In collaboration with

投英 Tou Ying Tracker 2018

The latest trends in Chinese investment in the UK

About the Grant Thornton 投英 Tou Ying Tracker

Our 2018 Tou Ying Tracker, developed in collaboration with China Daily, identifies the 30 fastest-growing Chinese companies in the UK as measured by percentage revenue growth in the last year. To compile the Tou Ying, we start by analysing the 750 largest Chinese owned companies with published accounts filed at Companies House by 30 September 2018.

To be included in the Tou Ying Tracker, companies must be UK-registered, have had an audited turnover of more than £5 million for the last two years, and be at least 50% owned by an entity or individual in mainland China.

Chinese investors continue to drive growth and create jobs in the UK

This is the sixth edition of our Tou Ying Tracker, which identifies the fastest-growing Chinese companies in the UK per annum. Since 2013, we have monitored these trailblazing businesses as they make a growing impact on the UK economy.

With a combined turnover of £43 billion, the 30 fastest-growing companies employ more than 3,500 people in the UK[1]. Across the 750 companies analysed for the Tou Ying Tracker, the figures are more impressive where nearly 80,000 people* in the UK work in these larger Chinese-owned companies[2]. To thrive as employers in the UK, Chinese businesses must operate in the context of a workplace culture and a compliance regime that is very different from China's own. The fastest-growing companies are clearly meeting the challenge as they bring their distinctive energy to their UK investments.

This year, the Tou Ying Tracker does not feature separate rankings for state-owned enterprises (SOEs) and privately-owned Chinese companies. Instead, it presents a single ranking for the 30 fastest-growing companies. This reflects the changing pattern of Chinese overseas investment. China's private investors are bringing their experience and confidence to the table and increasingly investing in collaboration with SOEs. As a result, the difference between the two types of investor is not always clear cut.

As we go to press, it is still unclear how the UK government will implement the result of the 2016 referendum, when the UK voted to leave the European Union (EU). Despite this uncertainty, the UK remains a highly attractive destination for Chinese investors. With direct investment into the UK continuing to rise between 2016 and 2017 to reach £88.4 billion.[3]

Chinese investors clearly still see opportunity in and beyond Brexit uncertainty. Attractions such as a stable political, legal and social environment endure, while a weak pound and an increasingly difficult environment for Chinese investors in the USA and, to some extent, Europe add to the UK's appeal.

We celebrate the success of all the companies appearing in this year's Tou Ying Tracker and congratulate them on their outstanding contribution to the UK economy.

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1 See page 2 for full criteria for inclusion in the Tou Ying Tracker 2018
2 See page 2 for criteria for includsion in the largest 750 Chinese companies
3 See figure 2 page 12
* 18,000 employed by House of Fraser, acquired by Sports Direct in August 2018

Showcasing the strength of Chinese investment in the UK

Data from the 750 largest Chinese companies in the UK is analysed to create the Tou Ying Tracker, revealing distinct patterns of employment and growth[4].

