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WELCOME ASHORE

A guide to investing in the UK for Chinese companies

Withdrawn 21 May 2019

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THE UK REMAINS ONE OF THE MOST ATTRACTIVE DESTINATIONS FOR CHINESE COMPANIES TO INVEST IN OUTSIDE CHINA AND TO EXPAND THEIR GLOBAL BUSINESS

It is not only a destination in its own right but also a key location for those who would like to gain access to other markets across Europe. At Deloitte, we continue to see many Chinese individuals and companies coming to the UK, attracted by the UK's reputation as one of the most open economies of the world with a competitive tax regime and stable business environment.

This guide is a practical document aiming to provide valuable guidance to Chinese companies which are setting up in the UK. The contents have been developed based on Deloitte's experience of having assisted a large number of Chinese companies to establish and grow their footprint in the UK.

We therefore hope that this guide will give you a broad introduction to key considerations such as corporate structure, taxation, people and immigration, real estate and corporate finance matters, as you develop your entry strategies.

Our Chinese Service Group is committed to assisting Chinese companies to invest and grow in the UK. We would be very happy to discuss any aspect of the guide with you.

Ralph Adams
Chinese Services Group Leader, UK

I AM DELIGHTED TO BE AMONG THE FIRST TO READ WELCOME ASHORE

The publication of this investment guide could not come at a more opportune time. China-UK economic and commercial ties are deeper and more robust than any other time in history. In the past five years, bilateral trade between China and the UK has more than doubled and hit a record of US$ 80 billion in 2014, with more than US$25 billion in Chinese capital pouring into the UK. Chinese companies investing in the UK has turned from trickles into torrents. As a result, the UK has become a premier destination for Chinese companies, receiving more Chinese capital than any other country in the EU. The country is now home to Chinese companies in sectors ranging from banking and advanced engineering to retail and property development. The planned visit of President Xi Jinping to Britain later in 2015 is sure to give a huge boost to the stronger than ever trade and investment relationships between China and the UK.

Having lived and worked in the UK for the past five years, I am convinced that the investment climate in the UK is second to none. The country has one of most open economies in the world. It genuinely welcomes Chinese investment in virtually all of its economic sectors, allowing for plenty of investment opportunities. As Chinese companies strive to upgrade their products, the UK, ranked among the world's top innovative countries, could well become a major source of cutting-edge technology and innovative products.

London's position and role as a premier international financial centre can also serve them well for most of financial needs including raising capital. Additionally, the UK can work as a springboard for Chinese companies for their operations in the European continent and other parts of the world.

Over the years, we at the Economic and Commercial Office of the Chinese Embassy in the UK have worked closely with Deloitte and discovered how valuable its work is to Chinese companies setting up in the country. The guide, drawing on lessons and experience of Chinese companies already established in the UK, is filled with a wealth of practical advice and information. It will prove to be a very useful tool for Chinese companies contemplating investing in the UK and, indeed, for those that are relatively new in the market, guiding them in the right direction.

Welcome ashore to the UK!

Mr Zhou Xiaoming
Minister Counsellor of the Economic and Commercial Counsellor's Office, Embassy of the People's Republic of China in the U.K.

MORE THAN 5,400 CHINESE COMPANIES HAVE ALREADY INVESTED IN THE UK, MANY OF WHICH HAVE MADE BRITAIN THEIR HEADQUARTERS

I am delighted to support *Welcome Ashore: A guide to Investing in the UK for Chinese companies*. China is one of our most valued trading partners and among our fastest growing inward investors. The UK Government is committed to further strengthening the relationship and has introduced one of the most ambitious packages of policies, business incentives, tax credits, tax rate reductions and visa support in the world to ensure Chinese investors make the UK their global partner of choice.

To maintain the UK's position as the number one destination for foreign direct investment in Europe we are cutting Corporation Tax to 20 per cent, the lowest in the G7 and the equal lowest of the G20. In addition, it will be as low as 10 per cent for companies that turn innovation into manufacturing.

UK Trade & Investment (UKTI) works closely with partners such as Deloitte to ensure Chinese investors are given the help and support they need, to set up or expand their business in the UK. Whether you are a start-up, medium-sized business, a corporate or institutional investor, UKTI can support the realisation of your international business ambitions.

Support for investors does not end once they are established in the UK. Chinese companies can benefit from the same support to increase exports as domestic firms. UKTI can provide bespoke market research, news of trade opportunities and support to win high value contracts, opening up possibilities to trade across Europe – the world's biggest single market.

Chinese investors will also find the UK top for ease of doing business. London is established as the Western Hub for offshore renminbi (RMB) trading, with almost two-thirds of all RMB payments outside China and Hong Kong now taking place in London and 28 per cent of all international RMB payments made in the UK.

The UK's offer to Chinese investors is one of the strongest in the world and, when combined with our stable business environment, provides a highly attractive commercial proposition. To find out how we can help you to set up your company in the UK visit www.gov.uk

Dominic Jermey
CEO, UK Trade & Investment

1. INTRODUCTION

THE UK, AND LONDON IN PARTICULAR, CONTINUES TO BE A DESTINATION OF CHOICE FOR CHINESE COMPANIES WITH GLOBAL AMBITIONS

The UK is home to one of the largest clusters of multinational companies in the world, across all sectors. With a robust legal system, highly trained work force and ideal geographical location between the USA and Asia, the UK provides an attractive environment for setting up a presence outside China.

