management, considering its past practices regarding treasury stock and stock issuance. Young Poong was able to generate enough support that the amendment failed.

Before the Amendments	After the Amendments
<p><b>Article 17-2</b></p> <p>2. The Company may issue new shares by resolution of the Board of Directors “to foreign joint ventures for management purposes” within the range of face value not exceeding 40 billion KRW.</p>	<p><b>Article 17</b></p> <p>1. When the company issues new shares by resolution of the board of directors, it shall be done in the following manner.</p> <p>2. If necessary to achieve the company’s management objectives, such as introduction of new technology and improvement of financial structure, within the scope of the total face value not exceeding 40 billion KRW, to specific persons (including shareholders of the company) by methods other than those specified in subparagraph 1. A method of providing an opportunity to subscribe to new shares in order to allocate new shares.</p>

Table 2: Effect of Korea Zinc’s amendments to the articles of incorporation

(Source: Korea Zinc)



### 1.3 Shareholder Proposals

#### 1.3.1 Overall Trends

During the 2024 AGM season, 137 shareholder proposals were submitted, of which 33 passed. Although submissions were down by 20.8% from 2023, this is still the second-highest figure over the past 8 years. Most notable is the record pass rate in 2024 (24.1%), which followed steady increases over the last few years. This suggests that shareholders have become more proficient at lodging effective proposals and promoting them in ways that resonate with other shareholders.

There have been several important trends in shareholder proposals over the past 8-year period:<sup>2</sup>

- > Increases in the number of proposals for the election of outside directors and audit committee members suggest that a focus on the supervisory functions of the board is still a major priority.

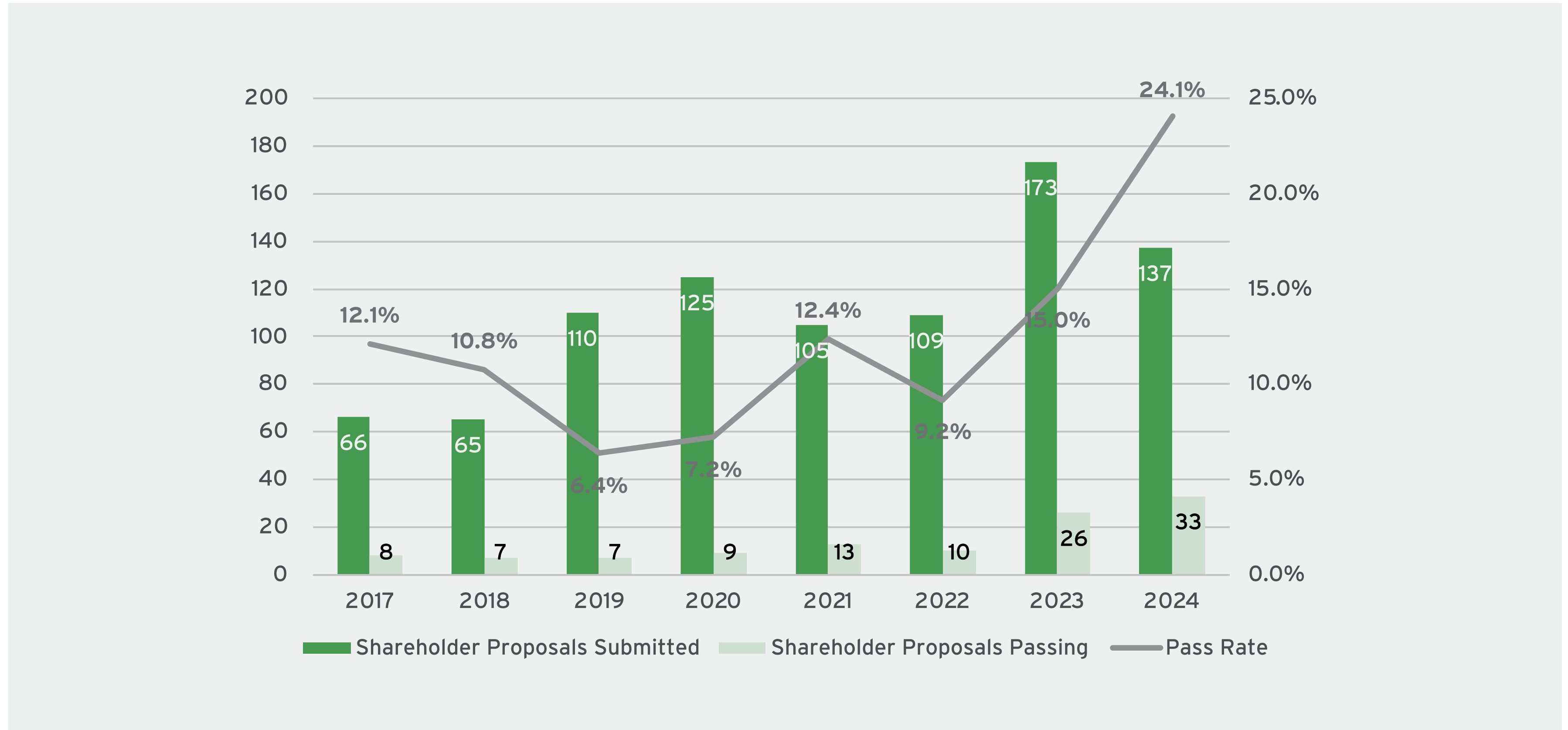


Figure 2: Number of shareholder proposal submissions and voting results<sup>1</sup>

(Source: Georgeson)

<sup>1</sup> The number of shareholder proposal submissions excludes proposals accepted by the board and those withdrawn by the proposing shareholders.



