

PEOPLE'S REPUBLIC OF CHINA

*Charles Law, Yi Zhang, Shen Yang, King & Wood, Beijing, China
(www.kingandwood.com)*

1. CUSTOMARY PRACTICE

- 1.1 Due diligence is becoming a widely accepted practice in merger and acquisition deals in China.
- 1.2 The extent of due diligence both, in terms of what is required by Buyer and what is permitted, in terms of available information and time given by Seller, depends on various factors, e.g.:
 - 1.2.1 whether it is an acquisition of shares, business, or assets;
 - 1.2.2 whether the deal involves a State-owned, collectively owned, public, or private company;
 - 1.2.3 whether the deal involves foreign investment;
 - 1.2.4 the industry of the Target and relevant industry regulations;
 - 1.2.5 Buyer's familiarity with the Target;
 - 1.2.6 the nature and commercial objective of the transaction;
 - 1.2.7 the time and cost of conducting the due diligence investigation;
 - 1.2.8 the extent of, and limitations on liability for, contractual warranties;
 - 1.2.9 the reputation and financial standing of Seller;
 - 1.2.10 the relative bargaining strengths of the parties; and
 - 1.2.11 the nature and amount of the consideration.
- 1.3 Due diligence is therefore intended, amongst other things, to assist a purchaser in:
 - 1.3.1 developing an understanding of the Target's business and organizational history;
 - 1.3.2 verifying assumptions made by Buyer in respect of the Target and its business;
 - 1.3.3 facilitating its evaluation of the assets of the Target; and
 - 1.3.4 conducting its assessment of exposure and commitment of the Target;all of which could eventually affect the pricing of the deal, the extent of the contractual protection in the definitive agreement, and even whether a deal is to be concluded or not.
- 1.4 Legal due diligence in China usually focuses in the following principal areas:
 - 1.4.1 Target corporate structure;
 - 1.4.2 government approvals in relation to the establishment of the Target;
 - 1.4.3 permits, licenses, and government approvals in relation to Target's operation;

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- 1.4.4 Target's formation documents;
 - 1.4.5 foreign investment involved;
 - 1.4.6 titles to property (real estate, tangible, and intangible assets);
 - 1.4.7 material agreements;
 - 1.4.8 financial information (liabilities and contingent liabilities);
 - 1.4.9 labor law compliance;
 - 1.4.10 employment contracts, welfare and social insurance;
 - 1.4.11 tax information including the tax preference documents,
 - 1.4.12 insurance;
 - 1.4.13 environmental violations and compliances;
 - 1.4.14 state or local subsidies;
 - 1.4.15 contentious matters such as litigation and arbitration, potential dispute, and compliance with laws and regulations, etc.
- 1.5 While performing the due diligence in China, special attention shall be paid to the following documentations:
- 1.5.1 governmental approvals (in terms of establishment, operation, and etc);
 - 1.5.2 registration with Central and local Administration of Industry and Commerce;
 - 1.5.3 registered capital/total investment, actual capital contributions verifying by CPA, and the yearly examination certificates;
 - 1.5.4 foreign exchange registration if foreign investment involved;
 - 1.5.5 examination and approval documents issued by the competent environmental protection administrations;
 - 1.5.6 property title documents;
 - 1.5.7 land use rights certificates;
 - 1.5.8 bank loans and outstanding debts, contingent liabilities;
 - 1.5.9 encumbrances;
 - 1.5.10 compliance with governmental regulations in specific industries;
 - 1.5.11 unpaid taxes and custom duties;
 - 1.5.12 employment contracts and standard welfare compliance;
 - 1.5.13 unrevealed transactions that are not concluded on arm's length-basis (Representations and Warranties are generally used in protecting Buyer).

2. TIMING

- 2.1 The stage at which due diligence commences is usually determined by commercial decisions of the parties involved—the need of the Buyer to be comfortable with respect to the affairs of the Target before entering into any contract to acquire it and the willingness of the Seller to allow an extensive due diligence to be conducted before the parties have contractually committed to the transaction.