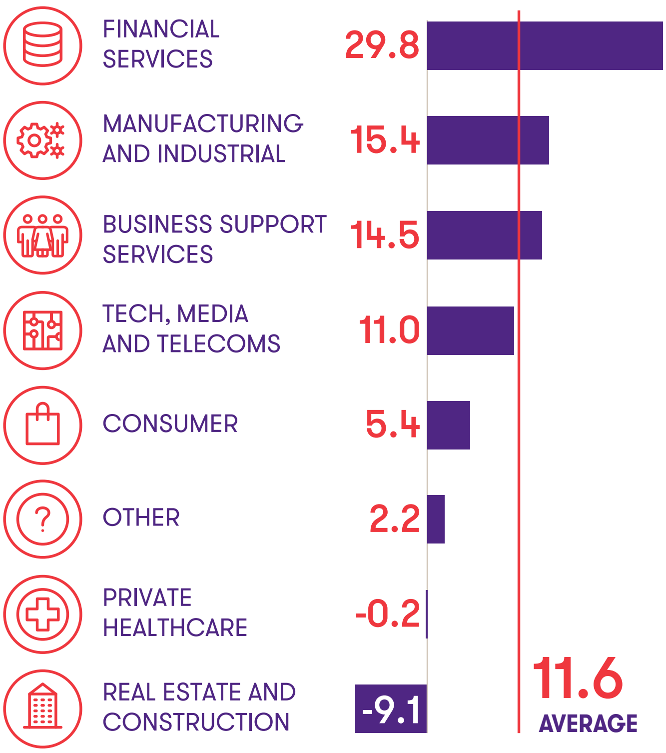
11.6%
average revenue growth

80,000
employees

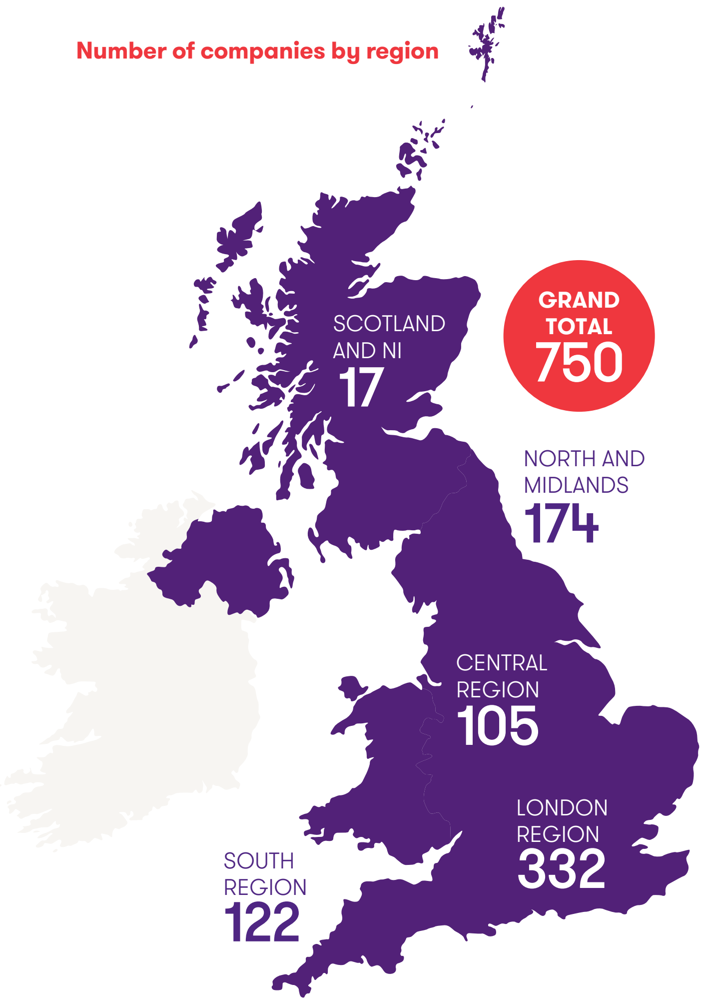
30%
revenue growth in financial services

£68bn
combined turnover

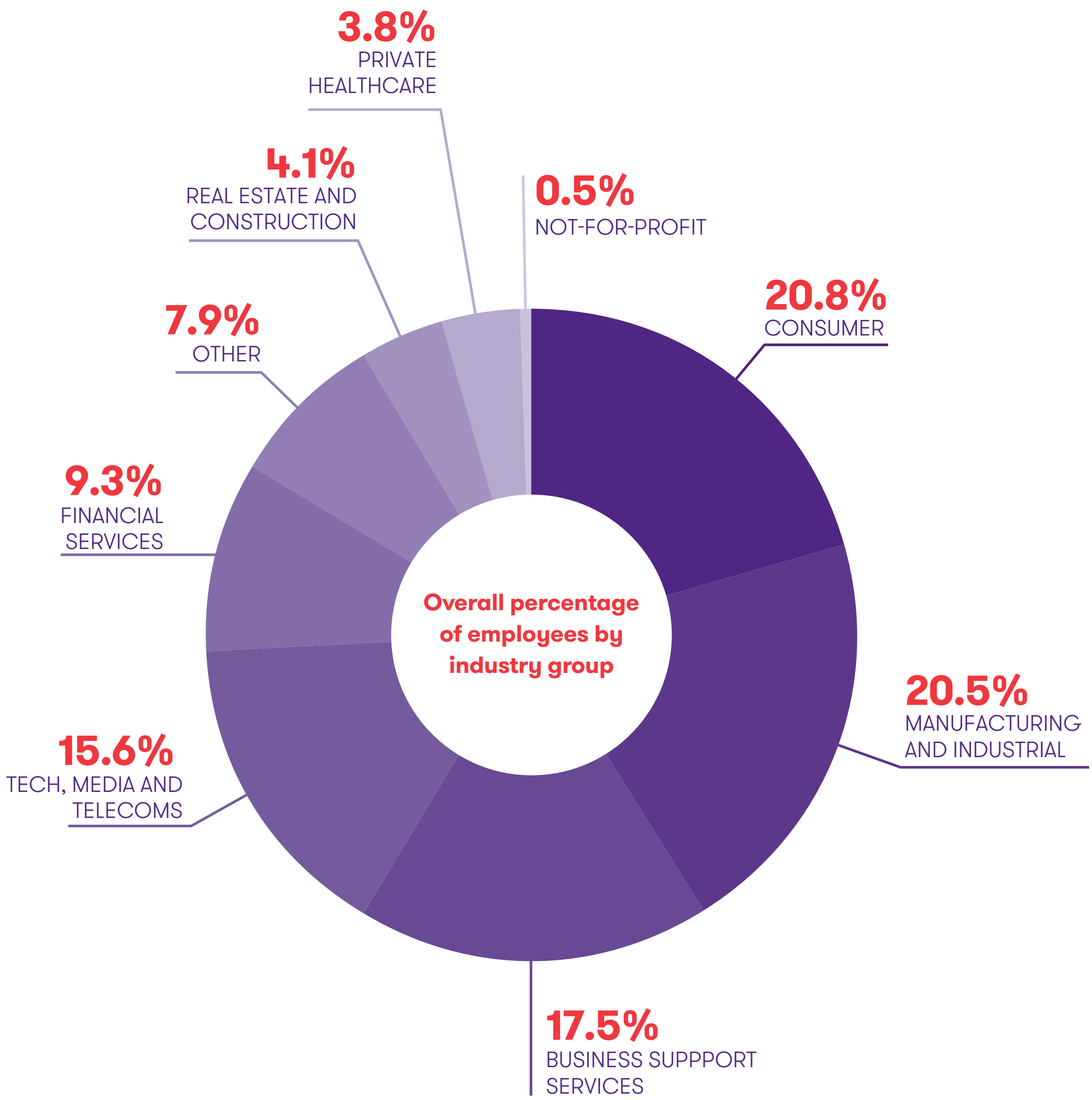
Average of turnover percentage change by industry group



Number of companies by region



4 For full criteria, see page 2
* 18,000 employed by House of Fraser, acquired by Sports Direct in August 2018


3.8%
PRIVATE HEALTHCARE
4.1%
REAL ESTATE AND CONSTRUCTION
0.5%
NOT-FOR-PROFIT
20.8%
CONSUMER
7.9%
OTHER
9.3%
FINANCIAL SERVICES
Overall percentage of employees by industry group
20.5%
MANUFACTURING AND INDUSTRIAL
15.6%
TECH, MEDIA AND TELECOMS
17.5%
BUSINESS SUPPPORT SERVICES

2018 投英 Tou Ying Tracker in numbers

To be included in the Tou Ying Tracker 's 30 fastest growing companies in 2018, firms must be UK-registered, have had an audited turnover of more than £5 million for the last two years, and be at least 50 percent owned by an entity or individual in mainland China.