- › Increases in the number of proposals on stock repurchases and the retirement of treasury stock indicate rising demands for companies to unlock value and growing awareness of problematic practices regarding treasury stock.
- › Increases in the number of proposals on remuneration caps and inside directors show that topics on which shareholders are prepared to take action have expanded from board independence and shareholder return so they now include executive remuneration and management strategies.

**Key points that stand out:**

- › The pass rate of proposals for the election of audit committee members has dramatically increased (19.1%) since the introduction of separate elections for audit committee members at the end of 2020.<sup>4</sup>
- › The pass rates of proposals on shareholder returns (allocation of income, stock repurchases, retirement of treasury stock) are in single digits suggesting that shareholders are more likely to support board decisions on capital allocation.

	Number of Shareholder Proposal Submissions			% Increase (=B/A-1)
	Past 8 Years (2017~2024)	1st Half (A) (2017~2020)	2nd Half (B) (2021~2024)	
Election of Outside Directors	170	77	93	20.8%
Election of Audit Committee Members	62	15	47	213.3%
Election of Internal Auditors	84	42	42	0.0%
Allocation of Income	126	64	62	-3.1%
Approval of Stock Repurchases	17	4	13	225.0%
Approval of the Retirement of Treasury Stock	21	5	16	220.0%
Amendments to Articles of Incorporation	159	66	93	40.9%
Changes in Remuneration Cap for Directors	21	7	14	100.0%
Changes in Remuneration Cap for Internal Auditors	12	2	10	400.0%
Election of Inside Directors	137	51	86	68.6%
Election of Non-Independent Non-Executive Directors	18	8	10	25.0%
Others	63	25	38	52.0%
<b>Total</b>	<b>890</b>	<b>366</b>	<b>524</b>	<b>43.2%</b>

**Table 3:** Number of shareholder proposal submissions by category in first and second four-year periods<sup>3</sup>

(Source: Georgeson)

<sup>2</sup> There have also been increases in the proportion of the following proposals to total listed companies, as well as the number of these, for the same period.

<sup>3</sup> For the number of shareholder proposal submissions by category in each year, please refer to Table A-1 in the appendix.

<sup>4</sup> A shareholder holding more than 3% of the issued shares, excluding non-voting shares, is allowed to exercise his/her voting rights only up to 3% in the appointment of internal auditors and audit committee members, the so-called 3% Rule (Commercial Act Article 409, Article 542-12). At least one audit committee member should be elected under the 3% Rule separately from the rest of the members, the so-called separate elections for audit committee members.





› Meanwhile, proposals for the election of audit committee members passed at a lower rate (19.1%) compared to internal auditors (31.0%), despite both being subject to the 3% Rule from 2021. There are two possible reasons for this:

1. The less strict 3% Rule applies to the election of audit committee members who are outside directors; and
2. Companies with an audit committee generally have greater assets and therefore a higher proportion of foreign shareholders.<sup>5</sup>

	Number of Shareholder Proposals Passing & Pass Rate						%p Increase (=B-A)
	Past 8 Years (2017~2024)		1st Half (A) (2017~2020)		2nd Half (B) (2021~2024)		
Election of Outside Directors	21	12.4%	5	6.5%	16	17.2%	10.7%p
Election of Audit Committee Members	9	14.5%	0	0.0%	9	19.1%	19.1%p
Election of Internal Auditors	20	23.8%	7	16.7%	13	31.0%	14.3%p
Allocation of Income	3	2.4%	1	1.6%	2	3.2%	1.7%p
Approval of Stock Repurchases	1	5.9%	0	0.0%	1	7.7%	7.7%p
Approval of the Retirement of Treasury Stock	0	0.0%	0	0.0%	0	0.0%	0.0%p
Amendments to Articles of Incorporation	23	14.5%	10	15.2%	13	14.0%	-1.2%p
Changes in Remuneration Cap for Directors	1	4.8%	0	0.0%	1	7.1%	7.1%p
Changes in Remuneration Cap for Internal Auditors	3	25.0%	0	0.0%	3	30.0%	30.0%p
Election of Inside Directors	23	16.8%	6	11.8%	17	19.8%	8.0%p
Election of Non-Independent Non-Executive Directors	5	27.8%	1	12.5%	4	40.0%	27.5%p
Others	4	6.3%	1	4.0%	3	7.9%	3.9%p
<b>Total</b>	<b>113</b>	<b>12.7%</b>	<b>31</b>	<b>8.5%</b>	<b>82</b>	<b>15.6%</b>	<b>7.2%p</b>

**Table 4:** Number of shareholder proposals passing and pass rate by category in the first and second four-year periods<sup>6</sup>

(Source: Georgeson)

<sup>5</sup> A listed company with total assets valued at KRW 2tn or more as at the end of the latest business year is required to establish an audit committee (Commercial Act Article 542-11). The greater the assets, the higher the proportion of foreign shareholders. This may make it harder to engage with shareholders and potentially result in lower pass rates for shareholder proposals.

<sup>6</sup> For the number of shareholder proposals passing by category in each year, please refer to Table A-2 in the appendix.



1.3.2 Case Studies

1) Samsung C&T

City of London and four other institutional shareholders jointly submitted a shareholder proposal to construction and engineering company Samsung C&T (KOSPI: 028260) on two agenda items at its 2024 AGM, details of which are given here.

Agenda Number	Agenda Type	Voting Result	NPS	ISS	Glass Lewis
1-2-2	Allocation of income	Failed	Against ●	For ●	For ●
3	Approval of Stock Repurchases	Failed	Against ●	For ●	For ●

The equity value (NAV) of a holding company can be roughly calculated by subtracting net debt from (or adding net cash to) the total value of listed subsidiaries and unlisted operating businesses according to the sum-of-the-parts (SOTP) valuation method. It is common in Korea, for the market capitalization of a holding company to fall far short of its NAV, called the holding company discount. This results from the peculiar market environment in which both a parent company and its subsidiaries are allowed to list on the stock exchange at the same time, even without shareholder protections. Market participants often expect listed holding companies in Korea suffering a discounted share price to implement a relatively more aggressive shareholder return policy.

Samsung C&T has acted as a de facto holding company of the Samsung group since its merger with Cheil Industries in 2015, albeit not as a so-called pure holding company as defined by the Monopoly Regulation and Fair Trade Act. Samsung C&T has traded at a large discount to NAV over the past 5 years; the discount has steadily increased and rose to 70% in 2023. Samsung C&T has not repurchased its shares with a view to improving shareholder value since 2015, in spite of its abundant net cash. Its dividend payout is not high either as it suddenly reduced its dividend payout ratio (DPR) by more than half to below 20% in 2022.

<sup>7</sup> To simplify the analysis, we assumed that the value of unlisted operating businesses equals zero. The SOTP valuation is based on annual average figures.

SOTP Valuation (KRW, bn)		2019	2020	2021	2022	2023
Listed Subsidiary	SC&T Stake					
Samsung Electronics	4.4%	12,236.1	15,012.5	20,791.8	16,793.9	17,719.0
Samsung Biologics	43.1%	9,831.9	18,842.7	24,364.3	25,108.4	23,372.7
Samsung Life Insurance	19.3%	3,046.4	2,238.2	2,915.2	2,500.4	2,638.6
Samsung SDS	17.1%	2,776.4	2,311.6	2,362.0	1,768.9	1,744.9
Samsung Engineering	7.0%	231.1	174.0	272.6	322.0	397.0
Total (A)		28,122.0	38,578.8	50,705.9	46,493.7	45,872.3
Net Cash (B)		19,662.5	25,817.0	29,307.3	24,394.0	23,589.0
Equity value (NAV=A+B)		47,784.4	64,395.9	80,013.2	70,887.7	69,461.3
Market Capitalization (MC)		19,095.2	20,541.7	24,184.9	21,455.2	20,587.7
Discount (=1-(MC/NAV))		60.0%	68.1%	69.8%	69.7%	70.4%
Shareholder Return Policy		2019	2020	2021	2022	2023
Dividend Payout Ratio (DPR)		31.4%	36.6%	42.4%	18.4%	18.8%

Table 5: Samsung C&T's discount and dividend payout ratio<sup>7</sup>

(Source: FnGuide, Samsung C&T, Georgeson)





The activist investors proposed:

- > cash dividends of KRW 736.4bn to raise the DPR to over 30%; and
- > the repurchase of KRW 500bn worth of shares.

The board proposed cash dividends of KRW 417.3bn that, if approved, would maintain the DPR at a similar level to before and announced a detailed schedule for the retirement of treasury stock. The market consensus was that Samsung C&T would be able to generate enough cash flows from its operating business and dividend income to cover both its future capex and the shareholder proposal. Samsung C&T's stance was that the proposed total amount of shareholder return (KRW 1,236.4bn) exceeded the free cash flow in the most recent two financial years, posing a grave burden to the company in terms of business management.

Board Proposal	Shareholder Proposal
Cash Dividends	Cash Dividends
KRW 2,550 per common share	KRW 4,500 per common share
KRW 2,600 per preferred share (DPR: 18.8%)	KRW 4,550 per preferred share (DPR: 33.2%)
Retirement of Treasury Stock	Stock Repurchases
Retirement of all of its treasury stock (12.6%) by 2026 (a third in 2024, 2025 and 2026, respectively)	Repurchase of KRW 500bn worth of shares in 2024

Both agenda items failed to pass despite unanimous support from ISS, GL and 3 major local proxy advisors. Among the reasons for the failure was opposition from KCC and NPS, the second and third largest shareholders with 9.2% and 7.3% of shares respectively.<sup>8</sup>

It is still open to question whether Samsung C&T's recent dividend policy, restricting dividend distribution to 60-70% of its dividend income from affiliates, provides dividends large enough to maximize shareholder value. Samsung C&T may face further shareholder action in future without additional measures to tackle its share discount problem.

