

TOP 10 Corona topics in China

How we can support you in China

Cologne / Shanghai, May 2020

We also support you in China in times of Corona

- While many countries are still in the middle of the fight against the COVID-19 pandemic, the situation in China seems to be normalizing to some degree. Life within China is gradually getting back on track despite continuing restrictions.
- Our office in Shanghai and our China team in Cologne supported our clients, even during the weeks of restrictions since the Chinese spring festival with the many questions, which came over us all in the course of the corona crisis.
- The following pages summarize the **TOP 10 corona topics in China**, which we and our clients have been intensively confronted with in recent weeks and which continue to play an important role in everyday working life in China.
- We provide you with up-to-date first-hand information and practice-oriented recommendations for your most urgent legal questions.
- Feel free to contact us at any time to find out how we can support you in maintaining business operations in China or with respect to any other China-related issues !

Our China News with frequently asked questions and answers about the coronavirus can be found here:
<https://www.luther-lawfirm.com/en/newsroom/newsletter/detail/coronavirus-legal-implications-for-companies>

Our China country page with further information about our office in Shanghai and our China Practice in Germany can be found here:
<https://www.luther-lawfirm.com/en/competences/corporate-services/detail/china>

TOP 10 Corona topics in China

- Compliance & social credit system
- Interim support for investment controlling
- Supply chain disruptions / force majeure
- Payment defaults and restructuring
- State aid and financing
- Short-time work and staff reductions
- New forms of working: home office
- Travel and entry restrictions
- Protective equipment and export control
- Opportunities through market opening and M&A

Compliance & social credit system

Current Situation:

- The COVID-19 pandemic is forcing almost all companies to add another division to their in-house compliance system. Depending on the industry and size, the new "health compliance" system includes: organization of management responsibilities, social distance and shift regulations, temperature measurements, recording of employee health data, reporting obligations, etc. The new requirements should be reflected in internal organizational instructions and company regulations. Easing or tightening up of these requirements is possible at short notice. In other areas, requirements are currently lowered or less strictly controlled, for example in environmental protection.
- The ongoing improvement or even the first-time establishment of operational compliance programs goes hand in hand with efforts to improve the ranking in the rating and listing systems of the authorities or at least to avoid downgrading. This also applies to information and assessments in the electronic information system of the "State Administration for Market Regulation", one of the pillars of the "social credit system".

Our Support:

- Create or update operational contingency plans
- Adapt the organization and employee handbook to the new circumstances and requirements
- Support in fulfilling public law obligations to prevent and control epidemics
- ‚Best Practice‘ recommendations on the social credit system: Review and advice on the further development of existing compliance systems
- Support in dealing with a negative rating or improving the rating in corona times

Interim support for investment controlling

Current Situation:

- Due to existing travel and entry restrictions in China (as in the rest of the world), it is no longer possible to send employees from Internal Audit or for board meetings from Germany or other locations to China until further notice. At present, local management is on its own and can only be controlled "remotely".
- However, maintaining the flow of information is particularly important in times of crisis. Correct and regular reporting is indispensable when managing subsidiaries from a remote location. Outsourcing certain business support processes to professional external service providers can help to maintain an overview in the current situation.

Our Support:

- Support in communication with local employees on site and with their reporting
- Assumption of executive and supervisory functions (interim manager, supervisor) or during a transition phase
- Outsourcing of financial and payroll accounting, tax declaration obligations, official reporting requirements and other back-office functions to our Corporate Services team
- Support in the handling of banking and payment transactions
- Support in dealing with authorities and procedures that require a personal appearance
- Ensuring compliance with old and new compliance regulations to avoid liability and fines

Supply chain disruptions / force majeure

Current Situation:

- The COVID-19 pandemic has a significant impact on the fulfillment of many commercial contracts and other obligations. In many cases, the contractual partners in China invoke force majeure to be released from their contractual obligations or to be able to terminate a contract completely.
- In individual cases the legal situation is quite complex and general statements cannot be made here. Before asserting claims, terminating contracts or negotiating an amicable solution, the factual and legal situation should therefore be carefully examined.

