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Research on the Legal Practice of Public Welfare Liquidation of "Zombie Enterprises" in Hengyang City under the New Company Law: From the Perspective of Service Experience of Qinxiang Law Firm

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Abstract: Article 233 of the new Company Law, which will come into effect in 2024, has provided a higher-level legal basis for the compulsory liquidation of zombie enterprises. However, how to implement this article in local practices and solve the problem of no one applying and no money for traditional liquidation still requires exploring specific approaches. This article takes the government-court collaboration plus public welfare liquidation mechanism in Hengyang City as the research object. By combining the service experience of Qinxiang Law Firm in the government-court collaboration plus public welfare liquidation mechanism, it uses research methods such as case analysis, in-depth interview, and normative analysis to comprehensively sort out the operational logic and practical operation points of the government-court collaboration plus public welfare liquidation mechanism. There are mainly three contributions. First, it reveals the practical activation mechanism of the compulsory liquidation provisions in the new Company Law, namely, the coordinated actions of the government taking the lead in screening the list of enterprises, the finance setting up a special fund to advance the expenses, and the courts conducting batch review and acceptance. This breaks the traditional obstruction in the initiation and advancement of liquidation, transforming the legal provisions from texts into operational market clearing tools. Second, a triangular collaboration model among the government, courts and intermediaries is proposed. In this model, the government acts as the initiator and guarantor responsible for the initial screening and resource coordination, the court acts as the leading supervisor to control the legitimacy of the judicial process, and the law firm acts as the public welfare executor to undertake professional liquidation affairs. The boundaries of rights and responsibilities among the three parties are clearly defined to achieve efficient collaboration. Thirdly, based on the operational details and effectiveness data of the Hengyang model, it provides a replicable localized path for emerging economies to manage zombie enterprises. This path takes into account the legitimacy of judicial procedures and the efficiency of administrative promotion, as well as the characteristics of local administrative and judicial resource allocation, to avoid the problem of inadaptability when simply copying the models of developed countries. This article analyzes practical challenges such as the standardization of fiscal fund usage, cross-departmental data collaboration, and the connection of tax cancellation in public welfare liquidation. It puts forward improvement suggestions from two aspects: system improvement and lawyer service upgrading, providing theoretical support and practical reference for the promotion of this model throughout the province and even the country.

Keywords: New Company Law; Zombie enterprises; Public welfare liquidation; Government-court collaboration; Qin Xiang Law Firm; Legal practice

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1. Introduction

1.1. Research background and significance

After China's economy shifted to a high-quality development stage, the effective operation of the market clearance mechanism has become the key to optimizing the business environment and stimulating market vitality. However, "zombie enterprises" have long occupied the market and administrative resources but are difficult to exit due to the inability to liquidate them. This not only distorts market signals and amplifies systemic risks but also leads to distorted enterprise registration data and hinders the construction of the social credit system. Article 233 of the new Company Law [1], coming into effect on July 1, 2024, clearly defines the subjects and conditions for the compulsory liquidation of zombie enterprises under specific circumstances, providing a rigid institutional basis for addressing this issue. Against this backdrop, Hengyang City, in light of its local conditions, has explored a "government-court collaboration + public welfare liquidation" model, which is led by the government and courts and involves professional intermediary institutions such as law firms to provide public welfare or quasi-public welfare legal services. This model aims to solve the problem of "no application and no funds for liquidation," and has become a vivid practice of local rule of law renewal and business environment improvement. As a local law firm in Hunan that has been deeply engaged in the field of bankruptcy and liquidation, Qin Xiang Law Firm has been deeply involved in the practice of this model. This not only provides a sample for the study of the update of the legal system for enterprise exit, enriching relevant theoretical research, but also offers operational experience for other regions to implement similar mechanisms. Moreover, it points out the direction for law firms to expand services and fulfill social responsibilities under the new situation. It has both theoretical and practical value (**Figure 1**).