66% AVERAGE GROWTH

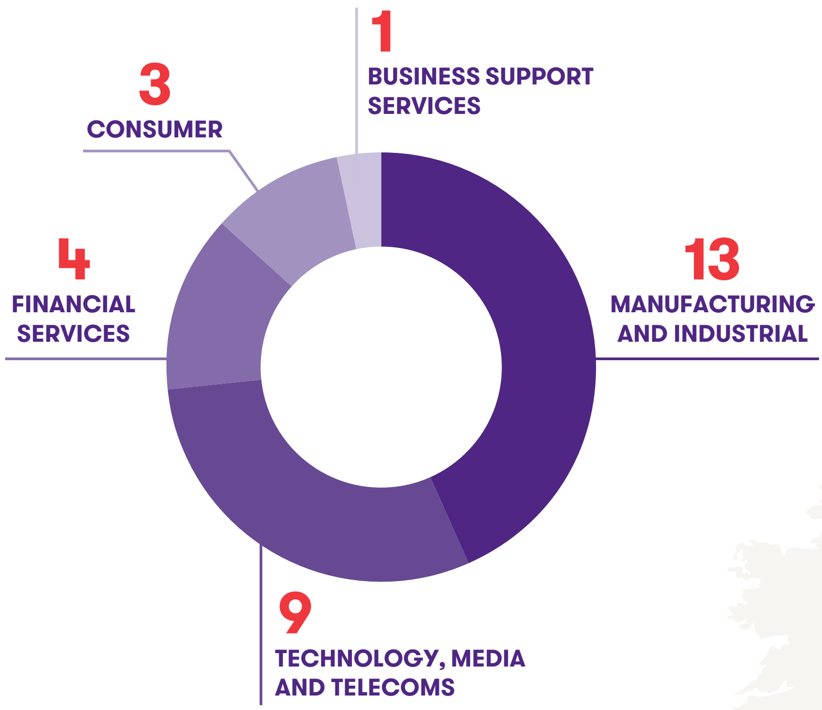
£43bn COMBINED TURNOVER

9/30 BASED IN THE NORTH AND MIDLANDS

3,500 EMPLOYEES

13/30 IN MANUFACTURING AND INDUSTRIAL SECTORS

Tou Ying by industry group



Tou Ying by region

投英 Tou Ying Tracker 2018

This year, the Tou Ying Tracker continues to include Chinese companies that have made greenfield investments in the UK and grown organically, as well as those that have acquired an established UK business and seen it grow. Companies like Huawei Global Finance (UK) Ltd, BOC Aviation (UK) Ltd and COSCO Shipping (UK) Co Ltd fall into the first category, while businesses like Reading Football Club Ltd and West Bromwich Albion Holdings Ltd are good examples of the second.

We celebrate the success of all the companies appearing in this year's Tou Ying Tracker and congratulate them on their oustanding contribution to the UK economy.

Company	Industry group and sector	Region
Acerchem UK Ltd	Consumer (food and beverage)	South
Acro Aircraft Seating Ltd	Manufacturing and industrial (aerospace and defence)	London
Alipay (UK) Ltd	Financial Services (payments)	London
Billions Europe Ltd	Manufacturing and industrial (chemicals)	North and Midlands
BOC Aviation (UK) Ltd	Financial services (leasing)	London
CAD CAM Automotive Ltd	Manufacturing and industrial (automotive)	North and Midlands
CGN Europe Energy UK Holding Ltd	Manufacturing and industrial (energy)	London
China Mobile International (UK) Ltd	Technology, media and telecomms (telecommunications)	London
China RE UK Ltd	Financial services (insurance)	London
China Unicom (Europe) Operations Ltd	Technology, media and telecomms (telecommunications)	London
Contamac Holdings Ltd	Manufacturing and industrial (industrial manufacturing)	Central
COSCO Shipping (UK) Co Ltd	Business support services (transportation and logistics)	Central
Duferco UK Ltd	Manufacturing and industrial (metals)	North and Midlands
Dynex Semiconductor Ltd	Technology, media and telecomms(technology)	Central
Hisense UK Ltd	Technology, media and telecomms (technology)	North and Midlands
Huawei Global Finance (UK) Ltd	Technology, media and telecomms (technology)	London
Ingram Micro (UK) Ltd	Technology, media and Telecomms (technology)	Central
Makin Metal Powders (UK) Ltd	Manufacturing and industrial (metals)	North and Midlands
Minmetals (UK) Ltd	Manufacturing and industrial (metals)	London
Promethean World Ltd	Technology, media and telecomms (technology)	North and Midlands
Reading Football Club Ltd	Consumer (sport)	South
Scion Instruments (UK) Ltd	Technology, media and telecomms (technology)	Central
Specialist Machine Developments (SMD) Ltd	Manufacturing and industrial (industrial manufacturing)	North and Midlands
Sinochem International Oil (London) Co Ltd	Manufacturing an industrial (energy)	London
Splash Damage Ltd	Technology, media and telecomms (gaming)	London
State Grid Europe Ltd	Manufacturing and industrial (energy)	London
Taiping RE UK Ltd	Financial services (insurance)	London
Tennant Metallurgical Group Ltd	Manufacturing and industrial (metals)	North and Midlands
Unipec UK Co Ltd	Manufacturing and industrial (chemicals)	South
West Bromwich Albion Holdings Ltd	Consumer (sport)	North and Midlands

投英 Tou Ying Tracker 2018 – a snapshot

Manufacturing and industrial companies dominate 2018 Tracker

The big story for the 2018 Tracker is the strong performance by industrial and manufacturing businesses. This year, 13 companies in the Tou Ying are from this industry. The fastest growing of these is Duferco UK Ltd, a global steel trader and distributor part-owned by Hebei Iron and Steel[5]. Revenues grew by 233% in 2017/18, reflecting favourable markets for steel businesses in the UK in recent years.