- 2.2 It is customary to see Sellers in China permitting Buyers to commence due diligence prior to execution of a definitive agreement, which is often in the form of a memorandum of understanding (the "MOU") or a letter of intent (the "LOI")
- 2.3 In case of due diligence prior to conclusion of definitive agreement, a confidentiality undertaking is expected (if not already in an MOU or LOI) before due diligence exercise is permitted.
- 2.4 There are typically two ways in which due diligence is conducted in China. Normally a data room is set up either at Seller's premises or at the offices of its attorneys or financial advisors. The relevant documents are kept in the data room, and due diligence is performed on-site by Buyer (together with its attorneys). The advantage of such an approach is that Seller retains physical control of its documents. But sometimes, copies are not allowed to be made and taken out from the premises. The other approach is where copies of the due diligence documents are delivered to Buyer (or its attorneys) by Seller (or its attorneys).
- 2.5 In both cases, Seller will usually provide documents pursuant to a comprehensive request furnished by Buyer or its attorneys. The content of this list covers various factors (please refer to Section 1 above), and generally, the additional information or document will be required by Buyer based on the result of initial due diligence. Upon completion of the due diligence, Buyer's attorney will prepare a formal due diligence report.
- 2.6 There is no fixed timing for the due diligence exercises in China. The schedule depends on: (i) the size of the transaction, (ii) the amount of documents to be reviewed, and (iii) the schedule of negotiation. The timing is sometimes also affected by the other deadlines in the transaction, such as the projected signing and completion dates.

3. DUTIES TO DISCLOSE/INVESTIGATE

- 3.1 There is no other statutory compulsory provision specifying the duty to disclose by Seller in PRC laws generally, except as discussed below. The PRC Contract Law provides that the parties shall exercise their rights and perform their obligations in good faith. In the Contract Law, there are no specific provisions relating to the constructive knowledge of the Seller. If during the course of concluding a contract, a party deliberately conceals any important fact relating to the conclusion of the contract or provides false information, such party shall be liable for damages the other party suffered. There was such a lawsuit filed against the liable party. However, since the liable party could not be located, the injured party was not able to recover damages.
- 3.2 The PRC Securities Law provides that, if a major event occurs (such as a merger) that may have a relatively serious impact on the price of a listed company's shares, and it is not known by the investors, the listed company shall immediately report to the China Securities Regulatory Commission (CSRC, 中国证券监督管理委员会, *Zhong Guo Zheng Quan Jian Du Guan Li Wei Yuan Hui*) and the Stock Exchange (证券交易所, *Zheng Quan Jiao Yi Suo*) where it is listed, and make an announcement

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to the public. This obligation to report and make a public announcement begins when a LOI (Letter of Intent), a merger agreement, or a Share Escrow Agreement is executed by the parties. When a rumor occurs that might affect the market, the Exchanges or the CSRC may ask the listed company to make a public announcement as well, even if the event has not occurred.

- 3.3 As a supplementary alternative, the Buyer usually requests the Seller to make representations or warranties that up to a certain critical date, all the information the Seller has provided is true and correct and not misleading in all respects, and Seller is responsible for the representations or warranties made.
- 3.4 Under the PRC laws, there is no compulsory obligation for Buyer to investigate into Seller's assets and equity interest.

4. LEGAL RESTRICTIONS

- 4.1 China has numerous regulations, circulars, and rules concerning the administration of State-owned assets. Such information may be searched online, though most of it is written in Chinese. In the case of any transfer of State-owned assets, an evaluation will be conducted and the result will either be filed or approved by the appropriate State-owned assets administration authority. In recent years, foreign investors have engaged in transactions that involve acquiring and merging companies that possess State-owned assets. For such transactions, due diligence about the nature of the Target (Section 1.2.2) is more important because an evaluation of the assets of the Target must be done even if the Target is not a State-owned company, but a vehicle for State ownership. There are certain "investment trust companies" in China that, for some transactions, act as vehicles and hold the State-owned equity on behalf of State-owned companies. Under such circumstances, specific inquiry must be made into the assets they hold in trust to avoid violating the law or invalidating the transaction.
- 4.2 Subject to the final governmental approval, an evaluation result is still negotiable between the parties with no binding effect.
- 4.3 According to Article 73 of the Securities Law, a person is prohibited from dealing in certain securities if he is in possession of "insider information," or acquires the "insider information" illegally. That information (i) concerns the company's business or finances; or (ii) may affect the market price of the company's securities; and (iii) is not available to the public. Therefore, in conducting due diligence on a listed company, special care should be taken if the information provided by the Target is inside information. Buyers should forbid its employees or representatives who obtain this information during the negotiation process and not engage in any securities transaction of the listed Target company.
- 4.4 Additionally, with no definition and pre-clearance procedures existing, no information is allowed to be disclosed if the Target's disclosure triggers "national security" issues. The Seller should address a specific representations and warranties provision in the transactional agreement that no national securities issues are involved.
- 4.5 If the Target disclosure involves personal privacy, disputes or claims may arise.

