

Simple Steps to Minimise Risks of Scams

2026 REPORT



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Many EU SMEs continue to be interested in sourcing goods from China. But finding the right partner is not an easy task; careful analysis and due diligence are required.

In fact, **the EU SME Centre continues to receive – on a weekly basis – emails from European SMEs that encounter significant issues with purchases from China.**

Although each case is unique and a commercial dispute might arise from genuine circumstances, cases of scams from Chinese suppliers remain very frequent, generally resulting in either one of two outcomes:

1

Goods purchased from China received but of lower quality or defective

2

Goods purchased from China never shipped/received

For instance, a Croatian company ordered UV/LED lamps from a Guangdong-based manufacturer and made a payment of around 20 000 EUR. After the goods were received, the company realised that **all the lamps had serious defects**, becoming non-functional after a few days of use from its own clients in Europe – which in turn resulted in complaints or returns of the defect lamps to the Croatian company.

In another case, a Bulgarian company purchased around 70 000 EUR worth of granite and stones from a manufacturer based in Xiamen. After the goods were received, the company realised that the **thickness of the plates received was not the same as that stipulated in the contract**; a laboratory was called upon to issue a testing report, which was not recognised by the Chinese seller.

In both cases, the European companies requested their respective Chinese suppliers to send a new batch of products, or to issue a refund – their requests were ignored. In another very recent case, an Estonian company made an advance payment of around 30 000 EUR for a batch of alloy steel produced by a local manufacturer in Wuxi, Jiangsu province. After the advance payment was received, the Chinese manufacturer first delayed the shipment, until it finally **stopped responding to the company's emails, without shipping the goods** at all.

Other scenarios can occur. A Polish SME purchased three containers of steel and metal profiles from a manufacturer based in Wuxi, Jiangsu. A partial advance payment was made, while the remaining amount was transferred to the Chinese supplier when the goods arrived at the port of entry in the EU – in line with the sales contract signed. However, once the goods were transferred from the port to the company's premises, the company realised that **around 7 tonnes of steel were missing from each container**, corresponding to a difference of around 25 000 EUR. The Chinese supplier offered to provide the missing steel if the Polish company made a second order for new containers, based on the same sales terms (advance payment + settlement of remainder upon arrival of the goods at the EU port).

The cases above caused enormous challenges to the EU SMEs, as they needed the goods purchased from China to deliver other products to their own clients in Europe. **The companies not only lost the amount they paid to the scammer; they also incurred fines from their clients**, and probably a termination of these business relationships. Even worse, after falling victims to a scam, there is very little that EU SMEs can do: legal action in China requires a significant amount of money and time; EU SMEs often do not know where to start and consequently may opt to swallow the bitter pill instead of enforcing their rights. Scammers know this very well and indeed rely on this aspect to perpetrate their frauds.

The risk of scams and quality issues when purchasing from Chinese suppliers can be reduced, and in the majority of cases avoided, by taking **simple steps to conduct background checks and preliminary due diligence** on Chinese companies.

The purpose of this article is to help and guide EU SMEs to do so. These are only basic indications and practical tips from real cases that the EU SME Centre came across. SMEs shall not rely on the following information as a substitute for legal advice, which should always be sought, as much as possible, for in-depth due diligence. This is especially important for bigger transactions for which detailed financial information is needed.

1. COMMON RED FLAGS FOR POTENTIAL SCAMS

Although each case is unique, scams may present one or more commonalities. The following is a list of red flags that characterised most of the cases that the EU SME Centre has collected from EU SMEs. It must be noted that **the presence of one or more red flags**

from this list does not necessarily indicate a scam; conversely, their absence does not necessarily indicate the reliability of a seller.

1

Seller does not have a website, or their website does not have a version in Chinese

2

Company stamp used on the contract does not have any legal value

3

T/T payment in advance to the Chinese seller

4

Suspicious bank account provided by the Chinese seller

5

Registered capital of the Chinese seller has not been paid

6

More money asked by the seller to cover notary fees or additional fees

Red flag 1

The Chinese seller does not have an official website; or if they do, there is no Chinese version of the website, or there are inconsistencies between the Chinese and English versions

EU SMEs buying from Chinese companies usually use platforms such as Alibaba, AliExpress or similar. On these platforms, Chinese sellers have dedicated e-shops where they display their products and contact details. Any reputable company would, in addition to these, have a specific company website and some presence on social media. Therefore, the first necessary step for EU SMEs is to conduct a search on internet to check out the website and reviews of the Chinese seller. The absence of search results may indicate that the company is not interested in establishing a reputation internationally.

