

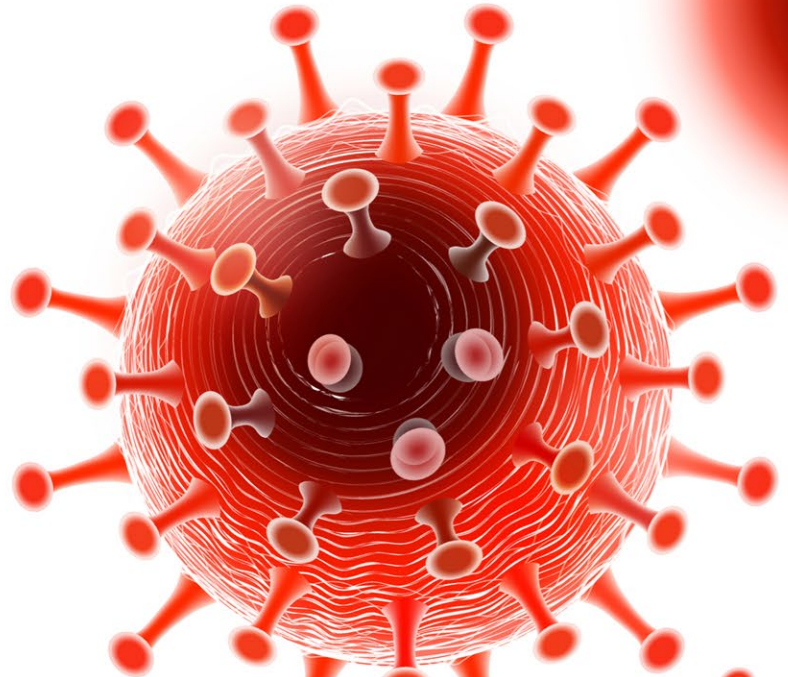


**SOVEREIGN**™

# COVID-19

## CORONAVIRUS

NOVEL CORONAVIRUS



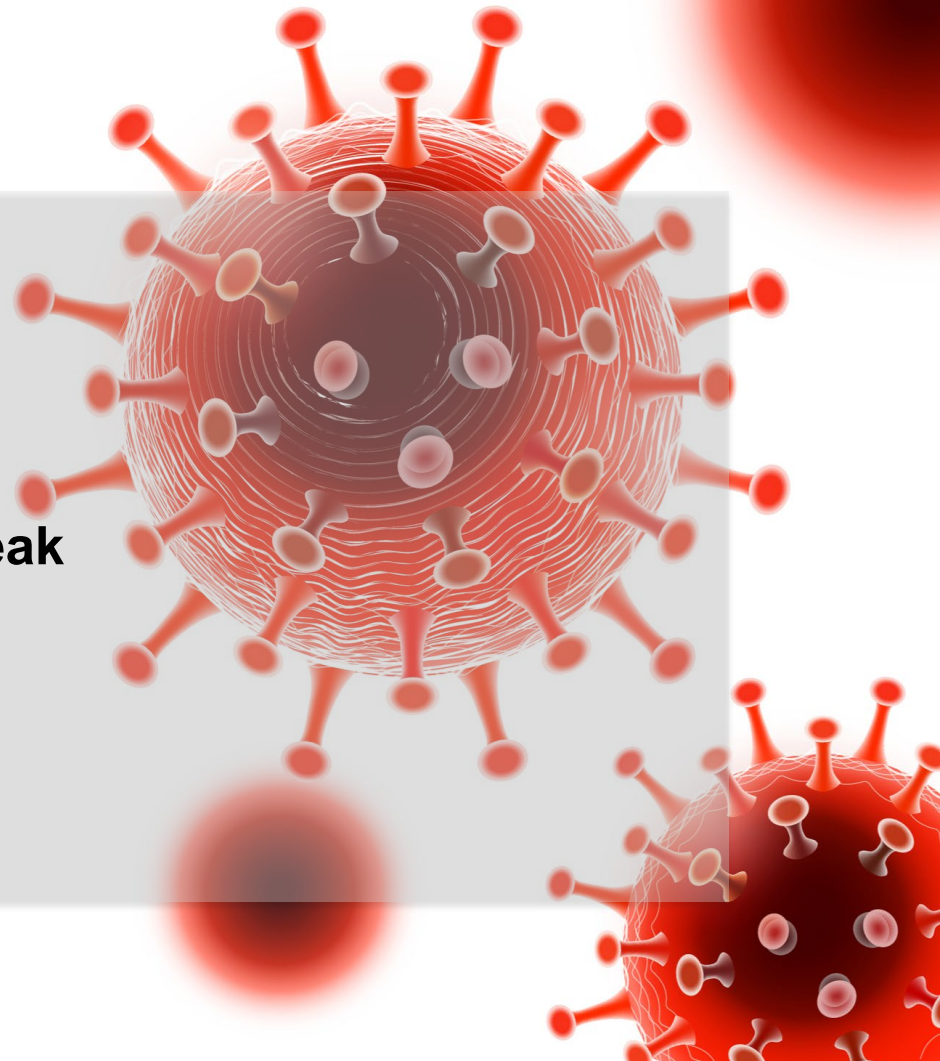
# YOUR CHINA BUSINESS DURING THE GLOBAL COVID-19 OUTBREAK