- 4.6 Any foreign investment in China is directed by the Foreign Investment Industries Guidance Catalogue, which divides foreign investment into four categories: (i) encouraged, (ii) permitted, (iii) restricted, and (iv) prohibited. In the event that a foreign Buyer institutes a merger or acquisition of a Chinese company, specific attention shall be paid when the Targets' industries fall into these restricted or prohibited categories. A new regulation, "Regulations on Foreign Investment of Merger & Acquisition," was implemented on September 8, 2006. According to Article 12 of the new regulation, when foreign Buyer obtain an actual controlling equity interest through merger with or acquisition of a domestic enterprise which involves a key industry, involves factors which may impact or actually impact State economic security or results in the possession of a well-known trademark or old Chinese brand of the domestic enterprise for which actual controlling rights are transferred, then the parties shall report this to Ministry of Commerce. In addition, during the examination and authorization of the merger and acquisition of foreign investment, anti-monopoly examination is included, which reflects Chinese government's intention on the protection of domestic markets.

5. PUBLICLY AVAILABLE INFORMATION

- 5.1 The public records system in China is often inaccurate and incomplete and limited in terms of the types of records available to the public. Most of the public records may only be available to licensed lawyers or judicial officials.
- 5.2 Company records may be searched at the local Office of the State Administration for Industry and Commerce 工商行政管理总局, *Gong Shang Xing Zheng Guan Li Ju*) where the company is registered (section 5.9 below). Information relating to "Foreign Invested Enterprises (FIEs)" may be obtained from central or local agency of Ministry of Commerce (商务部, *Shang Wu Bu*) where the enterprise obtains its approvals.
- 5.3 Records of ownership of immovable property are maintained at the local Real Estate and Land Administrative Bureau 房屋土地管理局, *Fang Wu Tu Di Guan Li Ju*) (or separately known as Housing Administration Bureau and Land Administration Bureau) where the property is located. In most provinces of China, such records are available only for licensed lawyers or judicial officials. In some local offices, such information can be obtained from the Bureau within one day when the searcher is able to provide the property title certificate number. In addition, copies of the record may be available from the Bureau.
- 5.4 Records of encumbrances imposed on real properties are maintained at the Real Estate and Land Administrative Bureau where the property is located. In some specific economic zones or cities, a property lease permit must be obtained and recorded with the government. The information required on the record varies from city to city. If no permit is obtained or no record found for the leasehold interest, the lease may not be used against a third party. In most cities, only properties that have recorded permits may be leased as offices or factories, otherwise the lease will be considered invalid. Similar rules shall be followed when searching information on encumbrances and leasehold interest.

