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Reassessing Corporate Veil-Piercing in China: Judicial Trends under the New Company Law

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Keywords: China Company Law, Comparative Corporate Law, Corporate Veil-Piercing, Creditor Protection; Judicial Discretion

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China stands apart from common law jurisdictions in its frequent and expansive application of veil-piercing, a doctrine traditionally regarded as an exceptional remedy. This paper reassesses veil-piercing in China in light of the 2023 Company Law revision, which for the first time codified veil-piercing between companies under the same parent company, as set out in Article 23(2). An empirical analysis of judicial decisions before and after the revision reveals that, rather than constraining veil-piercing, statutory clarification has coincided with its accelerated application. Courts have increasingly adopted a standardised but formalistic approach, lowering evidentiary thresholds and reinforcing a creditor-friendly legal environment. These findings challenge the assumption that China's high veil-piercing rate stems from judicial misinterpretation or statutory vagueness. Instead, the paper argues that statutory formalisation, judicial institutional constraints, and policy imperatives have collectively driven the doctrine's expansive use. By placing China's practices within a comparative framework, the paper examines how legal codification interacts with institutional structures to shape judicial behaviour. It highlights systemic differences in judicial discretion, legal reasoning, and policy orientation between China and common law jurisdictions such as the UK and the US, explaining why statutory clarification in China has reinforced rather than restrained veil-piercing. To mitigate concerns over judicial overreach and the erosion of limited liability, the paper proposes clearer judicial guidelines, refined evidentiary standards, and greater transparency to balance creditor protection with the principle of corporate personality.

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INTRODUCTION

Corporate veil-piercing, a doctrine allowing courts to disregard a company's separate legal personality, has long been a contentious and pivotal concept in corporate law. The modern corporation is founded on the principle that it constitutes a separate legal entity, distinct from its shareholders, directors, and other stakeholders.[1] This separateness supports two core legal consequences: limited liability, which protects shareholders from personal responsibility for corporate debts, and entity shielding, which insulates corporate assets from claims by shareholders' creditors.[2] These features enable firms to pool capital and allocate risk efficiently, promoting economic growth. However, the protective architecture of the corporate form can also be exploited. Shareholders may manipulate corporate structures to obscure asset ownership, evade debts, or shield themselves from liability for misconduct.[3] In such cases, courts may disregard the company's legal personality and hold shareholders accountable. Veil-piercing is one doctrinal mechanism available in these situations, but it is not the only one, nor is it always the most appropriate. Where shareholder misconduct involves fraud, misrepresentation, or tortious harm, courts may rely instead on direct liability doctrines or statutory remedies.[4] The choice to pierce the veil typically reflects a judicial determination that the abuse arises not merely from misconduct, but from the misuse of the corporate form itself. Because veil-piercing deviates from the foundational principle of corporate separateness, its application is and should remain, narrowly constrained.[5]

In common law jurisdictions, this doctrinal caution is evident. Veil-piercing is generally regarded as a remedy of last resort, applied only in exceptional circumstances. In the UK, courts have strictly limited its use to cases where a company is used as a façade to evade legal obligations. This is often referred to as the "evasion principle."[6] In *Prest v Petrodel Resources*, Lord Sumption clarified that veil-piercing should not be invoked merely to achieve a just outcome, but only where the corporate form has been deliberately misused to conceal wrongdoing.[7] Earlier cases such as *Gilford Motor Co v Horne* similarly illustrate this principle, as the court pierced the veil to prevent an individual from using a sham company to evade contractual restrictions.[8]

US courts take a somewhat more flexible approach, allowing veil-piercing in cases of fraud or when necessary to prevent injustice. For instance, in *Kinney Shoe Corp. v.*

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1 *Salomon v. Salomon & Co Ltd* [1897] AC 415 [16].
2 Henry Hansmann and Reinier Kraakman, 'The Essential Role of Organizational Law' (2000) 110 Yale LJ 387.
3 See *Gilford Motor Co Ltd v Horne* [1933] Ch 935; *Jones v Lipman* [1962] 1 WLR 832; *Re Darby, ex parte Brougham* [1911] 1 KB 95; *Prest v Petrodel Resources Ltd* [2013] UKSC 34; *Walkovszky v. Carlton* [1966] 223 N.E.2d 6; *Anderson v. Abbott* [1944] 321 US 349.
4 *Adams v Cape Industries plc* [1990] Ch 433 (CA); *Walkovszky v Carlton* 223 NE 2d 6 (NY 1966).
5 *Prest v Petrodel Resources* (n 3).
6 Stefan HC Lo, 'Nature of Corporate Veil-Piercing and Revitalization of the Evasion Principle' (2023) 139 Law Quarterly Rev 436.
7 *Prest v Petrodel Resources* (n 3).
8 [1933] Ch 935.

Polan, the court pierced the corporate veil to hold a shareholder personally liable for corporate debts, emphasising the importance of preventing fraud and achieving fairness.[9] However, even in the US, veil-piercing remains relatively rare and highly fact-dependent.[10] Recent empirical studies in Western jurisdictions indicate modest veil-piercing success rates—roughly 35% in the US[11] and 36% in Canada[12]—reflecting the principle that only extraordinary circumstances justify disregarding corporate personality.

By contrast, Chinese courts have shown a significantly higher tendency to pierce the corporate veil.[13] Since China first codified veil-piercing in its Company Law in 2005, courts have frequently applied the doctrine to impose shareholder liability, particularly in cases involving one-person companies, where concerns over corporate abuse are more pronounced.[14] Empirical studies suggest that China's veil-piercing rate exceeds that of common law jurisdictions. One study analysing over 300 Chinese cases found that courts ruled in favour of veil-piercing in more than 75% of cases—a success rate notably higher than that observed in the UK or the US.[15] Similarly, a five-year survey reported a piercing success rate of 63.6%, significantly surpassing that of major common law jurisdictions.[16] This disparity has generated considerable debate regarding its underlying causes.

Scholars have offered several explanations for China's high rate of veil-piercing. One line of argument attributes the trend to judicial misinterpretations of Western veil-piercing doctrines. Hawes, Lau, and Young suggest that Chinese courts, operating within a civil law system, often conflate veil-piercing with other liability doctrines such as tort or contractual responsibility, thereby applying it in situations where common law courts would use alternative legal mechanisms. This, they argue, reflects a partial and doctrinally inconsistent reception of common law principles.[17] Others emphasise the role of systemic and institutional factors. Huang, for instance, highlights the vagueness of Article 20(3) of the 2005 Company Law and the absence of binding precedent, which collectively enable broad judicial discretion.[18] These institutional

[9] [1991] 939 F.2d 209.
[10] Robert B. Thompson, 'Piercing the Corporate Veil: An Empirical Study' (1991) 76 Cornell LR 1036.
[11] In previous research, Thompson's study showed a piercing rate of 40.18%, while the most recent research indicated a decrease to 35.28%. See ibid; King Fung Tsang, 'The Elephant in the Room: An Empirical Study of Piercing the Corporate Veil in the Jurisdictional Context' (2016) 12 Hastings Bus LJ 185.
[12] Mohamed F Khimji and Christopher C Nicholls, 'Piercing the Corporate Veil in the Canadian Common Law Courts: An Empirical Study' (2015) 41 Queen's LJ 207.
[13] Hui Huang, 'Piercing the Corporate Veil in China: Where Is It Now and Where Is It Heading?' (2012) 60 The American Journal of Comparative Law 743.
[14] Ibid.
[15] Colin Hawes, Alex KL Lau and Angus Young, 'Lifting the Corporate Veil in China: Statutory Vagueness, Shareholder Ignorance and Case Precedents in a Civil Law System' (2015) 15 Journal of Corporate Law Studies 341. It should be noted that although UK courts rarely invoke the veil-piercing doctrine explicitly, they may achieve similar outcomes through other private law mechanisms, such as agency and assumption of responsibility. These functional equivalents are not always classified as veil-piercing, even when they effectively impose personal liability on shareholders or related entities. See *Smith, Stone & Knight Ltd v Birmingham Corp* [1939] 4 All ER 116 (KBD); *Chandler v Cape plc* [2012] EWCA Civ 525.
[16] Huang (n 13) 749.
[17] Hawes (n 15).
[18] Huang (n 13).

conditions are compounded by generally low corporate law literacy among shareholders, particularly in cases involving one-person companies, where abuse is more common and judicial intervention more frequent.[19]

While these doctrinal and institutional explanations offer valuable insights, they do not fully explain the frequency with which Chinese courts apply veil-piercing. This paper argues that a fuller understanding requires attention to statutory formalisation, judicial constraints, and policy imperatives.

First, statutory formalisation has played a pivotal role in shaping judicial behaviour. The 2023 revision to the Company Law, which codified horizontal veil-piercing in Article 23(2), introduced explicit legal grounds for holding sibling companies jointly liable.[20] Horizontal veil-piercing refers to the imposition of liability across companies at the same level of a corporate group—typically subsidiaries under common control—rather than vertically between parent and subsidiary. This doctrinal expansion goes beyond traditional veil-piercing, which primarily affects limited liability (shielding shareholders from personal liability), by also compromising entity shielding, the protection of a company's assets from the liabilities of its shareholders or affiliates.[21] Prior to this revision, courts relied on generalised principles of corporate abuse without clear statutory authority, resulting in doctrinal inconsistency and unpredictability.[22] While such inconsistency did not necessarily lead to more veil-piercing, it created a zone of legal uncertainty that discouraged judicial intervention in borderline cases. The 2023 revision reduced this ambiguity, offering judges a clear statutory basis for applying the doctrine in a manner consistent with the judiciary's preference for rule-based adjudication.

