

# Assisted Hearing Accessories

Feasibility Study

**Account Manager**

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**Project Manager**

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## EXECUTIVE SUMMARY

During the past 2 months, PassageMaker has conducted a national search for hearing aid product suppliers in the PRC. Using our list of known suppliers, the Internet and telephone, we have researched over 50 different potential suppliers and in this report provide detailed information on the top 24.

## ATTRIBUTE SURVEY

SECTION 1												
Administrative Details (normally gathered by PM Sales Team and to be confirmed by PM Account Manager with Client)												
company name	website	Project Ref No.	project name	project type	Contract Start	Contract	Account					
Hearing Aids Plus	http://www.syz.com	999.001	Assisted Hearing	SFS	3/27/2010							
Primary Client Contact	Title/Position	Address	e-mail	fax	phone	cell	Skype or Yahoo IM handle (if available)					
Jon Doe	CEO	123 Main St., New York, NY 10001	jon@syz.com	999-555-5555	999-222-2222	999-777-7777	jdoehearing					
SECTION 2												
Additional Administrative Details (to be gathered by PM Account Manager from Client)												
shipping address (if different from)	preferred shipping method for samples? for production batches? (example,				FedEx/UPS account number (if available).							
same	FedEx				1.23412E+11							
SECTION 3												
Supplier Attribute Details (to be gathered by PM Account Manager from Client)												
Notes for Client:												
1. The single most important success factor when setting up a sourcing program is finding the right supplier for the client's specific requirements and expectations. This												
2. The higher the ranking #, the more importance should be placed on this attribute. 1 being not at all important, 10 being critical.												
3. a "10" on price does not mean high price is desired, it means price is very important.												
4. Sample of an actual project is given in Section 4 for reference. Sample chart is on page 2.												
5. Pls. fill out yellow sections. We will review together at next conference call.												
Common Key Attributes							Other Desired Attributes					
Rank	Price	Quality	Security	Location	Lead Time	Service Attitude	Pass health standard	large order size				
1 to 10	9	8	9	4	3	7	10	9				
Explanation:	Must be affordable to most customers	Highest quality for the price	Want a signed NDA with all suppliers	Wherever is cheapest	Looking to buy in 2011, so lots of time to plan	Should make our project a priority	Must pass US and EU health standards; must have very high production capacity					



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Pls. elaborate on desired attributes in the space below

Common Key Attributes	Client Notes
Price	For example, pls. comment on any target pricing you may have. This won't be shared with sub suppliers, but is very helpful to our Want the full set to sell for under 40 Euro
Quality	Quality important, must meet health standards
Security	For example, is a non-compete clause desired for a given market? Are there certain aspects of design that should not be disclosed to Want a signed NDA agreement with every supplier
Location	Anywhere that can make cheaply/high quality, and ship easily
Lead Time	For example, let us know if there is a deadline for completing samples or production. Is a short lead time required, or is reliability of Deadline is 2011, right now just need supplier information and samples.
Service Attitude	For example, is it important that the factory have English speaking engineers or technical staff? Should be courteous and able to communicate with us or PM somehow

Other Desired Attributes	Client notes
Pass health standard	Want to find suppliers with international export experience, so we don't have any health regulation problems.
Large order size	We will supply thousands of stores in Europe, so we need a factory that has high production capability (60,000 units per year)

#### SECTION 4

##### Reference Projects

Background: Classroom Chalk supplied in hand held buckets

Rank	Common Key Attributes						Other Desired Attributes				
	Price	Quality	Security	Location	Capacity	Service Attitude	Non Toxic	Packaging			
1 to 10	9	7	10	6	10	6	10	9			
Common Key Attributes		Client Notes									
Price		competing on price in market									
Quality		price is more important than quality for this classroom use product									
Security		we do not want the Chinese suppliers to be aware of end users									
Location		it would be nice to be near a port, closer to port = less travel = less breakage									
Capacity		buying in very large quantities, factory must be prepared									
Service Attitude		we want to be a big order for a medium sized factory, this way they take us seriously									

Other Desired Attributes	Client Notes
Non-toxic	must provide lab testing of heavy metals
Packaging	looking for hand held plastic buckets, cardboard box may be acceptable

#### SECTION 5

##### Security

Unless directed otherwise, we generally don't disclose client identity to potential sub-suppliers during the initial RFQ process. After the field is narrowed down and negotiations begin then it is appropriate to formally introduce the parties. Pls. fill in this area with any comments you may have about any sensitive information.

Want signed non disclosure agreements with all suppliers

Are there companies we should avoid contacting in our research? (past suppliers, competitors for example)

Chongqing Medical Suppliers, XYS rd, Chongqing city

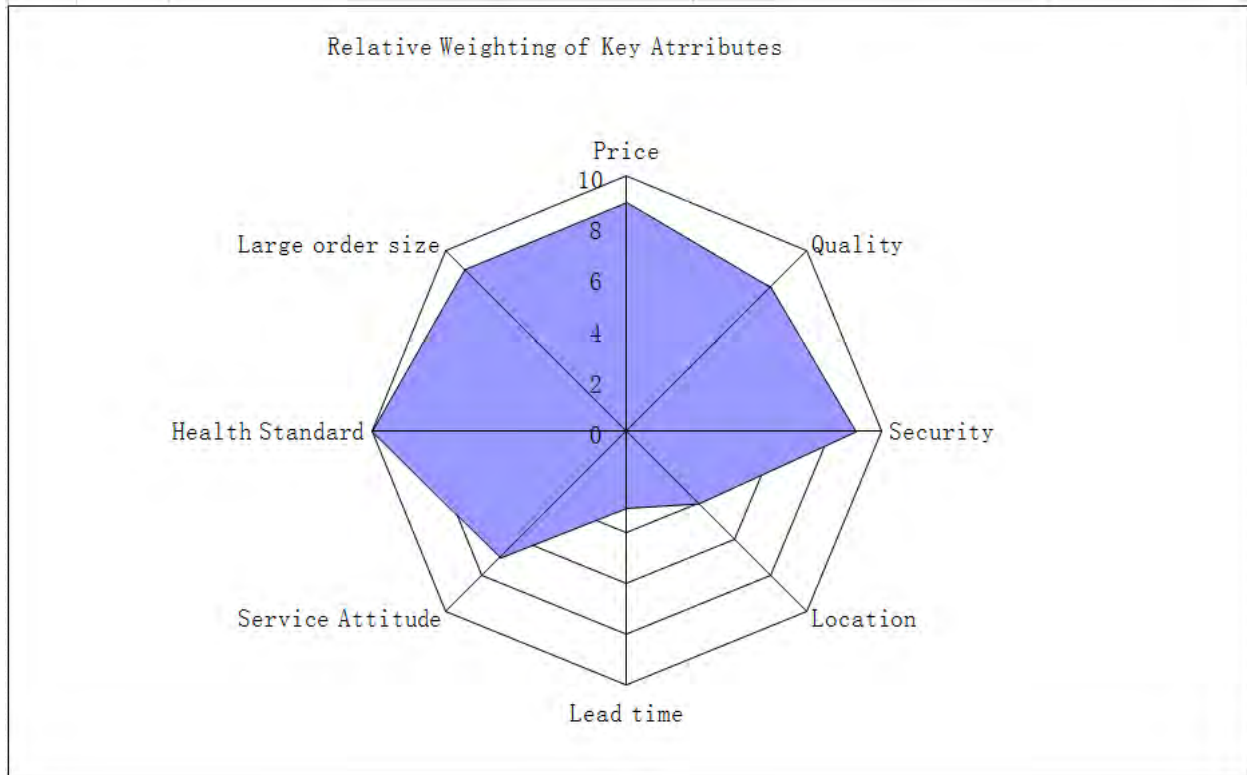
Are there companies we should make sure to contact in our research? (existing contacts you may have for example)

