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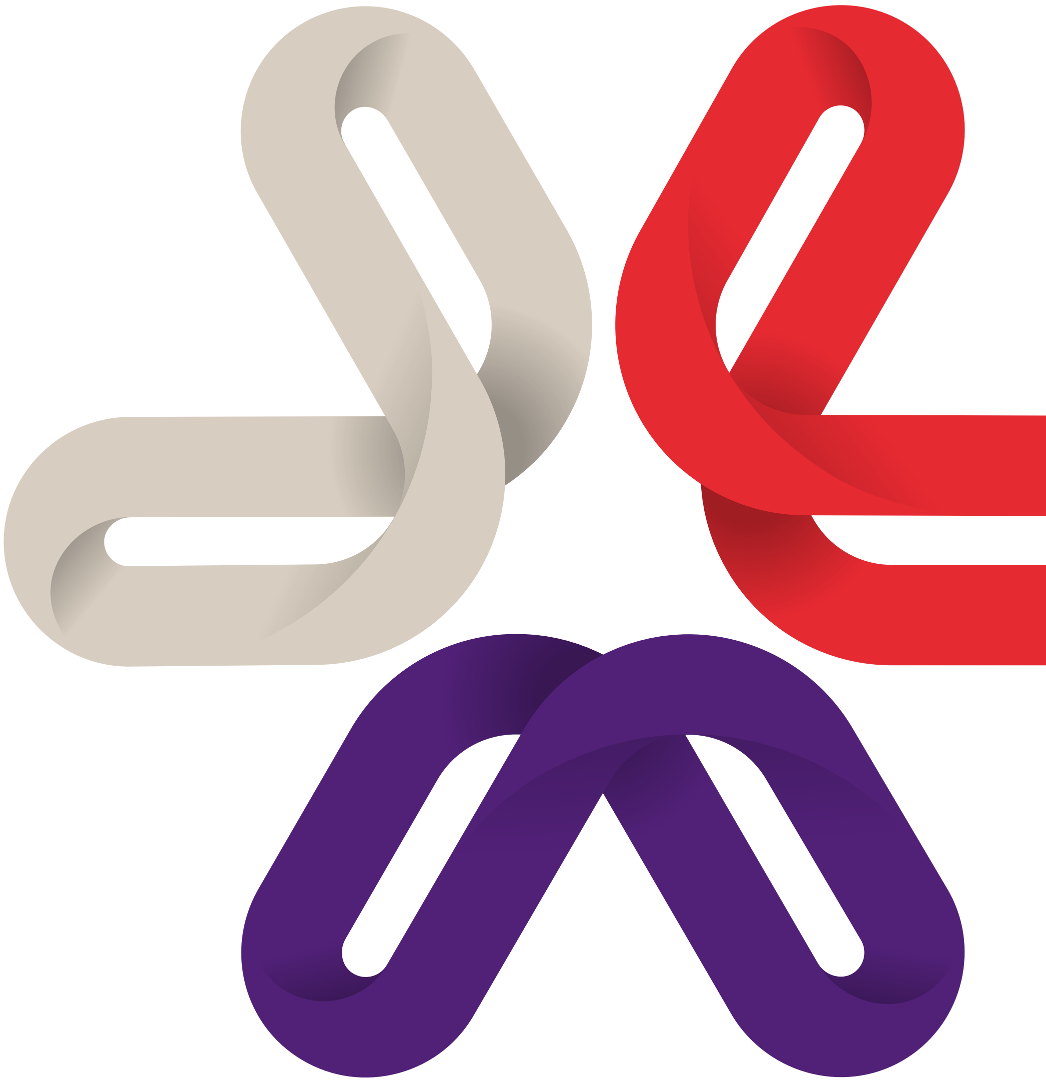
In collaboration with
CHINA DAILY

投英 Tou Ying Tracker 2017

The latest trends in Chinese investment in the UK



About the Grant Thornton 投英 Tou Ying Tracker

The Grant Thornton Tou Ying Tracker, developed in collaboration with China Daily, identifies the fastest-growing Chinese companies in the UK as measured by percentage revenue growth year on year, based on the latest published accounts filed at 6 October 2017.

It includes UK-registered companies with turnover of more than £5 million and a minimum two-year track record that are 50% or more owned by an entity or individual in mainland China.

