UK Investment Guide for Chinese Investors

(2014 Edition)

Institute of Foreign Economy, National Development and Reform Commission

Contents

Foreword

UK Investment Guide for Chinese Investors (2014 Edition) (The Guide), compiled by the Institute of Foreign Economic Studies, National Development and Reform Commission (NDRC) under the auspices of the NDRC, British Embassy in Beijing and UK Prosperity Fund, is one of the policy fruits of the fifth economic and financial dialogue between China and the UK in 2013. The Guide is designed to offer more practicable guidance for Chinese investors to follow the macro trends of economic and trade cooperation between China and the UK and invest in the UK, serving practical needs of Chinese businesses and improving their efficiency in investing in the UK, with the aim of promoting mutual economic prosperity.

China is now at a stage of large-scale outward investment. It became the world's third largest investor in 2013 with a total outward investment of more than USD 90 billion, only after the US and Japan. Its outward investment is expected to exceed USD 100 billion in 2014 and will hit USD 500 billion in the coming 5 years. China's acceleration of outward investment will play a significant strategic role in promoting its shift of economic development model, economic restructuring, avoiding trade frictions, maintaining an equilibrium of balance of payments, cultivating multinationals, and creating new international competitive advantages.

China and the UK are at different stages of development. Highly open and diversified, the UK is a highly developed economy, with the service sector contributing nearly 80% of its economic growth. In becoming a global manufacturing center through the industrial revolution, or becoming a world trade center, world shipping center and world financial center, or taking a step forward to become a world innovation and R&D center, cultural innovation center and leading low-carbon country, the UK has relied on innovations in development concepts, technologies and services to seek prosperity and development. Unlike the UK, China is at a stage that focuses on the development of heavy and chemical industries, with the manufacturing industry contributing up to 44% of GDP in 2013 while the service sector, only 46%. China needs to shift its economic development model and adjust economic structure by exploring an innovation-driven development model and driving economic transformation and upgrade. Since the UK's advantageous industries have a strong fit with China's goals for economic restructuring, accelerating investment of Chinese businesses in the UK will create synergies for both countries' industries. What's more, the UK's advantages in international finance will help China to advance the renminbi internationalization, thus creating fresh growth drivers for China-UK cooperation. Promoting Chinese businesses to invest in the UK can push China to seek innovative development and drive the UK's economic growth. As the global economy recovers slowly and the world economic condition becomes complex and ever changing, both sides have demand for each other. Deepening mutual cooperation via investment is set to further drive the world's prosperity.

China is now studying and preparing the Thirteenth Five-Year Plan. Vigorously implementing the "go-global" strategy will be a key assignment during the period. It is hoped that the Guide could promote more Chinese businesses to invest in the UK and to make use of the complementary advantages of both countries' economy, deepen economic and trade cooperation between the two sides, and enhance the strategic level of economic and trade cooperation, thus making mutual cooperation beneficial to both sides, to cooperation between China and Europe and even to global economic recovery.

Signature:

March 15, 2014

Foreword

Lord Livingston, Minister of State for Trade and Investment, UK

As UKTI Minister, I feel honored to write this foreword for UK Investment Guide for Chinese Investors (2014 Edition) (The Guide), an unprecedented fruit of cooperation between the National Development and Reform Commission (NDRC) and the UK Government.

The UK is the No. 1 destination for inward investment in Europe, which the British Government is very proud of. Bilateral investment leads to flows of capital, promotes exchanges of technologies, innovations, talents and experiences and expands new markets. Bilateral investment itself is an integral part of a country's economic development.

We are very glad to see that Chinese businesses have rapidly increased their investments in the UK in recent years, which are going to a broader range of industries of British economy. It is no surprise to see such achievements as the UK is highly attractive to foreign investors.

The Guide makes an analysis of the UK's sound investment environment, including foreseeable legal and regulatory system, huge talent pools and highly efficient capital market, a long history of innovations and creativeness, which were fully demonstrated during the London 2012 Olympics, as well as favorable geographic location, bordering Asia and the US providing easy access to the vast European market.

China's outward investment will continue rapid growth in the foreseeable future. We wish that the UK could join and integrate into China's outward investment activities to promote "win-win" for both sides. Therefore, we have actively supported and promoted the compilation of the Guide, expecting to present to Chinese investors more clearly the investment environment and key areas for investment in the UK through the Guide, and offer more practicable suggestions for enhancing their efficiency in investing in the UK.

My colleagues at UKTI, at home or abroad, are dedicated to attracting more Chinese investors. We are delighted to work with any Chinese business to expand their presence in the UK.

Signature:

March 10, 2014

Preface

The surge in China's outward investment has drawn wide concern from major economies including the UK. As the world's second largest economy, a new world manufacturing center and the world's largest trader in goods, China boasts a foreign exchange reserve of USD 3.7 trillion and GDP per capita of more than USD 6,000. According to the investment development path as postulated by John Harry Dunning, a reputed economist in the UK, China now is at the third stage of outward investment development path, i.e. growth of outward investment largely outpacing growth of inward investment, and is developing towards the fourth stage, or becoming a net outward investor, which is expected to be achieved in 2015 or 2016, or the end of the Twelfth Five-Year Plan period. In practice, China's outward investment has grown at an annual average of about 20% over the past five years, hitting USD 90.1 billion in 2013, which enabled it to rank No. 2 worldwide by outward investment stock in the year.

The UK is the world's sixth largest economy and one of the most developed and open economies across the world. It ranked No. 3 worldwide by accumulated FDI inward stock of USD 1.32 trillion in 2012, only after the US and China, and No. 1 in Europe by the level of openness and the number of FDI inward investment projects. The UK has great potential and demand for attracting foreign investment in infrastructure, high-end manufacturing, R&D and design, finance and real estate, and needs new investment in world-leading industries including chemicals, pharmaceuticals, biotech, food and beverage, and electric industry. In investing in the UK, Chinese businesses can align brand, management, R&D and design, technological innovation, expansion of global markets, financial services and commercial services with the UK's mid- and high-end industrial chains to build global supply chains and production networks, and use the UK as the best commercial base to access Europe, Africa, and the Americas to realize global operations. The construction of the offshore RMB center in London will be crucial to pushing ahead with RMB nationalization and internationalization of China's finance and serving China's go-global strategy.

At the end of 2013, the UK Prime Minister David Cameron led the largest ever delegation to China (Figure 1), with members including many ministerial officials in diplomacy, commerce, science and technology, health, culture and environment and about 150 business leaders. On his visit to China, the two sides signed a large array of cooperative documents on investment, technology innovation and finance. The UK would allow Chinese banks engaged in wholesale banking to establish branches in the UK and the Chinese side would follow the market-driven principle and support the development of the offshore RMB center in London. Both sides promised to promote people-to-people and cultural exchanges, and the UK would simplify visa processing procedures for Chinese tourists and business travelers, addressing the difficulties of obtaining visas for employees of Chinese businesses investing in the UK. This visit shows the UK's emphasis on cooperating with China and opens up a new chapter for China-UK economic and trade cooperation, set to promote a new wave of Chinese businesses investing in the UK, deepen the strategic partnership between the two countries and drive mutual prosperity and development.

Chapter I: Chinese investment in the UK has been growing dramatically

China and the UK have maintained a long-term and rapidly growing economic and trade relationship. Spurred on by the financial crisis and the European debt crisis, the two countries have adjusted their industrial priorities and development strategies, with their trade and investment becoming increasingly complementary and economic and trade ties rapidly enhanced. Chinese investment in the UK has become diversified in the areas and patterns of investment amid drastic growth. Both countries will have great potential and room for development in infrastructure, energy, finance, high-end manufacturing and high technology.

1.1 China-UK bilateral economic and trade relationship has been growing rapidly

1.1.1 Chinese investment in the UK has been rising dramatically: outpacing its investment in other European countries

China's net investment in the UK grew fast between 2003 and 2012, at an annual average of 83%, indicating an explosive growth (Figure 1-1). The UK became the No. 4 destination for China's outward investment (Table 1-1), and China ranked No. 8 in terms of outward direct investment stock into the UK in 2012 (Table 1-2).

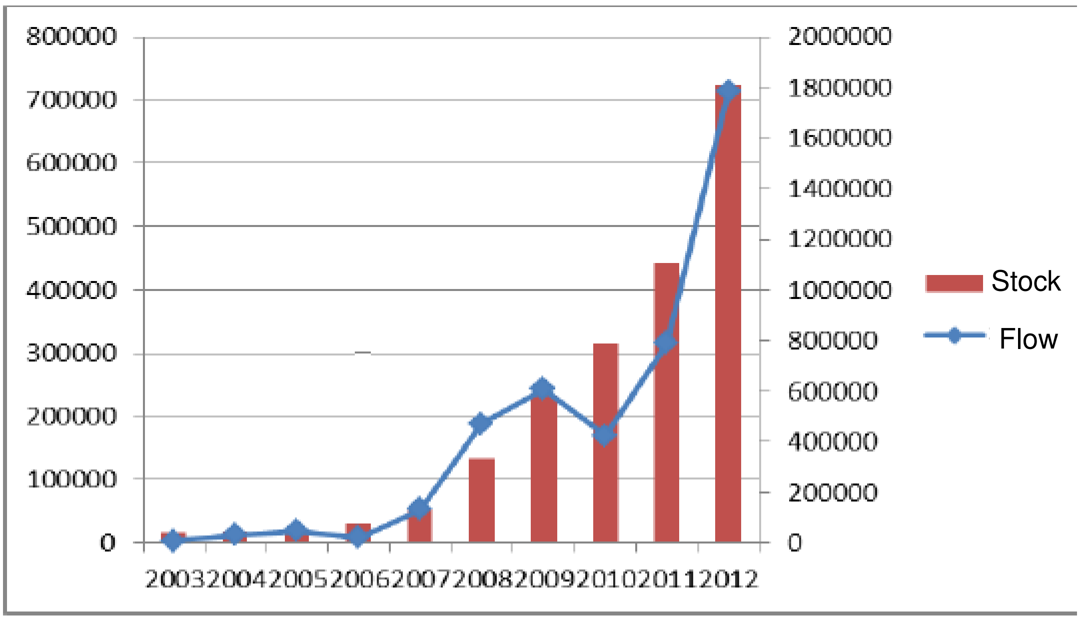


Figure 1-1: China's outward direct investment flows and stocks into the UK, 2003-2012

Source: *Statistical Bulletin of China's Outward Foreign Direct Investment*

Table 1-1: Top 20 countries (regions) for China's outward direct investment flows over the past two years

	2011		2012		
Ranking	Country or region	(USD 100 million)	Country or region	(USD 100 million)	Ratio (%)
1	Hong Kong, China	356.55	Hong Kong, China	512.38	58.4
2	British Virgin [1]	62.08	USA	40.48	4.6
3	Cayman Islands	49.36	Kazakhstan	29.96	3.4
4	France	34.82	UK	27.75	3.2
5	Singapore	32.69	British Virgin	22.39	2.6
6	Australia	31.65	Australia	21.73	2.5
7	USA	18.11	Venezuela	15.42	1.8
8	UK	14.20	Singapore	15.19	1.7
9	Luxemburg	12.65	Indonesia	13.61	1.5
10	Sudan	9.12	Luxemburg	11.33	1.3

Source: 2012 Statistical Bulletin of China's Outward Foreign Direct Investment [2]

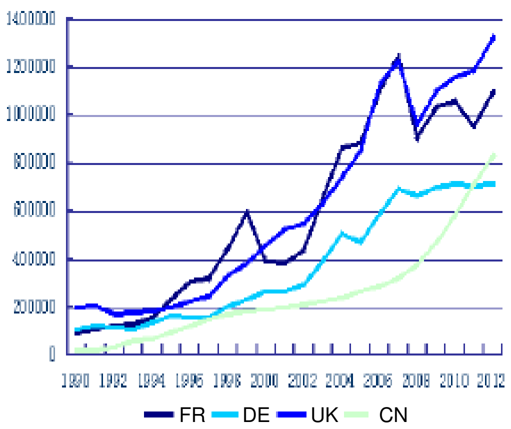
Table 1-2: Top 10 countries (regions) for China's outward direct investment stocks at the end of 2012

Ranking	Country (region)	Stock (USD 100 million)	Ratio (%)
1	Hong Kong, China	3063.72	57.6
2	British Virgin Islands	308.51	5.8
3	Cayman Islands	300.72	5.7
4	USA	170.8	3.2
5	Australia	138.73	2.6
6	Singapore	123.83	2.3
7	Luxemburg	89.78	1.7
8	UK	89.34	1.7
9	Kazakhstan	62.51	1.2
10	Canada	50.51	0.9

Source: 2012 Statistical Bulletin of China's Outward Foreign Direct Investment

The UK is the No. 1 destination for FDI in Europe, and a proven gateway to Europe. In terms of inward investment in major developed economies, the UK has been at the forefront by stock and flow in recent years (Figure 1-2 and 1-3). Since the euro zone is grappling with its debt crisis, the UK is recognized as a relatively safe haven for investors.

[1] Source: *2012 Statistical Bulletin of China's Outward Foreign Direct Investment* by the Ministry of Commerce



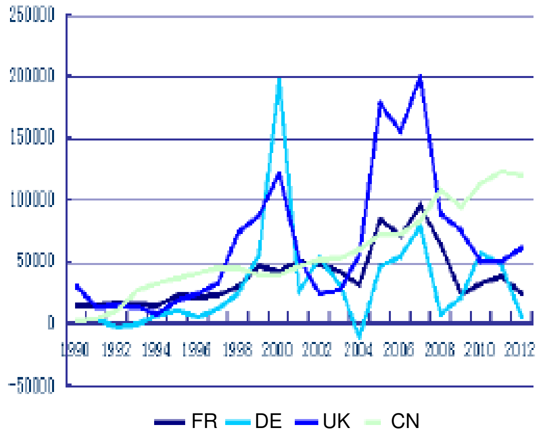


Figure 1-2: Utilization of FDI stocks in France, China, the UK and Germany (USD 1 million in cash)

Source: UNCTAD

Figure 1-3: Utilization of FDI flows in France, China, the UK and Germany (USD 1 million in cash)

Source: UNCTAD

UKTI (UK Trade and Investment) statistics show over 500 Chinese businesses have located business in the UK. Chinese investment in the UK hit USD 2.775 billion in 2012, up 95% year on year. Several symbolic cases related to Chinese investment in the UK have been identified in recent years. For example, Advanced Business Park, a Chinese real estate developer, invested GBP 1.2 billion to redevelop Royal Albert Dock in London, Dalian Wanda Group invested GBP 720 million to develop the Southwest London Hotel project, and Huawei has announced to invest an additional GBP 1.3 billion over the next five years to establish its headquarters in London.

The development of the offshore RMB market in London has offered convenience for foreign trade and investment. The City of London RMB Business Center initiative, officially kicking off in April 2012, is designed to build London into "Center in the West" for the RMB global markets, whereby expanding the use of the RMB in global trade and investment. This initiative is expected to drive London to introduce a development strategy for private and public sectors, pushing London to become a center for RMB products and services and complement Hong Kong and other financial centers. To provide support for bilateral economic and trade exchanges and maintain financial stability, the People's Bank of China (PBoC) signed a bilateral currency swap agreement worth RMB 200 billion with the Bank of England (BoE) in June 2013. Chinese banks such as China Construction Bank, ICBC, and Bank of China London Branch have successively issued dim sum bonds in the UK.

Enormous efforts have been made on both sides to further deepen the dialogue mechanism for strategic economic and trade cooperation and reduce investment barriers. Ma Kai, Vice Premier of China's State Council, and George Osborne, Chancellor of the Exchequer of the UK, co-chaired the

5th UK-China Economic and Financial Dialogue on October 15, 2013 (Figure 1-4) and signed a memorandum of understanding on deepening cooperation. Both sides promised to enhance macroeconomic policy coordination, deepen cooperation in trade, investment, financial regulation and development, push forward UK-China economic and financial relationship that is future-centered, mutually beneficial, win-win and growth-oriented, to support global economic recovery. The UK Investment Guide to be released in 2014 is one of the fruits of the MOU signed by the two sides.

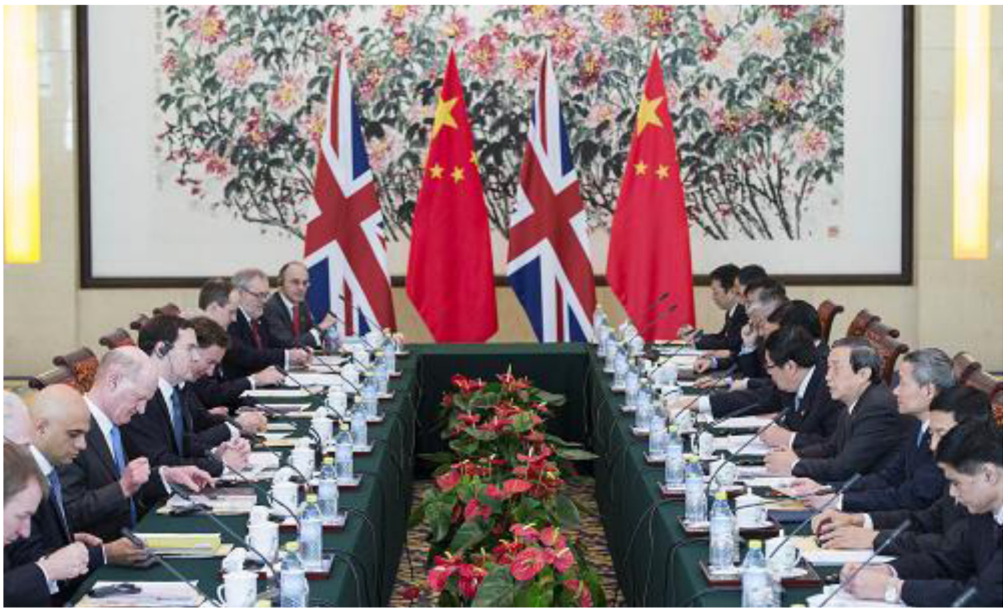


Figure 1-4: The 5th UK-China Economic and Financial Dialogue co-chaired by Ma Kai and George Osborne

1.1.2 Bilateral trade has been on the stable rise

Trade in goods

China is the UK's second largest trade partner (Figure 1-5 and 1-6). The H.M. Customs and Excise statistics show, in 2012, China-UK trade in goods hit USD 63.1 billion, a 7.5% increase from the previous year; Chinese exports to the UK amounted to USD 46.3 billion, up by 4.9%, and its imports from the UK reached USD 16.8 billion, up 15.5%, the highest growth among those of trade between China and its major trade partners in the EU. The bilateral trade between China and the UK hit a new record high in 2013, breaking through USD 70 billion for the first time. China-UK bilateral trade has grown steadily since 2009.

