



China Business Snippets

August 24th, 2020

LEHMANBROWN
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International Accountants

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This snippets firstly talks about E-commerce in China, which has been doing surprisingly well with 742m annual shoppers purchasing from Alibaba, gaining a 34% increase in revenue year on year, as it competes JD.com's 628m customers, and up and coming Pinduoduo. ([FT](#)) These numbers are a positive sign of a functioning market which has plenty of opportunities for business to take.

It then talks about risk, and how business can address their risks whilst not being able to travel to China and with less oversight over China operations. According to a recent release from the [EU Chamber of Commerce in China](#), there is an estimated 250,000 experts stranded outside of China. Companies, therefore, need to address their overall oversight from a compliance, management and oversight perspective.

China Investments and Market Access

It is expected that China will continue to grow as it opens new opportunities in different industry sectors and markets for foreign businesses. As recently announced the Negative List that provides details of what international companies can or rather cannot do in China has been greatly reduced. An example is accepting foreign investments in the healthcare and tech sectors.

Another opportunity for international businesses and SMEs to access the Chinese market is via the E-Commerce Pilot program. Where SMEs do not necessarily need a legal entity in China, while providing the ability to export their products to China, increase sales, and enjoy tax incentives.

For companies who need to be in China but will use online or channel platforms for sales and whole distribution and logistics solutions, they could look to establish a Representative Office (RO which operates as a branch) to have boots on the ground for liaison and coordination of this business model. An RO is easier to set up than a company and has fewer compliance requirements. Goods are shipped directly from overseas to the logistics provider for completion of sales orders.

Recommendations

For online sales, establishing e-stores within the likes of TMall and JD.com, the two largest platforms, which can accommodate international products on their platform while taking care of logistics in mainland China. Another solution for sales is TaoBao. They offer options for sales and logistics handling, and it is therefore recommended to assess which business model provides the best solution in terms of access to potential customers, logistics for the products to be sold, etc..

Before entering China, it is also recommended to firstly register trademarks for brands and company names, and to review any intellectual property issues. Market research must be carried out to assess the potential market, any niching with the brand or story, and which platform best reaches the right potential customers for marketing, which channel, is a WeChat account needed to sell the story for instance. The beauty of the e-platform is that the potential sales are large, but the financial risk on market entry is small.

Reducing Risk With Audits of Internal Procedures

Through a crisis like that of Covid-19 the overseas management of any business has to take care of all the requirements actively, whilst not having the same oversight that would typically be in place. For example, collecting, notarizing, authorizing, and chopping of contracts and agreements, to know what is being approved on their behalf.

Policies, Process, and Procedures must be reviewed while implementing Internal Controls and ensuring that systems are operating correctly to capture data and provide information. These should strike a balance between risk reduction and productivity.

Until normal life comes back and international travel resumes, any decision making positions need to ensure that the processes are in place so that there can still be direct oversight of the business. This is not only for preventative measures against fraud but also for having an accurate understanding of the business and timely and accurate information to allowed informed decision making.

Documentation of the policies, processes, procedures, internal controls and systems is a good starting point, and even if these are already in place, many companies do not review these regularly to adapt and adjust to the current situation. Companies should, therefore, carry out reviews of these regularly, and especially during Covid. Any changes should be communicated across all levels of the organization that are affected by the changes. And regular internal audit reviews, either from head office, or where travel is not possible, outsourced to China professionals to carry out an analysis on their behalf.

Recommendations

The best solution for pinpointing areas where fraud or other risks may arise would be to conduct both Internal and External Audits.

An External Audit makes sure that all requirements of local laws and regulations are being followed while making sure that financial statements meet the applicable accounting standards. Such Audits provide business assurances that the business is not at risk legally and also if there are any internal controls which may need improving or additional segregation of duties required, adaptations can be made.

Meanwhile, an Internal Audit will thoroughly evaluate specific or all internal working controls and the effectiveness of the business' risk management capabilities. The scope of the Internal Audit can cover any perceived or suspected risks or give an understanding of a specific part of the business and is very bespoke according to the companies, management and operational needs.

Find Out More

In case you missed the last week's snippets you can find them by clicking the [link here](#).

If you would like to find out how your business can apply the recommendation discussed here, please send your enquiries to enquiries@lehmanbrown.com.



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LehmanBrown combines years of international expertise with practical China experience and knowledge, offering expert advice and support to both local and international clients. We are committed to providing individually tailored financial and business solutions for each of our clients, recognizing that each client is different. Through offering “whole of life” services, LehmanBrown offers clients assistance throughout every step of their business life cycle, from pre-conception to afterlife. LehmanBrown is registered with the PCAOB in the US and is able to conduct SEC work, as well as being accredited by accounting bodies in the UK and Australia.

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综合多年的国际经验以及对中国市场的深刻理解和洞察，我们致力于为本地区及国际客户提供高质量的专业服务和支持。我们了解每位客户都是独一无二的，承诺为每一位客户量身打造适合自身的财务和商业解决方案。从前期策划到市场退出，雷博通过提供“全生命周期”服务，为客户在不同商业生命周期的每一个阶段提供协助。雷博在美国公众公司会计监督委员会（PCAOB）已注册，有资质开展美国证监会（SEC）相关工作，同时在英国和澳大利亚也得到会计方面的专业认证。

Professional Services

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[China Statutory Audit](#)

US GAAP Audit

IFRS Audit

Hong Kong Statutory Audit

[Internal Audit](#)

Fraud Investigation

Forensic Accounting

[Special Purpose Audit](#)

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Cash Flow Management

Chop Custodian Services

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Updating Company Certificates

Annual Inspection & Reporting

Company Secretarial Services

Company Ownership Transferring/Corporate

Restructuring Background/Credit Checking

Company Deregistration & Bankruptcy

HR Support Services

China Visa Services for Expatriates

Social Welfare Structures

Outsourcing Services

Accounting & Bookkeeping

Budgeting & Forecasting Financial Statement

Preparation Head Office Reporting

Financial Management

Interim Financial Management Finance

Manager Function

CFO Function

Treasury Management

Set-up of Bank Account

Payroll Services

Payroll Processing Setup

Expatriate Employees

Local Employees

Secondment & Temping Service

Taxation Services

Individual Tax Planning (IIT)

Tax Immigration & Investment Review

US & Overseas Personal Income Tax Planning
& Filing IIT Tax Payment Facilitation

Application for Individual Income Tax Refund

Expatriate Staff Individual Income Tax Staff

Filing Local Staff Individual Income Tax

Company Taxation (CIT)

[Tax Consulting](#)

Corporate Tax Planning

Business Restructuring

Value Chain Review

Onshore / Offshore Investment

Transfer Pricing

[Tax Compliance](#)

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

Tax Representatives for Tax Audit

VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

Corporate Income Tax Reporting

Specialist Accounting & Risk Management

Internal Controls

Systems

Risk Management

Sarbanes - Oxley (SOX 404)

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US GAAP Financial Statement Preparation

US GAAP Conversion

[Other GAAP](#)

GAAP Conversion

Public Company Compliance

Financial Statement Preparation

[IFRS](#)

IFRS Accounting Repackaging

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IFRS Public Company Compliance

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Legal Services

Legal Advisory

[Labour Legal Advisory](#)

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