Table 6: Samsung C&T's board proposal vs shareholder proposal

Shareholder	Ownership Percentage
Jay Y. Lee and affiliates	33.6%
KCC	9.2%
National Pension Services (NPS)	7.3%
Others	49.9%
Total	100.0%

Table 7: Samsung C&T's shareholder composition as of the end of 2023

<sup>8</sup> KCC has been well known as a friendly shareholder of the Samsung group since it supported the controversial merger between Samsung C&T and Cheil Industries in 2015.

(Source: Samsung C&T)





## 2) KT&G

Flashlight Capital Partners and Industrial Bank of Korea (IBK) between them submitted a shareholder proposal to tobacco and ginseng company KT&G (KOSPI: 033780) on two agenda items at its 2024 AGM, details of which are given here.

Agenda Number	Agenda Type	Voting Result	NPS	ISS	Glass Lewis
3-3	Election of Outside Directors (IBK proposal)	Passed	For ●	For ●	For ●
3-4	Election of Outside Directors (Flashlight proposal)	Withdrawn	N/A ●	N/A ●	N/A ●

In Korea, conflicts of interest between controlling and general shareholders, rather than between management and shareholders, have been a significant corporate governance issue because ownership is more concentrated than in the US and UK. Some controlling shareholders have benefitted at the expense of general shareholders in ways including circular ownership and related-party transactions; laws and regulations and shareholder actions have focused on coping with such practices. On the flip side, companies with dispersed ownership in Korea, mainly privatised public companies and financial holding companies, have appeared to have better governance and have attracted less attention.

KT&G's management and board have been criticized by market participants about their managerial entrenchment, at the center of which were opaque CEO nomination practices. The incumbent CEO was nominated as a sole candidate without open competition when he had expressed a wish to be re-elected. The company has owned a large amount of treasury stock for a long time without retiring it and has donated some of these shares to organizations chaired by former and incumbent CEOs. The company's managers were allowed by its articles of incorporation to sit on the outside director nomination committee and, actually, the committee has included an inside director until 2022.

Flashlight raised questions about and voiced opinions on KT&G's CEO nomination practices and IBK filed a shareholder proposal for the appointment of an outside director; both publicly opposed the board-proposed CEO and outside director nominees. In response, KT&G amended its board regulations on the CEO nomination process in December 2023 and, at the 2024 AGM, raised an agenda item to amend the articles of incorporation so that the outside director nomination committee would entirely consist of outside directors.<sup>9</sup> In spite of the company's efforts, the activist investors maintained their stance opposing the board-proposed CEO nominee, questioning the effectiveness of its new verification process for presidential candidates. The market consensus also had it that the board necessitated outside directors nominated by shareholders to restore trust in its independence.

KT&G's directors were elected based on cumulative voting and the board-proposed nominee and IBK's nominee were elected as CEO and outside director respectively. Flashlight's campaign, which led to an improvement in KT&G's CEO nomination process, may come to be seen as an important case and may have a positive influence on Korean companies with dispersed ownership. IBK's campaign, filing a shareholder proposal and successfully getting its nominee onto the board, may also be an example of how Korean government agencies and public pension funds can deal with these issues.

<sup>9</sup> According to the KT&G's disclosure, the amendments to board regulations include removing the provision that allowed priority review for the current president in case of expressed interest in reappointment. The verification process for KT&G's presidential candidates involves a three-tiered approach: the 'Governance Committee - Presidential Candidate Recommendation Committee - Board of Directors.'



### 3) Hanmi Science

CY Lim and JH Lim (Lim brothers) jointly submitted a shareholder proposal to Hanmi group’s holding company Hanmi Science (KOSPI: 008930) on seven agenda items at its 2024 AGM, details of which are given here.

Agenda Number	Agenda Type	Voting Result	NPS	ISS	Glass Lewis
2-7	Election of Inside Directors	Passed	Against ●	For ●	Against ●
2-8	Election of Inside Directors	Passed	Against ●	Against ●	Against ●
2-9	Election of Non-Independent Non-Executive Directors	Passed	Against ●	Against ●	Against ●
2-10	Election of Non-Independent Non-Executive Directors	Passed	Against ●	Against ●	Against ●
2-11	Election of Outside Directors	Passed	Against ●	For ●	Against ●
3-3	Election of Audit Committee Members	Failed	Against ●	Against ●	Against ●
3-4	Election of Audit Committee Members	Failed	Against ●	For ●	Against ●

After the death of Hanmi group’s founder SK Lim in 2020, his wife (YS Song), two sons (CY Lim, JH Lim), and daughter (Joo-hyeon Lim) inherited his shares in Hanmi Science. YS Song and Joo-hyeon Lim signed a contract with OCI Holdings in January 2024 to sell a large portion of their shares in Hanmi Science and, in return, to receive shares in OCI Holdings along with some cash. Hanmi Science’s board approved the issuance of new shares to OCI Holdings on the same day and officially announced the integration between the Hanmi group and the OCI group. Through the so-called package deal transactions, OCI Holdings became Hanmi Science’s largest shareholder, owning 27.0%, and YS Song and Joo-hyeon Lim became OCI Holdings’ major shareholders, owning 10.4%.

