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CHAMBERS GLOBAL PRACTICE GUIDES

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# International Fraud & Asset Tracing 2024

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**China: Law & Practice**

Ronghua (Andy) Liao, Yanhui (Candice) Li,  
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Han Kun Law Offices



# CHINA

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## Law and Practice

### Contributed by:

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**Han Kun Law Offices** is a leading full-service law firm in China, with more than 800 professionals located in eight offices in Beijing, Shanghai, Shenzhen, Hong Kong, Haikou, Wuhan, Singapore and New York City. The firm's main practice areas include dispute resolution, private equity, mergers and acquisitions, international and domestic capital markets, investment funds, asset management, antitrust/competition, banking and finance, aviation finance, foreign direct investment, compliance,

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## 1. Fraud Claims

### 1.1 General Characteristics of Fraud Claims

The People's Republic of China (PRC), a civil law jurisdiction, does not have standalone laws or administrative regulations for countering fraudulent conduct. Rather, provisions on fraudulent conduct are found within different laws and administrative regulations, which provide legal bases for various fraud claims. For instance, the Anti-Internet and Telecom Fraud Law of the PRC (the "Anti-Wire Fraud Law"), promulgated and brought into force in 2022, provides a legal basis for victims of wire fraud to claim damages against the fraudsters and those who assist in their fraudulent acts.

#### Claims to Rescind a Contract or Other Civil Act

Under the Civil Code of the PRC (the "Civil Code"), one of the elements in a legally effective civil act is the manifestation of true intent. Thus, a victim who is induced by fraud to sign a contract (a civil act) against their true intent can institute a civil action to rescind the contract. In addition to rescission, the victim can also claim against the perpetrator of the fraud for the return of the fraudulently obtained property and/or for compensation for losses so caused. In this instance, the victim may make the same claims against the contract counterparties, even if they are not the perpetrator. If a third party fraudulently induces the victim to enter the contract, the victim may still make successful claims against the counterparties if they were or should have been aware of the third party's fraudulent acts.

#### Conspiracy Claims

Under the Civil Code, civil acts committed by a fraudster and by one or more third parties are voidable where they constituted a malicious col-

lusion and harmed the lawful rights and interests of others (Article 154). Thus, a fraud victim can institute a civil action against such parties and claim avoidance of the civil acts. Such claims may be useful for the victim in tracing and recovering assets that are transferred to a third party in a conspiracy.

A third party knowingly assisting or facilitating the fraudulent acts may be held jointly and severally liable to the victim (see **1.3 Claims Against Parties Who Assist or Facilitate Fraudulent Acts**).

#### Tort Claims

Chinese law does not generally prescribe deceit as a tortious act. However, as deceit is often merely a means of infringing property or personal rights, the victims can instead find a cause of action to bring a tort claim against the perpetrator based on the infringement of property or personal rights. In addition, provisions of law in certain areas expressly prohibit specified fraudulent acts which can give rise to tortious liability – for example, in:

- the Securities Law of the PRC (the "Securities Law");
- the Law of the PRC Against Unfair Competition (the "Anti-Unfair Competition Law"); and
- the Company Law of the PRC (the "Company Law").

For instance, the Securities Law prescribes securities misrepresentation as a special type of fraud, which is defined as the disclosure of information in connection with the offering of securities that violates relevant provisions on information disclosure and causes false records, misleading statements, or material omissions in the information so disclosed. For more details,

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see **3.2 Claims Against Ultimate Beneficial Owners.**

Under the Company Law (as revised and effective from 1 July 2024), if the fraud is perpetrated by the directors or officers of a company, the victim may initiate a civil action against the company, as well as against the directors or officers, and claim for damages. Generally, the victim has the burden of proving that the perpetrators engaged in fraudulent acts, as well as proving the losses suffered, causation and degree of fault. However, considering that it is often too hard for the victim to prove the fraudulent acts and fault, in some areas of law the burden of proof is reversed by requiring the defendant to show there was no fraudulent act or that they were not at fault.

### Duty of Loyalty Claims

Similar to the concept of fiduciary duty in common law jurisdictions, Chinese law imposes a duty of loyalty on the directors and officers of a company. In addition to other specific prohibited acts for the directors and officers, they have a general duty of loyalty and due diligence to the company they serve. Where a director or officer breaches their duty of loyalty (eg, by receiving corrupt payments or misappropriating assets), the company may institute a civil action against them and claim for damages suffered and/or the profits that the perpetrator has made. See also **3.3 Shareholders' Claims Against Fraudulent Directors.**

### Criminal Law

Fraud is a serious criminal offence under the Criminal Law of the PRC (the "Criminal Law"), which provides for various criminal fraud offences including:

- fraud;

- contract fraud;
- illegal taking of deposits from the public;
- fraudulent fundraising; and
- financial fraud.

The conviction standards under the Criminal Law are quite low for each offence – eg, RMB3,000 for criminal fraud and RMB20,000 for criminal contract fraud. The remedies available to the victim are generally limited to a return of the property or compensation for the actual losses in criminal proceedings.

## 1.2 Causes of Action After Receipt of a Bribe

### Civil Claims

Chinese law does not establish a general private right of action for bribery. However, bribery in business activities is expressly prohibited and can trigger civil claims on certain causes of action such as unfair competition or breach of the duty of loyalty.

### Claims Against the Briber

Under the Anti-Unfair Competition Law, business operators and their employees are not allowed to bribe an agent/employee of a counterparty or someone who can use their authority or influence to influence the transaction with the counterparty to obtain trading opportunities or competitive advantage.