Sovereign (China) Limited | April 2, 2020

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# AGENDA

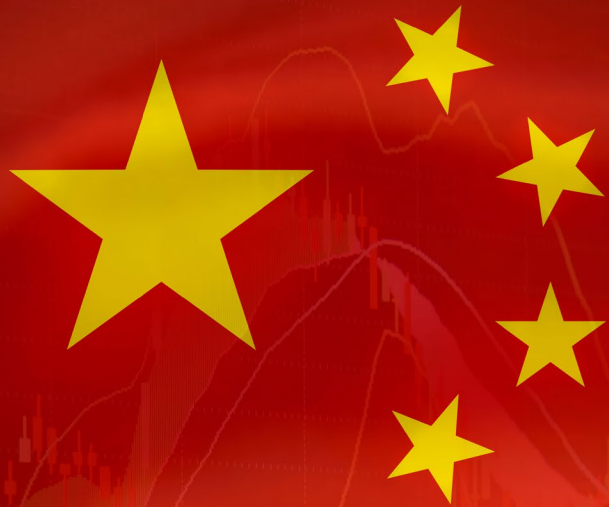
- **Situation in China**
- **Impact on Business**
- **Operating During the Outbreak**
- **Conclusions**
- **Resources**



# SUMMARY: SITUATION IS IMPROVING AND OPPORTUNITIES FOR IMPROVEMENTS EXIST

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- There are signs of economic improvement, but long-term recovery will be dependent upon other global economies
- China has provided some economic assistance in the form of reduced company social benefit contributions, delayed tax filings, lower VAT for small scale enterprises, and so on.
- Empathy towards both staff and clients is critical
- There are opportunities to be had, especially in terms of companies improving internal processes and use of digital tools
- Sovereign may be able to help in regards to finance and tax related matters



# SITUATION IN CHINA



# ECONOMIC IMPACT: SIGNS OF RECOVERY

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- The Economy and economic growth suffered in February as the country was in lock-down
- However, by the end of March, the China economy is showing signs of some recovery\*
  - China's Purchasing Managers Index (PMI)\*\* increased from 29.6 (contraction) in February to 52.3 (growth) in March
  - Manufacturing PMI increased from 39.7 in February to 52 in March
  - "As of March 22, 321 out of the 325 Wanda Plazas across China have resumed business. The average customer flow in Wanda Plazas has bounced back, reaching 83% of the level seen in the same period last year," Wanda said in a statement.