The Lim brothers strongly opposed the board decisions, asked the court to ban the stock issuance and submitted a shareholder proposal to appoint five new directors. Market participants were concerned that the directors may have breached their fiduciary duty to act in the best interests of all shareholders by approving the stock issuance, which only benefitted two controlling shareholders (YS Song and Joo-hyeon Lim) and diluted all the rest. There were also concerns over possible conflicts of interest between the board and general shareholders after the integration, because OCI Holdings would have to purchase additional shares considering it had insufficient ownership, with its 27.0%, to gain complete control over the Hanmi group. OCI Holdings’ unfortunate previous history with Bukwang Pharm further intensified the controversy.<sup>10</sup>

<sup>10</sup> Bukwang Pharm’s founding family, like YS Song and Joo-hyeon Lim, sold their corporate control to OCI Holdings for the payment of donation taxes in March 2022, and its financial performance, market cap, and excess return have markedly decreased over the past two years since then.





The percentage ownership of proponents YS Song and Joo-hyeon Lim, and their affiliates, was higher than that of the opposing Lim brothers and their affiliates by 6.6% when the deal was signed. As the AGM neared, the two largest general shareholders, DG Shin and NPS, declared their positions. DG Shin, the second largest shareholder with 12.2%, announced its support for the Lim brothers six days before the AGM. Four days later NPS, with 7.7%, announced its support for the company, reversing the situation. At the AGM almost all remaining shareholders supported the Lim brothers, resulting in all the Lim brothers' nominees being elected as directors; the board-proposed nominees all failed to be elected.

With the clean sweep of the Lim brothers' nominees, the board, previously consisting of four directors, became dominated by the five Lim brothers' directors. Immediately after the AGM, the OCI group announced the suspension of the integration and, in April, Hanmi Science rescinded the decision to issue new shares to the OCI group. In this case, shareholders judged the board harshly on the perceived breach of its fiduciary duty and poor handling of its supervisory functions.

	Before the deal		After the deal	
	Number of Shares	Ownership Percentage	Number of Shares	Ownership Percentage
OCI Holdings	0	0.0%	20,651,295	27.0%
Ga-hyeon Foundation	3,430,885	4.9%		
YS Song	8,156,027	11.7%	4,502,243	5.9%
Joo-hyeon Lim	7,132,310	10.2%		
CY Lim	6,935,031	9.9%	6,935,031	9.1%
JH Lim	7,389,428	10.6%	7,389,428	9.7%
Others	36,913,259	52.8%	36,913,259	48.3%
Total Number of Issued Shares	69,956,940	100.0%	76,391,256	100.0%

**Table 8:** Hanmi Science's shareholder composition before and (proposed) after the package deal

(Source: Hanmi Science, Georgeson)

## 2. Proxy Advisors

There are three major local proxy advisors based in Korea - KCGS, KRESG and Sustinvest. Local institutional investors mainly depend on the local proxy advisors in contrast to foreign institutional investors, which rely on ISS and Glass Lewis.

### 2.1 KCGS

Korea Institute of Corporate Governance and Sustainability (KCGS) is a non-profit incorporated association founded in 2002. KCGS establishes and revises important codes of best practice, and carries out ESG ratings, proxy analysis, and policy research. It has been offering proxy advisory services since 2012.

KCGS made voting recommendations on a total of 2,501 agenda items at 371 KRX-listed companies during the 2024 AGM season. The number of Against recommendations was 343 and the ratio of Against recommendations to total recommendations was 13.7%, a 0.9% percentage point decrease from 2023. Resolutions to elect internal auditors recorded the highest ratio of Against to total recommendations (43.5%). Agenda items on approving a remuneration cap for directors showed the largest decrease in the ratio (-17.4%pp) from 2023.

	2023			2024			% Percentage Point Increase (=B-A)
	Total Recs	Against Recs	Ratio (A)	Total Recs	Against Recs	Ratio (B)	
Approval of F/S and Allocation of Income	383	36	9.4%	380	25	6.6%	<b>-2.8%pp</b>
Amendments to Articles of Incorporation	246	35	14.2%	247	44	17.8%	<b>3.6%pp</b>
Election of Inside Directors	407	18	4.4%	458	40	8.7%	<b>4.3%pp</b>
Election of Non-Independent Non-Executive Directors	71	3	4.2%	68	3	4.4%	<b>0.2%pp</b>
Election of Outside Directors	480	70	14.6%	470	83	17.7%	<b>3.1%pp</b>
Election of Audit Committee Members	241	35	14.5%	196	36	18.4%	<b>3.8%pp</b>
Election of Internal Auditors	40	16	40.0%	62	27	43.5%	<b>3.5%pp</b>
Approval of Remuneration Cap for Directors	367	118	32.2%	372	55	14.8%	<b>-17.4%pp</b>
Approval of Remuneration Cap for Internal Auditors	136	1	0.7%	147	1	0.7%	<b>-0.1%pp</b>
Others	113	32	28.3%	101	29	28.7%	<b>0.4%pp</b>
<b>Total</b>	<b>2,484</b>	<b>364</b>	<b>14.7%</b>	<b>2,501</b>	<b>343</b>	<b>13.7%</b>	<b>-0.9%pp</b>