In some cases, a Chinese company might have a website, but only in English (and/or in many other foreign languages), not in Chinese. One may argue that a website in Chinese is not relevant for companies involved in international trade; however, this also means that **key information on the company is not disclosed and thus not easily identifiable in case a dispute arises** (e.g., the company's legal name in Chinese and its registered address). If a Chinese version of the website is available, one should pay close attention to the consistency of information between the various versions.

Red flag 2

The company stamp used by the Chinese seller does not contain the standard elements stipulated by Chinese laws and regulations

In China, company stamps (or chops) are essential for any business contract – much more than in the EU. They are a symbol of the legal rights of the company; there are therefore very strict rules for their usage and storage. **Chinese company stamps have standardised elements which are clearly identifiable** (with very rare exceptions):

- Circular or oval shape
- Red ink
- Red star in the middle
- Company name written in Chinese characters
- Occasionally, bilingual chops in Chinese and English might be used; a 13-digit number might also appear, indicating the chop's registration number with the authorities.



Company stamps in any other shapes, sizes, colours or languages have no legal value in China. One may argue that other chops – especially those in English – are used to facilitate the foreign partner's understanding of the stamp; in practice, these are often a strong indicator that the **company does not want to disclose its legal information and thus may have something to hide**. Below are some examples of company stamps, used in some scams identified, with no legal value in China:

For and on behalf of
COMMON SEAL CO., LTD.
.....
Authorized Signature(s)

Holding Co., Ltd
Hong Kong

FORE SHIPMENT
HONGKONG NORTH
IMP. & EXP. TRADE CO., LTD.
Secretary of Supplier
Ji



Red flag 3

T/T advance payment to the Chinese seller

The key goal of a scammer is to have its victim pay for the goods in advance, even only a partial amount. **Once an advanced payment has been made, if anything goes wrong, it is impossible to receive the prepayment back without going through legal action** (more details on dispute resolution in the [last section of this report](#)).

Therefore, even if advance payments are a common business practice in China, it is recommended to limit this option to partners that are already known and trusted. **When buying for the first time from a Chinese partner, it is recommended to use other payment methods**, such as documentary collections or letters of credit: although more expensive, the transaction becomes safer through the involvement of banks as intermediaries; such payment methods are also relatively popular in China. The Chinese seller will probably attempt to resist these options but remember who is the client and that low- and medium-end goods can be easily sourced from many other suppliers in China or elsewhere.

Red flag 4

The bank account provided by the seller does not seem to belong to the same company

Another important element to pay attention to is the bank account indicated by the Chinese seller for the payment. EU SMEs should ensure that the account provided belongs to the same company as the invoicing company, thus excluding:

- Personal bank accounts (e.g., the account of the founder or general manager);
- Accounts with clearly different company names (e.g., even if the seller insists that it belongs to another entity within the same group);
- Accounts with bank branches located in other regions in China (e.g., if your interlocutor is based in Guangdong and provides an account from Jiangxi province).

In general, if the Chinese seller insists on using another bank account, then this intention must be confirmed in writing with the company's stamp ([see Red Flag 2](#)). In some occasions, a supplier might prefer to be paid to

a bank account in Hong Kong: in principle, this could be a legitimate request, especially if the seller has very solid international operations; however, in such cases the payment is made only indirectly and not directly to

the seller, making it challenging to determine who is responsible for the goods in the event of a dispute.

Red flag 5

The registered capital of the company has not yet been paid

Another essential aspect to check relates to the Chinese seller's **registered capital, and specifically how much of that amount has already been paid by the shareholders**. In China, any individual may incorporate a company for a very low fee, without actually contributing any of the company's registered capital at the initial stage (committing to do so over a 30-year period). In practice, if a company has not paid any of its registered capital, it means that it has **virtually no financial assets that could be frozen or sold** for compensation: this is often an indication of risk.