Chinese investment helps shape a vibrant UK economy

This is the fifth edition of the Grant Thornton Tou Ying Tracker, which identifies the fastest-growing Chinese companies in the UK. Since we published the first Tracker five years ago, Chinese investment has driven growth and created jobs in many sectors, helping to shape a vibrant economy across the UK. The 30 companies in this year's Tracker have a combined turnover of over £11 billion and employ more than 5,000 people.

Once again, we have divided investors into two categories: state-owned enterprises (SOE) and private companies. Private companies continue to play a growing role in the story of Chinese investment in the UK. A £1.4 billion investment by Ctrip, the Chinese travel services company, to acquire Skyscanner is one of the stand-out deals in this year's private-company category.

The SOEs, for their part, continue to make major investments and achieve impressive growth. The China National Offshore Oil Corporation (CNOOC) is the fastest-growing company in the 2017 Tracker, with growth in revenue of 809%, while several other SOEs, including China Mobile International (UK) Ltd and COFCO (UK) Ltd also achieved triple-digit growth.

Since its launch in 2013, the Chinese government's Belt and Road Initiative has formed the backdrop for Chinese outbound investment. The UK's location at the very end of the new 'Silk Road' has helped to bring some of this to the UK. At the G20 Hangzhou Summit in September 2016, President Xi Jinping and the UK Prime Minister, Theresa May, reaffirmed their shared commitment to continuing to make the next decade a 'Golden Era' for trade and co-operation between the two countries.

The Tou Ying Tracker celebrates the success of individual companies investing in the UK. Special congratulations are due to a number of companies that have appeared in several editions of the Tracker. China Telecom (Europe) Ltd and China Unicom (Europe) Operations Ltd made the list of fastest-growing companies for four years running, from 2013–2016. Congratulations are due too to Agricultural Bank of China (UK) Ltd, Holroyd Precision Ltd, ICBC (London) plc and PetroChina International (London) Ltd, which each appeared in the Tracker three times between 2013 and 2016.

We congratulate all the Tou Ying Tracker companies on their outstanding contribution to the UK economy over the past five years. We look forward to tracking their role – and those of new Chinese investors who will help the UK forge a future as an outward-looking, global trading nation in the years ahead.

Simon Bevan
Head of China Britain Services Group
Grant Thornton UK LLP

投英 Tou Ying Tracker 2017 in numbers

129%
average growth in revenue achieved by the 30 fastest-growing Chinese businesses in the UK.

6 out of 15
of the fastest-growing SOEs are in the financial services sector, and 4 out of 15 are in energy and utilities.

£11+ billion
combined turnover of the 30 fastest-growing Chinese businesses in the UK.

6 out of 15
of the fastest-growing private companies are in the technology, media and telecoms sector, with travel and hospitality, and manufacturing the next most popular sectors.

24
fastest-growing companies in the Tou Ying Tracker 2017 are new entrants. Four of the companies in this year's SOE category have appeared in previous Tou Ying Trackers. Two of the companies in the private category have appeared before.

19
of the 30 companies in the Tou Ying Tracker 2017 are based in London.

UK's fastest-growing Chinese companies in brief

The top 15 fastest growing state-owned enterprises (SOEs) grew by an average of

174%

The top 15 fastest growing private companies grew by an average of

71%

A combined turnover of

£11+bn

in 2017

The majority of SOEs are based in London, while private companies are more evenly spread.

Top 30 companies sector breakdown

FINANCIAL SERVICES	7
TRAVEL AND HOSPITALITY	4
TECHNOLOGY, MEDIA AND TELECOMS	7
GRAIN AND SUGAR	1
MANUFACTURING	5
HEALTHCARE	1
ENERGY AND UTILITIES	4
TRANSPORT AND LOGISTICS	1

Over 5,000 people employed by the **top 30** fastest-growing companies

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Top 15 SOEs (in alphabetical order)

Company name	Sector	Region
Addax Petroleum UK Ltd	Energy and utilities	London
Bank of Communications (UK) Ltd	Financial services	London
BOC Aviation (UK) Ltd	Financial services	London
CGN Global Uranium Ltd	Energy and utilities	Central
China Merchants Securities (UK) Ltd	Financial services	London
China Mobile International (UK) Ltd	Technology, media and telecoms	London
China National Offshore Oil Corporation (CNOOC) UK Ltd	Energy and utilities	London
COFCO (UK) Ltd (China National Cereals, Oil and Foodstuffs Corporation)	Grain and sugar	Central
CTS Metropark Ltd	Travel and hospitality	London
Equilibrium Industries Ltd	Manufacturing	South
GF Financial Markets (UK) Ltd	Financial services	London
ICBC Standard Bank plc	Financial services	London
Nanjing Automobile Corporation (UK) Ltd (MG Motor UK Ltd)	Manufacturing	Central
Taiping Re UK Ltd	Financial services	London
UNIPEC UK Co Ltd	Energy and utilities	London

