

How to Verify Companies in China



By Qingdao Bili International Company
General Manager
Copyright 2011
www.bili.biz

How to verify a company, factory or supplier to confirm if they are properly registered and or have a legitimate business license:

1. Are you concerned about doing business in China because it is so far away and so foreign?
2. Are you worried about sending money to a company that you don't really know is legit or not?
3. Are you having trouble getting a response from someone that you just sent money to?
4. Have you contracted a supplier in China but are now concerned about its legitimacy?
5. Are you worried that the supplier you started doing business with is no longer in operation?

You *should* be concerned! There are literally millions of trading companies here in China and some of them have had their business license revoked yet are still doing business. There are millions of factories operating without a proper business license and there are millions of suppliers who do not have the legal right to do business with you. Everyone from English teachers, to bogus trading companies, and to illegitimate factories will all say what you want to hear to get your business. Sometimes it works out well, but if a problem arises and you're not doing business with a registered and legal entity, then the best lawyer in the country won't be able to help you.

You may have heard stories or have unfortunately had a bad business experience in China. It is not all that uncommon and not always the intention of the supplier to cheat you, to disappear, or just give up and quit on you half-way through a project. Sometimes, it just becomes too much of a problem for them and they just give up and quit. Either way, you get the short end of the stick!

There are many reasons for this to happen. Sometimes it's legitimate and sometimes it's not. Let me share a couple of real-life examples to demonstrate what kind of problems happen and some preventive measures you can take so that it doesn't happen to you.

Mark from Canada

Mark was building beautiful wood clocks but found that the rough work was very labor intensive, so outsourcing this part to China made sense. He searched on Google and found several clock manufacturers. In fact, one area of Shandong province was well-known for clock manufacturing, stemming all the way back to the German occupation of the area. He chose one of the companies who had a functional website with detailed pictures of the factory and even pictures of clocks very similar to what he wanted built.

It all looked promising, so Mark emailed the company with his request. The company seemed to respond well and entirely in English. Mark sent a sample to the factory and the factory provided a quote. Everything looked good, so Mark decided to wire a deposit and start the first production run. The money was wired to the company on March 7th with the agreement that the product would be delivered 20 days later. Twenty days later, on March 28th, Mark contacted the company but didn't get a response. He tried again several times at the beginning of April with still no response. On April 12th, Mark tracked down my company and asked if I could check to see if the company in question was legitimate or not.

The company in question was a local company so we did a typical online company registration check with the local Industrial and Commercial Administration Bureau Website.



This screen image shows the search results for the said company. The Chinese writing here shows the company registration number on the first line, then the company name, address, owner, total money invested, business scope, and date registered. This company was indeed registered so we gave them a call and told them that we were acting on Mark's behalf and wanted to check the status of his order.

We discovered that the trading company Mark had wired the money to didn't have any clue about the situation. Furthermore, nobody had recently checked the order's status. It seemed like they had forgotten about it. We tracked down the actual factory and learned that they did in fact receive the sample Mark had sent and intended to build a sample for Mark but hadn't gotten around to it yet. We followed up by taking pictures of the quality of wood they were going to use, got some details of when the order would be completed, and sent them to Mark.

When Mark saw the pictures he quickly realized that they were going to use a different quality of wood. He inquired about the wood and confirmed that the plan was to build his samples out of an inferior material. Obviously, he rejected that plan and insisted that they build the sample as to the initial agreed-upon order. The factory then replied with the words we most commonly hear in China when we encounter such a problem: "mei shi," (meaning "it doesn't matter") and "cha bu duo" (meaning "it's close enough"). Mark replied, "If you can't use the specified quality of wood then give me my money back."

The factory then said that he would have to deal with the trading company he wired the money to. We contacted them but only got the run around stories and evasion tactics until we finally had to say, "Just return the money!" They said OK and agreed to wire it back within ten days. Ten days went by and, of course, no money! The company said, "next week," but still no money and then they stopped replying to Mark's emails altogether. Mark called us again and asked us to go to the police for him, which we did. The police weren't of any help and tried to defer the case to the courts. I did manage to get them to call the company who again promised to wire the money the next day. The next day came and went. And yes, you guessed it - no money! There is much more to the story, but to make a very long story short, four months went by and still no money returned. Mark's only option now was to go to court, in China of course, so he ended up writing it off as a bad debt.