Second, institutional features of China's judiciary—particularly the judicial responsibility system and internal review mechanisms[23]—have influenced how judges approach veil-piercing. These structures promote formalistic adjudication and incentivise judges to rely heavily on statutory language, thereby limiting their willingness to engage in discretionary or normative reasoning. The 2023 codification of horizontal veil-piercing provided a textual foundation for holding sibling companies liable. This clarification not only reinforced existing judicial practices but also extended the formal scope of veil-piercing by explicitly recognising liability across sibling companies. By reducing doctrinal ambiguity and aligning with institutional incentives for statutory compliance, the revision contributed to a more frequent and confident application of veil-piercing in intra-group context.

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[19] Ibid.

[20] PRC Company Law 2023, art 23(2).

[21] *Hurstwood Properties (A) Ltd v Rossendale Borough Council* [2021] UKSC 16, [2021] 1 WLR 4326; Hansmann and Kraakman (n 2).

[22] Chao Xi, 'Piercing the Corporate Veil in China: How Did We Get There? (2011) 5 Journal of Business Law 413.

[23] Benjamin Liebman, 'Legal Reform: China's Law-Stability Paradox' (2014) 143 Daedalus 96; Benjamin Liebman, 'A Populist Threat to China's Courts?' in *Chinese Justice: Civil Dispute Resolution in Contemporary China* (CUP 2011).

Third, policy imperatives—particularly creditor protection and economic stability—have shaped both judicial decision-making and litigation strategies. Chinese courts have long been receptive to creditor claims, especially in one-person companies where concerns about shareholder abuse and the erosion of limited liability are acute.[24] However, veil-piercing in any context also implicates entity shielding, which safeguards a company's assets from the liabilities of its shareholders or affiliates.[25] This concern is especially heightened in cases involving corporate groups, where horizontal veil-piercing disregards the legal separateness of affiliated entities. Rather than introducing a fundamental shift, the 2023 amendment provided legal legitimacy to a practice that was already gaining traction in judicial decisions. In response, creditors have increasingly pursued veil-piercing claims with greater confidence, contributing to a rise in cases. Courts, in turn, have applied the revised statutory framework more frequently, reflecting both judicial responsiveness to litigation trends and the broader policy environment favouring creditor protection.

This thesis provides an in-depth examination of Chinese judicial practice before and after the 2023 Company Law revision, focusing on how courts addressed veil-piercing in sibling companies both prior to and following the enactment of Article 23(2). Given that China already exhibited a high frequency of veil-piercing before the revision, a key question is whether the new provision has substantively changed judicial practice. If courts had already been applying veil-piercing in corporate groups based on discretionary reasoning, the codification of horizontal veil-piercing may have formalised rather than transformed existing judicial tendencies. However, where codification is accompanied by institutional structures that favour formalistic adjudication—as in China[26]—statutory revision may contribute to a more structured and predictable application of veil-piercing. In such contexts, clear legal authority can reduce judicial hesitation and may encourage more frequent application of the doctrine.

This study, therefore, examines whether the 2023 amendment—particularly Article 23(2)—has established veil-piercing within corporate groups as a standardised statutory remedy that courts now apply with greater consistency, or whether it merely codifies an existing case-by-case approach without fundamentally altering judicial practice. This inquiry contributes to broader discussions on China's high veil-piercing rate by assessing the role of statutory clarity and judicial policy in shaping veil-piercing as a more systematic and predictable legal mechanism.

This paper also situates China's experience in a comparative context, contrasting it with the approaches taken in common law jurisdictions. In the UK and the US, veil-piercing is primarily a judge-made doctrine, cautiously applied and reserved for exceptional cases. By contrast, China has explicitly codified veil-piercing, providing courts with a

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24 Zhang Zheng, 'Exploring creditor protection paths under new Company Law' (China Business Law Journal, 3 December 2024) <https://law.asia/creditor-protection-new-company-law/> accessed 8 March 2025.

25 n 21.

26 Yu Luo, 'How Political Pressure Rigidifies Legal Formalism in China: A Small Tragedy under Xi Jinping's Legal Reform' (2019) 53 UIC L Rev 909.

statutory framework that defines shareholder liability and enables judicial intervention in corporate group structures. Although China follows a civil law tradition, veil-piercing was introduced into its Company Law with reference to common law concepts, offering a useful point of comparison.[27]

By analysing judicial patterns alongside common law approaches, this study identifies the systemic factors underlying China's distinctive application of veil-piercing. While drawing on some Western concepts, China's approach has evolved into a distinct model shaped by institutional, economic, and regulatory conditions. Legislative design, judicial institutional constraints, and creditor protection priorities have together fostered a legal environment where veil-piercing is applied more readily than in common law jurisdictions.

Following this introduction, Part II conducts a doctrinal analysis of veil-piercing under China's Company Law, tracing its development from the 2005 codification to the 2023 revision. Part III presents an empirical study of Chinese court decisions, comparing judicial practices before and after the 2023 amendment and assessing how Article 23(2) has been applied in sibling company cases. Part IV adopts a comparative perspective, examining how China's judicial practices diverge from those of common law jurisdictions such as the UK and the US. It shows that China's frequent application of veil-piercing is shaped by statutory formalisation, judicial accountability structures, and policy objectives that prioritise creditor protection. Part V builds on these findings by proposing measures to enhance clarity and consistency in China's veil-piercing regime, including the development of clearer judicial guidelines, refinement of evidentiary standards, and improved judicial transparency. Finally, Part VI concludes by summarizing the key findings and reflecting on the broader implications of China's approach to veil-piercing in the context of corporate liability and judicial discretion.

DOCTRINAL ANALYSIS OF VEIL-PIERCING IN CHINA

China's adoption of the veil-piercing doctrine is relatively recent and has undergone significant development over the past two decades. Before 2005, Chinese law lacked a formal statutory basis for disregarding corporate personality, and the concept of veil-piercing was not explicitly recognised in legislation.[28] Although courts occasionally imposed shareholder liability for corporate debts in extreme cases, these decisions were isolated and lacked a consistent legal framework.[29] This changed with the 2005 revision of the PRC Company Law, which took effect on January 1, 2006, and for the first time codified veil-piercing rules in China. Article 20(3) of the 2005 Company Law introduced a general veil-piercing provision, stipulating that:

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[27] Huang (n 13).
[28] Xi (n 22).
[29] Mark Wu, 'Piercing China's Corporate Veil: Open Questions from the New Company Law' (2007) 117 Yale LJ 329.

> "Where any of the shareholders of a company evades the payment of the company's debts by abusing the independent status of the juridical person or the shareholder's limited liability, and thus seriously damages the interests of any creditor, it shall bear joint liability for the debts of the company."[30]

By explicitly recognising veil-piercing, Article 20(3) established a statutory basis for courts to impose shareholder liability when corporate personality is misused to evade debts or harm creditors. In addition, the 2005 Company Law introduced a specific provision for one-person companies. Article 64 stipulated that if a limited liability company (LLC) has a sole shareholder who cannot prove that the company's assets are independent of their personal assets, the shareholder will be held liable for the company's debts.[31] By codifying the veil-piercing doctrine, the legislature reduced uncertainty over whether Chinese courts had the authority to disregard corporate personality and provided a clearer legal foundation for holding abusive shareholders accountable.

However, the language of Article 20(3) is broad and lacks specific definitions, leaving significant room for judicial interpretation. Key terms such as "abusing the independent status" and "seriously injures the interests of any creditor" are not explicitly defined. Unlike many common law jurisdictions that enumerate specific factors—such as fraud, undercapitalization, or commingling of assets—to justify piercing the corporate veil,[32] China's statute provides only a general standard of abuse and harm. This ambiguity necessitates judicial interpretation on a case-by-case basis, potentially leading to inconsistent applications. Courts may differ in their assessments of what constitutes "abuse" or the threshold of harm required to "seriously" injure creditors' interests.[33] Additionally, there is uncertainty regarding whether courts may consider factors not expressly mentioned in Article 20(3), such as fraudulent intent or asset siphoning, when determining shareholder misconduct. While the 2005 codification represented a significant development, it also conferred substantial interpretative discretion on the judiciary.

Following the codification, Chinese courts sought to clarify the application of veil-piercing. Over time, the Supreme People's Court (SPC) issued judicial interpretations and guidance to standardise judicial practice. A significant development came in 2019 with the SPC's *Minutes of the National Courts' Civil and Commercial Trial Work Conference* (commonly referred to as the *2019 Minutes*). While not legally binding, this document provided guidance by identifying recurring patterns of shareholder misconduct that could justify veil-piercing.[34] Section II(4) of the *2019 Minutes*

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[30] PRC Company Law 2005, art 20(3).
[31] Ibid, art 64.
[32] Richmond McPherson and Nader Raja, 'Corporate justice: An empirical study of piercing rates and factors courts consider when piercing the corporate veil' (2010) 45 Wake Forest L Rev 931.
[33] Tan Cheng-Han, Jiangyu Wang and Christian Hofmann, 'Piercing the Corporate Veil: Historical, Theoretical and Comparative Perspectives' (2019) 16 Berkeley Bus LJ 140.
[34] Minutes of the National Courts' Civil and Commercial Trial Work Conference 2019, s 2(4).

outlined three primary grounds for piercing the corporate veil: (1) confusion of personalities, such as failure to maintain financial and operational separateness between a company and its shareholders or among affiliated companies;[35] (2) excessive shareholder domination and control, reducing the company to a mere alter ego;[36] and (3) significant undercapitalization.[37] By delineating these factors, the SPC offered judges a structured framework for applying Article 20(3), with the aim of enhancing consistency in judicial reasoning. However, despite these efforts, inconsistencies persisted. The *2019 Minutes* remained relatively general, and given its lack of binding authority, courts continued to weigh the listed factors differently, resulting in divergent outcomes across cases.[38]

