

**Serial Article II: Practical Guidance on Chinese Company
Chops and Legal Representatives' Signatures
– Safeguarding and Verifying Chops
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**Q5 How to tell whether a chop is real or fake, or a
signature is genuine or forged?**

Needless to say, it is important to make sure that a chop or signature is genuine. But in reality, it is impractical, if not impossible at all, to expect checks to be conducted at the forensic, or quasi-forensic level.

Though a company's official chop specimen is required to be filed at the public security authority, and the company files retrieved from the Chinese company registry normally have the company's chop affixed to them, up to date, there is no official system/platform available to the public to verify a Chinese company chop. Furthermore, the authenticity of a company chop should not only be determined by whether its specimen has been filed or deposited with any authority, as it's not really difficult to carve a rubber stamp replicating the same specimen.

That said, the following are some good ways to at least spot the most obvious errors to avoid fraud or other misconducts:

- 1) A basic due diligence on the Chinese counterparty (if it is new to you) is always a prudent way of doing business with China. A fake company never has a legitimate chop or signature. The very first pitfall to avoid is being tricked in a scam.
- 2) Cautiously check if the shape, font or other stylish element as demonstrated in section Q3 of serial article I are those commonly used for Chinese company chops.

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- 3) Verify the details shown by a chop, such as company name and registration number, against the company's business licence which you should request from your Chinese counterparty.
- 4) Verify the consistency of the company particulars (name, registration number, address, name of legal representative or other authorised person) appearing on the business licence, public records held by the registry authority, letterhead, website, bank account details, business card, email address and signature lines, etc.
- 5) Verify if the contact point is the legal representative him/herself or duly authorised by him/her or holding relevant resolutions/POAs duly issued by the company.
- 6) Where you have been dealing with a Chinese company with which you feel comfortable, any change or deviation from the past practice should be reasonably explained and justified.
- 7) Any other common sense to be deployed.

Q6 The matrix of civil and criminal liabilities resulting from fake chops

When a fake chop is involved, there could be a series of civil and criminal liabilities creating more complexity. In a nutshell, forging chops itself could constitute a criminal offence and might be charged especially when a forged chop is used for fraudulent purposes. However, on the civil side, where a forged chop does not assert apparent authority and a bona fide counterparty can reasonably rely on the appearance of the chop, the contractual relationship and the relevant dispute can be adjudicated independently in the civil system.

Q7 Safeguarding the use of chops

Like a company's payment threshold authority or purchasing limitations, procedures for the application and the usage of chops should be integrated with the bylaws or internal control system for a China subsidiary of an international company.

Keeping a record of all applications for using or affixing company chops can definitely help foreign investors in making sure that staff misuses don't go unnoticed or unreported. The officer in charge of such procedures should be the one who does not handle or hold any chop in order to ensure a healthy maker-checker flow.

Q8 Custody of a company's business licence and chops – crucial for the actual control of a company

Local and international business news outlets are full of stories of company chops causing trouble when fights erupt over the control of a company, or when senior executives are sacked while being the ones physically holding company chops and business licences in their hands. A few case studies will be set out in the serial article III for reference.

Ultimately, good internal control and governance of a China subsidiary of an international company means that particular attention must be paid to the management, safeguarding and custody of the company chops as well as the corporate books and records including licences, permits and certificates, etc. Of these documents the most important is the original and duplicates of the business licence.

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