Our previous supplier, Shenzhen Ear Plus, is good but too expensive. Maybe you can negotiate some lower pricing with them?

#### SECTION 6

##### Capacity

Pls. give us a realistic annual order size and desired volume per shipment. This will help find the right sized supplier who will be interested in your particular project.  
60,000 per year, 1 shipment every 2 months.



## PROJECT DETAILS

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### PRODUCT OVERVIEW

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The set includes a large number of tools and cleaning agents to safely and effectively clean a hearing aid device. The client provided us with a full set of samples that we inspected and sourced from a number of factories across China. The key criteria were closeness to the original sample, and the ability to pass USA and CE safety and health requirements.

### BILL OF MATERIAL

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As the client suggested each product would be shipped in differing quantities and not as a complete set, only the individual components are listed.

### Components



- Set of 6 hearing aid batteries size #10 with PVC/cardboard swivel packaging
- Set of 6 hearing aid batteries size #13 with PVC/cardboard swivel packaging
- Set of 6 hearing aid batteries size #312 with PVC/cardboard swivel packaging
- Set of 6 hearing aid batteries size #675 with PVC/cardboard swivel packaging
- Individually packaged moist cleaning wipes
- Metal hearing aid cleaning tool
- Can of pressurized cleaning spray with detachable brush
- Can of pressurized air with detachable straw
- Hearing aid dehumidifying capsules (desiccant)
- Screw cap cleaning jar
- Hinge lid storage jar
- Set of 4 disposable foam ear plugs
- Round plastic case for foam plugs
- Red vinyl case
- Effervescent dissolvable cleaning tablets
- Set of instructions in device box
- Set of instructions in kit box
- Hearing aid drying device
  - Four pieces of custom molded plastic (tooling required)
  - One PCBA with heating element (tooling required)
  - One charger/AC plug unit

#### **Printed Boxes**

- Drying device box
- Kit box
- Cleaning wipes box
- Dehumidifying capsule box
- Effervescent tablet box

All products will require master cartons for shipping. Prices, size, and pieces per carton are listed on the RFQ below.

#### **RFQ (REQUEST FOR QUOTATION)**

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Project Name:		Date:		exchange rate - 6.810						
Ref:		Project Mgr: Fanny		RMB/USD						
Kit Box										
No.	Supplier Name	Product Name/Description	Drawing #	Product Material	Units Per Assy	Minimum Batch Qty	Unit Price (EXW) RMB	Assy Price (EXW) RMB	Assy Price (EXW) RMB	Remarks
1	Supplier A	HEARING AID CLEANING WIPES	Sample	Sample	25	5K	¥ 0.95	¥ 23.75	¥ 22.50	
2	Supplier B	HEARING AID DEHUMIDIFYING CAPSULES (DESICCANT)	Sample	Sample	4	10K	¥ 2.05	¥ 8.20	¥ 7.52	
3	Supplier C	CLEANING JAR	Sample	Sample	1	10K	¥ 1.70	¥ 1.70	¥ 0.85	
4	Supplier D	BOX FOR BIG WIPES	Sample	Sample	1	5K	¥ 13.70	¥ 13.70	¥ 13.00	
5	Supplier E	KIT INSTRUCTION	Sample	Sample	1	500	¥ 13.00	¥ 13.00	¥ 0.00	
6	Passagemaker	PM VC, A, I, P	Sample	Sample	1	5K	¥ 12.00	¥ 12.00	¥ 1.76	PM Vendor Coord. Inspection and Packaging fee is per kit.
							¥ 59.35	¥ 55.87	¥ 8.20	
Hearing aid device										
No.	Supplier Name	Product Name/Description	Drawing #	Product Material	Units Per Assy	Minimum Batch Qty	Unit Price (EXW) RMB	Assy Price (EXW) RMB	Assy Price (EXW) RMB	Remarks
1	Supplier A	1 set Plastic injection molded parts	Sample	Sample	1	5K	¥ 23.90	¥ 23.90	¥ 3.47	Improved mold design and provide a more competitive price.
2	Supplier B	PCBA	Sample	Sample	1	5K	¥ 13.70	¥ 13.70	¥ 2.01	
3	Supplier C	Charger	Sample	Sample	1	5K	¥ 15.60	¥ 15.60	¥ 2.29	
4	Supplier D	Device instruction	Sample	Sample	1	500	¥ 0.40	¥ 0.15	¥ 0.06	
5	Supplier E	Paper box	Sample	Sample	1	5K	¥ 4.70	¥ 4.70	¥ 0.69	
6	Passagemaker	PM VC, A, I, P	Sample	Sample	1	5K	¥ 22.00	¥ 20.00	¥ 3.23	PM Vendor Coord. Inspection and Packaging fee is per kit.
							¥ 80.30	¥ 76.85	¥ 11.78	