A victim whose legitimate rights and interests are harmed by such conduct may bring a claim against the briber to compensate for damages. The amount of such compensation can be determined on the basis of the actual losses suffered as a result of the infringement. Where the actual losses are difficult to calculate, compensation will be determined on the basis of the benefits obtained by the infringer as a result of the infringement.

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## Claims Against Employees, Directors and Officers

An employer whose employee receives a bribe may have civil claims against the employee for losses arising from the bribe. The employer may also rely on contributory infringement as a civil cause of action against the employee and the bribe-giver, who can be held jointly and severally liable with the employee.

Directors or officers of a company who accept bribes in connection with their duties violate their duty of loyalty to the company and, according to the Company Law, the income so obtained by the directors and officers belongs to the company. The company, as the victim, may be entitled to claim against directors and executives to compensate for damages and to return the illegally obtained income. For a related discussion on shareholder derivative actions, see **3.3 Shareholders' Claims Against Fraudulent Directors**.

## Administrative Sanctions

Where business operators violate the provisions of the Anti-Unfair Competition Law by bribing others, the victim can also report to the competent supervision and inspection authority, which may confiscate the illegal gains and impose a fine of between RMB100,000 and RMB3 million. Where the circumstances are serious, the business licence of the bribing company can be revoked.

## Criminal Offences

The Criminal Law provides for various criminal offences for those persons and companies involved in commercial bribery, including the bribe-giver and receiver.

## 1.3 Claims Against Parties Who Assist or Facilitate Fraudulent Acts

Under the Civil Code, a third party who assists a perpetrator in carrying out a fraudulent act may bear joint and several liability with the perpetrator (Article 1169). To establish joint and several liability, the claimant must prove that the third party was or should have been aware of the fraudulent act and the possible harmful consequences of providing such assistance. That is to say, the claimant must establish common intent between the third party and the perpetrator.

“Assistance” is defined as facilitating the perpetrator’s commission of a fraudulent act, which does not necessarily cause the perpetrator to commit the act. An act of assistance can be committed after the fraudulent act, such as a third party’s receipt of fraudulently obtained assets, if common intent is established. Conversely, without common intent, the third-party recipient will not be held jointly and severally liable with the perpetrator.

Without common intent, a third party may instead be held liable for losses caused to the claimant to the extent that the claimant can establish that a third party violated their duties or mandatory provisions of law and caused losses to the claimant. For instance, for the purpose of punishing wire fraud the Anti-Wire Fraud Law provides for certain mandatory business operation requirements for relevant service providers such as telecom companies, banks, third-party payment institutions and internet service providers, and provides that such third-party service providers are liable for losses caused to the fraud victims if their non-compliance with these requirements could have enabled the fraud. In this instance, the claimant needs to prove causation between the third party’s acts and the losses of the victim. In judicial practice, courts may decide liability at



their discretion based on the circumstances – eg, the third party’s degree of fault and their role during the fraud.

A party who assists criminal fraud may become a joint defendant to the crime if there is common intent. Standalone criminal sanctions may apply where the party knowingly harbours, transfers, acquires, sells on behalf of others, or conceals by other means the proceeds or benefits derived from criminal fraud.

## 1.4 Limitation Periods Civil Statute of Limitations

Under the Civil Code, the right to seek protection of civil rights from the court is subject to a statute of limitations of three years from the date on which the victims knew or should have known that their rights had been infringed and the identity of the perpetrator. The statute of limitations can be suspended or renewed under certain statutory circumstances. However, courts no longer provide remedies when the absolute statute of limitations of 20 years has elapsed from the date the rights were infringed, except where there are special circumstances for which the court grants an extension upon the victims’ application.

In addition to the statute of limitations, there are special types of limitation periods for certain specific remedies. For example, a claim for rescinding a contract or other civil act on the basis of civil fraud must be brought within one year from the date on which the victim was aware or should have been aware of the fraud. Such special limitation period is not allowed to be suspended, renewed or extended, and expires five years after the civil act is committed, regardless of whether the fraudulent act or the identity of the fraudster was known to the victim.

## Criminal Prosecution Limitation Periods

Under the Criminal Law, a 15-year or 20-year limitation period applies for serious offences in relation to fraud whose maximum punishment is fixed-term imprisonment of at least ten years to life, which begins from the date of the commission of the offence. However, no limitation exists where a suspect evades a criminal investigation after the case has been filed.

## 1.5 Proprietary Claims Against Property Proprietary Claims and Bona Fide Acquisitions

Under Chinese law, generally a claimant can make a proprietary claim to seek the recovery of property misappropriated or induced by fraud to transfer. Specific to the claims in litigation, a claimant can plead to the court to affirm its ownership over the defrauded property and order the defendant or the party in possession to return the property. Where the defendant is an insolvent entity, the claimant may obtain the return of the property in the possession of the defendant through the bankruptcy administrator, according to Article 38 of the Enterprise Bankruptcy Law of the PRC (the “Enterprise Bankruptcy Law”).

There is also an exception for proprietary claims, which is called a “bona fide acquisition” – that is, where the perpetrator has transferred the property to a third party who has lawfully acquired the title to such property by showing that certain statutory conditions have been met. Under the Civil Code, a bona fide acquisition must meet the following conditions:

- the transfer of the property was in good faith;
- the transaction price was reasonable; and
- the property has been rightfully registered in accordance with the provisions of the law or is in physical possession of the third party.