Top 15 Private (in alphabetical order)

Company name	Sector	Region
Alipay (UK) Ltd	Financial services	London
Anker Technology (UK) Ltd	Technology, media and telecoms	Central
Colomer Munmany Europe Co Ltd	Manufacturing	North
Contamac Ltd	Healthcare	Central
Egouexpress Ltd	Transportation and logistics	London
Huawei Global Finance (UK) Ltd	Technology, media and telecoms	London
Ingram Micro CFS Fulfilment Limited	Manufacturing	Central
Kofax Northern Ireland Ltd	Technology, media and telecoms	South
Les Ambassadeurs Club Ltd	Travel and hospitality	London
MP & Silva Ltd	Technology, media and telecoms	London
Pharmaron UK Ltd	Manufacturing	Central
Skyscanner Ltd	Travel and hospitality	North
Splash Damage Ltd	Technology, media and telecoms	London
Travelfusion Ltd	Travel and hospitality	London
We Are Very Social Ltd	Technology, media and telecoms	London

投英 Tou Ying Tracker 2017 overview

Company ownership becomes less clear-cut

In this year's Tou Ying Tracker, the distinction between SOE and private investment categories continues to become less clear-cut. Some businesses are clearly state-owned enterprises, while others are clearly private. But a growing number sit somewhere in the middle and a type of mixed-ownership category is emerging.

Access to cheap government finance means SOEs have been protected to a certain extent from commercial pressures. As they strive to stay agile, they can benefit from working with private companies that have experience of meeting the challenge of competitive markets without government support. On the flip side, private companies joining forces with SOEs benefit, although indirectly, from the state support that SOEs receive.

State-owned enterprises retain focus on financial services and energy

The fastest-growing SOEs continue to be concentrated in the financial services, and energy and utilities sectors. Here, they are able to generate long-term sustainable returns or gain valuable experience of operating infrastructure projects. The exchange rate and economic uncertainty in the UK means investors can currently acquire assets at attractive prices.

In the financial services sector, the fastest-growing SOE is the insurer, Taiping Re. This SOE is clearly benefitting from the agreement made in 2015 between its parent company, China Taiping Insurance Group and Lloyd's, to help the firm expand in the London market.

In energy and utilities, CNOOC is the fastest-growing SOE. CNOOC, which runs two of the North Sea's largest oil fields, has recently become the largest crude oil operator in the North Sea .

Eleven new SOEs entered the Tou Ying Tracker this year. One of the fastest growing, with a growth rate of 357%, is China Mobile International. This SOE has recently launched its Virtual Mobile Network Operator (VMNO) service in the UK, which uses BT's EE mobile network.

Another fast-growing new entrant is COFCO, part of China's international grain-trading group. With a growth rate of 249%, COFCO UK is one of ten SOEs in this year's Tracker to achieve triple-digit growth.

Private companies find new opportunities in travel and hospitality

The three fastest-growing private companies this year are all in the technology, media and telecoms (TMT) sector. Anker Technology, which develops chargers and other products for smart devices, tops the category with a growth rate of 140%. City-based Huawei Global Finance, which manages aspects of international finance for the Chinese telecoms manufacturer, achieved a growth rate of 129%. MP & Silva, which owns and distributes television and media rights for major sports events, achieved a growth rate of 110%.

A continuing boom in Chinese travel boosted performance for travel and hospitality companies; three entered the Tou Ying Tracker this year. The fastest-growing is Les Ambassadeurs Club, a luxury casino in London's Mayfair, which grew by 100%.

Travelfusion, whose online distribution platform connects suppliers directly with online travel agencies, tour operators and search companies , grew by 49%. Skyscanner achieved a growth rate of 44%, although much of this growth would have taken place prior to takeover.

Manufacturing companies are also well represented. Colomer Munmany, which makes leather products for the fashion industry, grew by 54%. Pharmaron, which acquired state-of-the-art pharmaceuticals development facilities in the UK in 2017, achieved 52%. Ingram Micro CFS Fulfilment, which distributes hardware and software products and services to support business technology solutions, grew by 34%.