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Supplier Name	Product Name/Description	Drawn #	Product Material	Finish	Units Per Assy	Estimated Order Qty	Minimum Batch Qty	Sample Lead Time	Tooling Lead Time	Tooling Price/Set Up	Production Lead Time	Price/Break 1	Price/Break 2	Price/Break 3	Price/Break 4	Price/Break 5	Remarks
Supplier X	HEARING AID CLEANING WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	10K	7 days	N/A	N/A	20 days	under MOQ	under MOQ	under MOQ	¥ 0.95	¥ 0.90	
Supplier X	HEARING AID CLEANING WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	10K	7 days	N/A	N/A	25 days	under MOQ	under MOQ	under MOQ	¥ 1.00	¥ 0.98	
Supplier X	HEARING AID DEHUMIDIFYING CAPSULES (DESICCANT)	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	10K	N/A	N/A	N/A	30 days	under MOQ	under MOQ	under MOQ	¥ 2.06	¥ 1.88	
Supplier X	HEARING AID CLEANING TABS	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	10K	N/A	N/A	N/A	30 days	under MOQ	under MOQ	under MOQ	¥ 2.10	¥ 1.98	
Supplier X	CLEANING JAR	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	10K	3 days	N/A	N/A	15 days	under MOQ	under MOQ	under MOQ	¥ 0.88	¥ 0.85	
Supplier X	Hearing aid device	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25											
Supplier X	Hearing aid device	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25											
Supplier X	Hearing aid device	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25											
Supplier X	Hearing aid device charger	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25											
Supplier X	Hearing aid device charger	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25											
Supplier X	Hearing aid device charger	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25											
Supplier X	DRY CLEAN CLEANING HINGED JAR	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	10K	7 days	N/A	N/A	15 days	under MOQ	under MOQ	under MOQ	¥ 1.00	¥ 0.95	
Supplier X	SOFT FERR FLUKE	SAMPLE	SAMPLE	SAMPLE	4	500/1000/5000/25	10K	N/A	N/A	N/A	15 days	under MOQ	under MOQ	under MOQ	¥ 0.40	¥ 0.40	
Supplier X	EAR PLUG CASE	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	10K	7 days	N/A	N/A	15 days	under MOQ	under MOQ	under MOQ	¥ 0.95	¥ 0.95	
Supplier X	HEARING AID METAL CLEANER	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	3K	N/A	N/A	N/A	20 days	under MOQ	under MOQ	under MOQ	¥ 0.63	¥ 0.61	we had get the free sample
Supplier X	HEARING AID METAL CLEANER	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	8K	N/A	N/A	N/A	20 days	under MOQ	under MOQ	under MOQ	¥ 0.62	¥ 0.62	we had get the free sample
Supplier X	Field case	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	3K	15 days	N/A	N/A		under MOQ	under MOQ	under MOQ	¥ 9.90	¥ 7.70	
Supplier X	Field case	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5000/25	5K	15 days	N/A	N/A		under MOQ	under MOQ	under MOQ	¥ 10.50	¥ 8.80	

[Link to device parts](#)

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Supplier Name: [Redacted]  
Product Name/Description: [Redacted]  
Drawn #: [Redacted]  
Product Material: [Redacted]  
Finish: [Redacted]  
Units Per Assy: [Redacted]  
Estimated Order Qty: [Redacted]  
Minimum Batch Qty: [Redacted]  
Sample Lead Time: [Redacted]  
Tooling Lead Time: [Redacted]  
Tooling Price/Set Up: [Redacted]  
Production Lead Time: [Redacted]  
Price/Break 1: [Redacted]  
Price/Break 2: [Redacted]  
Price/Break 3: [Redacted]  
Price/Break 4: [Redacted]  
Price/Break 5: [Redacted]  
Remarks: [Redacted]



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PassMaker RFQ (Request For Quotation) Rev: DL 07.06.2009  
Project Name: **Electra 2** Date: **12 Dec 2009**  
Ref number: **PM Project Mtr. Etc.**

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Please Development Manager to select items below for Sourcing team member to fill in. (Delete the rest of the rows)  
Please fill in Details 1, Details 2, etc. of this form, and add a new page for each extra supplier

Supplier Name	Date Quote Received	Part Number	Product Name/Description	Drawing #	Product Material	Finish	Units Per Assy	Annual Order Qty	Estimated Order Qty Each PG	Minimum Batch Qty	Sample Lead Time	Tooling Lead Time	Tooling Price/Std. Qty	Production Lead Time	Unit Price (EXW) RMB /Y		Unit Price (EXW) RMB /YO		Remarks
															Price Break 1	Price Break 2	Price Break 1	Price Break 2	
Supplier A	28Fcb/10		1 set Plastic inferenced parts	Sample	Sample	Sample	1	10K	5K/10K	5K	22 days	20 days	¥ 36,000	15 days	¥ 24.82	¥ 24.31	¥ 23.90	¥ 23.60	Improved mold design and provide a more competitive price. Experienced in similar products.
Supplier B	28Fcb/10		1 set Plastic inferenced parts	Sample	Sample	Sample	1	10K	5K/10K	5K	28 days	25 days	¥ 107,000	15 days	¥ 26.75	¥ 25.54	¥ 25.00	¥ 24.80	
Supplier C	28Fcb/10		PCBA	Sample	Sample	Sample	1	10K	5K/10K	5K	12 days	12 days	¥ 2,500	15 days	¥ 14.11	¥ 13.39	¥ 13.70	¥ 13.00	
Supplier D	28Fcb/10		PCBA	Sample	Sample	Sample	1	10K	5K/10K	5K	12 days	12 days	¥ 3,500	15 days	¥ 16.27	¥ 15.45	¥ 15.80	¥ 15.00	
Supplier E	28Fcb/10		Charger	Sample	Sample	Sample	1	10K	5K/10K	5K	7 days	No need	No need	15 days	¥ 16.07	¥ 15.37	¥ 15.60	¥ 15.50	
Supplier F	28Fcb/10		Charger	Sample	Sample	Sample	1	10K	5K/10K	5K	7 days	No need	No need	15 days	¥ 17.72	¥ 17.51	¥ 17.20	¥ 17.00	
Supplier G	28Fcb/10		Paper box	Sample	Sample	Sample	1	10K	5K/10K	5K	9 days	5 days	¥ 700	12 days	¥ 4.84	¥ 4.74	¥ 4.70	¥ 4.60	
Supplier H	28Fcb/10		Paper box	Sample	Sample	Sample	1	10K	5K/10K	5K	8 days	5 days	¥ 800	12 days	¥ 5.16	¥ 5.05	¥ 5.00	¥ 4.90	