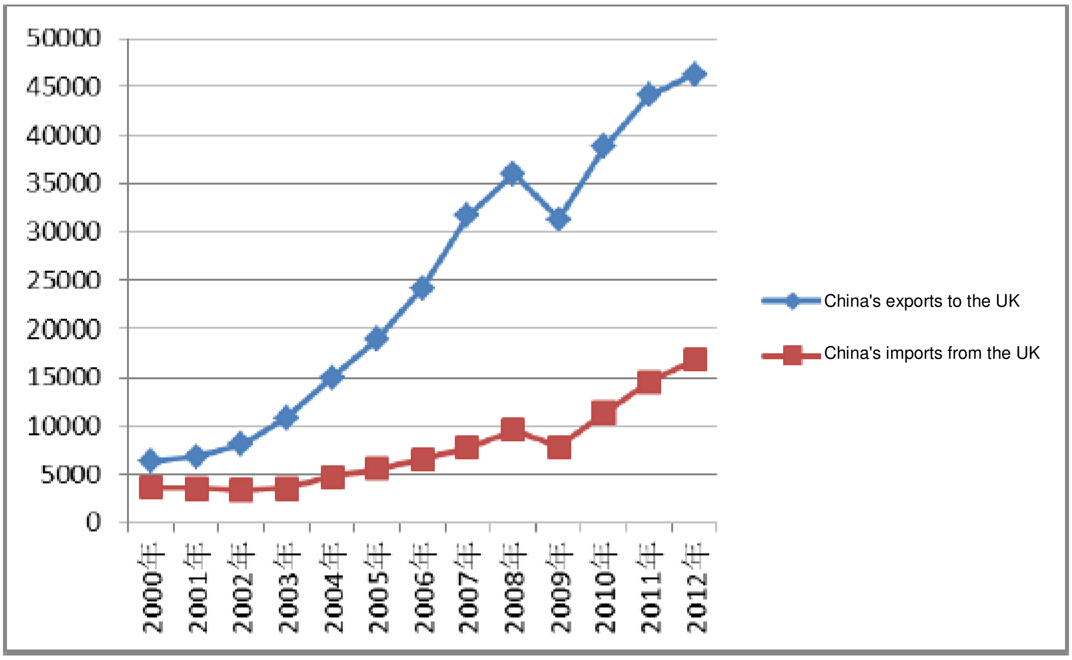


Figure 1-5: Imports and Exports between China and the UK, 2000-2012 (USD 100 million)

Sources: Website of UNCTAD

The top three commodities that the UK imports from China include M&E products, textiles and raw materials, and furnishings and toys, while the top four commodities that the UK exports to China include transportation equipment, M&E products, base metals and products, and chemicals. As the UK regains its position as a major importer and exporter of automobiles and China becomes the largest auto sales market worldwide, Jaguar Land Rover has seen continued increase in sales in China, which hit 83499 units on an accumulative basis in the first 11 months of 2013, up 28.2% year on year.

Trade in services

China and the UK, the world's second largest exporter of trade in services, signed in 2011 an MOU on cooperation in trade in services, thus establishing a bilateral cooperation mechanism for trade in services. So far, British HSBC has set up many branches in China and the Royal Bank of Scotland co-founded the first securities joint venture in China, while China Telecom has started to provide mobile communications services in the UK and the top five Chinese commercial banks have established subsidiaries in London. The two countries also have further expanded cooperation in education, tourism, exhibition and creative design.

1.2 Characteristics of Chinese investment in the UK

1.2.1 Diversified investment areas

Chinese businesses are gradually expanding the areas of investment in the UK to the entire industrial chain on a level-by-level and area-by-area basis. Chinese businesses in the UK have formed seven industrial clusters in finance, trade, transportation, telecom services and R&D, manufacturing, culture, media and tourism, and real estate (Figure 1-6).

Figure 1-6: Chinese businesses investing in the UK

1.2.2 Cooperation between Chinese and UK businesses is all the more complementary

Chinese and UK businesses are highly complementary to each other. UK businesses that are at great advantage in the high end of the industrial chain are highly attractive to Chinese businesses that are at the critical period of industrial transformation and upgrade. It is easier for Chinese and UK businesses to achieve professional division and complement each other at all stages of the industrial chain. What's more, with the most convenient business environment, the UK welcomes very much Chinese investment. Chinese businesses will find it easier to integrate into the UK market, especially in terms of technological barriers and market access. Except for few areas that are related to the UK's national security, Chinese and UK businesses cooperate with each other in a diversified and flexible way.

Case Study 1: SAIC's configuration in the UK's industrial chain—acquiring famous brands and technologies

Shanghai Automotive Industry Corporation (SAIC) and UK-based MG Rover established a new joint venture in 2014 , in which SAIC would take a 70% stake for investment of GBP 1 billion (RMB 10.9 billion) and MG Rover would take the remaining 30% stake for offering existing technology R&D platform and plant. MG Rover agreed to transfer all its intellectual property rights of auto engineering R&D and design into the new joint venture, while SAIC would have the absolute control over these intellectual property rights as it holds 70% of the joint venture's stake (Table 1-4). Since it bought MG's intellectual property rights in 2007, SAIC has begun to sell MG6 compact cars researched and developed on its own in the Chinese market. SAIC invested in 2010 GBP 4.70 million and established an auto design center in Birmingham as its global design headquarters, which is responsible for the design and R&D of MG models. These investments enabled SAIC to acquire core technologies, brand and trademark rights and offered convenience for it to move into the European and the US markets.

1.2.3 Chinese businesses put more focus on the UK's advantages in finance

With comparative advantages more obviously reflected in the areas of finance, law and media relations, the UK is capable of helping Chinese businesses to attain commercial resources such as brand, market and marketing channels. For example, UK financial institutions have at hand substantial valuable information on market environment and commercial projects, and can provide supporting financial services for overseas operations of businesses, so cooperating with these institutions will prove effective.

Case study 2: China's Bright Food Group acquired Weetabix Food Company from Lion Capital

International investment institutions like private equity funds have some projects at hand that are worth investment. Lion Capital, a reputed investment fund focusing on investments and M&As in consumer goods within Europe, controlled Weetabix Food Company with a 100% stake. China's Bright Food Group acquired a 60% stake in Weetabix from Lion Capital for GBP 180 million in cash. Cooperating with Lion Capital helped the Bright Food Group, a powerful global investor, remove obstructions for accessing the UK market.

1.2.4 Chinese SOEs and private businesses seek common growth in the UK market

Chinese businesses investing in the UK are not just SOEs and a growing number of Chinese private businesses have begun to flow into the UK market on a large scale. In manufacturing and real estate industries in particular, large-sized Chinese private businesses have built their presence in the UK. As the UK market is highly open and convenient for investors, Chinese private businesses and SOEs can compete fairly with each other for the investment opportunities arising in the market and move into the market relatively smoothly, in conformity with the local inward investment policies, which justifies the fact that the UK market is highly open and fair.

1.2.5 Chinese businesses have invested in the entire industrial chain and formed industrial clusters in many industries

In the UK's investment environment that imposes nearly zero barrier, most Chinese businesses have easily accessed the UK market at all stages of the industrial chains. In some industries, Chinese businesses have formed industrial clusters in the locality. In the auto industry, for example, SAIC, Changan and Geely have entered the UK market, building presence in such stages as R&D, production and marketing for finished cars and components. The three giant communications service providers, China Telecom, China Mobile and China Unicom, and the top two communication equipment manufacturers, ZTE and Huawai, have located their business in the UK. In the financial industry, in addition to the top five state-owned commercial banks, a growing number of Chinese banks have established non-operating institutions in the UK. Chinese businesses in these industries have formed cluster-based development scale and effects in global markets, thus laying a foundation for the overseas extension of the entire industrial chain.

1.3 Prospects for Chinese companies investing in the UK

1.3.1 China's impressive investment capacity and space

In recent years, Chinese companies “going out” has become one of the important means for corporate transformation and upgrade. According to the *2012 Statistical Bulletin of China’s Outward Foreign Direct Investment* released by the Ministry of Commerce, China’s outward direct investment has grown by 16.8% YOY, enabling it to become one of the world’s top three investors, and there is still large potential upside in further investment under the context of global FDI flow dropping by 17% in 2013. While comparative advantages in the high-end links and the potential to attract investment in developed countries will lay a solid foundation for Chinese businesses to move into the developed countries. The UK has occupied a significant position in terms of volume and amount among China’s outward investment and M&As and tends to be on the rise (Figure 1-9 and 1-10). Chinese companies will continuously increase their desire for direct investment in developed countries including the UK, driven by Chinese companies' demand for R&D and design, brand management and mid-and-high-end manufacturing and service in the UK.

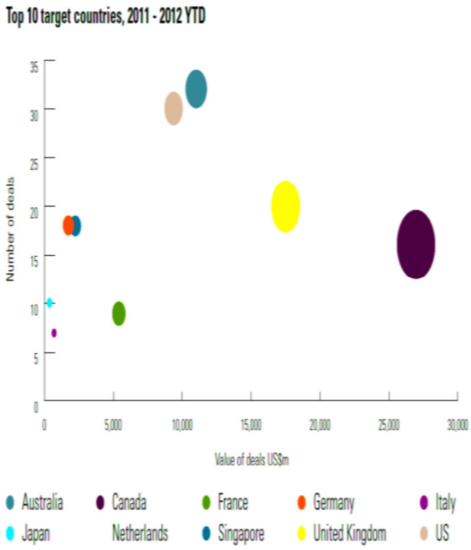


Figure 1-9: Comparison of Chinese investment in developed countries

Source: Global M&A Series, China Outbound M&A Trends 2012

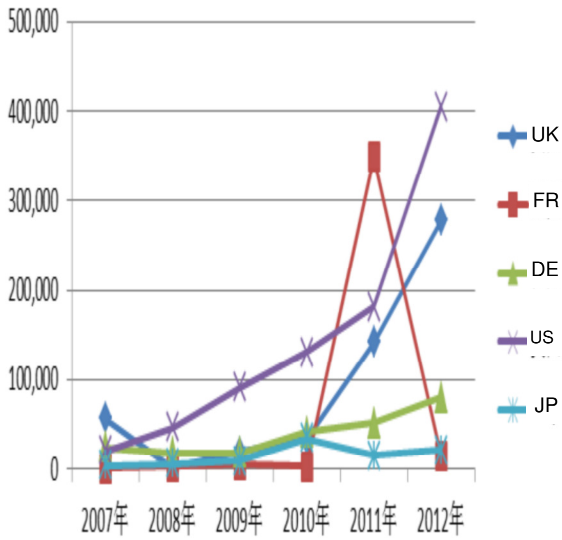


Figure1-10: Comparison of Chinese direct investment flow in major developed economies

Unit: USD 10,000

The UK is at the forefront among developed countries in terms of investment environment, with accumulated foreign investment stocks reaching USD 1.32 trillion at the end of 2012, only second to the U.S. and China, which enabled it to become the most open country that attracted largest foreign investment in Europe. In 2012, inward investment dropped by 2.8% in Europe as a whole, while the number of inward investment projects in the UK increased by 2.7% YOY, accounting for 18% of FDI in the entire Europe (higher than Germany, i.e., 16%) , allowing the UK to maintain its position as the No. 1 destination for investment in Europe.

1.3.2 UK's huge demand for inward investment and China's demand for outward investment

As the sixth largest economy in the world, the UK has tremendous investment potential and demand for inward investment in various areas such as infrastructure, high-end manufacturing, R&D and design, finance and real estate, and takes a leading position in chemicals, pharmaceuticals, biotechnology, food and beverage and electronics industry across the world, offering a historic opportunity for Chinese investors. Based on the questionnaire conducted by the editorial team of the Guide, Chinese companies invest in the UK in an effort to expand markets, obtain R&D platforms, cultivate brands, establish marketing networks, attract international talents and improve management level (Figure 1-11).

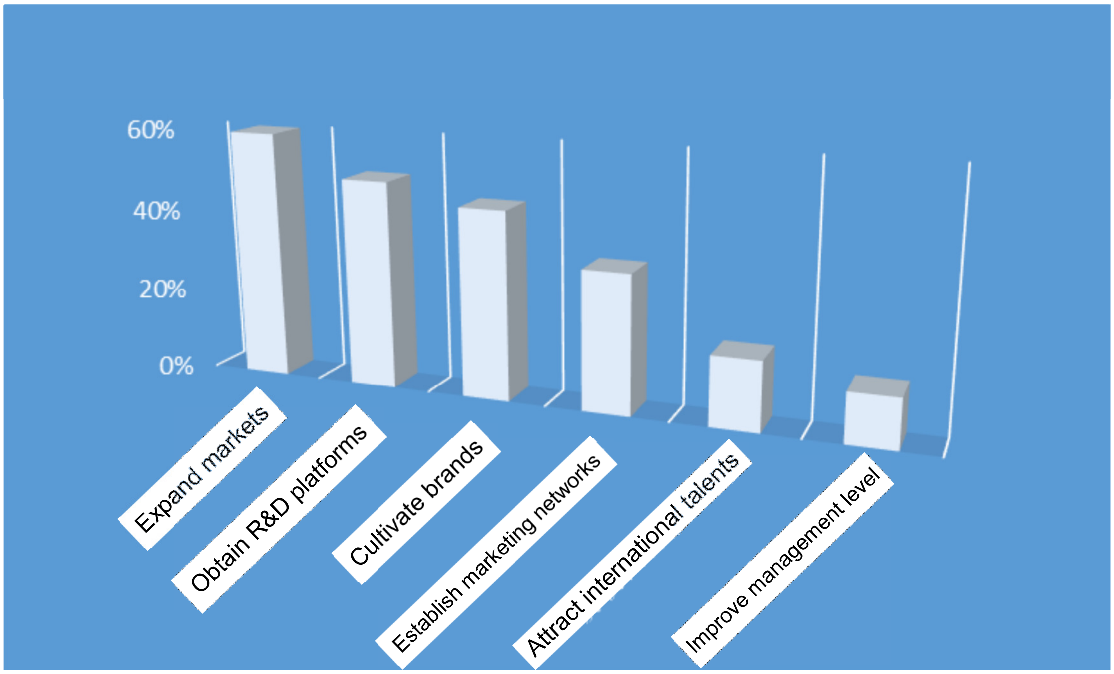


Figure 1-11: Main purposes of Chinese companies investing in the UK

Source: Questionnaire by the editorial team of the Guide

1.3.3 China and the UK are complementary to each other in trade and investment and can promote mutual development

International investment and trade usually can boost each other. Rapid development of China-UK bilateral trade can push relevant investment, and their cooperation in trade in services in particular can make the business of companies in both countries interconnected and offer more guarantee for Chinese companies to enjoy investment supporting services in the UK. As investment structures in China and the UK keep being upgraded, composition of international trade will upgrade correspondingly, and China's exports to the UK will no longer be confined to processing trade and low-end products. Extensive cooperation between China and the UK in energy and infrastructure, such as high-speed rails and nuclear power, will boost the growth of China’s exports of products with comparative advantages to the UK, such as complete-set machinery and equipment. China’s investment will also continuously bring products made in the UK into the Chinese market.

Chapter II: The Prominent Advantages of Investment Environment of the UK

Located in the central region of the North Atlantic, the UK serves as a key pivot connecting the Americas, Europe, Africa and Asia. Currently, the UK is one of the most attractive countries around the world in terms of investment and one of the preferred investment destinations for enterprises from across the globe to develop international business in Europe. Meanwhile, the UK is the leading international financial center, trade center and R&D center of high-tech industries. The UK ranked the 10th in the 2013-2014 Global Competitiveness Index, advancing two places in the list as compared with the previous year.

2.1 The overall economic environment of the UK with unique comprehensive competitive edges

The attraction of the overall economic environment of the UK lies in the following aspects: the political and social environment are highly stable, and the science and technology, telecommunications and education system all boast of world leading positions; the country also enjoys distinct features in terms of corporate culture, entrepreneurship, skilled technical workers as well as transport and logistics infrastructure. The UK has special strengths in terms of science and technology, innovation, infrastructure and energy sector: the country ranks the second in terms of cooperation among industry, universities and research institutes as well as foreign direct investment in renewable energy projects internationally; and ranks the third in terms of the best scientific research institution and power and telecommunications infrastructure globally. The advantageous economic conditions render the nation's comparative advantage sustainable and more prominent. High-level life quality, diversified culture and globally commonly-used language also add unique advantages for the UK to attract talents (Figure 2.1).

According to the surveys conducted by Ernest & Young, the above-mentioned aspects are appealing to over 80% (or close to 80%) of 500 transnational companies. Based on the questionnaire prepared by the compiling group of these Guidelines, 93% Chinese enterprises believe that highly efficient financial and trade service as well as the openness and transparency are the most prominent advantages of the UK's investment environment, which are followed by transport and infrastructure as well as high-quality and rational labor market.

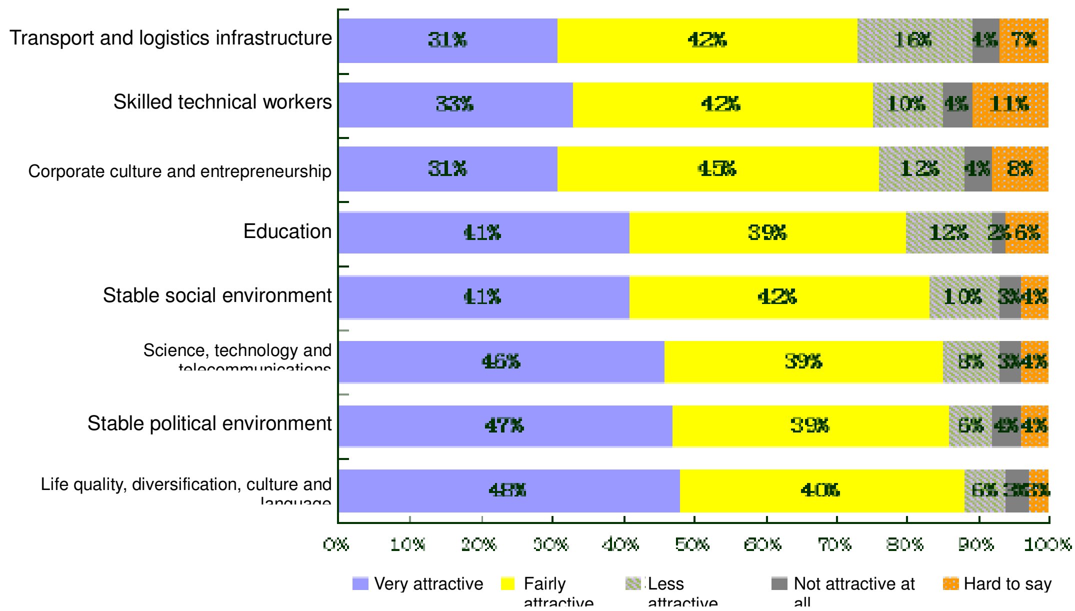


Figure 2-1: Comments of existing and new investors on attraction of the UK

Source: Survey conducted by Ernest & Young on 500 transnational companies in 2012

2.2 The UK tops other European countries in terms of macroeconomic growth

Since the outbreak of the global financial crisis in 2008, the economy of the UK was severely hit. The British government has adopted a series of reform measures including slashing public expenditure and reducing deficits, easing up monetary policies and introducing structural reforms. Public deficits declined by one third during the 2010-2013 period, and the forecast indicates that the figure is expected to decline by half in the 2014-15 fiscal year. The interest rate has always been kept at the lowest level in history.

Since 2013, the UK has ushered in strong economic recovery. During the fourth quarter of 2013, the UK and Canada both became the fastest growing economies among the developed countries. The latest economic statistics also verified the constant recovery of British economy. The confidence level of British consumers and enterprises has picked up. Independent forecast gives an average economic growth rate of 2.7%, and the European Commission expects that the growth rate of the UK will reach 2.5%. Service industries, especially the banking, insurance and commercial service sectors, have been contributing the largest share in the GDP of the UK, which is up to 78%. The British manufacturing industry occupies important position in the national economy, and the country is the largest producer of ammunitions, petroleum products, computers, TV sets and mobile phones in Europe. Bio-pharmaceuticals, aviation and national defense are the key focus of the industrial R&D of the UK. The rational economic structure is another important contributing factor for the stable growth momentum of the British economy.

2.3 Highly-open economic system to foreign investment and market environment featuring perfect competition

In 2014, in the Index of Economic Freedom released jointly by the Heritage Foundation and the Wall Street Journal of the United States, the UK ranked the 14th globally with the score of 74.9, ranking the 5th in the European region. The UK welcomes and actively attracts foreign investment, which covers a wide span of industries such as commercial service, creative industry, media, finance and many other sectors (Figure 2-3).