The evolving investment landscape

The UK – a key destination for Chinese investors

Relatively subdued growth at home[1] means Chinese investors continue to look overseas to achieve their growth ambitions. For many, the UK remains one of the most attractive investment destinations. The stability of the UK's economic, legal and political institutions is a major draw.

In the decade to 2016, over 23% of Chinese foreign direct investment (FDI) in the EU came to UK[2], representing a total investment of more than €23 billion. Investing in the UK gives Chinese investors access to UK brands, technology know-how, management experience and global connections. Many Chinese businesses use the knowledge they acquire through UK investments to develop new and existing businesses both at home and elsewhere in the world. SAIC Motor, for example, which acquired MG Motor in 2007, now carries out final assembly of the MG3 supermini in China, having moved the operation out of the UK in 2016[3].

Brexit impact is still unclear

The UK's vote in June 2016 to leave the EU appears not to have dampened investors' enthusiasm for the UK. For example, Chinese investors took advantage of the fall in the value of sterling (which followed the vote) to snap up a range of UK assets at reduced prices.

Longer term, the impact of Brexit is still unclear, not least because future trading arrangements between the EU and the UK have not yet been agreed. It seems unlikely that Chinese investors will continue to be able to use the UK as a springboard for wider investment in Europe. In addition, because the EU market is significantly larger than the UK market, it is likely to attract higher absolute investment from China.

Nevertheless, the Chinese government continues to be extremely positive about the future relationship between China and the UK. China's ambassador to the UK told a business forum: "Britain is now China's major trading partner and investment destination in Europe – the Brexit referendum has certainly not dampened the enthusiasm of Chinese businesses about investing in this country.[4]"

To maintain inward investment, the UK must ensure an attractive tax and regulatory regime and that investors are able to access a global talent pool after Brexit. Like all businesses, Chinese businesses will benefit from a visa system that allows them to build their workforces from the best multinational talent rather than having to rely solely on UK-educated, UK-born people.

The recent decision to block the purchase of MoneyGram by Alipay operator Ant Financial[5] suggests US protectionism could make it harder for Chinese investors to make in-roads in the States in future. By contrast, investors can expect to receive a more welcoming reception in a UK seeking to strengthen its global trade ties as it prepares to leave the EU.

[1] China GDP Annual Growth Rate: Trading Economics, 2018
[2] Chinese investment in EU dwarfs flow the other way: Financial Times, January 2017
[3] MG will end UK production: Automotive News Europe, September 2016
[4] Brexit makes China keener to strike a trade deal with Britain, says ambassador; The Telegraph, October 2016
[5] Blocked MoneyGram Deal Means Alipay's Global Ambitions are Limited to Chinese Tourists For Now: Jing Travel, January 2018

New controls on outbound investment

Chinese government concern about outward flow of capital saw the introduction, in December 2016, of new regulations controlling outbound investment by Chinese firms. The regulations create three categories of investment: encouraged, restricted and prohibited.

The 'encouraged' category includes investments linked to the Belt and Road Initiative, as well as those that strengthen cooperation with overseas high-tech and advanced manufacturing companies. Investors focused on these sectors can expect rapid government approval for their investment plans and alternative funding arrangements may be available. Chinese companies are encouraged, in particular, to establish overseas R&D centres. The UK's world-leading R&D capabilities make it a natural destination for this type of investment.

Investments not aligned with China's national development policies are now restricted. These include investments in real estate, hotels, film studios, entertainment and sports clubs. There are also restrictions on establishing equity investment funds or investment platforms outside China without specific industrial projects.

Belt and Road Initiative drives sector focus

The Belt and Road Initiative will see China invest some $900 billion to develop a network of modern trading routes across more than 60 countries in Europe, Asia and Africa. China will also be investing in developing infrastructure along the routes, helping to unlock new overseas markets for Chinese businesses and their overseas partners. Progress on a physical trade route across Europe reached a milestone in 2017 when the first direct freight train from the Chinese manufacturing city, Yiwu, carried goods 7,500 miles across seven countries to London.

Infrastructure development drives demand for goods such as cement and steel, creating export opportunities for China's heavy industries. But in developed countries like the UK, there are also attractive opportunities in 'light asset' sectors. Here healthcare (including care homes), retail, services and hi-tech industries are all attracting interest – and can provide 'assets' that can be taken back to China's consumers.

The fourth UK-China People-to-People Dialogue, which took place in Shanghai in December 2016, includes agreements that will extend UK-China collaboration in areas including science and innovation, healthcare and education.