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Supplier Name	Date Quote Received	Product Name/Description	Drawing #	Product Material	Finish	Units Per Assy	Estimated Order Qty	Minimum Batch Qty	Sample Lead Time	Tooling Price/Set Up	Lead Time	Production Lead Time	Unit Price (EXW) RMB / VIO/VAT			Remarks		
													Price Break 1	Price Break 2	Price Break 3			
Supplier A	2/18/10	HEARING AID CLEANING WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	10K	7 days	N/A	20 days	15 days	under MOQ	under MOQ	under MOQ	Y 0.95	Y 0.90	Y 0.80
Supplier B	2/18/10	HEARING AID CLEANING WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	10K	7 days	N/A	25 days	15 days	under MOQ	under MOQ	under MOQ	Y 1.00	Y 0.98	Y 0.88
Supplier C	2/18/10	BIG BOX FOR WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	500	7 days	N/A	N/A	15 days	Y 2.10	Y 1.50	Y 1.20	Y 0.80	Y 0.75	Y 0.70
Supplier D	2/18/10	BIG BOX FOR WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	500	7 days	N/A	N/A	15 days	Y 2.20	Y 1.68	Y 1.38	Y 0.88	Y 0.83	Y 0.80
Supplier E	2/18/10	BIG BOX FOR WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	500	7 days	N/A	N/A	15 days	Y 2.50	Y 1.80	Y 1.50	Y 1.00	Y 0.90	Y 0.80
Supplier C	2/18/10	SMALL BOX FOR WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	500	7 days	N/A	N/A	15 days	Y 1.80	Y 1.30	Y 1.10	Y 0.50	Y 0.45	Y 0.45
Supplier B	2/18/10	SMALL BOX FOR WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	500	7 days	N/A	N/A	15 days	Y 1.58	Y 1.38	Y 1.15	Y 0.80	Y 0.80	Y 0.50
Supplier E	2/18/10	SMALL BOX FOR WIPES	SAMPLE	SAMPLE	SAMPLE	1	500/1000/5K/10K/25K	500	7 days	N/A	N/A	15 days	Y 2.10	Y 1.50	Y 1.20	Y 0.80	Y 0.60	Y 0.55
Supplier Name	Date Quote Received	Product Name/Description	Reference Drawing	Estimated Order Qty	Position	Packaging Carton Size	Weight	Minimum Batch Qty	Sample Lead Time	Tooling Price/Set Up	Lead Time	Production Lead Time	Unit Price (EXW) RMB / VIO/VAT			Remarks		
Supplier E	1/9/10	CLEANING WIPES MASTER CARTON	N/A	1000/1000/500/500	72pcs/CTN	43*17*30cm	10.8KGS	10K	3 days	Y 150	N/A	Y 9.00	Y 9.00	Y 9.00	Y 9.00	Y 6.00		
HEARING AID CLEANING WIPES																		
No.	Supplier Name		Product Name/Description	Drawing #	Product Material	Units Per Assy	Minimum Batch Qty	Estimated Order Qty	Sample Lead Time	Tooling Price/Set Up	Lead Time	Production Lead Time	Unit Price (EXW) RMB / VIO/VAT			Remarks		
1	Supplier A		HEARING AID CLEANING WIPES	Sample	Sample	30	10K	10K	Y 0.95	Y 25.00	Y 0.80	15 days	Y 27.00			Minimum order qty of finished like is 500 each (50,000 wpc)		
2	Supplier B		SMALL WIPES BOX	Sample	Sample	1	500	500	Y 1.80	Y 1.80	Y 1.30	15 days	Y 15.00					
5	Supplier B		PM VC-A, I.P.	Sample	Sample	1	500	500	Y 15.00	Y 15.00	Y 15.00	15 days	Y 45.30			Y 43.30		

## VAT (VALUE ADDED TAX) NOTES

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The quotations for this project are all “Buji Delivery” quotes. Therefore the VAT rebate has already been factored into the quote from the supplier, and no rebate is due to the customer. According to our logistics department, this type of product would result in a rebate of 15% to the exporter of record. But, as stated, the quote is FOB and the rebate has been built into the price already.

Having said that, while the VAT rebate may be as much as 17% (of the value of the product) for some products, depending on the product classification, not all products receive the entire 17%. Some only receive a portion of the rebate upon export, or in some cases, nothing at all. It's a very complex situation that depends on which industries the Chinese government is attempting to promote and the tax payer status of the main supplier and sub suppliers.

In order to receive the VAT rebate, all of the components in the Bill of Material would have to be supplied from the sub suppliers with VAT including, and, most importantly, be accompanied by the proper VAT receipts. If even a single item in the BOM doesn't have the proper VAT receipts, then the rebate can be denied. In addition, to add to the complexities, depending on the tax status of the sub suppliers and the classification of the component, the VAT tax may be 3%, 6% or 17%. In addition, when the finished product is completed, it may have a different classification than the individual components, resulting in a different VAT rebate.

Overlooking the impact of VAT on your China importing project can lead to major complications. Some examples:

- If you don't know the VAT rebate amount, then you don't really know your supplier's true costs and pricing. This can complicate negotiations and supplier comparisons. The supplier may be pocketing the VAT rebate without informing the buyer.
- To further complicate the situation, VAT and product classification can be negotiated with the local customs bureau, giving a supplier more leeway for manipulating the price. A supplier may tell you they are only getting a certain percentage back, when in reality they negotiated a classification that gives them a higher rebate.
- Many suppliers lack import-export rights and proper VAT processing facilities. They are therefore forced to use third-party trading companies which inflate the price and complicate the relationship.
- If the order is small, suppliers may find ways to fly under the tax radar and avoid paying the VAT, and thereby offer a "non-VAT price". While a "no tax

price" may sound attractive at first, buyers can be unpleasantly surprised when:

- (a) You buy direct from the factory (EXW) in China but find out later the goods can't be exported because of a lack of tax documentation; or
- (b) The volume of business grows to a point that the supplier can't avoid putting the tax payment on their books. So, while you are expecting the "standard" discount for your large order, out of the blue you get surprised with a price increase to cover a tax that now has to be paid.