Persistent inconsistencies in judicial practice ultimately set the stage for the next major reform: the 2023 revision of the Company Law. Enacted in late 2023 and effective as of July 1, 2024, the revision consolidates and refines China's veil-piercing doctrine, drawing on judicial experience accumulated since the doctrine's initial codification in 2006. The general rule governing veil-piercing was relocated from Article 20 to Article 23, but its substantive content remains largely unchanged: shareholders who abuse the company's independent legal personality to evade debts and harm creditors may be held jointly liable.[39] A key development in the 2023 revision is the expansion of veil-piercing beyond the traditional shareholder-company relationship. Article 23(2) explicitly authorises what Chinese jurists often term "horizontal piercing"—the extension of veil-piercing between sibling companies within a corporate group.[40] Prior to 2023, Chinese courts lacked an express statutory basis for holding one company liable for the debts of another solely based on shared ownership. While some courts had imposed sibling company liability in practice (as discussed below), such decisions were not clearly supported by statutory text. The 2023 revision provides a formal legal foundation for this doctrine. Article 23(2) stipulates that if a shareholder abuses the limited liability of multiple companies under its control—such as by misusing corporate separateness to evade debts—thereby causing serious harm to creditors, those companies may be held jointly liable for each other's debts.[41] In effect, the law now directly contemplates scenarios in which sibling companies, such as Company A and Company B under common control, may lose their separate legal identities vis-à-vis each other if their shared controller has engaged in corporate abuse. This revision extends the veil-piercing doctrine beyond its traditional vertical application between shareholders and companies, incorporating a statutory basis for corporate group liability.

[35] Ibid, s 2(4)(11).
[36] Ibid, s 2(4)(12).
[37] Ibid, s 2 (4)(13).
[38] See the section below on empirical studies.
[39] PRC Company Law 2023, art 23(1).
[40] See *Xugong Group Construction Machinery Co., Ltd. v Chengdu Chuanjiao Industry and Trade Co., Ltd.* [2011] Su Shang Zhong Zi No. 0107 Civil Judgment [徐工集团工程机械股份有限公司诉成都川交工贸有限责任公司等买卖合同纠纷案 (2011) 苏商终字第 0107 号民事判决].
[41] PRC Company Law 2023, art 23(2).

The 2023 Company Law reaffirmed and modestly expanded the one-person company rule. Under the new Article 23(3), a sole shareholder bears the burden of proving that the company's assets are separate from personal assets; failure to do so results in joint liability for the company's debts.[42] Previously, this rule applied explicitly only to one-person LLCs under Article 64 of the 2005 Company Law. The revised law extends the rule to one-person joint stock companies, closing a legal gap and ensuring that all sole-shareholder companies are subject to the same scrutiny. This reinforces the principle that one-person companies must maintain a clear separation between corporate and personal assets or risk veil-piercing. By consolidating these provisions into Article 23, the revised Company Law establishes a more structured framework: Article 23(1) serves as the general anti-abuse rule (successor to the former Article 20(3)), Article 23(2) addresses horizontal piercing among affiliates, and Article 23(3) governs the specific case of sole-shareholder companies.

In sum, China's veil-piercing doctrine has evolved from an absence of statutory recognition to a broad but imprecise codification in 2005, and finally to a more structured framework in 2023 that addresses multiple dimensions of corporate abuse. This progression reflects an increasing legislative effort to regulate the misuse of the corporate form. The statutory framework has gradually expanded the scope of potential liability: first by establishing a legal basis for claims against shareholders, then by imposing stricter requirements on one-person companies, and most recently by explicitly providing for veil-piercing among affiliated companies within corporate groups. These developments indicate a legislative shift toward stronger creditor protections, though the extent to which they substantively affect judicial outcomes remains an open question. The following sections will assess whether the 2023 amendments have led to a meaningful shift in judicial practice or merely codified preexisting trends.

EMPIRICAL ANALYSIS OF VEIL-PIERCING IN CHINESE COURTS

Research purpose

Before the 2023 revision, Chinese courts lacked an explicit statutory basis for piercing the corporate veil between sibling companies. Nevertheless, some courts imposed liability on affiliated companies by applying general corporate abuse principles, though the consistency of this application remains uncertain. If courts had already recognised horizontal veil-piercing in practice prior to the statutory adoption of Article 23(2), this raises a critical question: Did the 2023 revision introduce a substantive change in judicial practice, or did it primarily formalise and reinforce preexisting judicial approaches?

To assess the impact of the 2023 revision, this study examines four key questions. First, did Chinese courts already pierce the corporate veil between sibling companies before

[42] Ibid, art 23(3).

Article 23(2), and if so, was their reasoning applied consistently? If courts had previously adopted an inconsistent approach, the statutory revision may have provided greater clarity and uniformity. However, if courts were already piercing sibling companies on a routine basis, the revision may primarily serve as a formal recognition of an existing practice rather than a substantive legal shift. Second, has the statutory recognition of horizontal veil-piercing influenced creditor litigation strategies, leading to an increase in veil-piercing claims? If creditors perceive a greater likelihood of success due to the statutory codification of sibling-company veil-piercing, they may be more inclined to pursue such claims. A rise in creditor-driven litigation would suggest that legal codification not only structures judicial reasoning but also actively shapes litigation behaviour.

Third, has the 2023 revision broadened the application of veil-piercing by expanding the formal grounds for liability? If courts now invoke Article 23(2) in cases where they previously would not have pierced the corporate veil, this would suggest that statutory codification has not merely clarified judicial practice but has actively expanded its scope. Finally, do post-2023 cases indicate that courts are treating Article 23(2) as a default basis for veil-piercing, or do they continue to require substantive legal justification? If courts routinely cite Article 23(2) without engaging in detailed reasoning, this could suggest that veil-piercing is becoming a more predictable and creditor-friendly remedy. However, if courts still require substantive legal analysis before imposing liability, this would indicate that judicial discretion remains central despite the statutory revision.

The findings of this study may challenge the assumption that China's high rate of veil-piercing is primarily a result of judicial misunderstanding or statutory vagueness. If these factors were the primary causes, the introduction of Article 23(2) in the 2023 Company Law—by explicitly codifying the conditions for piercing the veil between sibling companies—should have led to greater consistency in judicial reasoning without necessarily increasing the frequency of veil-piercing decisions. In other words, if courts had previously applied veil-piercing inconsistently due to legal uncertainty or discretionary interpretations, then the introduction of a clearer statutory rule should have led to greater uniformity in judicial reasoning rather than a significant increase in veil-piercing rulings. However, if empirical findings indicate that veil-piercing claims and decisions have risen following the 2023 revision, this suggests that factors beyond judicial misunderstanding or statutory vagueness have played a more substantive role in shaping veil-piercing outcomes.

By systematically analysing court decisions before and after the 2023 revision, this study assesses whether judicial misunderstanding and statutory vagueness adequately explain China's high veil-piercing rate or whether broader structural and institutional factors offer a more compelling account of judicial behaviour.

Research method

This study employs a mixed-method empirical approach, combining quantitative and qualitative analysis to systematically examine judicial decisions on sibling company veil-piercing before and after the introduction of Article 23(2) in the 2023 Company Law. The quantitative analysis assesses case numbers, piercing rates, and appellate trends to determine whether the statutory amendment has influenced judicial consistency and outcomes. The qualitative analysis focuses on judicial reasoning, evaluating how courts interpret and apply Article 23(2) in practice. By integrating these methodologies, the study examines whether the 2023 revision has introduced greater predictability in veil-piercing decisions, clarified judicial reasoning, or primarily codified preexisting judicial tendencies.

The study examines published judicial decisions from Chinese courts spanning from 2006 to 2025, divided into two distinct periods. The pre-2023 revision period extends from January 1, 2006, to July 1, 2024, coinciding with the implementation of the 2005 Company Law, which introduced general veil-piercing principles but did not explicitly address horizontal veil-piercing. During this period, some courts imposed liability on affiliated companies under general corporate abuse principles, particularly Article 20(3), despite the absence of a statutory framework governing sibling company veil-piercing. The dataset for this period comprises cases where judgments reference Article 20(3) of the previous Company Law, including the key phrase “the same shareholder controls”, and involve “sibling companies” or “affiliated companies.” The post-2023 revision period, covering July 1, 2024, to May 30, 2025, follows the enforcement of the 2023 revision, which explicitly codifies horizontal veil-piercing under Article 23(2). In this period, the study examines cases where courts directly invoked Article 23(2) to determine whether sibling companies should bear joint liability.

Judicial decisions were sourced from China Judgments Online (Zhongguo Caipan Wenshu Wang) and guiding cases issued by the SPC. The dataset includes 32 pre-2023 cases and 34 post-2023 cases where creditors sought to pierce the corporate veil between sibling companies. While the actual number of cases involving sibling companies is higher, the study excludes multiple judgments stemming from the same dispute but involving different defendants to prevent a single corporate group’s litigation from disproportionately skewing the results. This approach ensures that the findings reflect broader judicial trends rather than being unduly influenced by repeated rulings on a single case.

