



Red Flag Assessment Sample

Subject Company: Shandong XXXXXX Import & Export Co., Ltd.

Client: Beth XXXXXX

Client Contact: beth XXXXXX @ XXXXXX.com

Client Location: USA

Date of Report Delivery: 26 September 2015

DISCLAIMER: Reports are delivered to the subscriber in strict confidence for use by the subscriber as one factor in connection with other business decisions. The report contains information compiled from information and sources which AsiaBridgeLaw (ABL) cannot fully control. While the information is believed accurate to our high internal standards, ABL does not take responsibility for the accuracy, completeness or timeliness of the contents of the report. ABL, its employees, owners and associated companies, disclaims all liability for any loss or damage arising out of or in any way related to the contents of this report.

Executive Summary:

Information was provided by client who buys pencil. Subject companies are both Shandong XXXXXX as well as a XXXXXX based account. The following report assumes XXXXXX is the subject company.

The subject company is legally registered with the local government and not a "fake" company. The address, names and bank account provided are accurate and match.

The payment methods and communications from the subject file do not demonstrate the typical red-flags associated with common scams.

The subject company's registered capital of 5 million RMB is substantial and it appears they have been in business for 15 years. These are very positive findings that are not associated with common scams. But please be aware that registered capital is the amount of capital on hand when the business was registered and it is not an indication of the amount of capital on hand at present.

The subject company is most likely not a scam, and the red flags identified below, on their own, are not sufficient enough to warrant termination of the business relationship with this

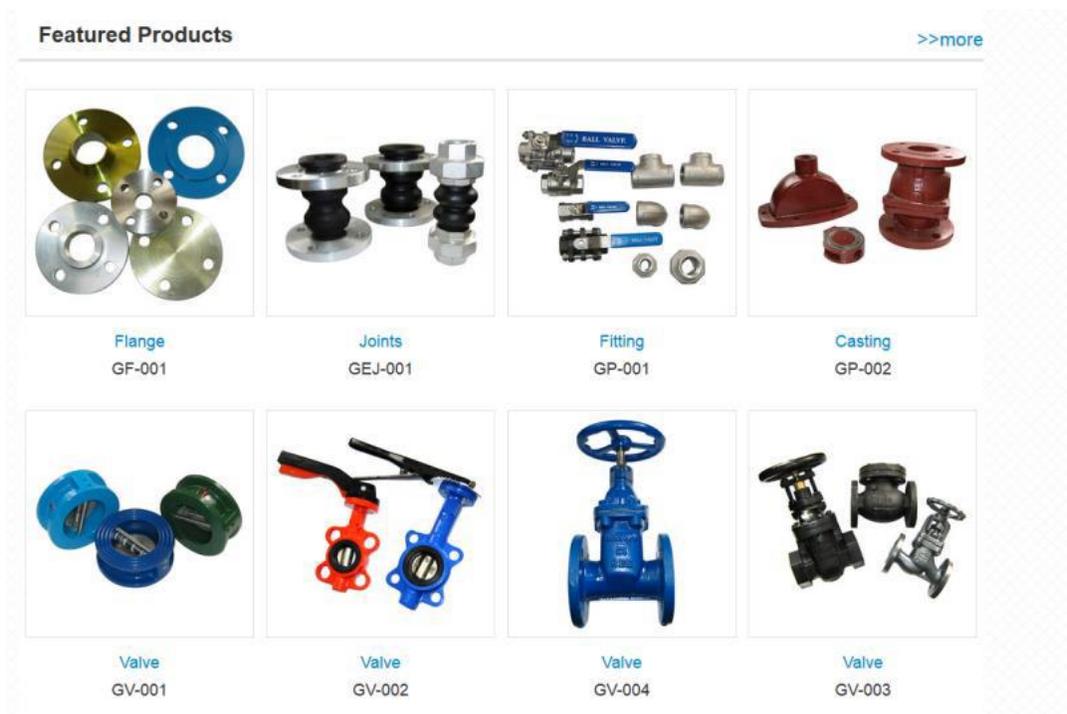
supplier, but they are sufficient enough that you should seriously consider some of the safe sourcing practices recommended in this report.

Red Flags

Red Flag 1: Scope of Business

The scope of business listed on their official documents and online profiles does not include pencils but rather building materials, textiles, clothing, chemicals, hardware, handicrafts.

Here is an image of their typical product, for your reference from one of their online profiles:



On one site (<http://XXXXXX.buyers.com/>) we did find a small profile indicating they deal in pencils, but this was the only site found and the supporting images and text was very weak. A Chinese language search could not find any indication that the subject company deals in pencils.

However, as the business name indicates Shandong XXXXXX Import & Export Co., Ltd., the subject company is most likely not a manufacturer and is an import-export company, AKA a trading company. As such it is quite common in China, for trading companies to deal in a wide range of products. But as pencils are not on their scope of business, and as the Chinese port authorities are becoming more and more strict in enforcing that the products being exported by a supplier must match the approved scope of business, you should look into this issue.

You mentioned you have ordered 11 times with them, so obviously they have found a way to export the products, despite pens not being in their business scope, but that situation could change overnight depending on the situation among custom's officials.

So you may want to raise this concern with your supplier in hopes of avoiding any potential problems in the future.

There are many cases where the manufacturer doesn't have an export license and an import-export company must be used. So the fact that they are a trading company, by itself, is not a red flag unless you were led to believe they were the manufacturer.

Side note: Another thing to consider is that when you are dealing with a trading company, there is a chance they are simply acting as a broker and you may be able to secure better pricing, lead times and warranty terms if you went direct to a manufacturer. If you are interested in exploring this option, know that supplier research can be conducted on your behalf by companies like this one.

Red Flag 2: Business Size

Research indicates they are most likely a small trading company with fewer than 20 employees. They may be part of a much larger group of companies, but as your contract is with the subject company, the following information may be of interest to you.

The good news is that research indicates they are an active company, rather than dormant. For example, files found with the government show they are an active company and when searching online in Chinese language we found they are hiring new staff at this time. Below is a screen shot of one of their job adverts posted online.

公司简介

山东省荣鑫进出口有限公司是由山东省国际贸易集团控股的省级专业进出口企业，注册资本为500万元。

为适应国内市场需求，实施多元化发张战略，公司决定以国外市场为依托，加大力度开拓国内市场。为此，诚邀人品端正，有创业志向的大学毕业应届生加盟。对新聘用人员，公司将系统的进行岗位培训，帮助每一位员工挖掘创业潜能，提供展现个人才华的人生舞台。

| 职位名称 | 招聘人数 | 工作经验 | 工作地点 | 薪资待遇 | 申请职位 | 收藏职位 |
|--------|------|------|------|------|------|------|
| 采购专员 | 3-5人 | 1-3年 | 济南市 | 面议 | 申请职位 | 收藏职位 |
| 售后服务人员 | 3-5人 | 1-3年 | 济南市 | 面议 | 申请职位 | 收藏职位 |
| 市场专员 | 3-5人 | 1-3年 | 济南市 | 面议 | 申请职位 | 收藏职位 |
| 物流配送 | 3-5人 | 1-3年 | 济南市 | 面议 | 申请职位 | 收藏职位 |

It may be pure chance, but the 4 positions above which are open at this time are all key administrative positions (purchasing, sales, marketing and logistics). Keep in mind that some of the online profiles filled out by the subject company indicate they have about a dozen staff. So to have 4 key positions open at the same time could indicate either the company is growing fast, or more likely there are some major shake ups in management.

If they are indeed a small trading company, the owner's exposure is limited in the event the terms of your contract with them are broken. For example, if something went wrong with the order and a claim was made against seller by the buyer, a large company with a long history is more likely to negotiate while a small company may simply "close their doors and run away".

Red Flag 3: No Functional Website

While there may be a good reason, for example websites do go down for maintenance, it is quite strange that the seller has no website.

