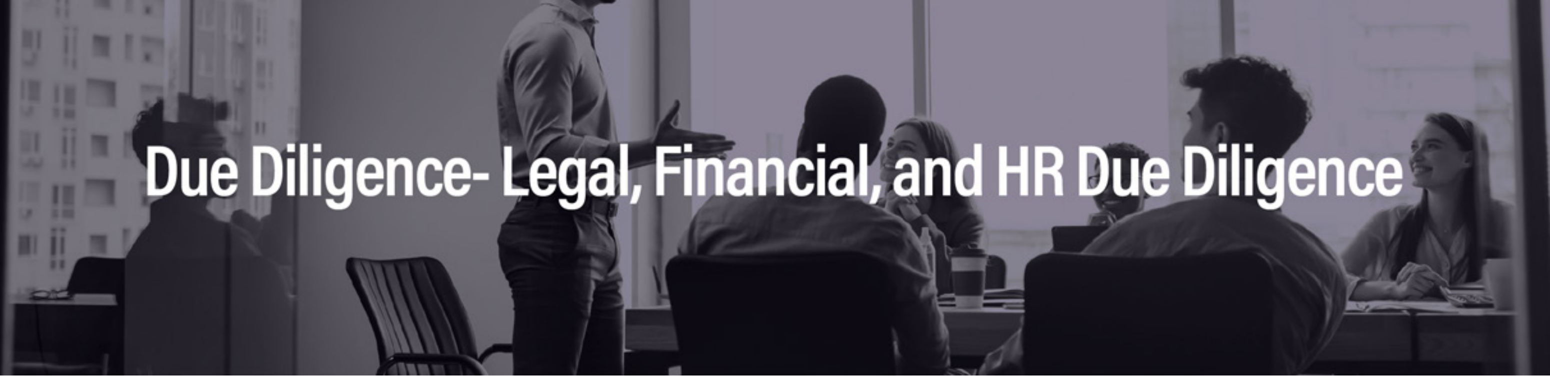


Due Diligence- Legal, Financial, and HR Due Diligence

Partnerships in Asia

Foreign investors in Asia are often confronted with challenges when doing business with Asian companies. Possible reasons include a misunderstanding of objectives, unsuitable contracts, inadequate supervision, excessive trust in the partner or disproportionate reliance on its assets, and the list goes on.

The number one mistake, however, tends to be the hasty selection of a partner without appropriately investigating the company and verifying the resources it claims to bring to the table.

The local business culture, in addition to international legislation, help explain the persistent need of foreign companies to assess proposed partners in Asia carefully, spurring the continuingly strong demand for due diligence services in the region. A methodical approach to legal, financial, and human resource (HR) due diligence can help establish the credibility of the partner and lay groundwork for a partnership that creates value, rather than risk.

Key challenges

Asia is a black box

Lower levels of transparency can make it difficult for foreign investors to form reliable opinions on an Asian business of interest, be it a company they are thinking of acquiring or simply doing business with on a partnership basis. Even when the information is available, accessing and understanding the data can be tricky, with the geographic and linguistic gaps often making matters worse.

Any difficulty in obtaining reliable information on a Asian company, of a legal, financial, or HR nature, makes the valuation of the company's assets a complex affair. In fact, one of the most widespread concerns Asian (M&A) space is the inaccuracy of valuations, with improper revenue recognition or cost allocation practices commonly resulting in overstated profit figures.

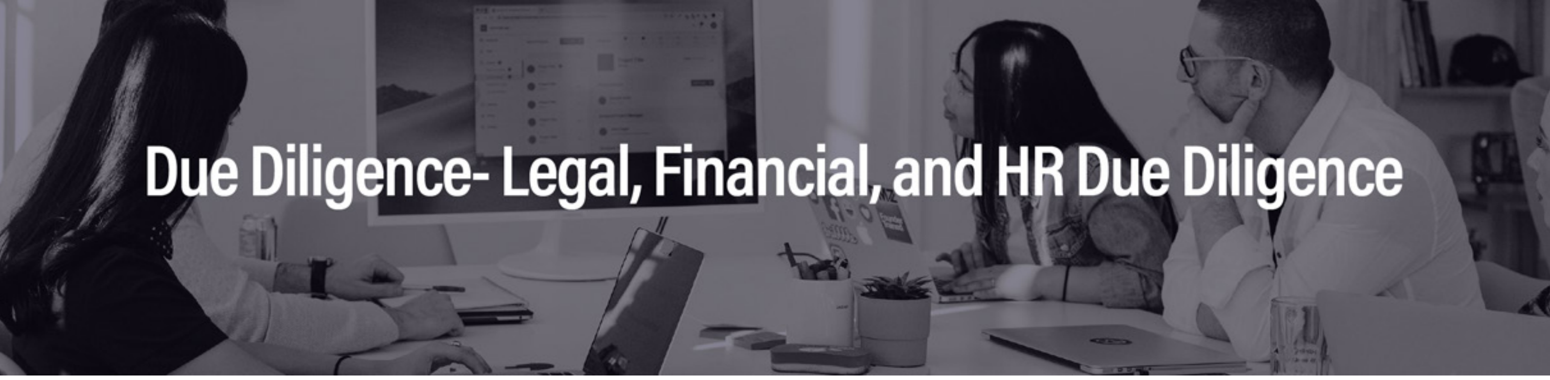
Meanwhile, in many Asian jurisdictions corporate governance standards are not yet up to developed market standards, and domestic companies in these markets are not subject to the same accounting and compliance rules that many foreign companies are accustomed to in their home market. Weaker corporate governance standards and lower levels of accountability to authorities often results in a comparatively higher degree of risk that liabilities lay concealed within a Asian company's balance sheet. Such liabilities can be transferred to the foreign investor under a share purchase transaction, or disrupt the value of an M&A deal, joint venture (JV), or commercial alliance.