Our Support:

- Advice in relation to outstanding deliveries / payments or continuing obligations
- Review of force majeure clauses in contracts
- Application for force majeure certificates
- Advice on the development of a negotiation strategy with business partners and landlords
- Representation in court and arbitration proceedings by our lawyers admitted to practice in China

Payments defaults and restructuring

Current Situation:

- The corona pandemic represents an enormous stress test for many companies in China, which not all companies will pass. The number of insolvencies will rise sharply also in China, even though the courts and authorities generally "hold up" insolvency applications and urge debtors and creditors to restructure outside formal reorganization or insolvency proceedings.
- In practice, we see many rescue operations in China through corporate restructuring and payment settlements or moratoria. Joint ventures often cause particular difficulties. Legal disputes increase in times of crisis, but the judicial enforcement of claims in China continues to pose major challenges.

Our Support:

- Support in the enforcement or defence of claims
- Development of negotiation strategies with creditors / debtors, banks and insolvency administrators
- Support in the preparation and implementation of restructuring measures and in negotiations with employee representatives
- Advice on a new set-up of your China engagement
- Support with respect to an exit from joint ventures
- Representation in court or in arbitration proceedings by our lawyers admitted in China

State aid and financing

Current Situation:

- Since February 2020, the central government in Beijing and government agencies at provincial and local levels have taken numerous measures to promote business and introduced a number of measures to stabilize the economy and support the struggling labor market. However, these measures are piecemeal in comparison to the massive aid packages of the Western industrialized countries.
- Companies can receive direct help or easier access to bank loans to help them survive the crisis. Some local governments and investment zones offer additional support or incentives for businesses, particularly to help safeguard jobs.

Our Support:

- Advice on the possibilities for taking advantage of state aid measures
- Assistance in applying for tax relief and exemption / deferral of social security contributions
- Assistance with shareholder loans and exchange control
- Legal analysis of financing agreements
- Support in negotiations with banks, local authorities or industrial zones

Short-time work and staff reductions

Current Situation:

- Due to the COVID-19 outbreak and the associated plant closures and declining sales, many companies have to consider staff reductions or short-time work. In China there is no official regulation on short-time work (and no corresponding state aid) as in Germany but in practice creative individual agreements are possible.
- Staff reductions are subject to strict regulations in China, and in the current situation the authorities are urging companies to avoid layoffs as far as possible.

Our Support:

- Advice on legal requirements and negotiation strategy
- Drafting of individual agreements (reorganization of working hours and rest days, wage reduction, postponement of salary payments, special payments, etc.)
- Advice on staff sharing models (temporary employment)
- Preparation of contract adjustments and new employment contracts
- Support in negotiations with employees, employee representatives, the company union and the local labor authority
- Representation at the labor courts

New forms of working: home office

Current Situation:

- During the state-ordered closures of factories and exit restrictions, millions of employees in China have been working from home. As digitalization progresses and probably accelerated further by the COVID-19 crisis, the proportion of employees working from home will increase.
- The new forms of working entail a number of regulatory requirements which are not made any easier by the new "corona rules": data protection, confidentiality of company data and cybersecurity are just some of the legal aspects that must be considered.

Our Support:

- Review of the data protection regulations for the collection of employee data
- Examination of the impact on existing security evaluations and classifications under the MLPS system
- Adaptation of employee handbooks, e.g. with regard to confidentiality while working from home
- Advice on employer protection obligations when working from home
- Creation of a code of conduct for working from home

Travel and entry restrictions

Current Situation:

- The focus of epidemic prevention has now shifted to China's borders, resulting in increased entry controls, health checks and entry bans. An entry ban was imposed on all foreigners with effect from 28 March 2020. Without exception, citizens entering the country must remain in inpatient quarantine for 14 days, in Beijing currently 14+7 days.
- The general entry ban also applies to expats with an existing visa or residence permit. With this regulation, all previously issued visas and residence permits lose their validity upon departure from China, and thus, at present, practically no more departures of foreigners living in China take place.

Our Support:

- Review of existing visas and application for new ones
- Guidance on applicable quarantine regulations
- Requests for exemptions
- Assumption of corporate functions (interim manager) during a transition phase

Protective equipment and export control

Current Situation:

- As a result of the COVID-19 pandemic, procuring protective equipment and ensuring the supply of medicines and other medical products has become one of the most urgent tasks of state institutions, but also of many companies. The world market is currently dominated by Wild West methods and there are countless legitimate traders and intermediaries as well as dubious players.
- Special licensing requirements apply to the export of medicines and protective equipment. In addition, official quality controls have been introduced to prevent the delivery of defective goods, which has made exports more difficult.
- Under the draft of the new export control law, which is expected to be adopted shortly, the authorities will be given the power to impose export restrictions with sometimes questionable scope for assessment.