Another strong performer is Specialist Machine Developments (SMD) Ltd, which grew by 156% over the same period. This company designs and manufactures specialist trenching equipment for mineral extraction in challenging environments.

Billions Europe Ltd was close behind, growing revenues by 134% in 2017/18. This was the fastest-growing private company in the Tracker and is part of one of the world's largest producers of TIO2 pigments, used in products such as plastics, inks and paper.

This year's strong performance by industrial and manufacturing companies has also had an impact on the Tracker's regional breakdown. This year, nine of the 30 fastest-growing companies are located in the North and Midlands, the traditional stronghold of manufacturing and industrial businesses in UK.

13/30 Tou Ying companies come from manufacturing and industrial sectors

5 www.metalbulletin.com/Article/3466131/Hebei-Iron-and-Steel-finalises-acquisition-of-Duferco-majority-stake.html

Strong growth among technology, media and telecoms companies continues

The technology, media and telecoms (TMT) industry is well represented in the 2018 Tracker, with nine of the 30 companies coming from this industry (two more than in last year's Tracker). The fastest-growing of these is Splash Damage Ltd, which develops gaming software. In 2017/18, the company, which also featured in the 2017 Tracker, grew by 71%.

Two Chinese-owned telcos also appear in this year's Tracker, benefiting from the boom in Chinese tourists visiting the UK and from a growth in the number of Chinese corporate clients. In 2017/18, China Mobile International Ltd grew revenues by 51%, while China Unicom (Europe) Operations Ltd grew revenues by 38%.

9/30 Tou Ying companies come from tech, media and telecoms

Financial services sector holds strong

Of the 30 companies in the 2018 Tracker, four operate in the financial services sector. The fastest-growing of these is BOC Aviation (UK) Ltd, which grew by 207% in 2017/18 and is the second-fastest growing company overall in this year's Tracker. The aircraft operating leasing company also performed strongly in the 2017 Tracker.

Growing China/UK trade was good news for Chinese reinsurers based in the UK. Providing insurance services for importers and exporters saw Taiping RE UK Ltd grow revenues by 86%. In the same sub-sector, China RE UK Ltd grew revenues by 75%.

Also benefiting from the growing trade in Chinese goods around the world was COSCO Shipping (UK) Co Ltd. The company, part of the Chinese state-owned enterprise that runs a network of container services around the world, grew by 77%.

4/30 Tou Ying companies are in financial services

The big picture on Chinese-UK trade and investment trends

Chinese investment into the UK remains high despite continuing uncertainty around Brexit and growing international tensions.

The relationship between China and the UK continues to flourish. In 2017, trade between the two countries reached record highs. Imports from China to the UK were £45.2 billion - almost double what they were 10 years ago. While exports from the UK to China were £22.3 billion - approaching three times what they were in 2008 (see Figure 1)[6].

Meanwhile, between 2016–17, Chinese direct investment into the UK continued to rise to reach £88.4 billion. Over the same period, UK investment into China surged to £103.1 billion. UK investment into China is now more than twice what it was five years ago (see Figure 2)[7].

Despite continuing uncertainty around what form Brexit will take, the UK remains a highly attractive destination for Chinese investors. Factors such as a stable political system, London's world-leading financial centre, excellent education and the opportunity to do business in English all continue to exert a powerful pull. In London, Chinese investors can also access world-class professional services and find advisers with extensive experience of advising on Belt and Road investments.

Driving investment in the UK is the desire of Chinese families to transfer their wealth to this country. Setting up a UK subsidiary for the family business enables families to pass assets on to subsequent generations. Those who will benefit are often already living and studying here. There are now over 100,000 Chinese students studying in the UK.

Figure 1. Trade between UK and China 2008-2017 (goods and service)

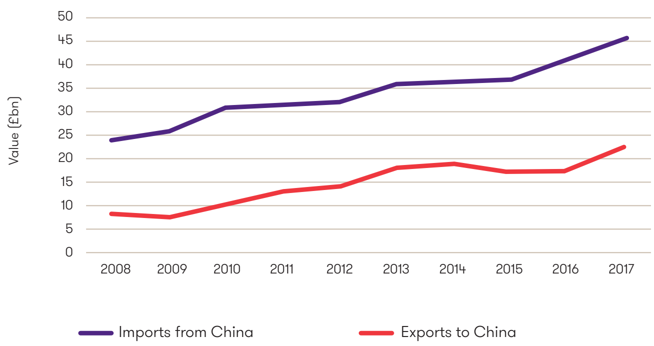
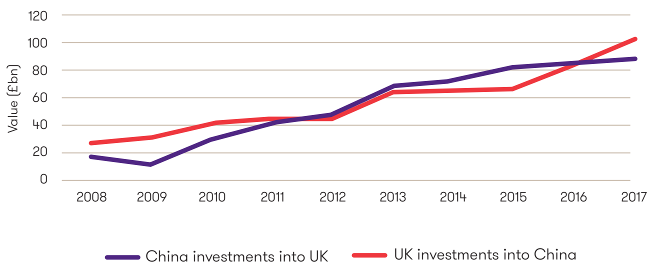


Figure 2. Chinese and UK investment trends 2008-2017



6 The Pink Book 2018
7 The Pink Book 2018

Chinese government reins in outbound investment

The increase in Chinese investment into the UK took place against a backdrop of falling global outbound investment from China over the year[8]. The slowdown follows the introduction of Chinese government regulations to control outbound investment flows. Investments not aligned with China's national development policies are 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.