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- 5.5 There is no public record system available in China for searching environmental issues concerning immovable property. Normally the Buyer may make an oral or written inquiry with the environment protection authorities about the Target. For due diligence exercise purposes, we have seen precedents where confirmation was given by the environment protection authorities to the Buyer about the Target's compliance with the environmental laws and regulations, and such confirmation is generally binding and reliable when it is issued. Sometimes the environment protection authorities may issue certificates of compliance to a Seller for factory construction built by the Seller. Such certificates are also reliable to the extent that the construction of the factory complies with the environmental laws.
- 5.6 Liens records on equipment may be searched at the local Office of the State Administration for Industry and Commerce (*工商行政管理局, Gong Shang Xing Zheng Guan Li Ju*) where the owner of the equipment is registered. Liens records on vehicles, airplanes, and ships may be searched at the relevant government agencies where the owner is registered (for a enterprise) or inhabited (for an individual), such as the Vehicle Administration Agency (*车辆管理所, Che Liang Guan Li Suo*), the Civil Aeronautics Administration (*民航局, Min Hang Ju*), the Maritime Administration (*海事局, Hai Shi Ju*), and the Maritime and Fishery Agency (*海洋渔业厅, Nai Yang Yu Ye Ting*). Pledges of stocks of a publicly traded company may be searched at the Stock Exchange on which the company is listed. However, in some less-developed areas, this information may not be available.
- Other liens and encumbrances except the foregoing on movable property are not generally registered anywhere.
- Government liens, charges, and fines could be found only if they have been announced publicly by the government agency. For example, pension violation fines will be announced generally, but tax violation will not be publicly announced.
- 5.7 The State Intellectual Property Office of the PRC (*知识产权局*) maintains records of patent ownerships. The information about a declared patent is available to the public and can be searched on the website of the State Intellectual Property Office. The records of ownership of trademark may be searched at the State Trademark Bureau of the PRC (*商标局*) and generally can be obtained within two days upon request. In most cases, the ownership of copyright is not registered anywhere, however pledges of copyrights may be searched at the State Copyright Bureau of the PRC (*版权局*).
- 5.8 There is no public record system available for searching for any pending litigation concerning, the company unless such information is statutorily required to be disclosed by a publicly traded company to the Stock Exchange. Unless disclosed by the Seller, lawyers for the Buyer have no channels to obtain such information of pending litigation. The Chinese courts have the right to decide whether or not to accept a filed complaint. When accepted, such information may be obtained from the court. However, since there is no national computer search system, Buyers may only rely on the disclosures of the Seller.
- 5.9 Information of due incorporation and continued existence of a company may be obtained at the local Office of the State Administration for Industry and Commerce where the company is registered. Before starting their operations, companies of all kinds must register with this Office, which conducts annual inspections of these reg-

istered companies. Upon request, the Office of the State Administration for Industry and Commerce will issue printed results of different searches. The general information may include:

- 5.9.1 company name;
 - 5.9.2 date of registration of the company;
 - 5.9.3 registered capital;
 - 5.9.4 registered office address;
 - 5.9.5 nature (or Type) of the company;
 - 5.9.6 expiration date of the legality of the company;
 - 5.9.7 name of the legal representative;
 - 5.9.8 names and equity interest of the company's owner or its shareholders.
- 5.10 General information about the listed companies can be obtained at the Stock Exchange or from its official website; it includes:
- 5.10.1 company name;
 - 5.10.2 registered office address;
 - 5.10.3 name of the legal representative;
 - 5.10.4 date of listing on Stock Exchanges;
 - 5.10.5 Article of Association (not available in the annual report) and etc.
- 5.11 Periodic reports and annual reports by public companies are accessible.

6. TRANSFER OF CONTRACT RIGHTS

- 6.1 Rights under contract are generally transferable unless expressly restricted by its terms, or otherwise prohibited or restricted by operation of the PRC laws and regulations as described below.
- 6.2 The government authorities, in compliance with the foreign investment regulations, shall approve any transfer of rights involving foreign investment.
- 6.3 Any transfer of State-owned assets and equity interest is subject to the approval of the Ministry of Finance (??) or the local administration authority in charge of State-owned assets.
- 6.4 Pursuant to the new Company Law of PRC, the shares held by promoters in a corporation may not be assigned or transferred within one year from the date of the establishment of the company. The shares issued before the company publicly issues shares shall not be assigned or transferred within one year from the day when the stocks of the company are listed and traded in a Stock Exchange.

7. BUYER'S KNOWLEDGE

- 7.1 Legally speaking, there is no reason why the indemnification clause provided on the face of the contract would not be enforceable.
- 7.2 As a matter of practice in China, however, it could be difficult to defend retaining a clause giving full right of indemnification with respect to any inaccuracy of representation in the event that Buyer is well aware of the inaccuracy.

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- 7.3 An argument can also be made that the Buyer's claim for breach of warranty under circumstances where the Buyer, having knowledge of the inaccuracy, and therefore knowledge of the breach would be under a duty to mitigate its damages, and therefore, the extent of indemnification should be subject to the effect of any mitigation.
- 7.4 Parties may contractually agree to waive any duty to mitigate damages as long as such waiver does not violate the laws of PRC.

