

Provisions on the Prohibition of Pyramid Selling of the PRC

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Unofficial English translation prepared for reference only. The official Chinese text prevails.

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Chapter I — General Provisions

Article 1 — These Provisions are formulated in accordance with the relevant laws and regulations for the purposes of preventing and combating pyramid selling, protecting the lawful rights and interests of citizens, legal persons, and other organizations, and maintaining the order of the market economy and social stability.

Article 2 — For the purposes of these Provisions, “pyramid selling” means the conduct whereby an organizer or operator recruits members, calculates and pays remuneration to the recruited members based, either directly or indirectly, on the number of members recruited or their sales performance, or requires the recruited members to pay a certain fee as a condition for obtaining membership, thereby seeking illegal benefits, disrupting economic order, and impairing social stability.

Article 3 — The administrative departments for industry and commerce at or above the county level shall, in accordance with the provisions of these Provisions, be responsible for investigating and handling pyramid selling activities.

Article 4 — All entities and individuals shall have the right to report pyramid selling activities to the relevant departments. The relevant departments shall keep the informants confidential and may reward informants in accordance with the relevant provisions of the state.

Chapter II — Characteristics of Pyramid Selling

Article 5 — Any of the following acts shall be a pyramid selling activity:

- (1) The organizer or operator recruits members, requires the recruited members to pay fees or purchase products or services as a condition for membership, and seeks illegal benefits;
- (2) The organizer or operator recruits members, forms a hierarchy among the recruited members, and calculates and pays remuneration to members based on the number of members directly or indirectly recruited, seeking illegal benefits;
- (3) The organizer or operator recruits members, requires the recruited members to recruit other members, and calculates and pays remuneration based on the number of downstream members recruited or the sales amount generated by the downstream members, seeking illegal benefits; or
- (4) Other pyramid selling activities as determined by the administrative department for industry and commerce under the State Council.

Article 6 — The following conduct by a direct selling enterprise or its direct sellers shall be deemed to be a pyramid selling activity:

- (1) Recruiting members, requiring members to pay fees or purchase a certain quantity of products as a condition for obtaining employment or developing other members, and seeking illegal benefits;
- (2) Calculating and paying remuneration to members based on the number of members directly or indirectly recruited, or requiring recruited members to recruit other members;
- (3) Calculating and paying remuneration to members based on the sales performance of the team of recruited members, where the team remuneration relationship exceeds three levels; or
- (4) Other acts violating the provisions on direct selling that constitute pyramid selling as determined by the State Council.

Chapter III — Investigation and Handling

Article 7 — When investigating pyramid selling activities, the administrative department for industry and commerce may take the following measures:

- (1) Ordering the cessation of the relevant activities;
- (2) Conducting inquiries of the persons suspected of engaging in pyramid selling activities;
- (3) Entering the suspected pyramid selling premises for inspection;
- (4) Consulting, copying, seizing, or sealing up contracts, documents, account books, and other materials relating to the suspected pyramid selling activities;
- (5) Seizing or sealing up property specifically used for pyramid selling activities; and
- (6) Applying to the judicial authorities for freezing the illegal funds and deposits of the suspected pyramid selling organizers and operators.

Article 8 — The administrative department for industry and commerce shall, in accordance with the law, promptly investigate and handle pyramid selling activities that are reported or discovered through inspection, and shall not delay.

Article 9 — Where the investigation and handling of pyramid selling activities require the cooperation of public security authorities, the public security authorities shall provide cooperation in accordance with the law. Where pyramid selling activities are suspected of constituting a crime, the administrative department for industry and commerce shall transfer the case to the public security authorities for handling.

Chapter IV — Legal Liability

Article 10 — Where an organizer or operator engages in pyramid selling activities, the administrative department for industry and commerce shall order it to cease the illegal activities, confiscate the illegal income and illegally sold goods, and impose a fine of not less than RMB 500,000 and not more than RMB 2,000,000. Where the case constitutes a crime, criminal liability shall be pursued in accordance with the law.

Article 11 — Where a participant in pyramid selling activities is introduced or coerced to participate and does not constitute a major participant, the administrative department for industry and commerce shall order the participant to cease the illegal activities and may impose a fine of not more than RMB 2,000.

Article 12 — Where an entity provides business premises, training venues, supply of goods, warehousing, transportation, or other convenience for pyramid selling activities, the administrative department for industry and commerce shall order it to cease the illegal activities, confiscate the illegal income, and impose a fine of not less than RMB 50,000 and not more than RMB 500,000.

Article 13 — Where a direct selling enterprise engages in pyramid selling activities, the administrative department for industry and commerce shall impose penalties in accordance with the provisions of these Provisions and may recommend that the commerce authority revoke the direct selling business license.

Chapter V — Supplementary Provisions

Article 14 — The administrative department for industry and commerce under the State Council shall be responsible for the interpretation of these Provisions.

Article 15 — These Provisions shall enter into force on November 1, 2005.

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