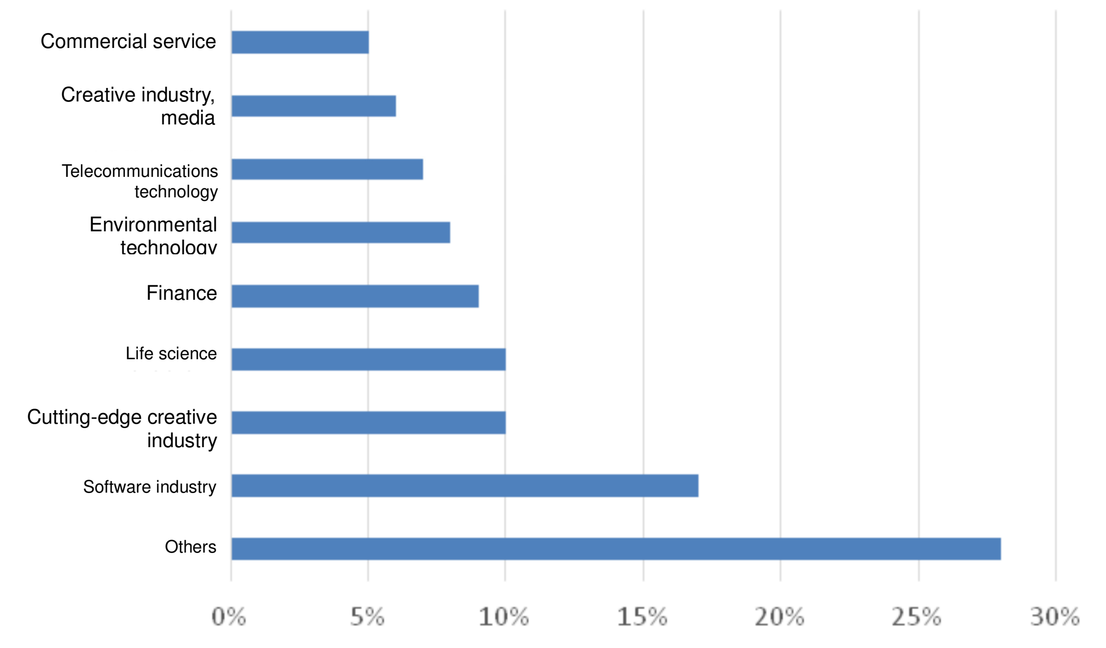


Figure 2-3: Quantity of investment projects of various countries in the UK in 2012: industry breakdown

Source: UK Trade and Investment

During the 2007-2011 period, London absorbed 15% of the total Chinese investment in Europe, topping all other European cities; in 2012, the UK attracted 731 direct foreign investment projects, almost equivalent to the sum of the direct foreign investment projects attracted by Spain, France and Germany (761), holding a safe lead in Europe with this regard. (Figure 2-4).

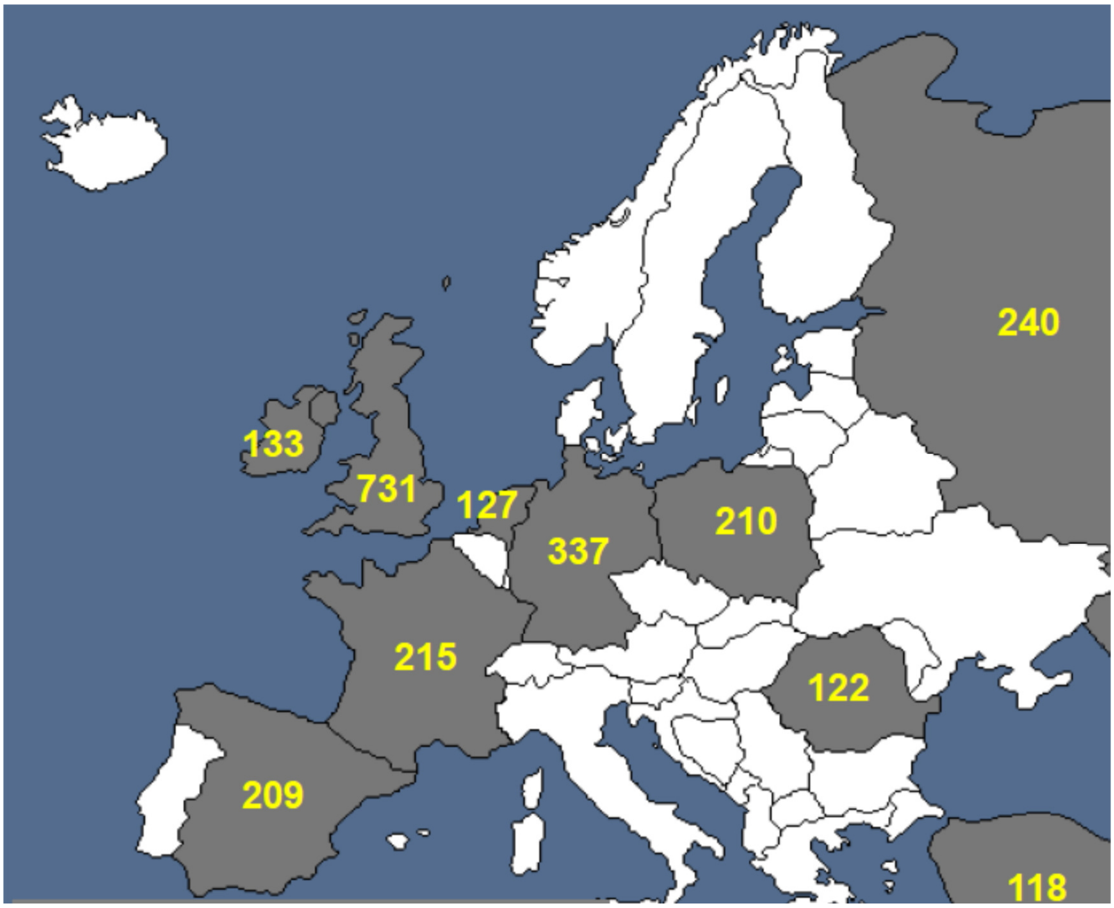


Figure 2-4: Top Ten in terms of numbers of foreign direct investment projects attracted in Europe

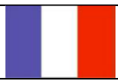
Source: *Foreign Direct Investment Market*

2.4 Very convenient business environment

Statistics from the World Bank indicates that the UK is the most popular business location in Europe and the fifth popular business location in the world. In the evaluation on the 187 countries around the world conducted by the World Bank, the UK ranked the 10th in terms of ease of doing business among various countries in the world, and topped the list among European countries. The UK has become significant leading force in the economic development of Europe (Table 2-1). London is frequently commented as the city of choice for undertaking business activities in Europe.

Table 2-1: Global ranking in terms of ease of doing business in 2013

UK		10	Netherland		28
Germany		21	Spain		52

France		38	Italy		65

Source: World Bank Database

2.5 Sufficient and well-developed infrastructure system to provide guarantee for business operation

The UK takes the leading position in Europe in terms of infrastructure such as transport and logistics, energy and power and telecommunications. The UK issued the Updated Version of the National Infrastructure Facilities Plan in December 2012, which is aimed to promote investment in infrastructure and spur the economic development of the UK.

Transport and logistics

The UK owns world-class transportation network, providing rapid transit connection to the Continental Europe and other regions of the world. The roads of the UK extend to all directions, with a total length of 395,000 kilometers, among which, 3,617 kilometers are highways, accounting for roughly 1% of the total road mileage. The railway of the UK has a total length of 15,753 kilometers with 5,265 kilometers of electrified railway, accounting for 33% of the total. London is one of the cities of the world which have the largest railway and subway networks with subway totaling 391 kilometers transporting 800 million person-times of passengers annually. The Channel Tunnel is the longest undersea railway tunnel of Europe, by which only half an hour is needed to reach the Continental Europe. Both passenger and freight transport businesses can be directly handled from major cities and industrial centers of the UK.

The UK has the largest air traffic system of Europe with over 60 civil airports and has six of the ten busiest air lines of the world. The London Heathrow Airport, of which China Investment Corporation owns 10% shares, is the largest air transport hub in Europe. By November 2013, the airport’s throughput had reached 66.55 million person-times. The ports and water transport of the UK are very advanced. The nation has over 100 ports, with throughput exceeding 500 million tons and annual growth rate of 2%. The nation ranked the first in Europe in terms of tonnage of cargo handled. The inland waterway has a length of 3,200 kilometers, among which 620 kilometers are used for freight transport.

The UK boasts of world-leading telecommunications infrastructure facilities, with widespread application of Internet broadband and optical fiber technology. By 2011, a total of 19 million British families got access to Internet with coverage rate reaching 77%. Since 2011, the British government planned to invest GBP 150 million in development of mobile broadband network aiming to cover 99% of the population. 4G network coverage rate has reached over 45%. Meanwhile, the nation’s postal service network is also very well developed. The fixed line penetration rate reached 52.2%, and the mobile phone coverage rate hits 99.8%.

Sufficient energy supply to guarantee industrial development

The UK has the most abundant energy resources among the EU countries. The nation is EU's largest petroleum and natural gas producing country with petroleum reserves of about 1-4 billion tons, and natural gas reserves of about 860-2585 billion cubic meters. Natural gas has replaced coal to become the major energy resource. In 2012, the UK ranked the 11th in power generation in the world with annual output of some 346 billion KWh, with well-developed power station and transformer station networks and four power transmission systems. Currently, the nation can satisfy domestic demand fully on its own. In particular, the Drax Power Station located in Yorkshire is the largest coal-fired power station of the nation, which boasts of generation capacity of 4,000 MW and can meet 7% of the nation's power demand.

The UK is home to the concept of low-carbon economy. The nation attaches high importance to the development and application of renewable energy, and the proportion of nuclear power, wind power, bio-energy and solar power and other renewable green energy in the energy consumption structure has been rising continuously. The power generated with renewable energy in 2012 reached 41.3 billion KWh, accounting for 11.3% of the total power generation of the nation. Currently, the country has established diversified renewable energy utilization development system to facilitate and support investors to adopt clean technology in industrial production activities (Figure 2-6).

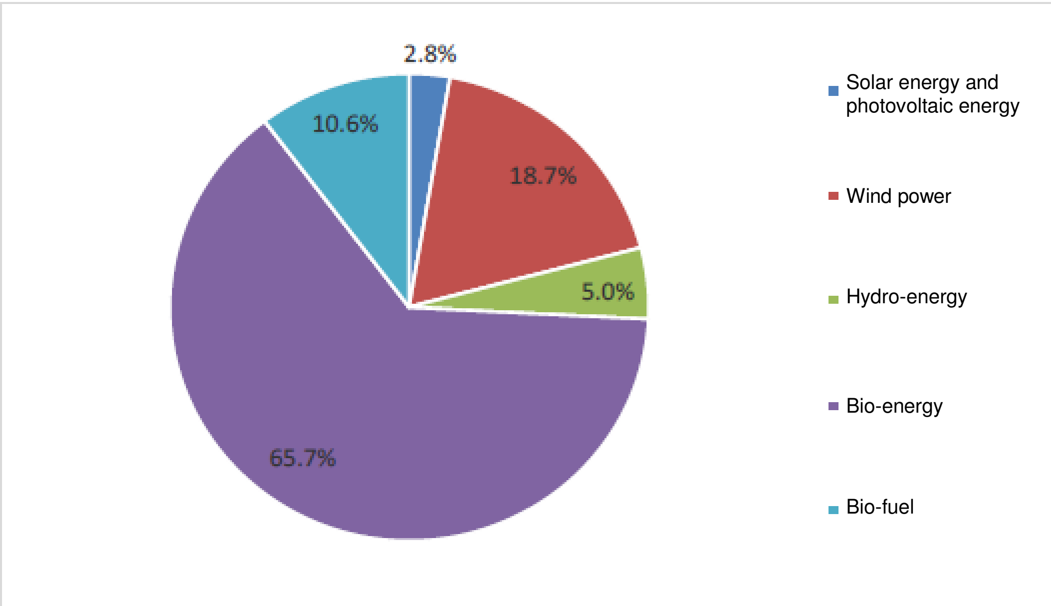


Figure 2-6: Renewable energy utilization structure of the UK in 2012 (Unit: thousand tons of oil)

Source: Ministry of Commerce of China

2.6 High-quality human resources and proper labor costs

The UK boasts of world-famous scientific and innovation network and the British has obtained 23 Nobel prizes in physiology and medicine. The double helix structure of DNA was discovered by professors of Cambridge University, which has also accumulated a large quantity of world-leading bio-pharmaceutical technical patents, waiting to be transformed into products by investors. The UK has also established effective R&D support system as well as advanced higher education system such as Oxford University and Cambridge University and has nurtured a large number of world-level top talents. The mature vocational education and skill training system has nurtured large-scale talent team of engineers and technical workers.

The World Bank believes that the UK is the "second best employment market of Europe" only after Denmark. The British citizens have high employment flexibility and relatively low rigid employment index (Figure 2-7) and are under no restrictions of national minimum working hours and salaries, ensuring that the foreign-funded enterprises can not only recruit sufficient high-quality labor force, but also maintain flexibility to certain degree in terms of recruitment.

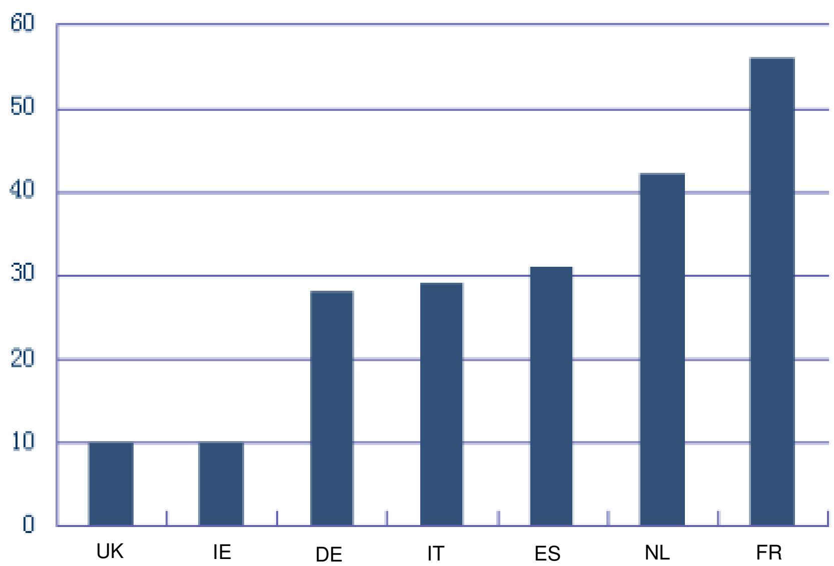


Figure 2-7: Relative comparison in the ranking of rigid employment index

2.7 World-level R&D base and advanced projects

The fundamental research level of the UK is close to that of the United States. The central and local governments of the UK encourage high-tech R&D activities and provide services such as free or preferential use of office facilities, assisting in the formulation of business plans and seeking cooperative partners. In 2013, the British Prime Minister Cameron visited China and one of his achievements for this visit is the establishing of the United Research Innovation Fund with GBP 200 million to promote cooperation in the innovation field between the two nations by holding scientific conferences and policy dialogues, nurturing talents as well as cooperating in fundamental research and applied research. Governments, universities as well as industrial and commercial circles of the two nations jointly developed over 30 science parks including Cambridge Science Park and Manchester Science Park. The UK has also very strong research strength in bio-technology and electronics. The nation enjoys the reputation of world-class research in Nanotechnology, and is supported by the robust nationwide research institute network. The creative industry platform of Warwick University and other platforms integrating industry, university and research institute are based on the British higher education system and provide labs and other R&D platforms for SMEs free of charge.

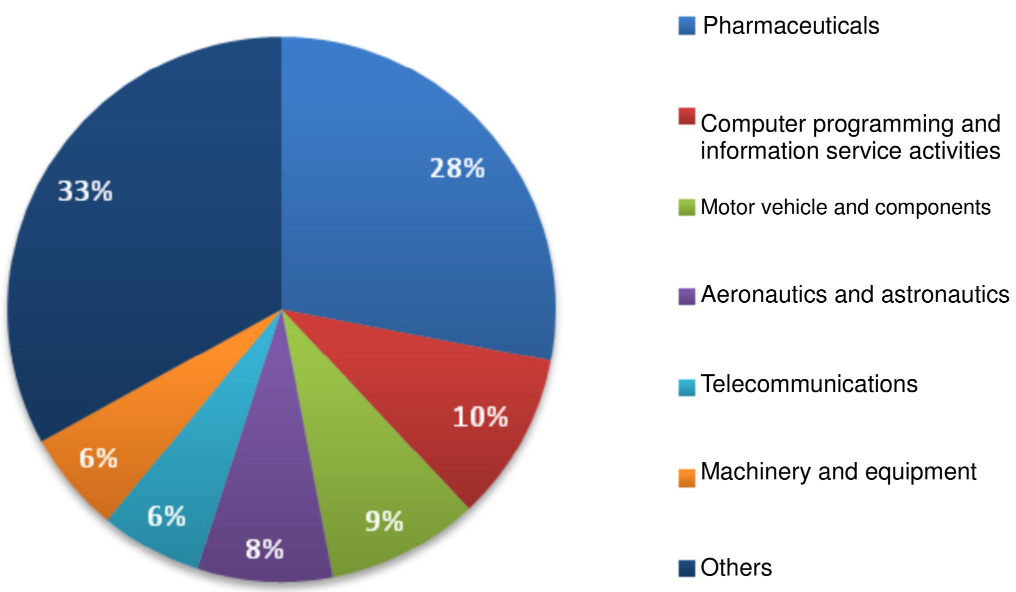


Figure 2-8: Proportion of R&D investment for various products

Source: The Office for National Statistics of UK

2.8 Rational taxation system

The British taxation system is very attractive in the world. The UK's major tax rates are the lowest among both the G7 and G20 countries (Figure 2-9). The British corporate tax was reduced from 24% to 23% in 2013, which is far below the average tax rate of around 30% of other countries; in terms of social security expenses payable by the employers, the UK also has advantages over other countries, with tax rate less than half of that of France and Italy. By 2015, the UK is expected to have the lowest tax rate in G20 countries, with tax rate to be reduced to 20% (Figure 2-10).