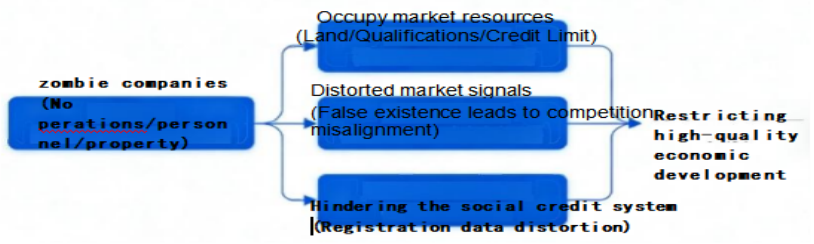


Figure 1. Logic diagram of the negative impact of "zombie enterprises" on the market.

1.2. Current research status at home and abroad

1.2.1. Current research status in China

Domestic academic research on the enterprise liquidation system in the early stage mostly focused on bankruptcy liquidation under the framework of the "Enterprise Bankruptcy Law", centering on core issues such as the conditions for bankruptcy application, the protection of creditors' interests, and the optimization of reorganization procedures. Relatively little attention was paid to the compulsory liquidation system in non-bankruptcy scenarios. As the problem of "zombie enterprises" occupying market resources and distorting the competitive order becomes prominent, the research focus has gradually shifted to the improvement of the enterprise exit mechanism.

Most current studies hold that the ordinary compulsory liquidation procedure in our country faces dual obstacles of difficulty in initiation and difficulty in advancement [2]. On the one hand, although the "Interpretation of the Company Law (II)" clearly stipulates that creditors and shareholders can apply for liquidation, in practice, a large number of "three-no enterprises" (no operation, no personnel, no property) have long been in a state of revocation but not cancellation due to the lack of qualified application subjects. On the other hand, problems such as the lack of settlement fees and low efficiency in departmental collaboration can easily lead to the process coming to a standstill. Scholars suggest that a special procedure for public welfare liquidation led by public power should be established, that is, the market supervision department should act as the applicant or a special fiscal fund should be set up to provide advance funds. Most of the research on the "government-court collaboration" mechanism has focused on the field of bankruptcy trials, highlighting

the role of the government in property disposal and employee resettlement. However, the systematic application of it to the public welfare liquidation of zombie enterprises and the practical research from the perspective of intermediary institutions such as law firms are still relatively scattered, lacking a detailed review of the operation process and the division of rights and responsibilities.

1.2.2. Current research status and practical references abroad

In developed countries with a market economy, a mature exit system for dormant enterprises and shell companies has been established. Relevant research mainly focuses on the balance between procedural efficiency and the interests of multiple parties. The institutional design and theoretical achievements of this system have significant reference value for China.

In terms of the procedural model, the dissolution process of insolvent companies in the United States shares similarities with the public welfare liquidation in Hengyang. According to the provisions of the Standard Commercial Company Law (MBCA) of the United States, when a company has no assets and has not conducted business activities for a long time, the state attorney general may apply to the court for dissolution. The court may appoint an independent liquidator to be responsible for asset investigation and claim declaration. The liquidation expenses shall be prioritized from the remaining assets of the company. If there are no assets, they shall be subsidized by the state government's special fund. In his book "Corporate Law Structure", scholar Reinier Kraakman [3] proposed that such a model of initiating public power and implementing it by professional institutions can prevent private entities from not applying due to having no interests, and can also ensure procedural legitimacy through judicial supervision. Its main advantage is to convert the exit cost of enterprises into the cost of public governance. Thereby enhancing the overall efficiency of the market. This is in line with the logic of the Hengyang model, where "the government advances the expenses and the court supervises the liquidation", but the American procedure places more emphasis on the leading role of procuratorial power. The Hengyang model is dominated by "government-court collaboration," with the screening and coordination functions of government departments [4].

The Administrative Winding Up system in the United Kingdom demonstrated the characteristics of high efficiency and convenience. According to the provisions of the Insolvency Act of the United Kingdom, when a company is unable to pay its debts and meets the legal conditions, the Secretary of State can directly direct the Insolvency Service to liquidate by executive order without going through the full judicial process. Scholar Sarah Worthington analyzed in "Sealy & Worthington's Cases and Materials in Company Law" that this system adopts a dual structure of "administrative dominance + judicial review" [5]. The average cycle of the liquidation process has been shortened to 3 to 6 months, which is shorter than that of ordinary judicial liquidation. The idea of "separating complex from simple" has enlightening significance for the optimization of the Hengyang model - although the current public welfare liquidation in Hengyang has achieved batch processing, the same procedures are adopted for all enterprises. In the future, the experience of the UK can be drawn upon to design simplified procedures for "shell enterprises" without assets or creditors' rights and debts, shorten the announcement period and exempt some investigation links [6].

