

Operational Assessment and Due Diligence

Three types of CCA Operational Assessment and Due Diligence Reviews:

- Operational assessments in “normal course of business” for improvement
- Acquisition due diligence during LOI transaction stage
- Pre-transaction assessments to identify and correct exposures proactively

What is a CCA Operational Assessment? A deep-dive customized review of a company’s commercial, operational and administrative processes. CCA Assessments supplement 3rd party (legal and accounting) transactional assessments and analyze a broader scope of enterprise functions through the eyes of experienced China-based Western operating managers.

What does a CCA Operational Assessment Include and Deliver: Analysis of processes, policies, practices and regulatory compliance benchmarking against best practice standards. CCA delivers a SWOT-based analysis and corrective action recommendations.

Who Conducts the CCA Operational Assessment: CCA Operational Assessments are led by CCA’s Asia-based executives, each with 20+ years of management experience in China with major multi-national companies in high and low technology spaces. This provides hands-on perspective about the challenges managing China/Asia businesses through operating, cultural and regulatory realities.

| Operational Assessment Items | Consideration and China Centric Assessment Focus |
|-------------------------------------|--|
| General Management and Organization | Assess the organizational structure and staffing for business model effectiveness, often including management assessment of senior staff. |
| Business License and Capitalization | Assess business license compliance across relevant compliance issues which differ from those in the West. Focus is on capitalization requirements, legal scope of business, permits and required registration filings maintenance. |
| Location and Development Zone | Evaluate the operations location with focus on potential exposures, such as land use conflicts with municipal planning that can cause forced relocation and other compliance issues (e.g. environmental and fire). |
| Internal Controls | Assess cross-functional internal control and compliance policies to assure internal compliance with business polices and their linkage to external regulatory compliance. |
| Employment Compliance | China’s employment laws are complex, with serious compliance risk. CCA reviews employment contracts, compensation, social welfare benefits, employee handbook, etc. |

| Operational Assessment Items | Consideration and China Centric Assessment Focus |
|--|--|
| Quality Systems | Review the quality systems in place (ISO, TS, etc.) and analyze completeness, as well as the Company's internal discipline and compliance. |
| Engineering and New Product Development | Profile the "as-is" state of technical support and the status and structure of relevant intercompany IP and technology/know-how/trade secret considerations. |
| Sales, Marketing and Distribution | Review the sales and marketing process, trends, plans and make judgments about the effectiveness of people, initiatives and practices (direct or channel structures). |
| Manufacturing and Operations | Review status of facilities, equipment, manufacturing management, lean manufacturing status, inventory management, logistics and other situation-specific assessment factors. |
| Environmental Compliance and Management | Review status of environmental filings and environmental regulatory bodies, and existing and future exposures. |
| Import/Export and Customs | Review all practices and compliance considerations related to Customs. |
| Financial Due Diligence | China Centric is not a public accountant. Review and assess the effectiveness of financial reporting processes, controls and operating data flows that feed financial reporting. |
| Transfer Pricing Methodology | Review the current practices and documentation against international guidelines and the tax regulatory standards of the two national jurisdictions involved in the related party transactions. This is a general management issue with strategy factors that transcends simple tax considerations. |
| Supply Chain Management | Conduct a SWOT-based analysis of the SCM processes including supplier selection, contracting, quality assurance, order management/forecasting and problem resolution. May include site visits and quality/operating assessments of major suppliers. |
| Purchasing Organization and Controls | Assess the relative competencies of the critical China purchasing function and purchasing controls to assure compliance with corporate ethics standards and FCPA requirements. |
| IT and Business Systems | Assess the security, current status and license compliance of IT and business systems. |
| Competitor Profiling (Market or Competitors) | Profile the target markets or industrial environment in China to identify opportunities, competitive threats or supply alternatives. |
| Other Engagement Specific Issues | Assess elements beyond those identified above that are relevant to a specific situation. |

Mike Corkran, Founder, CEO
(440) 725-3394
WMCorkran@ChinaCentric.com

Bill Haggerty, Managing Director
(216) 570-7004
BHaggerty@ChinaCentric.com

Nancy Seibert, Managing Director
(216) 533-4180
NancySeibert@China-Centric.com