The paid-up capital is easy to check through annual reports of the company. Usually, the company's annual report is available on specialised credit and business information platforms – such as Qizhidao (www.qizhidao.com/) Qichacha (<https://www.qcc.com/>) and Tianyancha (<https://www.tianyancha.com/>), which however require a subscription; the EU SME Centre has access to these platforms and can help all EU SMEs to conduct such checks, free-of-charge. The following is a screenshot from one of these platforms, showing that in this case no capital was contributed by the shareholders (column squared in green).

Information on the capital contribution of shareholders
股东(发起人)出资信息

序号	Shareholder 发起人	Committed amount (unit: 10k RMB) 认缴出资额(万元)	认缴出资日期	认缴出资方式	Actually contributed capital (unit: 10k RMB) 实缴出资额(万元)	Date of contribution 实缴出资日期
1	[REDACTED]	3680	2049-07-07	货币	-	-
2	[REDACTED]	1920	2049-07-07	货币	-	-
3	[REDACTED]	1600	2049-07-07	货币	-	-
4	[REDACTED]	400	2049-07-07	货币	-	-
5	[REDACTED]	400	2049-07-07	货币	-	-

Note: The last two columns (Actual contribution) are highlighted in green in the original image.

Red flag 6

The Chinese counterpart asks for additional money to pay notary fees or other administrative fees

The EU SME Centre has received numerous emails from EU SMEs buying from China, complaining that their Chinese seller asked for the payment of notary fees before, or immediately after, signing a sales/purchase contract. In fact, in China **there is no mandatory provision requiring the notarisation of ordinary sales and purchase contracts**; it is required only for some contracts of special importance, e.g., real estate transfers.

Usually, this situation is more frequent in cases of European SMEs selling to Chinese companies, which request notarisation as a way for them to “secure funds”

with their local bank, or to allow the bank to convert Chinese Renminbi currency into foreign currency. What should alert EU SMEs is the fact that such fees are requested to be paid to the Chinese company directly “in order to facilitate things”. In one specific case of a scam received, a Chinese company interested in buying goods from an EU SME asked for a 1 500 EUR notary fee, and a 2 000 EUR currency exchange fee – both included in a contract that had just been signed between the two parties and to be paid 50% each. After the EU SME paid these fees, the Chinese buyer disappeared and never completed the payment for the goods in line with the contract terms.

2. PREVENTATIVE MEASURES AND STEPS

In addition to the tips provided in the previous section to recognise red flags for potential scams, there are other

indispensable measures that EU SMEs must do before signing a purchase contract with a Chinese company.

1

Ask the Chinese seller for a copy of their business license

2

Check the company on specific business- and credit-related platforms

3

Verify that the contact person is authorised to negotiate on behalf of the seller

