



# Knowing your business partner in China

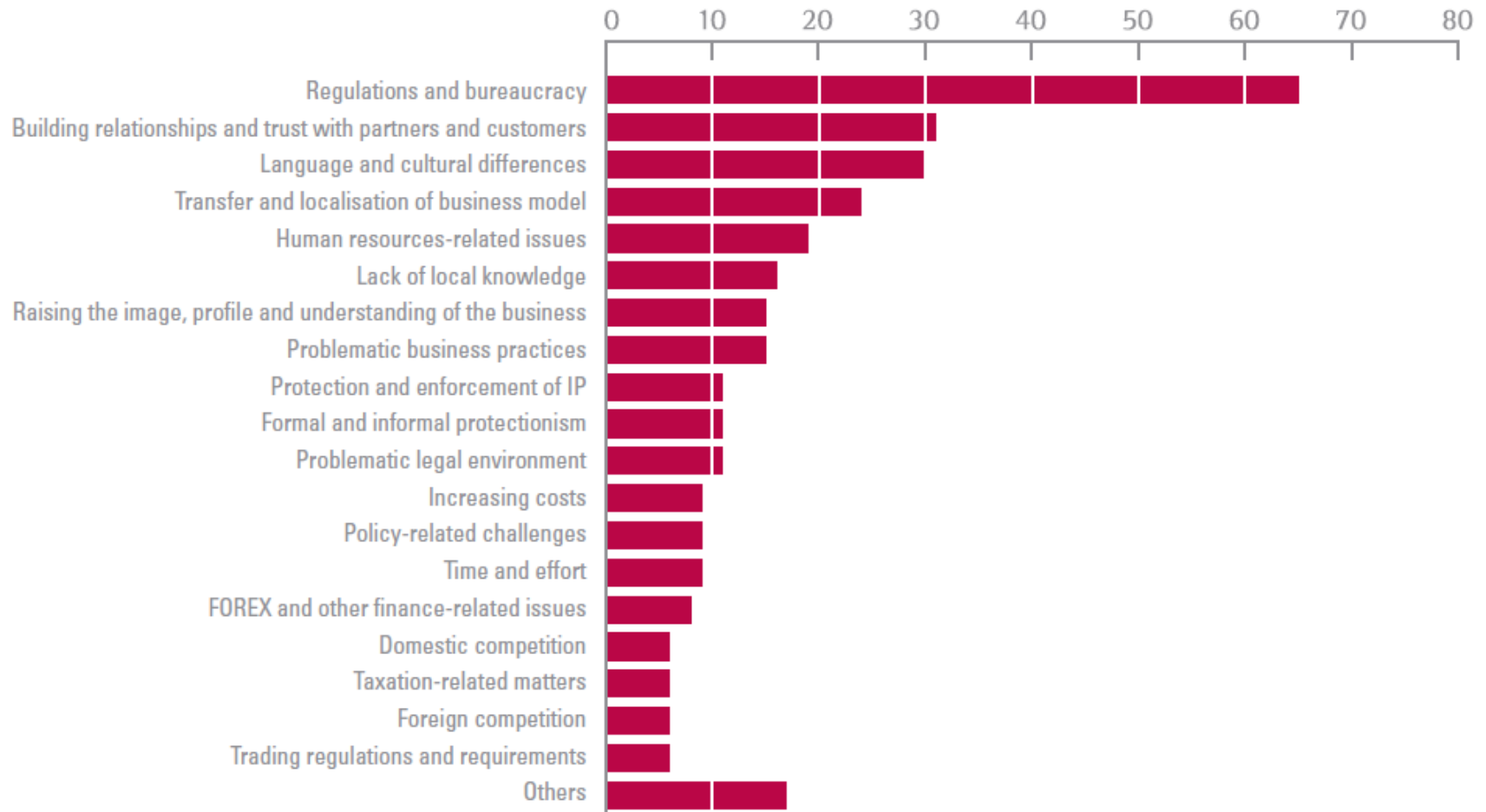
Ljubljana, March 31, 2014



# Agenda

- 1. Some challenges coming from different cultures**
- 2. Most common scams**
- 3. Important steps of Preliminary Due Diligence**

Exhibit 15: Challenges of Doing Business (Total number of survey responses)



1.