Table 9: Number and ratio of Against recommendations by KCGS by category

(Source: KCGS)





## 2.2 KRESG

Korea ESG Research Institute (KRESG), formerly part of Daishin Economic Research Institute, a subsidiary of Daishin Securities, was newly incorporated by division in 2021. KRESG provides various ESG-related services including ESG ratings, proxy analysis, and RI strategy consulting. It has been offering proxy advisory services since 2014.

KRESG made voting recommendations on a total of 4,528 agenda items at 689 KRX-listed companies during the 2024 AGM season. The number of Against recommendations was 512 and the ratio of Against recommendations to total recommendations was 11.3%, a 0.8% percentage point decrease from 2023. Resolutions to elect internal auditors recorded the highest ratio of Against to total recommendations (33.9%). Agenda items on approving a remuneration cap for directors showed the largest decrease in the ratio (-5.7%p) from 2023.

	2023			2024			%pp Increase (=B-A)
	Total Recs	Against Recs	Ratio (A)	Total Recs	Against Recs	Ratio (B)	
Approval of F/S and Allocation of Income	716	20	2.8%	707	41	5.8%	<b>3.0%pp</b>
Amendments to Articles of Incorporation	451	98	21.7%	431	84	19.5%	<b>-2.2%pp</b>
Election of Inside Directors	773	56	7.2%	823	96	11.7%	<b>4.4%pp</b>
Election of Non-Independent Non-Executive Directors	123	9	7.3%	108	8	7.4%	<b>0.1%pp</b>
Election of Outside Directors	677	70	10.3%	597	38	6.4%	<b>-4.0%pp</b>
Election of Audit Committee Members	542	44	8.1%	533	21	3.9%	<b>-4.2%pp</b>
Election of Internal Auditors	112	37	33.0%	115	39	33.9%	<b>0.9%pp</b>
Approval of Remuneration Cap for Directors	678	188	27.7%	690	152	22.0%	<b>-5.7%pp</b>
Approval of Remuneration Cap for Internal Auditors	308	6	1.9%	316	6	1.9%	<b>0.0%pp</b>
Others	208	27	13.0%	208	27	13.0%	<b>0.0%pp</b>
<b>Total</b>	<b>4,588</b>	<b>555</b>	<b>12.1%</b>	<b>4,528</b>	<b>512</b>	<b>11.3%</b>	<b>-0.8%pp</b>

Table 10: Number and ratio of Against recommendations by KRESG by category

(Source: KRESG)

## 2.3 Sustinvest

Sustinvest is an independent ESG data provider and also a licensed investment advisory firm founded in 2006. Sustinvest provides total ESG analytics and advisory, ranging from ESG ratings to RI strategy consulting. It has been offering proxy advisory services since 2013.

Sustinvest made voting recommendations on a total of 1,608 agenda items at 225 KRX-listed companies during the 2024 AGM season. The number of Against recommendations was 161 and the ratio of Against recommendations to total recommendations was 10.0%, a 0.5% percentage point decrease from 2023. Resolutions to amend articles of incorporation recorded the highest ratio of Against to total recommendations (16.1%) and showed the largest increase in the ratio (8.7%p) from 2023.

	2023			2024			%pp Increase (=B-A)
	Total Recs	Against Recs	Ratio (A)	Total Recs	Against Recs	Ratio (B)	
Approval of F/S and Allocation of Income	224	8	3.6%	227	3	1.3%	<b>-2.2%pp</b>
Amendments to Articles of Incorporation	149	11	7.4%	193	31	16.1%	<b>8.7%pp</b>
Election of Directors and Internal Auditors	802	117	14.6%	850	103	12.1%	<b>-2.5%pp</b>
Approval of Remuneration Cap for Directors	209	8	3.8%	225	12	5.3%	<b>1.5%pp</b>
Approval of Remuneration Cap for Internal Auditors	45	0	0.0%	56	3	5.4%	<b>5.4%pp</b>
Others	67	13	19.4%	57	9	15.8%	<b>-3.6%pp</b>
<b>Total</b>	<b>1,496</b>	<b>157</b>	<b>10.5%</b>	<b>1,608</b>	<b>161</b>	<b>10.0%</b>	<b>-0.5%pp</b>

Table 11: Number and ratio of Against recommendations by Sustinvest by category

(Source: Sustinvest)





# 3. Corporate Governance Developments

A number of changes to regulations covering corporate governance issues were announced by the Korean government during 2024.