By contrast, China's outbound foreign direct investment (OFDI) regime encourages investments linked to the Belt and Road Initiative and those that strengthen cooperation with overseas, high-tech manufacturing companies. Investors in these categories can expect rapid government approval for their investment plans. SOEs making acquisitions in these sectors can benefit from cheap funding provided by state-owned banks. Chinese investors are encouraged, in particular, to establish overseas research and development centres. The UK's world-leading research and development capabilities make it a natural destination for this type of investment.

International tensions disrupt investment patterns

In recent months, countries around the world have started to strengthen their investment screening regimes amid concerns about national security risks and the potential negative economic impacts from Chinese investments. In the UK, the government is reforming its powers to block foreign acquisition of security-sensitive assets. This means that, in future, some Chinese investments will be the subject of greater scrutiny. This was evidenced by the UK government's intervention in (but subsequent approval of) the £386m acquisition by Shaanxi Ligeance Mineral Resources of Northern Aerospace in June 2018. Nevertheless, the UK government has confirmed that Britain will remain open to investment from China following the country's exit from the EU[9].

For some time, fears of a trade war between China and the US have been growing, with US president Donald Trump seeking to protect US companies from the impact of Chinese imports. In 2018, words became action when the US imposed tariffs on a range of Chinese imports and China retaliated with tariffs of its own[10]. These growing tensions make the US an increasingly risky place to invest for Chinese businesses. Europe is benefiting, with the weak pound helping to make investments in the UK particularly attractive.

Belt and Road extends reach into Africa

Through its Belt and Road Initiative, China is set to invest some $900 billion to develop a network of modern trading routes. Africa will be a particular area of focus. President Xi Jinping has pledged to support the continent with $60 billion in funding and to cooperate with African countries on industrialisation and infrastructure construction.

These pledges appear to be coming to fruition. Following the first Belt and Road Forum in 2017, China confirmed 65 countries as being part of the initiative. In 2018, a report from ICBC Standard Bank[11] identified 15 African countries that have since joined their number, including Angola, Cameroon, Ethiopia, Mozambique, Senegal and Tanzania.

Direct investment in Africa is not the only route in for Chinese investors. Investment via the UK provides an alternative since many UK businesses own African assets. Expert advice in the UK can help Chinese investors take advantage of this indirect route.

In April 2019, Beijing hosts the second Belt and Road Forum for International Cooperation. Here, it will be interesting to see whether the Chinese government will recognise the value that UK experience and expertise can play in evaluating investment opportunities in Africa, controlling operational risks and recovering distressed assets.

8 Mercator Institute for China Studies. EU-China: Working Towards Reciprocity in Investment Relations, Update, May 2018
9 www.uk.reuters.com/article/uk-china-britain/britains-open-to-foreign-investment-trade-minister-fox-tells-china-idUKKBN1ES0SE
10 www.ft.com/content/b20e537a-2deb-11e8-a34a-7e7563b0b0f4US
www.theguardian.com/business/2018/apr/03/us-plans-tariffs-chinese-imports-list
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www.cnbc.com/2018/08/23/us-china-trade-war-new-round-of-american-tariffs-on-chinese-imports.html
www.theguardian.com/world/2018/dec/02/donald-trump-and-xi-jinping-declare-trade-truce-at-g20
11 ICBC Standard Bank. Belt and Road, Interim Report, April 2018

Sectors in the spotlight

Amid the economic turbulence created by Brexit and wider international tensions, our research across the 750 largest Chinese companies registered in the UK[12], shows that they continue to invest enthusiastically in a number of key sectors in the UK.

Manufacturing and industrial – Responding to Made in China 2025

Chinese investments in the UK manufacturing and industrial sector were buoyant in 2017–18, with some of the fastest-growing companies in the 2018 Tou Ying Tracker coming from this sector. Additionally, in the transaction space, manufacturing and industrial was the sector that experienced the highest volume of deals. Both trends reflect the government strategy as set out in the Made in China 2025 plans aiming to establish a shift towards providing high-end products and services[13]. To do this, the government needs to access materials and knowledge to support the development of infrastructure and a value-adding economy at home and across the Belt and Road countries.

Financial services – Banks build growing presence in the City despite Brexit

A growing number of Chinese banks are opening offices in London[14] as they follow clients coming to the UK and Europe. In 2017, the Bank of China became the first Chinese bank to launch private banking services in the UK's financial centre[16], building on its near-century-long history of operating in London.

In the area of corporate banking, 2017 saw the Agricultural Bank of China's application to open a London branch approved[14]. In 2018, Shanghai Pudong Development Bank followed, opening a branch in London – its first outside Asia[17]. These London offices provide banks with an important opportunity to develop knowledge of how Western financial institutions operate as well as providing personnel with the chance to gain experience in one of the world's leading financial centres.

12 See page 2 for full criteria for inclusion in research
13 https://www.ft.com/content/1d815944-f1da-11e6-8758-6876151821a6
14 https://www.real-time-cny.com/city/london.html
15 www.chinadaily.com.cn/business/2017-11/15/content_34569829.htm
16 www.uk.abchina.com/en/about_us/introduction/
17 www.news.cityoflondon.gov.uk/lord-mayor-charles-bowmans-speech-at-opening-of-shanghai-pudong-development-banks-london-branch/

Consumer electronics – Chinese firms bid for a global profile

Manufacturers of consumer electronics ambitious to become global players are raising their international brand profiles by establishing distribution centres in the UK. TCL Corporation (multinational electronics manufacturer), Huawei (consumer electronics and ICT infrastructure) and Haier (home appliances) are examples of big names that have chosen this route.