China also aims to develop financial services platforms along the new trade routes and, as a global financial centre, London is a natural partner for this ambition. London is home to more foreign bank branches and offices than any other financial centre, while the UK maintains close financial ties with many of the Belt and Road Initiative countries.

London commercial property catches the eye of Hong Kong investors

Chinese property investors are not included in the Tou Ying Tracker. The nature of their investments – large, intermittent deals – does not translate into steady growth in turnover, which might otherwise earn them a Tracker place. In addition, many property investments are held offshore, which means they don't meet the Tracker's criteria. Nevertheless, Chinese money has continued to flow into London property[6] despite uncertainty around the UK's economic prospects.

New restrictions on outbound investment are now making it more difficult for Chinese investors to invest in UK real estate. But companies listed on the Hong Kong stock exchange are still free to invest and they continue to do so. In 2017, for example, two iconic London properties – The Cheese Grater and The Walkie Talkie – were acquired by Hong Kong-listed companies.

[6] Chinese keep buying London property despite Brexit: Financial Times, December 2016

The evolving investment landscape

The draw for investors is an anticipated uplift in property values in future. In the meantime, investors can expect attractive rental yields, while benefitting from the stability of the UK's political and legal system. In contrast with most corporate investors, Chinese investors prefer to buy properties themselves rather than investing in property funds.

In his Autumn Budget 2017, the UK Chancellor announced wide-ranging tax changes for international investors in UK real estate, which are likely to change the investment landscape in UK property significantly, including the structuring of holding UK properties. In terms of capital gains, all gains on disposals of UK immoveable property by non-residents will be brought within the scope of UK tax. From April 2020, non-resident landlords will be subject to corporation tax. The UK government has also removed the capital gains indexation allowance for companies making chargeable disposals.

Larger acquisitions demonstrate investors' growing confidence

On most deals, Chinese investors now acquire a controlling stake, building on the experience they have gained as minority shareholders in the past. In addition, corporate investors are increasingly working with private equity funds to secure the money they need for overseas investments. This replaces an earlier approach, where outbound investment was largely enabled by bank loans and high gearing.

Despite Chinese investors' growing confidence with acquisitions, the completion rate on Chinese-led acquisitions is still relatively low given the number of deals they consider. Working with private equity funds should enable Chinese investors to develop their deal execution skills and can also be expected to bring a more professional, strategic focus to their value-extraction activities.

Collaboration deepens with 'mixed-bound' investments

It is commonplace to class investment as either outbound or inbound, but a new type of two-way investment is developing as Chinese and UK companies start to collaborate more intensely.

Under this emerging model, Chinese investors finance UK companies, and provide UK partners with manufacturing facilities in China and access to the Chinese market. For their part, UK companies contribute expertise in R&D, innovation, design, brandings, standards and technology know-how.

New trade deals point to positive outlook

The 9th UK-China Economic and Financial Dialogue (EFD) a two-day summit held in Beijing at the very end of 2017, points to deepening cooperation and collaboration between China and the UK in future. Around £1.4 billion of commercial deals were agreed at the summit,[7] as well as the further development of the financial services relationship and new partnerships on industrial strategy. Delegates also explored new ways for the UK to partner with China on infrastructure initiatives, while a new UK-China trade group began laying the foundation for a deeper trading relationship in the run-up to Brexit.

The 'Golden Era' of UK-China relations, hailed by President Xi Jinping in 2015, looks set to continue for many years to come.

China's Ambassador to the UK, H.E. Liu Xiaoming, comments that 2017 was the 45th anniversary of established China-UK Ambassadorial relations, and the year of consolidating the 'Golden Era' of China-UK relations.[8]

[7] UK makes over a billion pounds of trade deals with China: Institute of Export & International Trade, December 2017

[8] New era, new goal: China Daily, January 2018

Planning for successful investment

Closing the knowledge gap

The China Chamber of Commerce in the UK (CCCUK) - supported by the Chinese Embassy - is established to represent and serve the interests of Chinese funded enterprises, aiming to promote China-UK economic and trade relations. At present they have nearly 200 member enterprises, covering dozens of sectors, including finance, insurance, telecommunications, energy, technology, manufacturing, real estate, construction, transportation and shipping, trading, government agencies, the media, commercial services etc.[9]

Chinese businesses have developed dramatically in recent decades, but for some there is still a knowledge gap when it comes to understanding how to do business in the UK. Most Chinese companies still require a degree of support from the Chinese government or from parent holding companies in China to succeed in UK markets.