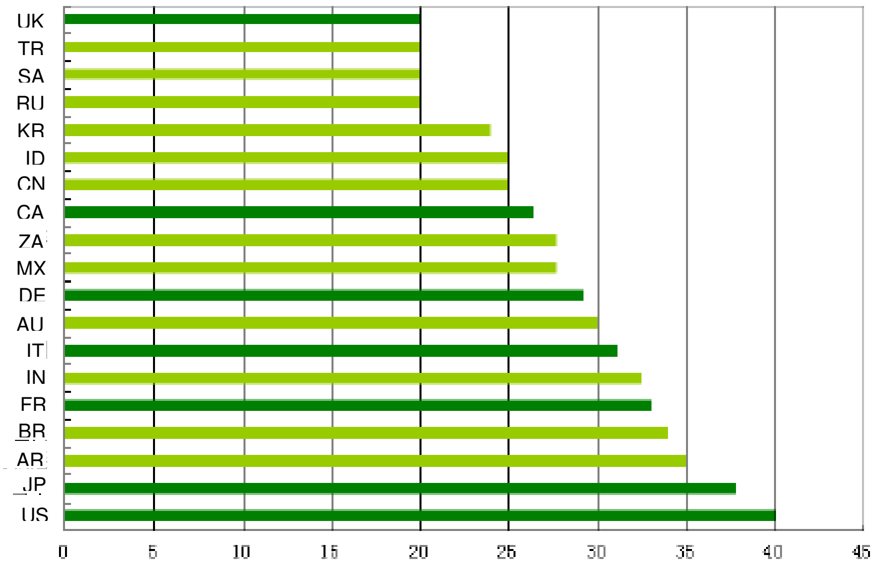


Figure 2-9: Major tax rates of corporate tax of G7 countries and G20 countries (Unit: %)

Source: Budget of the Treasury of the UK in 2013

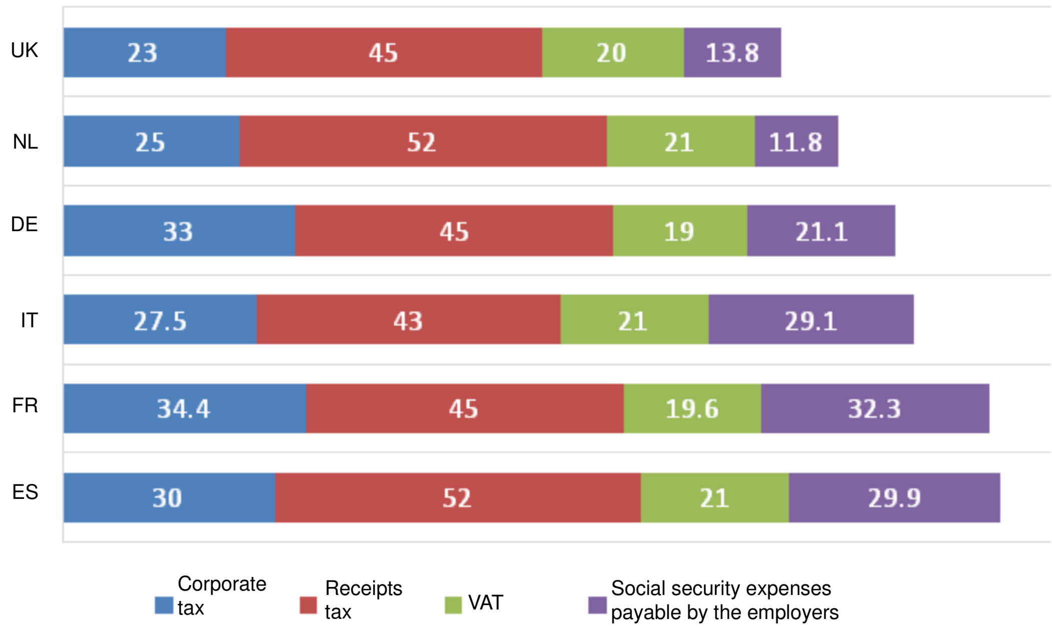


Figure 2-10: Comparison of European tax rates

Source: Deloitte 2013, www.taxrates.cc, fDi Intelligence, from the FinancialTimes Ltd (2012), www.hmc.gov.uk (2013)

2.9 Highly developed service market with distinct features

Financial service

London is one of the world's three largest international financial centers and the largest foreign exchange market. Currently, the global foreign exchange volume exceeds USD5 trillion, with about 40% shares occupied by London; Meanwhile, London is the largest insurance market in the world, one of the largest re-insurance markets in the world and the world's leading aviation and navigation insurance market. The UK has a well-developed financial market with a large number of global financial institutions establishing branches in London, providing abundant and innovative financing support and financial solutions to various kinds of clients. Due to sufficient market competition and liquidity, financial institutions can provide competitive market interest rate, diversified financial products and highly-efficient financial services, thus attracting large quantities of foreign investors and becoming a crucial global capital hub.

Financial, technical and business consulting services

The UK is the earliest country in establishing consulting services in the world and currently has over 2000 consulting agencies, which mainly fall in three categories of engineering project consultancy, technical service consultancy and business management consultancy. The British accountant and law firms have also entered a mature stage. PriceWaterhouseCoopers and Ernest & Young are both based in London; renowned British law firms such as Linklaters, Clifford Chance and Herbert Smith Freehills have been providing litigation and dispute settlement services for the international business of transnational companies. The consultancy services of investment banks are also very mature in the UK, with many international investment banks establishing branches in London and providing extensive financial consultancy services to facilitate the investment and financing activities of their clients in an all-round manner.

International arbitration

The UK is the cradleland of international commercial arbitration. The nation provides arbitration services for commercial disputes mainly through London Court of International Arbitration and London Maritime Arbitrators Association. London Court of International Arbitration currently is the leading international commercial arbitration organization of the nation, which is especially adept at hearing international marine cases and enjoys very high international reputation. As the international shipping center, one of the nation's most important functions is to provide international shipping arbitration services.

2.10 The UK can serve as the springboard for Chinese enterprises to tap the global market

The UK can serve as the springboard for the Chinese enterprises to tap the global market. During the recent years, Chinese-funded enterprises have obtained opportunities through investment and acquisition in London to explore mineral resources in Africa and develop uranium mines in South America, just to cite a few examples. Meanwhile, the UK has become a window for Chinese-funded enterprises to tap the European market. For example, NVC Lighting has successfully sold its products to the continental European markets after making successful investment in the UK. Currently, key Chinese-funded enterprises in the six major sectors of banking and insurance, trade and transport, telecommunications, media, tourism and automobile manufacture have all made investments in the UK, and many of them have set up European headquarters.

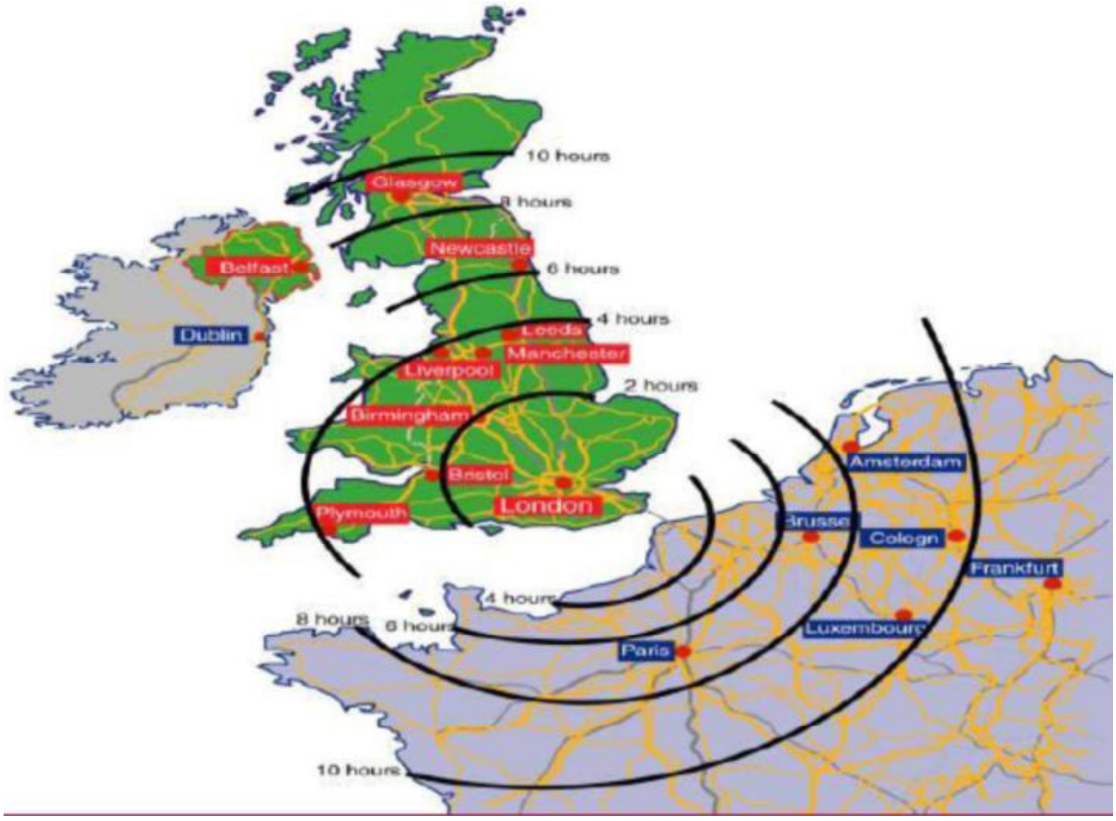


Figure 2-11: The UK serves as the gateway to the European and the global market

Source: UKTI

The Chinese and British Enterprises can also cooperate in developing third-country markets. Enterprises of these two countries have their own advantages respectively, and they can complement each other in third-country markets to generate powerful synergy and seize more project opportunities. For example, the UK's Mcdonald Company's cooperation with Chinese enterprises in east Africa as well as the cooperation between China Mobile and Vodafone in bidding for telecommunications license in Myanmar.

Conduct Europe-wide business based in the UK

ASIMCO is just such a case in point. ASIMCO is the first Chinese enterprise that has achieved globalized component business by strengthening the technical interaction with various European regions via the platform of UK. ASIMCO owns five new factories in China, and one of its hollow shaft factory has reached a capacity of 5 million cast pieces, tantamount to half of the total sedan car output of Germany.

ASIMCO has been seeking to reach the world leading level in all production fields, therefore the company vigorously promote global business and constantly increase the headcount in its British offices, which has become a key part in the company's development planning. The decision of selecting MIRO as the site enables ASIMCO to conduct technical cooperation in terms of engineering and testing with other regions of Europe more extensively and get to learn the latest technical R&D results more promptly.

Source: Deloitte Guidelines on Investment in the UK by Chinese Enterprises 2008

Chapter III: Key British Industries for Chinese Companies' Investment

As one of the world's major economies and a key member of the European Union, Britain plays a significant role in international politics and economy. In recent years, an increasing number of Chinese companies have chosen Britain as the first step of their global expansion and have gradually formed some industry clusters. To reiterate the welcome of the British government for Chinese investors, Prime Minister David Cameron, in his visit to China during late 2013, emphasized the importance of opening the British market and the strong China-Britain complementarities in many industries.

3.1 Comprehensive industrial strengths of Britain

As the industrial revolution pioneer with a long history and strong basis, Britain still retains its industrial power and competiveness among the global economies in this information age. It holds a leading position in such areas as infrastructure, energy, advanced and sophisticated manufacturing, traditional processing and manufacturing and modern services.

According to the statistics of the World Bank, manufacturing has always been taking an important position in the economy of Britain – the earliest industrialized country. In particular, machinery and transport equipment takes up the largest share – accounting for 1/4 of the value added in Britain's manufacturing industry. The runner-up is food, beverages and tobacco, whose percentage of the value added has been steadily increasing. In a country as developed as Britain, service industries are a principal part of its economy and show a robust increase and strong competitiveness. In the last decade, the percentage of service industries in Britain's economy has risen from 72.05% to approximately 78%. Among them, financial service, business service, cultural creativity, R&D and design take a leading position around the globe.

3.2 Guidelines for Chinese Companies Investing in Britain

Up to now, Chinese companies have made considerable accomplishments in investing in Britain, but there are enormous investment space and need potentials in the British market. One of the purposes of Cameron's 2013 China tour was to pave the way for Chinese companies to investment in Britain and show their welcome to Chinese investors. Governments of both countries should take this opportunity to accelerate the investment in a proactive manner, make full use of the comparative advantages of China and Britain, build investment-promoting platforms of a higher level, boost bilateral mutual trade ties and financial cooperation, and expand bilateral trade prosperity and financial cooperation. Chinese companies should take the precious opportunity of Britain's attracting foreign investment, make active use of the advantageous resources of both countries, integrate the bilateral industrial chains, foster independent brands on the basis of Britain's capacities and services in design, R&D and innovation, and develop new international competitiveness of Chinese companies. On the basis of reciprocity and mutual benefit, Chinese investors should, on the one hand, localize Chinese investment and services in Britain and provide quality products, efficient services and joy opportunities for the British market and consumers; and on the other hand, take investment in Britain as a stepping stone to adjust to the business environment, laws and regulations of developed countries and lay a foundation for entering more developed markets and eventually the global market. According to the results of the questionnaire conducted by the Guideline Compiling Group, the top 4 prospective areas for investment in Britain are Finance, Leasing and Business Service, Wholesale and Retail Trade, and Hotels and Catering Services. Obviously, Chinese companies have high expectations for investing in Britain's service industries.

3.3 Key Industries for Investment

3.3.1 Infrastructure

Britain's infrastructure construction is highly open for foreign investment. At present, 40% of the infrastructure ownership is controlled by foreign investors. In October 2011, China and Britain signed a memorandum of cooperation for infrastructure, in which Britain displayed an apparent welcome for Chinese investors. In December 2012, Britain issued the latest National Infrastructure Plan, which expected to attract a total investment of £330 billion and defined private investment as a key momentum. Britain boasts many advantageous resources for private investment: Its open and transparent legal framework for public-private investment can help encourage private companies join in the investment; the rich and innovative supports for financial services and loans create conveniences for private investment to enter infrastructure; government guarantee, public capital and other preliminary entries have strong lever effects on private investment. The British government has also issued some other guarantee measures to attract private investment, such as stabilizing prices to give enterprises and markets confidence, leaning complicated application processes, and providing loans supported by national sovereign credit.

The National Infrastructure Plan will support infrastructure construction with such key measures as investing £30 billion into building high-speed rail network and other transportation infrastructure. It is expected that Britain will have a prosperous market for such infrastructure construction as railway, expressway, water supply and power grid, e.g.: High-speed Rail Line 2 connecting London and Northern Britain, with an estimated investment of £32.7 billion; investing up to £6 billion in 2014 into railway vehicles; the new wastewater tunnel for Thames Tideway with a capital value of £4.1 billion.

Table 3-1: Key Investment Projects

Transportation	High-speed Rail Line 2 connecting London and Northern Britain, with an estimated investment of £32.7 billion.
	Railway infrastructure and vehicles: Investing up to £6 billion in 2014.
Energy	As of 2014, the Energy Bill will launch the energy market reform and is expected to generate new energy investment opportunities with a total value of £110 billion.
Rural wideband	The British government plans to invest £0.53 billion of public funds into the rural wideband project.
Water	Thames Tideway: A new wastewater tunnel with a capital value of £4.1 billion.
Comprehensive	Atlantic Gateway: A reconstruction and infrastructure development program in Northwest England with a total investment of £75 billion.
	Olympic Park: Re-planning and construction of the Olympic Park after the 2012 London Olympics.
	Urban reconstruction: Urban reconstruction opportunities in major cities of Britain.

In the next few years, Britain will launch over 500 projects in infrastructure construction, among which waste processing, water and transportation have relatively more opportunities and good prospects. In high-speed rail construction, the British government plans to complete the first-phase project “London-Birmingham Line” by 2026 with a total investment of £17 billion; and complete the second-phase project “Manchester-Leeds-Heathrow Airport Line” by 2033, which will bring more investment opportunities for Chinese companies.

Up to now, Chinese companies have made a considerable scale of investment into infrastructure construction in Britain. In 2011, Li Ka-shing acquired UK Water with £2.41 billion; in 2012, CIC purchased 8.68% of the shares of Thames Water Utilities Ltd. with £1.2 billion; in 2012, CIC also purchased 10% of the shares of Heathrow Airport Holding Company. In 2013, Beijing Construction Engineering Group invested £12 million and acquired 20% of the stock equities of the Manchester Airport Joint Venture with an occupied area of 150 acre and a total value of £800 million.

In 2013, when visiting the exhibition of China’s railways and other infrastructure facilities and equipment held in the Romanian Parliament Palace with the leaders of 16 Central and Middle European countries, Chinese Premier Li Keqiang emphasized the importance to promote complementarities and cooperation between Chinese and European companies and recommended China’s high-speed technology and equipment to Europe. During the China tour of British Prime Minister Cameron, China expressed the intention to invest dozens of billions pound into Britain’s infrastructure construction, including the investment into Britain’s HS2 high-speed rail. Up to now, China Railway Group Limited has showed definite intention to undertake the construction of the railways from the high-speed rail transfer station in eastern Birmingham suburbs to the airport and other cities. Thanks to the successful operation of high-speed rail in China and China’s cost control in technology, equipment and construction, Chinese companies have obvious advantages in bidding for the projects in Britain.

3.3.2 Energy

In the UK, the supply of fossil fuel as the only source of energy is increasingly replaced by diversified and clean sources of energy. As required by EU's *Instructions on Large Combustion Power Station*, the UK will shut down some of its coal-fired power plants. Presently 15 of 16 nuclear power stations in the UK will be out of service at the end of 2023 and a large number of gas fired power plants to be out of service before 2030, resulting in more than 40-million-KW reduction of power generating capacity. As a consequence, the country's power generation will see substantial demand for investment with rigid growth in the upcoming years.

With Li Ka-shing's investment in power and natural gas in the UK, China's three large petrochemical companies tapped into the UK market in 2011-2013, paving the way for more investment of petrochemical companies and companies engaging in producer services in the UK market.

Li Ka-shing Invests in UK Energy

Tremendous demand of UK's energy market has brought about good investment opportunities. In the past three years Li Ka-shing's subsidiary companies invested in natural gas and power generation in the UK market. In 2010, Cheung Kong Infrastructure Holdings acquired UK Power Networks from EDF Energy at GBP5.8 billion. In 2012, Cheung Kong Holdings bought Wales and West Utilities – a UK natural gas company – at GBP 645 million. Currently Li Ka-shing's companies contribute to 30% of UK's power supply and 25% of gas supply. Numerous investment opportunities were created as UK's potential and openness of its energy market increase. While pursuing high profits, these investments have somewhat made up for the capital insufficiency in UK's energy sector.

M&A in the UK by Chinese Large Petrochemical Enterprises

中国石油 中国石化 中海石油

As required by a package of government agreements and business contracts China signed with the UK in a total of USD4.7 billion in 2011, PetroChina International Co., Ltd. - a subsidiary wholly-owned by PetroChina – clinched *framework agreements with INEOS European Holdings Limited and INEOS Investments International Limited – two subsidiaries wholly owned by INEOS Group Holdings, a petrochemical company based in the UK. According to the agreements, PetroChina injected USD1.015 billion into the above two refineries. This has solved the debt dilemma of INEOS Group Holdings during the post-crisis period, and has built an extensive trading network across Europe.*

In 2012, Sinopec International Exploration and Production Corporation – a subsidiary wholly owned by Sinopec – acquired 49% of UK subsidiary of Canada's Talisman Energy at USD1.5 billion, the first time for the China-based petrochemical giant to tap into oil and gas business in the North Sea of UK, also the first time for Chinese energy enterprises to invest in the development of oil and gas resources in the North Sea.

In 2013, CNOOC signed a series of deals with BG Group. According to the agreements, the latter will, from 2015 onwards, began to supply 5 million tons of LNG each year to the former in a 20-year period by capitalizing on its global LNG resources combinations. This will push CNOOC's mid- and long-term contracted quantity of LNG to 21.6 million tons per annum.

In terms of the development of renewable energy, the British government has set the goal to reduce CO2 emission by 80% before 2050, providing good opportunities for investments in the depuration of renewable energy (land and offshore wind energy, solar power, biomass energy, wave energy and tidal energy. To implement energy policies such as the New Energy Program, the British government will roll out policies to stimulate investment in power market, with GBP110 billion in the pipeline. The government has also made commitments to ensure sufficient supply of renewable energy and reasonable grid price of nuclear power as a way to foster industrial development.

As shown in the aim established by the British government, in 2020, 15% of UK's energy supply will be renewable energy. To achieve that goal, the UK will have 30% of generating capacity coming from renewable energy power generation, generating investment demand of GBP70-75 billion and GBP20 billion for maritime transmission. Considering the strong momentum of green energy exploitation in China, Chinese enterprises will have tremendous investment opportunities in UK's clean energy sector. The nuclear power station jointly constructed by China and France in the UK marks a good beginning.

Case: Sino-French Collaboration on the Construction of Nuclear Power Station in the UK

The British government announced in October 2013 that it will construct a nuclear power station by capitalizing on investments from China and technologies from France, the first time the country signed a multi-lateral agreement on the construction of nuclear power station since 1995. Involving total investment of GBP16 billion, the project is located in Hinkley Point, the southwestern part of England. Consisting of two reactors, the project will be *undertaken by China Guangdong Nuclear Power Group and EDF, which is scheduled to wrap up in 2023. Total installed capacity will account for 7% of total power supply of UK. Edward David, the UK Energy and Climate Change Minister, said that the construction will play a vital role for the country to reduce the excessive dependence on natural gas supply and curtail the price of energy sources. David Cameron, Prime Minister of UK, advocated the agreement, saying that the project will create 25,000 new jobs for the UK. The country will step into a new era of nuclear power utilization as the project wraps up.*

3.3.3 Sophisticated manufacturing industry

Space and aeronautics industry

In the UK, the space and aeronautics industry is a pillar industry that propels the country's economic growth and productivity upgrading. With strong R&D and manufacturing capabilities, the industry is only next to that of the US which captures 17% of world market. The UK has secured a world-leading position in the design, R&D and manufacturing of space and aeronautics products, with astonishing achievements in radar, jet engine, supersonic transport and military helicopter.