8. DUE DILIGENCE REPORTS

- 8.1 It is not customary practice to extend a copy of the due diligence report to third parties. Due diligence reports would typically be addressed only to clients and would usually contain a qualification that the report is not to be relied on by any person other than the persons to whom it is addressed (i.e., clients). In any event, the Buyer would promise confidentiality to the Seller, which could preclude the sharing of the due diligence results with third parties.
- 8.2 An example of the typical assumptions and limitations included in a report as follow:
- “This Report is made on the following bases, assumptions, and limitations:
- (1) we assume that all signatures and seals (if any) on all documents presented to us are genuine;
 - (2) we assume all documents submitted to us as copies are true and complete copies of the originals;
 - (3) we assume that all information submitted to us was accurate and complete;
 - (4) we assume that all persons executing and delivering originals or copies of documents examined by us were legally competent to execute and deliver such documents;
 - (5) we assume the due authorization, execution, and delivery by any party of the documents, and that the documents constitute legal, valid, and binding obligations of such parties, where applicable, enforceable against each of them in accordance with their terms;
 - (6) we assume the accuracy and completeness of the representations made by the relevant parties in the relevant documents;
 - (7) except as otherwise expressly indicated, we have not undertaken any independent investigation to determine the accuracy of any representations of a party, and any limited inquiry undertaken by us during the preparation of this report should not be regarded as such an investigation; and
 - (8) the findings given herein are based on the documents, facts, and information available to us on or before the date hereof and are confined to and given on the basis of the laws of the PRC effective as at the date hereof. We have not investigated, and we do not express or imply any opinion on the laws of any other jurisdictions, and we have assumed that no such other laws would affect the findings hereof.”

9. LOCALIZED DUE DILIGENCE REQUEST

A modified Due Diligence Request is attached.

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LOCALIZED DOCUMENT AND INFORMATION REQUEST

A. CORPORATE AND ORGANIZATIONAL

1. Certified copy of ~~certificate of incorporation of [Target]~~business license of target company (the "Target"), as currently in effect, including the evidences showing the passage of annual inspections by administration for industry and commerce (in relation to non-foreign invested enterprises), or joint annual inspections by foreign investment supervising authorities, administration for industry, and other authorities.
2. Certificate of approval for establishment of the Target, approval reply in relation to the approvals for the joint venture contracts and articles of association, including any subsequent approvals, or revised/renewed certificates of approval.
3. Effective operational management or contracting agreements of the Target, Organization Code Certificate, Bank Account Certificate and Foreign Exchange Registration Certificate (if any) of the Target.
4. Local Tax Registration Certificate and State Tax Registration Certificate of the Target.
5. ~~2-~~ Certified copy of ~~bylaws of the Target~~the joint venture contract/shareholders agreement and articles of association of the Target with all historic amendments of the above, as currently in effect.
6. Capital verification reports issued by qualified CPA in respect of the establishment of the Target, if there are assets evaluation reports associated with such capital verification reports, assets evaluation reports and confirmation documents issued by State-owned assets administration authorities in favor of such evaluation result is needed.
7. Certified copy of the operation-related certificates, licenses or other qualification documents obtained by the Target.
8. ~~3-~~ Access to minute books of the Target, such as shareholders meeting minutes, board meeting minutes, supervisory committee meeting minutes, and management meeting minutes, etc.
4. Access to stock books and stock transfer ledgers of the Target.
5. List of states and foreign countries in which the Target is qualified to do business, including names and addresses of registered agents and list of states and foreign countries in which the trade names of the Target are registered.

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- ~~6. Long form Good Standing Certificate, including payment of taxes for state of incorporation and every state and foreign country in which the Target is qualified to do business.~~
- ~~7. List of states and foreign countries in which tax returns are filed because of the ownership of property or conduct of business by the Target.~~
- 9. Breakdown of information regarding the current shareholders of the Target including name, share ratio, the exact time when becoming shareholder of the Target, etc; in the case of an entity/institutional shareholder, the required information also includes its scope of business, scope of operation, legal representative, etc., and copies of currently effective business license/or any other types of entity registration documents of such entity/institutional shareholder shall be provided as well.**
- ~~8. List of states and foreign countries, if any, in which the Target is not qualified to do business and does not file tax returns but in which it maintains an office, a stock of goods, employees, or an agent who is a resident of any state in which he or she solicits orders.~~
- 10. 9. Current organizational chart for the Target and subsidiaries, operating divisions, and hierarchy of officers.**
- 11. 10. All names under which the Target or any predecessor thereof has done business in the past ~~five years~~ **three years [in most of the case, all historic constitutional documents, approvals and business licenses which reflect such information will be requested]**.**