Although the UK market is highly competitive, new entrants with a clear vision can and do find opportunities to establish themselves in the UK and build a successful business.

A road map for establishing a presence in the UK
To establish a presence in the UK, a number of actions must be taken. Many of these concern compliance with regulations and regulatory processes. Companies must satisfy local regulators that they are well prepared and capable of operating a successful business in the UK.

This guide provides a road map to establishing a presence in the UK. The key considerations covered by this guide are shown opposite.


DECIDE A CORPORATE STRUCTURE
CHOICE OF LOCATION
OBTAINING PREMISES
ESTABLISH THE BUSINESS
TAX ARRANGEMENTS
OBTAINING VISAS FOR MIGRANT WORKERS/ NON-UK EMPLOYEES
MERGERS, ACQUISITIONS AND OTHER FORMS OF INVESTMENT

2. CORPORATE STRUCTURE

CHINESE COMPANIES USUALLY STRUCTURE THEIR OPERATIONS IN THE UK AS EITHER A UK ESTABLISHMENT OR AS A COMPANY INCORPORATED IN THE UK

For some types of business – for example, private equity or other investment firms – an alternative corporate structure, such as a partnership, may be more appropriate.

This section focuses, however, on the most commonly encountered corporate structures, the UK-incorporated company and UK Establishment.

Registration

The main UK legislation relating to UK corporate structures is the Companies Act 2006. The UK government agency responsible for the incorporation and registration of companies is the Registrar of Companies, commonly known as 'Companies House' http://www.companieshouse.gov.uk

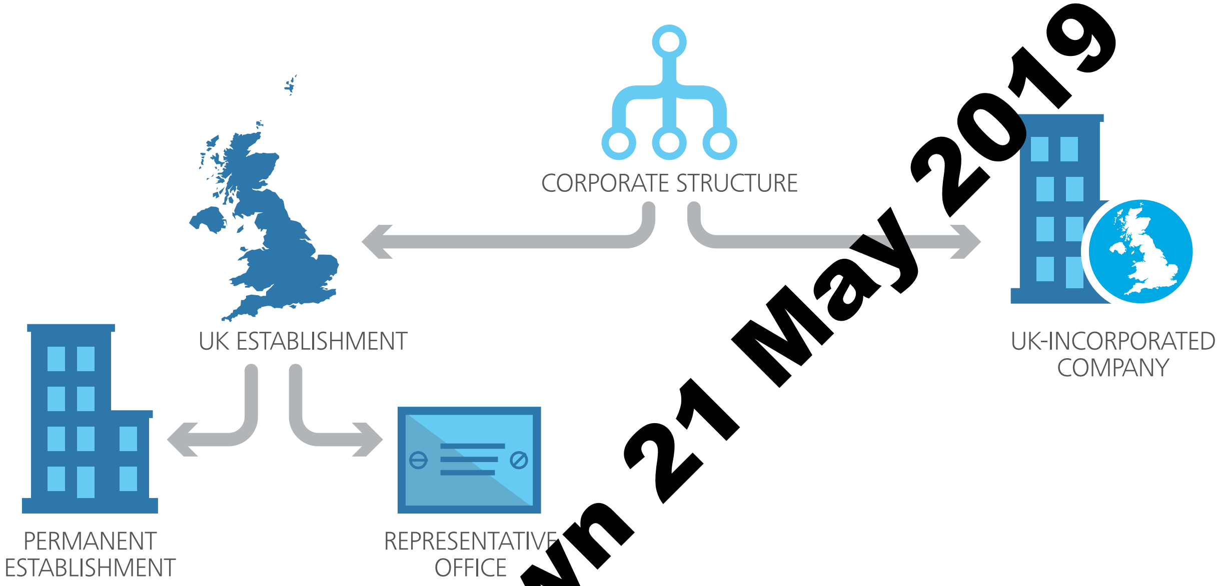
An overseas organisation wishing to set up a Permanent Establishment in the UK, such as a branch or representative office, must register it with Companies House. Registration is not required if the business does not have a physical presence in the UK.

A UK company must be registered at Companies House as part of the process of incorporation.

UK Establishment of a company incorporated outside the UK

A company incorporated outside the UK (an 'overseas company') may set up a UK Establishment in the UK. UK Establishments are governed by the Overseas Companies Regulations 2009 (which are made under the provisions of the Companies Act 2006).

Typical UK company corporate structures



Note: The expression 'UK Establishment' is a legal term, used in the Companies Act and the Overseas Companies Regulations. The expressions 'Permanent Establishment' and 'Representative Office' are Tax terms. Broadly, a permanent establishment creates a taxable presence in the UK, whereas a representative office does not.

Registering a UK Establishment

An overseas company must establish a permanent physical presence in the UK before it registers its UK Establishment with Companies House. Having established a physical presence it must then register it within one month.

Prior permission to register is not required. However, there are restrictions on the use of certain words and expressions in business names. Advice should be taken on whether a particular proposed corporate name is likely to be accepted by the Registrar, before a formal application for registration is submitted to Companies House.

An overseas company setting up an Establishment in the UK must submit to Companies House, with its formal application for registration:

- A certified copy of its constitutional documents.
- A copy of its latest financial statements, if the company is required by the laws of its 'parent country' to prepare, audit and disclose financial statements (for companies incorporated outside the European Economic Area (EEA)) or if it is required to prepare and disclose financial statements (for companies incorporated within the EEA).