Presently the UK has absorbed great amounts of investments in the aviation industry. Airbus and Boeing, two of the world's largest aircraft manufacturers, have established plants in the UK, resulting in the formation of a powerful cluster of aviation industry. The UK benefited enormously from the production of Airbus A380, with leading market share in the production of wing structure, fuel system and aircraft landing gear for A380. It is estimated that in the next 30 years British firms will be able to acquire Airbus A380 contract worth GBP1 billion each year, and will be able to create 20,000 jobs for the manufacturing industry and 40,000 jobs for the service sector. It is recommended that Chinese aviation enterprises develop production capacity and industrial services to meet the need of UK's massive cluster of aviation industry, with stable market demand such as Airbus A380 orders as the breakthrough point.

Bioindustry

Biotechnology and diagnosis are renowned as one of industries with the greatest potential of growth in the 21st Century. With inherent predominance in biomedicine and clinical medicine, the UK is the world's second largest market of biological medicine and the second largest country in the R&D of biotechnologies. The UK has significantly outstripped its peers in the total number of employees, total sales revenue, R&D investment and investment absorbed of the biomedical industry. Presently every one of ten new drugs launched on the global market is developed by the UK.

China and the UK are highly complementary in the bio-pharmaceutical industry. With industry-leading and innovative technological strength, the UK needs to industrialize its technologies with great investments absorbed. For China, the country has enormous demand for biomedicines and huge amounts of capital to be invested in relevant technologies. Meanwhile the local enterprises are weak in the R&D of relevant technologies as compared with their British counterparts. A complete industrial chain combining R&D activities, production and sales will be built with complementary advantages of the two countries, so that the innovation of biomedicine will be industrialized and commercialized. It is particularly noteworthy that a wide array of biomedical patents developed by the University of Cambridge is awaiting investments from Chinese investors.

China's Private Pharmaceutical Enterprises Tapped into UK Market

In November 2007, subsidized by the international scientific and technological cooperation fund of China's Ministry of Science and Technology, the XPH pharmaceuticals company established its center in the University of Cambridge, making it the first Chinese medicine research institute invested by China's private pharmaceutical enterprise in overseas countries. The establishment also marks the first cooperation between China and the UK in the research of traditional Chinese medicine. Fu Ying, former China ambassador to the UK, attended the inauguration ceremony of the center and highly praised the establishment. So far the project has absorbed total investment of more than GBP 20 million. With successful cooperation with a number of world-class universities and research institutes in the UK and China, the center has conducted extensive research on TCM extraction technologies, TCM preparation technologies, TCM efficacy evaluation and TCM induced tissue-specific differentiation of human embryonic stem cells, with a number of breakthrough research findings acquired.

Recent years have seen rapid development of China's bio-industry. In 2012 the country achieved total sales revenue of RMB177.543 billion from its biopharmaceutical manufacturing industry. Despite the momentum, most Chinese pharmaceutical companies are small with the absence of core technologies. It is advisable that these enterprises explore profitable opportunities and invest in UK's bio-industry. By capitalizing on the advanced technologies of the UK, the enterprises will be able to meet the demand of the Chinese market and tap into the European and the global market.

Energy-saving and environmental protection industry

The UK has an advantage in such areas of environmental protection including clean technologies, water treatment, air and land pollution control, marine pollution control, noise and vibration control, environment monitoring, etc. The country is world-leading in areas such as the transportation and engineering consultancy, zero emission, electricity and tracked urban transportation system. Engineering design and manufacturing and the production of filters, pipelines, control and tele-metering devices generate annual incomes of over GBP 3 billion from overseas market. Besides, the country is at the cutting edge of air pollution control technologies and products as well as key technologies for noise and vibration control. The UK has outstripped its peers in the application of environmental testing techniques. Nowadays a large number of renowned environmental consulting firms are based in the UK, providing clients with a series of services such as solutions for sustainable development.

NVC's investment in energy-saving product

NVC, a China-based lighting company, tapped into the UK market in 2007. During the early stage the company produces lighting products for some world famous brands on an OEM basis. Benefited from the great business opportunity brought by UK's energy-saving and environmental protection policies, in 2009 the company initiated a brand-new business model, implemented its NVC brand strategy in the UK market and achieved superb performance. During the London Olympics the company had lighting products worth tens of millions of yuan that won the bidding, which were widely applied in venues such as public areas of London Olympic Stadium, the Media Center of London Olympics Stadium. Now the company is taking advantage of its strength in the UK market to tap into the European and African market.

Driven by government investments, the UK is exerting great efforts in promoting the R&D and application of energy-saving and eco-friendly techniques. The country has secured a dominant position in the application of energy-saving and environmental protection techniques such as carbon sink. During the 2008 financial crisis and the European debt crisis the UK has seen rapid development of its green economic sectors amid the recession of many sectors. Green economy has created 400,000 jobs for the UK. Meanwhile, China is exerting great efforts in promoting energy-saving and emission reduction techniques. With the evolution of eco-friendly philosophy and the growth of market demand, Chinese investors can capitalize on their capital advantages in the UK market and can provide products with advanced technologies for the domestic market, which serves as a catalyst for the Sino-British trade and helps address China's environmental problems.

Information communication

The UK is EU's largest industrial base of information communication, with over 8000 enterprises employing more than 1 million people. UK's information communication industry contributed 10% of the country's GDP. Meanwhile the country is one of the innovation centers of world's information communication industry, with good business environment and infrastructure for the development of electronic products. A number of world renowned firms such as Sony, Hitachi, Philips and Motorola have set up R&D centers in the UK. The UK is also one of EU members that took the lead in opening its telecommunications market and privatizing its telecommunications industry. The country has a robust and highly-opened telecommunications sector, with annual output value of USD 65 billion. The market capitalization of telecommunications enterprises amounted to GBP117 billion.

Eyeing the vibrant technological innovations and profit-making opportunities, more and more Chinese information communication manufacturers are taking the UK as a springboard for tapping into the global market. In 2001, ZTE and Huawei – two renowned China-based information communication companies – tapped into the UK market. In 2010, ZTE (UK) company achieved sales revenue of USD 200 million. The company sold 1.7 million terminal products, with data card and mobile phone capturing market share of over 50% and 8% respectively.

Huawei's Massive Investment in the UK

Since 2001 when Huawei established its first office in the UK, the company has received strong support from the British government, with advanced technologies and products provided and numerous jobs created. In September 2012 Huawei announced its investment and procurement plan in the UK for the next five years. With implementation of the newly-launched plan, the company will be able to provide its UK customers with better services and create hundreds of high-tech jobs.

Besides the above two mobile terminal manufacturers, presently there are three mobile communication service providers based in China that provide relevant services to their UK customers. Since 2004 when China Telecom European Office started business in London, China Network Communications Group has signed agreements with the British government to provide Chinese enterprises with international communication services in the UK. This has expanded the coverage of service providers of China Mobile, and will provide more convenient communication services for Chinese enterprises investing in the UK.

中国移动通信 CHINA MOBILE	Establish UK Office	In 2007, China Mobile set up its office in the UK. In 2013 the company bid for Myanmar's telecommunications license with Vodafone.
中国电信 CHINA TELECOM	Establish UK Office	In 2004, China Telecom European Office started operation in London. In 2011 the company achieved sales revenue of USD29 million.
China unicom中国联通	Cooperate with London & Partners	In 2008, China Network Communications Group signed an agreement with London & Partners to provide Chinese enterprises with international communication services in the UK.

Presently in the UK, the software and IT services, network security and cloud services are key areas with tremendous growth potential. In 2013, 2500 enterprises were established in the software and IT service sector, with 78,200 jobs created. While serving as a stable platform of market demand for

Chinese enterprises, the UK is also a primary source of advanced technical support.

3.3.4 Traditional processing and manufacturing

Automobile manufacturing

As the fourth largest auto maker and the third largest auto sales market in Europe, Britain holds a leading position in auto R&D around the world. At present, all local auto brands of Britain have been sold to foreign investors, which makes auto manufacturing one of the most open industries for foreign investment. Britain is also the most diversified auto making and assembling base of Europe with a high productivity. Many international auto makers are attracted by Britain's mechanical technology, excellent labor supply and good business environment. The top seven auto makers in terms of productivity and the 17 world-class auto parts and accessory suppliers have all invested in Britain. Over 40 renowned auto companies, such as Ford, BMW, Toyota, Nissan and Honda, have set up companies in Britain, covering such key auto manufacturing links as overall design, engine design and manufacturing as well as production of key components. After years of development, China's auto companies have established a complete industrial chain from R&D to sales.

SAIC Invested in MG3 of Britain

As part of its global investment plan with a total value of £4.5 billion, Birmingham Long Bridge Base has been developed by SAIC into its R&D technology center and the European manufacturing center of MG3, where it does most of the engineering designs. In the future, SAIC will make more investment into Birmingham to support the R&D of more auto models. With the aid of SAIC, the base has restored production and launched the first two new models for the last 16 years. The development has rejuvenated the time-honored British brand and generated over 400 job opportunities. Now, SAIC has integrated its Britain Technological Center, Shanghai Technological Center and Nanjing Technological Center in an overall management framework, which provides a solid product platform and technological guarantee for the auto R&D of SAIC.

Geely acquired Manganese Bronze

In 2013, Zhejiang Geely Holding Group acquired the business and core assets of Manganese Bronze Holdings Plc. (London Taxi Company) with £11.04 million. As part of its business plan, Geely analyzed the development needs of London's taxi market and developed new taxi models on the basis TX4, which improved the energy efficiency and environment-friendliness of London's taxis and obtained an order of 1,200 TX4 taxies from the

Middle East. After the acquisition, Geely expanded the Asian and European markets of TX4 and is exploring the entry into the private car rental market of Britain.

In July 2013, the British government released a £2 billion funding project which aimed to accelerate Britain's auto industry and generated thousands of job opportunities. The plan will promote the R&D of Britain's auto industry and focus on dynamics, including hydrogen fuel, electric drive and other environmentally friendly technologies. At present, the project has initiated the first phase – in the next decade, the British government and auto industry will invest £0.5 billion to build an R&D center to develop low-carbon emission engine technology and commercialize the new engines. Chinese auto makers and other companies should respond to this investment opportunity, make use of their own strengths and comparative advantages and join in the R&D and manufacturing of new engines and accessory products.

Food industry

As one of the fastest growing food and beverages market around the world, Britain has strong competitiveness in the added value, brands and technology of the food industry. Every year, it releases approximately 10,000 new products. In recent years, Britain's food industry has been growing rapidly. The export has maintained steady growth, with food and beverages becoming the fourth largest category of exported goods of Britain. Statistics show that Britain has over 7,000 companies in the food and beverages industry, which creates an annual business volume of £179 billion and over 1.7 million job opportunities.

Bright Food Co., Ltd. acquired Weetabix Company

In May 2012, Bright Food Co., Ltd. and Britain's second largest grain producer Weetabix Company signed a contract in London, according to which Bright Food purchased 60% of the shares of Weetabix Company with £1.2 billion (￥12.2 billion). It was the largest overseas acquisition made by Chinese food companies at that time. After the acquisition, Bright Food successfully entered the British and global food markets and made a significant step in its Go Global strategy.

3.3.5 Modern services

Financial service

As a key pillar of Britain's economy, the financial service industry contributes to over 10% of Britain's GDP and approximately a trade surplus of £50 billion and employs over 2 million people. On the basis of trade traditions, top-class professionals, high-quality support services as well as language, time zone, regulations and other advantages, London has developed into one of the world's top 3 financial centers with a key position in securities and foreign exchange trading, maritime and aviation insurance, bond insurance and trading, inter-bank lending and other international financial markets. Britain's insurance industry ranks the first in Europe and the third around the globe. London is the world's most important foreign exchange market, the world's largest OTC derivatives market, the world's second-largest futures and options trading market, and the world's largest fund management center. Meanwhile, it also harbors the world's largest Metal Exchange, the world's highest level of international stock exchanges, Europe's leading energy exchanges, the global gold trade clearing center, and the center of the international bond market. Non-ferrous metals exchanged in London Metal Exchange account for over 90% of the total global trade. The Brent crude trading volumes account for 2/3 of the total global trade and guarantee Britain's pricing right in the global energy industry.

At present, besides the top 5 commercial Chinese banks that have set up an operational office in Britain, many other Chinese-funded banks have established non-operational organizations. Before December 2013, all major Chinese-funded banks located in Britain operated in the form of subsidiaries and had not obtained the permit to set up branch banks, which could not meet the needs for business expansion. In October 2013, the 5th China-Britain Economic and Financial Dialogue made an important achievement – British regulators agreed to consider approving the application of Chinese-funded banks in wholesale business to build branch banks. Afterwards, the permission was consolidated during the China tour of Prime Minister Cameron. With the globalization of RMB in Britain and the implementation of the RMB Business Center Plan of City of London Corporation, China will get more support from Britain. In turn, Chinese companies should make use of the advantages of London in financial services, consolidate the position of Britain as the RMB offshore financial center, and cooperate with Britain to promote the open-up and supervision of its financial market.

GF Futures acquired British NCM Futures Company

In July 2013, GF Futures Hong Kong Company officially announced that it had acquired 100% of the stock equities of British NCM Futures Company, the first successful overseas acquisition of a Chinese-funded futures company. It marks a historical step in the Go Global strategy of China's financial industry. It will help accelerate the internationalization of Chinese-funded futures companies, introduce the sophisticated trading tools, advanced management experience, product design, risk management capabilities and leading information technology systems of the international futures trade market into China, boost the open-up of China's financial industry and provide better services for both domestic and international clients.

Cultural creativity industry

As the first advocate of "creativity industry" around the world, Britain has also been the first country in the world to promote the creativity industry with policies. The creativity industry has developed into a pillar for British economy comparable to the financial service industry. Britain's creativity industry is innovative and diverse, covering such areas as architecture, music, computer games and filming. The companies of the creativity industry account for 6% of all the companies registered in Britain. Britain's advertising industry has a global reputation, with over 2/3 of the world's advertising companies locating their European headquarters in London; Britain's video game making industry has the world's fourth largest turnover around the world and has developed such world-famous digital games as Tomb Raider; as one of the fastest growing creativity industry of Britain, the animation industry of Britain has produced such renowned animations as Harry Porter and Wallace & Gromit, which enjoy millions of loyal fans; Britain has the world's largest music productivity, just second to the US, accounting for 15% of the global music market and making Britain the world's third largest music sales market; with the most advanced digital TV market of the world, Britain also occupies a leading position in TV program mode development, accounting for 53% of the world's market of program modes.

China has defined the cultural creativity industry as a national pillar industry for the 12th Five-year Plan and is accelerating the development of cultural creativity industry. The cultural creativity industry is a typical consumption-driven industry, in which the prospects of the industry and the success of companies – the market entities – depend on competitiveness and innovation. By investing in Britain's cultural creativity industry, Chinese companies can get an excellent environment for innovation, creativity and entrepreneurship, learn the operation philosophy, marketing modes and other experience of British companies, and hence establish China's cultural creativity development mode of "tradition-driven and all-inclusive".

R&D and design

Britain's innovation capacity holds a leading position around the world. With the most active innovative companies, Britain has the top six universities of Europe and two of the top three universities of the world. Britain leads the world in fashion design, clothing design, auto design and IT product design. Shanghai Automotive, China Telecom, China South Locomotive, Huawei, Bosideng, NVC and other Chinese companies have all set up their European center and technological platform in Britain.

R&D centers of Chinese companies positioned in Britain

In 2012, China Southern Locomotive completed the construction for its power semiconductor R&D center in Lincolnshire, Britain. As the first overseas advanced device R&D center of Chinese rail transportation equipment manufacturers, the center's R&D scope covers basic research, process improvement, product development and platform construction and undertakes the R&D for the next-generation IGBT technology, HVDC thyristor and silicon

carbide technology. *Huawei has invested $200 million to build its British R&D center, whose R&D scope covers optoelectronics, terminal design and software development and whose R&D achievements serve the clients of Huawei in over 140 markets around the world. In 2013, Ren Zhengfei, Huawei CEO, said that Huawei will set up a new R&D center in Britain and increase the number of advanced researchers to 300 in 2017.* *Bosideng adopted a model of "Chinese brand, local design, global procurement and localized marketing" in its operation in Britain. Centering on the European market and the needs of local customers, Bosideng employs local British professionals for its design, procurement and sales teams. In 2012, Bosideng's investment project wan the "Annual Chinese Investor Award" of Britain, the first award of its kind won by a Chinese textile company.*

Real estate industry

British real estate industry has such excellent conditions as trade transparency and supporting facilities. Compared with the residential or commercial market in other international metropolis, entry costs and exit costs in Britain are relatively low. Real estate projects in London's prime locations have been attracting important international investment. On January 6 2014, the survey by the Foreign Investors Association of U.S. Real Estate showed that London overtook the 2013 champion New York to become the first choice for foreign real estate investment. The latest report by Jones Lang LaSalle released in 2014 Winter Davos published 30 cities that attracted most global real estate investment in 2013, and London has been on the top of the list for three consecutive years.

As London real estate market has been active in the last two years, average residential price rose by an average of 10% in 2013, and overall demand is expected to go upward in 2014. For Chinese investors, the average rental yield of UK property keeps stable at 4-6%. Compared to the Chinese cities (Shanghai rental yield is about 2%), British market is highly appealing. Since 2012, Chinese enterprises have experienced rapid investment expansion in British commercial real estate, becoming a hot foreign investors in British real estate industry. This not only reflects that the UK real estate market has a high return on investment, but also accumulates experience for Chinese enterprises to enter the UK real estate market. With an increasing number of Chinese state-owned enterprises pay more attention to overseas investment, the UK market in particular, a powerful wave of investment continue to sweep Britain. In the future, more Chinese enterprises will invest in the British high-end, complex asset projects as well as high-risk real estate development projects.

Table 3-2: Chinese-funded investment projects since February 2012

November 2012	China Investment Group purchased Winchester Mansion.

July 2013	China Real Estate Developers ABP Holdings signed with the City of London a total of £ 1 billion of real estate projects in the Royal Albert Dock. On an abandoned dock area in East London that covers an area of 35 acres (141.6 km2) in London, the third financial district will be built, following the Old Financial City and the Canary Wharf, with a focus on attracting Asian investment.
July 2013	China Ping An Insurance Group acquired Lloyd's Building, the iconic City of London.
August 2013	Wanda announced it would invest 700 million pounds to building Wanda five-star hotels and apartments in the prime place that is in the west London's Wandsworth District and close to the River Thames. The total construction area is 105,000 square meters, and it will become the tallest building in London.
October 2013	Ni Zhaoxing, chairman of the Zhongrong Holding Group announced that it will invest 500 million pounds to rebuild the glorious "Crystal Palace" in south London.
November 2013	China Investment Group discussed with the Blackstone Group to acquire the office building development project located in Chiswick Park, west London. The transaction fee is about 800 million pounds.
January 2014	Greenland Group will develop two large-scale residential projects in London. The estimated total investment is 1.2 billion pounds, including the RAM brewery residential project that is nearly 90,000 square meters, large residential communities that include high-rise apartments, affordable housing and commercial facilities, and a high-rise apartment project in the Canary Wharf financial district that is nearly 98,000 square meters and will become Britain's highest luxury apartment project.

Tourism

As one of Britain's most important economic sectors, tourism is not only the important engine of UK's sustained economic growth, but also one of the key factors for achieving balanced social development. According to statistics, there are more than 200,000 British tourism companies, contributing £ 52 billion annually, and the whole tourism industry chain contributes as high as 115 billion pounds. During 2012 London Olympics and when the Queen celebrated the diamond jubilee, 31 million international tourist came to the UK. It is estimated that by 2020, the British tourism industry will employ 1.5 million people. Due to the huge demand for British tourism services, there is a great investment potential in luxury hotels, restaurants, scenery spot construction, and travel agency services. Dalian Wanda and ABP have invested in the UK high-end hotel project in 2013.