*Although there are signs of recovery in China, caution is advised. PMI figures are based on previous month activity. Sustained long-term recovery will depend on key global economies as exports are an important part of the Chinese economy.*

(\*) Economic recover figures are provided by China's National Statistics Bureau

(\*\*) A score of 50 is neutral, above 50 is growth, below 50 is contraction



# TRAVEL TO AND FROM CHINA RESTRICTED

## On March 28, 2020 Foreigners Barred From Entry Into China

- Nearly all new cases of COVID-19 in China are from people entering the country from overseas
- Foreign passport holders are barred entry into China, even foreigners with temporary residence and work permits.
- Chinese nationals may still enter China
  - Will be tested for Covid-19
  - Quarantined during testing period
- International flights direct to Beijing have been cancelled; travelers will need to enter China via a different port-of-entry and then fly to Beijing
- Airlines restricted on number of flights per week and flight capacity

*Travel restrictions on foreigners are expected to be temporary; however, if the outbreak becomes more serious rather than abates in foreign countries, this travel ban could continue for some time.*



The screenshot shows the official website of the Ministry of Foreign Affairs of the People's Republic of China. The header includes the national emblem and the ministry's name in Chinese and English, along with navigation links for Home, The Ministry, Policies and Activities, Press and Media Service, Countries and Regions, About China, and Resources. A search bar is also present. The main content area displays a news article titled "Ministry of Foreign Affairs of the People's Republic of China National Immigration Administration Announcement on the Temporary Suspension of Entry by Foreign Nationals Holding Valid Chinese Visas or Residence Permits" dated 2020-03/26. The article, dated March 26, 2020, states that due to the rapid spread of COVID-19, China has decided to temporarily suspend the entry into China by foreign nationals holding visas or residence permits still valid to the time of this announcement, effective from 0 a.m., 28 March 2020. It lists specific policies for APEC Business Travel Cards, Hainan 30-day visa-free policy, Guangdong 144-hour visa-free policy, and Guangxi 15-day visa-free policy, all of which will be suspended. It also mentions that diplomatic, service, courtesy, or C visas will not be affected. The suspension is described as a temporary measure in light of the outbreak and the practices of other countries.



# IMPACT ON BUSINESS

# COMPANY REGISTRATION UNINHINDERED

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- Generally speaking, the process of establishing a Foreign Invested Enterprise (FIE) is unhindered as government offices are now open and operating relatively normally.
- Registration has become less burdensome and will continue to be in the near future as government bureaus are accepting documents by post rather by hand delivery
  - *Note: in jurisdiction where we are currently registering companies (e.g. Shanghai, Nanjing, Beijing), AIC\*, the tax bureau and banks are waiving or allowing a different form of ID verification of the Legal Representative – previously, the legal representative would have to appear in person for the ID Verification.*

*The economic impact of Covid-19 has still yet to fully materialize. Companies that previously had plans to expand, or those in the process of expanding (to China or other markets) have paused activities, waiting for the dust to settle. Many will likely have a home market to rebuild before moving forward again with new markets.*

*Although some processes are more relaxed, in general it still takes months to complete (end-to-end), therefore, the current “slow” period is a good time to setup. Furthermore, China’s economy will likely recover prior to other markets, and there is a substantial domestic market.*



# SOCIAL BENEFIT PAYMENTS TEMPORARILY WAIVED FOR SOME COMPANIES

- Companies considered “small scale enterprises” will have respite in regards to their social benefit liabilities:

Category	Standard Company Contribution*	Temporary Required Contribution
Pension Contribution	16.0%	
Unemployment Insurance	0.5%	Temporarily waived
Work Related Injury Insurance	0.3%	

- Other aspects of social insurance are still payable
- **Employee contributions remain unchanged**

*Currently, employer contributions will be waived until **JUNE**, although may be extended depending on global economic conditions*

(\*) Percentages shown are for Shanghai; actual contribution percentages slightly vary depend cities, although usually by a small amount.

# TEMPORARY TAX RELIEF, ESPECIALLY FOR SMALL SCALE TAXPAYERS

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## Delay of tax filings

- Monthly tax filings are normally due by the 15<sup>th</sup> of each month, however:
  - February: tax payment due date delayed until the end of the month
  - March: tax payments were delayed until March 23<sup>rd</sup>
  - April: tax payments are expected to follow the normal tax filing dates

## Reduction in VAT rate

- Small scale tax payers will have their VAT rate reduced from 3% to 1% - this reduction is currently valid until May 31, but may continue afterwards

## Industry VAT exemptions

- Restaurant, Travel, Hospitality and medical equipment manufacturers will be exempt from VAT – it is unknown how long this exemption will remain in affect.

