Report on the Development of Chinese Enterprises in the UK (2021 – 2022)

Joint Conference of Chinese Overseas Chambers of Commerce (JCCOCC)
China Chamber of Commerce in the UK (CCCUK)

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Preface

Chairman, China Chamber of Commerce in the UK

Mr. FANG Wenjian

The year 2021 is deemed as a milestone for the UK when it officially Brexited and entered into a new era of building a “Global Britain”. Both China and the UK are standing at a new crossroad in history, and this new start will create more opportunities for further cooperation of the two countries. At the same time, as a century of transformation encounters the global pandemic, the international pattern is accelerating to evolve and will have a profound impact on the development of China-UK economic and trade relations.

The UK is the world’s fifth largest economy and an important trade and investment partner with China, making it a key market for the international development of Chinese enterprises. In terms of China-UK trade, trade activities between the two countries have kept growing over the past 20 years. In the Q1 of 2021, China overtook Germany as the UK’s top import market for the first time. In the year as of the Q3 of 2021, the total trade in goods and services (exports plus imports) between China and the UK was £94.5 billion, up 13.5% on the previous cycle. In terms of

China-UK investment, the UK, as a major global financial centre, has also attracted significant Chinese investment as it offers a wide range of financial products and services to Chinese investors. The stock of Chinese direct investment in the UK has reached £3.4 billion in 2020, with total assets in the UK reaching £130 billion. In terms of investment areas, Chinese enterprises are extending their investment in the UK from traditional sectors such as finance, trade and energy to high-end manufacturing, infrastructure, cultural creativity, information technology and other areas. The impressive economic and trade figures show the strong resilience and vitality of China-UK trade and investment, and once again confirm the close ties between China and the UK in economic and trade relations.

As important forces in promoting the development of China-UK economic and trade relations, Chinese enterprises have been rooted and kept growing in the UK, and continued to make important contributed to the economic and social development of the UK. Over the past two decades, the number of Chinese enterprises has grown rapidly, with more than 30,000 Chinese enterprises investing in the UK in 2021, covering a wide range of sectors including financial services, E-commerce, telecommunications, technology, energy, utilities, industrial manufacturing, real estate, infrastructure, trade, education, media, transport, shipping and logistics. The 845 largest Chinese enterprises in the UK have created more than 60,900 jobs, effectively contributing to local employment and the development of the regional economy. At the same time, Chinese enterprises have actively involved in local communities and fulfilled their social responsibilities, donating more than 4 million pieces of urgently needed medical supplies to local hospitals and organisations in the UK during the COVID-19, participating in charity projects to help the underprivileged, supporting the teaching of Chinese in local schools and helping the green transformation of the economy, demonstrating the role of a great nation. Despite the challenges faced by Chinese enterprises due to the COVID-19, the uncertainty of Brexit and the friction in China-UK relations, the advantages of the UK's free and open market, stable business environment and abundant international talent resources are unshakable in the short term, and Chinese enterprises in the UK are still confident in their long-term development in the UK. As mentioned in the “2021-2022 Report on the Development of China Enterprises in the UK” jointly prepared by Joint Conference of Chinese Overseas Chambers of Commerce (JCCOCC) and China Chamber of Commerce in the UK (CCCUK), Chinese enterprises in the UK hope that the UK will maintain an open, fair and transparent business environment and actively promote a more balanced business relationship to encourage more British investors to enter the Chinese market while enhancing the attractiveness of the UK market. On the policy front, Chinese enterprises also expect the UK government to provide full transparency and guidance on investment policies related to investing in the UK, and to help enterprises resolve short-term difficulties caused by external factors, such as the increased registration and regulatory burden due to Brexit and the resumption of direct flights between China and the UK, in order to support economic exchanges and recovery in the post-pandemic era. It is a common aspiration of Chinese enterprises in the UK that the two countries can build a China-UK relationship based on cooperation.

The year 2022 witnesses the 50th anniversary of the establishment of diplomatic relations between China and the UK at the ambassadorial level. Despite an uneven course over the past half century between China and the UK, the economic and trade relations between the two countries have deepened amidst these ups and downs, with positive progress in cooperation in macroeconomic, trade, investment, financial and industrial strategy areas. The mutually beneficial cooperation between the two countries is not only in line with historical trends, but also a realistic need. China and the UK have highly complementary economies and huge potentials for cooperation. Moreover, both countries are supporters and promoters of free trade, the development of free, equal and win-win economic and trade relations is common goals for both countries. China and the UK have great prospects for cooperation in areas such as modern financial services, clean energy and the digital economy. Through closer cooperation and the creation of a fairer, more transparent, open and stable bilateral investment environment, China and the UK will be able to create more jobs, promote bilateral trade, broaden market access in various fields and stimulate innovation, thereby creating greater commercial and economic value for the practical benefit of both peoples.