### **Comparing apples to apples**

To allow for an apples-to-apples comparison of quotes coming out of China, you will find it advantageous to ask for the price in three ways:

#### 1. EXW (ex-works/ex-factory)

EXW means ownership of the goods transfers to the buyer at the factory's door. This price does not include any taxes or shipping fees. The buyer or their representatives needs to organize customs clearance out of China. In practice, there are third parties that will arrange export of goods "without tax paid" by charging a one-time "processing fee" which is usually a few hundred US dollars per container. So for small, one-off orders, it may be possible to buy at the EXW price level. But we highly recommend that to be safe you base your long-term budgeting on the FOB pricing.

#### 2. FOB China port

FOB, or freight on board, means the transfer of ownership takes place after the items have cleared outbound Chinese customs and are on the boat, ready to ship from a designated port (for example, "FOB Shenzhen"). For buyers new to China, FOB is a much more convenient way to purchase compared to EXW because the supplier is responsible for handling any VAT issues.

#### 3. EXW with tax receipt

This means the buyer or his representatives will need to organize the VAT rebate and customs clearance out of China on their own. This is not an easy task and not recommended for those who are new to China unless they have a trusted advisor who can walk them through the process.

If you are consolidating orders among multiple suppliers in China, or buying in China for delivery to another location in China, then understanding VAT is an imperative. Failure to do so risks sacrificing a potential rebate.

As a final point, while China VAT is a complex issue, simply asking your supplier to outline their VAT rebate rates and process is a big step in the right direction, and may shed some light on an often opaque part of importing from China. Please read the appendix entry on VAT for additional background.

DESCRIPTION	CHINA HS CODE	CHINA VAT REBATE	DESIGNATION FOR EXPORT LICENSE
Cleaning wipes	4818900000	13%	Certificate of inspection
Dehumidifying capsules	3824909990	5%	Certificate of inspection
Screw cap jar	39233000	13%	NO
Hinge jar	39233000	13%	NO
Foam ear plugs	40161090	9%	NO
Foam plugs case			
Anti-dust spray	34022090	13%	NO
Cleaning spray	34022090	13%	NO
Drying device (PCBA, molded plastic, charger/AC adapter)	8516299000	17%	Certificate of inspection



## LANDED COST ESTIMATES

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Prices provided on the RFQ represent a “Buji Delivery” fee, meaning that the supplier is responsible for shipping goods to PassageMaker’s Buji facility. This is chosen because it is impossible to calculate true FOB pricing without concrete order numbers and production dates. Our Buji facility is also very close to Shenzhen port, so the transport to port will be relatively cheap and convenient. This is in contrast to “ExW” pricing, where the customer takes possession of the goods at the supplier’s factory.

Buji Delivery pricing can be more useful when looking for a direct comparison between two suppliers. Though some suppliers may have a very low production cost, the cost to move goods to port could be very high. Buji Delivery pricing is also more convenient because the customer does not need to worry about hiring a 3<sup>rd</sup> party logistics agent.

Having said that, ExW also has its advantages. Suppliers might try to build a margin into the Buji Delivery price that could be avoided by hiring a separate logistics agent. Depending on the quantity of goods ordered, and whether or not they need assembly and inspection, it might also be cheaper to ship directly to port.

Based on the wide array of goods you plan on ordering, the vast geographic range from which you might buy them, and the volatility of shipping prices, we are unable to provide accurate shipping estimates at this time. Shipping costs are primarily based on the weight and volume of a product and can fluctuate based on the price of fuel and weather conditions. Below is a rough estimate of shipping costs based on today’s pricing.



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For your reference, here is the estimated capacity of the three major types of containers:

20'ft container 26-28 cubic meters (CBM)

40'ft container 56-58 CBM

40'ft HQ container 60-62 CBM

The above information all assumes transportation by sea. We are also able to arrange shipping by air if you prefer. Although much more expensive, air shipment is significantly faster. Pricing for air freight is calculated by weight, not volume

## SUPPLIER OVERVIEW

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Based on the attribute survey and our communication during the project we have found the following factories to be the best fit for your product. We have communicated with these factories and feel they will all be able to handle your



needs. The following is a summary of each of the top factories with full details provided in the supplier index.

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### *SUPPLIER A*

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Supplier A is a leading regional supplier of medical supplies, and our recommended choice for sourcing cleaning wipes. They are almost exclusively focused on cleaning wipes so they have significant experience with a number of different cleaning agents and packaging styles. Supplier A has been very cooperative and quick to respond to our requests. Their close proximity to our home office (about 1.5 hours by car) means we can easily send engineers to monitor your project during production.

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### *SUPPLIER B*

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Supplier B is a top producer of hearing-aid related products, based in Shanghai. While we recommend them specifically for the desiccant capsules and effervescent cleaning tablets, they are able to reproduce nearly all of your products. Supplier B sells worldwide and has significant experience in Western safety requirements. Coupled with an English-speaking staff and website, Supplier B is highly accessible to the potential overseas buyer.

Because they hold a near monopoly on specialized hearing aid products, the price point may not be as competitive compared to some other products. As such, you might expect to pay more for desiccant capsules than seemingly more complex items. One final item to note is that Supplier B offers an electric hearing aid dryer of their own design. While the device does not resemble yours, you might want to consider the cost savings of purchasing the finished unit versus building "from scratch" with molded plastic and PCBs.

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### *SUPPLIER C*

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Supplier C is our recommendation for plastics like the hinge and screw cap cleaning jars. In our experience communicating with them, they are both professional and quick to respond to our questions. They have English-speaking staff and sell frequently to North America and Europe. If you are unable to find a specific jar type, Supplier C has a design shop and can prepare custom tooling.

This factory is somewhat far from PassageMaker headquarters, thus making a factory audit more difficult than factories based in Guangdong. Taizhou city is over



2 hours from both Wenzhou and Ningbo cities, so it is not in a major metropolitan region.

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### *SUPPLIER D*

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Supplier D is a Taizhou-based factory that specializes in disposable ear plugs. They have a large factory with over 250 employees, including several English-speaking staff. Based on our relationship with them thus far, they have been very professional and timely in their responses. The fact that the company is over 12 years old means they are less likely to disappear overnight.

As with Supplier C, they are somewhat far from PassageMaker's home base, so factory audits by our staff are more difficult. Hiring a 3<sup>rd</sup> party inspection team to perform an audit is an easy and relatively inexpensive solution.