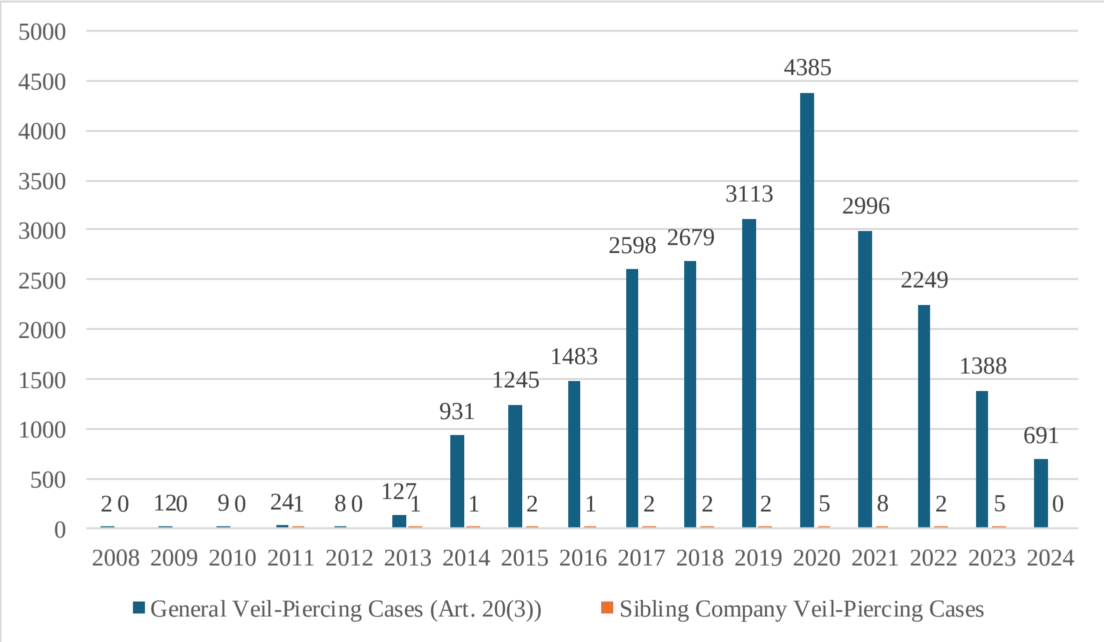
Empirical findings and analysis

General trends in veil-piercing cases in China

As illustrated in Figure 1, no corporate veil-piercing cases from before 2008 appear in China Judgment Online, despite the search covering 2006–2024. This absence is likely due to the lack of systematic online publication of judicial decisions before this period.

While veil-piercing cases may have been adjudicated, they were either not publicly disclosed or recorded in formats that were not yet integrated into publicly accessible databases. Consequently, the observed absence of cases does not necessarily indicate that veil-piercing was not applied before 2008 but rather reflects limitations in case publication and database accessibility during the early years of judicial transparency reforms.[43]

Figure 1. Trends in veil-piercing cases: general vs. sibling companies (2008 to July 2024)



From 2014 onward, there was a notable increase in veil-piercing cases, with case numbers rising more than sevenfold compared to the previous year. This sharp increase may be partly attributable to the 2013 revision of the Company Law, which eliminated minimum capital requirements and fixed deadlines for capital contributions, taking effect in March 2014.[44] The reform introduced a more flexible capital registration system, which no longer required shareholders to contribute their registered capital within a specific timeframe.[45] While this policy was intended to lower entry barriers for businesses and stimulate economic activity, it may have also facilitated the establishment of undercapitalised firms, some of which lacked sufficient financial resources to meet their obligations.[46] As a result, creditors might have increasingly turned to veil-piercing claims to hold shareholders accountable in cases where limited liability protections were used to evade debts.

[43] For analyses of earlier corporate veil-piercing cases, Huang's empirical study provides records of cases from 2006 to 2010, offering insights into judicial practice during this period that may not be fully reflected in publicly available case databases. See Huang (n 13).
[44] PRC Company Law 2013, art 26.
[45] Colin Hawes, K-LA Lau and Angus Young, 'Introducing the One-Yuan Chinese Company: Impacts of the 2014 PRC Company Law Amendments on Shareholder Liability and Creditor Protection' (2017) 38 Company Lawyer 163.
[46] Ibid.

Between 2014 and 2020, the number of veil-piercing cases continued to increase gradually, suggesting that disputes arising from the capital deregulation introduced in 2014 persisted over time. The growth in business registrations during this period likely contributed to a larger pool of potential disputes, as more companies entered the market without stringent capital requirements.

From 2020 onward, however, a sharp decline in publicly available veil-piercing cases is observed. Given that the legal framework for veil-piercing remained unchanged between 2020 and 2024, attributing this decline solely to a sudden shift in judicial attitudes may be an insufficient explanation. A more plausible factor is the implementation of stricter judicial disclosure policies. Since 2020, China has introduced more rigorous regulations governing public access to legal documents, most notably through the enactment of the Personal Information Protection Law and other data security measures.[47] In response, the SPC has strengthened restrictions on judicial disclosures, requiring courts to conduct more stringent case screenings before making decisions publicly available.[48] Consequently, the observed decline in reported veil-piercing cases may not indicate a substantive reduction in disputes or judicial decisions but rather a decrease in the number of cases publicly disclosed due to enhanced confidentiality and data protection measures.

Judicial stability and consistency in sibling company veil-piercing

While the number of publicly disclosed veil-piercing cases has declined in recent years, this empirical study examines changes in judicial practice before and after the 2023 revision, with particular attention to sibling company veil-piercing. Given that such cases were already rare before 2020, the reduction in case disclosures is unlikely to significantly affect the validity of these findings.

As illustrated in Figure 1, the general veil-piercing doctrine has been widely applied in corporate disputes. However, its application to sibling companies has remained exceptionally rare. Among 23,940 cases where courts invoked veil-piercing, only a small fraction involved claims against sibling companies. A notable deviation occurred in 2016 and 2017, when the raw number of sibling company veil-piercing cases rose to 65 and 54, respectively. However, further analysis indicates that this temporary increase did not reflect a broader judicial shift but was instead attributable to multiple lawsuits involving a single corporate group, leading to an inflation of case numbers. Excluding this anomaly, the number of sibling company veil-piercing cases was only 1 in 2016 and 2 in 2017, suggesting that the frequency of sibling company liability remained largely unchanged before July 2024.

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47 Zichen Wang, 'China's Highest Court Defends Restricting Online Publication of Effective Judgments, Its Once Proud Transparency Initiative' (Pekingnology, 22 December 2023) <https://www.pekingnology.com/p/chinas-highest-court-defends-restricting> accessed 8 March 2025.

48 Ibid.

Following the 2023 revision of the Company Law, Article 23(2) explicitly provides courts with a statutory basis for piercing the corporate veil between sibling companies under specific conditions. Since the provision took effect on July 1, 2024, 34 cases have applied Article 23(2) to impose liability on sibling companies. In comparison, 268 cases have applied Article 23(1) under the general veil-piercing rule during the same post-2023 period.

The proportion of sibling company veil-piercing cases relative to general veil-piercing cases increased from 0.13% before 2023 to 11.26% after the revision, reflecting a dramatic increase of over eightyfold in its application. While this trend may also be influenced by other factors—such as changes in creditor behaviour, economic conditions, or settlement incentives—it notably coincides with the introduction of Article 23(2). The timing and statutory clarity provided by the 2023 revision suggests that the legal change has likely contributed to the increased willingness of courts and claimants to pursue sibling company liability.

Table 1. Frequency of sibling company veil-piercing cases in Chinese courts

Period	Total cases	Veil-pierced	Not veil-pierced	Piercing rate
Pre-2023 Revision	32	13	19	40.63%
Post-2023 Revision	34	18	16	52.94%

As shown in Table 1, the increase in sibling company veil-piercing cases has been accompanied by a higher success rate compared to the pre-2023 period. While causality cannot be definitively established, the introduction of an explicit statutory basis under Article 23(2) appears to be associated with two parallel developments: a greater number of plaintiffs pursuing veil-piercing claims against sibling companies, and an increase in judicial findings in favour of such claims. Before the 2023 revision, 32 cases involving sibling company veil-piercing were identified, with 13 resulting in a ruling in favour of piercing, reflecting a success rate of 40.63%. Following the implementation of Article 23(2) in July 2024, 34 cases have been adjudicated under the new provision, of which 18 resulted in veil-piercing, raising the success rate to 52.94%. While the overall number of cases remains relatively low compared to general veil-piercing claims, the increase in the piercing rate suggests a shift in judicial treatment of sibling company liability.

Table 2. Court levels of sibling company veil-piercing cases

Period	First-instance trials	Appeals	Retrials

Pre-2023 Revision	11	17	3
Post-2023 Revision	28	6	0

Table 2 presents data on the judicial levels at which sibling company veil-piercing cases were adjudicated, distinguishing between pre-2023 and post-2023 periods. The distribution of cases across first-instance trials, appeals, and retrials shows shifts following the 2023 Company Law revision. Additionally, one pre-2023 case falls under execution objection litigation, indicating that sibling company veil-piercing claims may also be raised in enforcement proceedings.[49]

Before the 2023 revision, sibling company veil-piercing cases were more frequently contested at higher court levels. Among the recorded cases, 11 were adjudicated at the first-instance level, while 17 proceeded to appeal, and 3 underwent retrial. This distribution suggests that such cases often attracted appellate scrutiny, potentially reflecting judicial caution or divergent interpretations among lower courts. One notable example is *Southwest Cement Co., Ltd. v Sichuan Zizhong Southwest Cement Co., Ltd*,[50] which was reviewed and ultimately overturned by the higher court. Initially, both the first- and second-instance courts imposed joint liability under the general corporate veil-piercing doctrine, finding that the sibling companies should be held liable together.[51] However, at the retrial stage, the higher court rejected this view, reasoning that the degree of commingling between the sibling entities was insufficient to justify veil-piercing: while the companies shared a financial account, there was no substantial overlap in personnel or business operations.[52] The court further noted that such factors must be assessed cumulatively when determining whether piercing is appropriate.[53] Accordingly, it reversed the prior rulings and declined to impose joint liability.