In addition, Germany's "delisting system for dormant companies" and Japan's "special liquidation procedure" are also worth learning from [7]. The German Commercial Code stipulates that if a company has not been in operation for six consecutive months and there is no possibility of resuming operations, the registration authority may, upon application, remove it from the commercial register without going through a liquidation process. In Japan, on the basis of ordinary liquidation, a special procedure has been established for enterprises with significant shareholder disputes and difficult property investigations, where the court appoints the liquidator and the tax department assists in the investigation. The common direction of these systems is to clarify the rights and responsibilities of public power subjects, reduce unnecessary processes, enhance data collaboration among departments, and cut the cost for enterprises to exit [8].

1.3. Research methods

This research mainly adopts the following three research methods. To ensure the scientific nature, objectivity and practical

reference value of the research conclusions, this paper adopts the case analysis method, interview method and normative analysis method, strictly following the operational standards of empirical research. The specific implementation paths and details of each method are described as follows.

1.3.1. Case analysis method: Focus on typical and representative samples

The case analysis takes the first batch of 38 zombie enterprises handled by the government-court collaboration and public welfare liquidation mechanism of Hengyang City as the research samples [9]. The selection of these samples follows three major standards: typicality, coverage, and traceability, as detailed below. In terms of the basis for sample selection, all 38 enterprises are from the first batch of the batch liquidation list of Hengyang City from July to December 2024, meeting the core requirement of Article 233 of the new Company Law that their business licenses have been revoked for more than three years and they have no actual operation. It covers four major industries, including 15 in manufacturing, 12 in trade, 8 in services and 3 in construction, and spans six administrative regions, such as Zhuhui District, Yanfeng District, and Shigu District of Hengyang City. It can reflect the common problems and differentiated characteristics of zombie enterprises in different industries and regions, avoiding conclusion deviations caused by the singularity of the sample. The source of the case data is the practical archives preserved by Qinxiang Law Firm, which include 216 original legal documents, such as due diligence reports, applications for compulsory liquidation, court rulings, and liquidation reports, as well as auxiliary materials such as property inquiry records, creditor declaration materials, and departmental communication letters during the liquidation process. The authenticity of the data can be cross-verified through the official filing information of the Hengxiang City Court and the Municipal Market Supervision and Administration Bureau. By adopting a full-process disassembly and key node focus analysis approach, 38 enterprises were sorted out from five stages: screening, due diligence, case filing, liquidation, and cancellation. The difficulties in due diligence in different industries, the key points of court review in batch case filing, and the procedural termination paths for enterprises without assets were analyzed. Finally, common problems were extracted and individual cases were deeply analyzed. Form a systematic understanding of the operational logic of the Hengyang model [10].

1.3.2. Interview method: Standardized process and ethical review

The interviews were conducted with the core personnel of Qinxiang Law Firm who directly participated in the Hengyang Public Welfare liquidation project. Semi-structured interviews were carried out to obtain first-hand practical experience. The specific implementation details are as follows. The determination of the interviewees was based on the dual criteria of job level and business role, with a total of 7 interviewees [11]. The specific information is shown in the table below, covering the project decision-making level, execution level, and coordination level, to ensure the comprehensiveness of the information sources.

