



Survey Report: Impact of COVID-19 Situation on Business

A&Z conducted a survey to understand the impact of COVID-19 on businesses, including the impact on the production and operation of enterprises, economic effects, HR issues, emergency management, among other aspects. The aim of the survey is to learn more about how companies have been affected and are already grappling with and addressing the many issues being uncovered, as well as understand the long-term impact this could eventually have on a business model and operating processes.

The survey was conducted from 4 to 20 March, 2020. Companies participating in the survey belong to different industry sectors operating in China. Companies owners were both Chinese and foreigners (European, American and Japanese).

This report is intended to provide business leaders with a perspective on the current situation and the implications for enterprises. It should be noted that the situation is constantly evolving, and some of the arguments and facts presented in this report may fall rapidly outdated. The report was prepared on March 27th, 2020. Our perspective is based on the survey results and our industry expertise. It is just one view and others could review the same facts with a different approach.

A&Z COVID-19 Client-Responding Group would like to warmly thank you all the participants for their kind time and support.

A. Extent of Impact

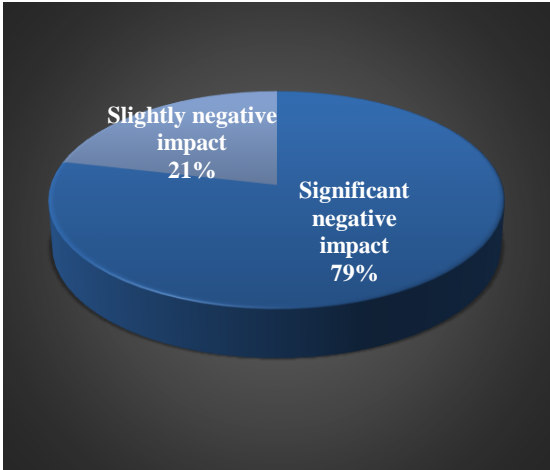


Chart A: The impact of COVID-19 situation on business

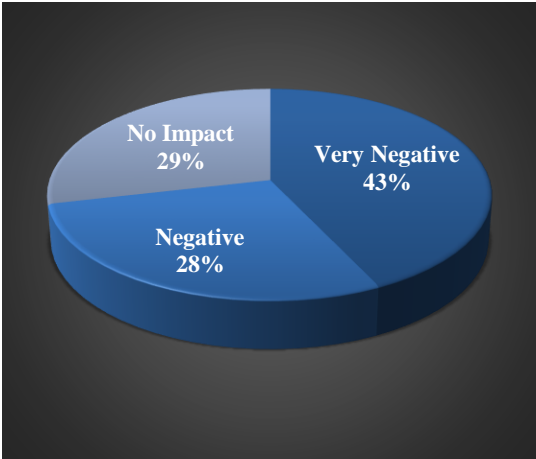


Chart B: The Impact of COVID-19 situation on current business production, supply chain, and or local partners

According to the data of *Chart A*, around 80% of enterprises considered that COVID-19 caused a significant negative impact on their business, while 20% of enterprises estimated a slightly negative impact. When asking for more specifics matters such as the impact on business production, supply chain, and local partners, *Chart B*, the majority of participants answer negatively: 43% of enterprises indicated a very negative impact and 28% negative. Nevertheless, 27% of the respondents expressed that COVID-19 has no impact on their business.

The above results could be explained since China’s national and local administrations took numerous severe prevention and control measures to respond to COVID-19, such as delaying the resumption of work and quarantine, travel restrictions, and social-distancing measures. All of them had a direct impact by preventing a large number of companies from operating normally, consequently, their business production, supply chain, sales and local partners were also influenced by the situation. A sharp fall in consumer and business spending have affected several manufacturing and service sectors such as hospitality, aviation, food and beverage, retail, logistics, oil (energy consumption), automobile, among others. All in all, it is understandable that the majority of participants indicated the situation had a negative impact.

Despite the fact that numerous companies have been, somehow, affected by the current situation,

there are a few industry sectors that are less negatively impacted or are even exploring different business opportunities. For instance, certain companies belonging to insurance, pharmaceutical (equipment), and e-commerce business sectors expressed to receive less impact from the current situation. However, these should not be understood as a general trend since there is existing data that suggests these cases may be the exception, for example, [Deloitte survey results](#) on the impact of COVID-19 on China's pharmaceutical industry show different outcomes.