# OPERATING DURING THE OUTBREAK



# SEVERAL IMPORTANT CONSIDERATIONS FOR YOUR STAFF AND BUSINESS

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- This is a stressful time, have **empathy for both STAFF & CLIENTS**
- Have appropriate policies in place for staff, such as a work from home policy
- Consider how you can work with clients as partners (e.g. postpone due date of receivables if possible)



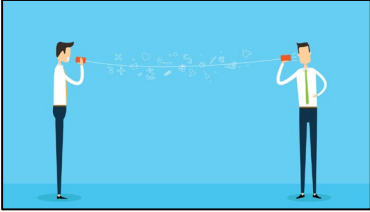
- **CASH IS KING:** As global economic risk increases, **CASH** is extremely important
- We suggest doing what is necessary to build a 2-3 month cash reserve



- There are real economic consequences resulting from the pandemic
- Manage Expectations, especially regarding P&L and performance forecasts

# OPPORTUNITIES ARE PRESENTING THEMSELVES DURING THIS TIME

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- **Communication** is always important. It is critical at this time of crisis, and creates an opportunity to create long-term trust between leaders and teams
- Consider increasing the frequency of meetings (remote) with teams and consider doing this through daily huddles (calls?)



- **Leverage Technology** – The pandemic is creating opportunities to leverage technologies to usher in the company's digital transformation
- Tools such as Zoom, TEAMS, SharePoint can be leveraged now and in the future to increase productivity and efficiency



- The relative downtime resulting from the pandemic provides an opportunity for **internal systems and process reviews**.



# CONCLUSIONS



# THIS TOO SHALL PASS

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- The economic and social impact of COVID-19 has yet to be realized, but it will eventually pass.
- Empathy towards staff and clients will be critical to get through this
  - Be flexible with staff and consider work from home policies
  - Work with your clients in order to understand them and their situation, which also allows you to evaluate your own risks.
- Communicate honestly and often with staff regarding the company's VISION and status
- There are opportunities for companies to improve internal processes, strategize, conduct cost analyses and digitally transform – take advantage of the time.

# STILL IMPORTANT TO BE PRUDENT

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## Review Expenses

- Conduct a review of expenses and see if there are areas to easily save, especially:
  - Office space/rent
  - Memberships
  - BD activities with low ROI

## Control Costs

- Set specific KPIs for controlling costs
- If you do not have a financial controller or CFO, consider filling the roles

## Safeguard Chops

- The company chops are powerful and can be used to make contractual obligations for the company. Many managers/owners may find themselves unable to enter China
- It is important to have control over the chops – through internal controls or through having them held by a 3<sup>rd</sup> party