In this new historical era, China Chamber of Commerce in the UK will continue to act as a bridge for China-UK economic, trade and cultural exchanges, to facilitate China-UK investment and trade exchanges, to continue to explore the highlights of cooperation under the new situation and to jointly maintain an open and inclusive business environment. We are committed to enhancing the understanding and mutual trust between the Chinese and British business communities, boosting confidence and writing a new chapter of win-win cooperation.

FANG Wenjian

June 2022

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Chapter 1 Overall Situation of Enterprises in the UK

1.1 Overview of Chinese Enterprises

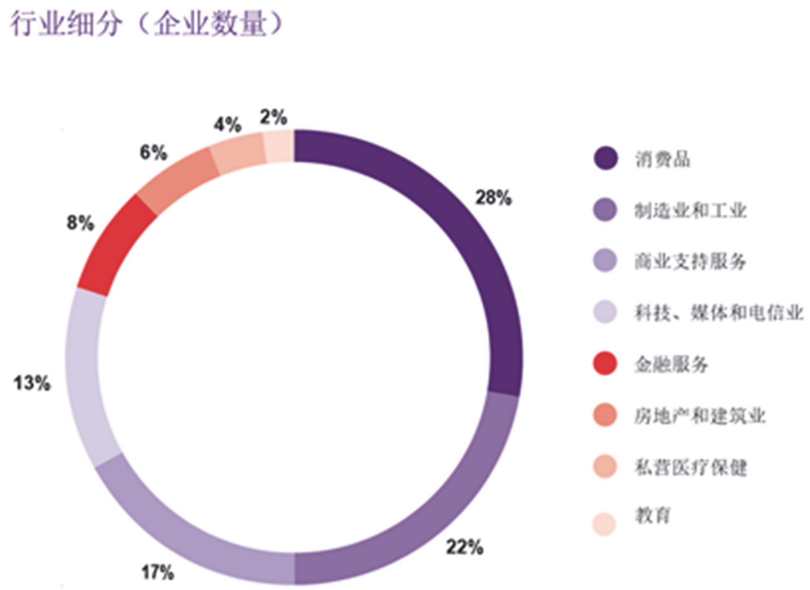
The UK is an important market for Chinese enterprises in electromechanics, textiles, chemicals, metal products, clothing and primary products. Chinese enterprises in the UK are mainly in the manufacturing and industrial, consumer, business services support and technology, media and telecommunications sectors. According to *Tou Ying Tracker 2021* (jointly published by Grant Thornton in conjunction with CCCUK and China Daily), of the 845 eligible companies included in *Survey Report of Chinese Enterprises in the UK*[1], 28% were from the consumer sector, 22% from manufacturing and industrial, 17% from business support services and 13% from technology, media and telecoms (Figure 2-1).

[1] *Tou Ying Tracker 2021* analysed 845 Chinese enterprises in the UK that met the survey criteria and the following criteria:

① Chinese enterprises filed with the UK Companies House as of September 30, 2021.

② Turnover of at least £1,000 in at least one of the last two years and at least 50% of the equity is owned by a Chinese company, investor or state.

Figure 2-1 Industrial Distribution of Chinese Enterprises in the UK



Source: Tou Ying Tracker 2021

Chinese enterprises are present throughout the UK, but the majority of them are still based in London. However, many of these Chinese enterprises have a presence in other parts of the UK and are actively exploring regional development opportunities. For example, a number of energy companies are focusing on business opportunities in offshore wind in Scotland.

Chinese enterprises in the UK have a long-term commitment to the UK market. The CCCUK Report 2021 shows that 81% of the Chinese enterprises surveyed have been operating in the UK for more than five years, with nearly half (47%) of them operating in the UK for more than 10 years. Bank of China (UK) Limited established its manager’s office in London back in 1929. Organic growth remains the most popular way for Chinese enterprises to enter the UK market, with 89% of the enterprises surveyed establishing and growing their UK business by setting up a UK subsidiary or a separate UK company.

Against the backdrop of the COVID-19, Chinese enterprises in the

UK continue to demonstrate strong investment capabilities. The revenue of the companies shortlisted for Tou Ying Tracker is mainly generated by a small number of large manufacturing and industrial companies with revenues of over £1 billion. However, a closer look at these mid-sized companies (with revenues between £50 million and £1 billion) reveals that Chinese investors are active in a wide range of sectors. More representatives are the technology, media and telecommunications (TMT), business support services and consumer sectors. Despite the impact of the COVID-19, deal activity continued, with M&A deals being a significant part of Chinese investment in the UK. Major deals during 2020 included a £101.5 million investment in immunotherapy development company Immunocore by investors such as Hongling (Shanghai) Equity Investment Management Co., Ltd. and WuXi AppTec Ventures, and the acquisition of a majority stake in Clarks for £100 million by Lionrock Capital (Hong Kong).

