DEZAN SHIRA & ASSOCIATES
Your Partner for Growth in Asia

Case Study

Verifying Key Assets and Rectification of Financial Statements

Through an in-depth due diligence, a US-based health and wellness company negotiated a fair acquisition price, mitigated risks, lowered costs, and successfully entered the Chinese market.

Challenges

Insufficient financial information provided by the target company during the acquisition negotiation process prevented our client from making informed decisions - leaving them open to future legal and operational risks.

Solutions

We conducted a thorough financial due diligence on the target company, closely examining their business documents and identifying areas of potential financial and operational risk to our client.

Impacts

Backed with our diligence reports, our now well-informed client was able to take control of the discussions and ensure a fair acquisition price was set and signed an agreement they were confident about.

CHALLENGE: Poor asset records affect evaluation of true worth

A US-based client in the health and wellness industry was planning the acquisition of a company in mainland China. In order to understand the true worth of the target company, financial information needed verification.

The potential price for the acquisition had already been discussed, but our client had reservations about the target company's financial position and operating performance.

To confirm the target company's real financial situation and alleviate any potential risks, the client engaged our services to conduct a financial due diligence with an emphasis on assessing the true value of the target company's assets.

A majority of significant and valuable assets were not recorded in the target company's accounting books, making it difficult for our client to identify the original price and usage time of these assets. These poor records made it exceedingly difficult to confirm the target company's true value and proved to be a significant obstacle in the acquisition process.

CHALLENGE: Full inventory count conducted, and asset ownership status verified

Our team provided the client with a wide range of due diligence services, starting with a full stock count to calculate the total amount of assets and equipment controlled by the target company – ensuring the physical existence and accuracy of all listed assets as well as the ownership status of each item and its current value.

The target company had poor records with few details about asset purchase prices and usage periods, making it difficult for our team to accurately calculate the real remaining value of each item. Original contracts, invoices, and other supporting documents had to be found and closely examined by our team. It was critical to identify both the ownership status and real value of each item on the list in order to ascertain the company's current financial position.

During the investigation, our team discovered that several of the key assets of significant value had no clear ownership and could not be classified as under the actual ownership of the target company. This included equipment frequently used by the company's clientele that were vital to their operations. This equipment had been sponsored by partner brands and it was unclear who would retain ownership once the acquisition was complete. Upon this discovery, our legal team was brought in to assist with clarifying the ownership rights and obligations of these important assets.

Our legal team prepared several key articles and sections of the merger contract between our client and the target company. These sections clearly stated the target company's obligation to clarify and ensure ownership of the assets in question before the acquisition.

SOLUTION: Fair acquisition price and mitigation of potential risks

Our investigation not only uncovered discrepancies in the target company's asset and equipment counts, but also that several key assets were not under the target company's actual ownership. Our revaluation of the company's assets reported a much lower figure than was originally disclosed in their old financial statements. The potential acquisition price previously proposed by our client was now greatly overvalued.

Using the information from the due diligence report compiled by our team, our client was able to negotiation a new acquisition price at a significantly lower value that reflected the true financial position of the target company. Further, our team was also able to help mitigate legal risks that might have stemmed from the sponsored equipment's questionable ownership status. By addressing this issue before the acquisition was complete, our client managed to avoid what could have been a costly legal battle.

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