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### *SUPPLIER E*

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Supplier E is a plastics molding company that can make a case for the set of foam earplugs in your kit. A smaller factory, they have been easy to communicate with and eager to do business. Supplier E offers dozens of their own designs and are happy to accommodate special color and composition requests.

This location is also far from PassageMaker, but a 3<sup>rd</sup> party could be used to audit the factory operations.

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## CONCLUSION

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The products in the kit can all be sourced with varying degrees of difficulty. Components like the cleaning wipes, plastic containers, and batteries have many factories to choose from across China. More specialized items like the drying capsules (desiccant) only have a few suppliers that can meet your specifications.

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### NEXT STEPS

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- a) PassageMaker recommends you order some samples from factories that are in your price range. Since very few of the products require custom tooling, the total price should not be very high. PassageMaker is happy to assist in



procurement of the samples for up to 10 work hours at no cost. Should you require more than 10 hours of our services, we would be happy to negotiate a new service agreement.

- b) Next, you will need to consider the tooling fees for the drying device. The four pieces of custom molded plastic will likely be the most expensive part of the project. Should you choose PassageMaker for your vendor coordination and project development needs, we would be happy to assist you in choosing the right materials for your product and coordinating the ordering process.
- c) With all the samples in hand, you would then be prepared to make a purchase order. PassageMaker can help with paying suppliers and tracking invoices. If you require additional financing, we can help you obtain a preferential rate from one of our Endorsed Service Providers.
- d) Once in production, our vendor coordination staff can assist in moving the project along a predictable timeline and find solutions should suppliers fail to live up to their obligations.
- e) Most of your products require no special assembly, but you may require assistance with the drying device. PassageMaker has assembly and packaging teams that could assemble the unit for you, inspect and test for quality, and maintain strict IP protection.

#### Conclusion:

At the conference call we will explain options and offer our suggestions. We can also explain how the VAT system may affect your project.



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## SAMPLES

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Most of the OEM samples in the project are free of charge. The exceptions are listed below:

- Red Case: 200 RMB, 15 days
- Drying device unit: Full tooling purchase required, 30 days
- All printed boxes: 300 RMB, 7 days. A digital printout demonstration is free

## SUPPLIER INDEX

1. Supplier A
2. Supplier B
3. Supplier C
4. Supplier D
5. Supplier E



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## SUPPLIER DETAILS

### SUPPLIER A

Factory Name:		Supplier A
Contacts:	Address:	Shenzhen, Guangdong province
	Tel:	
	Fax:	
	Contact	Mr. Zhu
	E-mail:	N/A
	Website:	
Ownership:		Privately owned
Communication Language:		Chinese
Pricing Level & Lead-time:		
PassageMaker Comments:		Good service attitude, clear and direct responses. A professional supplier.
Major Markets:		China, Southeast Asia, US, Africa, Europe



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*SUPPLIER B*

Factory Name:		Supplier B
Contacts:	Address:	
	Tel:	
	Fax:	
	Contact	Mr. Eric Lu
	E-mail:	
	Website:	
Ownership:		Privately owned
Communication Language:		Chinese & English
Pricing Level & Lead-time:		
PassageMaker Comments:		This is a professional supplier; they have many kinds of hearing aid products. Good service attitude and easy communication
Major Markets:		Worldwide



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### SUPPLIER C

Factory Name:		Supplier C
Contacts:	Address:	
	Tel:	
	Fax:	
	Contact	
	E-mail:	
	Website:	
Ownership:		Privately owned
Communication Language:		Chinese
Pricing Level & Lead-time:		
PassageMaker Comments:		A small factory, easy to communicate
Major Markets:		North America, Middle East, Europe



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*SUPPLIER D*

Factory Name:		Supplier D
Contacts:	Address:	
	Tel:	
	Fax:	
	Contact	Mr. Wang
	E-mail:	
	Website:	
Ownership:		Privately owned
Communication Language:		Chinese
Pricing Level & Lead-time:		
PassageMaker Comments:		This is a professional soft ear plugs supplier, and they have the lowest MOQ
Major Markets:		China, South Korea, US, Europe



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### SUPPLIER E

Factory Name:		Supplier E
Contacts:	Address:	
	Tel:	
	Fax:	
	Contact	Mr. Chen
	E-mail:	N/A
	Website:	
Ownership:		Privately owned
Communication Language:		Chinese
Pricing Level & Leadtime:		
PassageMaker Comments:		A small factory, easy to communicate
Major Markets:		Mainland China, trading companies

## APPENDIX

### INTELLECTUAL PROPERTY RIGHTS

***TITLE: "Intellectual Property Rights - Avoid turning Chinese suppliers into future competitor & prevent US competitors from hijacking the China supply chain you have pioneered."***

China's legal system is still coming into its own, evolving out of a communist system which has only recently taken issues of Intellectual Property Rights (IPR) seriously. China also has a world class production base at favorable pricing. Combine this with a rapidly growing economy and changing society where many are willing to do whatever is necessary to make a buck, and the resulting China marketplace (from a security standpoint) is full of indiscretions ranging from innocent reverse engineering to blatant knock-offs. Piracy of many copyrighted materials is widespread, and is widely noted in many western business publications that feature material about China. What has not been such a hot topic in the press but far more important for buyers in China is that the companies exploiting this situation are generally not Chinese manufacturers but rather unscrupulous North American competitors that will take your designs and "knock them off" in China. It is very much a pull rather than push infusion of Chinese products both legitimate and otherwise into the N. American marketplace. Luckily, there are safety measures that can offer protection from danger on both sides of the Pacific.

It is a good idea to sign a letter of confidentiality/exclusivity. However, even with a signed document in place, confirmation of wrongdoing and enforcement are both difficult. Therefore, don't rely solely on a legal document. There are additional precautions that should be followed:

Own the tooling outright. Any funny business and tooling is extracted from vendor.

If there is sensitive information on the product or its packaging that you do not wish to disclose to the supplier for security reasons, then you may consider having a third-party assembly center like PassageMaker's Dongguan facility conduct final assembly/ packaging. This way, branding, bar coding and even the buyer's name can be kept secure.

Trademark your brand in China, even if there are no plans to sell the products in the PRC. Having done this, the court system is on your side should you face infringement by a supplier. From our experience, the Chinese court system

generally favors the foreign party in these cases as China wants to show the world that they are living up to WTO commitments. But you have to play by the Chinese trademark system and that means having your brand registered in advance as China is a "first to register" rather than "first to market" system. Luckily, registration is inexpensive and straightforward. (contact PassageMaker at info@psschina.com to be put in touch with local a law firm for IPR protection and enforcement)

Have buyer's representatives frequently visit production site to keep an eye on the situation.