The moral of the story is that this company didn't intentionally set out to scam Mark, at least not in the beginning. They were just extremely disorganized with poor administrators and project managers. The lack of clarity and expectations on both sides made the situation become too much of a hassle. The outcome was the inevitable run around and lies until Mark just had to give up. Fortunately, for Mark, the dollar value was quite low.

In Mark's case, there were several things wrong with his method of outsourcing, and here are just a few of them:

- There was no direct contact with the manufacturer or knowledge about them.

- There was no contract that answered the ‘who’, ‘where’, ‘when’, ‘what’, and ‘why’ questions before wiring money.
- There was no system in place for accountability.
- There was no system in place for tracking.

See the article on [“How to Source a Supplier”](#) for details on the many problems associated with sourcing and how to do it right.

Poland Glass Importer

A major importer of glass in Poland called us last year and told us they were having difficulty getting results with their current supplier in China. They explained that quite a substantial order was being held up in the factory because the factory wanted to increase the price before shipping.

The Polish glass company was, of course, upset with this and sourced an alternative supplier for future orders. They informed me that they had found another supplier and had gotten a quote as well as other information. However, due to their last experience, they were not sure if they could trust them and called us to ask if we could check them out. We consented and they provided the name and number for the new facility.

We logged on to the provincial Industrial and Commercial Administration Bureau website for that particular province and entered the name of the company.



The search results using Google Chrome, which automatically translates pages, showed that both the glass factory and the trading company that were registered with the same name had their business licenses revoked.

This meant that the factory and or trading company had violated some of the country’s rules and or regulations. They also may have been under investigation for questionable business practices. It is highly recommended to stay as far away as you can from companies like this. Any business transaction would be extremely risky because they are no longer a legal entity and you would have no recourse if something went wrong.

As you can see from the above examples, there is a real need to do your due diligence to research the company that you are planning to do business with before you send any money. I don’t even recommend getting a quote without having done the preliminary checks.

If you start out sloppy, then you can expect the supplier to do the same. It is difficult at best of times to get things done right in this country so you had better be prepared, professional, and follow a well thought-out process from the very start if you intend to have a successful long-term relationship and business in China.

Preliminary Steps for “Verifying a Chinese Company”:

- Step 1: Company registration check with the local Industrial and Commercial Administration Bureau
- Step 2: Request a copy of their "Business License - 营业执照"
- Step 3: Confirm their legal address and their operating address (Often two different places)
- Step 4: Confirm their legal representative and his/her contact information
- Step 5: Get a personal visit detailed check from the local bureau

Step 1: Industrial and Commercial Administration Bureau Check

Almost every jurisdiction has an Industrial and Commercial Administration Bureau. This simple website-based check with the local government will confirm some basic details of the registration. Some jurisdiction's website will reveal the status, but not all.

***** Note: Websites can be out of date and it is confirmed that, in Qingdao at least, even if the business license has been revoked, the website will still show the basic registration information.

To be sure to get the up-to-date facts on a company's status and more details, a Chinese person must go in person to the local bureau and register with their Chinese ID, pay a small fee (in Qingdao it's 4 RMB), and then the bureau will release details of the registration and the company's current status.

See below for a list of bureaus and an online company website checking process:

Step 2: Request a scan or picture of their company business license

This will be in Chinese like the below picture of my company, "Qingdao Bili International Trading Co., Ltd", and reveals several details about the company registration and some other important or related information.



From the top left:

- Line 1: Business license number (Document number is on the top right)
- Line 2: Company's name
- Line 3: Company's legal address
- Line 4: Authorized representative's name
- Line 5: Total registered capital
- Line 6: Total investment
- Line 7: Type of business
- Line 8: Business scope

Line 9: Director or top manager's name
Line 10: The period the company was registered for
Line 11: In Chinese, when the company was registered

On the right:

Line 1: Basic explanation of the terms (9 points)
Line 2: Stamps or chops that show the annual renewal dates
Line 3: Official chop from the bureau that registered the company

Step 3: Confirm their legal address and their operating address

Often, this is in two different locations, as is the case with my company. Qingdao Bili International Trading Co., Ltd is registered in the Free Trade Zone of Qingdao but our office is in downtown Qingdao.