If these original documents are not in English, certified English translations must be provided.

The application for registration is submitted on a UK Establishment Registration Form (OS IN01), which requires the following information:

- Details about the overseas company (including corporate name, trading name if different from its corporate name, official or registered company number, jurisdiction, governing law, legal form, capital structure and statutory accounts obligations).
- Details of the directors and secretaries (names, residential addresses, service addresses if applicable, and other personal details).
- The address of the UK Establishment, the date on which it commenced activities and a brief explanation of its activities.
- Details of the UK resident individual (if any) nominated to accept official correspondence on behalf of the company.
- Details of the individual(s) (wherever resident) with authority to represent the company's UK Establishment.
- Details relating to compliance with accounting requirements.

A registration fee is payable. This is currently £20 for registration in five days or £[illegible] if same-day registration is required.

Once the required documents have been filed and accepted, the Registrar of Companies registers the UK Establishment and issues a certificate. The certificate provides evidence of the registration and states the unique registration numbers assigned to the overseas company and its associated UK Establishment.

Continuing obligations of UK Establishments

After registering a UK Establishment with Companies House, the overseas company is required to submit annual financial statements to Companies House.

The accounts that must be filed at Companies House (and which will be made available for inspection by any member of the public) are those of the overseas company as a whole, and not those relating only to the activities of the UK Establishment. The rules vary regarding the form and content of the accounts that should be filed. For overseas companies incorporated in a country outside the EEA, the rules depend on whether the company is required, in its home country, to prepare accounts, to have them audited and to disclose them publicly. For overseas companies incorporated within the EEA, if the company is required to prepare and disclose accounts (irrespective of whether they must be audited), then these accounts must be filed at Companies House.

Any changes to details provided in the initial registration papers must be notified to Companies House on an appropriate form. These include changes to details of the company directors, address changes, and changes to the company's name or constitution.

The accounts and details of changes must be submitted to Companies House within certain statutory deadlines. Information about deadlines is available from the Companies House website.

Permanent establishments have an obligation to notify the UK tax authorities of their chargeability to UK tax, and to file tax returns. Further details are available in the Taxation section.

A UK-incorporated company

The legislation governing the incorporation of companies in the United Kingdom is the Companies Act 2006. There are several different forms of company structure, but a foreign-owned subsidiary incorporated in the UK is most usually a company limited by shares (either private or public).

The principal differences between public and private companies are:

- Only public companies may offer their shares to the public and have their shares traded on a recognised stock exchange. Private companies cannot offer their shares for sale to the public.

- Statutory requirements for public companies, including accounts reporting and disclosure requirements, are stricter and more extensive than those for private companies.

- There is a minimum capital requirement of £12,500 (£50,000 nominal capital issued and at least a quarter paid) or the equivalent in euros for a public company. There is no minimum capital requirement for a private company.

When an overseas company incorporates a subsidiary company in the UK, the subsidiary is usually formed as a private company. However, incorporation as a public company may be more suitable when there is an intention in the foreseeable future to list the company's shares on a stock exchange or offer its shares or debt capital to the public.

Registration of limited companies

The registration requirements are similar for both public and private companies. Registration documents may be submitted to Companies House in either printed (hard copy) form or in electronic form for review and approval, together with a statutory fee (currently between £13 and £100, depending on the delivery method and the required speed of registration), prior to incorporation being effected.

The documents that must be filed at Companies House (together with the statutory fee) are:

- The proposed constitution (memorandum and articles) of the company.

- A statutory form (IN01), providing, among other things, the proposed name of the company, details of the first officers (directors and company secretary), the location of the registered office and the initial amount of share capital.

Electronic registration eliminates the need to obtain signatures on various documents, but certain director-specific identification details must be supplied, for security purposes.

On registration, Companies House issues a certificate of incorporation, showing the company's registered name and its unique registration number. The company is then formally incorporated.

Continuing obligations of a UK-incorporated company

Once registered, the company is subject to various ongoing obligations. These include requirements to:

- Maintain certain statutory registers (for example, a Register of Members and a Register of Directors).

- Maintain a registered office.

- Notify Companies House of any statutory changes, including the appointment/resignation of directors, changes in their personal details, issues of additional shares and changes to the company's constitution or company name.

- Submit an annual return to Companies House (containing, among other things, details of the company's registered office address, principal activity, its directors, share capital and shareholders).

- Prepare and submit annual accounts to Companies House. The form and content of the accounts will be determined, among other things, by the status of the company (whether private or public), the scale of its operations, the corporate group it is part of, the nature of its activities and any associated regulatory requirements.

UK companies also have ongoing obligations to the UK tax authorities, which are outlined in the Taxation section.

3. TAXATION

COMPANIES OPERATING IN THE UK, AS IN MANY OTHER COUNTRIES, NEED TO PAY VARIOUS TAXES

In the UK, the most important are:

- Corporation tax on company profits;
- Value Added Tax (VAT), which is a sales tax;
- Pay As You Earn (PAYE) and National Insurance Contributions (NICs).

All these taxes are administered in the UK by Her Majesty's Revenue and Customs (HMRC).

PAYE is a tax on the earnings of employees. It is deducted from pay by the employer, and paid to the tax authorities. NICs are social security payments, payable by employees and employers to the tax authorities. NICs payable by employees are deducted from pay by the employer, together with PAYE income tax, and paid to the tax authorities.