Our Support:

- Research on suppliers and trading partners in China
- Legal information on CE certifications and test institutes
- Drafting and reviewing of supply contracts for protective equipment and other medical devices
- Advice on the regulatory requirements with regard to the import and export of medical devices

Opportunities through market opening and M&A

Current Situation:

- China urgently needs foreign capital to overcome the corona crisis and the National Development and Reform Commission (NDRC) has already signaled that there should be a further easing of restrictions as well as tax breaks for foreign investors.
- Every crisis also offers opportunities. German companies have traditionally been rather reluctant to make acquisitions in China, but now there may be new opportunities by taking over domestic or foreign competitors, buying out the joint venture partner or expanding into new business areas.

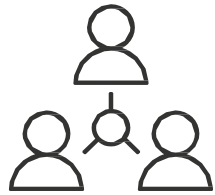
Our Support:

- Review of existing and new regulatory requirements for foreign direct investment / takeovers
- Advice in negotiations with regulatory authorities and industrial zones
- Support in adapting existing joint venture contracts or in negotiations with the JV partner
- Advice on the establishment of companies or on M&A activities
- Comprehensive legal and tax advice and provision of corporate services by our lawyers, tax advisors and accountants

Luther.

About Luther

Facts & Figures

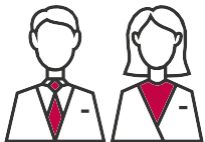


Close long-term relationships

With renowned commercial law firms worldwide

10

International offices at important financial centres and investment locations

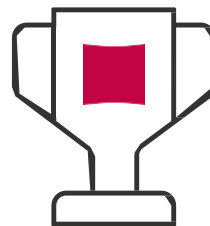


420

Lawyers and tax advisors

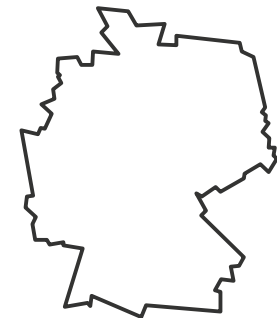
Frequently

Listed in specialist media as leading and recommended advisors



10 offices

At important German economic centres



Luther is a leading German commercial law firm that offers comprehensive legal and tax services. Our clients include medium-sized companies and large corporations, as well as the public sector.

www.luther-lawfirm.com

Awards

Our firm is nationally and internationally distinguished and decorated.

68 Partners ranked in „The Legal 500 Germany 2019“

For the 8th year
In a row, Luther was included in the “GAR100”



12 Partners listed in „WHO'S WHO LEGAL“

26 Partners recognized as „Best Lawyers“ International

12 Practice areas ranked in Chambers

Law Firm of the Year 2019 by German legal publisher JUVE

Our China Practice

China Team with German and Chinese lawyers in China und Germany



Further information

Our China News with frequently asked questions and answers about the coronavirus can be found here:

<https://www.luther-lawfirm.com/en/newsroom/newsletter/detail/coronavirus-legal-implications-for-companies>

Information on the legal implications for companies in Germany and other countries can be found on our coronavirus topic page:

<https://www.luther-lawfirm.com/en/competences/consulting-fields/detail/corona-virus-covid-19>

Our China country page with further information about our office in Shanghai and our China Practice in Germany can be found here:

<https://www.luther-lawfirm.com/en/competences/corporate-services/detail/china>

The screenshot shows the Luther law firm website. The header includes the Luther logo and navigation links: About us, Expertise, Team, Newsroom, Career, Contact. A secondary navigation bar contains: Press Releases, Events, Blog, Articles, Newsletter, Luther Internal. The main heading is 'Coronavirus: Legal Implications for Companies'. On the left, there is a purple box labeled 'China News' with the subtext '1. Quarter 2020'. To the right, a list of links is displayed with dropdown arrows: Labor Law Policies, Labor Law – FAQ, Commercial Law – FAQ, Tax Relief Measures, Links, and Contact Persons.

The screenshot shows the Luther law firm website's 'China' page. The header includes the Luther logo and navigation links: About us, Expertise, Team, Newsroom, Career, Contact. A secondary navigation bar contains: Industries, Practice Areas, Digitalisation, International. The main image is a panoramic view of the Shanghai skyline at dusk, featuring the Oriental Pearl Tower and the Shanghai Tower. Below the image, there is a '<< Back' link and the word 'China' in large red font. At the bottom left, a short paragraph reads: 'China has become an integral part of the global economy. The second largest economy in the world is'. On the bottom right, there is a 'Key Contact' section with a small circular profile picture.

Luther.



Hits the Mark. Luther.