# SPC Guiding Case No. 249: Changchun [X]ze Investment Co., Ltd. v. Dehui [X] Seed Farm et al. (Financial Loan Contract Dispute)

Dan Young Business Consultancy — www.danyoungcpa.com

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

Discussed and adopted by the Judicial Committee of the Supreme People's Court; issued on March 12, 2025.

## Keywords

Civil / financial loan contract / ordinary limitation of action / interruption of limitation / maximum protection period / twenty years

## Holding

Where the creditor continuously asserts its rights against the debtor, so that the ordinary limitation of action has not expired due to multiple interruptions, and the debtor raises a defense of limitation of action based on the provision of Article 188 of the Civil Code of the People's Republic of China that “where more than twenty years have elapsed since the date on which the right was harmed, the people's court shall not grant protection,” the people's court shall not support such defense.

## Basic Facts

From October to December 1997, Dehui [X] Seed Farm and the Dehui Sub-branch of a bank entered into four Mortgage Guarantee Loan Contracts, agreeing that Dehui [X] Seed Farm would, using land-use rights to offset accumulated arrears, obtain mortgage loans from the bank's Dehui Sub-branch totaling RMB 5.381 million (same currency hereinafter).

On June 30, 1998, the performance period stipulated in the loan contracts expired, and Dehui [X] Seed Farm failed to repay the loan principal and interest, and also failed to complete the land-use right mortgage procedures. On December 12, 2006, the bank's Dehui Sub-branch issued a Notice of Overdue Debt Collection to Dehui [X] Seed Farm, and Dehui [X] Seed Farm affixed its official seal and signed “the situation is true.” Thereafter, the bank's Dehui Sub-branch and the bank's Jilin Provincial Branch (the loan involved was transferred to the bank's Jilin Provincial Branch for management in 2010) issued Notices of Overdue Debt Collection to Dehui [X] Seed Farm on October 22, 2008, August 18, 2010, June 12, 2012 and April 8, 2014 respectively, and Dehui [X] Seed Farm affixed its official seal and signed to acknowledge receipt. On October 21, 2015, the bank's Jilin Provincial Branch carried out public notice-based collection of the claim involved. In August 2016, the bank's Jilin Provincial Branch transferred the claim involved to the Changchun Office of an asset management company and notified the debtor Dehui [X] Seed Farm; the Changchun Office of the asset management company also collected the claim from Dehui [X] Seed Farm at the same time. In September 2016, the Changchun Office of the asset management company transferred the claim involved to Changchun [X]ze Investment Co., Ltd. and notified the debtor Dehui [X] Seed Farm.

On August 20, 2019, the plaintiff Changchun [X]ze Investment Co., Ltd. brought this lawsuit, requesting an order that: the agreement under which Dehui [X] Seed Farm used land-use rights to offset the bank's Dehui Sub-branch and the mortgage guarantee clauses be confirmed invalid, and that Dehui [X] Seed Farm repay the loan principal of RMB 5.381 million plus interest (other litigation claims omitted). During the trial, the defendant Dehui [X] Seed Farm raised a defense of limitation of action, arguing that the plaintiff Changchun [X]ze Investment Co., Ltd.'s claim exceeded the twenty-year maximum protection period, and requested that the plaintiff's claims be dismissed.

## Judgment

On May 25, 2022, the Changchun Intermediate People's Court of Jilin Province rendered Civil Judgment (2020) Ji 01 Min Chu No. 118: the litigation claims of the plaintiff Changchun [X]ze Investment Co., Ltd. were dismissed. After the first-instance judgment was pronounced, Changchun [X]ze Investment Co., Ltd. was dissatisfied and appealed. On September 30, 2022, the Jilin Provincial High People's Court rendered Civil Judgment (2022) Ji Min Zhong No. 461: the appeal was dismissed and the original judgment affirmed. After the second-instance judgment was pronounced, Changchun [X]ze Investment Co., Ltd. applied to the Supreme People's Court for retrial. The Supreme People's Court retried the case and, on March 11, 2024, rendered Civil Ruling (2023) Zui Gao Fa Min Zai No. 262: (1) Civil Judgment (2022) Ji Min Zhong No. 461 of the Jilin Provincial High People's Court and Civil Judgment (2020) Ji 01 Min Chu No. 118 of the Changchun Intermediate People's Court of Jilin Province were revoked; and (2) the case was remanded to the Changchun Intermediate People's Court of Jilin Province for retrial.