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## Recovery of Mixed Funds

Cash funds are generally regarded as a special type of movable property; hence, the party who possesses the cash funds is presumed to be their owner. Proprietary claims cannot be made over cash funds unless they are separate so as to be specific or otherwise identifiable or distinguishable. Accordingly, if a claimant is defrauded of cash funds or obtains a monetary award, they are generally on par with other unsecured creditors, regardless of whether they have been mixed with the perpetrator's other funds.

## Investment Gains From Defrauded Property

Gains from defrauded property can generally only be recovered together with proprietary claims. If the fraudster invests the proceeds and obtains gains as a result, the victim can only claim an amount equal to their original loss and is not allowed to claim the return of the full amount of profits created as a result of the defrauded property.

## Proprietary Claims in Criminal Proceedings

In criminal proceedings, a criminal defendant who illegally possesses or disposes of the victims' property will be subject to forfeiture of the property (if available) or will be ordered to compensate the victims for their losses. In the latter case, the defendant's own lawful property can be subject to forfeiture by the criminal investigation organs and used to compensate the victims.

To the extent that the victims are not fully compensated during the criminal investigation procedures, the court will order in the criminal judgment that the defendant's property be subject to forfeiture and used to further compensate the victims. In this case, the victims' right to compensation from the defendant will take priority over the defendant's unsecured creditors.

## 1.6 Rules of Pre-action Conduct

There are no particular rules of pre-action conduct that apply in relation to fraud claims under Chinese law.

As a practical matter, prospective claimants often apply for pre-action preservation measures, such as to effect property, conduct or evidence preservation (see 1.7 Prevention of Defendants Dissipating or Secreting Assets and 2.2 Preserving Evidence).

## 1.7 Prevention of Defendants Dissipating or Secreting Assets

Fraud claimants, similar to other civil claimants, should observe and make use of preservation measures to increase their chances of a meaningful recovery.

According to the Civil Procedure Law of the PRC (the "Civil Procedure Law"), where the defendant's conduct or other reasons might make it difficult to enforce a judgment or might cause other harm to the claimant, the court may, upon the application of the claimant, rule to take preservation measures after the filing of the litigation case (ie, litigation preservation). Meanwhile, if there is an urgent situation where the claimant's lawful rights and interests might otherwise sustain irreparable harm, the court may, upon application of the claimant, rule to take preservation measures before the filing of the litigation case (ie, pre-litigation preservation).

Aside from the above, the application requirements are the same for litigation and pre-litigation preservation. For pre-litigation preservation, the victim must file the related civil lawsuit within 30 days; failure to do so will result in the court lifting the preservation measures. In judicial practice, courts have discretion over the review

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of “urgent situations”, and it is usually difficult to obtain approval for pre-litigation preservation.

Under the Civil Procedure Law, the preservation measures include property preservation, conduct preservation and evidence preservation. For the purpose of preventing dissipating or secreting assets, the claimant generally only needs to apply for property preservation, which is in rem. In theory, the claimant is entitled to conduct preservation, which is in personam and similar to a preliminary injunction. However, since the fraudulent act is often instant rather than continuous, generally property preservation is enough to prevent a defendant from dissipating or secreting assets. Thus, courts often reject applications for conduct preservation in fraud cases.

## Property Preservation

Applicants for property preservation should provide the court with relevant clues about the property owned by the intended defendant; the court usually does not take the initiative of inquiring about asset information through the court’s enforcement and control system or through other means. When the applicant applies for property preservation, they are required to pay the property preservation application fee to the court. The application for property preservation is calculated according to the amount of the victim’s request for preservation, up to a maximum of RMB5,000 per case.

In addition to the application fee, the court usually requires the applicant to provide a cross-undertaking for the preservation order to reduce the unjustified risk of loss to the intended defendant. The undertaking can take the form of cash deposit, real property mortgage, or a guaranty letter from an insurance company or a qualified guaranty company. For cash deposits, the cash

amount should be no less than 30% of the value of the property to be preserved. For real property mortgage or guaranty letter, the appraised value of the real property or the guaranteed amount of the guaranty letter should be no less than 100% of the value of the property to be preserved.

Property preservation measures remain in effect for a period of one to three years depending on the nature of the preserved property, and can be renewed until the completion of the enforcement of a final judgment. During this period, if the defendant seeks to evade an asset preservation order by dissipating or fraudulently transferring the assets, the claimant may request the court to impose a fine, detain the defendant or even pursue criminal liability. If the property preservation proves wrongful or erroneous and causes losses to the defendant, the defendant may file a claim against the applicant and/or guarantor to obtain compensation.

## Effect on Third Parties

When enforcing a ruling for property preservation, the court may seal, distrain or freeze the property registered under the name or in the possession of the defendant, as well as the property registered under the name or in the possession of a third party, provided the third party confirms in writing that the property belongs to the defendant or the claimant submits reasonably sufficient evidence to prove so.

Meanwhile, if a third party believes that they rightfully own the preserved property or otherwise involves their substantive rights, the third party may submit a written objection to the court, and the court will examine and decide within 15 days whether to cease the enforcement or reject the objection. If the objection is rejected and the third party is not satisfied with the decision, they may file a lawsuit against the

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claimant and request the court to overturn the property preservation ruling. If the third party ultimately obtains an effective judgment to overturn the preservation ruling, the court will lift the preservation measures accordingly.