There are five areas where better understanding of UK practices and culture can help Chinese companies increase their chances of successful and sustainable growth.

Be a good corporate citizen

Most Chinese companies aspire to be responsible investors in the UK. Some understand the importance of demonstrating this aspiration. SanPower Group, for example, is sponsoring the repair and restoration of the Kew Tower in London, a replica of the Porcelain Tower in Nanjing. Huawei is also developing its reputation as a responsible investor; recently, the telecommunication giant organised a conference in Brussels on sustainable supply chains. However, most Chinese companies have not yet woken up to the power of corporate social responsibility (CSR) to support their business goals.

Many UK companies undertake significant CSR activities to build their reputations with local communities and their brand image with consumers. To win acceptance and compete sustainably, Chinese businesses are likely to need to do the same.

Comply with local regulations

Regulations impacting business tend to be less consistently enforced in China than in the UK. However, in the UK failing to submit financial accounts or file tax returns within deadline has serious consequences. Companies risk being closed down or having to pay substantial fines. In addition, domestic suppliers will be reluctant to extend credit to companies that ignore local rules and regulations.

Companies engaged in aggressive tax planning are also likely to be the subject of negative press coverage, to the detriment of their corporate reputation and the profile of their brands.

[9] New year, new goal, China Daily, January 2018

Planning for successful investment

In some cases, failing to comply is down to lack of knowledge about the constantly changing raft of regulations. Important regulations Chinese investors should be aware of in the year ahead include:

- the General Data Protection Regulation (GDPR), which all companies operating in the EU must comply with from 25 May 2018. Companies failing to comply face fines of up to 4% of global revenues.
- the Senior Managers and Certification Regime (SMCR), which is being extended to cover financial services firms (not just banks and insurers) in early 2018.

Recognise differences in UK working culture

The UK's strict employment laws and the attention paid to work/life balance mean attitudes to work in the UK are different to attitudes in China. Failing to understand and adapt to these differences puts Chinese businesses at risk of alienating and losing workers, and, in some cases, of being sued by employees for breach of employment law.

Chinese investors should also be particularly sensitive to the efforts required to ensure UK workers without Chinese language skills feel confident about their future with Chinese-owned companies. In the UK, employees of Chinese companies typically fall into three groups: Chinese citizens working in the UK; bilingual UK citizens; and UK and/or European citizens without Chinese language skills. Businesses need to create and make visible clear career plans for this third group, who might otherwise feel side-lined and without prospects.

Pay more attention to investment planning

Our experience is that many Chinese investors don't carry out enough strategic planning before making overseas investments. In addition to identifying the right strategic acquisition targets, Chinese businesses should make it a priority to plan how to integrate new UK investments with their existing businesses in China. They should also prioritise planning for post-acquisition operations in the UK, with a particular view to retaining key talent.

On the deal-making front, lack of familiarity with the investment process means Chinese investors sometimes get caught out by currency shifts, or lose out on deals because they haven't made the necessary arrangements for getting money out of China in good time. Again, advance planning pays dividends.

Improve engagement with professional advisers

One of the attractions of investing in the UK is the strength of its professional services sector. Business, legal and financial expertise can make an important contribution to helping investors maximise returns from their investments. Yet, because they are not familiar with engaging advisers in the UK, Chinese investors often miss out on the full value of advisers' input.

In defining the services they expect to receive ('scope of services'), Chinese investors sometimes draw the scope too tight. Skimping on aspects of due diligence, for example, may look like an attractive, cost-saving measure at the outset. However, paring back due diligence means investors risk failing to uncover or mitigate potential problems, which can prove to be expensive in the long run.

China Britain Services Group

Grant Thornton China Britain Services Group provide a full range of services for Chinese corporates and real estate investors investing in the UK. We have worked with Chinese business for many years and use our cultural understanding to add real value for our clients and help unlock their growth potential.

For corporates and real estate investors, we can advise at every stage of the growth cycle:

- Market entry (including feasibility studies and property search)
- Transactions (including due diligence, tax structuring, deal structuring and valuations)
- Operations (including audit, tax and post-deal integration)
- Recovery & Restructuring (including tax restructuring, corporate simplification and forensic)
- Business growth
- Equity incentive plans
- International mobility (including expatriate tax and HR)

For private clients, we offer personal tax and wealth advisory services.

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