The impact on businesses will depend on how quickly the virus is contained, the actions authorities take, and the government's policies and measures deploy to support the business sector. The epidemic situation is gradually under control [shows Chinese data](#) and [Hubei local government announcement](#) on lifting travel restrictions on residents after more than two months of lockdown. China's national and local authorities are looking at the current economic impact and [announcing favorable policies](#) to support certain sectors, e.g. aviation, provide special-purpose loans to companies facing liquidity constraints, in addition to tax, financial and HR policies.

The economic impact is not limited to the Chinese market anymore, Europe and America are already suffering from quarantine and lockdown measures. Worldwide situation will also affect the Chinese market, hence, it is advisable that business leaders react and adapt rapidly to the current situation, for example, readjusting business plans and operations, developing emergency safety and management plans, as well as reviewing commercial contract terms and conditions.

B. Aspects of the Impact of COVID-19

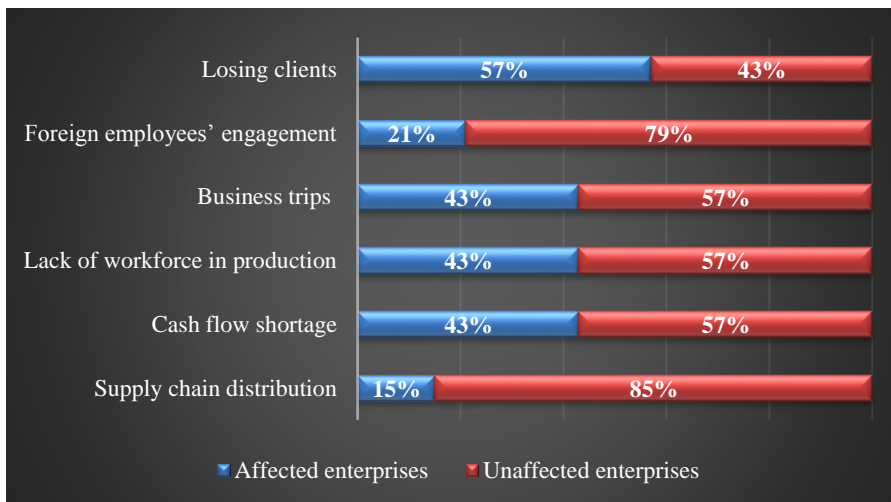


Chart C: Impact of the postponement of getting back to work on business

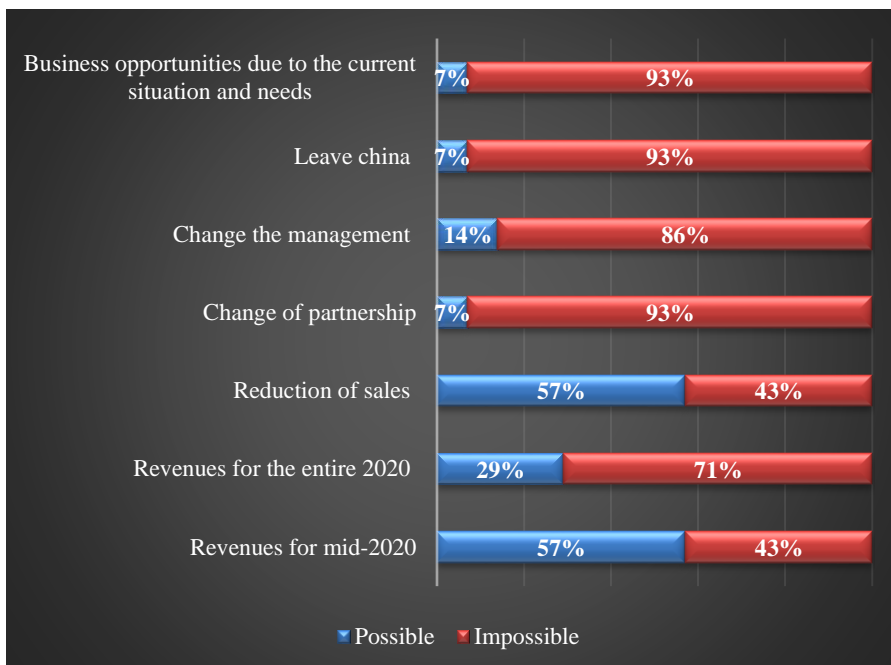


Chart D: The prediction of the impact of COVID-19 situation on business and operational strategy during Q1 and Q2

China's government implemented policies of delayed resumption of work to control the spread of COVID-19. Due to these measures, companies faced several issues, data of *Chart C* shows as follows: 57% of enterprises encountered the problem of losing clients, while 43% could not carry out business trips, suffered lack of workforce in production, and shortage of cash flow. Other impacts reflected in the results of the present survey, although lower percentage, were failure to conduct foreign employees' engagement with 21%, and disruption in the supply chain distribution with 15% responses.