B. SUBSIDIARIES (IT NORMALLY COVERS WHOLLY OWNED SUBSIDIARY, CONTROLLED BUT NOT WHOLLY OWNED SUBSIDIARY, JOINT VENTURE (EITHER EQUITY OR CONTRACTUAL) AND ETC.)

1. List of subsidiaries of the Target.
2. Certified copies of ~~certificates of incorporation and bylaws~~ **business licenses and the articles of association** of each subsidiary, and access to minute books and ~~stock share~~ transfer ledgers of each subsidiary.
3. Information requested in items A.1–A.~~9,10~~, shown separately for each subsidiary.

C. SECURITIES

- ~~1. Statement of outstanding and treasury shares of common stock, preferred stock (including a complete description of the rights attaching to such preferred shares), and any other securities of the Target and each subsidiary.~~
- 1. 2. Stockholders/Shareholders'** list, giving name and address of each shareholder of the Target and its subsidiaries and of any voting trustees, his or her affiliation with the Target, the ~~type of security held, the~~ date of issue by the Target (the considera-

tion received by the Target ~~therefor~~therefore), and the number of shares ~~of such security~~ owned by each such shareholder or trust.

- ~~2.~~ 3. List of holders of any options or rights to purchase any securities of the Target (~~including warrants~~), giving name, number of options held, option prices, date(s) of grant, expiration dates, position in the Target or subsidiary, and number of shares owned (excluding those subject to option).
- ~~3.~~ 4. Copies of all ~~stockshare~~ option agreements, stockshare option plans, ~~and warrants~~.
- ~~4.~~ 5. Copies of all shareholder agreements and all other agreements with respect to securities of the Target or its subsidiaries.
- ~~5.~~ 6. All reports to shareholders of the Target prepared within the past ~~five~~three years.
- ~~7.~~ Indicate whether there are any shareholders or stock certificates whose whereabouts are unknown, or any shareholders from whom it will be difficult to obtain approval of the transaction or stock certificates, as appropriate.
- ~~6.~~ 8. A description of all contractual restrictions on transfer of the Target's ~~capital stock shares~~ or assets.
- ~~7.~~ 9. Copies of registration rights or preemptive rights agreements.

~~D.~~ **D. BUSINESS DESCRIPTIONS**

- ~~1.~~ All market studies, feasibility studies, analyses, and similar reports concerning the Target prepared within the past five years.
- ~~2.~~ All marketing and other descriptive brochures regarding the Target prepared within the past five years.
- ~~3.~~ All press releases issued by the Target during the past five years, and any press clippings that refer to the Target, if available.
- ~~4.~~ Recent analyses of the Target or its industries prepared by investment bankers, engineers, management consultants, accountants, or others, including marketing studies, credit reports, and other types of reports, financial or otherwise.

~~D.~~ **D. FINANCING DOCUMENTS**

1. All currently effective loan certificates, loan agreements, indentures (~~including industrial revenue bond indentures~~), debt instruments, and other financing instruments, and all related material documentation, to which the Target is a party, together with approvals and registrations in relation thereto.
2. A list of all mortgages, liens, pledges, security interests, charges, or other encumbrances to which any property (including real ~~or personal~~ estate) of the Target is subject and all related material documentation, together with approvals and registrations in relation thereto.

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3. All correspondence with lenders and other debt security holders for the past ~~five~~**[three]** years (including all consents, notices, or waivers of default from lenders with respect to borrowings by the Target).
4. Schedule of all short-term and long-term debt (including capitalized/**financial** leases, guarantees, and other contingent obligations).
5. Any presentations given to creditors in connection with obtaining credit or prepared for potential lenders in connection with any proposed financings.