If you intend to visit, you will need to know the address for their place of operations. Be sure to get all the addresses associated with the company in question.

Step 4: Confirm their legal representative and his/her contact information

The legal representative of the company is usually the boss and is the name on the business license. This person is ultimately responsible and liable for the business and its activities. Often, the website's contact person is not the legal representative. He or she may be a project manager or someone assigned to your project. Get the legally responsible person's information. If you ever have a problem, a serious management issue, or even a warranty claim, you want to be sure you have access to the boss so you can get a straight answer from the legal decision maker.

Step 5: Get a detailed personal visit check from the local bureau

Any Chinese person with an ID can do this or you can have a law firm do the detailed in-person check from the local bureau. For the few hundred RMB it will cost, this is highly recommended. There are several reasons for this.

First, it's very valuable to have a relationship with a corporate lawyer because it's almost inevitable that one will be required if you do enough business in China. Second, they can physically go down and do the official check and tell you their current status. They can ensure that you have a sound and legally binding contract, which is the most over-looked aspect of doing business in China. Believe me, if you don't have a contract then there is no accountability, and the supplier knows it. They then can beat around the bush with issues that lead nowhere. If you have a detailed contract, then everybody knows you have power and this in turn promotes accountability. The courts here are very simple and straightforward. If you have something signed and chopped by the supplier, only then will they act. If not, they will most likely do nothing. Plus, if a lawyer reminds the supplier of its obligations, this will create a very powerful impression in the eyes and mind of the person legally responsible!

Now that you have done your due diligence and confirmed that the company is legitimate, you should consider the following checks and processes to give you the best chance at a successful relationship with your new Chinese partner.

Additional Checks:

Approvals:

You may want to check if the company has any ISO / CE / TUV / CSA / UL or other certificate to support their quality claims. For this, you simply ask them to provide a copy of their certificate. Then, you can contact that organization and provide the document number so that they can verify that the document is authentic.

Business or Working Relationship Expectations:

NDA:

This means "Non-Disclosure Agreement" and is highly recommended to create and translate into Chinese before you send the supplier or company any information regarding your products, especially if you are concerned about protecting your design or intellectual property rights.

The law firm listed below, YouHua Law firm, has an excellent template which they would probably provide you with slight adjustments for your specific company and the products and or services you plan to develop.

Supply System or Outline for Working Relationship Expectations:

My company has developed a document that outlines the expectations for communication, quotations, delivery, and general ethics regarding a business relationship. This is again very important because it sets the stage for how business is going to be done.

This culture is very different and you, the customer, want them to understand you and your expectations right from the start. Here is a good example to illustrate this point: much of the business here is face-to-face and the technology that is most commonly used, as you will see on almost every Chinese website, is a web-chat program, QQ or ICQ. Those are the intrusive pop-up dialogue boxes that you can click on and chat live. Although they can be useful for some things, I have a strict policy in my company that minimizes their use. I don't even allow them to be downloaded to any of the company workstations.

The main problem here is that the suppliers like to chat, and talk, and chat, which waste a significant amount of time. Secondly, there is a tendency to negotiate and change a lot of the instructions that should be in written form and approved by the leadership of both companies. Agreements without a written record will inevitably end in confusion. In the past, when a problem developed, the supplier would say, "Well, you said this or that," and I would say, "I didn't agree to this or that. Where is the approval document?" To which they would reply, "I was chatting with so and so and I thought we had agreed to do it like this." So, unless you have an agreement set in writing and ensure that it is respected, you may get caught in a mess with nowhere to go.

One strict rule that must be made clear right from the beginning is no changes, whether to price, parts, materials, process, or anything without written authorization from the legal representatives.

Contract:

I cannot stress this enough and find it is very seldom done. You **MUST** have a written contract between both parties signed by the legal representatives that clearly spells out exactly what is going to be made, how much it is going to cost, the terms of payment, who is responsible for what, what the warranty is, and who is responsible for shipping of replacements, etc. Think through the key questions and have them all answered in a manufacturing agreement. (who, what, where, why, when, and how)

I will again repeat the critical rule mentioned above. This rule again is a must and should be verbalized over and over again, written in the above Supply System document and clearly written in the contract that "No changes to price, parts, materials, process, or anything without written authorization from the legal representative."