Hisense UK Ltd, a new entrant in this year's Tou Ying Tracker, is one company making waves in this sector. In 2017/18 Hisense, which makes a range of home appliances, including TVs, refrigerators and washing machines, grew by 44%.

Hospitality – Meeting growing demand from Chinese tourists

The number of Chinese tourists visiting the UK is booming – visitor numbers increased to over 337,000 during 2017, up by almost 30% on the previous year[18]. This trend looks set to grow following a visa agreement signed by China and the UK at the end of 2017[19]. This boosted the number of weekly flights allowed between the two countries by 50%. Several Chinese airlines, including China Eastern Airlines, Shenzhen Airlines and China Southern Airlines, took advantage of the opportunity and, between them, launched eight new routes to the UK during 2018[20].

Chinese restaurant groups and other hospitality companies are following the crowd. In 2018, Hai Di Lao, one of China's largest hot pot restaurant chains, will open a massive restaurant in central London[21]. Chinese tech giant, Ant Financial, is also targeting the surging number of Chinese consumers spending in UK stores. Ant, which owns mobile and online payment platform Alipay, has signed up thousands of merchants, including Harrods, Selfridges and Heathrow Airport[22].

Technology – Investing earlier in future potential

Until recently, the Chinese have preferred to invest in mature British innovation – typically through the US with private equity investment. Now, with the weak pound making British technology assets good value, Chinese investors are changing tack.

In 2018, one major investment involving Chinese investors was £100 million in funding for Oxford Nanopore Technologies, which develops and manufactures DNA-sequencing devices. CCB International, owned by China Construction Bank, was one of several global investors to recognise the huge impact that sequencing technology is set to have in areas such as life science research, healthcare and food. The funds will support research and development as well as a new high-volume, high-tech manufacturing facility in Oxford.

In addition, Huawei have recently announced that they have bought land in Cambridge for the development of a £37.5 million research centre[23].

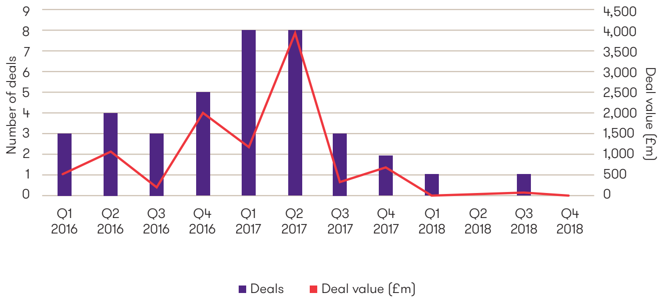
Shanghai-London Stock Connect – opening imminent

The proposed Shanghai-London Stock Connect, which has been under discussion for more than ten years, is widely tipped to launch imminently[24]. HSBC Shanghai is set to be the first international company to list. Once the link is live, Chinese investors will be able to buy stocks quoted on the London Stock Exchange (LSE). Meanwhile international investors will be able to access shares in Chinese firms listed on the Shanghai Stock Exchange. The cross-listing programme will also give Chinese firms the opportunity to raise funds by listing on the LSE. However, they will have to meet strict rules to secure a listing.

18 www.visitbritain.org/markets/china
19 www.businesstraveller.com/business-travel/2018/04/18/four-chinese-airlines-new-london-routes/
20 www.businesstraveller.com/business-travel/2018/04/18/four-chinese-airlines-new-london-routes/
21 www.london.eater.com/2018/7/2/17524916/hai-di-lao-china-new-london-restaurant-hot-pot
22 www.standard.co.uk/business/chinese-tech-giant-ant-plots-uk-expansion-a3950186.html
23 www.propertyweek.com/news/huawei-lands-site-for-cambridge-randd-base/5100912.article
24 www.atimes.com/article/shanghai-london-stock-connect-could-launch-in-q1/
www.verdict.co.uk/retail-banker-international/news/hsbc-shanghai-listing/
www.bloomberg.com/news/articles/2018-10-12/china-unveils-rulebook-for-shanghai-london-stock-connect

Real estate – Investment drops in commercial real estate

Figure 3. Chinese acquisitions of UK commercial real estate 2016-2018



The control of capital outflows from China and uncertainty over Brexit saw Chinese investment in commercial property in the UK fall significantly during 2018, with a 90% decline in deal volumes[25].

Still, Chinese interest in UK real estate remains high, notwithstanding the restrictions that the Chinese government have placed on such investments. During 2018, the market saw a reduced, but still significant, number of Chinese buyers, sometimes using capital that is already outside China, from locations like Hong Kong or Singapore. Investors took most interest in prosperous parts of the capital, including the City, Mayfair, Knightsbridge and Canary Wharf. Many of these investors were less concerned about current returns on their investments (typically only 3–4%) than finding a secure home for their money or establishing a UK base for children being educated in the UK.

Deal volumes down

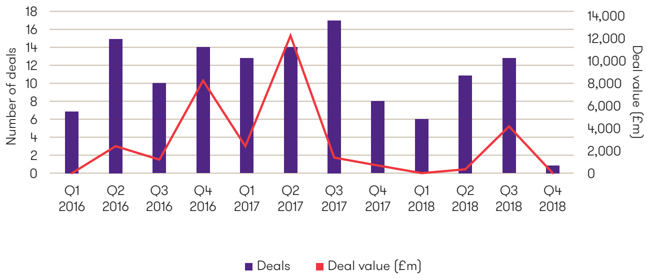
After a buoyant 2016 and 2017, deal volumes (excluding real estate) were down 40%[26], following the introduction of restrictions on outbound investment announced in Q3 2017 and the increase in investor uncertainty around Brexit throughout 2018 (see Figure 4).