The main motivation for Chinese enterprises to acquire UK assets is to optimise their operating structure, enhance their operational strength and overall competitiveness. For example, in 2020, China Recourses Group partnered with US private equity fund KKR to invest £4.2 billion in the acquisition of Viridor, a UK-based waste and energy recovery company, another infrastructure investment by the company following its investment in a UK offshore wind power project in 2018. Viridor is the second largest waste and energy recovery company in the UK, with its businesses ranging over the full industry chain of waste disposal including waste collection, recycling, energy recovery and landfill gas production, etc. It will help China Recourses Group to optimise its own industrial structure. Weichai Power's acquisition of Digital Applications International, a UK-based software company, will also enhance its logistics automation capabilities. The following are some of the major transactions in 2020 (Table 2-1).

Table 2-1 Major Transactions by Chinese Enterprises in the UK in 2020

Investors	Details	Industries	Amount of the transaction
China Resources Group partners with KKR	Viridor (a UK-based waste and energy recovery company)	Chemicals and natural gas	£4.2 billion
Cedar Holdings Group Limited	Stemcor (a UK-based steel trader)	Manufacturing and industry	£115 million
Weichai Power Co., Ltd.	Digital Applications International (a UK-based software company)	Technology, media and telecommunications	£110 million
Hongling (Shanghai) Equity Investment Management Co., Ltd. and WuXi AppTec Ventures	Immunocore Ltd (a UK biotechnology company) Series B financing	Biological technology	£101.5 million
Lionrock Capital	Clarks (a consumer brand)	Consumption	£100 million
Tencent and Legal & General Group UK	Congenica (a genetic startup) Series C funding	Biological technology	£39 million
Cindat Capital Management and Omega Healthcare Investors	UK superior housing property Pportfolio	Real estate	£487 million
Huawei	Irish developers develop mobile apps	Technology, media and telecommunications	£20 million
Trustbridge Partners	Five AI (a UK startup) Series B funding	Technology, media and telecommunications	£33 million

Source: Tou Ying Tracker 2020

Chinese enterprises have maintained their acquisition momentum in the UK in 2021. According to the Daily Express, between January and August 2021, Chinese enterprises acquired nearly £6 billion (approximately RMB 54 billion) of UK assets. The year 2021 witnessed several acquisitions in the UK by Chinese enterprises: on July 19, Tencent announced to acquire Sumo Group, a UK game company for £8.2 billion, which was the largest investment of Tencent in the UK, the first wholly-owned acquisition of a listed company, and also the largest investment of Tencent in a global context since this year. On August 15, China's Wingtec announced that its subsidiary, Netherlands-based Nexperia, had successfully acquired Newport Wafer Fab (NWF)[2], the UK's largest semiconductor chipmaker. The estimated purchase price is £63 million (approximately RMB564 million). Following the completion of the transaction, Wingtec will indirectly hold 100% interest in NWF, which will significantly increase Wingtec's chip production capacity and improve the company's business layout.

Chinese enterprises are moving into high-tech industries in the UK. These include the Internet of Things (Haier Appliances UK Ltd), 5G/6G (Huawei Technologies R&D Ltd), cloud computing (Alibaba (Europe) Ltd), digital technology (Hikvision China) and electric automobile R&D (Nio Performance Engineering Ltd) (Table 2-2).

Company	Industries	Area
Alipay (UK) Ltd.	Financial services	London
Anker Innovations Technology (UK) Ltd.	Technology, media and telecommunications	West Midlands
Billions Europe Ltd.	Manufacturing and industry	Northeast
Bio Products Laboratory Holdings Limited	Private healthcare	East of England
BOC International Global Commodities (UK) Limited	Financial services	London
Breas Medical Technology Co., Ltd.	Private healthcare	West Midlands
Brunel Healthcare Manufacturing Limited	Consumer goods	East Midlands

[2] NWF is a chip manufacturer based in South Wales, UK, founded in 1982, and is the largest chip manufacturer at present in the UK. It currently has a monthly production capacity of over 35,000 wafers (maximum capacity can be expanded to 44,000 wafers) on 8-inch wafers in 0.18m~0.7m process, and its products are mainly used in the automotive industry for MOSFETs, IGBT chips as well as CMOS and analogue chips, in addition to compound semiconductor (SiC and GaN) development capabilities.