Since the implementation of Article 23(2) on July 1, 2024, the number of appellate and retrial cases has declined. Of the 34 cases recorded, 28 were decided at the first-instance level, while only 6 proceeded to appeal and none reached retrial. This distribution may reflect several factors. One possibility is that the new statutory provision has provided clearer legal guidance, reducing judicial hesitation and leading to more consistent first-instance outcomes that are less likely to be appealed. Alternatively, the limited number of appellate decisions may be due to timing: some appeals may still be pending or not yet publicly available. Other factors—such as strategic settlement or shifts in litigation strategy—may also have contributed. Given the short time frame since Article 23(2)

[49] *Cao Heping v Zhao Guijun & Sichuan Tiantai Trading Co., Ltd* [2014] Yi Zhi Yi Zi No.6 [曹和平与赵桂君，四川省天泰贸易有限责任公司借款合同纠纷执行异议裁定书(2014) 宜执异字第 6 号].

[50] *Southwest Cement Co., Ltd. v Sichuan Zizhong Southwest Cement Co., Ltd* [2018] Chuan Min Zai No. 687 [西南水泥有限公司、四川资中西南水泥有限公司建设工程施工合同纠纷再审民事判决书(2018)川民再 687 号].

[51] Ibid.

[52] Ibid.

[53] Ibid.

took effect, it remains premature to draw firm conclusions about long-term appellate patterns.

To further access judicial consistency in corporate veil-piercing cases, Table 3 provides a summary of appellate and retrial outcomes for pre- and post-2023 periods.

Table 3. Outcomes of appeals and retrials in sibling company veil-piercing cases

Period	**Total appeals/ reverse**	**First instance: pierce → reversed to non-pierce**	**First instance: non-pierce → reversed to pierce**	**Total reversals**	**Reversal rate**
Pre-2023 Revision	20	2	2	4	20%
Post-2023 Revision	6	0	1	1	16.6%

Before 2023, 20 sibling company veil-piercing cases advanced to the appellate or retrial stage, with 4 cases (20%) resulting in a reversal of the first instance ruling. Among these, 2 cases initially ruled as veil-piercing were later overturned to non-piercing, while 2 cases originally decided as non-piercing were reversed to veil-piercing. The equal number of reversals in both directions suggests that higher courts were not consistently correcting a specific judicial tendency but were instead responding to the doctrinal ambiguity surrounding such cases.

Furthermore, the reversal rate in sibling company veil-piercing cases prior to 2023—20%—was notably higher than the average reversal rate of 3.35% in general commercial and civil appeals.[54] This substantial disparity suggests a greater degree of legal uncertainty in these cases. The data indicates that courts lacked a unified doctrinal approach to handling sibling company liability, contributing to inconsistency and unpredictability in judicial outcomes.

Additionally, the presence of both appellate and retrial reversals suggests that judicial uncertainty extended beyond the first and second instance courts. In at least two retrial cases, the retrial court overturned decisions despite consistent rulings at the lower levels.[55] This indicates that even when first and second instance courts had reached consensus, higher courts remained willing to revisit and revise those judgments. Such reversals further highlight the instability in judicial reasoning surrounding sibling

[54] SPC, 'The Supreme People's Court releases key judicial trial data to the public on a quarterly basis (最高法按季度对外公布司法审判工作主要数据)' (Court.Gov, 8 August 2023) <https://ipc.court.gov.cn/zh-cn/news/view-2467.html> accessed 8 March 2025.

[55] *Southwest Cement v Sichuan Zizhong Southwest Cement* (n 50); *Wu Guochun v Diaobingshan Jinpenglong Real Estate Co., Ltd. and Kaiyuan Jinpenglong Real Estate Development Co., Ltd*. [2022] Zuigaofa Min Zai No. 89 [吴国春、肇德江等股东损害公司债权人利益责任纠纷民事再审民事判决书(2022)最高法民再 89 号].

company veil-piercing before the 2023 revision, reinforcing the view that courts lacked a stable doctrinal framework and often reached inconsistent outcomes even at the highest levels of review.

Following the implementation of Article 23(2), the number of appellate cases has declined to six, with only one resulting in a reversal. This marks a slight drop in the reversal rate from 20% prior to 2023 to 16.6% after the revision. While the sample size remains small, this decline may suggest a stabilisation in judicial handling of sibling company veil-piercing cases. One plausible explanation is that the statutory clarification introduced by Article 23(2) has provided a clearer doctrinal framework, reducing the uncertainty that previously led to a higher rate of appellate intervention. Lower courts may now feel more assured in applying the revised provision, resulting in more consistent first-instance decisions and fewer successful appeals.

Another potential factor is a shift in the role of appellate courts. The presence of a defined statutory basis may have encouraged greater deference to lower court rulings, reducing the perceived need for doctrinal correction. Indeed, the one reversal recorded post-2023 was not based on disagreement with the application of Article 23(2), but on evidentiary deficiencies.[56] The appellate court found that the trial court had failed to consider facts established in related proceedings and overlooked the defendants' failure to submit rebuttal evidence. It held that these omissions resulted in an improper substantive outcome, warranting correction. As such, the case does not signal judicial hesitation toward the revised veil-piercing standard but rather highlights procedural shortcomings in fact-finding.

Table 4. Trends in veil-piercing rulings

Period	**First-instance cases**	**Pierced veil cases in the first instance**	**Piercing rate in the first instance**	**Appeal /retrial cases**	**Pierced veil cases in appeal/retrial**	**Appeal/ retrial: piercing rate**
Pre-2023 Revision	11	2	18.18%	20	10	50%
Post-2023 Revision	28	13	46.43%	6	5	83.33%

Table 4 highlights a notable shift in the judicial approach to sibling company veil-piercing at the first instance level following the 2023 revision. Before the introduction of Article 23(2), only 18.18% of first-instance cases resulted in veil-piercing, while the vast majority (81.82%) were ruled as non-piercing. After the statutory revision took

56 *Zhongshan Co., Ltd. v Zhongshan Co. Ltd. and Others* [2025] Yue 20 Min Zhong No. 802 [中山某有限公司、中山某有限公司等买卖合同纠纷二审判决书(2025)粤 20 民终 802 号].

effect on July 1, 2024, the proportion of cases in which courts pierced the corporate veil more than doubled, reaching 46.43%. This suggests that lower courts have become more inclined to apply veil-piercing to sibling companies, likely influenced by the explicit statutory recognition of horizontal veil-piercing in Article 23(2).

The increase in veil-piercing at first instance may reflect a shift away from the more cautious stance that characterised earlier judicial practice in sibling company cases. Prior to 2023, courts generally favoured maintaining corporate separateness, with relatively few cases allowing veil-piercing—likely due to the lack of a clear statutory basis. Concerns about overextension of the doctrine or legal uncertainty may have contributed to this restraint. By contrast, the post-2023 data suggest that courts now see sibling company veil-piercing as a more viable remedy, with the revised Company Law providing a more defined legal foundation.

A similar upward trend is observable at the appellate and retrial levels. Before the 2023 revision, veil-piercing was upheld in 50% of higher court decisions involving sibling companies. Following the implementation of Article 23(2), that rate increased to 83.33%, with five of six recorded appellate or retrial cases resulting in veil-piercing. While the post-revision sample remains small, this noticeable rise may suggest growing judicial acceptance of sibling company liability even beyond the first instance. The elevated success rate thus reflects not an automatic application of Article 23(2), but potentially a maturing doctrinal consensus on its scope. As more decisions move through the appeals process, further observation will be needed to determine whether this trend signifies a broader institutional shift or remains contingent on case-specific reasoning.

Table 5 presents data on the number of sibling companies involved in veil-piercing cases, distinguishing between pre- and post-2023 periods.

Table 5. Sibling numbers in veil-piercing cases

	2 siblings			**3 siblings**			**4 siblings**		
Period	**Total cases**	**Pierced cases**	**Piercing rate**	**Total cases**	**Pierced cases**	**Piercing rate**	**Total cases**	**Pierced cases**	**Piercing rate**
Pre-2023	23	10	43.48%	9	3	33.3%	0	0	0%
Post-2023	31	16	51.61%	2	1	50%	1	0	0%

Before the 2023 revision, courts handled 23 cases involving two siblings and 9 cases involving three siblings. The piercing rate for two-sibling cases was 43.48%, while for three-sibling cases, it was slightly lower at 33.3%. Notably, no recorded cases involved four or more siblings, suggesting that such disputes were either less common, not publicly disclosed, or that courts were hesitant to extend veil-piercing to more complex corporate group structures. The slight decline in piercing rates as the number of sibling companies increased may indicate that courts exercised greater scrutiny when evaluating claims involving larger corporate groups.

One possible explanation for this pattern is the increasing difficulty of demonstrating concerted abuse of corporate personality as the number of affiliated entities grows. Courts may have required more substantial evidence of improper conduct when multiple sibling companies were involved, thereby reducing the likelihood of veil-piercing in cases with three or more siblings.[57] For example, in *Baixinte Partnership v. Huizhou Jingwei Electromechanical Co. Ltd et al*,[58] the higher court reversed the first-instance ruling, emphasising that a large number of affiliated companies complicates the assessment of corporate independence. The court reasoned that the application of veil-piercing should be subject to heightened scrutiny, particularly regarding corporate organisational structure, financial commingling, and business integration. In this case, although the three companies were business affiliates, the court found that the available evidence did not sufficiently establish the commingling of corporate structures and financial assets, leading to a reversal from piercing to non-piercing.