## 3.1 Changes regarding treasury stock

In January 2024, the Korean government announced measures to improve laws and regulations regarding treasury stock, consisting of three major upgrades:

### > Prohibition on transferring treasury stock or allocating new shares to it

Under the new regulatory measures, it will be forbidden for treasury stock to be transferred or to be allocated new shares in the case of listed companies' spin-offs or mergers between them. This will force listed companies to retire all of their treasury stock before the transaction, preventing controlling shareholders from using it to strengthen their control.

### > Strengthening of relevant disclosure

Listed companies will be required to prepare reports on current status, purpose and plans in respect of treasury stock and receive approval from the board where they own treasury stock representing 5% or more of issued shares. When they dispose of treasury stock they will have to disclose additional information including counterparties, rationales for selecting the counterparties, rationales for pricing and any expected stock dilution.

### BACKGROUND

Management and controlling shareholders in Korea have often used treasury stock for their own private benefit rather than to enhance shareholder value. There are two main approaches:

**1. Cross shareholdings.** Companies will dispose of treasury stock to friendly investors when management and controlling shareholders are at risk of or facing management rights disputes. Two typical examples are:

- > Samsung C&T sold treasury stock representing 5.8% to KCC in its proxy fight against Elliott Investment Management in 2015; and
- > SK sold treasury stock of 10.4% to local banks in its campaign against Sovereign Asset Management in 2003.

Despite increasing market awareness of such practices and shareholder actions against them, it is still common for companies to exchange treasury stock with friendly companies to create mutual shareholdings, often under the pretext of building a strategic partnership.

**2. Spin offs.** The other common approach is to undertake a spin off and deploy treasury stock to the advantage of controlling shareholders. A spin off per se should not impact shareholder value since all the shares of the spun off company are distributed to shareholders of the surviving company in proportion to the shares they hold. However, if one of the two companies is converted to a holding company and the treasury stock of the company being divided is transferred to the new holding company, the controlling shareholder's control over the other company is strengthened. Controlling shareholders therefore have an incentive to carry out a spin off without retiring the treasury stock of the company first.

### > Closure of loopholes in the regulations

Where listed companies indirectly acquire or dispose of treasury stock under a trust contract, these will be subject to the same requirements as with direct acquisition or disposal. This is intended to update the

current regulations under which less strict requirements apply where treasury stock is acquired or disposed of during the trust contract term.

Specifically, where less treasury stock is acquired via trust than the initially planned or announced amount,

companies will be required to submit an explanatory statement. Where treasury stock is disposed of during the trust contract term, companies will have to disclose information on the purpose, counterparties, rationales for selecting the counterparties, rationales for pricing and expected stock dilution.

The relevant amendments to the Financial Investment Services and Capital Markets Act (FISCMA) and the Regulation on the Issuance and Disclosure of Securities (RIDS) will be enacted and the revised bill and regulations implemented in 3Q24.

## 3.2 Changes regarding M&A

In March 2024, the Korean government announced measures to improve laws and regulations regarding corporate mergers and acquisitions, comprising three major upgrades:

### > Strengthening of relevant disclosure

Listed companies will be required to disclose the board's written opinion on its discussions and decisions on a merger. Information on purpose, expected effects, propriety of terms of the transaction and dissenting opinions on it must be included in the written opinion.

### > Improvements in the external assessment system

External assessment institutions will be prohibited from providing assessment services to a company where they are also involved in the company's calculation of the merger value.<sup>11</sup> External assessment institutions will also be prohibited from conducting an assessment on the merger where they do not have their own quality control standards.

### > Exemption from the application of the merger value calculation method

Mergers between non-affiliated companies will no longer be subject to the merger value calculation method stipulated in the Enforcement Decree of the FISCMA. This means that the merger value should be determined by negotiations between the two non-affiliated companies on the basis of the external assessment, rather than the market price.

The relevant amendments to the FISCMA and the RIDS will be made and the revised bill and regulations implemented in 3Q24.

However, market participants are concerned that such measures may not go far enough to provide an effective solution because:

- > They are seen as too restrictive in granting the exemption only to mergers between non-affiliated companies, given that mergers between affiliated companies are more likely to involve wealth transfers from general shareholders to controlling shareholders;
- > In the case of mergers between affiliated companies, the merger value would be more fairly calculated based on intrinsic value rather than the market price, and the burden of proof on intrinsic value should lie with the companies;<sup>12</sup>
- > The period during which the merger value is measured should be longer than that under the current law to give a fairer average share price, and asset values, as well as the market price, should be reflected in the calculation of the merger value.<sup>13</sup>

<sup>11</sup> Under current law, listed companies should be assessed by an external assessment institution for the fairness of the merger value where they merge with another company and fall under certain cases (Enforcement Decree of the FISCMA 176-5).

<sup>12</sup> Source: Korean Corporate Governance Forum

<sup>13</sup> Source: Solidarity for Economic Reform

### BACKGROUND

Mergers in Korea have at times been used as a way to benefit controlling shareholders, sometimes involving intergenerational transfers of managerial control. When a group's heir lacked the stake in the core company in the group, there have been cases where his controlling power over the company was strengthened through mergers of the core company and an affiliated company in which he held a larger stake. An example is a merger that took place between a large de facto holding company and a subsidiary company in 2015, after which the group heir's ownership of the holding company went from 0% to 16.4%, expanding his controlling power over the whole group.