## 2. Procedures and Trials

### 2.1 Disclosure of Defendants' Assets

A property disclosure order can only be made by the court after the judgment enforcement procedure is initiated. No procedure exists in civil actions that requires a defendant to provide disclosure of their assets pending a judgment.

Before or after the litigation is accepted, the claimant can apply to the court for property preservation (see **1.7 Prevention of Defendants Dissipating or Secreting Assets**), where the claimant needs to investigate on their own or entrust a lawyer to investigate certain public asset information (such as rights to payment under judgment(s), equity interests or shares in a company, intellectual property rights, etc). The claimant usually cannot inquire about real estate under the defendant's name nor access bank accounts in the defendant's name (see **7.2 Laws to Protect "Banking Secrecy"**).

### 2.2 Preserving Evidence

Under Chinese law, there is no such duty for the parties to preserve evidence. In this regard, claimants may apply to the court for pre-litigation or litigation evidence preservation in accordance with Article 84 of the Civil Procedure Law. In certain circumstances, courts may order evidence preservation at their own initiative.

Evidence preservation orders are imposed where it is believed that important evidence might be destroyed or lost or would be difficult to obtain

later. On a pre-litigation basis the claimant must also show that there is an "urgent situation" in need of evidence preservation (see **1.7 Prevention of Defendants Dissipating or Secreting Assets**). Claimants may apply for evidence preservation to the court where:

- the evidence is located;
- the respondent is domiciled; or
- the court has jurisdiction over the case intended to be filed.

In China, courts generally do not permit a party to conduct a physical search of documents at the defendant's residence or place of business.

In judicial practice, when examining a claimant's application, the court will usually make its decision based on factors such as the connection between the evidence to be preserved and the facts to be proved, the necessity and feasibility of evidence preservation, and so on. The court is responsible for enforcing evidence preservation, and the court may employ methods such as sealing, distraining, audio-video recording, reproducing, appraising and inquests to carry out evidence preservation and make a record.

Before ruling to take evidence preservation measures, the court may at its discretion request the applicant to provide a cross-undertaking for losses that the intended defendant or third party may incur due to such preservation. Under normal circumstances, the court will not require the undertaking, as evidence preservation is the preserving of specific evidentiary materials for later use, which will not harm property interests. If required, the court will determine the method or amount of undertaking on the basis of factors such as:

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- the impact of the preservation measures on the holder of the evidence;
- the value of the evidence to be preserved; and
- the amount of the subject matter in dispute.

In addition to evidence preservation carried out by the court, the claimant may on their own initiative preserve evidence through various means generally recognised by the courts – eg, engaging a notary public house to notarise the process of evidence gathering conducted by the claimant or its attorneys, and preserving electronic evidence with timestamps.

## 2.3 Obtaining Disclosure of Documents and Evidence From Third Parties

### Third-Party Disclosure in Civil Proceedings

In civil proceedings, a claimant may request any third party to disclose documents and evidence, but there are no mandatory procedures for the claimant to compel third parties to do so. If there is any important evidence that the parties cannot collect on their own, they may apply to the court to investigate and collect such evidence from third parties, who are required to co-operate with the investigation and provide the requested documents, evidence or information.

The court has discretion to decide whether to act as requested and may, at its own discretion, question a third party who knows the facts of the case, and create an investigation record. The record will then be subject to cross-examination by the claimant and the defendant.

Some provincial-level higher courts have issued guidelines for attorney investigation orders. Attorneys for either party to the proceeding may apply for an investigation order, which, if granted, allows the attorney to collect requested evidence from a third party (usually file materi-

als, rights certificates, bank account information, transaction documents, third parties' explanations of the facts related to the case, etc). The guidelines generally provide that the parties must keep confidential any confidential information or commercial secrets obtained through the investigation order and must not disclose these to anyone else for any other purpose.

Generally, the court will not assist the claimant in obtaining evidence from third parties before the commencement of civil proceedings. However, if the claimant is unable to accurately identify the defendant and has difficulty filing a case, the claimant may apply to the court for an investigation order for access to the defendant's identity information from a third party.

### Third-Party Disclosure in Criminal Proceedings

In criminal proceedings, public security organs may, in the course of an investigation, obtain such information from the holder of the information related to the criminal act, and may also question a third party who knows the facts of the criminal offence. The investigation procedures of the public security organs are confidential, and the victim is usually not provided with the information obtained during the investigation.

However, the case file materials are handed over to the procuratorate after completion of the investigation procedures, and the victim can apply to the procuratorate to read the case file and to obtain a copy of the case file materials.

## 2.4 Procedural Orders

Courts can grant preservation orders over the property, conduct or evidence of the intended defendant or a third party. These orders may be issued without the need to notify the defendant or hold an ex parte hearing in advance. The

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intended party should be served with the order after it is issued. In practice, courts generally do not serve the intended party until the ruling has been enforced to ensure the intended party does not obstruct enforcement.

When the court decides to grant such orders, except for the undertaking that the claimant may be required to provide, there is no additional burden on the claimant, nor does the claimant need to compensate the defendant for not being present.

## 2.5 Criminal Redress

In China, the Supreme People's Procuratorate and its local counterparts are responsible for prosecuting criminal cases. Generally, the victims of fraud cannot themselves commence a criminal proceeding and can only report the suspected fraud to the local counterparts of the Ministry of Public Security, which is responsible for ordinary criminal investigations. In fraud cases, the criminal process is almost always the first choice for victims due to the reasons addressed in the following paragraphs, while the threshold for instituting a criminal proceeding is much higher than for a civil proceeding, unless there are large-scale victims involved.