Following the 2023 revision, two sibling cases remain the predominant type of sibling company veil-piercing disputes. However, a case involving four sibling companies appeared for the first time in the dataset, showing differences from pre-2023 data, where no such cases had been recorded in the past two decades. While the limited number of cases makes it difficult to determine whether this represents a broader trend, the emergence of a four-sibling case shortly after the implementation of the 2023 revision suggests that courts may now be more open to examining veil-piercing claims involving more complex corporate structures.

Given the historical absence of such cases, this single instance may indicate an early response to the statutory recognition of sibling company veil-piercing under Article 23(2). While it remains unclear whether this case signals a lasting shift or an isolated occurrence, its presence suggests that creditors and litigants are beginning to test the boundaries of the revised legal framework, potentially leading to more claims involving multiple sibling companies in the future. The increase in veil-piercing rates post-2023 is also reflected in two-sibling cases, where the piercing rate rose slightly from 43.48% to 51.6%. Although the sample size remains small, this change may suggest that courts

[57] Huang (n 13).

[58] *Baixinte Partnership v. Huizhou Jingwei Electromechanical Co. Ltd and Guilin Linguan Electromechanical Co., Ltd.* [2015] Huizhong Famin Second Final No. 301 [婺源县佰鑫特普通合伙全新线圈厂与惠州市经纬机电有限公司，桂林麟冠机电有限公司买卖合同纠纷二审民事判决书(2015)惠中法民二终字第 301 号].

are somewhat more inclined to apply veil-piercing in simpler sibling company relationships, possibly due to the greater legal clarity provided by Article 23(2).

The data in Table 6 reveals a changing judicial approach toward liability distribution within corporate groups.

Table 6. Veil-piercing in sibling companies and controlling shareholder liability

Period	Pierced only controlling shareholder	Pierced both sibling & controlling shareholder	Pierced only sibling companies	Neither pierced
Pre-2023 Revision	6.25%	3.13%	37.50%	53.13%
Post-2023 Revision	2.94%	11.76%	41.18%	44.12%

Before the 2023 revision, courts pierced only the controlling shareholder's liability—while shielding sibling companies—in 6.25% of cases. After the revision, only one such case has been recorded. While the broader significance of this drop remains uncertain due to the limited sample size, the decline may suggest that courts are becoming less inclined to assign liability solely to the controlling shareholder without also examining the role of affiliated companies.

A more notable development is the increase in cases where both the controlling shareholder and sibling companies were held jointly liable, rising from 3.13% before the revision to 11.76% after. Although this remains a small portion of the total cases, the increase may suggest an emerging judicial view of corporate groups as integrated economic units. In such cases, courts appear more willing to extend liability horizontally to affiliated entities when misconduct originates at the shareholder level.

The proportion of cases where courts pierced only sibling companies also rose slightly, from 37.5% pre-2023 to 41.18% post-2023. Conversely, the percentage of cases where neither sibling companies nor controlling shareholders were held liable declined from 53.13% to 44.12%. While these changes are modest, they may signal a gradual shift in judicial openness to applying veil-piercing doctrines more broadly. However, given the limited number of cases, any definitive conclusions would be premature. A closer examination of judicial reasoning in individual decisions may offer deeper insight into evolving adjudicative patterns.

Judicial reasoning: substantive analysis of court decisions

The SPC *2019 Minutes* formally outlined three primary grounds for piercing the corporate veil: confusion of personalities (commingling), excessive domination and control, and significant undercapitalization.[59] However, an empirical review of sibling company veil-piercing cases suggests that courts do not strictly adhere to this tripartite framework. In practice, none of the collected cases relied solely on undercapitalization as the basis for piercing. Notably, a few cases invoked the controlling shareholder's malicious use of the corporate form—such as abusing affiliated entities to evade debts or frustrate creditor enforcement—as an independent justification for piercing. This reasoning aligns more closely with the "evasion principle" articulated in UK case law, where the corporate structure is disregarded when used to conceal wrongdoing or avoid legal obligations.[60] Accordingly, the following table groups cases under three empirically observed categories: commingling, excessive control, and abuse of the corporate form to evade legal obligations.

Table 7. Grounds for piercing (pre- and post-2023)

Period	Commingling			Excessive control			Evading legal obligations		
	Total cases	**Pierced cases**	**Piercing rate**	**Total cases**	**Pierced cases**	**Piercing rate**	**Total cases**	**Pierced cases**	**Piercing rate**
Pre-2023	28	12	42.86%	3	0	0%	1	1	100%
Post-2023	26	15	57.69%	4	1	25%	4	2	50%

The judicial grounds for veil-piercing in China—both before and after the 2023 revision—remain aligned with patterns observed in prior empirical research, which highlight the prominence of commingling as the dominant doctrinal basis.[61] Chinese courts routinely rely on indicators such as overlapping directors and shareholders, shared business premises, and the use of common financial accounts to establish a lack of corporate separateness between affiliated entities.[62] These factors, though often formalistic, are treated as proxies for functional integration and coordinated control within corporate groups.

[59] Minutes of the National Courts, s 2(4).
[60] Lo (n 6).
[61] Huang (n 13).
[62] See, eg, *Xishan District Jie Factory v Xin Company and Others* [2025] Su 0205 Min Chu No. 551 [锡山区杰某某厂、新某某公司等买卖合同纠纷民事一审民事判决书 (2025) 苏 0205 民初 551 号]; *Wuxi City Jin Company v Xin Company and Others* [2025] Su 0205 Min Chu No. 781[无锡市金某某公司、新某某公司等股东损害公司债权人利益责任纠纷民事一审民事判决书 (2025) 苏 0205 民初 781 号]; *Guizhou Agricultural Technology Co., Ltd. v Guizhou Trading Co., Ltd., Wang, and Others* [2025] Qian 2627 Min Chu No. 604 [贵州某某农业科技有限公司与贵州某某商贸有限公司、王某等买卖合同纠纷一审民事判决书 (2025) 黔 2627 民初 604 号].

This approach diverges from that of common law jurisdictions, particularly the UK, where veil-piercing is narrowly limited to cases involving intentional misuse of the corporate form to evade existing legal obligations.[63] Rather than requiring evidence of intent or bad faith, Chinese courts emphasise structural and operational integration as the primary basis for liability. In this sense, China adopts a more objective, functional standard that frames veil-piercing not as an exceptional judicial remedy but as a practical response to abuse within tightly connected enterprise groups.

Notably, a small subset of cases indicates that Chinese courts may be receptive to reasoning akin to the evasion principle when there is specific evidence of intentional misuse. In five such decisions, courts found that controlling shareholders had abused the corporate form to evade debts and harm creditor interests, employing language such as "abuse of independent legal personality" and "obvious bad faith leading to diminished repayment capacity."[64] Four of these cases resulted in veil-piercing, while one was dismissed due to insufficient evidence of deliberate evasion.[65] These outcomes suggest that, although Chinese courts primarily rely on formal indicators such as commingling, they are especially likely to pierce the corporate veil where creditor harm is clearly linked to intentional abuse. This aligns with Huang's empirical study on general veil-piercing cases in China, which found that claims based on fraud or improper conduct (aimed at evading obligations) had the highest piercing rate among all grounds invoked.[66]

Despite continuity in judicial reasoning, notable changes emerged after the 2023 revision. While commingling remained the primary ground for veil-piercing, its success rate increased significantly—from 42.86% pre-2023 to 57.69% post-2023. This shift suggests that courts, following the enactment of Article 23(2), became more inclined to pierce the corporate veil in sibling company cases where evidence of commingling was present. In contrast, excessive shareholder control remained the least successful basis for veil-piercing,[67] with courts continuing to reject claims based solely on shareholder domination, even after the 2023 revision.

More importantly, a closer examination of judicial decisions indicates that, before the 2023 revision, many courts applied a strict evidentiary standard when assessing commingling among sibling companies. To successfully pierce the corporate veil, plaintiffs were often required to establish personnel, business, and financial commingling collectively, rather than relying on one or two factors in isolation. Additionally, some courts imposed a heightened "seriousness" threshold, requiring plaintiffs to establish that the degree of commingling was so extensive that it effectively eliminated corporate separateness. For example, in *Rizhao Fenglairun Commercial*

[63] *Prest v Petrodel Resources* (n 3).
[64] See *Wu Guochun v Diaobingshan Jinpenglong Real Estate* (n 55).
[65] *Company A v Hangzhou Company and Company C [2025] Zhe 0114 Min Chu No. 3637* [A 公司，杭某公司, C 公司承揽合同纠纷一审民事判决书(2025)浙 0114 民初 3637 号].
[66] Huang (n 13) 760.
[67] This observation is consistent with Huang's empirical research, see Huang (n 13).

Company v. Linyi Sensheng Mining Company et al.,[68] the court found that senior managers held overlapping positions across three sibling companies, the business operations were highly similar, and one sibling company had paid contractual fees on behalf of another. Despite these indicators, the court ruled that the evidence was insufficient to establish commingling at a level warranting veil-piercing and dismissed the plaintiff's claim. Similarly, in *Ji Mingxia v. Shandong Guanghua Zhiye Company*,[69] the court identified common shareholders, overlapping key personnel, shared operational addresses, and interdependent business activities between two sibling companies. However, the court still refused to pierce the corporate veil, emphasising that corporate separateness must be upheld unless direct financial harm to creditors was conclusively proven. These cases illustrate the pre-2023 judicial reluctance to extend liability based solely on structural or operational overlaps, requiring stronger financial evidence and proof of harm before disregarding corporate separateness.