A key issue is the merger ratio. If the merger value of a company in which a controlling shareholder holds a larger stake increases and that of the other company decreases, the effect can be to maximize the controlling shareholder's ownership of the merged company to the detriment of general shareholders. In this way, conflicts of interest and transfer of wealth from general shareholders to the controlling family can occur when affiliated companies in a family-controlled business group merge with one another, particularly where the controlling family can affect the merger value.

Under the current law, the merger value of a listed company is calculated based on its market price. Where affiliated companies merge, this price can be manipulated depending on which point in time is chosen for the board to agree to the merger, and the controlling family can often be the ones making such decisions. Where one of the two companies is over-valued when the merger ratio is determined, the ownership percentage of its shareholders in the merged company may be higher than if the company was fairly valued. The controlling family may have an incentive to push for a merger when either the company in which they have a larger stake is over-valued or the one in which they have a smaller stake is under-valued. This increases the risk that the merger ratio between affiliated companies is unfair to general shareholders. Following a series of controversial transactions, market participants have been steadily requesting improvements to relevant laws and regulations.



# Appendix

	2017	2018	2019	2020	2021	2022	2023	2024	Total
Election of Outside Directors	3	10	28	36	17	27	31	18	170
Election of Audit Committee Members	0	3	7	5	16	9	9	13	62
Election of Internal Auditors	11	7	13	11	6	9	14	13	84
Allocation of Income	21	13	16	14	13	13	26	10	126
Approval of Stock Repurchases	1	1	2	0	0	2	5	6	17
Approval of the Retirement of Treasury Stock	1	2	2	0	3	1	3	9	21
Amendments to Articles of Incorporation	8	18	17	23	26	15	29	23	159
Changes in Remuneration Cap for Directors	1	2	0	4	3	3	4	4	21
Changes in Remuneration Cap for Internal Auditors	0	0	0	2	2	1	5	2	12
Election of Inside Directors	6	2	21	22	15	20	32	19	137
Election of Non-Independent Non-Executive Directors	0	1	1	6	1	3	0	6	18
Others	14	6	3	2	3	6	15	14	63
<b>Total</b>	<b>66</b>	<b>65</b>	<b>110</b>	<b>125</b>	<b>105</b>	<b>109</b>	<b>173</b>	<b>137</b>	<b>890</b>

Table A-1: Number of shareholder proposal submissions by category in each year

(Source: Georeson)



	2017	2018	2019	2020	2021	2022	2023	2024	Total
Election of Outside Directors	0	1	0	4	2	3	4	7	21
Election of Audit Committee Members	0	0	0	0	2	3	0	4	9
Election of Internal Auditors	0	2	1	4	2	1	5	5	20
Allocation of Income	0	0	1	0	1	0	0	1	3
Approval of Stock Repurchases	0	0	0	0	0	0	0	1	1
Approval of the Retirement of Treasury Stock	0	0	0	0	0	0	0	0	0
Amendments to Articles of Incorporation	4	1	5	0	5	1	7	0	23
Changes in Remuneration Cap for Directors	0	0	0	0	0	0	0	1	1
Changes in Remuneration Cap for Internal Auditors	0	0	0	0	0	0	1	2	3
Election of Inside Directors	3	2	0	1	1	2	6	8	23
Election of Non-Independent Non-Executive Directors	0	1	0	0	0	0	0	4	5
Others	1	0	0	0	0	0	3	0	4
<b>Total</b>	<b>8</b>	<b>7</b>	<b>7</b>	<b>9</b>	<b>13</b>	<b>10</b>	<b>26</b>	<b>33</b>	<b>113</b>

Table A-2: Number of shareholder proposals passing by category in each year

(Source: Georeson)





## ABOUT GEORGESON

Established in 1935, Georgeson is the world's original and foremost provider of strategic services to corporations and investors working to influence corporate strategy. We offer unsurpassed advice and representation for annual meetings, mergers and acquisitions, proxy contests and other extraordinary transactions. Our core proxy expertise is enhanced with and complemented by our strategic consulting services, including solicitation strategy, investor identification, corporate governance analysis, vote projections and insight into investor ownership and voting profiles. Our local presence and global footprint allow us to analyse and mitigate operational risk associated with various corporate actions worldwide. For more information, visit [www.georgeson.com](http://www.georgeson.com)

## AUTHORS

**Cas Sydorowitz**

Global CEO  
cas.sydorowitz@georgeson.com

**Domenic Brancati**

Global COO  
domenic.brancati@georgeson.com

**Paul Murphy**

Head of ESG, APAC  
paul.murphy@georgeson.com

**Chris Brookes**

ESG Advisor, APAC  
christopher.brookes@georgeson.com

**Savoy Lee**

Director, Head of Corporate Advisory, Asia  
savoy.lee@georgeson.com

**Hyunoh (Remi) Lee**

Chief Korea Consultant  
remi.h.lee@gmail.com

**Georgeson**