Conclusion:

Both of the above examples, "Mark from Canada" and the "Polish Glass Importer," would not have had problems nor financial losses had they followed the above steps and advice. Not to mention all the stress, frustration, and anger that they endured during the whole process. And guess what? They are the only ones who lost! It cost them time, production downtime, money, and stress for the whole company and probably their families. The suppliers in China were probably just as miffed.

These are all simple steps that help clarify business relationships, outline working expectations, and set the tone of how business will be done. It provides protection and accountability for all parties and is certain to help you to make your China experience a positive, long-lasting one.

Who can help you check out a company in China:

Of course, Bili International Trading Co. Ltd. does all this and much more if we are managing your project. If you have a project that requires sourcing, management, and quality control with

accountability, then Bili is one of the best in the business. You can contact us or visit our services page for more details.

If you require assistance with the above due diligence or don't have the time, then I highly recommended you contract a law firm to do it for you. It won't cost very much and you also will have started a relationship with someone that can help you with contracts, understanding laws and regulations in China, and who may even have a good selection of clients that could provide you with products.

I would like to recommend YouHua Law Firm in Qingdao which has multiple language capabilities and excellent corporate lawyers. A good person to contact is Scott Hao. He's a sharp young man that speaks English excellently and has experience working in the manufacturing industry. Also, YouHua has contacts throughout China and provides services in Chinese, English, French, and German. For English or Chinese, feel free to contact Scott directly at:

YouHua Law Firm, Qingdao Branch

山东友华律师事务所

Scott Hao

电话 / Tel: +86 532-8197-8031

传真 / Fax: +86 532-8197-6819

手机 / Cell: +86 15866820170

邮箱 / Email: scott@youhualaw.com

网址 / Web: www.youhualaw.com

地址 / Add: 青岛市海门路 69 号瑞纳康都西单元 2 层

"Chinese, English, French and German Languages"

Links to the Industrial and Commercial Administration Bureaus of China for online checking:

State Administration for Industry & Commerce of China	http://www.saic.gov.cn/
Beijing City	http://www.hd315.gov.cn/
Tianjin City	http://www.tjaic.gov.cn/
Shanghai City	http://www.sgs.gov.cn/sabicsgs/index.jsp
Chongqing City	http://www.cqgs12315.cn/
Guangzhou City	http://www.gzaic.gov.cn/
Shenzhen City	http://www.szsciq.gov.cn/
Hebei Province	http://www.hegs.gov.cn/
Shanxi Province	http://www.sxaic.gov.cn/index.action
Inner Mongolia Province	http://www.nmgs.gov.cn/
Liaoning Province	http://www.lngs.gov.cn/
Jilin Province	http://www.jlgs.gov.cn/
Heilongjiang Province	http://www.hljaic.gov.cn/
Jiangsu Province	http://www.jsqsj.gov.cn/baweb/show/sj/index.jsp
Zhejiang Province	http://www.zjaic.gov.cn/
Anhui Province	http://www.ahaic.gov.cn/
Fujian Province	http://www.fjaic.gov.cn/
Jiangxi Province	http://www.jxaic.gov.cn/
Shandong Province	http://www.sdaic.gov.cn/
Henan Province	http://www.haaic.gov.cn/homepage.action
Hubei Province	http://www.egs.gov.cn/structure/index.htm

Hunan Province	http://www.hnaic.gov.cn/
Guangdong Province	http://www.gdgs.gov.cn/
Guangxi Province	http://www.gxhd.com.cn/
Hainan Province	http://aic.hainan.gov.cn/
Sichuan Province	http://www.scaic.gov.cn/
Guizhou Province	http://www.gzaic.org.cn/index.do
Yunnan Province	http://www.ynaic.gov.cn/
Shanxi Province	http://www.snaic.gov.cn/gov/index.jsp
Gansu Province	http://www.gsaic.gov.cn/

<p>Log on to the appropriate bureau's website.</p> <p>第一步：进入红盾网</p>	
<p>Click "Company search".</p> <p>第二步：点击网页上的企业查询</p>	
<p>Register user name and password. (Some websites can be used without registration.)</p> <p>第三步：注册用户名和密码</p>	



www.bili.biz