Following the 2023 revision, there are indications that the judicial standard for establishing commingling may have become more flexible. Courts appear to place less emphasis on the "seriousness" threshold that was occasionally invoked in earlier decisions; only one post-2023 case explicitly referenced this requirement.[70] Instead, recent rulings suggest a growing receptiveness to veil-piercing based on relatively limited evidence of financial or operational entanglement. In one such case, the court accepted bank statements showing that one sibling company had received payments intended for another as sufficient to support a finding of commingling and justify veil-piercing.[71] While similar evidence may previously have been deemed inadequate, its acceptance post-2023 could reflect a shift in judicial interpretation. At the same time, decisions that declined to pierce the veil after the revision have tended to focus on the absence of factual proof rather than on the failure to meet a heightened "seriousness" standard. Although the sample remains small, these developments suggest a possible relaxation in the evidentiary burden for plaintiffs seeking to establish commingling, warranting further monitoring as additional cases are adjudicated.

COMPARATIVE PERSPECTIVES: CHINA AND COMMON LAW JURISDICTIONS

The empirical findings indicate notable shifts in the judicial application of veil-piercing in China following the 2023 Company Law revision. Statutory codification of horizontal veil-piercing under Article 23(2) appears to have contributed to increased

[68] *Rizhao Fenglairun Commercial Company v. Linyi Sensheng Mining Company et al* [2019] Lu 1102 Min Chu No.8863 [日照丰莱润商贸有限公司与临沂森晟矿业有限公司、日照路森矿业有限公司民间借贷纠纷一审民事判决书(2019)鲁 1102 民初 8863 号].

[69] *Ji Mingxia v. Shandong Guanghua Zhiye Company* [2021] Lu 14 Min Zhong No. 1982 [纪明霞、山东光华置业有限公司等商品房销售合同纠纷民事二审民事判决书(2021)鲁 14 民终 1982 号].

[70] *Guo v Chengmai Real Estate Development Co., Ltd. et al* [2024] Qiong 9023 Min Chu No. 2454 [郭某，澄迈某公司等商品房销售合同纠纷民事一审民事判决书(2024)琼 9023 民初 2454 号].

[71] *Ma v Liaoning Company and Others* [2024] Liao 0111 Min Chu No. 4351 [马某、辽宁某公司等装饰装修合同纠纷民事一审民事判决书 (2024) 辽 0111 民初 4351 号].

creditor-led litigation and greater consistency in judicial decision-making. At the same time, courts have adopted a more flexible approach post-revision, lowering the evidentiary thresholds that were previously required for piercing the corporate veil. While the introduction of an explicit statutory basis has reduced interpretative ambiguity, it has also coincided with a higher success rate in sibling company veil-piercing cases, suggesting that statutory clarification alone has not resulted in judicial restraint.

This challenges the assumption that greater statutory clarity would bring China's veil-piercing practices closer to those observed in common law jurisdictions. In common law systems, clearer veil-piercing doctrines tend to enhance judicial predictability while maintaining the doctrine's exceptional nature. However, the empirical evidence from China suggests that the piercing rate has increased rather than declined, raising questions about the broader factors influencing judicial behaviour. This trend suggests that systemic or structural influences—beyond mere statutory clarification—may be driving China's high frequency of veil-piercing.

To further explore these dynamics, this section compares China's approach with that of common law jurisdictions, analysing key differences in legal foundations, judicial reasoning, and institutional constraints. By examining the broader legal, economic, and policy-driven factors that shape veil-piercing decisions, this comparative analysis seeks to provide insights into why China's judicial practice diverges from the more restrictive approach commonly observed in the UK and the US.

When comparing China's approach to veil-piercing with that of the UK and the US, several key differences emerge, offering insights into why China's veil-piercing rate is significantly higher than that of common law jurisdictions. One important distinction lies in the legal foundation of the doctrine—statutory codification versus case law. In China, veil-piercing is explicitly codified under the Company Law, providing a clear legal basis for imposing shareholder liability in cases of corporate abuse. This statutory framework offers courts defined authority to apply veil-piercing, contributing to more predictable and confident judicial decision-making, as reflected in the empirical findings of this study.

By contrast, in common law jurisdictions such as the UK and the US, veil-piercing remains a judicially developed doctrine governed primarily by case law. While these jurisdictions do contain statutory provisions that may impose liability on controlling shareholders, these operate alongside veil-piercing and do not require disregarding the corporate form.[72] As such, courts in the UK and US often rely on alternative mechanisms—including tort liability, agency principles, or statutory remedies—to

[72] For example, in the UK, a controlling shareholder who directs the company's affairs may be deemed a "shadow director" and held personally liable for wrongful trading, fraudulent trading, or misfeasance. In the US, a controlling person may be held jointly and severally liable for securities violations committed by the controlled person, unless they acted in good faith and did not induce the violation. Insolvency Act 1986, ss 212–214, 251; Securities Exchange Act of 1934, 15 USC § 78t(a) (2020 ed).

address misconduct, thereby reducing the need to pierce the veil.[73] This contributes to a more constrained and cautious application of the doctrine, consistent with the strong normative commitment to maintaining corporate separateness in common law systems.[74]

A second key distinction lies in the underlying rationale for veil-piercing decisions. In China, courts regard veil-piercing as a means of enforcing corporate accountability and preventing shareholder abuse, particularly in a developing market where corporate misconduct is perceived as more prevalent.[75] The doctrine is often applied as an instrument of equity to ensure that corporate structures are not misused to evade liabilities. For example, in *Luo Xianghua v. Zhuhai Huahe Automobile Maintenance Service Co., Ltd. and Zhuhai Huahe Automobile Trading Co., Ltd*, the court held sibling companies jointly liable, explicitly citing fairness and creditor protection.[76] While this orientation reflects the pragmatic approach of Chinese courts, it also raises normative questions about whether judicial intervention in the name of equity undermines the ex-ante risk allocation that limited liability is designed to preserve. Creditors are typically expected to price the risk of default, and an expansive veil-piercing doctrine may distort these incentives by retroactively reallocating losses. This tension points to a fundamental trade-off embedded in veil-piercing jurisprudence: between post hoc fairness and legal predictability.

By contrast, courts in common law jurisdictions treat veil-piercing as an exceptional remedy rather than a standard judicial tool. Veil-piercing is generally restricted to narrow circumstances, such as fraud, sham entities, or deliberate evasion of legal obligations. Courts apply a cautious approach, requiring substantial evidence of shareholder misconduct, financial commingling, or undercapitalization before disregarding corporate separateness. The emphasis on legal predictability and the protection of limited liability principles further constrains the use of veil-piercing,[77] ensuring that it remains a rare and carefully limited intervention rather than a routine mechanism for addressing corporate disputes.

Beyond empirical observations, the systemic characteristics of China's judicial system further explain why veil-piercing is applied more frequently than in common law jurisdictions. Chinese courts operate within a legal framework where judicial decisions are expected to align with national economic and social policy objectives, such as market regulation, creditor protection, and financial stability.[78] As a result, judicial rulings are not solely guided by statutory provisions but also influenced by broader

[73] Hansmann and Kraakman (n 2).
[74] For example, the UK Supreme Court in *Prest v Petrodel Resources Ltd* (n 3).
[75] Hawes et al (n 15).
[76] *Luo Xianghua v. Zhuhai Huahe Automobile Maintenance Service Co., Ltd. and Zhuhai Huahe Automobile Trading Co., Ltd* [2015] Zhu Zhong Fa Min Yi Zhong Zi No. 390 [罗湘华与珠海市华禾汽车维修服务有限公司、珠海市华禾汽车贸易有限公司追索劳动报酬纠纷二审民事判决书(2015)珠中法民一终字第 390 号].
[77] *Salomon v. Salomon* (n 1).
[78] Xin He, 'Pressures on Chinese Judges under Xi' (2021) 85 The China Journal 49.

political and economic considerations.[79] Additionally, the judicial responsibility system—which holds judges accountable for their rulings[80]—reinforces a tendency toward rigid adherence to statutory provisions rather than case-specific substantive analysis. Judges may seek to avoid issuing controversial rulings that could negatively impact their professional standing,[81] leading them to apply the veil-piercing doctrine in favour of creditors whenever the statutory evidentiary criteria are met. This contributes to a formalistic approach, in which courts apply veil-piercing mechanically rather than engaging in more nuanced judicial reasoning.

In contrast, the narrow application of veil-piercing in common law jurisdictions is reinforced by institutional and historical constraints. The doctrine remains grounded in case law and is applied sparingly to preserve the principle of limited liability. Courts avoid departing from precedent for fear of reversal on appeal, and any expansion of the doctrine requires careful doctrinal justification.[82] This cautious approach reflects a broader path dependence: the longstanding commitment to corporate separateness and judicial restraint has shaped a legal culture in which veil-piercing is seen as a last resort. As a result, courts in common law systems apply the doctrine with greater hesitation and doctrinal rigidity, emphasising legal predictability over broader policy concerns.

Therefore, China's high veil-piercing rate and broad application of the doctrine are not the result of an accidental misreading of Western legal principles but rather a systematic adaptation to local legal and economic conditions. While China initially adopted the veil-piercing concept from common law jurisdictions, its implementation has diverged significantly. Statutory vagueness initially granted courts broad discretion, and the absence of a strong precedent system allowed judicial interpretations to develop in varying directions. This judicial autonomy led to inconsistencies and, at times, unpredictable outcomes, prompting top-down clarifications through the *2019 Minutes* and the 2023 Company Law revision.