4

Contact the EU SME Centre and your representations in China

5

Hire an auditor for on-the-ground inspection of the goods in China

6

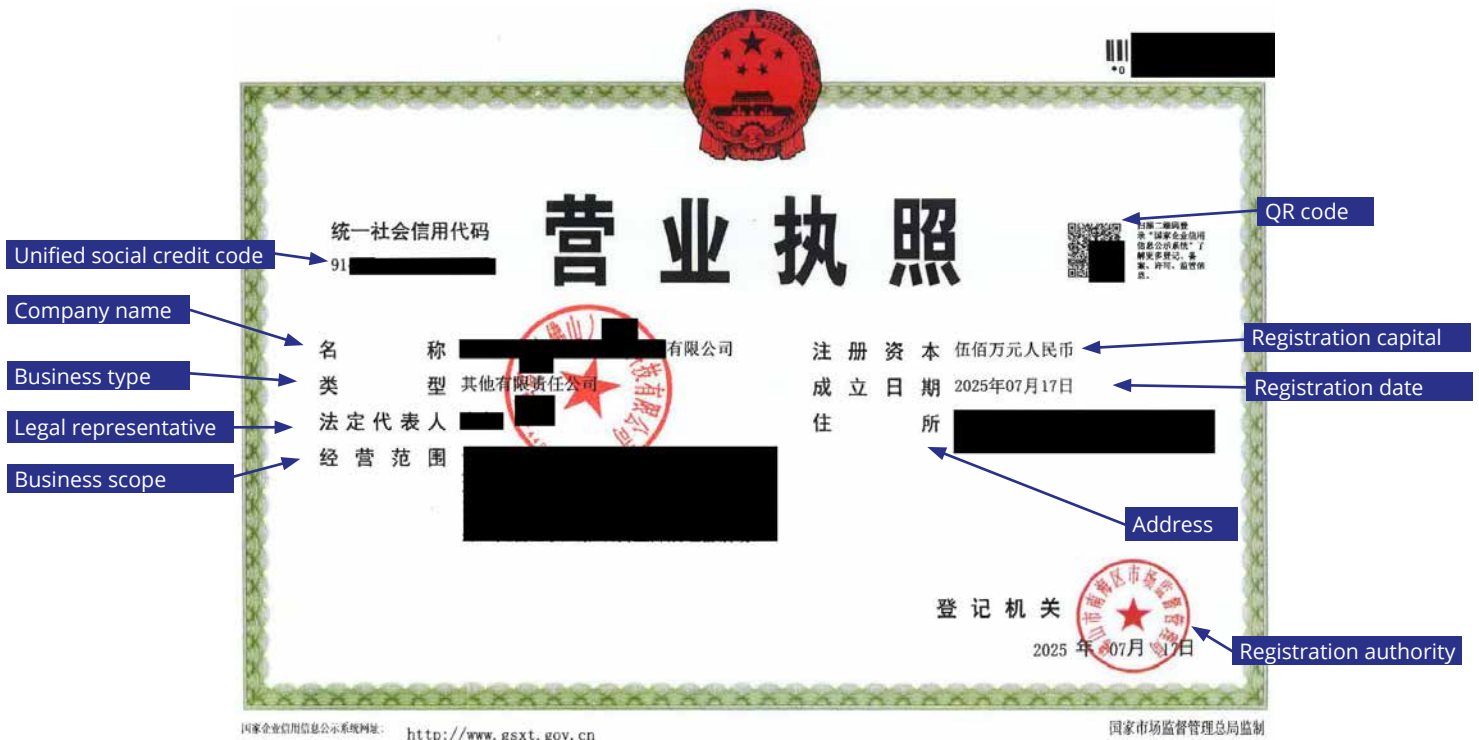
Hire a Chinese lawyer for in-depth due diligence

Measure 1

Ask the Chinese seller for a copy of their business license

Every company legally incorporated in China possesses an official business licence, which acts as its ID card. The **first step EU SMEs should always take, regardless of the circumstances, is to request a copy of the Chinese company's business license** with the official company stamp affixed to it. This is a common business practice; if a company refuses to do so, then

the advice is to immediately terminate any negotiation. It is noteworthy that the original business licence is often hung on the company's walls, so anyone would be able to take a picture of it, while the duplicate licence is stored somewhere safe. The business license looks as follows, and contains the following key information:



Measure 2

Check the company's situation on the official government enterprise credit system, and on other relevant platforms

After a copy of the company's business license has been received, the next step is to verify that all the information provided is true. There is a dedicated platform established by the Chinese government, called National Enterprise Credit Information Publicity System (<https://www.gsxt.gov.cn/affiche-query-info-assist-141000011947780007.html>). Registration to access information on the platform is free but requires a Chinese ID card. European SMEs are invited to contact the EU SME Centre for free-of-charge assistance: <https://www.eusmecentre.org.cn/ask-the-expert/>. The platform has different versions for each province: the province where the Chinese company is officially registered should be selected in the menu at the top of the page (circled in red in the screenshot below).

The next step is to check **whether the company has had any credit-related issues or legal disputes** recently. This can be done by inserting the company's name or unified social credit code on the Credit China

government platform (<https://www.creditchina.gov.cn/>), from which a credit report can be downloaded for free. The same can be done on third-party specialised platforms – such as those already seen in Red flag 5: The registered capital of the company has not yet been paid. They offer, through a subscription (starting from around 100 EUR per year) a more in-depth analysis of business risks of all companies registered in China, as well as results of legal proceedings in which they were involved.

Finally, if the company showcases relevant product quality and management certification from international bodies, it is useful to verify the veracity of these documents by browsing the company's name/certificate number on the certification body's online directory of certified clients and products. In some cases, certificates were found to have been photoshopped by the Chinese company, or to belong to companies with a different name.



Measure 3

Verify that your contact person is authorised to negotiate on behalf of the company

In some circumstances, while the Chinese company is safe and reliable, the **contact person with whom EU SMEs are negotiating is not**. In recent years, the EU SME Centre has come across a few cases in which a scammer negotiates a deal on behalf of a Chinese company, without being authorised to do so – or worse, without even being employed by the company. If the scam goes through, this person can easily disappear. In addition to searching the name of your contact person

on popular engines and social media, other measures to take to minimise such risks are:

- Ask for a business card with the name and title of your contact person in Chinese characters (it might not be easy to identify a Chinese person using an English name as this unofficial name can be changed as one wishes);

- Call or visit the company, confirming whether that person is actually known and employed by the company;
- When signing a contract, EU SMEs could require that the signature used next to the chop is the one of the legal representative of the company, rather than the one of the contact person. Since the legal representative is authorised by law to represent the company, there can be little doubt whether the stamp's use was authorised in such a case.

Measure 4 **Check with the EU SME Centre and your national representations in China**

Our recommendation to EU SMEs is to contact the EU SME Centre as well as their national representations in China, such as embassies or chambers of commerce before entering any written agreement. These bodies might have **information on fraudulent companies** that have been involved in previous scams and therefore be able to alert you of potential risks. While embassies offer assistance for free, chambers of commerce may do so only for their members or based on a service fee; some chambers of commerce may even be able to organise and participate on behalf of the EU SME in a meeting with the Chinese company.

Measure 5 **Hire an auditor to conduct on-the-ground inspection in China of the goods**

Hiring professional auditors to inspect and test the goods in the factory of the Chinese seller, or at the port, before they are shipped, is a common practice in China to ensure that the terms of the contract regarding the product quality are met. The fees for such services depend on the type and number of tests needed but are not particularly high in case of simple testing that can be done within a day (e.g. a few hundred EUR). If the Chinese seller does not agree to have its premises or goods inspected, or claims it is unfeasible without offering other solutions, EU SMEs should consider this as a red flag.

Measure 6 **Hire a Chinese lawyer for in-depth due diligence**

All the red flags and preventive measures listed in this article refer mostly to simple scams that can be encountered on small transactions paid in advance, generally ranging from a few thousand to a few tens of thousands of EUR.

For larger transactions, or whenever necessary, EU SMEs should always consider hiring a Chinese lawyer for in-depth due diligence on the Chinese company. Chinese lawyers will have access to business identity documents and other key materials on Chinese companies filed with local market supervision authorities. They will also be able to verify a company's financial status and health, as inaccurate financial reporting remains a relatively common issue in China (preventive measures and steps on this aspect were intentionally not included in this article as they are more complex and require legal cooperation with specialised law firms and the Chinese partner itself). Law firms with experience in/with China will also provide precious insights on how to draft sales contracts to maximise one own's interests and protect against possible misconducts from the other party.

Finally, EU SMEs should always appeal to common sense and be alerted if a deal looks simply too good, remarkably standing out from the quotations received by other Chinese suppliers, or coming too suddenly or unsolicited.

3.TOO LATE: WHAT TO DO?

EU SMEs should always keep in mind that, once they become victims of scams, there is very little that they can do. Reporting scams to authorities in the EU or to local Public Security Bureaus in China is of little or no use in most cases; trying to appeal to the business ethics of the Chinese counterparts will also be a waste of time; an ethical supplier would not have devised a scam in the first place. Chinese scammers know from the outset that their victims might come after them, they are therefore very experienced and careful to

cover their tracks. It is different, of course, if there is a genuine business dispute or sudden issue with a regular supplier, as such cases may not involve premeditation.

Legal action in China is only the last stand and requires a significant amount of money and time. Often, EU SMEs do not know where to start, and consequently may decide to renounce enforcing their rights. General recommended actions to victims of fraud can be found below:

1

Continue to collect evidence of contract violation

2

Work with a China-based law firm to send a Demand Letter

3

Work with a China-based law firm to initiate legal action in China

Action 1

Continue to collect evidence of contract violation

The first indispensable action is to collect in written form all possible evidence of the contract violation or scam by the Chinese seller. This includes everything, from email communications and payment receipts, to test reports of professional auditors who completed the inspections on the goods. It is important that the evidence shows that the victim tried to solve the dispute through amicable negotiations and not assuming bad faith, and that further action was taken only after

refusal or non-cooperation from the seller. At the same time, the EU SME can also try to contact another department of the same Chinese company to see if it leads to another outcome.