Useful introductory information about UK taxes is available on the HMRC website at: https://www.gov.uk/business-legal-structures/limited-company

Corporation tax

Companies pay corporation tax on their taxable profits. Taxable profits are based on the company's reported profit in its annual financial statements but with some adjustments. These adjustments could relate to one or more of a number of UK tax incentives – for example, to support innovation or encourage investment in capital assets.

The liability to pay corporation tax in the UK also depends on the structure of the business.

Liability for corporation tax

UK-incorporated company
Corporation tax is payable on the worldwide profits attributable to the UK company, but with adjustments. The UK has double taxation agreements with many countries.

UK establishment	
Permanent Establishment	**Representative Office**
Corporation tax is payable on UK-attributable profits only.	The overseas company does not have a taxable presence in the UK and is not subject to UK corporation tax. However, if it earns income in the UK, such as interest or rent, this may be liable to income tax.

Capital gains arising from the disposal of capital assets at a profit are subject to tax, assuming an exemption does not apply, at the same rate as trading profits, and this tax is included within the overall computation of corporation tax payable to HMRC.

Rate of taxation

The main rate of corporation tax is 20% (from 1 April 2015).

Trading losses

Where a company makes a loss on its trading, rather than a profit, the trading loss may be treated in any of the following ways:

1 The loss may be offset against any other non-trading profits of the company in the same year.

2 The loss may be carried back one year to be offset against any profits of the company arising in the previous year.

3 The loss may be carried forward and offset against profits in a future year that arise from the same trade. Restrictions may apply on the ability to carry forward a trading loss into a future year where there is a change of ownership of the company and within three years, a major change in the nature and conduct of the company's trade.

4 Another option is to surrender losses in the year through group relief. Group relief allows losses of a company in a UK group to be surrendered to, and used by, any other UK company or UK permanent establishment in the group. (Companies are considered to be part of a UK group when they are incorporated in the UK and there is at least 75% common ownership.)

HMRC filing requirements

A UK-incorporated subsidiary or a UK permanent establishment of an overseas company must provide HMRC with certain initial information:

- Within three months of incorporation, in the case of a UK-incorporated company.
- Within three months of commencement of trading, in the case of a permanent establishment.

A corporation tax return must then be submitted to HMRC annually within 12 months of the end of the entity's financial year. Returns must be filed electronically, with financial statements submitted in in-line Extensible Business Reporting Language (iXBRL).

For larger companies corporation tax is payable in quarterly instalments and the first payment is made before the end of its financial year. The corporation tax liability, of smaller companies, must be paid within nine months and one day from the end of the entity's financial year.

HMRC may charge penalties for late payment and interest on overdue amounts.

PAYE and NICs

The UK rules for taxation on the income of 'migrants' (a UK government term for individuals obtaining permission to move to the UK) are based on the concept of 'tax residence'. Employers in the UK are subject to income tax and social security payments (NICs) on their income.

The UK operates a tax witholding system called PAYE. It is the employer's or UK host employer's responsibility to report PAYE information as well as deduct tax from the employee's income and remit the funds to HMRC.

In addition, certain 'benefits' enjoyed by the employee are subject to income tax, such as the private use of a company owned car and company payments for private medical insurance. An annual statement must be made for each employee by the employer and submitted to HMRC. A copy must also be given to the employee.

Migrants who come to the UK for a 'temporary purpose' may be allowed certain concessions from liability to income tax, such as tax relief for:

- The cost of accommodation in the UK.
- Subsistence and travel expenses in the UK.
- Income from employment on work days outside the UK.
- The cost of flights for the employee to and from their home country (and limited trips for accompanying family members).

An individual who is not domiciled in the UK can enjoy favourable tax treatment in respect of income and assets outside the UK. Domicile is a concept distinct from residence.

Unless given a specific exemption, an individual who is on assignment in the UK for a temporary purpose must complete an annual personal tax return and submit it to HMRC, disclosing the full extent of their income.

Individuals who are assigned to the UK for a temporary purpose may be exempted from UK social security payments (NICs) for the first 52 weeks of their work in the UK if they are from a non-treaty country like China.

The employer and tax affairs of migrant workers

When an organisation is planning to set up a company or establishment in the UK, it will have to deal with various issues relating to migrant workers. Issues to consider are:

- Compliance with PAYE and NIC requirements.
- Securing cost-efficient accommodation and salary arrangements for the employee.
- Issues relating to visitors to the UK on business visitor visas, and ensuring that the work they do in the UK is permitted by the visa regulations.
- The tax implications of assignments by non-UK residents to carry out work in the UK.
- Supporting the employee by providing information to enable them to submit an annual personal tax return to HMRC.

Other tax considerations

Transfer pricing

UK legislation on transfer pricing requires that trading and financial transactions between affiliates (such as an overseas parent company and its UK subsidiary company or UK permanent establishment) should be conducted on an arm's length basis. This means that the terms and pricing of transactions between them should be the same as if the two affiliates were completely independent from each other, and so prices and charges should be at commercial or market rates.

Where transactions between affiliates are not made on an arm's length basis, an adjustment to the prices may be required for corporation tax purposes.

Base erosion and profit shifting

The Organisation for Economic Co-operation and Development (OECD) and G20 countries, which includes the UK and China, have launched an Action Plan on base erosion and profit shifting (BEPS). The purpose of this plan is to deal with situations where the current international tax environment allows taxable profits arising in one country to be allocated to a group company in another country (with lower tax rates) which is different from where the actual business activity takes place.

The outcome of the Action Plan is expected to include changes to international tax rules, such as the Transfer Pricing Guidelines, and any recommendations from the OECD for tax legislation that should be adopted by countries in their national tax law.

There are staggered time deadlines for the implementation of the Action Plan, beginning in September 2014 and ending in December 2015. The political momentum behind BEPS is significant, so we can assume that these changes are very likely to take place.

VAT

VAT is the UK's sales tax. Goods and services that are subject to VAT are known as taxable supplies. Non-taxable supplies may either be VAT exempt or outside the scope of UK VAT.

Registering as a VAT trader

A business must register with HMRC as a VAT trader if the value of its sales of taxable supplies exceeds a minimum threshold level. This level is currently £81,000 in any 12-month period.

- A business must register for VAT if at any time it expects its taxable supplies to exceed the threshold in the next 30 days alone. In addition, due to a special rule called the reverse charge, a business can exceed the threshold as a result of services bought in from suppliers outside the UK.

- A business that has not exceeded the threshold (and is not required to register) may register voluntarily for VAT.

- Where it is known that taxable supplies will be sold at some point in the future, it is possible to register as an 'intending trader'. This will enable the entity to recover VAT on purchases made wholly for business use.

Charging VAT on sales

Businesses that are registered for VAT must charge tax on the taxable supplies that they sell, at the appropriate rate. The standard rate of VAT is currently 20%, but some goods and services are taxed at a different rate.

Reclaiming VAT on purchases

Businesses registered for VAT may also reclaim the VAT that they have paid on purchases of taxable supplies from other VAT-registered businesses. However, if the business makes exempt supplies, there is a restriction on the amount of VAT on purchases that it can recover.

Settlement of VAT payments or refunds

The net amount of VAT payable or recoverable is usually settled every three months, when the business submits a VAT return to HMRC. For more information on VAT, visit https://www.gov.uk/business-tax/vat

4. PEOPLE AND IMMIGRATION

CHINESE NATIONALS WISHING TO SET UP A BUSINESS OR WORK IN THE UK MUST OBTAIN A VISA BEFORE TRAVELLING TO THE UK

The rules and policies on immigration are subject to change. The Government is placing more restrictive conditions on visitors wishing to come to the UK. It is therefore strongly recommended that any organisation wishing to establish a presence in the UK seeks specialist advice.

Some of the current UK rules on visas and immigration are explained here.

Points-based system for visas

Individuals obtaining permission to move to the UK are known as 'migrants' in the terminology of government policy.

Since 2008, the UK Government has managed immigration for migrant workers using a points-based system (PBS). Individuals must be awarded a sufficient number of points in order to obtain a visa. These rules apply to all individuals from outside the EEA and Switzerland.

The PBS rules vary for different types of migrant. Currently there are five categories, or 'Tiers' of migrant worker. Of these, Tier 1 and Tier 2 are most likely to be relevant to an individual wishing to set up a business or work in the UK, and to overseas companies wishing to transfer some of their workers to the UK.

Tier 1: High-value migrants

Tier 1 migrants are highly-skilled workers or individuals. They include business entrepreneurs wishing to set up a business in the UK and to be actively involved in running it.

Tier 1 also includes investors wising to make a financial investment of at least £2 million in specific assets, such as shares in UK trading companies. An investor does not need a job in the UK to obtain a visa, but will be permitted to work in the UK if he or she wishes to do so.

Tier 2: Skilled workers

Tier 2 migrants are skilled workers who have been offered a job in the UK. Individuals applying for a visa under Tier 2 of the PBS must have a sponsor. This is the employer who will provide them with their job in the UK. If a UK-based business wishes to sponsor a migrant for a visa to work in the UK, it must apply to the UK Visas and Immigration for a sponsor licence.

Tier 2 also covers individuals whose existing employer wants to transfer them from a position outside the UK, and move them to work in the UK in a related company. The UK company acts as the sponsor. The individual must have gained at least 12 months' work experience with the same group company in a non-UK location before an application for a visa can be made.

Under the PBS, points are awarded to the individual according to their qualifications, future expected earnings, their sponsor, their English language skills and the amount of funds that they have to support themselves.

Stringent qualifying criteria apply to the minimum salary that Tier 2 applicants should earn and how long they can spend in the UK. After leaving the UK, a 12 month 'exclusion period' may apply to some individuals, which means that they cannot return to the UK with a Tier 2 visa within 12 months of leaving the UK.

Professional advice should always be sought well in advance of travel (we would recommend at least four months), so that a full assessment of the case can be carried out and the appropriate visa obtained.

More information about the PBS is available at https://www.gov.uk/uk-visa-sponsorship-employers

Visas outside the PBS

Visas may be obtained under rules outside the PBS.

Business visitors

An individual may come to the UK as a business visitor for up to six months in any 12-month period, provided that certain strict qualifying criteria are met.

The visitor must not be employed or paid in the UK, and most importantly, must not be carrying on any productive work in the UK. Current policy allows for the individual to attend meetings and conduct fact-finding activities, but other duties may breach the visa regulations.

Where relevant, the UK authorities will look to enforce compliance with immigration rules (as well as tax rules) by business visitors to the UK. It is therefore advisable to check that the proposed activities of the business visitor are permissible within the visa regulations.

Individuals of some nationalities must always obtain a visa, from the British Embassy in the home country, to come to the UK as a business visitor, so it is important to check up-to-date information in this regard before the individual travels to the UK.