E. ~~F.~~ FINANCIAL STATEMENTS

1. Audited financial statements, both consolidated and consolidating, for the Target and its subsidiaries for the past three fiscal years.
2. All ~~unaudited~~**un-audited** interim financial statements of the Target prepared since the date of the most recent audited financial statements.
- ~~3. Separate consolidating statement for significant subsidiaries or divisions.~~
3. ~~4.~~ Brief description of contingent liabilities involving the Target.
- ~~5. Name of accountants and length of relationship with accountants; indicate whether the accountants own any interest in or hold any position with the Target or its subsidiaries.~~
- ~~6. Management financial reports to the directors, or any committee thereof, of the Target prepared during the past five years.~~
- ~~7. Correspondence with the Target's accountants prepared or received during the past five years, including all management letters from accountants.~~
4. ~~8.~~ Brief description of depreciation policy.
- ~~9. Brief description of nature of prepaid or deferred income or expenses.~~
5. ~~10.~~ Copy of any sales projections and estimates, and copy of current budget and any budget projections including a discussion of any assumptions used in the preparation thereof.
- ~~11. Brief description of any change in accounting policies or procedures during the past five years.~~
6. ~~12.~~ Copies of all reports by accountants to management of the Target or any of its subsidiaries concerning the Target for the past ~~five~~**three** years.
- ~~13. Brief description of outstanding commitments for capital expenditures in excess of \$5,000.~~
- ~~14. Any documents relating to material write-downs or write-offs of notes, accounts receivable, or other assets other than in the ordinary course of business.~~

~~G. TAX MATTERS~~

- ~~1. Copies of all federal, state, local, and foreign income and franchise tax returns filed by the Target and its subsidiaries for the past five years concerning the business, assets, or income of the Target.~~
- ~~2. All correspondence with the Internal Revenue Service or state or local tax authorities concerning adjustments or questioning compliance.~~
- ~~3. List of returns and the years thereof that have been audited by federal, state, or local tax authorities, and copies of determination letters related thereto.~~
- ~~4. List of state and local taxes to which the Target or any subsidiary is subject with respect to the business, assets, or income of the Target, showing assessment date, date return is to be filed, and date tax due.~~
- ~~5. Describe and provide copies of all agreements, consents, elections, and waivers filed or made with the IRS or other taxing authorities, including, but not limited to, those relating to relevant statutes of limitations.~~
- ~~6. List and describe all pending or threatened disputes with regard to tax matters involving the Target or any of its subsidiaries.~~
- ~~7. Copies of any tax indemnification, tax sharing, or tax allocation agreements involving the Target and other members of an affiliated group, including any joint venture agreements that have the effect of tax allocation agreements, and a statement setting forth how such agreement was carried out for the past five years.~~
- ~~8. Copies of all legal or accounting tax opinions received by the Target during the past five calendar years relating to the Target's tax reporting.~~

~~F. H. OFFICERS AND DIRECTORS, EMPLOYEES, BENEFIT PLANS, AND LABOR DISPUTES~~

- ~~1. Name, address, and telephone numbers (home and business) of each director and officer of the Target and each subsidiary (and, if applicable, principal occupation), and aggregate compensation at present and for the previous fiscal year.~~
- ~~2. All liability insurance policies for directors and officers of the Target or its subsidiaries.~~
- ~~1. 3-Number of persons employed by the Target and by each subsidiary in terms of function (executive, sales, clerical, research, labor, or other appropriate classification).~~
- ~~2. Numbers of employees that have retired within the last three years.~~
- ~~3. List of employees at management level that have resigned within the last three years, including their titles before their resignation, reasons for resignation and date.~~
- ~~4. Name and address of each person who has a power of attorney to act on behalf of the Target or any subsidiary, and copies of such powers of attorney. Samples of labor~~

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contract or any other sample employment contract or service contract, confidentiality or non-competition agreements, intellectual property/invention assignment agreements, and an explanation of execution of the above contracts/agreements.

