Corporate Seal Fraud in China: the lesson learned from Tencent and Lao Gan Ma brawl

Description

Just recently a piece of news has spiraled quickly among netizens in China. It is an interesting story between two most well-known Chinese companies: Tencent and Lao Gan Ma.



WeChat is dominating every smart phone in China.



Lao Gan Ma Chili Oil, dominating Every China Family Tables

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I. What Happened

On June 29, a court decision showed that Tencent had applied to a local court in Shenzhen to freeze a sum of RMB 16.24 million in Lao Gan Ma's bank account since Tencent claimed that Lao Gan Ma owed advertising fee to them.

That evening on June 30, Lao Gan Ma announced that Tencent was swindled by fraudsters and Lao Gan Ma has never launched any marketing activities on Tencent platforms. It also disclosed that on June 20, immediately after learning Tencent legal action, it reported to local police that there were people committing fraud in its name against Tencent.

On July 1, local police published their account of the story: three people had forged fake seal of Lao Gan Ma company and entered into marketing contract with Tencent, and over time, the marketing fee had cumulated to RMB 16.24 million, which had never been paid to Tencent. That is why Tencent took legal action against Lao Gan Ma.



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The advertisement created with Lao Gan Ma logo in this fraud case.

The incident between two big names in China has sparked a lot of discussions and comments flooding on the internet.

II. Our Focus on Use of Corporate Seal in China

Many are questioning how a big company like Tencent could allow this fraud to have happened to them. Tencent must have a strong legal team to weed out such mistakes. They should have spotted that the seal may not be genuine.

The use of seals is pervasive and prevalent in China all sectors of society from governments to businesses. It is rather a cultural phenomenon.

For a general understanding of the legal implications of a corporate seal in China, please refer to our past post: the-legal-implication-of-corporate-seal-in-chinese-corporate-practice.

While corporate seals operate as a way to express corporate consents, there are no clear rules about how a corporate seal is made, kept and used. Chinese people are magically obsessed with such seals, an unfortunate legacy of Chinese long feudal history.

Given its importance and easy use, corporate seals are always the subject matter in any internal fight for corporate control. The best example is the ongoing saga surrounding Dang Dang company, China Amazon for selling books, where the founding couple are divorcing, and the husband broke into office and forcefully took away the corporate seal of the company.

III. Advice to Foreign Merchants Dealing with China

Think about it, if the powerful Tencent can be defrauded by those imposters, what about foreign companies that deal with Chinese businesses?

When a foreign company or merchant for the first time, deals with a China company, they shall be very cautious about their use of seals in concluding business contracts. We have seen clients being defrauded by fake seals.

Practically speaking, in today's tech world, it is exceedingly difficult to discern whether a corporate seal is real or fake, esp to foreigners. It is advisable that foreign companies shall insist that the legal representative of their China counterpart to sign the contract in person instead of just having a corporate seal. If you wish to understand about legal representative of a China company, then you can read our prior post: Legal representative of China companies.

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Date Created
July 2020
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