Sole Representative

The Sole Representative is another visa category outside the PBS. This category allows a sole representative of an overseas firm to obtain a visa to establish a wholly-owned subsidiary or register a branch in the United Kingdom for an overseas parent company.

The overseas company must not have an existing branch, subsidiary or other representative in the UK, and other qualifying criteria will apply to the granting of the visa.

Only the first overseas national coming to the UK from a non-UK organisation will be able to obtain a visa through the Sole Representative route. Subsequent employees moving to the UK must obtain their visa in a different way, such as under the Tier 2 category of the PBS.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Finchley Rd
Oxford Circus
Piccadilly Cir Strand
Fleet St Cannon St

5. LOCATION AND PREMISES


CE PIER
FREE ADMISSION / FREE DECK CHAIRS
OPEN EVERY DAY

A CHINESE ENTITY WISHING TO ESTABLISH A PRESENCE IN THE UK MUST MAKE DECISIONS ABOUT WHERE TO LOCATE OPERATIONS AND HOW TO SECURE INCENTIVES AND PREMISES

The following sections provide an overview of the main factors that should be considered in sourcing new commercial accommodation in the UK. Choosing the best location and subsequently the best building possible for a business will have far-reaching implications for the future success of that business.

Choice of location: factors to consider	
Size and labour pool	What is the anticipated headcount for the new centre? How quickly is this expected to grow? What specific skills and experience are required from employees? Are there any specific language requirements? Which location offers a suitable labour pool from which to recruit UK employees?
Cost	How important are salary and property costs to the location decision? Some locations will cost more than others.
Quality of life	Will staff be re-locating to the new centre? How good are the local schools and universities? How expensive is housing in the area?
Proximity to clients and competitors	How important is it to be in a location that has an established 'hub' for your industry sector?
Proximity to airports and other transport links	How frequently will staff travel between group locations, both nationally and internationally?

The table opposite shows data for some of the UK's largest cities that might be considered as possible locations. London is by far the largest location and its labour pool has the most diverse skill set, but it comes at the highest cost. Companies may choose to establish a head office in London and then, depending on the size of the operation, establish an operations centre in another major town or city. The operating cost for a location outside London may be more than 25% cheaper.

UK locations

	Population[1]	Working age population[1]	Graduate population[1]	Financial Services workforce[2]	Gross weekly pay[3]
Great Britain	61,881,400	64.2%	34.4%	6.0%	£507.60
Inner London	3,285,000	72.7%	55.9%	16.7%	£708.80
Birmingham	1,085,400	64.2%	27.6%	9.1%	£507.90
Leeds	757,000	66.6%	35.1%	9.5%	£479.30
Glasgow	595,100	69.9%	[illegible]	8.6%	£501.70
Manchester	510,800	71.0%	[illegible]	11.7%	£509.00
Edinburgh	482,600	70.1%	56.1%	21.3%	£536.80
Bristol	432,500	68.1%	42.6%	11.7%	£507.80
Cardiff	348,500	68.2%	38.2%	9.2%	£485.70
Newcastle	282,400	68.7%	34.9%	6.5%	£484.50
Belfast[4]	281,000	[illegible]	32.0%	14.4%	£481.90

1. 2012 ONS mid-year population estimates
2. 2012 Business register and employment survey
3. 2012 ONS annual survey of hours and earnings – workplace analysis for all occupations
4. Northern Ireland Statistics and Research Agency

Incentive schemes

Depending on the scale, nature and location of the new centre, the UK Government may offer an incentive scheme to help fund the investment. The main areas of funding include support for:

- Job creation;
- Capital investment;
- Research and development; and
- Training.

Grants are typically discretionary. Under current EU rules, assistance may cover up to 50% of the cost of staff training activities and, depending on location, a grant towards fitting out an office and creating jobs in the area, may cover up to 25% of eligible project costs. The level of assistance may be higher for small or medium-sized companies.

Premises

The UK has a sophisticated market for real estate. Businesses seeking premises are usually advised by real estate professionals known as chartered surveyors.

Prices and contract terms for office accommodation are highly negotiable. Business premises may be purchased outright, but many businesses acquire premises under a leasing arrangement with a landlord. A typical length of lease for business premises is five to 15 years. In some lease agreements, the tenant has a right to renew the lease at the end of the original lease term. It is common for lease agreements to include a provision for upward price adjustments, known as rent reviews, at periodic intervals.

It is also usual for occupiers to obtain leased premises as an empty building or part-building, and then to undertake their own works to install offices, meeting rooms, reception area, IT and communications systems etc., in a process known as 'fitting out'.

It is usual for occupiers to be required to maintain the premises themselves and to return them to the landlord, to an agreed standard, at the end of the lease.

The landlord may retain responsibility for maintaining the parts of the building that are used in common with other occupiers. If so, it will make a 'service charge' for this service.

