



China-Britain  
Business Council  
英中贸易协会

# CONSULTANCY & RESEARCH

**Handling Unsolicited Enquiries  
from China**

**CBBC Advice and Support**

**China-Britain Business Council  
Updated September 2010**

## **Summary – Unsolicited Enquiries**

The China-Britain Business Council (CBBC) has produced this Guide to help UK companies gain a better understanding of the different types of potentially fraudulent business enquiries currently coming from China.

It is never easy to determine whether such enquiries signify a genuine intent to do business, but this Guide describes four possible ways that UK companies can check the authenticity of the Chinese company in question, namely, requesting specific, background information from the Chinese company; conducting basic company checks; or conducting more extensive due diligence on the company in question.

In addition, CBBC maintains an internal database where the UK Company can check whether other companies have already been approached by the Chinese company.

The most common type of fraudulent enquiry concerns contracts, however as the Chinese economy becomes increasingly developed and sophisticated, so do the potential scams. It is therefore essential for companies to be vigilant. Other types of fraudulent approaches that CBBC has come across include notarisation scams, domain registration scams and visa letter scams.

While CBBC believes it is sensible to draw attention to this problem, it should be seen in a proper perspective: very few of the many companies doing business in China experience difficulties of this kind, provided they obey their instincts and take the usual precautions that they would apply elsewhere in the world.

CBBC is collaborating with the British diplomatic posts in China to draw individual instances to the attention of the authorities for further action. As a result of this, the authorities in Hainan, for example, have taken action in a number of cases.

If you would like to report problems of this nature on a confidential basis, please contact the Research Group at CBBC: [research@cbbc.org](mailto:research@cbbc.org) or 020 7802 2000.

## **Categories of Enquiries**

### **1. Contract Enquiries**

British companies continue to be contacted by individuals from China posing as representatives of companies placing large, unsolicited orders for products from UK-based factories. Manufacturers are being enticed to China to sign supply contracts, in the course of which they may be faced with demands for cash. Any 'contracts' signed turn out to be merely part of an elaborate ruse.

There is currently a loophole in Chinese regulations that means Chinese companies do not have to demonstrate that their registered capital exists in the first three months after their registration. Unscrupulous individuals use this loophole to claim that they are multi-million pound buyers – but then disappear after three months.

CBBC, in common with other organisations including the UK regional offices of UK Trade & Investment and British diplomatic posts in China, has received increasing numbers of reports of this type of fraud and there has been a recent upsurge in the volume of complaints. UK companies are not the only ones being targeted: there have been reports of other international companies experiencing the same situation.

The most frequent type of scam appears to be based on obtaining money by deception from foreign companies lured into visiting China to finalise contracts. Common experiences include:

- At the outset unexpected communications are received, by fax or email using convincing letterheads, from unknown Chinese companies seeking quotations to supply goods of all kinds. These are often comparatively straightforward items and their descriptions poorly specified, and it is likely that they could be sourced from China much more cheaply. However, a few of these requests for quotes appear to be wholly plausible.
- The value of the work involved tends to be large – usually over £0.5m and sometimes more than £1m – and the orders are often highly attractive to the targeted companies. Payment terms offered by the Chinese party are generally very favourable, for example a 30% - 50% down-payment proposed following minimal negotiation.
- Once outline terms have been agreed (usually very quickly), the Chinese side invariably invites the prospective supplier to go to China to sign the contract, to sign the contract, or for the process or notarisation, and provides the requisite letter of invitation. There may be a request before, or once in China, that the supplier offers a "gift" amount of cash (several thousand pounds) to China "to smooth procedures" or as a "commission" payment to "the boss" or a local "big wig".
- On return to the UK, the promised initial payment is not received and no more heard from the Chinese party. The offices where the meetings took place may subsequently be abandoned and the Chinese party disappears. If the UK side has been persuaded to hand over cash, it will be lost.

The originating companies often appear to be genuine because real companies' identities are used – perhaps by past or even current employees. The actual company may be set up purely for illegitimate purposes. Enquiries to an apparent parent company in China may reveal that there is no valid subsidiary operating from the location in question.

## **2. Notarisation Enquiries**

Some suspect Chinese companies are telling UK companies that they are required to pay significant notarisation fees for contracts (often included as a percentage of the total value of the contract). However local notarisation offices do not do any notarisation for any kind of contract even between two local registered companies, let alone contracts between a local company and a foreign company.