However, rather than restricting the use of veil-piercing, these clarifications—combined with the systemic characteristics of China's judiciary—reinforced a more formalistic and standardised application of the doctrine. The explicit statutory framework provided clearer legal grounds for piercing, reducing judicial hesitation and further entrenching a creditor-protection tendency. As a result, rather than curbing the frequency of veil-piercing, these statutory refinements facilitated its increasing application, as judges now apply the doctrine more systematically whenever the statutory criteria are met. Meanwhile, common law jurisdictions have moved in the opposite direction, narrowing the doctrine's application and maintaining a strong presumption in favour of corporate separateness.[83]

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79 Ibid, Donald C Clarke, 'Power and Politics in the Chinese Court System: The Enforcement of Civil Judgments' (1996) 10 Colum J Asian L 1.

80 He (n 78).

81 Ibid.

82 John Hanna, 'The Role of Precedent in Judicial Decision' (1957) 2 Vill L Rev 367.

83 n 3.

In sum, the empirical evidence and comparative analysis demonstrate that China's approach to veil-piercing is shaped by the interplay of statutory formalisation, institutional constraints within the judicial system, and the judiciary's alignment with economic and social policy objectives. The frequent and broad application of veil-piercing is not the product of judicial misinterpretation of common law principles but rather a reflection of China's distinct legal and institutional framework. This distinction is critical, as it reframes the discussion from attributing China's high piercing rate to judicial misapplication toward recognising the policy-driven rationale underlying its approach.

THE WAY FORWARD

While China's proactive approach to veil-piercing has played a significant role in protecting creditors and curbing corporate abuses, it has also prompted concerns about judicial overreach and the gradual erosion of limited liability principles. These concerns become particularly acute as veil-piercing is extended from individual shareholders to broader corporate group structures, including sibling companies. The 2023 Company Law revision introduced statutory clarification, but recent judicial trends suggest that further doctrinal refinements are needed to avoid over-expansion and ensure principled application. A more narrowly defined veil-piercing framework—anchored in clear evidentiary standards and applied only in exceptional cases—can help preserve legal certainty, reduce arbitrary outcomes, and maintain the economic functions of limited liability. Drawing on the comparative analysis and empirical findings presented in this study, the following section outlines key recommendations for calibrating China's veil-piercing regime to balance creditor protection with the predictability and stability that corporate law demands.

One possible improvement to China's veil-piercing framework is the issuance of detailed judicial guidelines or interpretations of Article 23 of the Company Law by the SPC. While Article 23(2) formally codifies horizontal veil-piercing, ambiguities remain regarding key legal concepts, such as whether "serious damage to creditors' interests" serves as a decisive factor in judicial reasoning or if it should be assessed in conjunction with other factors like commingling or evasion of debts. The lack of authoritative clarification has led to divergent interpretations among lower courts, contributing to inconsistent outcomes. Issuing interpretive guidance that illustrates specific factual scenarios could enhance judicial predictability and doctrinal coherence. For example, horizontal veil-piercing might be considered justified where two sibling companies share the same financial accounts, personnel, and premises, *and* one company is shown to have transferred assets to the other in order to frustrate creditor enforcement. Conversely, piercing could be deemed unwarranted where affiliated companies maintain separate books, operate independently, and no evidence suggests intentional harm to creditor interests. Such illustrative cases would help delineate the evidentiary boundaries of Article 23(2) and provide courts with a more objective framework for decision-making.

Additionally, clarifying evidentiary thresholds for horizontal veil-piercing could mitigate legal uncertainty. Courts could be guided to apply veil-piercing where clear and compelling evidence—such as asset transfers, financial commingling, or deliberate attempts to evade debt between sibling companies—is present. For instance, mere shared ownership or common control, on its own, may not suffice to justify veil-piercing. Additionally, judicial guidelines could include explicit examples of non-piercing scenarios, helping prevent courts from adopting an overly rigid or formalistic approach and instead encouraging fact-specific assessments.

Encouraging courts to document factual findings more explicitly in their judgments could further enhance judicial transparency and consistency. Clearly delineating the evidence of "abuse" in each case would not only reinforce credibility in judicial reasoning but also serve as a reference for future cases, fostering greater uniformity in the application of Article 23(2). Moreover, explicit documentation would provide businesses with clearer guidance on maintaining legally compliant corporate structures and risk management practices. For instance, ensuring independent financial records, maintaining arm's-length transactions, and establishing clear operational distinctions between sibling companies could serve as effective safeguards against veil-piercing claims. By increasing transparency in judicial reasoning, courts can offer both creditors and businesses greater legal certainty, reducing unnecessary litigation while upholding the integrity of corporate separateness.

While Chinese law has increasingly evolved in a creditor-friendly direction, it is equally important to ensure that the doctrine of veil-piercing is applied proportionally and only in cases of demonstrable corporate abuse. Strengthening judicial guidance could reinforce the principle that corporate separateness remains fundamental unless specific criteria for veil-piercing are met. Courts should be reminded that veil-piercing is not automatic and that legitimate corporate arrangements—particularly those structured for managerial efficiency or tax optimization—should not be subject to liability solely due to financial interdependence. For instance, in cases where affiliated companies share certain operational features for strategic or administrative reasons, but no evidence of bad faith or creditor harm is present, veil-piercing should be avoided. While some areas of law, such as antitrust or tax, may adopt a single economic entity approach to regulate coordinated corporate behaviour, such logic should not be indiscriminately applied in private law contexts, where the presumption of separate legal personality serves important protective and allocative functions. Preserving this boundary is crucial to prevent overextension of the veil-piercing doctrine, which could chill investment or create undue legal uncertainty for law-abiding business groups.

Another key refinement to veil-piercing doctrine involves establishing a clear causal link between corporate abuse and creditor losses. Courts should assess whether the alleged misconduct directly caused harm to creditors or whether the financial difficulties arose due to external economic factors. If the connection between corporate abuse and creditor harm is tenuous or speculative, veil-piercing should not be applied. Introducing more structured legal reasoning and assessment frameworks could help courts differentiate cases of intentional corporate abuse from instances where business failure is the result of economic risks or industry downturns. This approach could enhance predictability and fairness in veil-piercing decisions, ensuring that the doctrine is applied only in cases where corporate abuse is clearly proven.

Beyond judicial guidance, systematic monitoring and empirical analysis of post-2023 veil-piercing trends will be essential to assess the effectiveness and impact of Article 23(2). Initial findings from this study indicate a rise in horizontal veil-piercing cases and fewer appeals, yet the limited observation period necessitates caution in drawing definitive conclusions. Tracking how courts interpret and apply Article 23(2) over time will be critical for evaluating whether judicial practice aligns with the intended legislative objectives. If courts apply horizontal veil-piercing inconsistently—either too expansively or too restrictively—the SPC could introduce guiding cases or policy notices to enhance uniformity and refine the doctrine's application.

In sum, while the 2023 revision of the Company Law represents a significant step toward clarifying and structuring China's veil-piercing framework, further refinements—including judicial guidance, clearer evidentiary standards, and improved judicial transparency—will be essential to ensure that veil-piercing remains a measured and effective legal remedy.

CONCLUSION

China's approach to piercing the corporate veil illustrates how common law doctrines can be adapted and reinterpreted within a civil law framework. Through empirical analysis and comparative study, this paper has shown that China's high rate of veil-piercing is not merely the result of judicial misinterpretation or statutory vagueness but rather a consequence of the interplay between statutory formalisation, judicial institutional constraints, and policy imperatives.

The 2023 revision codified existing judicial practices, aiming to reduce inconsistencies by providing a clear statutory basis for horizontal veil-piercing. However, post-2023 empirical trends indicate that rather than constraining the doctrine, statutory clarification has accelerated its application. The increased success rate of sibling company veil-piercing claims suggests that judges—previously hesitant to apply the doctrine without explicit statutory authorization—are now more inclined to do so when clear legal grounds exist. Additionally, the lowering of evidentiary thresholds post-revision reflects a shift toward a more standardised, formalistic approach, where courts prioritise statutory compliance over nuanced case-by-case analysis.

While these developments strengthen creditor protection, the frequent application of veil-piercing raises potential concerns. An overly broad interpretation of the doctrine risks undermining the foundational principle of limited liability, potentially creating legal uncertainty for businesses and investors. The recommendations outlined in this paper—including detailed judicial guidelines, clearer evidentiary standards, and improved judicial transparency—aim to mitigate these risks by promoting a more structured and balanced approach to veil-piercing jurisprudence.

Beyond China's context, these findings carry broader implications for corporate law and judicial practice. First, they show the role of statutory design in shaping judicial behaviour: codification of veil-piercing has not only clarified judicial authority but has also influenced judicial tendencies, making the doctrine more accessible and frequently applied. Second, they highlight fundamental differences between common law and civil law systems in judicial discretion and doctrinal development. Unlike common law jurisdictions, where veil-piercing remains a narrowly applied exception constrained by precedent, China's statutory framework and judicial accountability mechanisms encourage a more standardised and formalistic application. This institutional structure explains why statutory clarification has not limited the doctrine's application but instead reinforced its expansion.

By situating China's veil-piercing practices within an empirical and comparative framework, this paper provides a nuanced understanding of how corporate liability doctrines evolve across jurisdictions. It highlights the influence of statutory codification, judicial constraints, and policy objectives in shaping veil-piercing jurisprudence. For scholars and policymakers, China's case illustrates how statutory regulation and institutional features shape the adaptation of a traditionally common law doctrine within a civil law system, leading to distinct judicial tendencies and approaches to creditor protection. For practitioners, these findings offer insights into the post-2023 judicial landscape, shedding light on how courts are likely to interpret evidentiary thresholds and statutory provisions in future veil-piercing disputes, as well as the broader implications for corporate risk management and creditor rights.

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