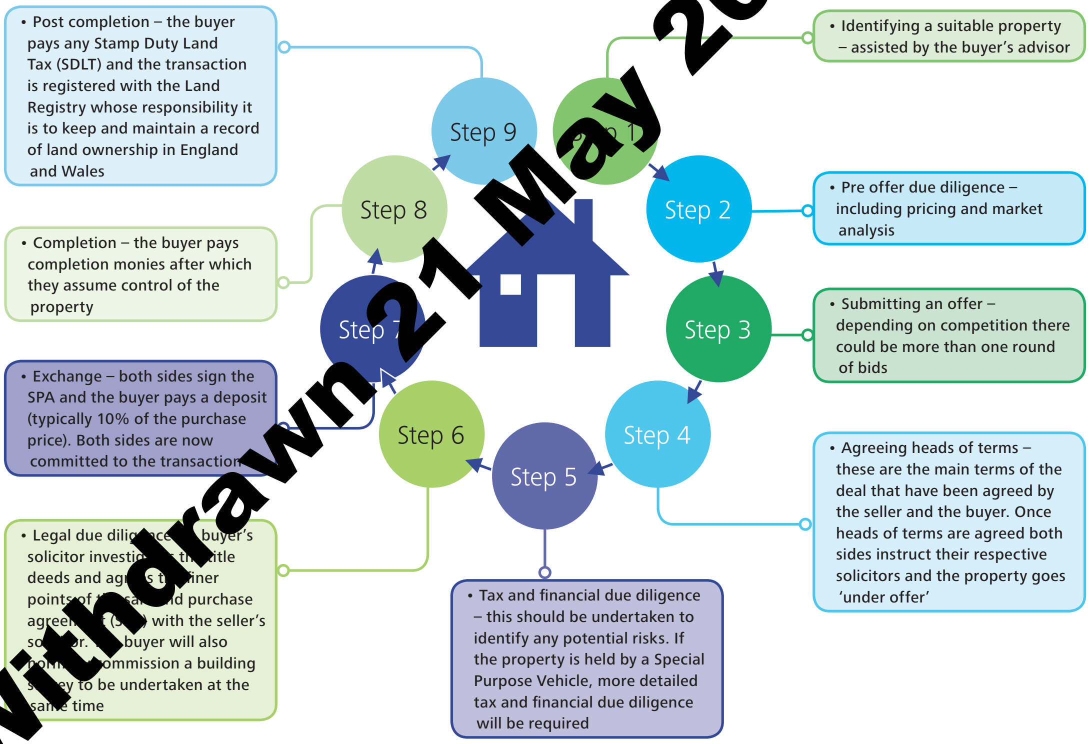
Some property companies offer 'serviced offices' to different occupiers of a building. These are smaller offices fitted out with services such as a receptionist and meeting rooms, but these can be more expensive.

A chartered surveyor/property advisor will be able to advise on the process involved in opening an office and how to negotiate sensible commercial terms and flexible lease terms.

Choice of premises: factors to consider	
Size and floor space	Take into account the anticipated growth of the business during the term of the lease.
Basis of ownership	Most businesses in the UK rent premises from a landlord under a lease arrangement, but an outright purchase is possible.
Budget	The annual running costs for a lease of office premises include rent; local tax (known as business rates); service charge and building insurance to the landlord; utility charges (electricity, water, etc.); and maintenance charges. At the beginning of a lease, an occupier without an established track record in the UK may be asked by the landlord for a rent deposit. The amount of a deposit is negotiable, but it may be as much as the equivalent of 12 months' rent and service charge. There is also an initial cost for fitting out the premises and payment of fees for professional advisors.
Professional support	It is important to choose the right professionals, including chartered surveyor/ property advisor, solicitor, tax advisor, building contractor, interior architect and project manager.
Taxation	When purchasing a property or entering into a lease, the buyer must make a one-off payment of Stamp Duty Land Tax. The amount of this tax varies with the cost of the purchase or amount and rent paid for the deduction of the lease. Annual local taxation known as business rates must also be paid.
Statutory requirements for buildings	Occupiers must comply with legislation in the UK covering health and safety and including Building Regulations and Fire Regulations.
Timing	It can take 12 months or more to search for and find premises, negotiate and agree lease terms, fit out the premises and move in. Having a chartered surveyor/property advisor in place at the outset will help you with this process.

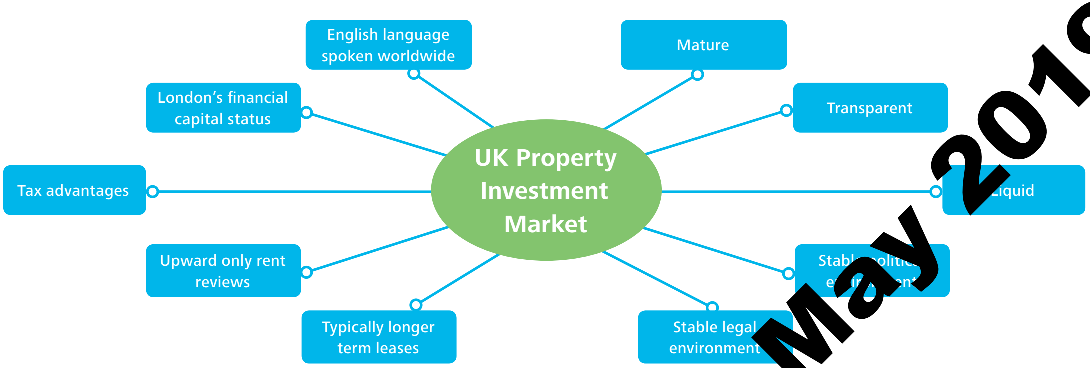
Most businesses operating in the UK rent their premises, although there is the potential for businesses to own properties outright. Property ownership in the UK is attractive as it offers wealth preservation and growth potential in a stable, transparent and liquid environment.