In terms of the interview implementation process, a semi-structured interview outline was designed in the early preparation stage. Twelve core questions were set around three core themes: pain points in the service process, obstacles to departmental collaboration, and suggestions for system improvement [12]. Flexible follow-up space was reserved. The purpose of the interview was communicated to the interviewee in advance, and the information was promised to be anonymized. An informed consent form for the interview was signed. During the interview execution stage, a total of 7 offline one-on-one interviews were conducted. The entire process was recorded, and important expressions and tones were simultaneously recorded to prevent mutual interference during group interviews. Within 24 hours after each interview, the recordings were converted into written drafts, resulting in a total of 12,000 words of original text. Subsequently, the interviewees checked the accuracy of the text to ensure that the data was error-free. In the data processing stage, the topic coding method was used to analyze the interview text. The NVivo software was employed to extract high-frequency keywords. The sorting and classification results of the three modules of practical difficulties, response strategies, and improvement suggestions were quantified and statistically analyzed to ensure the objectivity of the analysis conclusion. In terms of ethical review measures, we strictly follow the ethical norms of academic research. Personal information, such

as the names and contact details of the interviewees, is anonymized. Sensitive information, such as internal management and communication between the government and the court of Qin Xiang Law Firm, is appropriately desensitized with the consent of the law firm. All interview materials are stored on encrypted hard disks, and only the research team can access them to prevent information leakage (**Table 1**).

Table 1. Results of the interview method

Interviewee number	Position/Role	Participate in the specific work of public welfare liquidation	Interview duration
I1	Partner and project leader of Qin Xiang Law Firm	Overall plan design, communication and coordination between the government and the courts, and decision-making on major issues	90 minutes
I2-I3	Full-time lawyer (core member of the liquidation group	Enterprise due diligence, drafting of application documents, and review of claims	60 minutes each
I4-I5	Legal assistant (Auxiliary staff of the liquidation group)	Material organization, information inquiry, and announcement release	45 minutes each
I6-I7	Law Firm Administrative Specialist (Logistics Support)	Expense ledger management, case file archiving, and cross-departmental coordination	30 minutes each

2. The legal framework for public welfare liquidation of "Zombie Enterprises" and its practice in Hengyang

2.1. Definition of core concepts

In this article, "zombie enterprises" refer to those whose licenses have been revoked but have not been liquidated or deregistered, and they are the targets of the clean-up [13]. Public welfare liquidation is a special compulsory liquidation carried out by the government or court-designated intermediaries and using special funds to address the issue of "no one applying and no money to handle affairs". Compulsory liquidation is the legal procedural basis for public interest liquidation.

The relationship among the three: "Zombie enterprises" are the targets of the clean-up. Public welfare liquidation is a special way to implement compulsory liquidation, which eliminates the two major obstacles of "no one applying" and "no money to handle affairs" in the ordinary compulsory liquidation process. Compulsory liquidation is the legal procedure on which public interest liquidation relies (**Figure 2**).

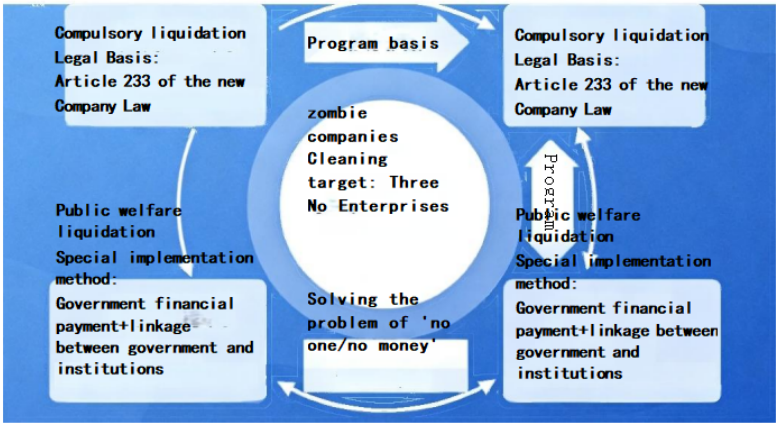


Figure 2. Schematic diagram of the relationship among "Zombie Enterprises - Public Welfare Liquidation - Compulsory Liquidation."

2.2. Innovation and application Space of the liquidation system under the New Company Law

Article 233 of the new Company Law is of great significance: It broadens the application subjects to "interested parties", leaving room for government departments to apply. Clarify judicial remedies for delaying liquidation and enhance their operability; In light of the strengthened responsibilities of the liquidation obligors under the new law, provide a basis for accountability. It provides higher-level legal support for the "government-court collaboration" public welfare liquidation, solidifying the legitimacy of the path [14].

