

# Due Diligence on Your China Supplier

**S**o now you've made the decision to buy from China. Due diligence when conducting business in China should always be a prerequisite, and this is the case whether or not you are considering purchasing or selling to a Chinese company, entering into a purchasing contract, or a more formal arrangement such as a joint venture.

At a basic level, a Chinese company business license can provide a great deal of information about the company which can be checked off as follows.

## **Name of the legally responsible person**

Is this the same individual you have been dealing with? If there are any disputes, you need to know who the legally responsible person is.

## **Company name and registered address**

Does this match up with your own understanding? If not, why?

## **Scope of business**

Companies in China are restricted in what they can do, and their activities must be fully identified in their scope of business. If you're dealing with a company whose business scope does not include the projected service or goods, you may face sudden disruptions of supply or service later on.

## **Length of operations**

Business licenses are granted for a period of years. Although, unless the company has been in transgression of the law, licenses are usually renewed. It pays to make sure you know when the Chinese business license is up for renewal, just in case.

## **Amount of registered capital**

The amount of registered capital counts as the limited liability of the company, so it is important you know what this is. If selling, it makes little sense to extend decent credit to an under-capitalized business.

When setting up a company in China, the shareholder will need to open a capital account right after the company name is registered. When applying for a business license, a capital verification report will need to be provided to prove that the capital has actually been injected. You should ask to see the original report from the company's accounting firm.

If a company is set up without physically moving money into the capital account, an accounting firm will not issue a capital verification report and the company will not be able to obtain a business license, so this should be checked. The capital verification report is held on file with the local office of the Administration for Industry and Commerce where the business was registered.

## **Quality control and supply capacity**

Are there any quality control systems in place? Does the supplier have any recognized international quality accreditations? A copy of any such accreditation should be obtained and compared with the authorizing agency to determine the legitimacy of any claims.

In addition, the supplier's ability to meet current and future demand will need to be analyzed. A check of the companies manufacturing capabilities will be in order to ascertain the suppliers manufacturing capacity and capabilities. .

*For more information or advice on due diligence matters in China, please contact Dezan Shira*

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