BYD (UK) Limited	Manufacturing and industry	Southeast
CGN GU	Manufacturing and industry	East of England
Chaucer Syndicates Limited	Financial services	London
Far East Curtain Wall (UK) Ltd.	Real estate and construction	London
Farsound Aviation Limited	Manufacturing and industry	London
Filippo Berio UK Ltd.	Consumer goods	London
Fine Organics Limited	Manufacturing and industry	Northeast
Haier Appliances UK Ltd.	Consumer goods	Northwest
Haitong International UK Limited	Financial services	London
Henry Bath & Son Limited	Business support services	Northwest
Hisense UK Ltd.	Consumer goods	Yorkshire and Humber
Huawei Technologies R&D (UK) Ltd.	Technology, media and telecommunications	East of England
Imagination Technologies Limited	Technology, media and telecommunications	East of England
Meridian Steel Limited	Manufacturing and industry	West Midlands
AOSOM UK Ltd.	Consumer goods	London
Mindray Medical (UK) Ltd.	Private healthcare	East of England
Nutriad Ltd	Manufacturing and industry	Northwest
Outfit7 Investments Limited	Technology, media and telecommunications	London
Pharmaron UK Ltd.	Private healthcare	Wales
Saxo Financial (UK) Ltd.	Financial services	London
Arrow Energy Technologies UK Ltd.	Technology, media and telecommunications	West Midlands
Splash Damage Limited	Technology, media and telecommunications	London
Trip Air Ticketing (UK) Limited	Consumer goods	London

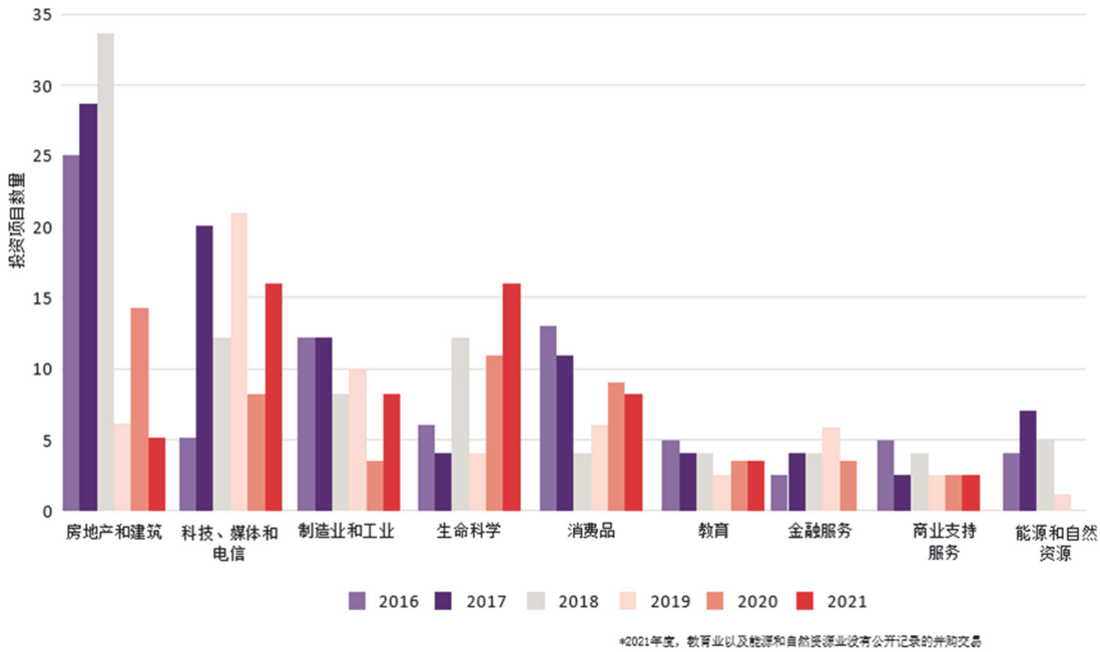
Source: Tou Ying Tracker 2021

The biggest challenge for Chinese enterprises investing in the UK is geopolitical risk. As tensions between the US and China continue, the US government has put pressure on the UK government to strengthen security reviews of Chinese enterprises' investments in core and defence security sectors in the country. The UK government banned Huawei from participating in the construction of UK 5G networks in 2020 and required domestic operators to gradually remove Huawei equipment from their own 5G network construction. In addition, the UK has expressed "grave concern" about China's interference in China's internal affairs over issues such as Hong Kong's National Security Law and human rights in Xinjiang, and some politicians have called on the government to strengthen its scrutiny of investment in China. Setting up a strict review system, this marked the first time the UK introduced an independent foreign investment review system. In November 2020, the British government proposed the National Security and Investment Act in the House of Commons for the first time, setting up a strict review system for overseas investors to purchase key domestic strategic industries, which marked the introduction of an independent foreign investment review system in the UK for the first time. The Act was voted on by the Parliament on April 29, 2021 and came into force on January 4, 2022. The Act reviews investment mergers and acquisitions in the UK's defence and security and sensitive sectors in 17 key sectors, namely advanced materials, high-end robotics, artificial intelligence, civil nuclear energy, communications, computer hardware, key suppliers to government departments, key suppliers to the emergency services, encryption certification, data infrastructure, defence, energy, military or dual-use technology, quantum technology, satellite and space technology, synthetic biology, transportation. These industries are subject to mandatory declarations by law and are subject to the UK government approval, failing which they will be considered illegal and subject to civil or criminal liability under the law. Other challenges include high operational and compliance costs, and differences in business culture, which will be highlighted in the features section.