Chart D data shows that 57% of participants predicted that revenues for mid-2020 would be

affected, while the reduction of sales is expected. Besides, one-quarter of the companies forecast that revenues for the entire 2020 will be affected. Moreover, when assessing the operating strategy of the enterprises, 14% of respondents estimated that companies' management will be modified.

A more negative approach appears when some enterprises indicated that they will stop operations in the Chinese market, however, on the bright side, the same percentage (7%) expressed new business opportunities are emerging for them from the current situation.

There is no doubt that delayed resumption of work directly influenced many aspects of daily operations and businesses. A large number of enterprises were shut down causing a sharp drop in sales. Shortage of workforce created disruption in manufacturing, production, delivery, etc., with a correlated impact on companies' revenues and sales targets achievements. Meanwhile, companies have to maintain salary payments, cover rental fees and other expenses, therefore, liquidity and cash flow are one of the biggest impacts suffered by corporates these days.

C. Measures Implemented for COVID-19

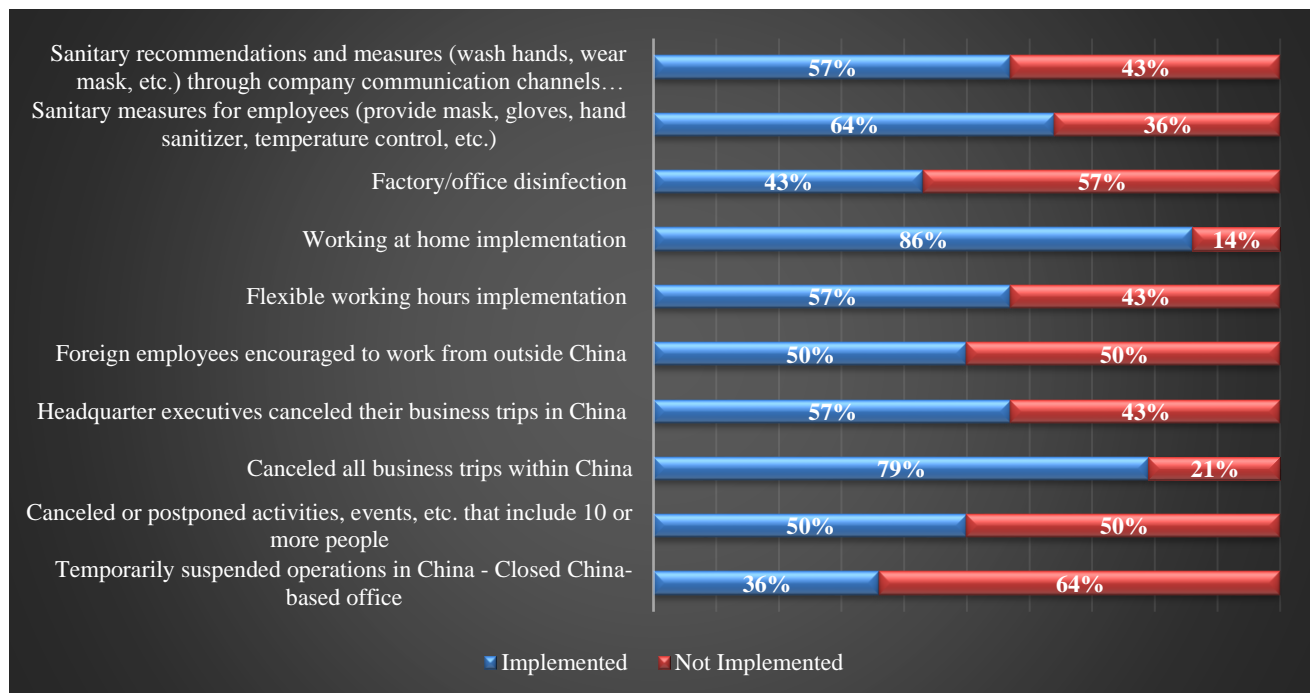


Chart E: Policies and work arrangement implemented to protect employees

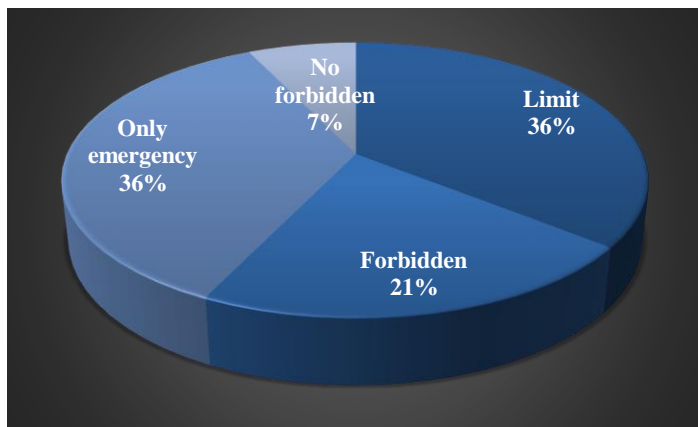


Chart F: Business trips to China during Q1 and Q2

As mentioned above, enterprises took different measures to respond to COVID-19. Based on the data of *Chart E*, 86% of enterprises required employees to work at home and 79% of enterprises canceled all business trips within China (based on the data of *Chart F*, only 7% of enterprises did not forbid or limit business trips to China). More than half of the respondents