Serial Article III: Practical Guidance on Chinese Company Chops and Legal Representatives' Signatures – Case Study

By Yuhua Yang | Daisy Li | Yang Yu

In 2020 several chop-hostage crises afflicted high profile companies in China which created corporate drama news headlines on a number of occasions.

(1) Dangdang.com (当当网事件)

In 1999, a husband (Li Guoqing 李国庆) and wife (Yu Yu 俞渝) co-founded Dangdang, one of China's largest online booksellers and a leading B2C e-commerce company, listed on NYSE since 2010.

The couple announced their separation in 2019 followed by an acrimonious divorce battle. Li quit from the management but remained as a shareholder with a 27.51% stake in his hands. Yu took the reins of the company. One weekend in April 2020, Li raided the company's headquarters in Beijing and seized more than 50 of the official chops (including the finance chop) in an attempt to regain control.

Dangdang issued a public announcement to invalidate those chops taken by him, but the real legal issues related to the drama are more complicated. From a practical point of view, reproduction of those chops takes time. The company needs to apply to the local police, demonstrate the legitimate reason for a second set of chops, and wait for the decision; if approved only then can the new chops be made. During that period, the company's day-to-day operations were inevitably impacted such as issuing checks, authenticating financial documents, conducting bank related transactions etc.

For more Llinks publications, please contact:

Publication@llinkslaw.com

(2) Arm China (安谋科技事件)

Arm Holdings, a UK-based chip designer, spent some time in 2020 fighting for control of its Chinese joint venture from its ousted CEO (legal representative) Allen Wu, who held the company chop and the business licence even after he was removed by relevant resolutions on 10 June 2020. Armed by the chop and the business licence of Arm, Allen Wu fought back, declaring that he continued to be the CEO and the company's operations were carrying on as normal. Although Arm asserted in July that he was in defiance of the "legally valid" decision to remove him, it still faced a quagmire in Wu's dismissal affair.

To officially remove and deregister Wu at the relevant registry authority, Arm needed to submit application documents affixed with the company official chop which, obviously, was not available. As such Arm had to apply for a new chop, still, it required the existing legal representative (Wu) to be present at the local public security authority making the application, together with the company business licence – one more deadlock.

The Arm affair alerted a lot of international companies to the importance of good internal control and governance of their Chinese subsidiaries, especially in terms of the safeguarding and custody of the company chops as well as business licences.

(3) Tencent vs Chili Sauce Lao Gan Ma (腾讯老干妈事件)

Tencent, the world's fifth-largest internet company, sued China's beloved and best-known chili sauce brand Lao Gan Ma on 30 June 2020 for reneging on an advertising contract. An interim court order was quickly obtained to freeze USD 2.3 million of the chili sauce company's assets.

The case took a dramatic U-turn in the afternoon of that same day when the chili sauce company responded publicly by saying it "never signed a contract with Tencent".

The next day, the local police said a group of three people in possession of forged chili sauce company's official chops had posed as that company's representatives to seal the advertising contract with Tencent. Admitted to having been tricked, an embarrassed Tencent offered a reward to anyone with leads on the scammers' identities: 1,000 jars of the chili sauce.

To avoid a situation like this or worse, companies can never pay too much attention to the authenticity of their counterparty's' chops. Revisit our serial article II on safeguarding and verifying company chops for how this can be done or seek a professional's help when necessary.

If you would like to know more information about the subjects covered in this publication, please contact:

Yuhua Yang
+86 10 8519 2266
+44(0)20 3283 4337
yuhua.yang@llinkslaw.com

SHANGHAI

19F, ONE LUJIAZUI
68 Yin Cheng Road Middle
Shanghai 200120 P.R.China
T: +86 21 3135 8666
F: +86 21 3135 8600

BEIJING

4F, China Resources Building
8 Jianguomenbei Avenue
Beijing 100005 P.R.China
T: +86 10 8519 2266
F: +86 10 8519 2929

SHENZHEN

18F, China Resources Tower
2666 Keyuan South Road, Nanshan District
Shenzhen 518063 P.R.China
T: +86 755 3391 7666
F: +86 755 3391 7668

HONG KONG

Room 3201, 32/F, Alexandra House
18 Chater Road
Central, Hong Kong
T: +852 2592 1978
F: +852 2868 0883

LONDON

1/F, 3 More London Riverside
London SE1 2RE
United Kingdom
T: +44 (0)20 3283 4337
D: +44 (0)20 3283 4323

www.llinkslaw.com

Wechat: LlinksLaw

WE LINK LOCAL LEGAL INTELLIGENCE WITH THE WORLD