Despite this, Chinese enterprises continue to favour investment in the UK, with key opportunities including the recovery and rebuilding of the UK economy after the COVID-19. As shown in Figure 2-2, Chinese investment in the UK is mainly focused on the life sciences and consumer sectors, with a significant decline in projects related to the technology, media and telecommunications sectors. In a joint letter to institutional investors dated August 5, 2021, Prime Minister Johnson and Finance Minister Sunak said that institutional investors should “seize the moment” and invest tens of billions of pounds in assets with long-term returns, such as unlisted start-ups, infrastructure such as bridges and roads, and green economy transformation projects such as wind power.

Going forward, the government is committed to removing barriers to long-term investment and will continue to work closely with regulation to ensure a favourable investment environment that will benefit Chinese enterprises investing in the UK’s manufacturing and industrial sectors.

Figure 2-3 Projects Invested by Chinese Enterprises in the UK, 2016-2021 (Number of Projects)



Source: Tou Ying Tracker 2021

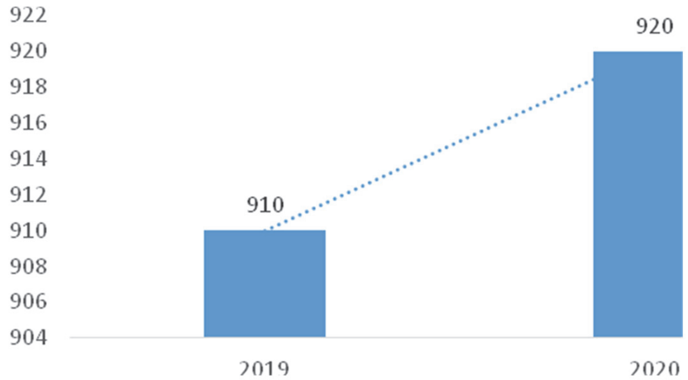
For Chinese enterprises, the advantages of investing in the UK also include a stable political environment and a transparent regulatory environment, high-tech supporting infrastructure and innovation capabilities, talent with an international perspective, advanced business management practices, and efficient capital allocation. In the post-Brexit and post-COVID-19 era, the UK government has actively revised its policies to attract global capital, including China. First, in May 2021, the UK government commissioned Lord Hill, formerly the UK's EU Commissioner for Financial Affairs, to review the UK's financial regulatory rules and put forward relevant recommendations on improving the listing environment to attract more multinational companies and fintech companies to list in the UK. Key recommendations include: 1) allowing dual class share structures; 2) reducing free float requirements; and 3) proposing to remove barriers to special purpose acquisition companies (Spacs) to enable the UK to compete with US and European exchanges.

Secondly, the UK financial regulator will also review the core business rules for the banking sector, including capital and proprietary trading rules, to safeguard the stability of the financial system while unlocking the potential for growth in the banking sector. Thirdly, the UK government welcomes investments that can enhance the country's technological strength, expand employment and maintain sustainable economic development, and welcomes foreign investment in electronics, software, E-commerce, telecommunications, pharmaceuticals and biotechnology, creative industries, financial services, chemical industries, automotive, food and beverage, environmental technology and renewable energy, medical equipment, and call centres and shared service centres.