# WE ALL NEED TO DO OUR PART TO PREVENT THE FURTHER SPREAD OF COVID-19

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**Regularly Wash Hands**

<https://www.cdc.gov/handwashing/index.html>



**Don't Touch Face**

<https://www.bbc.com/future/article/20200317-how-to-stop-touching-your-face>



**Social Distancing**

Stay 1.5-2 meters away from others

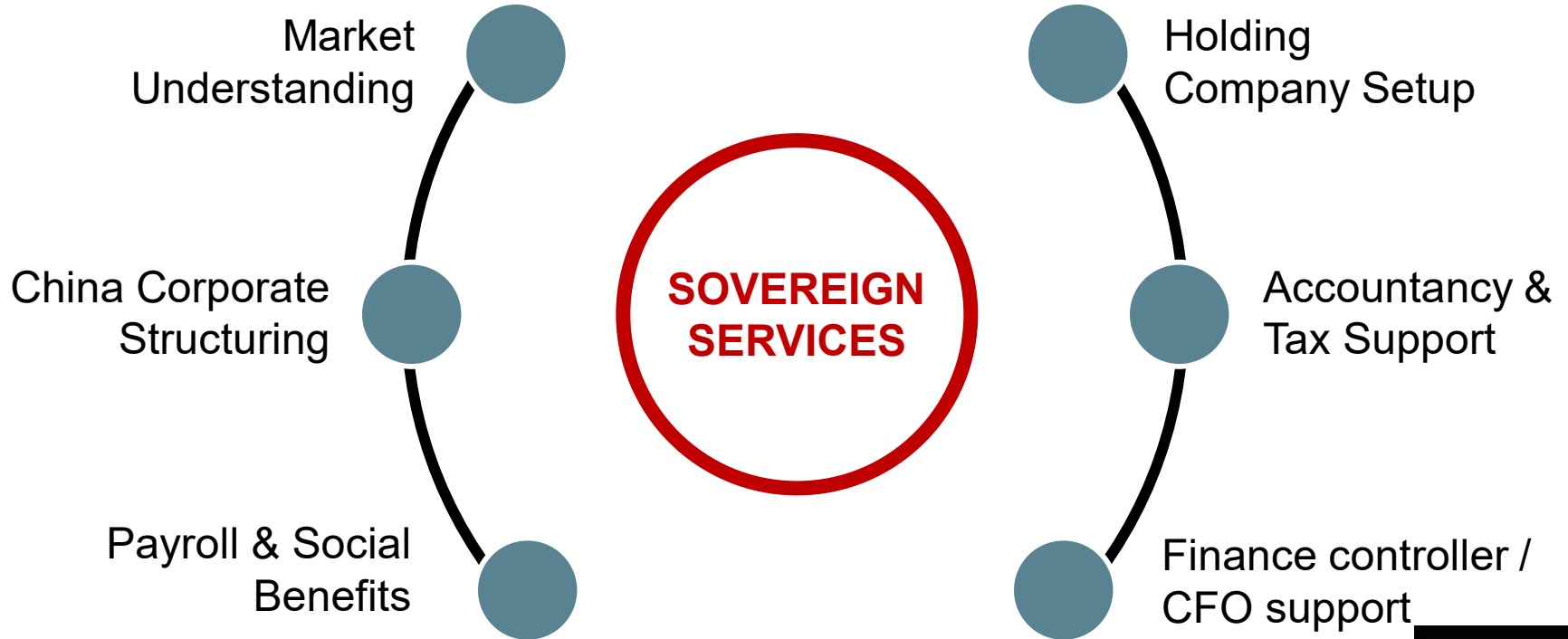
# RESOURCES





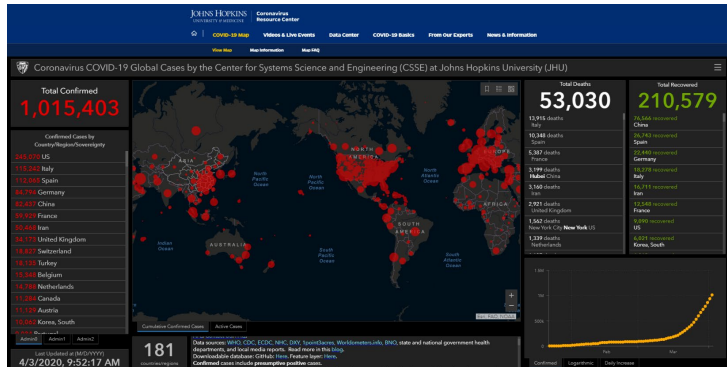
# SOVEREIGN IS YOUR PARTNER

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# MANY WEBSITES AVAILABLE WITH UPDATES ON THE SITUATION

- WHO Situation Reports: <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/situation-reports>
- National Health Commission of the PRC: <http://en.nhc.gov.cn/>
- List of Beijing government Bureaus (EN): [http://www.ebeijing.gov.cn/Government/Departments/default\\_1.htm](http://www.ebeijing.gov.cn/Government/Departments/default_1.htm)
- Shanghai Municipal Health and Family Planning Commission: <http://www.shanghai.gov.cn/shanghai/node27118/node27386/node27400/node27849/userobject22ai38982.html>



## Johns Hopkins University Global Case Tracker:

<https://coronavirus.jhu.edu/map.html>

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