Several of these companies have claimed to be Hong Kong-based. However, if a contract involves foreign elements - i.e. if the payment to the agent will be in foreign exchange - then proper registration with the mainland Chinese authorities is needed. Alternatively, if the contract is of guarantee nature, registration is also required.

Since registrations are handled by the relevant mainland Chinese government departments, the fee charged will be minimal. And any entity doing business in mainland China should be properly legally established (such as a company, a rep office, a branch, etc.) for tax and invoice issuing purposes.

## **3. Visa Letter Enquiries**

Suspect Chinese companies, normally registered as a "trade consulting company" or "trade service company" are sending out offers for large contracts to UK companies. After a brief exchange of correspondence, UK companies are asked to issue invitation letters to the clients of the suspect Chinese companies, who claim that they need to check the quality of the products in the UK.

After the invitation letter is issued, the suspect company will disappear. They will then make illegal profit out of the invitation letter by selling it to an individual seeking to enter the UK.

## **4. Domain and Key Word Registration Enquiries**

Unexpected communications are received from a company posing as a domain name registration company. The Chinese company informs the UK Company that their domain name is being registered by another Chinese company.

The UK Company is told it must register its internet "key words" with them for a fee. The fee is usually significantly higher than that charged by the official domain name registration authorities. UK companies soon find that not only has their domain name and "key words" not been registered, but the money they have paid is lost. Once payment has been handed over all communication comes abruptly to an end.

## **CBBC Advice**

- It is foolhardy to travel to China unless wholly confident of the reliability and seriousness of the party seeking to do business with you.
- If a deal seems 'too good to be true' it is probably just that.
- Significant up-front payments are unusual, especially if not sought by the supplier.
- Orders of a type that would normally be placed on Chinese firms from the UK, rather than vice-versa, are inherently suspicious. China's low-cost manufacture and improving quality means that a Chinese purchaser is unlikely to order mundane products from outside China.
- A company check that is less than rigorous is worthless, especially if influenced by wishful thinking.
- The 'due diligence' process, though recommended in every case, may be offer less information on smaller, newer or less prominent Chinese companies.
- Straightforward supply contracts do not necessarily require face-to-face meetings in China as elsewhere.
- Corrupt practices are illegal in China, as in the UK. One should be suspicious of those who claim there are 'special reasons' for transgressing the normal rules of international business.
- Although none of the cases known to CBBC has resulted in personal danger to the individuals concerned, involvement in scams such as those outlined above makes that a possibility.

## **Checking the authenticity of a Chinese company**

### **Self Help**

Included below is a list of documents that you could request from the Chinese company. Although the Chinese company is not legally required to provide these documents, this will further test how serious it is, and it will also provide a series of documents which can potentially be used by a third party on the ground in China to check authenticity.

These documents include:

- A copy of the Chinese company's business licence
- A copy of the shareholder registration
- A copy of both sides of their business cards (i.e. English and Chinese)
- Their web site address
- Their email addresses
- Their operational address
- Their registered address
- A copy of the ID and/or passport of the responsible person (most likely to be the company's formal "Legal Representative")
- The company's operational bank account address and number

It is worth noting that, if a company is intent to defraud, then copies of documents that you request directly are likely to match the deception.

### **CBBC Support**

#### **1. The Company Registration Report**

The local office of the State Administration of Industry and Commerce (AIC) is the Chinese equivalent of the UK's "Companies House". All companies in China are legally required to register with their AIC bureau at the municipal level to obtain their business licence.

The CBBC Company Registration Report service uses the company's registration with AIC to provide you with the following information:

- Company name
- Registered address
- Registration number
- Legal representative
- Registration capital
- Date of registration
- Type of enterprise
- Business scope
- Shareholder
- Renewal status

The Company Registration Report will also be able to confirm that the company has been legally registered and show when the company was registered.

#### **What does this information mean?**

The Company Registration Report will be able to provide you with basic company information that can help determine whether the organisation is bona fide and legitimately registered.

- Legal representative – you know who ultimately in that company makes decisions
- Registration capital – you have a good idea of the size of the company operation
- Date of registration – you know if it is a start up or has managed to trade for several years

- Type of enterprise – you know if that company is legally allowed to manufacture / trade in the products you are interested in

If you would like CBBC to carry out a Company Registration Report for you, please supply us with the full name of the company you want checking in Chinese characters, and also the city in which the company's headquarters is based.