1.2 Business Conditions of Chinese Enterprises

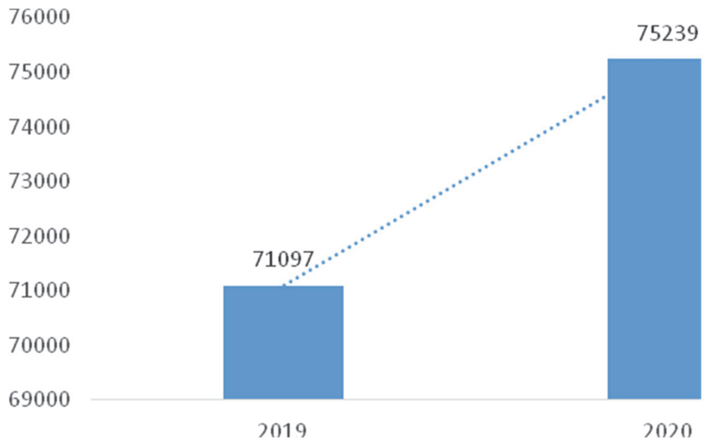
Chinese enterprises in the UK have demonstrated strong financial growth and growth in scale. According to Tou Ying Tracker 2020, 838 Chinese enterprises generated a total of £92 billion in total revenue, up 12% from 2019 (Figure 2-3). These total revenues were mainly sourced from a small number of mega companies in the manufacturing and industrial sectors (with revenues of over £1 billion), accounting for 84% of the total revenues. The other major sources of revenues were technology, media and telecommunications sectors, which accounted for 7% of all revenues of Chinese enterprises. By geography, 90% of revenues were generated from businesses registered in London and the Southeast of England, where all companies with revenues over £1 billion were registered. The number of businesses included in the survey sample exceeded the 795 in 2019, marking the third consecutive year of growth in the business sample; in terms of employees, the 838 businesses employed a total of 75,239 people, up from 71,097 in 2019 (Figure 2-4).

Figure 2-4 Revenue Growth of Chinese Enterprises in the UK (£bn)



Source: Tou Ying Tracker 2020

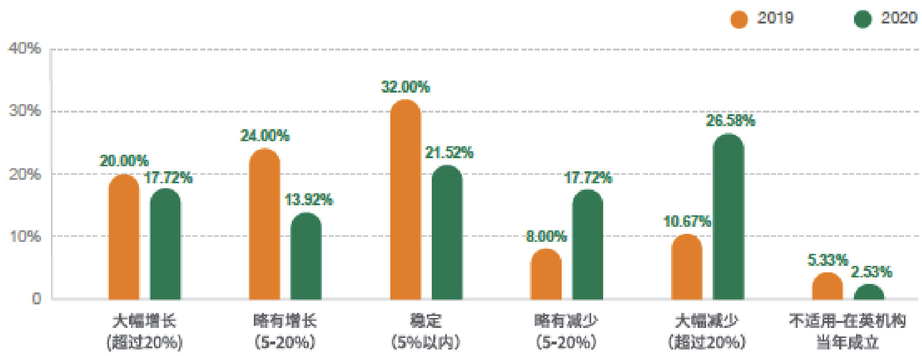
Figure 2-5 Growth in the Number of Employees of Chinese Enterprises in the UK (Number of Employees)



Source: Tou Ying Tracker 2020

More than half of Chinese enterprises in the UK have shown strong resilience in the face of challenges such as the COVID-19 and geopolitics, with revenues and profits remaining stable or growing in 2020. 2021 Report on the Development of Chinese Enterprises in the UK shows a significant increase in the proportion of companies reporting a decline in revenues compared to last year (from 19% to 44%) against the backdrop of a challenging 2020. The decline in revenue is particularly evident in the consumer and industrial sectors (60% of the companies surveyed experienced a decline in revenue). The decline in revenue also led to a reduction in capital expenditure compared to last year. Nevertheless, 22% of the companies surveyed achieved the same level of revenue as last year, while a further 32% achieved varying degrees of revenue growth. Notably, 80% of companies surveyed in the telecommunications sector reported stable or growing revenues. This demonstrates the economic resilience of Chinese enterprises in the UK. A similar picture emerges in terms of corporate earnings. While 35% of companies surveyed have seen their profitability decline compared to last year (the figure was 16% last year), a similar proportion have remained stable and a further 25% have seen their profitability improve. Overall, around two thirds of the companies surveyed will be profitable or break even in 2020.

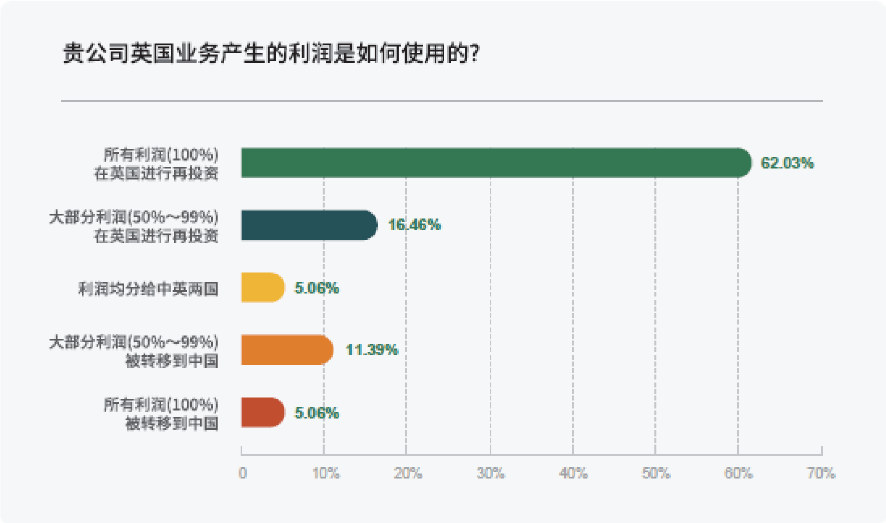
Figure 2-6 Revenues of Chinese Enterprises in the UK 2020 vs. 2021