Suggestions

Suggestion 1: Payment Terms

You mentioned in the case file that your terms were 30/70. You also mentioned you have ordered 11 times. Your PO value is significant. For those reasons, you should consider asking for more preferential payment terms and agree on a road map to eventually move to "net terms".

For example, explain that you have been a good customer, always paying on time and placing more orders, and now you would like to receive better terms in exchange. Consider on the next order moving to a lower upfront payment and having the final payment take place after the goods have arrived, rather than "upon providing of electronic shipping docs".

A reasonable payment term for your upcoming orders could be something like:

10% Advance payment.

70 % after 3rd party inspection/ provision of shipping docs.

20% due within 10 days of shipments arrival to your destination.

Over time you may even be able to secure 0% upfront and backload more and more of the payment to "Net terms".

Most Important: Regardless of the payment terms, independent product inspection still needs to take place just before shipment. The inspector should also witness the goods being placed in the container and shipment sealed.

To offset the costs of these 3rd party inspections you may want to structure your contract so that the subject company pays the costs of the inspection & re-inspection in the event the shipment fails pre-agreed standards. You pay if it passes. A supplier that believes in their quality control should have no problem accepting those terms.

Suggestion 2: Bilingual Contracts

If you have a bilingual contract in place already- pat yourself on the back. But as the case file only had an English invoice and didn't include any contracts, we assume you don't have one in place and would like to offer the following suggestions.

Use a bi-lingual contract with a clear penalty clause (pre-agreed) for breach of contract. That way if the order is late or has quality issues, you will have a much stronger means of getting compensation. **Make sure this contract or PO, has the company chop + the name (in Chinese) on the contract should match the address given and it is also the same name as found on the bank account.** Your case file shows them matching in English, but the Chinese name is the official name and it is common for suppliers to have multiple English translations of their name.

Note: If you don't read Chinese, as a free service to clients of the Red Flag Assessment service, we would be happy to review the above item in red if you provide us with the contract/PO for review during the next 90 days. If you need help creating a bilingual contract and/or PO know that the service center can introduce local lawyers who are affordable and professional.

----- end of report -----

**Appendix to report on the following pages includes:
Supporting Documents from Client/ Case File**

Case File: Supporting Documents received from Client

Copy of key contracts/invoices/purchase orders

Reviewed as provided by client

Bank Account Details/ Bank Information:

Reviewed as provided by client

Copy of Business License as provided by the subject company

Reviewed

English Name of Subject Company

Shandong XXXXXX Import & Export Co Ltd.

Chinese Name (in Chinese)

山东省XXXXXX进出口有限公司

Address(es) of Subject Company in English

Eastgate No. 18, XXXXXX Road, Qingdao, China 266071

Address(es) Chinese

青岛市XXXXXX路18号

Phone(s)/Faxe(s)

86-532- XXXXXX and (fax) 86-532- XXXXXX

Social Media Profile(s)

Not provided

Email Address(es) of Subject Company

sales@ XXXXXX.cn

Website(s) of Subject Company

<http://www.XXXXXX.cn/> - This is the website we have from 2009, but it does not seem to work anymore

Skype/QQ/other contact details

Not provided

Scanned copy of brochures

Not provided

Scanned copy business cards

Not provided

Have they exhibited at any trade shows?

Not provided

How was initial contact made between you and this company?

In 2009 we found EveryglXXX, which is under the parent company Shandong RongXXX, through an internet search

Copies of passports/ identity cards

Not provided

Pictures of people and facility

Images found in the inspection reports provided.

3rd Party Inspection/Audit Reports conducted on-site in China

Yes, Y2015 reports provided

Description of the product you wish to buy from this supplier

HS code: 9609.10.0000

Estimated USD value

See Invoices

Payment Terms requested by seller

Bank Wire Transfer: 30% upfront, 70% upon provision of documents

Any other information you feel is relevant for our research

We have placed 11 orders with this vendor attached are the last two purchase orders 2446 and 2711 with corresponding product specification sheets.

-----end of supporting documents/case file-----

-----end of appendix-----