explained that they implemented measures to control the spread of COVID-19 such as flexible working hours, sanitary measures for employees, disinfection of factory and office, and cancelation of daily operational activities. Even more, 36% of enterprises suspended operations in China temporarily by closing the

China-based office.

Companies have gone under a high level of pressure and re-adaptation. Management was expected to react quickly to the emergency situation. Their first priority was to protect the safety of their employees meaning to define abrupt safety measures, apply to extraordinary coordination between human resources and logistic staff, provide protective gear and sanitizer, while maintaining mindfulness and balance moral support to employees.

After the first emergency stage was overcome, corporates had to create or improve digital communication and coordination with employees. The acceleration to digital initiatives could be understood as a positive effect from the current situation, saving travel costs and even bring more staff together to brainstorm for solutions. Nevertheless, HR department professionals highlight the reduction of productivity and social problems derived from isolation measures. While quickly dealing with internal circumstances, companies must support and respond to customers' needs.

Based on A&Z's expertise, official control measures and favorable policies to support enterprises to deal with the COVID-19 impact are constantly changing along with domestic and international developments. Yet, it is difficult to keep track and adequate grasp all the official announcements, but enterprises must be regularly informed of the latest news by their internal teams or external advisors, so they can identify suitable solutions to tackle the actual situation.