Source: 2021 Report on the Development of Chinese Enterprises in the UK

Chinese enterprises are confident in the future of the UK market, with most reinvesting most or all of their profits back into the UK market. Of the 79 companies surveyed, 49 (62%) reinvested 100% of their profits in the UK - significantly higher than last year's 51%. This highlights the continued contribution of Chinese enterprises to the UK economy, such as Jingye Group's £100 million investment into British Steel in 2021 - which helped to return the insolvent British Steel to profitability following its acquisition in 2020.

Figure 2-7 Use of Profits by Chinese Enterprises in the UK



Source: 2021 Report on the Development of Chinese Enterprises in the UK

Chinese enterprises tend to expand their workforce through local recruitment in the course of their development. Despite the cultural differences, all Chinese enterprises surveyed showed recognition of the concept of a diverse workforce, emphasising that a diverse workforce enables them to better understand the needs of their customers and pointing to the 'bridging' role that employees play in the cultural exchange between the UK and China. Almost half of the companies surveyed (47%) plan to increase their workforce in the next two years, demonstrating the long-term commitment of Chinese enterprises in the UK. The majority of companies (61%) prefer to recruit locally, and prefer to recruit people with local expertise. Three quarters of companies cite training and development as one of the top three focuses of their talent strategy, which can also be seen as a long-term commitment to supporting staff growth and development.

Figure 2-8 Employment Plans of Chinese Enterprises in the UK over the Next Two Years

Source: 2021 Report on the Development of Chinese Enterprises in the UK

1.3 Investment and financing models for Chinese enterprises

There are no special restrictions on the main investment modes of Chinese enterprises in the UK. They can set up representative offices, branches, subsidiaries, limited liability companies, etc., and can take various forms such as joint ventures, sole proprietorships and mergers and acquisitions. The UK M&A laws show no discrimination between domestic and foreign investors, and there are usually no additional special legal considerations for foreign entities undertaking mergers and acquisitions in the UK. Chinese enterprises are mainly financed through debt issuance, loans and equity. In 2019, the 10th China-UK Financial Dialogue launched the “Shanghai-London Stock Connect”, which provides a new channel for corporate finance. Companies in China and the UK can raise funds in each other’s markets by way of depositary receipts, and over 260 companies are potentially eligible to participate in the Shanghai-London Stock Connect and be listed on the London Stock Exchange.

1.4 SCR Performance by Chinese Enterprises in the UK

Employment generated or supported by Chinese enterprises in the UK has been increasing for consecutive two years. Of all the employees of these Chinese enterprises, 53% were employed by Chinese enterprises registered in London and the Southeast region of the UK, while the remaining 47% (more than 35,360 persons) by enterprises distributed in other ten regions of the country, including the Northwest region, the East of England, and the West Midlands. Enterprises with an annual turnover between £5 million and £1 billion provided most of the jobs (63%). In terms of business sectors, the manufacturing and industrial sector offered 41% of the job opportunities, the technology, media, and telecommunications sector offered 21%, and the business support services sector and consumer sector, 17% and 14% respectively. In the first three sectors, most of the jobs were created by companies with a turnover between £5 million and £1 billion.

Chinese enterprises contributed to the fight against the COVID-19 in the UK, gaining appreciation from the UK government. When the UK was hit by the pandemic in 2020, Chinese enterprises in the UK actively donated money and relief supplies at the call and organization of China Chamber of Commerce in the UK (CCCUK), to help the country combat the pandemic. CCCUK donated more than 4 million relief items and medical supplies in total, including ventilators, protective appliances, antibody test kits, etc., which went to the UK government, the UK NHS, The Lord Mayor's Appeal initiated by The City of London, 19 medical institutions working to fight against the pandemic, international students in the UK, Chinese associations, and other local institutions. This demonstrated the strong sense of social responsibility of Chinese enterprises in the UK. Mr. Richard Byrne, Her Majesty's Trade

Commissioner for China, who received the donations on behalf of the national government and medical system, said that China's valuable assistance perfectly embodied its firm friendship with the UK. The donations will be used exclusively to save the lives of the British people and will be always remembered by the British people. As the trade cooperation and cultural and educational exchanges between China and the UK have become increasingly frequent, the two countries will see stronger bilateral ties between them after the crisis.

This report will describe the CSR (corporate social responsibility) performance of Chinese enterprises in the UK in the *Case Study of Chinese Enterprises* in the UK section and the *case* section in Chapter Five.