High-end consumer brand

In recent years, as Chinese consumers' requirement on product quality increases, Chinese enterprises become increasingly concerned about the British high-end consumer brand, hoping to introduce the brand into the Chinese market through acquisition or investment. In 2013, Dalian Wanda

Group acquires the famous British luxury yacht brand, Sunseeker, with 320 million pounds, becoming a typical case of Chinese enterprises' large-scale overseas M&A in high-end consumer goods in recent years. The acquisition encountered some challenges, such as managing the negotiation process and understanding the regulatory environment and approval procedures. This highlighted the importance of cultural and commercial differences between two sides and the potential impact of different approval procedures on the entire investment. However, the transaction was successful eventually, marking that Chinese companies will more enthusiastically compete for British high-end consumer brand in the future.

3.4 The potential of Chinese enterprises investing in Britain

Britain has a population of 63.05 million, and has one of the world's highest per capita consumption. In 2012, the total consumption was up to $ 1.5 trillion. Britain, as a highly open and developed economy to foreign investment, has highly developed high-tech industries, knowledge-intensive services and a huge demand for infrastructure. This provides a historic opportunity for China to increase investment in the UK. Deloitte PE report shows a significant increase in the number of acquisition in British in private consumption, energy, infrastructure, culture and communications after 2010. Britain, with its cutting-edge technology and design capabilities, open and easy economic environment, continues to be highly attractive to Chinese enterprises, particularly in financial services, information and communications technology, creative industries, life sciences and energy and other technology-intensive, capital-intensive and high-tech fields. There is a strong complementary strength between China and the UK. According to the survey conducted by the Guideline Development Group, more than 70% of Chinese enterprises are optimistic about the potential for investing in the UK.

The future potential of Chinese companies investing in the UK is mainly in two aspects: First, take the UK market as the target and provide more localized, more convenient products and services by investment; Second, take the world market as the target and provide quality goods and services to open the developed markets and create higher added value through the integration of China and British production chain. For this reason, Chinese enterprises that invest in the UK should draw upon Britain innovative edge and regard the UK as an important source of technology for China; take advantage of the UK's position as a global financial, insurance, shipping, futures and media center as well as the counseling and information center; regard Britain as a brand incubator, and build a world-renowned brand with Britain developed creative and cultural industries and rich experience in brand marketing; achieve mutual benefit, which means not only to leverage China's financial advantages in the energy, infrastructure and traditional manufacturing sector, but also give full consideration to the British demand and create more employment opportunities for the UK.

Chapter IV: Relevant Government Organs and Investment Promotion Agencies of China and Britain

The investment of Chinese enterprises in Britain involves the pre-investment management procedures of Chinese relevant government organs and British management processes for foreign-funded enterprises. In light of the differences in legal systems, administrative procedures, investment promotion methods, etc. between China and Britain, the functions of their departments and organizations concerned have distinctive characteristics (see Table 4-1). Before investing in Britain, Chinese enterprises shall be acquainted with the investment management and investment promotion systems of both countries.

Table 4-1: List of information for Chinese enterprises' investment in Britain

Investment subjects	Chinese enterprises lawfully established within the territory of China and approved to make foreign investment.	
Investment modes	Applying for setting up a new company, participating in local enterprise investment as a shareholder, conducting enterprise M&As, etc.	
Management main bodies	China	Department of Foreign Capital and Overseas Investment of the National Development and Reform Commission (NDRC), Department of Outward Investment and Economic Cooperation of the Ministry of Commerce (MOFCOM), State Administration of Foreign Exchange (SAFE), State-owned Assets Supervision and Administration Commission (SASAC), etc.
	Britain	Department for Business, Innovation & Skills (BIS), etc.
Investment types	Greenfield investment, M&A, technical R&D cooperation, etc.	
Main policies & regulations	China	*Measures for Overseas Investment Management*, *Interim Measures for the Supervision and Administration of Overseas Investments by Central Enterprises*, *Guidelines for Tax Credit on Enterprise Income from Abroad*, *Provisions on Foreign Exchange Administration for Overseas Direct Investment of Domestic Institutions*
	Britain	*European Community Treaty*, *Nice Treaty*, *Customs Code*, etc.
Key investment fields	Infrastructure, energy, R&D design, high-grade, high-precision and advanced manufacturing, communication and information technologies, modern service sectors, creative industries, etc.	
Investment procedures	Domestic approval	Step 1: Function and process approval by the NDRC department. Step 2: Investment subject approval by the

		MOFCOM department. Step 3: Foreign exchange use approval by SAFE.
	British access	Step 1: Early negotiation over investment and cooperation issues (make investment preparations with the approval of the Chinese government). Step 2: Enterprise registration or M&A, investment and fulfillment of tax liability

4.1 China's polices and institutions promoting Chinese enterprises' investment in Britain

4.1.1 China's latest policies on enterprise overseas investment

1. Policies on the approval and record-keeping of overseas investment projects

According to the *Measures for the Approval and Record-keeping of Overseas Investment Projects* (hereinafter referred to as "the Measures") to be released in 2014, Chinese-invested projects of over US$1 billion or those involve sensitive countries, regions and industries shall be approved by the competent investment department of the State Council; projects of US$300 million to US$1 billion only need to be reported to the competent investment department of the State Council for the record; and overseas investment projects of local enterprises not involving sensitive countries, regions or industries and with an amount below US$300 million shall be recorded by the local development and reform commission. NDRC will only approve and keep the record of overseas investment projects within its scope of duties, and accept the information reports on overseas bidding and acquisition projects implemented by local enterprises with a Chinese investment amount of no lower than US$300 million. Meanwhile, it abolishes the registration approval of large overseas investment projects of local enterprises by the provincial development and reform commission.

2. Policies on the overseas investment by central and private enterprises

In 2008, MOFCOM, the Ministry of Foreign Affairs (MOFA) and SASAC jointly issued the *Circular on Further Standardizing the Foreign Investment and Cooperation of Chinese Enterprises*, which requires central enterprises to further enhance their social responsibility awareness, set an example of legal operation, honesty & trustworthiness, resources conservation, environmental protection, people orientation, harmony building, and foreign investment and cooperation. In June 2012, 12 ministries and commissions, including NDRC, MOFA and the Ministry of Industry and Information Technology (MIIT) promulgated the *Opinions on Encouraging and Guiding the Active Outbound Investment by Private Enterprises*, which sets out 18 measures for encouraging and guiding the outbound investment by private enterprises from five aspects – increasing macro guidance, practically improving policy support, streamlining and standardizing overseas investment management, providing all-round service guarantee, strengthening risk prevention and safeguarding the security of personnel and assets.

3. Guiding enterprises to emphasize environmental protection abroad

On February 18, 2013, MOFCOM and the Ministry of Environmental Protection (MEP) released the *Guidelines for Environmental Protection in Foreign Investment and Cooperation*, which standardizes and guides enterprises' environmental protection behaviors in foreign investment and cooperation: first, it advocates that enterprises should assume their social responsibility in environmental protection, respect the religions and customs of the host country, and safeguard the legitimate rights and interests of laborers; second, it urges enterprises to abide by the laws and regulations on environmental protection of the host country, and perform their legal environmental protection duties in EIA, standardized emission and emergency management; third, it encourages enterprises to be geared to international standards, study and apply the environmental protection principals, standards and routines adopted by international organizations and multilateral financial institutions.

4. Foreign investment management reform by Chinese government organs to increase investment efficiency

In the new wave of China's reform and opening-up, it will be a development trend to streamline foreign investment approval procedures, relax quota approval and promote record-keeping management. NDRC will carry out record-keeping management of foreign investment. NDRC, MOFCOM, SAFE and other departments concerned will step up coordination to facilitate Chinese enterprises' investment in Britain and increase investment efficiency. Relevant government organs will encourage the dialogues between Chinese enterprises and British technical R&D institutes and universities so as to create docking opportunities for stakeholders.

4.1.2 Approval and record-keeping of overseas investment projects by NDRC's Department of Foreign Capital and Overseas Investment and local development and reform commission

The investment projects of Chinese enterprises in Britain are mainly approved and recorded by the Department of Foreign Capital and Overseas Investment of NDRC and the local development and reform commission in accordance with relevant laws and regulations. NDRC is mainly responsible for planning, supervising and coordinating China's economic development and industry policies and the setup and review of outward investment projects. Project approval and record-keeping includes the following major steps.

1. Submission of *Project Information Report* and issuance of *Confirmation Letter*

After receiving the *Project Information Report*, the Department of Foreign Capital and Overseas Investment of NDRC will issue the *Confirmation Letter* for items required in the report to the submitter within 7 working days and copy it to relevant departments and institutions.

2. Submission of *Project Application Report*

It shall include five items, such as project name, investor profile; project background and investment environment. The company's board resolution or related contribution resolution, and documents demonstrating the assets, business situation and credit position of the Chinese enterprise and its foreign partner shall be attached.

3. Initial review and report by provincial development and reform commission

According to the *Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects*, the provincial development and reform commission shall examine and approve the projects within its jurisdiction; and initially review projects that should be examined and approved by NDRC, and then report them to the latter's Department of Foreign Capital and Overseas Investment. The period of initial review by the provincial development and reform commission is 20 workdays.

4. Approval by NDRC's Department of Foreign Capital and Overseas Investment

The Department of Foreign Capital and Overseas Investment shall examine and approve the application project as per the *Interim Measures for the Administration of Examination and Approval of the Overseas Investment Projects* or raise its review opinion to the State Council. Provided that the approval decision or review opinion is not given within 20 workdays, the person-in-charge of NDRC shall ratify the extension of 10 workdays and inform the reasons to the project applicant. In case of major investment projects that must be reported to the State Council for approval after being reviewed by NDRC in consultation with the Taiwan Affairs Office of the State Council, the review period will be longer.

5. Record-keeping by NDRC's Department of Foreign Capital and Overseas Investment

For other overseas investment projects with foreign exchange amount of less than US$10 million, Chinese enterprises can make independent decisions and shall submit relevant documents to NDRC for the record. The Department of Foreign Capital and Overseas Investment shall issue a record-keeping certificate within 7 workdays upon receiving the said materials. See Figure 4-13 for the review process.[2]

[2] Note: This process will be streamlined because NDRC is reforming its foreign investment administrative measures and procedures.

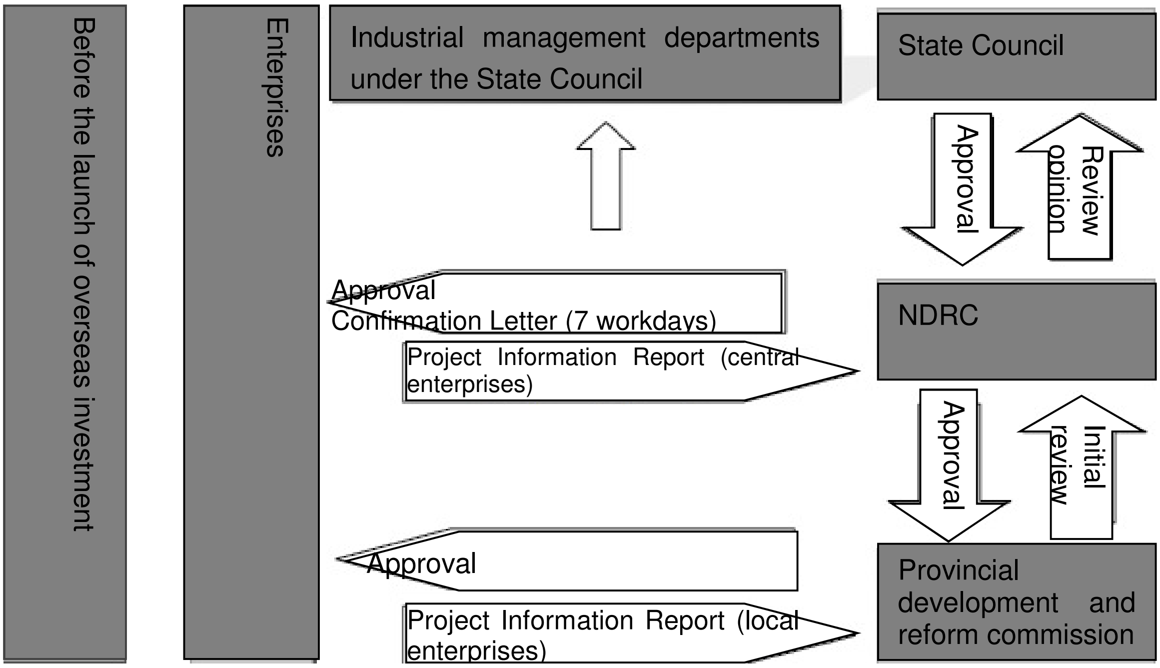


Figure 4-1: NDRC review process for Chinese enterprises' investment in Britain

4.1.3 Review by MOFCOM's Department of Outward Investment and Economic Cooperation

MOFCOM shall be responsible for examining and approving specific matters regarding overseas investment and issuing the overseas investment certificate to Chinese enterprises. The Department of Outward Investment and Economic Cooperation is held accountable for review execution in accordance with the *Measures for Overseas Investment Management* (order of the Ministry of Commerce of the People's Republic of China (No.5 [2009]) (hereinafter referred to as "the Measures"). Different approval procedures shall be applied to different types of investment.

1. Article 6: Investment application and review procedures

The types of investment provided in Article 6 include: (1) overseas investment in countries without diplomatic ties with China; (2) overseas investment in specific countries or regions (the specific list is jointly defined by MOFCOM, MOFA and other ministries concerned); (3) overseas investment with an Chinese investment amount of RMB100 million and above; (4) overseas investment involving the interests of multiple countries (regions); (5) setup of special purpose corporations abroad.

Application materials

(1) Application, including descriptions of the name, registered capital, investment amount, business scope, duration of operation, source of

investment capital, specific investment content, ownership structure, investment environment analysis and evaluation, etc. of the overseas enterprise; (2) copy of company business license; (3) articles of association and related agreements or contracts of the overseas enterprise; (4) approval or record-keeping documents of relevant state departments; (5) *Prophase Report on Matters Related to Overseas Merger and Acquisition of Enterprises* shall be submitted for M&A overseas investment; (6) other documents required by competent authorities.

Approval of overseas investment projects

Central enterprises shall apply to MOFCOM and local enterprises shall apply to MOFCOM through the corresponding provincial competent department of commerce. Upon receipt of the application, the provincial competent department of commerce shall conduct an initial review of the authenticity of the application materials and their relevance with the conditions listed in Article 9 of the Measures within 10 workdays, and (after the initial review is passed) submit its review opinion and all application materials to MOFCOM. After receiving the application from the provincial competent department of commerce or central enterprise, MOFCOM shall decide if it will accept the application within 5 workdays. After the application is accepted, MOFCOM shall decide whether the application is approved within 15 workdays (excluding the time for embassies and consulates (business offices) in foreign countries).

Certification of overseas investment projects

For approved overseas investment, MOFCOM and the provincial competent department of commerce shall issue a written approval decision and the *Enterprise Overseas Investment Certificate* (hereinafter referred to as “the Certificate”).

2. Article 7: Investment application and approval procedures

Local enterprises making the following overseas investments shall submit materials for approval: (1) overseas investment with a Chinese investment amount between US$10 million and US$100 million; (2) overseas investment in energy and mineral resources; (3) overseas investment that needs domestic investment promotion. The application materials can refer to the aforesaid Article 6.

Approval of overseas investment projects: To make the abovementioned overseas investments, enterprises shall file an application to the provincial competent department of commerce, which shall decide whether the application is accepted or not within 5 workdays. After the application is accepted, it shall decide whether the application is approved within 15 workdays. For approved overseas investment, MOFCOM and the provincial competent department of commerce shall issue a written approval decision and the Certificate.

3. Article 8: Investment and approval procedures

To make overseas investments excluded in conditions Article 6 and 7 of the Investment Measures, enterprises shall submit the *Overseas Investment Application* for approval in line with the Measures.

The headquarters of central enterprises shall fill in and print the application, and submit it to MOFCOM for approval as required via the "Overseas Investment Management System" (hereinafter referred to as "the System") established by MOFCOM.

Local enterprises shall fill in and print the application, and submit it to the provincial competent department of commerce as required via the System. Upon receipt of the application, MOFCOM and the provincial competent department of commerce shall review it within 3 workdays, and issue the Certificate on condition that the application is complete and conforms to the legal form.

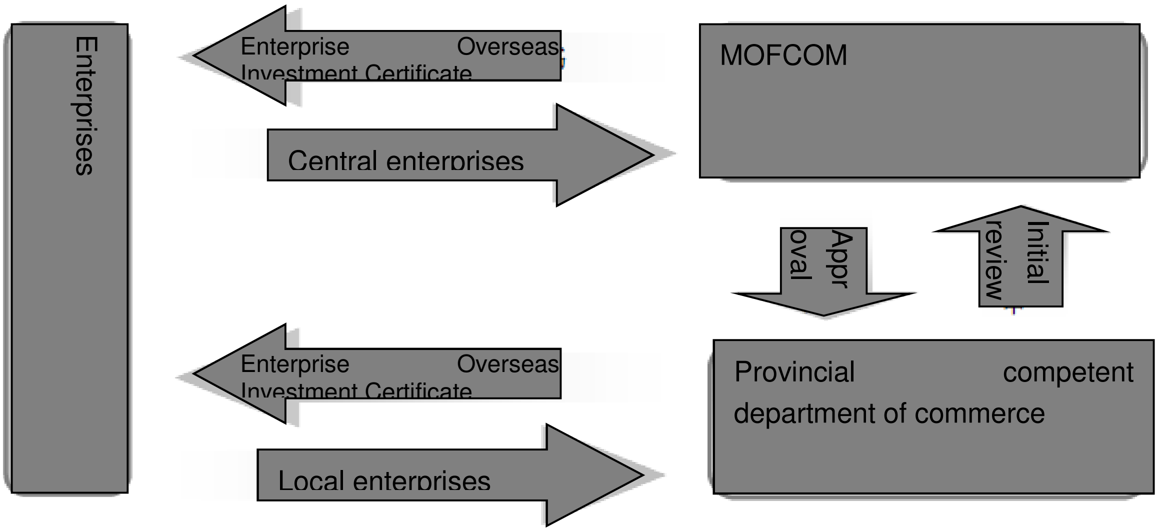


Figure 4-2: Approval process of commercial departments

4.1.4 Review and Filing of Foreign Exchange by Domestic Foreign exchange authorities

Balance of Payments Department of State Administration of Foreign Exchange (SAFE) is responsible for foreign exchange settlement of outbound investment, formulating foreign exchange policies, implementing foreign exchange approval, overseeing the statistics and monitoring of the balance of payments and the external credit and debt, publishing relevant information according to regulations, monitoring cross-border capital flows, supervising and managing nation-wide foreign exchange market and foreign exchange settlement and sale; fostering and developing foreign exchange market. After getting the permit from National Development and Reform Commission (NDRC) and commerce authorities, the enterprise shall submit the application for using foreign exchange quota to SAFE along with relevant documents. (Figure 4-3)

Apply for *Foreign Exchange Registration Certificate for Outbound Investment*

SAFE and its branches/sub-branches are mainly responsible for examination on the source of foreign exchange funds for outbound investment projects, foreign exchange registration and approval of remittance of foreign exchange funds for outbound investment. The enterprise shall submit the application for *Foreign Exchange Registration Certificate for Outbound Direct Investment*, along with such related materials as the original and copies of *Enterprise Outbound Investment Certificate* by MOFCOM and approval documents by NDRC. SAFE shall examine and issue *Foreign Exchange Registration Certificate for Outbound Direct Investment* with a validity of 20 working days.

Remittance of Foreign Exchange Purchase

Enterprise shall apply for remittance of outbound direct investment funds at foreign exchange bank with approval and *Foreign Exchange Registration Certificate for Outbound Direct Investment* by outbound direct investment authority. The foreign exchange bank shall process the application after authenticity examination. The remittance of foreign exchange purchase will last at most 7 days.