The steps to buying property in the UK can be broken down as follows



In the UK it is standard market practice for buyers and sellers of property to be represented by a buy side and a sell side advisor. A buy side advisor's services include deal sourcing, providing expert local market knowledge and importantly securing the deal for their client. They will also liaise with solicitors and other professionals to facilitate completion of the transaction. The buy side advisor will be paid a fee by the buyer which is typically up to 1% of the purchase price + VAT (depending on the size of the acquisition).

Advantages of the UK Property Investment Market



Real Estate Tax and Capital Allowances

Real estate investors in the UK should recognise the importance of thorough taxation due diligence and structuring advice in appraising real estate acquisitions in today's market.

The UK has a particularly attractive tax environment for overseas property investors where the investment is made through a non-UK tax resident company. The key features of such an investment structure are:

- Lower taxation on rental income – subject to 20% income tax rather than UK corporation tax;
- No UK taxation on capital gains on the disposal of UK investment assets;
- Potential to reduce taxable profits using 'related party' debt and the provision of management services from related entities (provided on arm's length terms);
- No UK transfer tax on the purchase of shares of companies/unit trusts (compared to 4% due on direct acquisition of UK commercial property); and
- Availability of tax depreciation to reduce taxable profits.

In addition changes to the UK Real Estate Investment Trust (REIT) provisions have increased the attractiveness of UK REITs as a UK real estate platform for institutional investors and private equity funds.

6. MERGERS & ACQUISITIONS

THE UK IS A VERY OPEN MARKET, WHICH MAKES ENTRY THROUGH MERGERS & ACQUISTIONS A VIABLE ALTERNATIVE TO START-UP INVESTMENTS

Finding an acquisition target

There are different ways to find acquisition targets, depending on the size of the business to be acquired. In many cases, the potential acquirer and target already know each other and need no introduction, but the UK also has an active deal broking community that can introduce smaller sized deals.

The UK has a very mature M&A market with many active private equity and venture capital investors. Many medium and large-size companies are sold by auction process, which can be challenging for Chinese companies to win because they have to compete with other investors who do not need to obtain approvals for foreign investment, and so can respond more quickly. Hence many Chinese companies adopt a proactive process of searching for off-market deals. For larger deals, professional advisors can perform acquisition target searches to identify opportunities and provide execution support.

Regulated industries

Certain industries, particularly in financial services, are regulated and in order to own and operate businesses in these areas the investor needs to apply to regulators for approval to operate a regulated business.

Approvals processes

Most private company transactions in non-regulated industries will not require any special approvals from the UK authorities, except for reviews by the relevant competition authorities.

Public company transactions are much more rare for Chinese companies in the UK. One reason for this is that they are regulated by the Panel on Takeovers and Mergers, which requires time limits to be placed on bids. Chinese companies can find these deadlines challenging to meet because of the time taken in China to gain approval for the overseas investment.

Due diligence

Although the corporate governance environment in the UK is generally of high standard, due diligence is still valuable, and very much recommended, to help identify risks and opportunities in the transaction, so that they can be managed in the valuation, deal structure, contract and integration planning. For example, differences in industry practice, accounting standards, tax regulations and employment law can mean that the way a business recognises its revenues and costs in the UK could be different from the way they would be recognised in China, and it is important to understand this before committing to the transaction.

There are a number of forms of due diligence, apart from financial, and these are summarised in the following table.

Other Forms of Due Diligence	
Legal	In addition to performing legal due diligence, lawyers play a crucial role in writing contracts and gaining approvals where required. In the UK, there are an increasing number of Chinese law firms, and international law firms with Chinese lawyers.
Human Resources	HR planning is a critical part of ensuring the success of a deal, for example, identifying key staff and understanding how they are incentivised.
IT	Systems are likely very different to the ones used in China. Some UK companies use a patchwork of legacy systems built up over years, which may need significant capital expenditure in order to update or integrate with the systems of the acquirer.
Operations	Understanding how the business operates and to what extent there is potential to improve and generate synergies with the acquirer.
Commercial	Taking an external view and understanding the market position of the company and the opportunities it faces, how well it is capturing them, and what customers think.

Integration planning

One of the risks that Chinese companies face when making acquisitions is being able to integrate the new company, in particular the management team, with the China business. Remuneration and reward systems can be quite different and will require careful planning to make sure the key staff are retained. Having a plan for how to capture the value from the deal, in terms of transferring knowledge to China or bringing Chinese assets to the acquired business, is also a critical driver of success or failure.

ABOUT

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With a globally connected network of member firms in more than 150 countries, Deloitte Touche Tohmatsu Limited (DTTL) brings world-class capabilities and high-quality service to clients, delivering the insight they need to address their most complex business challenges. DTTL has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

DTTL's global China Service Group brings together an integrated network of China-focused specialists based in over 120 locations around the world. In the UK, our dedicated China Services Group has a long and successful history of supporting Chinese organisations embarking on landmark activities in the UK. With our strong relationships with Deloitte China's leaders and their teams, our UK team can draw upon local expertise from multi-disciplinary teams to assist our clients to realise the full potential of the UK market. Whether you are looking to set up operations for the first time in the UK or expanding your business through corporate acquisitions or other types of investment, the global reach of our UK team can support your business needs and assist in achieving your ambitions.

In the UK firm, there are over 12,000 people working in 23 offices across the UK. In the Greater China region, Deloitte China has 22 offices with nearly 13,500 people. It is one of China's largest professional services organisations and has actively contributed to the development of China's accounting standards and taxation system.

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