### *EVOLUTION*

To strengthen protection of IPR, crack down on infringement crime and maintain economic order the Supreme People's Court of China promulgated the "Interpretations on Concrete Application of Laws in Handling Criminal Cases of Infringing Intellectual Property" (hereinafter referred to as Interpretations) in December of 2004.

The Interpretations give detailed and definite stipulations regarding the standard for concrete application of criminal responsibility for intellectual property crimes, lower the threshold of penal punishment for intellectual property, expand the range of penal protection in intellectual property, determine terminologies concerned, thus resolve difficult issues of law application by local enforcement, and enhance the maneuverability of relevant articles in the Criminal Law.

During the process of drafting, the judiciary organs solicited opinions of pertinent local and overseas organization such as the EU Commission, U.S. Film Association, China American Chamber of Commerce, and U.S. Information Industry Organization. Attention was given to the opinions of the relevant countries and multinationals, which had never occurred previously in such drafting process.

### *ENFORCEMENT*

There are two parallel approaches adopted in the enforcement of IPR protection in China, namely, administrative and judicial measures. In case of the infringement, the right holder may either file a lawsuit or apply to competent authorities for administrative measures.

### *ADMINISTRATIVE MEASURES*

Protecting IPR through administrative means is an important feature of the enforcement of IPR protection in China. According to the Patent Law, the relevant authorities under the State Council or local governments can establish a patent administration organ. To effectively implement the Copyright Law, the National Copyright Administration is set up at China's central level and local administrations in this regard can also be found in various provinces, municipalities and autonomous regions, and even in relatively big cities. Pursuant to the provisions of the Trademark Law, trademark is managed with the principles of registration at central level and administration by local organs. Trademark management organs are included in the administrations for industry and commerce at various levels from state, province, city (prefecture) to county. In addition, China General Administration of Customs set up a Border Protection Division for IP protection in June 1995 and all the local customs administrations also designated the teams and contact persons responsible for IPR protection within their own areas.

Therefore, the right holder can protect his or her rights through the above administrative approaches in addition to judiciary means. As for acts infringing IPR, the right holder can complain to the competent administrative authorities and the above authorities can also investigate and handle cases in light of their duties. During this process, they can seal up, sequester infringed goods and take such remedies as order of stopping infringement and fines. On account of its rapid crackdown on infringement and low cost, administrative measures are very popular with right holders.

### *JUDICIAL MEASURES*

As far as the judiciary aspect is concerned, special judicial tribunals for IP cases have been established at courts at all levels in China. During the process of litigation, a court can take such temporary measures as preservation of evidence or property. In case of torts, the people's court, in accordance with the law, can not only order a tort-feasor to undertake such civil liabilities as infringement cessation, negative influence elimination, apology, and loss compensation, but also give him or her such punishments as illegal income confiscation, fines, and detention. In the event of an intellectual property crime, an intellectual property wrongdoer will be given a penal punishment in accordance with the law. As prescribed by the Criminal Law of the People's Republic of China, a criminal in this regard can be sentenced to a seven-year imprisonment as maximum penalty.



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Feel free to contact the authors PassageMaker at [info@psschina.com](mailto:info@psschina.com) for more information on trademark/ brand registration, IPR protection/ enforcement. As a policy, PassageMaker does not accept referral fees from our legal partners. Helping our clients find the right direction for finance, legal, shipping and due diligence is paramount.

## PAYING CHINESE SUPPLIERS

### **TITLE: "Best Practices and Pitfalls when Paying Chinese Suppliers - Lessons Learned over 8 years as a China-based purchasing manager"**

#### *KEY TERMS:*

PO = Purchase Order

Net 30 = buyer pays 100% of PO value 30 days after delivery

3<sup>rd</sup> Party QA = independent quality inspection/ quality assurance agents

RMB = Currency used in China, also called "Yuan"

#### *LESSONS LEARNED*

Over the past 8 years as a purchasing manager based in China I have placed thousands of Purchase Orders (PO) and structured Sourcing programs in over 150 different production classifications, ranging from rubber ducky bathtub toys to electronic devices used in nuclear power plants. Here are some of the lessons I learned along the way:

#### *PAYMENT TERMS*

In most cases, especially if it is an initial PO, China suppliers will rarely offer "net terms"

Keep in mind that for the Chinese factory, net 30 terms really mean 120 days of project finance- 30 days to buy the material, 30 days to process, 30 days to ship across the pacific and 30 more days to wait for payment. It certainly is possible to achieve net terms in China, but it will probably be easier for you to move to better terms with your supplier after both sides have established a working relationship and trust. Be prepared not to have terms during the initial phases of the relationship.

Don't be surprised if a supplier asks for 100% payment in advance. Realize this is negotiable, just as you wouldn't necessarily accept the first offer of price with out a negotiation. I have found that "30-40-30 terms" are often an acceptable middle ground on payment terms, fair to both parties.

Under 30-40-30 terms, the initial 30% of PO value is placed as a deposit. This allows the supplier to buy materials and lock in the price (especially important if you have a long lead time or deal in materials which face great price fluctuations, or example metals.) The second payment, of 40%, occurs at shipping upon

confirmation of quality. The final 30% is paid upon receipt and inspection at the final destination. Let's look at this 30-40-30 from both the buyer's and seller's perspectives to find why it was an acceptable middle ground.

The seller is worried that the buyer will default on payment, so getting 70% (40+30) before the goods leave port limits their exposure. As the average factory in China makes between 10 and 30% mark up, the 70% covers at least the majority of his internal costs, so even if the buyer defaults it won't put him out of business.