5. List of all labor union contracts and collective bargaining arrangements to which the Target or any subsidiary is a party, the number of employees covered by each such agreement, and the anticipated expiration dates thereof; and furnish copies of such contracts **Details of any labor unions under the Target.**
- ~~6.~~ Brief description of "labor unrest" situations, all pending or threatened labor strikes, or other trouble experienced by the Target and its subsidiaries during the past five fiscal years.
- ~~7.~~ List and brief description of the current status of all unfair labor practices complaints lodged during the past three fiscal years involving the Target and its subsidiaries.
- ~~6.~~ ~~8.~~ Brief description of any pending or threatened request for arbitration, grievance proceedings, labor disputes, ~~strikes,~~ or disturbances affecting the Target or any subsidiary, and history of recent union negotiations.
- ~~7.~~ ~~9.~~ All performance bonus plans adopted by the board of directors of the Target during the past ~~five~~**three** years.
- ~~8.~~ ~~10.a.~~ Brief description and copies of all employee benefit plans, group life insurance plans, major medical plans, medical reimbursement plans, supplemental unemployment benefit plans or welfare plans (for hourly employees), or salary continuation plans, or other perquisites, and a brief description of policy regarding bonuses, salary review, severance pay, moving expenses, tuition reimbursement, loans, advances, vacations, holidays, sick leaves, and other benefits. **social insurance plan including pension, unemployment, medical and housing funds.**
 - ~~b.~~ For each pension or profit sharing plan, including multiemployer plans, if any, furnish copies of plan documents, including amendments (and a description of any changes in these plans proposed, agreed upon, or under consideration); actuarial reports, if applicable; trust instruments and trust balance sheets, if any; summary plan descriptions; the latest application for determination to the IRS; any IRS determination letter; and the latest Annual Report on Form 5500, 5500-C, or 5500-K.
- ~~11.~~ Details on any terminated pension plans and unfunded pension liabilities.
- ~~12.~~ ~~a.~~ List of all employees of the Target who received compensation exceeding \$50,000 in the last fiscal year, giving name, date of birth, date hired, position, and compensation for the last fiscal year, and, to the extent available, similar information for all other employees, and retired employees who are receiving or will be entitled to receive any payment not described previously in item 9.
 - ~~b.~~ Describe all written or oral employment or consulting agreements (other than union contracts) to which the Target or any subsidiary is a party or

bound and, if any of the same are in writing, furnish copies thereof (except for employment contracts that can be terminated at will by the Target or a subsidiary without cost or liability).

- e. ~~Brief description of all confidentiality, noncompetition, or similar agreements between the Target or any subsidiary and any of their present or former officers, employees, directors, consultants, or agents. If any of such agreements are in writing, furnish copies thereof.~~
- d. ~~Brief description of all consulting and management agreements, arrangements, or understandings to which the Target or any subsidiary is a party and, if the same are in writing, furnish copies thereof.~~
- e. ~~Description of all deferred compensation programs affecting officers, directors, or employees of the Target. State the amount accrued and/or paid during the most recent fiscal year under such programs, and amounts of accruals thereunder through a recent date.~~

~~13. A description of the manner in which the Target fulfills its workers' compensation and unemployment compensation insurance obligations in each state (i.e., insured or self-insured, etc.).~~

9. Copies of compensation plans, or any applicable documents that define the compensation philosophy and practices, pay structures, shift differentials, sales plan and entitlements (e.g. paid vacations, holidays, annual leaves, bonus, paid sick days and perquisites).

~~14. Documents representing or relating to workers' compensation or disability policies, and any material claims with respect thereto.~~

10. Short-term incentives/commissions (bonus) plans and long-term incentives including eligibility, performance measures and targets, grant/payout targets, thresholds and maximums, grant/payout history.

11. 15-Copy of employee handbook, company internal policies in this regard or any similar document.

12. Regulations and policies on settlement and arrangement of employees of enterprises issued by local government or state-owned assets administrations; descriptions of and documents regarding any such employee settlement and arrangement plans (including without limitation any compensation plans); and any examination and approval opinions of local government on such plans.

G. † PROPERTIES, AND LEASES, AND INSURANCE

- 1. a. ~~List of real estate owned, leased, or used by the Target, stating whether owned or leased (whether as lessor or lessee) and brief description of property, structures, zoning, estoppel letters, reversions or remainders, lease provisions (including assignment and renewal), use, and location; furnish copies of mortgages, deeds, surveys, maps, profits, rights of way, easements, leases, and other contracts.~~ **Breakdown of all real properties currently**