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PART I: PLANNING THE SIEGE

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1. Donald Rumsfeld.

INTRODUCTION

"In China ... everything is possible ... nothing is easy."

— China expatriate manager

The company was simply the most non-compliant company I had ever seen in my 12 years of working as a corporate lawyer in China.

The client was interested in acquiring a majority stake in a company manufacturing plastics near Wenzhou. We had been requested to carry out due diligence in respect of the company.

The basket cases in China can normally be identified as soon as you enter the factory[1]. The factory had smoke billowing out of its smokestacks and an unusual, unnatural green oozed out of the cement. The employees were either asleep or sipping tea from Nescafe glass containers. Unlike the client, I had few expectations in respect of the target and I had only been there for half an hour.

In any event, the due diligence report was prepared and I was subsequently asked by the client to present the findings to the business development group.

The findings were brutal. Basically, the legal shareholders were not the same persons with whom the client had been negotiating the acquisition. Most of the assets were in the name of different, unrelated companies. Although many Chinese companies have compliance issues, this company was actually being sued by the local environmental bureau — at the same time when the client's business development manager was heralding the target's "incredible connections" with the local authorities.

Perhaps the defining result of the due diligence was in respect of human resources. In a bid to obtain extremely lucrative preferential tax treatment, the company officially employed a few hundred handicapped

1. Indeed as can the location of the toilets.