3. The practical implementation of Qinxiang Law Firm's participation in public welfare liquidation

3.1. Service process deconstruction

Based on the practice of Qinxiang Law Firm, the core links of public welfare liquidation legal services are as follows:

Firstly, the initial connection and list reception. The law firm establishes a fixed contact with the office of the municipal "government-Court Linkage" working mechanism to receive the list of enterprises to be liquidated and their basic materials that have been screened.

Secondly, there is due diligence and evidence fixation. The law firm established a special task force to conduct a comprehensive due diligence on each enterprise, including retrieving internal industrial and commercial files, querying information on litigation enforcement and property registration, visiting the original business location to fix the "deserted" status, and sending letters to consult known creditors, etc., to fix key evidence for the court's acceptance and subsequent liquidation.

Next comes the preparation of application documents and the filing of cases. Draft the "Application for Compulsory Liquidation" on behalf of the Market Supervision Bureau, submit evidence materials stating facts such as the enterprise being "revoked but not liquidated" and "missing personnel and property", and file cases in batches with the court.

After the court's ruling designates, the law firm performs its duties as the liquidation group: issuing liquidation and creditor declaration announcements, fulfilling the obligation of comprehensive investigation to recover account books and documents, registering and reviewing creditor's rights, exhausting all means to search for and dispose of assets, and preparing a "Liquidation Report" to explain the situation and apply for the termination of the procedure. Finally, based on the court's ruling, assist in the cancellation of the enterprise and organize the case files for archiving (**Figure 3**).

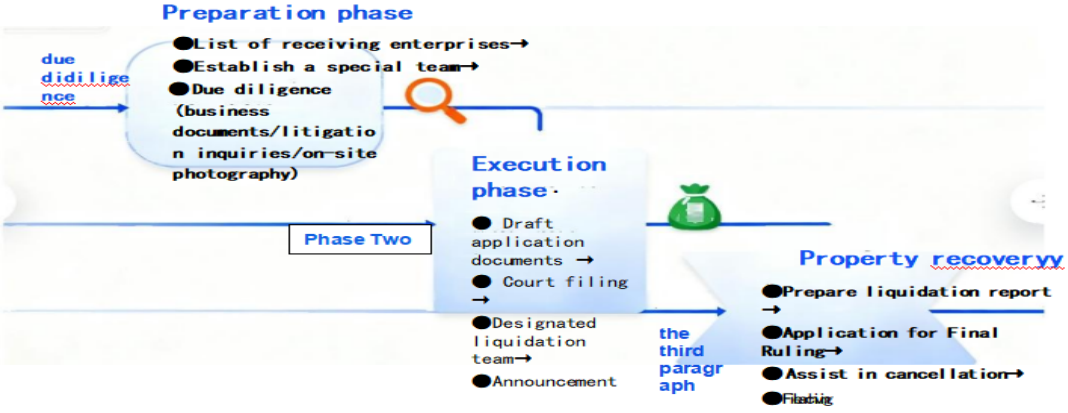


Figure 3. Full flowchart of Qinxiang Law Firm's public welfare liquidation service.

3.2. Breakthroughs in practical difficulties

Qin Xiang Law Firm has encountered many uncommon problems in standard commercial liquidation in practice and has explored a set of coping strategies.

3.2.1. Difficulty one: The guarantee and utilization of liquidation funds for enterprises without assets

Question: There are strict regulations on the use of fiscal funds. How are the standards for determining the remuneration of the liquidation group and various expenditures stipulated? How can the use of funds be ensured to be compliant and efficient?

Qin Xiang's countermeasures: In collaboration with the Finance Bureau and the court, the "Management Measures for Public Welfare Liquidation Expenses" were jointly formulated. The remuneration for lawyers is paid in a "batch by batch, difficulty by level, and fixed amount by grade" manner, and is not linked to the liquidation assets. For announcement fees, travel expenses, inquiry fees, etc., a combination of actual reimbursement and a fixed amount lump sum is adopted. Establish a dedicated expense ledger. Each expense is reviewed by the person in charge of the liquidation group and the court handler to ensure that everything is clear and transparent.