### Advantages of Criminal Redress

Victims tend to seek redress through the criminal process based on the following three considerations.

- Public security organs have the authority to trace, seal, distrain and freeze the defrauded assets regardless of whether they are in the name or possession of the fraudster or a third party, and can normally return the assets to the victims during the criminal investigation stage.

- The law stipulates that courts are likely to mitigate punishment if the defendant reaches a settlement with the victims and voluntarily returns the assets. In practice, in order to obtain a more lenient punishment, the defendant will take the initiative to find ways to raise funds to repay the victims.
- Compared to the criminal investigation and assets-returning process, civil proceedings are time-consuming and cost-consuming, and may even result in no recovery due to a lack of effective means to trace and enforce the defrauded assets that the fraudster usually dissipated and secreted after the fraud was revealed.

### Interplay Between Civil and Criminal Redress

Once a criminal proceeding commences, charges against the defendant will not be vacated even if the defendant fully compensates the victims. Accordingly, parallel proceedings may occur if the public security organ has instituted criminal proceedings. Under Chinese law, criminal proceedings take precedence over civil proceedings, provided that the parallel proceedings are based on substantially the same facts. Accordingly, courts will refuse to accept a civil case based on the same legal facts after a criminal proceeding has been instituted against the defendant. Courts are also expected to dismiss civil cases that have been accepted and to transfer the case materials to the relevant criminal investigation organ.

Moreover, after the defendant is criminally charged, it will generally become insolvent, and the assets recovered by the judicial organs must also be distributed proportionally among all victims. This may lead to the victims not being compensated in full. For this reason, victims may prefer to pursue a civil cause of action if they are able to discover and preserve the assets of the

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defendant or if the defendant is willing to raise funds to compensate the victim for their losses.

## 2.6 Judgment Without Trial

In civil proceedings, the court must serve each party a notice for the coming trial and must hold at least one full trial for each case before rendering a judgment. However, where a defendant, after being duly served with a notice, fails to appear in court or to respond during the trial, the court may at its discretion enter a default judgment. There is no procedure for the claimant to move for a summary or default judgment in any event, even if the defendant fails to appear in court or to answer the complaint, or makes a wholly unmeritorious defence.

Where the defendant fails to appear in court, the trial will proceed as normal, and the court has the authority to clarify all the key facts alleged by the claimant to mitigate the risk that a third party's interest will be harmed by the judgment.

## 2.7 Rules for Pleading Fraud

### Civil Fraud Claims

Chinese courts implement a case registration system for civil litigation, and the court will generally file and accept the pleading as long as the following statutory requirements are met:

- identity information of the defendant;
- specific claims;
- specific factual basis and reasons; and
- the court has jurisdiction over the case.

Although there are no special rules, professional conduct considerations or heightened standards for pleading fraud in China, the “specific factual basis and reasons” requirement itself grants discretion to the court in examining pleading materials and deciding whether to accept and file the case. Given this, it is possible that the court may

require the claimant to provide more cogent evidence than in other types of claims with a view to precluding unwarranted allegations of fraud being made.

### Criminal Fraud Claims

If the victim makes a criminal report to the public security organs, it is usually necessary to provide prima facie evidentiary materials on the crime of fraud. There are no particular provisions requiring a victim to provide evidence in the case of fraud. Where, in the course of filing and reviewing a case, public security organs discover that the facts of the case or the criminal clues provided by the victim are unclear, they may employ measures such as questioning, inquiry, inquest, appraisal and collection of evidentiary materials that do not restrict the personal or property rights of the suspects.

Where, after review, the public security organs find that there are criminal facts and it is necessary to pursue criminal liability, the case may be officially accepted. However, due to lack of detailed guidelines on the criteria for filing a criminal case, the public security organs have broad discretion on whether to accept the case, and the threshold for commencing a criminal investigation is usually high.

Notably, the public security organs will explain to the victim the legal consequences of making false accusations. However, as long as the facts are not fabricated or falsified, even if the facts reported by the victim are discrepancies or erroneous accusations, the victim will usually not be held legally liable for making accusations against an alleged perpetrator.

## 2.8 Claims Against “Unknown” Fraudsters

According to the Civil Procedure Law, one of the requisites for the court to accept a civil case is that the defendant must be specifically identifiable. Therefore, civil fraud claimants must provide the court with the defendant’s identity; otherwise, the court will not accept the case. To remedy this, victims may:

- apply to the court for a pre-litigation investigation order through an attorney and ask the attorney to investigate the identity of the perpetrator from a third party; or
- request to examine the related case file materials prepared by the public security organ and procuratorate to learn the identity of the perpetrator (see 2.3 Obtaining Disclosure of Documents and Evidence From Third Parties).

By contrast, in the criminal context, public security organs do not require victims of fraud to provide accurate identity information about “unknown” fraudsters when they accept a report of fraud. After accepting the case, the public security organ may independently investigate and ascertain the identity of the perpetrator at the case filing and review stage, and prepare a criminal investigation report. A case will be filed if criminality is discovered and if it is deemed necessary to pursue criminal charges against the perpetrator.

## 2.9 Compelling Witnesses to Give Evidence

### Civil Proceedings

In civil proceedings, all persons with knowledge of the circumstances of the case are legally obligated to appear in court to testify. However, in practice, the claimant must usually contact the witness on their own and apply to the court

for the witness to testify in court. Only in a few special circumstances will the court subpoena a witness to appear in court and testify, such as where the parties are suspected of having maliciously colluded to harm the legitimate rights and interests of others.

Chinese law does not impose penalties on witnesses who refuse to testify in civil proceedings. However, if a witness falsifies or destroys important evidence, or otherwise obstructs investigation and evidence collection activities, the court may impose a fine, detain the witness or pursue criminal liability, depending on the seriousness of the circumstances.

Where a parallel criminal proceeding exists, the victim may apply to the procuratorate during the review and prosecution stage to consult and copy the investigation case file materials, and to obtain a transcript of the public security organ’s questioning of the witness for submission to the court as evidence to prove the facts claimed by the victim.

### Criminal Proceedings

In the criminal context, all persons with knowledge of the circumstances of the case are legally obligated to co-operate with the investigation. In practice, public security organs may question persons who know the circumstances of the case and require them to truthfully provide evidence, as well as make records of witness testimony. A transcript of a witness’s testimony may serve as evidence in a criminal case.

In a criminal proceeding, the court is entitled to compel witness testimony under special circumstances – for example, where the court deems the witness’s testimony necessary because the procurator, the parties or the defendant objects to the witness’s testimony and the testimony has



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a major impact on the conviction and sentencing of the case. If a witness does not appear in court to testify without a legitimate reason, the court may compel them to appear in court, except where the witness is the defendant's spouse, parent or child.

Furthermore, if a witness refuses to appear in court without justifiable reasons or refuses to testify after appearing in court, the court may sanction or detain them depending on the seriousness of the offence. Where a witness is dissatisfied with the detention decision, they may apply for reconsideration to the superior-level court, but enforcement is not suspended during the period of reconsideration.

## 3. Corporate Entities, Ultimate Beneficial Owners and Shareholders

### 3.1 Imposing Liability for Fraud on to a Corporate Entity Civil Liability

Under Chinese law, a legal person or non-legal person organisation, including a limited liability company or other corporate entity ("employer"), is liable for the actions taken by its employees, including its directors or officers, provided that the actions occur within their responsibility and authority and are carried out in the name of the employer. That is, if an employee commits fraud while performing duties for its employer, the employer may be vicariously liable to the victims of the fraud.

The following factors are generally considered for determining whether an employer can be found vicariously liable:

- whether the time and place where the fraud occurred belonged to the working hours and the place of work;
- whether the subjective intention of the fraudulent act was all or at least partially related to the performance of the employee's duties; and
- whether the employee's acts were for the benefit of the employer.

### Criminal Liability

The Criminal Law provides for the concept of unit crimes. "Units" under the Criminal Law include not only companies, enterprises and other types of legal persons with independent legal personality, but also certain other organisations such as branches or internal departments of units. To determine whether an employee's acts constitute criminal fraud committed by the unit, the following conditions generally need to be met:

- the employee's fraudulent act can represent the intent of the unit;
- the employee commits the fraudulent act in the name of the unit; and
- the profit from the fraudulent act belongs to the unit.

For crimes committed by units, the unit is generally fined, and the directly responsible supervisors and other directly responsible personnel may be subject to criminal punishment.

### 3.2 Claims Against Ultimate Beneficial Owners

In some cases, a perpetrator may seek to evade liability for fraud by abusing the independent legal personality of a corporation. Specifically, a perpetrator may be a shareholder of a corporation who uses the corporate form to commit fraud and then takes advantage of the limited liability afforded to them.

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To combat such abuse, the Company Law recognises the principle of “piercing the corporate veil”, which allows a court to hold a shareholder jointly liable for the obligations of the corporation.

To invoke this principle, the claimant must show that the shareholder had abused the company’s independent legal person status and the limited liability of the shareholders to evade debts and seriously harm the interests of the company’s creditors. The key fact to be proven is that the shareholder did not treat the corporation as an independent entity – for example, where the staff, assets and business of the company have been commingled with those of the shareholder.

It is difficult in practice to successfully argue a “piercing the corporate veil” claim, except in the context of a one-person corporation where the sole shareholder, rather than the victim, has the burden of proving that the corporation’s assets are independent of their personal assets.

In addition to “piercing the corporate veil”, as discussed above, there are some other areas where fraud victims can bring claims against those who stand behind companies when the company has been used as the vehicle for fraud. For instance, where a securities issuer violates provisions on information disclosure by making false records, misleading statements or material omissions in the disclosed information, causing investors to suffer losses in securities transactions, the Securities Law provides that the controlling shareholder and/or actual controller of the issuer will be jointly and severally liable with the issuer for the losses caused to the investors, unless they can prove that they are not at fault.

### 3.3 Shareholders’ Claims Against Fraudulent Directors

Under the Company Law, shareholders have the right to bring derivative actions on behalf of their company against the company’s fraudulent directors, controlling shareholders and/or ultimate beneficiary owners who participate in actual execution of the company’s affairs, and/or against fraudulent directors of any subsidiary wholly owned by the company, under the amended Company Law (effective in July 2024). Causes of action against fraudulent directors include where the directors, controlling shareholders and/or ultimate beneficiary owners cause harm to the company while undertaking their duties in violation of any law, regulation or the company’s by-laws. Certain rules exist as to shareholder eligibility, commencing the action, and recovery and costs.

#### Shareholder Eligibility

To initiate a derivative action, the shareholders of a company limited by shares (joint stock company) to the action must have held, individually or collectively, at least 1% of the company’s shares for at least 180 consecutive days prior to the action. Shareholders of a limited liability company are not subject to any eligibility requirements for derivative actions.

#### Commencing the Action

The shareholders to the action should make a request in writing to the company’s supervisor or board of supervisors. Shareholders themselves can initiate the action on behalf of the company under certain circumstances. This includes exigent circumstances and where the company’s supervisor or board of supervisors refuses to initiate the action or fails to do so within 30 days of receiving the shareholders’ request.

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## Recovery and Costs

Recovery obtained in a derivative action belongs to the company. Thus, for example, recovery in the action might involve the fraudulent director disgorging illegal gains and transferring those gains to the company.

The company is required to reimburse the shareholders for litigation costs to the extent that they are reasonable.

## 4. Overseas Parties in Fraud Claims

### 4.1 Joining Overseas Parties to Fraud Claims

In civil cases, the court must analyse whether it is competent to join as a defendant an overseas party who is not domiciled in China. This analysis considers the nature of the claims and the circumstances over which the court has jurisdiction, including:

- for contract fraud claims against an overseas party, the place where the contract was concluded or performed within China;
- for tortious fraud claims against an overseas party, that the tort occurred within China;
- that the property in dispute is located in China; and
- that the overseas party has assets within China.

To exercise jurisdiction over overseas parties, the court must ensure that they are properly served. Chinese courts may use electronic service (by fax, email, etc) to serve overseas parties not domiciled in China, if the laws of the country or region where they are domiciled allow for electronic service. In addition, Chinese courts may also serve judicial documents through

other channels, such as mutual legal assistance agreements, Hague conventions of service, diplomatic channels and postal service (such as those permitted by the state where the person is to be served).

According to the Criminal Law, Chinese courts have jurisdiction over overseas parties who commit criminal fraud within China in accordance with the principle of territoriality. Where an overseas party commits a crime against China or its citizens outside the territory of China, and where the minimum sentence under the Criminal Law is fixed-term imprisonment of not less than three years, the Criminal Law applies extraterritorially to such party except where the party's act does not violate local law in the place where the act was committed.

### 4.2 Service of Proceedings out of the Jurisdiction

Where the party to be served is outside the PRC, the court may serve the party under means provided by the Convention of 15 November 1965 on the Service Abroad of Judicial or Extrajudicial Documents in Civil or Commercial Matters (the "Hague Service Convention"), if that party's nation is a signatory to the Convention, or by public announcement that lasts three months.

If that party's nationality is unknown, courts will generally serve by public announcement and wait for the expiry of the three-month period; otherwise, the service may be challenged at appellate proceedings and the case may be sent back to the court for retrial. There are therefore no effective means for speeding up this process.

## 5. Enforcement

### 5.1 Methods of Enforcement

Under Chinese law, after the judgment takes effect, the successful fraud claimant becomes a judgment creditor, and the defendant becomes a judgment debtor. Where the defendant fails to pay off the debt under the judgment within the time limit designated by the judgment, the claimant can apply to the court to initiate enforcement proceedings against the defendant.

#### Initiating the Enforcement Procedure

A successful fraud claimant who receives a judgment or arbitral award against a defendant may apply to the Chinese court with jurisdiction to initiate the enforcement procedure directly, provided that the judgment or arbitral award is made by a Chinese court or arbitration institution.

Where a judgment or arbitration award is made by a foreign court or arbitration institution, the creditor will first apply to the Chinese court with jurisdiction for recognition of such judgment or award, and the recognition will be handled in accordance with an international treaty concluded or acceded to by China and the country or region where the court or arbitral institution is located (eg, the New York Convention), or in accordance with the principle of reciprocity. After the judgment or award is recognised by the Chinese court, the enforcement procedure can be initiated.

Where a judgment is made by a court in Hong Kong, the judgment can be recognised and enforced pursuant to the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters Between the Courts of the Mainland and of the Hong Kong Special Administrative Region*, which took effect

in both Mainland China and Hong Kong from 29 January 2024.

#### Property Disclosure for Enforcement

In the course of enforcement, the applicant should provide clues as to the assets of the judgment debtor. The court will conduct an investigation through the online enforcement inspection and control system, and, where the case requires an investigation, will conduct an investigation through other means and simultaneously employ other investigation methods. Where the judgment debtor does not perform the obligations set forth in effective legal documents, the applicant may also request the court to publish a reward announcement to find assets available for enforcement.

During the enforcement procedures, the court will serve the judgment debtor with an order to disclose their assets, and the debtor must truthfully disclose details of their assets to the court. Where the judgment debtor refuses to disclose, falsely discloses or delays in disclosing without legitimate reasons, the court may sanction the judgment debtor or their legal representative, depending on the seriousness of the offence. Sanctions include adding the judgment debtor's name to a list of "dishonest judgment debtors" and, in serious circumstances, subjecting the judgment debtor to criminal liability.

#### Asset Control and Disposal

During enforcement, the court has the right to seal, distraint or freeze the assets of the judgment debtor (including movable property in the possession of or real property/specific movable property registered in the name of the judgment debtor), as well as any property in the possession of or registered in the name of a third party, provided that the third party confirms in writing that the assets belong to the judgment debtor.

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Once the judgment debtor's assets have been sealed, distrained or frozen, the court may dispose of them by auction, public sale or ruling to pay off a debt in kind, and may transfer the money obtained from enforcement to the applicant in satisfaction of the judgment or award.