With this information we will contact the relevant municipal AIC bureau to request a copy of the filed registration report. The report will then be translated, and presented as an English language document.

### **How to commission a Company Registration Report**

The fee for CBBC Company Registration Report is **£190**, CBBC corporate members will receive a **20% discount** on this service. There may be additional pick up costs where necessary, which can exceed the basic cost of the service. A full quotation will be provided before the work is commissioned. To discuss, please contact: Charlotte Zhang at CBBC: [charlotte.zhang@cbbc.org](mailto:charlotte.zhang@cbbc.org) or 020 7802 2000.

Every effort will be made to ensure that the information given in the Report is accurate. However please note, the China-Britain Business Council is acting as a conduit and translation service for information from the State Administration of Industry and Commerce and, as such, accepts no responsibility for any errors, omissions or misleading statements in the information and no responsibility is accepted as to the standing of any firm, company or individual mentioned.

### **2. The Company Assessment Report (Sourcing Products from China)**

Company Assessment not only supplies a great deal of direct information about the status of a company but, due to the nature of assessment, gives a very clear indication of a company's professionalism and experience of working with foreign companies by assessing, the speed, clarity, detail and consistency of response.

Together with referral to trade references this offers a detailed picture of a company and helps allow a structured decision as to who your partners in China should be.

A Company Assessment Report will be able to provide you with information including:

- Company Turnover
- Staff Levels by Department (Sales, Q&A, R&D, etc.)
- Physical Area (Production, Office, Warehousing, etc.)
- Sales by Region
- International Standards held
- Trademarks and Patents held
- Trade References

#### **What does this information mean?**

The Company Assessment Report will be able to provide you with basic company information that can help determine whether the organisation is managed to standards meeting your objectives.

- Company Turnover – indicates if your business will be too big or small to handle
- Staff Levels – indicates if a company has strong Quality and R&D capabilities
- Sales by Region – indicates if a company should be aware of international standards and normal trading lines
- Trade References – will give you access to experienced external views of a company's business

All relevant knowledge of business partners is valuable. It helps you assess who you should work with and how you should approach working with them. This service is designed to help you lower risk, save you time and save you money in the early stages of finding good partners.

If you would like CBBC to carry out a Company Assessment Report for you, either we can report on a company already identified by you, or we can help identify some potential companies for you.

With this information we will contact the company(s) and through a series of questions from our nearest China office build a report which will be presented to you in English.

### **How to commission a Company Assessment Report**

The fee for CBBC Company Assessment Report is **£190**, The fee to identify 6 potential companies and compile a report on all 6 is **£490**. To discuss, please contact the Research Group at CBBC: [research@cbbc.org](mailto:research@cbbc.org) or 020 7802 2000.

Every effort will be made to ensure that the information given in the Report is accurate. However please note, the China-Britain Business Council is acting as a conduit and translation service for information from the company(s) requested and, as such, accepts no responsibility for any errors, omissions or misleading statements in the information and no responsibility is accepted as to the standing of any firm, company or individual mentioned.

### **Professional Services**

CBBC would always recommend you seek thorough, independent due diligence and the Online Service Providers' Directory on our website - [www.cbbc.org](http://www.cbbc.org) - provides contact details for companies that specialize in this area.

Company check agencies will be able to provide you with detailed information, analysis and possible undercover investigations if required.



## **About CBBC**

The China-Britain Business Council (CBBC) is the UK's leading source of China business information, advice, consultancy and services. CBBC supports British companies of all sizes - new entrants and established operations.

Providing business services, practical in-market assistance and industry initiatives, our services are designed to allow companies to gain access to the potential of the China market and to develop a sound business strategy.

Delivered through a network of 9 offices in the UK and presence in 11 Chinese cities, CBBC services are available to all UK based companies.

Membership offers further benefits including discounted prices for services, special member-only events and information. CBBC is a partner of the UK government for whom it delivers OMIS (Overseas Market Introduction Service) reports.

It also provides other China business advice and support services and CBBC's status allows it to play a vital role in lobbying both UK and Chinese officials on matters important to the success of British business in China.