Aggregate disclosed deal values (excluding real estate) were also significantly down in 2018 at £4.6 billion compared to £16.6 billion in 2017. However, when the £10.8 billion CIC paid for Logicor in 2017 is excluded, the fall is far less dramatic.

Aggregate disclosed deal values over the 2016–2018 period were £33.1 billion.

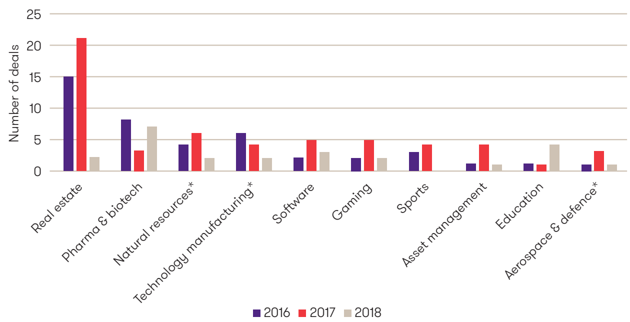
25, 26 and 27 Grant Thornton analysis

Figure 4. Chinese acquisitions in the UK 2016-2018 (excluding real-estate)



At an industry level, the manufacturing and industrial sectors experienced the highest deal volumes over 2016–18, followed by real estate, TMT and consumer (see Figure 5)[27]. As investors' focus shifted towards more strategic and IP-led deals in 2018, there was a move away from real estate, gaming and consumer industries towards pharma, biotechnology and education. A number of stand-out deals illustrate Chinese investors' strong appetite for research and development. These include Strategic Switch's investment in data centre operator Global Switch, Huadong Medicine's take-in of Sinclair Pharma and SLMR's acquisition of aerospace and defence manufacturer Gardner Aerospace.

Figure 5. Chinese acquisitions by sector 2016-2018



*Manufacturing and industrial sectors

Achieving deal success

Research repeatedly highlights that mergers and acquisitions are notoriously difficult to do successfully. And international deals are much harder to pull off than domestic deals – especially when investors are seeking to make a first acquisition in a new country.

Success requires:

- strategic analysis and a correct assessment of the macro opportunities and threats
- picking the right specific target and identifying the micro strategic issues
- skills in deal negotiating, structuring and documenting to protect against risks in post-tax and currency returns
- due diligence (legal, financial, commercial, people, etc.) to uncover risks and highlight opportunities
- integration and management post-deal to ensure expected value and synergies are delivered (this phase goes on for years, not months).

Too often, businesses are opportunistic in identifying a target and charge on without completing the steps above. Even when the initial strategic analysis is correct, if the ideal target isn't available/willing, it's not uncommon for investors to pursue and execute a second-rate deal as the team gets 'deal fever'. With professional support, businesses can be much more effective in identifying and selecting the right deals and closing them successfully.

How to be a better investor

Understanding the differences between how Chinese and British companies do business can help Chinese investors operate more successfully in the UK market.

1 Contract rather than employ professional advisers to access expert support

While the UK government aims to create a supportive environment for investors from overseas, it does not usually provide information or support on specific investment opportunities. As a result, investors need to source their own professional support. However, bringing professionals with local knowledge and expertise onto the payroll can be expensive, particularly given the high cost of recruiting and retaining experienced talent.

Appointing professional advisers on a contract basis is a more cost-effective way for investors to access expertise. Advisers' support can be adjusted to reflect the varying levels of input required at different stages of the investment process. Appointing a team of professional advisers can also help investors tap into a network of specialist expertise in fields such as law, real estate, corporate and personal taxation, transaction support and financial regulation.

In the UK, it is standard for professional advisers to charge fees by the hour – or to a budget calculated by reference to the time expected to be required. This means Chinese investors can expect meetings with their advisers to be tightly focused on the matter at hand, rather than on the slow, steady relationship-building they may be more familiar with.

2 Get smarter on identifying and closing the best deals

The majority of corporate deals in the UK are handled by sell-side advisers. Their role is to help sellers identify potential buyers, run a tight 'auction' process and negotiate with potential purchasers to execute the highest price deal they feel can be realised. These deals include private equity (PE) exit projects where the PE firm has already enjoyed the period of fast growth.

Although fewer in number, the best acquisitions are often those that happen off-market, as a result of a specific targeted approach. Identifying these opportunities usually requires retaining a buy-side professional adviser to strategically trawl the market and negotiate with the best target – even if the target business is not for sale at the start of the process.

Few Chinese investors have retained an experienced buy-side adviser to help target a good strategic off-market deal, since this involves paying a retainer fee irrespective of success. As a result, they often do not get to see the best investment opportunities. Instead, when they do focus on off-market deals, they often rely on tip-offs from 'friends and family'. However, these deals are rarely strategically identified and, as a result, avoiding paying an introducer becomes a false economy.

Even where there is a mandated sell-side adviser, retaining the services of a buy-side adviser can also help investors get onto the initial shortlist of possible buyers prepared for a seller. However, Chinese investors that make it this far often struggle to reach the next stage – to become one of the preferred final three. This is because waiting for decisions from Chinese parent companies slows down Chinese investors' ability to engage rapidly and fully in talks with the seller. To compete effectively as buyers, Chinese businesses must move faster to secure their place as a preferred buyer and secure the best deals.

3 Be prepared for wide-ranging regulation

Businesses operating in the UK must comply with a wide range of regulations, enforced by various government agencies. Chinese investors may be surprised to discover just how broad their regulatory obligations are.