It is essential that enough evidence is collected on time, as if legal action is initiated, the parties involved are allowed to submit evidence only during a limited period.

Action 2

Work with a China-based law firm to prepare and send a Demand Letter to the Chinese seller

Before escalating to legal action, EU SMEs might try to engage a China-based law firm to prepare a **Demand Letter** to be sent to the Chinese company. This letter demands the fulfilment of the terms agreed in the contract, threatening further action if nothing happens within a specific period. In general, **Chinese companies pay attention to Demand Letters from Chinese lawyers, as they show that the victim is familiar with dispute resolution mechanisms in China and is indeed determined to proceed in this way.** Over the years, China has strongly pushed for the establishment of a social credit system, through which companies (as well as individuals and other organisations) are rewarded or punished for their behaviours; losing

credit may have significant implications for a Chinese company, e.g. losing existing clients and contracts, or being excluded from future business opportunities. Therefore, when facing a Demand Letter from a China-based law firm, some (“amateur”) scammers might be prompted to discuss and negotiate: losing credit can be worse than losing money.

It is noteworthy that Demand Letters in China are not particularly expensive: based on previous cases seen by the EU SME Centre, these on average may cost around 1 500 to 3 000 EUR including some degree of follow-up.

Action 3

Work with a China-based law firm to initiate legal action in China

If the Demand Letter has not changed the situation, the only option left is to initiate legal action against the Chinese company. How this can be done depends on the clauses included in the contract in terms of law and dispute resolution mechanisms applicable.

EU SMEs should keep in mind that, in general, **going through the Chinese judicial system by working with China-based law firms will lead to easier enforcement of a judgement or arbitration award.** China-based law firms might also apply to Chinese courts for an asset preservation order, which will put further pressure on the other side and may help the plaintiff to secure the enforcement of the judgement or arbitration award.

Before initiating legal action in China, a significant amount of time is required to prepare, notarise, and legalise formality documents such as Power of Attorney, business identity documents, etc., so it is suggested to start this process as early as possible.

Most importantly, **legal action is a long and costly process which often deters EU SMEs from initiating it.** This is the leverage that Chinese scammers have. By identifying the red flags and adopting the measures indicated in this article, EU SMEs will be better equipped to recognise in time potential scammers and thus reduce the likelihood of recurring to legal action.

SEND US YOUR QUESTIONS



The EU SME Centre can provide European SMEs with preliminary background check assistance.

Ask for information or book a consultation with the EU SME Centre Business Advisor via our **Ask-the-Expert** service: <https://www.eusmecentre.org.cn/ask-the-expert/>

FURTHER RESOURCES

GUIDELINES

Drafting Sales Contracts when Exporting to China – EU SME Centre Guidelines (2022):

<https://www.eusmecentre.org.cn/publications/drafting-sales-contracts-when-exporting-to-china-2022-update/>

FAQ

The EU SME Centre has a set of FAQs with a dedicated section on legal issues and dispute resolution:

<https://www.eusmecentre.org.cn/FAQ/>

ABOUT THE EU SME CENTRE

The EU SME Centre is an initiative funded by the European Union to assist small and medium-sized enterprises (SMEs) from EU Member States and countries participating in the Single Market Programme, getting them ready to do business in China.

Our core mission is to facilitate market access and provide a comprehensive range of free first-line services to inform, advise, train, and connect SMEs. The Centre forms partnerships with business support organisations and trade promotion organisations to bring our services and expertise to European SMEs of all sectors.

This initiative created in 2010 is now in Phase V (2025-2028) and is implemented by 4 consortium partners with 2 associated partners, with networks throughout Europe and China.

Consortium partners



Associated partners



AMONG OUR KEY ACTIVITIES



ADVICE

Practical and confidential advice on doing business in China



ADVOCACY

A coherent, consistent, and consolidated voice for EU SMEs



KNOWLEDGE

A free library of resources on market access, sectorial guidelines and more



TRAINING

Getting your company ready for every stage of business in China