D. Professional Assistance and Recommendations Enterprises required

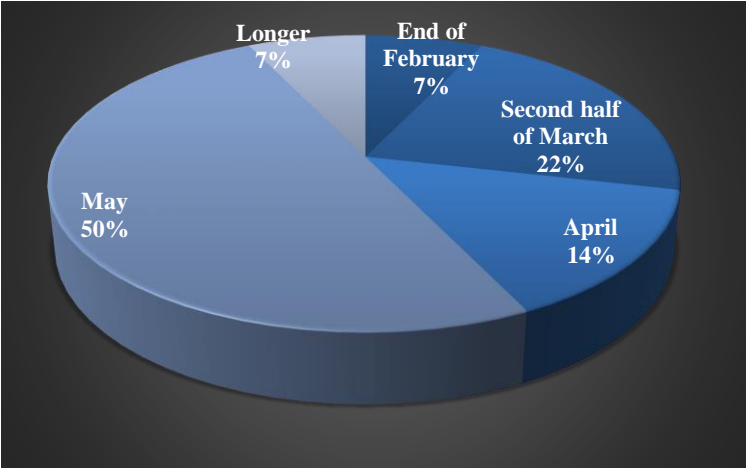


Chart G: Prediction of the time for returning to work

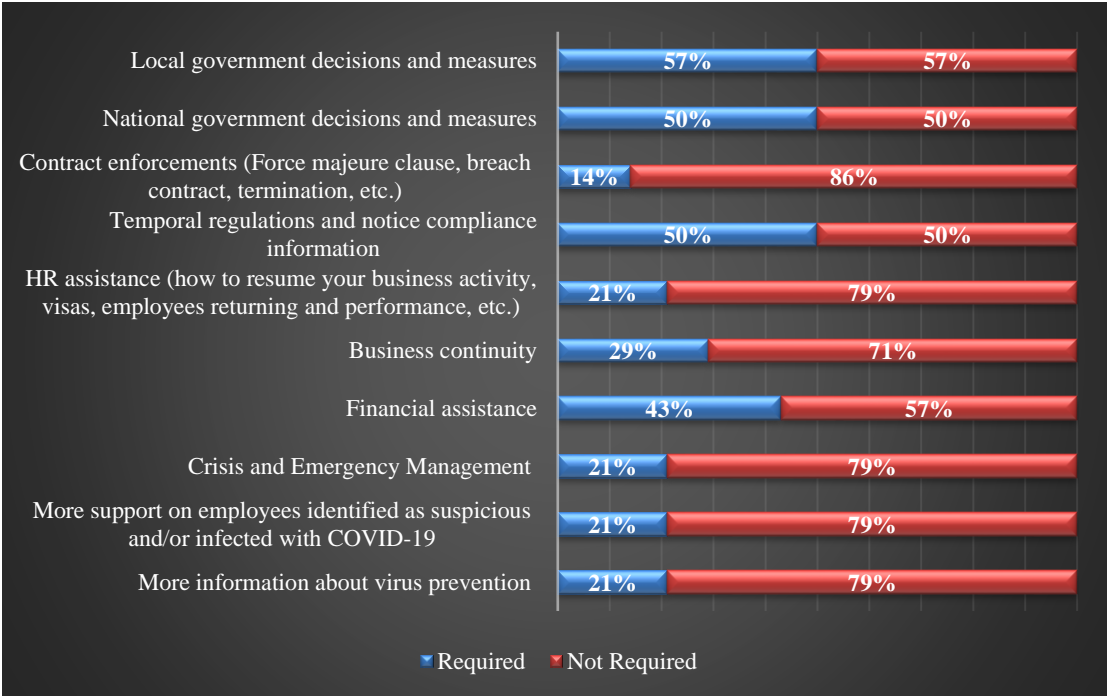


Chart H: The professional assistance or recommendations enterprises wish to receive during COVID-19

According to the data of *Chart G*, less than 50% of the companies responding to the survey indicated that employees could fully go back to work before May. This result shows a relatively pessimistic vision, which could be explained due to the fact that numerous respondents are operating in heavily affected industries, factories impacted by those employees who are lockdown or under quarantine measures unable to go back to work, as well as a significant number of based in Hubei province (A&Z has a branch office in Wuhan) and Guandong (many companies have

factories or suppliers in that province). Disparities in the regions and industry sectors clearly reflect responses, consequently, a balanced view of going back to “normal” work, understood as having all the personnel full operative at offices and factories, is reflected in the survey’s outcomes.

Chart H shows responses regarding the professional assistance or recommendations enterprises wish to receive in current circumstances. Half of the participants expressed their wishes to obtain support from both national and local authorities regarding decisions and measures, as well as temporal regulations and compliance information. More specifically, 43% of enterprises indicated the need for financial assistance to overcome the economic crisis suffered as a negative impact of COVID-19 situation, 21% wished to receive more information about human resources, crisis, and emergency management, and 14% highlighted they require advice for contract enforcement.

A significant data to look at it is the fact that about one-third of the respondents expressed they need support to even continue business operations. This indicates a great concern for survival rate of businesses. Yet, this is a relevant indicator for governments, which must act rapidly to implement public policies supporting companies, especially small and medium-size (SMEs), to tackle current and future constraints. At the same time, corporates must readapt business models, strategy and operations. Flexibility, creativity and versatility skills are very much needed in companies during 2020-year.

A&Z has established a COVID-19 Client-Responding Group to compile and provide corporates with the latest and updated China’s information, regulations, and measures during COVID-19 period. This team of professionals constantly publish newsflash, newsletters, and reports. They also support companies providing legal opinions on several matters, e.g. management of human resources, emergency management, logistic and customs barriers, etc., training, commercial contract revisions, among other legal services to support them to faster and adequately adapt to the special circumstances and prevent higher risks.

Companies can contact our attorneys via A&Z focal point contacts depending on the preferable language (see below details). Our team will be delighted to support your company in the endeavor of overcoming current barriers and developing businesses while being in compliance with current laws and regulations.

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