Regulations that cover every business include:

- health and safety regulations, intended to keep employees safe at work
- employment law, covering areas such as the National Minimum Wage, holiday and sick pay, maternity and paternity leave, and workplace discrimination
- consumer protection regulation, which protects consumers when they buy goods and services
- the General Data Protection Regulation (GDPR), which sets strict rules on how businesses should store and use the personal data of EU citizens.

Sectors like financial services are subject to additional regulations, including the Senior Managers and Certification Regime (SMCR), which makes senior people personally accountable for decisions made in the boardroom. This means that, under SMCR, UK-based senior managers in Chinese-owned companies can be held personally responsible for decisions made at board level in China.

The UK government is also in the process of developing regulations to protect the UK's critical services. These are likely to affect businesses operating in sectors such as energy, transport, health and digital infrastructure[28].

For all regulatory regimes, compliance is not optional. Companies that flout the rules risk substantial fines, reputational damage and, in some cases, the withdrawal of their licence to operate.

4 Take reporting requirements and tax compliance seriously

Part of the appeal of the UK as an investment destination is the stability created by a clear and enforced tax regime. This includes the requirement for UK-registered companies to file their annual accounts at Companies House, thereby creating a public record of their financial affairs. Many Chinese investors feel uncomfortable about revealing sensitive information, but must nevertheless meet their filing obligations. Failing to file accounts at Companies House can lead to a company being struck off and its assets being passed to the Crown. Restoring the company and regaining control of those assets is a time-consuming and costly exercise, as some Chinese owners have found.

Completing corporate tax returns and paying tax due is an equally important matter. The UK tax authority, HMRC, has the power to impose fines, freeze accounts and seize assets worldwide in order to recover monies owed. In 2018, Chinese companies in the UK were fined almost £3.6 million either for deliberate errors in their tax returns or deliberately failing to comply with their tax obligations[29]. These financial penalties are in addition to the reputational damage to the business that is caused by tax evasion, and possible criminal convictions against individual tax lawbreakers.

With the introduction of Common Reporting Standards from 1 January 2019, investors in the financial services sector will find it more difficult than ever to conceal their financial affairs from tax authorities. The standards call on jurisdictions to obtain information from their financial institutions and automatically exchange information with other jurisdictions on an annual basis[30].

Professional advisers can guide investors through UK reporting requirements to protect the integrity of the business. They can also help with tax planning to ensure that investments are structured in the most tax-efficient way, and advise on matters such as VAT and employer's tax and pension contributions.

28 https://www.gov.uk/government/collections/nis-directive-and-nis-regulations-2018
29 Grant Thornton analysis of HMRC data
30 http://www.oecd.org/tax/automatic-exchange/common-reporting-standard/

5 Comply with personal taxation requirements

Individuals as well as corporates are required to comply with UK tax requirements. This includes directors of companies registered in the UK, even if they are not UK tax residents. Non-compliance means individuals risk damaging their credit record and their ability to secure finance. They may also be deemed unsuitable to be a company director.

One group of investors that may put their professional future at risk – often unintentionally – are non-resident directors of Chinese businesses visiting the UK on a short-term basis, often travelling on a tourist visa. To maintain their non-resident status, this group is required to report their presence in the UK to the tax authorities. Not doing so may constitute tax evasion, with all the damage this entails for an individual's ability to continue to manage UK investments.

Professional advisers can help investors manage a range of complex personal tax issues, including expatriate taxes, to ensure they stay within the law and pay the right amount of tax.

6 Have a media strategy

In the UK, media organisations are free to publish or broadcast their opinions without government censorship. Lack of familiarity with a free press means many Chinese-owned businesses are often slow to respond to questions from journalists. As a result, they miss the opportunity to shape the story that is being written about them.

To optimise their profile in the media, businesses should aim to develop open and constructive relations with media organisations. This can help prevent situations where journalists blow small incidents up out of proportion or tell only one side of the story. Building proactive and positive relations with the media can help businesses increase the chances of sympathetic and accurate coverage.

7 Don’t underestimate the impact of cultural differences

Understanding the cultural differences between the UK and China is vital for Chinese businesses that want to recruit and retain talent successfully in the UK. Attitudes to balancing work and personal life are a good example. Chinese businesses encourage their employees to work hard and leisure time becomes naturally mixed with work. Many Chinese employees expect to commit up to 16 hours a day as well as weekends and public holidays to their employer. This is in contrast to the UK where employees expect and are entitled to receive their employer’s support in balancing work and personal life. Even with substantial financial inducements, many UK workers will be reluctant to join or stay with Chinese-owned businesses that expect excessive working hours.

Another reason why UK workers may be reluctant to join or stay with Chinese-owned businesses is the perceived lack of career opportunity. Many Chinese-owned businesses fill senior roles with Chinese ex-pats, replacing them with new ex-pats every three years when visas come to an end. As a result, not only is there disruption to the senior leadership of the UK business as executives come and go, but also opportunities for local employees to develop a career with the business are restricted. To grow successfully in the UK, Chinese businesses must have an effective strategy for recruiting and retaining talent, and take cultural integration as seriously as financial integration.

8 Be ready to observe anti-money laundering rules

The UK has stringent Anti-Money Laundering (AML) and Know Your Customer (KYC) rules, designed to stop criminals using financial products or services to store and move money around. These apply whenever businesses and professional advisers enter a relationship – and no business is exempt.

Professional services firms cannot begin to work with businesses until the firm has carried out full AML and KYC checks. Chinese investors can speed up the process and avoid delay by having all the relevant documentation prepared in advance before they approach professional advisers.

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 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:

- Sourcing investment opportunities (listed and non-listed companies, land and property)
- 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 and restructuring (including tax restructuring, corporate simplification and forensic)
- Business growth
- Equity incentive plans
- International mobility (including expatriate tax and human resources)

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

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