## Reasoning

The focus of the dispute in this case was: in circumstances where the creditor continuously asserted its rights against the debtor and the ordinary limitation of action had not expired due to multiple interruptions, whether the twenty-year maximum protection period applied.

Article 188 of the Civil Code provides: “The limitation period for requesting protection of civil rights from the people's court is three years. Where the law provides otherwise, such provisions shall prevail.” “The limitation period is calculated from the date on which the rights holder knows or should know that the right has been harmed and the identity of the obligor. Where the law provides otherwise, such provisions shall prevail. However, where more than twenty years have elapsed since the date on which the right was harmed, the people's court shall not grant protection; where there are special circumstances, the people's court may, upon application by the rights holder, decide to extend the period.” From the above provisions, Chinese civil law adopts a subjective standard for the starting point of the ordinary limitation of action, namely calculation “from the date on which the rights holder knows or should know that the right has been harmed and the identity of the obligor.” In order to prevent legal relationships from remaining in an indefinite state, that article also provides for a maximum protection period adopting an objective standard for the starting point, namely “where more than twenty years have elapsed since the date on which the right was harmed, the people's court shall not grant protection.” According to the law, the maximum protection period mainly addresses the question of how to determine the protection period in circumstances where the rights holder has long been unaware that its right has been harmed or unaware of the identity of the obligor and is unable to assert its rights. As to whether the twenty-year maximum protection period applies, the people's court should make a comprehensive determination based on facts such as the time when the rights holder knew or should have known that the right had been harmed and the identity of the obligor, in combination with whether the ordinary limitation of action had elapsed.

In this case, after the performance period of the loan involved expired on June 30, 1998, the debtor Dehui [X] Seed Farm already re-confirmed the original debt on December 12, 2006 by affixing its seal to and signing “the situation is true” on the Notice of Overdue Debt Collection. Thereafter, the creditor asserted its rights on multiple occasions by issuing Notices of Overdue Debt Collection to Dehui [X] Seed Farm and publishing collection announcements, and all these acts constituted effective interruption of the ordinary limitation of action. In these circumstances, although more than twenty years had elapsed since the expiration of the performance period of the loan involved when the plaintiff Changchun [X]ze Investment Co., Ltd. brought this lawsuit, the provisions of civil law concerning the twenty-year maximum protection period did not apply. The main reasons are as follows:

First, from the perspective of legislative purpose, the limitation-of-action system aims to urge rights holders to exercise their rights in a timely manner and to maintain the stability of social relations and transaction order. In this case, the creditor continuously asserted its rights and did not neglect to exercise its rights, which lawfully constituted interruption of the limitation of action. At the same time, the maximum protection

period mainly addresses the question of how to determine the protection period in circumstances where the rights holder has long been unaware that its right has been harmed and unaware of the identity of the obligor and is unable to assert its rights; this case did not fall within that situation, and the provisions of civil law concerning the twenty-year maximum protection period should not apply.

Second, from the perspective of value orientation, the legal system and its interpretation and application should reduce litigation as much as possible, not the opposite. The function of the limitation-of-action system lies in urging rights holders to exercise their rights in a timely manner. In circumstances where the creditor continuously asserts its rights and the debtor acknowledges them, if the legal consequence of “no protection by the people's court” were to arise merely because the creditor failed to assert its rights through litigation within twenty years, it would be tantamount to encouraging creditors to preserve their rights by filing lawsuits, which would both harm the trust foundation between the parties to the transaction and increase the consumption of judicial resources, contrary to the purpose and spirit of the legal system. At the same time, the debtor's signing and sealing of the collection notices created a reasonable expectation on the part of the creditor that the debtor could perform the debt, and the creditor might, based on such reliance, postpone litigation. In these circumstances, the debtor's further raising of a limitation-of-action defense violates the principle of good faith, and such act should not be encouraged. Therefore, where the creditor continuously asserts its rights against the debtor and the ordinary limitation of action has not expired due to multiple interruptions, the creditor's rights should not be denied protection on the ground that the twenty-year maximum protection period has been exceeded.

## Relevant Legal Provisions

Article 188 of the Civil Code of the People's Republic of China

Disclaimer: This translation is provided for reference and informational purposes only. In the event of any discrepancy, the official Chinese text issued by the Supreme People's Court shall prevail. This translation does not constitute legal advice.