# Cultural differences

# Different approaches to the negotiation process

European	Chinese
<b>Nontask sounding</b>	
Quick meetings Informal Make cold calls	Long courting process Formal Draw on intermediaries
<b>Information exchange</b>	
Full authority Direct Proposals first	Limited authority Indirect Explanations first
<b>Means of persuasion</b>	
Aggressive Impatient	Questioning Enduring
<b>Terms of agreement</b>	
Forging a “good deal”	Forging a long-term relationship

- Intermediary helps, but make sure that you find the right ones
- Reciprocity is essential, though may not be immediate
- Broken promises, display of anger cause mutual loss of face
- Relationships (*Guanxi*) are important, but don't overrate it

2.

## Common scams

*Majority of Chinese companies are honest and willing to develop sustainable business.*



## Fake companies

A potential partner may not exist at all

## Parasite companies

A potential partner may rely too heavily on its relationship with local government officials. This may mean the company is operating in a legal grey area and vulnerable to changes in government personnel

## Paper tigers

A potential partner may promote itself as a leading company in its industry but is in fact an imposter

## Shell companies

A potential partner may possess all the required registration information but no significant assets of active business records

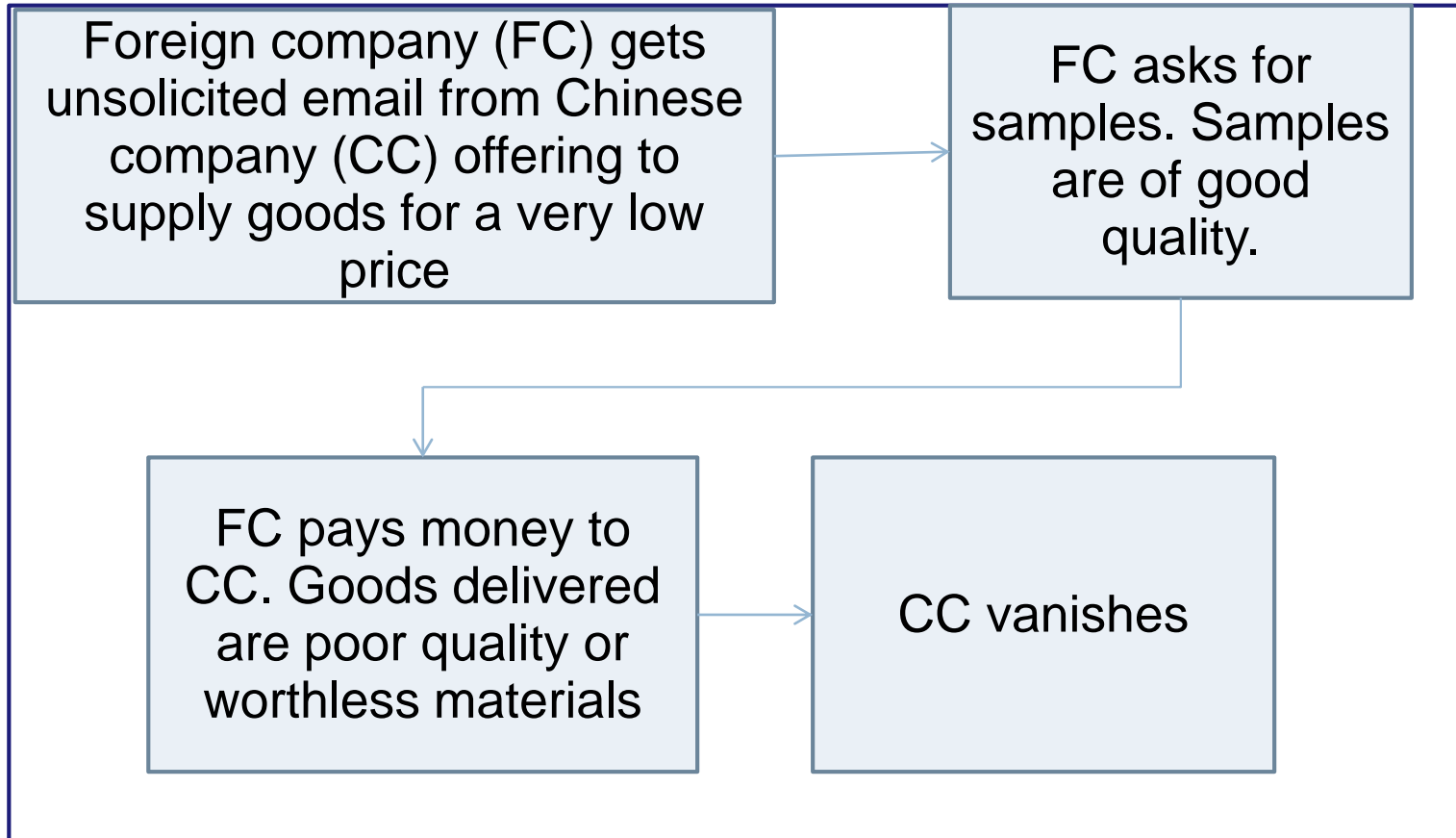
## Fake companies

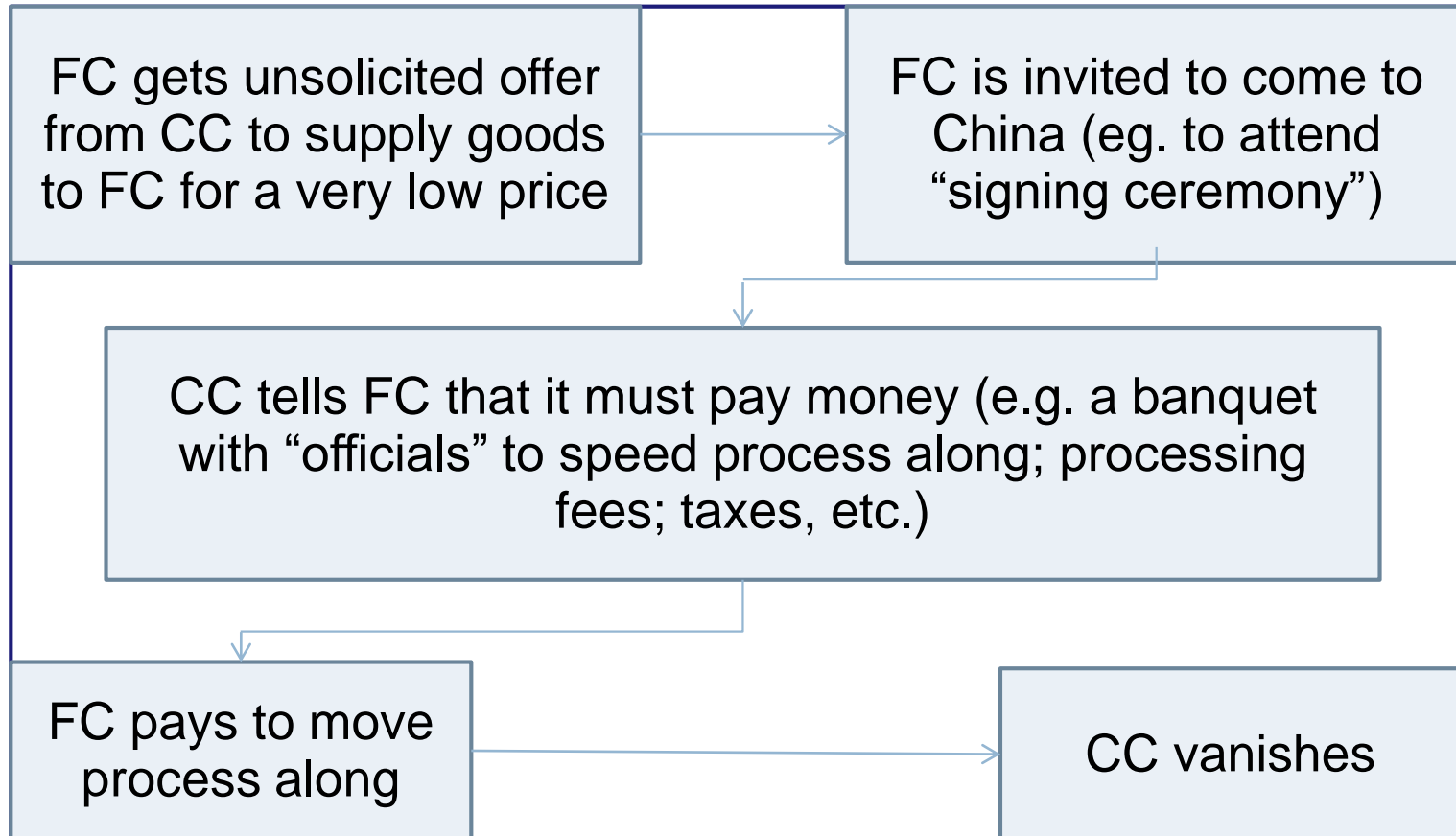
**ON BEHALF OF THE SELLER**

SHENYANG THREE CARBON MANUFACTURE INC  
*SS*

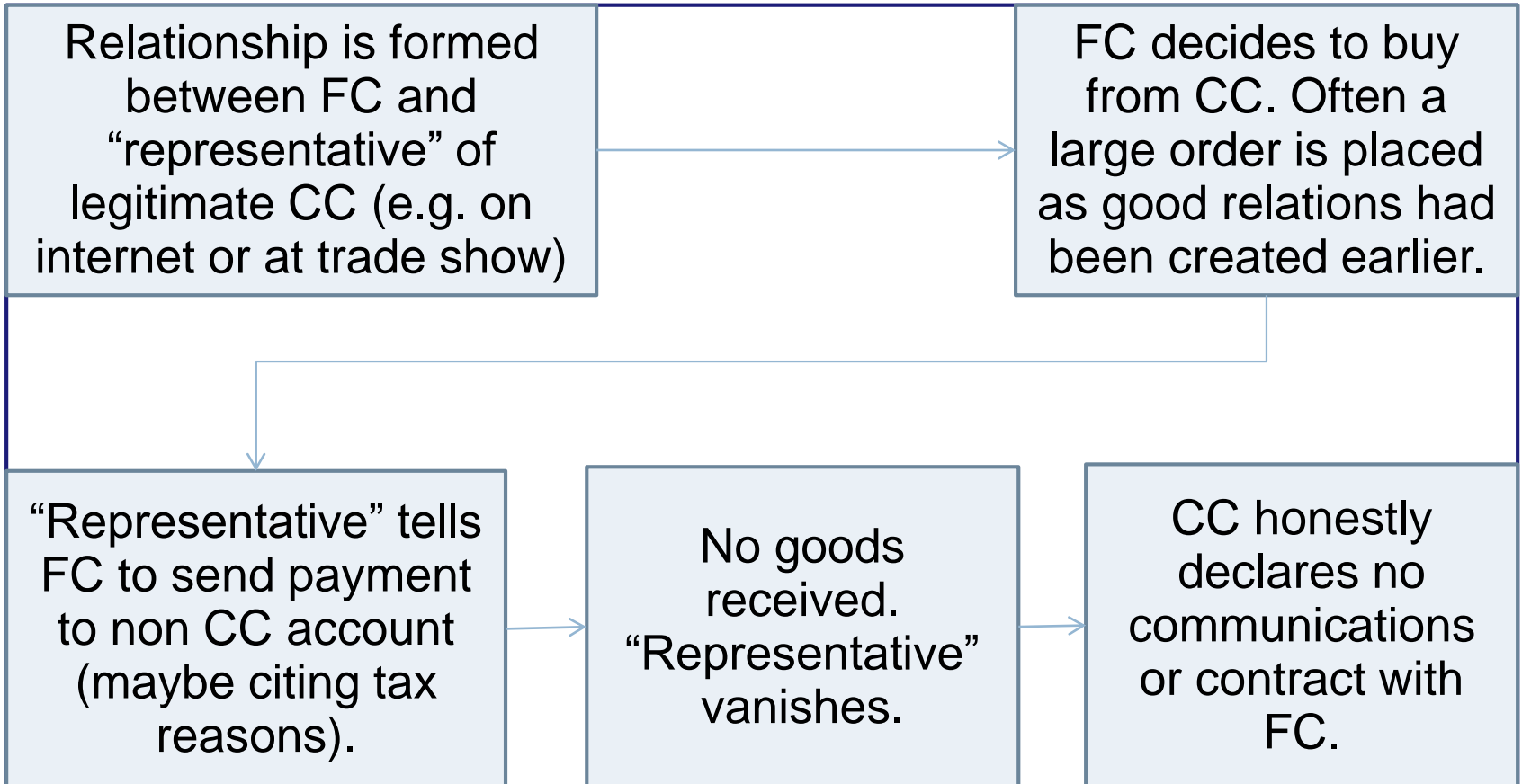
For and on behalf of  
SHENYANG [REDACTED] CHEMICALS LIMITED  
沈阳 [REDACTED] 化工有限公司