## Sanctions for Failure to Satisfy a Judgment

### *In general*

Where a judgment debtor does not satisfy their obligations as set forth in a judgment or award, the court may:

- make a record in the credit-reporting system, and publicise the debtor's non-performance of their obligations through the media;
- take other statutory punitive measures; and
- name the debtor in the "list of dishonest judgment debtors", which is used to inform others, including credit-reporting agencies, that the judgment debtor has not fully performed their obligations.

### *Consumption restrictions*

The applicant may request the court to impose consumption restrictions on the judgment debtor once they are named in the "list of dishonest judgment debtors".

Consumption restrictions for natural persons include prohibitions on:

- air and high-speed rail travel;
- luxury hotel accommodation;
- leasing of high-end office space;
- vacation travel;
- arranging for children to attend expensive private schools; and
- other luxuries that are not considered necessary for life and work.

Consumption restrictions imposed on legal persons may also be imposed on their:

- legal representative;
- principal responsible person;
- persons directly responsible for enabling satisfaction of the debt; and
- actual controller.

### *Restrictions on exiting Mainland China*

Judgment debtors who fail to satisfy a judgment or award may be prohibited from exiting mainland China. Upon the applicant's request, the court may deem it necessary to impose an exit ban and may notify relevant administrative authorities to assist in enforcing the ban.

### *Detention, fines and criminal liability*

Judgment debtors who refuse to satisfy a judgment or ruling, or who obstruct the court's enforcement, may be subject to a fine, detention or even criminal liability, depending on the specific conduct and the corresponding circumstances provided for by law.

## 6. Privileges

### 6.1 Invoking the Privilege Against Self-Incrimination

In China, no one can be compelled to give testimony that would incriminate themselves in criminal proceedings. In contrast to other jurisdictions, the right to remain silent is not expressly provided for in Chinese law, nor are the judicial authorities obligated to remind suspects of their right to remain silent before taking legal actions against such suspects. However, it is clear that the accused may not be found guilty and sentenced based only on their oral testimony without supporting evidence.

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By contrast, in civil proceedings, if one party expressly admits unfavourable facts during court hearings or in written materials such as complaints, the other party does not need to adduce evidence to prove these facts, and the court can usually use this as the factual basis for the judgment.

In accordance with the rules of evidence in the Civil Procedure Law, where a court requests a party to submit relevant evidence and it refuses to do so or submits false evidence, destroys evidence, or commits other acts that make the evidence unusable without a legitimate reason, the court may presume that the other party's relevant factual assertions have been established.

## 6.2 Undermining the Privilege Over Communications Exempt From Discovery or Disclosure

Chinese law does not provide a general privilege over communications that can be exempted from disclosure. Judicial and administrative authorities, particularly public security organs in criminal procedures, are granted broad authority to enquire and collect evidence. Despite this, in criminal proceedings, counsel is required to keep their client's information confidential, except for information related to certain specific criminal offences (including endangering national security, public security and personal safety).

## 7. Special Rules and Laws

### 7.1 Rules for Claiming Punitive or Exemplary Damages

Under Chinese law, the remedies for fraud claims are generally limited to the claimant's losses, which may include reasonably expected profits. In general, courts will not award punitive or exemplary damages in cases of fraud, except

where the claim may relate to intellectual property infringement.

### 7.2 Laws to Protect "Banking Secrecy"

There are no special laws in China for protecting communications between banks and their clients from disclosure. The general rule under the Law of the PRC on Commercial Banks is that commercial banks must keep their customers' bank account information strictly confidential, and have the right to refuse enquiries from third parties regarding bank account details and requests to freeze or withhold funds, unless otherwise provided for by laws and regulations. However, under Chinese law, judicial authorities are granted broad authority to make such enquiries with commercial banks as well as with other financial institutions, and to collect evidence. Commercial banks will generally comply with a court order on such matters.

Courts may use the online enforcement inspection and control system to search the banking information of the defendant, as mentioned in **5.1 Methods of Enforcement**. However, during fraud-related civil proceedings, it is generally hard for the claimant to obtain the courts' approval to enquire into the defendant's bank accounts.

### 7.3 Crypto-assets

China has implemented regulations that strictly regulate crypto-assets. As a consequence, Chinese courts often invalidate crypto-asset-related trading and investment arrangements.

However, the law and practice have been evolving. On 13 April 2023, the PRC Supreme People's Court issued the *Minutes of the National Conference on Financial Trial in the Courts (consultation draft)* (the "Draft"). The Draft illustrates

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the following notable changes to previous judicial practice.

- Courts should generally consider valid contracts for payment for goods or services with a limited amount of cryptocurrency. Courts should generally support claims for cryptocurrencies or, if the cryptocurrencies cannot be provided, alternative claims for equivalent compensation. However, if the contract stipulates that cryptocurrency is to be used as a recurring payment instrument for official currencies or goods in kind, courts should find the contract invalid.
- As a remedy, the defendant may be ordered by the courts to transfer or return cryptocurrency to the plaintiff. If this is impracticable, the court may also encourage the parties to reach an agreement on the satisfying financial claims.

- Just as with other conventional assets, cryptocurrency may be regarded as an enforceable asset at the enforcement stage.
- Where courts consider that the case may involve crimes such as illegal fundraising, illegally issuing securities, illegally offering tokens or coupons, or other crowd-related economic crimes relating to cryptocurrency, the courts should transfer the case to police bureaus for criminal investigation.

While the Draft has not been officially promulgated (and, in any event, would not be binding if or when promulgated), it nevertheless reflects the spirit of legal practice, and it is expected that most courts will follow the rationales mentioned therein.

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