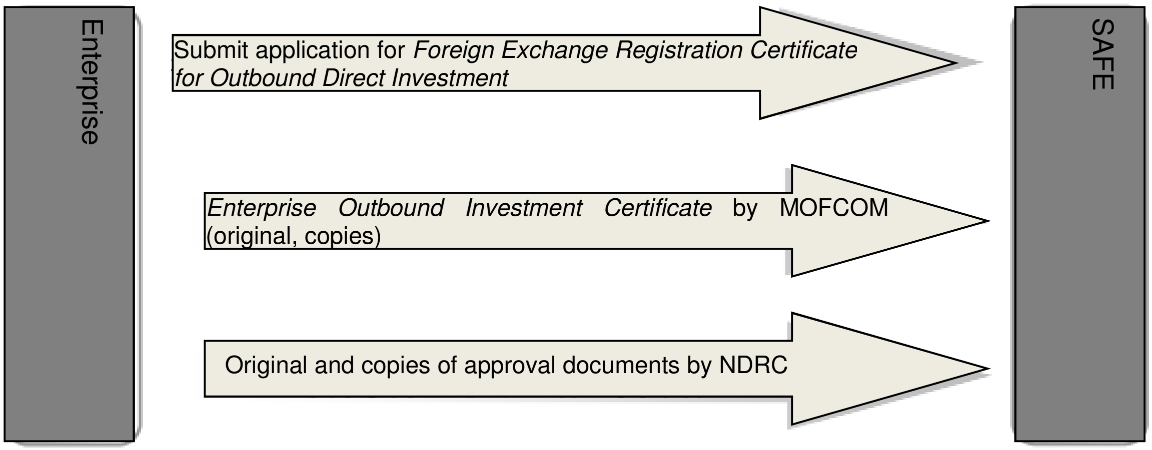


Figure 4-3: Review and Filing Procedures of SAFE

4.1.6 Supervision of Outbound Investment of State-owned Enterprises by SASAC

State-owned Assets Supervision and Administration Committee of the State Council (SASAC) is responsible for outbound investment and maintenance and appreciation of state-owned assets value of central enterprises, supervision of outbound investment activities and appointment of personnel, promoting international operation of central enterprises and urging them to set up sound management system for outbound investment, guiding and standardizing their outbound investment activities and guiding them to prevent outbound investment risks and reinforcing cooperation in outbound investments among each other so as to avoid destructive competition.

SASAC shall examine such aspects as the necessity of undertaking investment projects unrelated to their main business, influence upon corporate development strategy and development of main business, tolerance of corporate investment and capacity in risk control, in accordance with relevant laws, rules and regulations on supervision over state-owned assets, and issue written advise within 20 working days. During the implementation of key investment projects, central enterprises shall report promptly to SASAC under such significant conditions as substantial change in project contents, major adjustment of amount of investment, great change in ownership structure of investee.

4.2 Relevant Institutions in the UK

Most foreign investments in the UK are not under surveillance. However, investments in sensitive areas like defense and regulated areas like banking, media and financial service shall get approval. Relevant institutions include:

Department for Business, Innovation & Skills (BIS)

(https://www.gov.uk/government/organisations/department-for-business-innovation-skills)

BIS is one of the main departments for economic administration. It is responsible for managing industry and trade, technology, international trade policies, and policies promoting import and export, etc.. Its main functions cover: domestic trade, foreign trade, bilateral investment, regional economic cooperation, international negotiation, protection of intellectual property rights, maintenance of market order, and negotiation and coordination of both internal policies and external multilateral and bilateral policies of EU.

UK Trade & Investment (http://www.uktradeinvest.gov.uk)

UK Trade & Investment (UKTI) is a government organ under BIS, aiming to provide all-round professional services in establishing new enterprises, expanding business and so on in the UK. UKTI has six departments. Its main services include offering consultation for such important business matters as company registration, migration, fiscal incentive policies, labor relations, real estate, transportation, public facilities and regulation; carrying out comprehensive analysis of site selection so as to assist foreign companies to select appropriate location, introducing industrial relations network such as leading companies of the industry, chamber of commerce, universities and other famous R&D centers, supporting transnational enterprises to undertake

R&D activities in the UK through R&D programs, assisting in technical cooperation between foreign and British companies through R&D cooperation programs, helping foreign entrepreneurs to develop business opportunities through Global Entrepreneur Program, and providing continuous support to businesses that have operated in the UK through investor development network. UKTI has its own divisions in British Embassy Beijing, British Consulate General Shanghai, Guangzhou and Chongqing, providing a wide rang of free services for enterprises that intend to invest in the UK.

Her Majesty's Revenue and Customs (http://www.hmrc.gov.uk)

Her Majesty's Revenue and Customs (HMRC) is one of the non-ministerial departments of the British government, mainly responsible for collecting taxes (direct taxes including income tax(IT), corporation tax (CT), Capital Gains Tax (CGT), Inheritance Tax; and indirect taxes including Value Added Tax (VAT) and Stamp Tax, etc.) and import control, etc..

4.3 Promotion Institutions for Chinese Investment in the UK

Economic and Commercial Counsellor’s Office of the Embassy of the People’s Republic of China in the United Kingdom of Great Britain and Northern Ireland (“The Office”) (http://gb.ofcom.gov.cn)

The Office is mainly responsible for promoting business policies on international economic cooperation; contacting relevant departments of the British government, industry associations, and various parties in business circle and other circles, dredging and expanding cooperation channels for Sino-UK economy and trade; expanding economic and trade cooperation with the UK; promoting investment in the UK, providing services in investment, set-up, exhibition participation and meetings in the UK for domestic enterprises; assisting Chinese companies in developing investment and trade in the UK.

China Investment Promotion Agency of MOFCOM (http://tzswj.mofcom.gov.cn)

China Investment Promotion Agency (CIPA) is subordinate to MOFCOM. Its major responsibilities in companies making FDI include: 1. providing relevant services for foreign investment of Chinese enterprises, promoting two-way exchange and cooperation between Chinese and foreign enterprises and helping to upgrade the level of international operation for Chinese enterprises; 2. Under the authorization of the MOFCOM, undertaking the following tasks: 1. Be responsible for promotion of foreign investment; participating in drawing up and the implementation of the strategy, planning and guiding opinions on foreign investment; 2. Guide and take part in the joint conference for the nationwide investment promotion agencies; guide the work of investment promotion agencies across the country; 3. Conduct monographic studies on foreign investment 4. Organize and implement large cross-region promotion activities on “Going out” policy; 5. Attend the World Association of Investment Promotion Agencies and carry on related work on behalf of the MOFCOM.

China Council for The Promotion of International Trade (http://www.ccpit.org)

China Council for The Promotion of International Trade (CCPIT) is a nation-wide non-governmental foreign economic and trade organization comprising VIPS, enterprises and organizations representing the economic and trade sectors in China. It works to promote foreign trade, utilize foreign investment, introduce advanced foreign technologies, and carry out Sino-foreign economic and technological cooperation in various forms, so as to promote the development of economic and trade relations between China and other countries or regions around the world. At present, CCPIT has established wide economic and trade connections with parties in business circle in more than 200 countries and regions, signed cooperation agreement with more than 300 counterparties, and established united chamber of commerce with COCs in other countries. Meanwhile, CCPIT has set up representative offices in 16 countries and regions. CCPIT, China Chamber of International Commerce (CCOIC) and its affiliated business departments have already joined many international organizations, including WIPO, AIPPI, LES, Comité Maritime International, UFI, ICCA, PBEC and ICC.

China Council for International Investment Promotion (http://cciip.org.cn/)

China Council for International Investment Promotion (CCIIP), ratified by the State Council, affiliated with the Ministry of Commerce and registered with the Ministry of Civil Affairs, is a national agency with independent legal status, responsible for promoting China’s inward and outward investment in line with China’s economic strategies. The objectives of CCIIP is to synergize nationwide resources and capacities in investment promotion, and provide a unified platform for China’s investment promotion; to facilitate Chinese enterprises investing overseas and participating in international economic and technical cooperation projects; to provide service in sharing resources, striking a balance and advancing economic development and social progress. CCIIP has a professional working group, and a consultant group composed of prestigious experts in investment promotion. The council has established strategic cooperative partnership with many international organizations, associations, and investment promotion agencies. With excellent creative, coordinative and implementing ability and resources from both at home and abroad, CCIIP has become an energetic and promising power in China’s investment promotion field.

4.4 British service agencies promoting Chinese enterprises to invest in Britain

The China-Britain Business Council (CCBC) (http://www.cbbc.org.cn)

The China-Britain Business Council (CBBC), co-supported by the British government and the business community, is the leading non-profit organization mainly promoting Sino-British bilateral commerce and cooperation in economy and technology, assisting Chinese companies to expand their business with the UK counterparts. The CBBC, with membership system, has offered practical in-market information, customized activities and preferential prices for its members. CBBC consists of nearly a thousand member units, its professional teams covering most areas in both countries. CBBC has made the special report, *Investment in Britain*, introducing the Chinese enterprises to British commercial opportunities.

London & Partners (http://www.londonandpartners.com)

London & Partners is the official promotional organization for London, responsible for global promotion of London's investment, tourism and education. London & Partners is a non-profit public private partnership, funded by the Mayor of London and our network of commercial partners, providing easy access for foreign-funded enterprises to London at lowest cost. It serves not only the large-scale transnational enterprises but also newly-founded small and medium-sized ones in location, employment, integration, establishment of financial network, business case, as well as providing office space with preferential price and expanding business. London & Partners has representative offices in Beijing and Shanghai, for the convenience of providing service for the Chinese-funded enterprises to invest in Britain.

City of London (http://www.cityoflondon.gov.uk)

City of London, a distinctive and diversified corporate, provides advice in making London a world-class city in finance and commerce, and service for tourists, inhabitants and worker here. Just like the headquarters in London, representative offices in Beijing and Shanghai also have global teams offering financial strategies and other professional services. City of London is dedicated to contacting and recommending professional financial service agencies using Chinese and English as working languages, holding round-table meetings and seminars, supporting studies and reports in finance, issuing China Financial Service News Weekly and providing services for Chinese officials, regulators and pioneers in finance.

4.5. Financial Support Agencies

4.5.1 Chinese Financial Support Agencies

China Development Bank

China Development Bank (CDB) put a high priority to newly emerging industries and such important infrastructure construction as coal, power, petroleum, petrochemical, railway and highway, public infrastructure construction, agriculture, forestry, water conservancy, post and telecommunication supported by the nation. With commercialized operation as its business principle and development-oriented finance as its management theory, CDB takes advantage of medium- to long-term financing facilities by policy bank to assist newly emerging industries with high investment and slow returns. In recent years, CDB has played an incomparable role in supporting domestic enterprises to compete overseas, especially aiding those strategic enterprises to invest overseas by providing financing, project evaluation and consultation and other services. For more information, please visit www.cdb.com.cn.

The Export-Import Bank of China

The Export-Import Bank of China's main mandate is to facilitate the export and import of Chinese mechanical and electronic products, complete sets of equipment and new- and high-tech products, with service scope covering the following fields: ship, telecommunications, manufacturing, textile, automobile, machinery, household appliances, produce and related business such as letter of indemnity and factoring, to facilitate companies with comparative advantages in their outbound investment and promote international economic cooperation and trade. The Bank has provided loans to 23 countries and 7 international financial agencies, with total assets up to 1.55 trillion Yuan, total loans 1.18 trillion Yuan, total liabilities 1.53 trillion Yuan, and net profit as high as 3.79 billion Yuan in 2012. The Bank's credit ratings given by the three major international credit ratings agencies, Moody's, Standard & Poor's and Fitch, are the same as China's Sovereignty Ratings.

For more information, please visit www.eximbank.gov.cn.

China Export & Credit Insurance Corporation

China Export & Credit Insurance Corporation (SINOSURE) is a state-funded policy-oriented insurance company with independent status of legal person, established for promoting China's foreign trade and economic cooperation. It began operations on December 18, 2001. Presently SINOSURE has formed a nationwide service network，providing insurance service for foreign trade and investment cooperation. SINOSURE's main business include Medium- and Long-Term Export Credit Insurance, Overseas Investment (Leasing) Insurance, Short-Term Export Credit Insurance, Credit Guarantees and Reinsurance concerning export credit insurance, Accounts Receivable Management, and Consultation. Overseas investment insurance is a policy insurance business SINOSURE has made to encourage overseas investment through insurance indemnity for economic risks caused by exchange restriction, levy, war, political riots or default. SINOSURE has representative office in London, responsible for strengthening its contact and cooperation with Chinese enterprises investing in Britain and other European areas, and supporting their international operation. For more information, please visit www.sinosure.com.cn.

Chapter V: Key Suggestions for Chinese Companies Investing in the UK

5.1 Make active use of the free services offered by British investment promotion organizations

There are many investment promotion organizations in both China and the UK, offering free professional services for Chinese companies looking to invest or expand business in the UK. Some British institutions even provide Chinese investors with free offices during the initial stage as well as relevant supports, including consulting services, company setup, recruitment, work visa consultancy, search for business premises, assimilation into local communities, etc. More information about investment promotion services is available on the homepages of UKTI, CBBC, London & Partners, and City of London.

Chinese companies looking to invest in the UK can make full use of the free services offered by these British investment promotion institutions, gain a deep understanding of relevant information, quickly enhance their adaptability, and lay a solid foundation for their entrance into the UK market. On this basis, they should actively cooperate with the policy arrangements of related departments, comply with relevant institutions of the host country, and increase investment efficiency.

5.2 Pay special attention to the role and value of intermediary services

Intermediary services include consultancy, appraisal and brokerage services for Chinese companies investing in the UK. According to questionnaire surveys conducted by the Guideline Compilation Group, many Chinese investors are in eager need of further information and communication through consultancy. 75% of them hope to acquire business consultancy, 63% want case studies of successful or failed overseas investment precedents, whereas 56% of them are looking for policy consultancy. But the percentages of Chinese companies choosing UK investment channels through intermediary agencies or government introduction are quite too low (as shown in Figure 5-1).

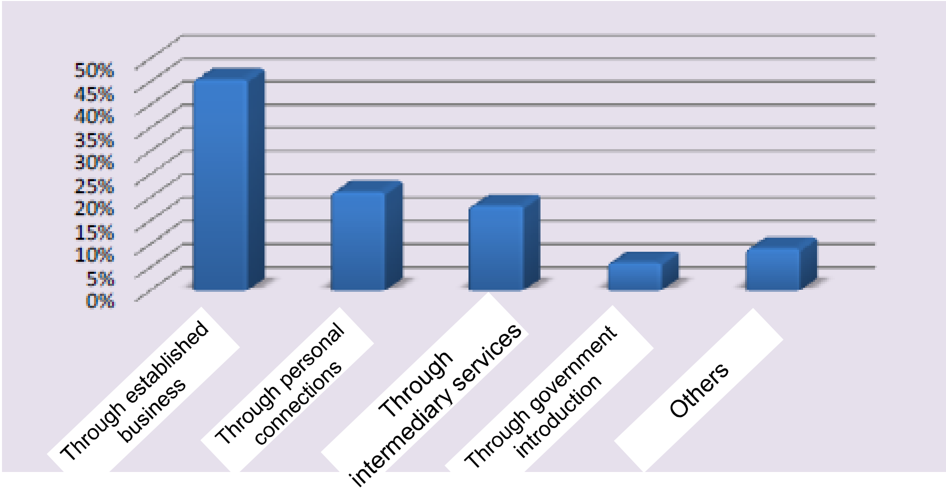


Figure 5-1: Main channels Chinese companies choose when investing in British business programs

Source: Questionnaire Survey of the Guideline Compilation Group

To enable Chinese companies looking to invest in the UK to effectively detect and guard against potential investment risks, such as business, financial, social and environmental risks, we suggest that these Chinese companies pay special attention to the power and value of professional intermediary services in financial, law, financing, business consultancy, and take advantage of the conduit functions of these professional service agencies, which have rich experiences in dealing with British market tendency, industrial and business taxation policies and relevant risk assessment. They can help provide all sorts of convenience services, greatly increase investment efficiency, and reduce the costs of investment and operation.

Legally, Scotland, England, Wales and Northern Ireland are all judicially independent regions. The Scottish legal system is a mixture of Common Law and Civil Law, whereas only Common Law is exercised in the other three regions. Chinese companies looking to invest in the UK need to learn about the UK's laws and regulations, such as basic company law, financial service regulations, competition law, intellectual property law, and taxation law. A good knowledge of the UK's laws, as well as its business culture, employment system and labor service models, is indispensable in conducting investment cooperation. Also, law firms familiar with local conditions can be hired, to teach Chinese companies about local laws, guide their investing activities, provide all-round services, avoid legal risks and guarantee expected interests.

In terms of financing, to control investment risks and achieve the expected returns of investment, Chinese companies should enter into cooperation with experienced financing agencies as soon as possible. Financial agencies have the financial expertise that can provide guidance over investment programs and appropriate usage of financial tools, and can create business values for investors.

As for financial matters, companies planning to invest in the UK should consider early on acquiring professional advices on taxation and finance. As the taxation policies of investment destination countries as well as the financial strength of target companies can vary substantially, to the point of affecting investment strategies, accounting firms and law firms can help design a reasonable business investment structure.

Business consultancy firms are also important intermediaries that can assist Chinese firms in their overseas investment, especially during the exploration stage and in the actual investment process. Business consultancy can play a critical role in Chinese companies' final investment decision-making.

5.3 Familiarize with visa convenience policies

Chinese citizens need to apply for visas before entering UK territory, and the UK is not covered by Schengen Visas. British visa application centers can be found in 12 cities in China, including Beijing, Shanghai, Guangzhou, Chongqing and Chengdu. Visa applicants can apply online with the visa center, make appointments and relevant payments. According to statistics, UK Visas and Immigration issued over 290,000 visitor visas for Chinese applicants in 2013. About 96% of all applicants were successful in their visa application. Currently, it takes an average of 7.2 days for non-settlement visas to be processed.

The UK is striving to streamline its visa application process and provide more convenience for outside investors, such as speedy visa services (processed within 3-5 workdays), golden time services (offering visa services on weekends or during non-business hours), passport return services (allowing applicants to retrieve their passports after submitting visa application, so that the passports can be used elsewhere, e.g. for application of other visas or overseas travels), as well as VIP services. For more information, please visit the homepage of UK Visa Information, http://www.vfs-uk-cn.com/smplchinese/additionalservice.html.

5.3 Enhance companies' abilities to compete for business bids in the UK, establish efficient business decision-making mechanisms

Many investment and M&A projects in the UK are conducted through open bidding. According to the Guideline Compilation Group's survey, 60% of respondents believe Chinese companies' competitiveness in tendering is average. To improve, Chinese companies need to comprehensively strengthen their abilities, and overcome hurdles posed by differences in languages, business cultures, laws and regulations. When bidding for British M&A projects, Chinese firms need to solicit the professional supports of law firms, accounting firms and consultancy firms, and develop bidding proposals that are both competitive and consistent with the needs of the British market. They also need to build a team of international professionals that are good at winning bids in the UK. After a successful bid, they should quickly make business decisions according to the responses and demands of the British market, conduct investment and financing activities and get through domestic examination and approval processes in an efficient manner. Many business bidding projects in the UK have a strict timetable for transaction completion; if a quick decision-making mechanism is missing during the bidding competition process, the best investment opportunities may slip by. To set up such a mechanism, a company should gain comprehensive information about the UK market, and make decisions that are in line with market changes, timely and forward-looking. Chinese companies should also conduct extensive cooperation with the UK government, NGOs and Chinese-funded companies, and develop a suitable growth strategy for themselves.

Crystal CG won bid to become official digital imaging service supplier for London Olympics

Beijing Crystal Digital Technology Co., Ltd has become the biggest digital and visual service supplier in Asia. In March 2009, Crystal CG won the bid to become the official digital imaging service supplier for London Olympics, after defeating 16 British or European firms in the international bidding. The company provides services such as stadium design visualization simulation, promotion of digital imaging production, educational programs such as sports demonstration, digital contents of opening ceremonies and all other ceremonies. Its success in bidding can be attributed to its reasonable price, advanced technologies and exceptional innovation abilities that inspire the next generation, as well as a cross-cultural, cross-domain team that fits the goal of London Olympics and has rich experiences in working for big sports games.