.....  
Authorized Signature(s)





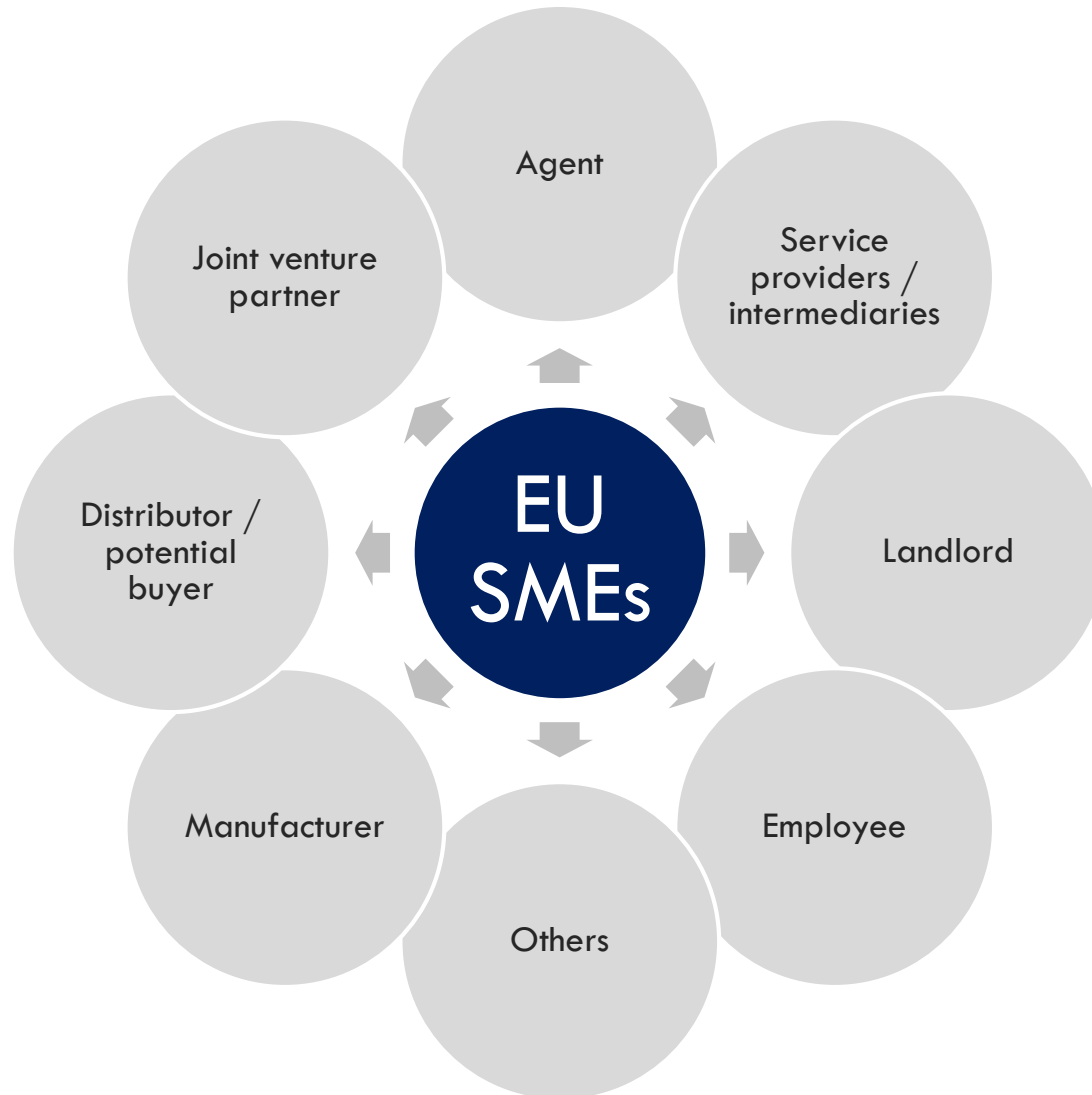
# ”Bank account”



3.

# Preliminary Due Diligence

# Types of key business partners



## Legal Status

- ▣ Business Licence
- ▣ Special Permits
- ▣ Land Use Rights
- ▣ Right to use premises
- ▣ IPR ownership certificates
- ▣ Company Chop

## Financial Status

- ▣ Creditworthiness Letter
- ▣ Financial Statement
- ▣ Capital Verification Report
- ▣ Bank account details





## 企业法人营业执照

(副本)

注册号

副本编号: 1-1

名称  
住所  
