

## 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 3<sup>rd</sup> 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.