5.4 Strengthening localization operation after investing in the UK

Chinese enterprises implementing localization in the UK and making efforts to create local jobs are key success factors for the investment, as well as an inevitable choice for Chinese enterprises that have marched into the UK market.

To promote localization, Chinese enterprises need to focus on three aspects. First, localization of investment pattern. As the market environment, policy environment and business culture in the UK are different from those in China, Chinese enterprises need to constantly promote localization of investment pattern, and explore a pattern that goes in line with Britain's conditions. Second, localization of management system. Investment in the UK requires employment of British talents. China and Britain have a huge difference in the concept of using talents and management pattern of enterprises. Chinese enterprises should make good use of good corporate governance environment in Britain, and learn from Britain's advanced management system. Third, localization of products and services. If Chinese enterprises investing in the UK intend to have a firm footing, they need to produce products and provide services well suited to local needs.

NVC: Using local teams to develop the European market

During the 2008 financial crisis, NVC acquired a top British Lighting sales enterprise. After two to three years of consolidation, NVC products have entered the mainstream channels of local market, and have won recognition of customers. The lighting project of the London 2012 Olympics also adopted NVC products. With sales of 25 million pounds this year, NVC plans to expand its production base in the UK in 2015. Rapid localization, improved bidding capacity, technological innovation and professional services innovation are important factors in the success of NVC. After entering the UK market, NVC has nurtured a localization team with only one Chinese director in the management group. Besides, most staff (more than 80 people) are local people. In terms of payroll, benefits and development opportunities, NVC fully considers the level of the local market. NVC UK has its own purchasing power and its own design team. With the localization team's comprehensive experience in management, logistics, procurement and other aspects, NVC manufactures products well suited to the UK and European market needs.

Fundamental goal for the Chinese companies to invest in the UK and realize localization is to continuously enhance adaptability to the UK market, improve integration into the UK market, and to achieve the strategic positioning of mutual benefit and win-win as well as mutual promotion. Contributing to the increase of local employment rate is extremely important. As the current UK unemployment remains high, if Chinese companies make contributions to the employment in the areas where they make investment in the UK, they will certainly be well received by the local government and the community.

5.5 Respect local communities, and take the initiative to coordinate with the unions

Britain has a strong union and good community governance system. One of the challenges the China-funded enterprises are faced with in the UK is to how to integrate into the local community and communicate and coordinate with the unions. To enhance the adaptability to the UK during the investment, China-funded enterprises need to understand British society governance system, for example, understanding the legal rights and obligations of employees, helping companies better relationships with their employees and learning how to motivate teams to ensure positive attitude and loyalty. For this reason, Chinese enterprises need to understand and respect the local culture and customs to quickly integrate into the local community and handle relationships with local residents in a proper way. Britain is a multicultural and tolerant society, with inclusive ethnic groups and religion. Therefore, promoting cultural exchange and integration between China and the UK is of great benefit to deepening investment and cooperation. Chinese enterprises should also actively promote Chinese culture and enterprises to local residents to establish a more positive and harmonious relationship with the UK residents.

5.6 Actively contact with the media

UK market is highly open with high media attention. British media industry is highly developed, and is the world's information media powerhouse. The media products have great social influence. Companies that have global operating experience highlight seminars and media exposure. This helps the company not only raise social awareness, but also show its status to the investors and improve credibility.

Chinese enterprises to invest in the UK should be prepared as soon as possible to contact with the local media. From the long-term perspective, they should actively prepare for all kinds of challenges. The enterprises should actively carry out publicity to lay a solid foundation for public relations. They should hire reputable consultant team in the UK market and prepare for crisis that may occur. They should take the initiative in contacting with the local media and build trust with them, in order to improve the company's visibility in the local business community and establish a constructive image for the company. In the event of unfair public opinion, they should focus on publicity, communicate with the public through the media, and work to change people's original attitude. They need not only to face the problem, but also to take responsibility, accumulate experience and improve corporate governance system to establish a good public reputation.

Geely Automobile acquired London black cab maker Manganese Bronze

London's iconic black-cab maker Manganese Bronze was forced to recall about 400 taxis with steering box problems. Later in October 2012, the company was hosted and began looking for a buyer. At that time, Geely owned 20% share of Manganese Bronze, and had a joint venture to produce black cabs in China, so Geely became the potential buyer. But the challenge is that the British media has widely reported earlier that the steering boxes in question were produced by a Chinese company, and that the company was introduced by Geely to Manganese Bronze.

According to the media strategy developed by its professional PR consulting firm, Geely actively contacted with the media, corrected the rumor that problematic components were from the Geely supply chain, and showed that Geely would become an excellent British company and a responsible potential buyers. Geely executives met with the vice mayor who is responsible for *transport and other senior government officials and union leaders in London. They discussed the business plan for Manganese Bronze to get support from stakeholders.*

Geely's acquisition eventually won positive reports from British national and local media. London mayor commented on the acquisition "guarantee the success" of London's future taxi industry. Labor union also kept job opportunities in Manganese Bronze. After the acquisition, Li Shufu, Geely's vice chairman, traveled to the UK, met with the Mayor of London and the taxi union representatives, and explained Geely's planning on London's taxi industry. Geely continued to contact with the media, arranged the exclusive interview with "Sunday Times" and the full-page interview with "London Evening Standard", which reported Mr. Li as "Henry Ford in China".

5.7 Protect intellectual property rights (IPR)

Britain attaches great importance to IPR protection with a sound legal system. IPR owners in the UK enjoy many rights. All British IPRs are also protected by various EU rules and directives. Designs, geographical indications, confidential information and data protection also belong to IPRs. Chinese enterprises investing in the UK should attach great importance to IPR protection, and properly handle issues of technical patent. A lot of Chinese technologies were introduced from Western countries during the eighties and nineties. After digestion and absorption, China produced some independent IPRs, but Chinese companies are likely to have issues with the licensor's market when they enter the UK market, and they may be prosecuted. For Chinese companies that want to invest in the UK, IPR protection is a crucial task. Chinese enterprises should strengthen communication and coordination with domestic and international patent owners, and provide timely advice and public service related to intellectual property. They should strengthen IPR censorship in economic activities such as M&A and technology transactions, and avoid IPRs loss. Companies are encouraged to use legal weapons and international rules to safeguard their own interests.

5.8 Carry out environmental impact assessment, and take the initiative to protect the ecological environment

Chinese overseas investment policies and regulations require that enterprises that are "going out" and overseas cooperative projects should fulfill their social responsibility for the benefit of local people. The UK's beautiful environment owes to its excellent environmental awareness and action. Britain currently advocates global response to climate change and low-carbon economy. Chinese enterprises investing in Britain should conduct ecological impact assessment, protect the local ecological environment, and comply with local environmental standards. As for the waste and other unfavorable factors produced during the production and operation, companies should build environmental treatment facilities. We need to guide Chinese enterprises to actively fulfill social responsibility of environmental protection, establish a good international image of Chinese enterprises, and support sustainable development in the UK. We encourage Chinese enterprises to leverage Britain's comprehensive environmental services, establish a sound system of environmental training, and provide the staff with education and training in terms of environment, health and safety. By doing so, employees can become familiar with the UK relevant environmental protection laws and regulations, have environmental knowledge such as handling harmful material and preventing environmental accident, and have higher awareness of law and environmental protection.

Appendix: Institutions that can provide intermediary services for investments of Chinese enterprises in UK (Advisory Board members of this Guidance and their names are listed in no particular order)

Linklaters is a leading full-service law firm in UK, and also an international law firm with world-wide presence, and rich local resources and experiences. It used to provide legal services in various kinds of major transactions in more than 100 countries. And it offers its professional services in major jurisdictions in Asia, Europe, Middle East and Africa. Linklaters' integrated China team is made up of more than 230 lawyers, working across Beijing, Shanghai and Hongkong. It offers following services to Chinese enterprises: corporate business/M&A, PE, banking and project finance, capital market, anti-unfair competition/anti-trust, dispute settlement, and rules and regulations of Chinese financial market. Linklaters is capable of providing one-stop and all-round services from set-up to operation for Chinese investors in UK, including company set-up, joint-venture M&A, anti-trust declaration, financing, design of corporate governance structure, tax, labor law, intellectual property right, environmental law, industry special regulation and daily compliance. For more information, please visit www.linklaters.com.

Address: 25F, Suite 1, Office Building 1, Jianguomenwai Street, Chaoyang District, Beijing Tel: (86 10) 6505 8590

HSBC is the one of the world's largest banking and financial services organizations, aiming to help customers establish and speed up development of business especially in UK and China. HSBC can help enterprises establish effective platforms for local and cross-border products and services. Headquartered in London, HSBC serves around 950 million customers with all-round financial services through 7200 offices across more than 85 countries and territories in Europe, Asian Pacific, Middle East and Africa, and its total assets has amounted to nearly 2.7 trillion US dollars. Through a connected international network based on advanced technologies, HSBC offers wide-ranged financial services including corporate banking, investment banking and capital market. In 2012, HSBC Global bank and capital market businesses realized a PBT of 8.52 million US dollars. HSBC offers full-round services including corporate banking, investment banking, export and project financing, payment, cash management, capital market, equity investment, financial advisor, fixed income product, credit loans. With the largest project and export financing team in the world, HSBC has become the leading bank in providing capital for projects and exports.

For more information, please visit www.hsbc.com.cn.

Deloitte & Touche is the world's largest professional provider of comprehensive services, also known as one of the world's "Big Four". It builds on partnership of tens and thousands of members, all of which are legal entities with independent legal status. Its professional services range from corporate finance (services in M&A, restructuring, financing, real estate, etc.), financial auditing, tax services, to management consulting. With more than 1.9 million employees in 140 countries around the world, Deloitte & Touche has realized a total profit of over 30 million US dollars in 2013. It serves over 80% large corporations around the world, including state-owned enterprise, public institutions and fast-growing global companies. From the perspective of corporate M&A, Deloitte & Touche is capable of providing continuous assistance throughout the whole process of M&A (one-stop service), ranging from search of target, M&A strategies and architectures, all-round due diligence investigations, transaction contract to integration, optimization and sales after M&A. With services covering wide range of industries and experts in various sectors, Deloitte & Touche is quite experienced in providing Chinese enterprises with services in large-scale M&A and investment projects. Major cross-border M&A transactions in recent years that Deloitte & Touche has guided and participated in include acquisition of Volvo by Geely and acquisition of Weetabix Bright Food.

For more information, please visit www.deloitte.com. Tel:+86 010-85207788

Brunswich

Established in London, Brunswick is a leading business communications firm, providing high-end consulting services to resolve critical problems in communications field for Asian enterprises and transnational corporations in corporate reputation, market valuation and accomplishment in business success. In 2004, it set up its first office in Asia and started its business. At present, over 90 experts across Beijing, Shanghai, Hongkong and Singapore are providing wide range of professional services including maintenance of corporate reputation, M&A transactions, investor relationship, IPO and financing, management of major events and crisis, opinions survey, and consultation and suggestion of public affairs.

Website:www.bruswickgroup.com

Address: Room 2605, East Tower, Twin Towers, No.12(B), Jianguomen Outer Street, Beijing

Tel: +86 (10) 5960 8600 Fax: +86 (10) 6566 3856

City of London is a unique and diversified company. It supports and promotes London as the world leader in international finance and business services, and provides local services for those working in, living in and visiting the Square Mile. The City of London opens its offices in Beijing and Shanghai with equally excellent international team as London, offering financial strategies and services in professional fields. Its services include: contacting and recommending professional institutions of financial services in both China and UK, holding round-table conferences and seminars, assisting in research and report of financial sector, issuing news weekly on Chinese financial services and providing support to Chinese government officials, regulators and pioneers in financial industry.

Website: www.cityoflondon.gov.uk/china

Email: china@cityoflondon.gov.uk

Address: 14F, Suite 1, China World Trade Center, No.1, Jianguomen Outer Street, Beijing Tel: +86 10 6535 0240

Headquartered in City of London, 3HR Group provides services including HR management outsourcing, legal consulting and insurance brokerage within Europe to over 250 cross-border enterprises. With a deep understanding of East Asian culture, 3HR Group developed most of its customers from China, Japan and South Korea, part of which are among the Global 500. It has over 50 Chinese customers including People's Bank of China, five state-owned commercial banks, Taiping Insurance, China Petrol, China Daily, Phoenix Television and Air China. As the 3rd party HR Department or HR external advisor for cross-border companies in UK and Europe, 3HR Group assists companies, which invested in Europe, in managing local employees, processing immigration-emigration- and entry-related legal affairs, handling labor disputes, reviewing labor and business contracts, planning employee welfare and necessary insurance for all kinds of businesses. The joint private health insurance program with Aetna Life Insurance Company, aiming to provide all-round medical insurance in and out of UK for the persons who are sent to Europe by transnational companies and their spouses, is quite popular in Chinese enterprises. 3HR is a member of China-Britain Business Council and British Association of Chinese Enterprises. Contact: Li Haiwei (Director of 3HR Chinese Service Department)

Tel:＋44 20 7194 8146 Fax:＋44 20 7194 8141

Email: haiwei.li@3hrplc.co.uk

德恒律师事务所 DeHeng Law Offices DeHeng Law Offices is one of the largest full-service law firms in China. It has been ranked third in the ALB's top 20 since 2007. DeHeng pioneered in China the structure of a law firm as a global partnership. Apart from the headquarter in Beijing, it has a network of 23 domestic branches in Shenzhen, Guangzhou, Shanghai, etc., 5 overseas offices and 150 cooperation organizations. With highly proficient language skills, rich information resources and efficient modern offices, DeHeng has created a global network of closely collaborating branches connected to a central platform of service, which can provide comprehensive and high quality legal service. It has accumulated advantages in traditional business areas like domestic and overseas issuance, underwriting and listing of stocks and bonds, investment funds, spin-offs and M&A of domestic and foreign enterprises, company and assets restructuring, bankruptcy liquidation, visible and invisible equity transaction, overseas investment and financing of Chinese enterprises, international bidding, information communication, real estate development and operation, and key infrastructure projects. DeHeng has accumulated rich experience in these areas, and received a number of awards such as "Best IPO of the year," "Equity Market Deal of the Year" and "The Best Equity Transaction." For more information, please visit www.dhl.com.cn.

Address: 12F, Block B, Fukai Mansion, No. 19, Financial Street, Xicheng District, Beijing 100033

Tel: 86-10-52682888 Fax: 86-10-52682999 Email: DeHeng@dehenglaw.com

KING&WOOD MALLESONS 金杜律师事务所 Established in 1993, King&Wood Mallesons is one of the first partnership law firms in China. On March 1st, 2012, it combined with the prestigious Australian law firm with a history of 180 years, Mallesons Stephen Jaques, and on November 1st, 2013, it combined again with SJ Berwin, an international law firm headquartered in London to create the first global legal firm. After the combination, King & Wood Mallesons became the only global law firm with headquarter in Asian Pacific, providing high-quality legal services with over 30 offices in Chinese mainland, HK China, Australia, the UK, Continental Europe, Middle East, Japan and America. At present, King&Wood Mallesons is among the world's top 25 law firms, with a total revenue of around 1billion US dollars per year. It has over 2700 lawyers including more than 550 partners. For more information, please visit King&Wood Mallesons website at http://www.kwm.com.

Address: 20F, East Tower, World Financial Center, No. 1 East Third Ring Road Middle, Chaoyang District, Beijing Postcode: 100020

Tel: 8610-5878 5588 Fax: 8610-5878 5566

Sciteb 思特 Sciteb is an international consultant firm, providing international development and world-wide search of outstanding people for boards, and assisting the establishment of partnership between Chinese and British enterprises.

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Website:www.sciteb-cn.com Address:19F, Block E2, Oriental Plaza, Dongcheng District, Beijing 100738

Tel: +44(0)20 7381 1481 Email: Nicholas.beale@sciteb.com

华泰联合证券 HUATAI UNITED SECURITIES Huatai United Securities succeeded in assisting Blue Focus in acquiring a British enterprise

Huatai United Securities is the leading financial advisor of M&A transactions in China. In 2013, it served as an independent financial advisor for 17 M&A and restructuring projects, and financial advisor for other 2 projects. It is one of the ten organizations which are rated as Class A in the financial Advisor ability by CSRC. In 2013, it succeeded in assisting acquisition of We Are Very Social Limited, the largest public relations company in UK and also the leading social media communications Group, as a sole financial advisor. On behalf of Blue Focus, it carried out due diligence investigations into target company, helped clients finish target valuation and transaction structure design, provided financing plan, and drafted all kinds of publications and documents, helping Blue Focus to obtain approval of M&A transactions from various kinds of regulators. Huatai United Securities can provide following services for companies that invest in UK: (1) screening of target companies; (2) due diligence investigation over target company; (3) professional valuation of target assets; (4) offering assistance to clients in obtaining approval from regulators; (5) providing capital to M&A projects.

Address: 6F, Block A, Fengming International Building, Fengsheng Hutong,

Xicheng District, Beijing 100032

Tel: 86-10-56839300 Ext 9599 Email: zhaowen1@mail.htlhsc.com.cn

Compiling team of Guidance

Project director

Bi Jiyao	Director, Institute of Foreign Economy, NDRC
Wu Jiansheng	Deputy Director, Institute of Foreign Economy, NDRC

Team leader

Zhang Jianping	Fellow and Professor, Institute of Foreign Economy, NDRC

Team members

Ma Qiang	Deputy Fellow and Dr., Institute of Foreign Economy, NDRC
Liu Ming	Assistant professor and Dr., School of Economics, Nankai University
Ji Jianjun	Assistant Fellow and Dr., Institute of Foreign Economy, NDRC
Li Wei	Assistant Fellow and Dr., Institute of Foreign Economy, NDRC

Project assistant

Meng Qingqiang	Dr. in National Institute Of International Strategy, CASS
Chen Lijun	Master in International Finance, Nankai University
Ma Wenhui	Master in Literature, Peking University
Tian Shuai	Master in Financial Information Engineering, Peking University
Zhou Yi	Master in International Finance, Nankai University
Li Rui	Master in International Finance, Nankai University
Liu Yuan	Master in Finance, University of International Business and Economics
Su Jieqin	Master in International Trade, Capital University of Economics and Business
Gao Yifeng	Master in Economics, RUC
Meng Lingkun	International Finance, Nankai University

Zhang Dong	Master in English literature, BFSU

Advisory Board Members from UK

David Percival	Deloitte
Nikki Wang	Deloitte
James Douglass	Linklaters
Peter Goes	Linklaters
Jonathan Drew	HSBC
Iris Ren	HSBC
Jinqing Li	HSBC
Rachael Layfield	Brunswick
Mei Yan	Brunswick
Yue Qiaoning Yu	Brunswick
Nick Beswick	Brunswick
Bingbing Zhao	London & Partners

Advisory Board Members from China

Bai Hejin	Former President, Academy of Macroeconomic Research, NDRC
Zhang Yansheng	Secretary-General, Academic Committee of the NDRC
Zhou Fangfang	Deputy Head, Western Europe Department, of the China Development Bank
Zou Lihang	Deputy President, Research Institute, China Development Bank
Feng Chunping	Deputy General Manager, Research Department of the EIBC
Xing Houyuan	Deputy President, Research Institute of the Ministry of Commerce
Zhang Qi	Deputy Director-general, Foreign Economic Relations Department of the Development Research Center of the State Council
Jing Tailei	Deputy General Manager, Strategy Department of China Export & Credit Insurance Corporation
Ma Yun	Head, The General Affairs Department, SAFE
Yang Ting	Head Assistant, Foreign Investment Office of Liaison Department, Investment at Promotion Agency of the Ministry of Commerce
Li Haiwei	Director, Chinese Service at 3HRPLC
Chen Wei	DeHeng Law Offices

Project Coordinators

Wan Li	First Secretary, The British Embassy Beijing
Zheng Weiwei	Economic Specialist, the Economic and Trade Policy of the British Embassy Beijing
Zhang Jianping	Head, International Cooperation Office at Institute of Foreign Economy, NDRC
Ji Jianjun	International Cooperation Office at Institute of Foreign Economy, NDRC