法定代表人姓名  
注册资本  
实收资本  
公司类型  
经营范围

壹仟伍佰万圆整

壹仟伍佰万圆整

七彩片、云母粉、珠光颜料、涂料、铜金粉、铝银浆、夜光粉生产、销售。(以上经营范围涉及许可经营项目的,应在取得有关部门的许可后方可经营)

成立日期  
营业期限

二〇〇二年十二月二十五日

自 二〇〇二年十二月二十五日  
至 二〇一二年十二月二十四日

### 须知

1. 《企业法人营业执照》是企业法人资格和合法经营的凭证。
2. 《企业法人营业执照》分为正本和副本,正本和副本具有同等法律效力。
3. 《企业法人营业执照》正本应当置于住所的醒目位置。
4. 《企业法人营业执照》不得伪造、涂改、出租、出借、转让。
5. 登记事项发生变更,应当及时向登记机关申请变更登记,换领《企业法人营业执照》。
6. 每年三月一日起至六月三十日,应当参加年检。
7. 《企业法人营业执照》被吊销后,不得开展与清算无关的经营活动。
8. 办理注销登记,应当交回《企业法人营业执照》正本和副本。
9. 《企业法人营业执照》遗失或者毁损的,应当在向登记机关备案的前提下声明作废,申请补领。

### 年度检验情况

			
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二〇〇八年九月一日

## Business Licence for Corporation Legal Person

**Registered No.:** 4xxxxxxxxxxxxx2

**Name** Yong He Consulting Service Co., Ltd.

**Address** Unit 2-8, 10/F xx Building, Fuhua Road, Haidian District, Guangzhou, Guangdong

**Legal Representative** Lao Wang

**Registered Capital** RMB 2,000,000

**Paid-up Capital** RMB 2,000,000

**Type of Registration** Limited liability company

**Scope of Business** Commercial consultancy and corporate management consultancy; Information and business process, sub-contracting services such as system application management and maintenance, information technology support and management, financial settlement, software development

**Shareholder** He Yong Limited

**Term of Business:** January 18, 2007 to January 18, 2057

**Date of Establishment:** January 18, 2007

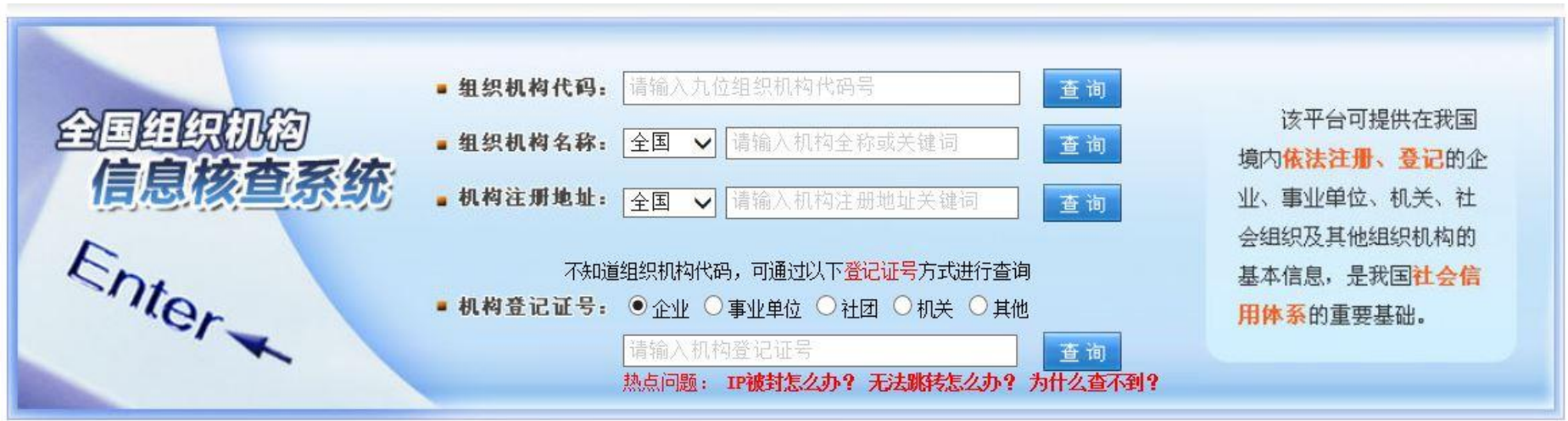
**Passed 2012 Annual Inspection** Registrar: Guangdong Administration for Industry & Commerce (Seal)

- Can be checked on websites of *Administration of Industry and Commerce (AIC)*
  - [www.saic.gov.cn](http://www.saic.gov.cn)
  - March 1, 2014, there has been introduced a new database by SAIC which will contain information on company “abnormal behaviour”  
<http://gsxt.saic.gov.cn/zjgs/search/home>
  - provincial AIC should have similar databases as eg. Hebei  
<http://www.hebscztxyxx.gov.cn/noticehb/>
  
- and on-site at local *AIC branch\**

## NACAO website

(National Administration for Code Allocation for Organizations)

- <http://www.nacao.org.cn/>



**全国组织机构  
信息核查系统**

Enter ↵

- 组织机构代码:
- 组织机构名称:
- 机构注册地址:

不知道组织机构代码, 可通过以下**登记证号**方式进行查询

- 机构登记证号:  企业  事业单位  社团  机关  其他

热点问题: **IP被封怎么办? 无法跳转怎么办? 为什么查不到?**

该平台可提供在我国境内**依法注册、登记**的企业、事业单位、机关、社会组织及其他组织机构的基本信息, 是我国**社会信用体系**的重要基础。

- Supreme Court database  
<http://shixin.court.gov.cn/>
  - ▣ people and companies who were supposed to fulfil judgment but deliberately failed so
  
- PBOC has launched a database called Credit Reference Centre in 2008. <http://www.pbccrc.org.cn/>
  - ▣ verify credit situation at both individual and enterprise level upon application.
  - ▣ <https://ipcrs.pbccrc.org.cn/> - individuals

# Is there a Company Stamp?

## Company stamp:

- ❑ Chinese Name must be SAME as on business licence;
- ❑ With a five-pointed star in the middle and in red ink;
- ❑ With a diameter of no more than 4.5cm;
- ❑ Filed with competent public security bureau;
- ❑ Equals to signature of person authorized to sign on behalf of the company in Europe



## Company stamps check

- Hebei stamps checking system



### 河北省公安厅 印章备案入网查询系统

[首页](#)
[印章查询](#)
[密码管家](#)
[新闻动态](#)
[新型印章简介](#)
[相关知识](#)


#### 印章信息查询

所属地市	<input type="text" value="请选择所属地市"/>	单位名称	<input type="text"/>	单位编码	<input type="text"/>
印章编码	<input type="text"/>	印章内容	<input type="text"/>	<input type="button" value="查询"/>	

为了保护您的合法权益免受侵害，要使用在公安机关备案的合法印章。在初次发生业务往来时，切记索要对方的印章密码，以确定其合法性。印章查询系统作为查询印章备案信息的辅助手段，如作为法律依据，则请到备案的公安机关查询取证。特此声明！



# Verify the other mandatory documents

- **Landlord of your office**
  - ▣ Ownership certificate – is the office allowed to be rented for commercial purpose?
- **On Importer**
  - ▣ Import licence for the goods – some type of goods can be subject to licence
- **Distributor**
  - ▣ Distribution permit – for certain products a special distribution permit is needed eg. food
- **Service provider**
  - ▣ Permit for the specific service, eg. accounting

## **Creditworthiness Letter**

- Both for the company and its shareholder(s)
- Issued by bank upon request of the partner

## **Capital verification report, financial statements and audit reports**

- Under certain circumstances financial statements may be obtained at the Administration of Industry and Commerce (local branch)\*

## **Credit history**

- Applied by partner itself at Credit Reference Centre of PBOC

## **Bank Account**

- Always ask for **company** account

- Pay a **visit at the company's premises** – go a few times, sometimes unannounced
  - Organisation
  - Cleanliness
  - Employee conditions
  - Location
- Visit the distribution network
- **Talk with employees** and pay attention whether they understand their business
- **Talk to** suppliers, neighbours, competitors
- Check if it is a member of any official association and contact the association for reference

## DO NOTICE

- **Bank account** – is the name **same** as in the **contract**? Is the account number same in all **invoices**?
- Websites?
- Fixed phone line? Try call a few times.
- Use Skype to have visual contact
- Email address company one or is it @163.com, @yahoo.com?
- Communication style, contact person is it changing?

- Do not take company's self-introduction at face value
- Collect and scrutinise the company's paperwork
- Scrutinise the company operations if possible
- Personal visit and keep continuous contact
- Do not rush
- Ideally have a trusted person in the spot
- Keep on paying close attention to its recent situation
- Engage local professional advice



<http://www.eusmecentre.org.cn/content/knowning-your-partners-china>



[info@eusmecentre.org.cn](mailto:info@eusmecentre.org.cn)  
[www.eusmecentre.org.cn](http://www.eusmecentre.org.cn)