The buyer's biggest concern is that the goods will have quality issues or not arrive at all. By holding out on the final 30% until delivery, the buyer has leverage if quality problems require re-work or replacement parts. It is also important to remember that the 40% is not paid until after the goods are inspected in China, so quality confirmation must be a key part of the payment process, and that brings us to the next point:

### *FINANCIAL EXPOSURE IS REALLY QUALITY EXPOSURE*

Quality problems are the #1 source of payment friction between buyers and sellers. New-to-China buyers may think they are protected by good payment terms, but if you want real protection, you need to see that quality risk and financial risk are one in the same. Let us assume you were able to extract some great payment terms, for example Net 30. So you have plenty of time to inspect the product at your warehouse before making final payment. BUT, what happens if you find a problem? Who pays for rework, costs to ship back defects, and/or delays to the customer? What many new-to-china buyers don't realize is that 3<sup>rd</sup> party QA firms are readily available and inexpensive (a few hundred USD per shipment) in China. Utilizing 3<sup>rd</sup> Party QA agents to inspect the goods before the buyer pays the 40% (under a 30-40-30 system) is an excellent way to mitigate your financial and quality risk.

### *CURRENCY*

You may have heard your supplier say "sorry, we can't accept USD payment, we must have RMB." This is especially true these days, as the RMB is no longer linked to the USD at a fixed rate. To accept USD, your supplier may ask you to send funds to a private account (often the GM) or to a 3<sup>rd</sup> party trading company.

My point is two-fold:

- a) Bring up currency early in the negotiation process rather than after the PO is placed.

- b) Due to currency regulations and business licensing, it may be true that the factory can't accept USD. But if you must send money to a 3<sup>rd</sup> party, only do it if you get the vendor's seal on an official document stating that payment to the 3<sup>rd</sup> party equates to making payment directly to the vendor and the vendor bears the risk if things go wrong for the 3<sup>rd</sup> party. Having said that, this should only be applied to small value orders. Anything over 10,000 USD should go to a formal business account.

### *TRADITIONAL FINANCIAL RISK*

There is a concern that the supplier will "run away with your deposit" or not be in business long enough to ship your goods. Luckily there are tools to manage this risk.

- a) Ask for references. If they can't give you a number of happy clients, then a red flag should be raised.
- b) Financial Due Diligence is affordable (a few hundred USD per audit) and readily available from providers like [www.Glo-bis.com](http://www.Glo-bis.com) and Verify. Use it to learn the ownership and financial stability of your supplier.
- c) Most important is visiting the factory to ensure they are not a trading company. Trading companies can disappear into thin air more easily than a legitimate factory, which has physical assets, a real address and employees. See related article entitled "Avoiding Middlemen" for details on how to determine if your supplier is a trading company or not.

## VAT

*TITLE:* "What is VAT and why should I worry about it?"

*Author:* Mike Bellamy

*VALUE ADDED TAX (VAT)* is one of the most confusing and most often overlooked issues when purchasing from China.

At the risk of oversimplifying, in theory a 17% tax is paid at each step as a given product flows down the supply chain toward the end users. Take the example of a plastic comb. Raw plastic is purchased for injection molding (and tax is paid), then the molded comb is sold to a beauty product distributor (and tax is paid), who in turn sells to a trading company (and tax is paid) for eventual export. When the comb is exported, there may be a VAT rebate of 0-17% (depending on the product classification) against the 17% taxes paid. Without going into the complex tax formulas, let's say the VAT rebate for plastic combs is 10%. So  $17-10=7\%$  is the amount that stays in the government coffers, while 10% goes back to the exporting company. In this fashion the VAT rebate amount is a tool which the central government can use to either give more incentive (increase the rebate %) or less incentive (reduce the %) from industry to industry. In July of 2007, thousands of product types had their rebates reduced without notice as part of the government's plan to promote "higher value" products such as aviation and medical products, and reduce the export economy's reliance on "undesirables" such as low end metals and plastics which may pollute the environment and pay out the lowest wages.

While this VAT adjustment has affected the bottom line for a number of suppliers, some suppliers whose products were not affected have used the Summer 2007 VAT shake up as a convenient excuse to ask for a price increase from the buyer. Feel free to contact [info@psschina.com](mailto:info@psschina.com) if you would like to confirm your VAT rebate rate and find out if your product is or is not affected by the recent VAT changes.

Overlooking the impact of VAT on your sourcing project can lead to major complications such as these:

If you don't know the VAT rebate amount, then you don't really know your vendor's true pricing. This can complicate negotiations and vendor comparisons. The vendor may be pocketing the VAT rebate without informing the buyer. To further complicate the situation, VAT and product classification can be negotiated with the local customs bureau. So, a vendor may tell you they are only getting a certain % back, when in reality it may be much more.

Many vendor's lack import-export rights and proper VAT processing facilities. They are forced to use 3rd party trading companies which inflate the price and complicate the relationship.

If the order is small, vendors may find ways to avoid the VAT issue (can't get a rebate if it wasn't paid in the first place!) and offer a "non VAT price". While a "no tax price" may be attractive at first, things get can get ugly when:

(a) You buy direct from the factory (ExW) in China, but find out later you can't export out of the country because of a lack of tax documentation.

(b) The volume of business grows to a point that the supplier can't avoid putting the tax payment on their books. Just when you are expecting a price discount for a large order, out of the blue you get smacked with an increase for a tax that now all of the sudden has to be paid.

To allow for an "apples to apples" comparison of quotes coming out of China you will find it advantageous to ask for the price in three ways:

- 1) EXW
- 2) FOB China Port
- 3) EXW with Tax Receipt

EXW (Also known as "Ex-Works", "Ex-Factory") means ownership of goods transfers to the buyer at the factory's door. This price does not include any taxes or shipping. The buyer or their representatives need to organize customs clearance out of China. In practice, there are third parties which will organize export of goods "without tax paid" by charging a one time "processing fee" which is usually a few hundred USD per container. So for small, one-off orders, it may be possible to buy at the EXW level. But we highly recommend that to be safe you base your long-term budgeting on the FOB pricing.

FOB (freight on board) means the ownership of goods takes place after the items have cleared outbound Chinese customs and are on the boat, ready to ship from a designated port (for example, "FOB Shenzhen"). For new to China buyers, FOB is a much easier way to purchase than EXW, as the supplier is responsible for handling any VAT issues.

"EXW with Tax Receipt" means that the buyer or his representatives will need to organize the VAT rebate & customs clearance out of China on their own. This is not



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an easy task and not recommended for new to China buyers unless they have a trusted advisor that can walk them through the process.

If you are consolidating orders among multiple vendors in China, or buying in China for delivery to another location in China, then understanding VAT is an imperative. Failure to do so risks sacrificing a potential rebate.

In summary, while VAT is a complex issue, simply asking your supplier to outline their VAT rebate rates and process is a big step in the right direction, and may shed some light on an often opaque part of China business.