3.2.2. Difficulty two: The coordination between tax cancellation and tax arrears handling

"Zombie enterprises" usually have historical tax arrears or abnormal tax registration. Tax cancellation is the prerequisite for industrial and commercial cancellation, but the enterprise has no assets to pay taxes and fines.

Qin Xiang's countermeasure: Relying on the government-court collaboration mechanism, a dedicated communication channel was established with the tax bureau. After the liquidation group's investigation, a special statement was issued to the tax bureau stating that the enterprise had no assets. The tax bureau then followed the relevant national policies

4. The improvement path of the Public Welfare liquidation System and the optimization of lawyer services

4.1. Existing predicaments

The Hengyang model still faces three major predicaments [15]. First, the procedure cycle is relatively long. Although the announcement period is a legal requirement, the efficiency of interdepartmental document exchange, information verification, and other links needs to be improved. Second, the boundaries of rights and responsibilities are unclear. When enterprises are suspected of illegal activities, the leading role of the three-party accountability and the connection and transfer of cases need to be detailed and regulated. Thirdly, there is insufficient cross-departmental data collaboration. Online sharing and verification have not yet been achieved, and manual queries are still relied upon.

4.2. Suggestions for system improvement

Based on the experience of Hengyang, the public welfare liquidation mechanism for "zombie enterprises" can be improved from four aspects: Led by the provincial Higher People's Court, the provincial market regulation bureau, the provincial Department of Justice, and other departments. Local work guidelines should be issued to standardize the core elements of the Hengyang model for replication throughout the province. For enterprises that are truly free from property and debt disputes, a trial simplification of the liquidation report template and the trial process will be implemented to ensure the legitimacy of the procedure while reducing the internal circulation time. Promote the establishment of a provincial unified information collaboration platform to achieve online information interaction among various departments and real-time traceability of process status, replacing lawyers' legwork with data running errands. Clarify the obligation of the liquidation group to report illegal clues in public welfare liquidation, establish a clue transfer mechanism with public security organs and procuratorial organs, and hold accountable those involved in criminal offenses in accordance with the law.

5. Conclusions and prospects

5.1. Research conclusion

By deconstructing the practice of public welfare liquidation of "zombie enterprises" in Hengyang under the background

of the new Company Law and the experience of Qinxiang Law Firm, three conclusions can be drawn: First, Article 233 of the new Company Law provides a strong legal guarantee for public welfare liquidation, reactivating the function of the compulsory liquidation system in clearing "zombie enterprises"; The second is the "government-court collaboration + public welfare liquidation" model explored by Hengyang, which innovates mechanisms in response to the two major bottlenecks of "difficult start-up" and "difficult cost", forming a market clearance path with Chinese characteristics and local features. Thirdly, professional law firms are the key force in this model. Their professionalism, process management and collaborative capabilities determine the quality and efficiency of liquidation. The practice of Qinxiang Law Firm shows that law firms can not only provide commercial legal services, but also deeply participate in social governance, demonstrating professional value and social responsibility in optimizing the business environment.

5.2. Future outlook

The future development prospects of the public welfare liquidation mechanism for "zombie enterprises" are broad. In terms of promotion, the model of Hengyang can be replicated in other cities and prefectures in Hunan Province. After timely minor adjustments, a unified and standardized system for the entire province can be formed to promote the normalization of the clean-up of "zombie enterprises". In terms of mechanism, as practice deepens, we will explore the "complex and simple diversion" based on the complexity of enterprises to create a rapid exit path for shell companies. At the same time, we will connect with the concept of the personal bankruptcy system and clarify the responsibility determination and exemption guidelines for shareholders and responsible persons. Law firms also need to seize the opportunity to turn public interest liquidation into a "second growth pole" for bankruptcy and reorganization business, not only obtaining stable business but also enhancing their recognition at the government and court levels, laying a foundation for undertaking complex bankruptcy business. Legal service providers represented by Qinxiang Law Firm are contributing to the high-quality development of the economy and the modernization of national governance with their professionalism and sense of responsibility.

Disclosure statement

The author declares no conflict of interest.

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