Information asymmetry

The effectiveness of any acquisition, merger, JV, or strategic partnership hinges on the makeup of the two parties looking to join forces. If the two are compatible, then the foreign investor stands to gain a quick and strong foothold in the Asian market. If not, the alliance can quite easily prove to be unsustainable within its first year of operations. The failure to flag legal, financial, or HR problems in the counterpart, in the absence of an understanding of the Asian market, can prove extremely costly.

The due diligence process is essential to support any transaction or strategic alliance in Asia because it allows a foreign investor to identify potential future liabilities and to assess the net value of a target entity, or alternatively to verify the integrity and resources of the Asian business shortlisted to potentially become an important commercial partner. Prior to entering into any significant sourcing or distribution agreement with a potential partner in Asia, it is vital for foreign companies to conduct a critical assessment of the resources and business practices of that partner.

Achieving the above not only ensures that the foreign company is in a position of strength to make informed decisions at the deal signing stage, but also limits its exposure to the financial and reputational risk that come with doing business with an underperforming or incompliant partner.



Due Diligence- Legal, Financial, and HR Due Diligence

How we can help

Mergers and acquisitions

- Buy-side and sell-side due diligence
- Site checks and management interviews
- Post-merger integration

Partnership and supply chain assessment

- Partnership screening
- Background checks
- Factory and retail audits

Corporate health check

- Ongoing compliance monitoring
- Review of contracts and HR documentation
- IP protection review

Why Dezan Shira & Associates

For the better part of three decades, Dezan Shira & Associates has been assisting corporate and private equity clients to investigate potential investment targets and business partners in Asia. Dezan Shira & Associates' auditors work alongside in-house legal, tax, and HR teams, and our multi-disciplinary advisory taskforce is equipped to advise clients throughout the lifecycle of their M&A and divestiture projects, and to carefully verify the potential of any partnership opportunity. Dezan Shira & Associates' professionals are able to assist with all aspects of a company's business restructuring and partnership assessment process.

Dezan Shira & Associates approaches each due diligence mission with a deep understanding of the underlying legal, compliance, financial, and risk issues, and also our customer's business and the market conditions. We consider each transaction from our customer's viewpoint and their specific objectives - striving to maximize the transaction's potential while minimizing risk. Our goal is to help assess the achievability of a proposed plan by outlining risks and opportunities, allowing you to improve the transparency of reporting to stakeholders, and to make safer, better-informed decisions.

CONTACT

CHINA

Daisy Huang
Senior Manager
Corporate Accounting Services
T: +86 20 3825 1380
E: daisy.huang@dezshira.com

INDIA

Krishan Aggarwal
Senior Manager
International Business Advisory
T: +91 11 4003 8908 ext. 908
E: krishan.aggarwal@dezshira.com

VIETNAM

Nguyen Thi Hai Tam
Senior Manager
Business Accounting Services
T: +84 28 3930 2828
E: tam.nguyen@dezshira.com

HONG KONG

Jennifer Lu
Director
Corporate Accounting Services
T: +852 2170 6203
E: jennifer.lu@dezshira.com

SINGAPORE

Albee Lim
Manager
Singapore Office
T: +65 9620 5006
E: albee.lim@dezshira.com

> Business Intelligence
> Corporate Establishment and Structuring
> **Due Diligence**
> HR and Payroll
> Outbound Direct Inverstment
> Tax
> Accounting
> Intellectual Property
> Mergers and Acquisitions
> Audit and Risk Advisory
> Technology

Email: due.diligence@dezshira.com
Web: www.dezshira.com

DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia