

KLINK & CO., INC.

A Global Leader in Risk Consulting

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COMMUNIQUE SPRING 2007

CAUTIONARY TALES FROM JAPAN CAN GUIDE OUR DUE DILIGENCE EFFORTS IN EMERGING MARKETS

When much acclaimed Livedoor, a \$6 billion publicly traded Japanese internet company, took Japan by storm and subsequently collapsed under the weight of its hype last year, it caught our attention. Livedoor's profits were grossly inflated and its founder was sentenced to several years in prison just recently, a long time for a white collar criminal in Japan, where fraud schemes often result in little more than a public rebuke.

Other Japanese fraud schemes have caught our attention as well, including the widely reported collapse of ChuoAoyama PriceWaterhouseCoopers, the Japanese arm of the vaunted accounting firm that is now in the throes of liquidation due to its accountants either missing fraud or actually helping perpetrate fraud with the clients they were supposed to be auditing.

In some ways, the Japanese financial markets can be like those of some emerging markets: limited transparency and in most instances little risk for those engaged in misconduct, both of which amount to red flags for investors. So what should an investor do to protect his interests and reputation?

To those who regularly invest in emerging markets and private ventures, lack of regulation and lack of transparency are known risks that have to be considered and mitigated. But of course, a lack of governance, a lack of transparency, and even some questions about ethics surround many investment opportunities in certain markets. The response should not be to avoid investing in these situations, but instead to do so in a prudent, diligent way that mitigates risk and maximizes rewards.

Our firm works closely with our financial clients each year in Asia, Europe and the Americas. We primarily evaluate privately held businesses and work extensively in emerging markets around the globe. We identify risks and provide solutions for investors so that deals can get done and reputations can be enhanced, not damaged.

We suggest that investors consider answering the following questions to avoid accusations of negligence and fraud when making the next deal:

TO PROPERLY PROTECT YOUR INVESTMENT DOLLARS ASK THE FOLLOWING QUESTIONS:

- Am I investing in an emerging market or a privately held business? If I am, I need to conduct meaningful fact-driven due diligence.
- If I am investing in an emerging market or in a privately held firm, what due diligence steps must be taken to protect my investment and my reputation? Remember, a due diligence investigation performed by an accounting firm or a law firm differs completely from that performed by a risk firm. Auditors, legal professionals, and risk consultants all perform different, but essential, tasks. Risk consultants gather facts and provide solutions.
- What do I know about the background of the company and the principals? What am I doing to find out? I pledge not to rely on fluff. Any allegations of ethical lapses? Success factors? Risk factors?
- Am I buying people, inventory, or relationships? Plan your diligence efforts accordingly. The purchase of inventory usually requires counting the inventory. The purchase of people and relationships requires a different diligence effort.
- What do I know about the existence of closely related business partners to my investment target? Am I at risk in the future?
- Have the principals of my business been successful? Are these individuals who they claim to be? Be sure. Do not be fooled by private club memberships and lofty titles.
- In what country and region am I investing? Ethics concerns vary from place to place and transparency issues abound in fast-moving economies.

Klink & Co. is the firm of choice for hedge funds, equity funds, banks, distressed debt investors, and law firms that understand that mitigating risk is a necessity, not an option. We identify and analyze risk for our clients so that they can go about the business of profits and success.

THREE REASONS TO USE KLINK & CO. WHEN YOUR NEXT INVESTMENT OPPORTUNITY IS BEING CONSIDERED:

- 1. Our ability to provide solutions and guidance to investors*
- 2. Our ability to obtain specific information about businesses, people and opportunities.*
- 3. Our ability to identify risks to assure that your investment is protected*

Call us now for a consultation. Visit our website at www.klink-co.com.