1.5 Case Analysis of Chinese Enterprises in the UK

1.5.1 Bank of China: Intense cultivation in the UK market by fulfilling the responsibility for environmental protection

On November 4, 1929, Bank of China set up an office which was named "Bank of China London Agency" in London. This was not only the first branch of BOC to be set up overseas but was also the first overseas financial institution formed by any Chinese bank. The London Branch has presented a positive brand image in the UK market and been actively fulfilling its social responsibilities as an important node for promoting the trade and investment between China and the UK. Under the guidance of the Chinese and British governments, the Bank of China in London took environmental responsibility as an essential part of its business and risk considerations, making great contribution to the local environmental protection and its own transformation toward green development.

In recent years, Bank of China (UK) Limited has engaged itself in a number of exemplary green credit programs: it has participated in the Dogger Bank Scheme, the world's largest offshore wind farm project (with a financing value up to £4 billion in total) as the "appointed lead bank"; joined Beatrice, the world's fourth largest offshore wind power transmission investment to promote the green credit investment industry; and provided green loan worth £9.355 billion to the UK National Grid for its bridge acquisition as the core network bank and a syndicate member.

BOC has also led other Chinese banks operating in the UK in developing green financial services. The Green Bond Principals (GBP) of International Capital Markets Association (ICMA) is the general guideline adopted in the international green bond market. Since 2020, Bank of China (UK) Limited has translated the new editions of *Sustainable Finance High Level Definitions*, *Green Bond Principles*, *Social Bond Principles* (SBP), *Sustainability Bond Guidelines*, *Sustainability-Linked Bond Principles*, *Climate Transformation Financing Manual* and *Guidance Manual*, etc., and released them on ICMA website. This move facilitated Chinese organizations to enter the bond market, help spread the relevant principles and standards, and earned reputation for BOC.

On November 12, 2021, Bank of China listed six sustainable bonds worth $2.2 billion in total at the London Stock Exchange (LSE). Among them, the sustainability-linked bond issued by Bank of China (UK) Limited was the first in the ESG financial market, and the other five stock sustainable bonds listed at LSE were blue bond, clean energy project transition bond and biodiversity-themed bond, respectively. H.E. ZHENG Zeguang, Chinese Ambassador to the UK, John Glen, Economic Secretary to the Treasury and City Minister, Anna Manz, CFO of LSEG, and Sir Sherard Cowper-Coles, Chair of the UK-China Business Council attended the listing ceremony.

1.5.2 COSCO SHIPPING: Striving to become world-leading ship management and logistics service provider

COSCO Shipping Lines (UK) Ltd., the first overseas wholly-owned subsidiary of China COSCO Shipping Corporation Limited, has been operating in the UK and Ireland markets for 32 years. COSCO Shipping is highly influential in London's shipping industry with stable, sound business operation and great ship management as well as logistics services.

COSCO Shipping operates 19 trunk and branch lines in total, covering major ports in the UK and Ireland, with direct routes to the Far East, the Mediterranean, West Asia, Southeast Asia, West Africa, North America, and South America. In 2020, COSCO Shipping handled more than 300,000 import TEUs and nearly 100,000 export TEUs, with an operating income of more than £10 million. In terms of oil transportation, COSCO Shipping has achieved leapfrog development in 2020 with 6 million tons of cargo canvassed. COSCO Shipping, the sole shareholder of COSCO Shipbuilding Holdings (UK) and COSCO Navigation (UK), is the only overseas subsidiary of COSCO Shipping that owns and operates container vessels. COSCO Shipping has seven 5446TEU modern container vessels, all of which have joined the UK Tonnage Tax Scheme in 2009. Flying the Union flag with home port at London, they have been registered with Lloyd's Register of Shipping and the British P&I Club. Through the years, COSCO Shipping has built a UK fleet management platform, which is of certain strategic significance to the group, and serves practical functions to implement the group's "globalization" strategy in ship management services.

Logistics services is the highlight business segment of COSCO Shipping. By timely taking up the opportunity when real estate was on the rise in the UK and making efforts to expand its share in the building materials market, COSCO Shipping has become a leader in the logistics market for commercial real estate building materials in the UK. Meanwhile, COSCO Shipping strives to attract new customers in different industries and develop new business such as exhibit logistics and concert logistics. Related projects include the equipment logistics and transportation services provided for Jacky Cheung's London concert in 2018 and Jay Chou live at the O2 in 2019, by which COSCO Shipping was highly praised by the organizers and harvested substantial economic as well as social benefits. In the beginning of 2022, COSCO Shipping obtained the bonded warehouse permit issued by the British Customs, and since then has vigorously developing cross-border e-business, with 240 TEUs handled in the first six months, showing that a new profit area was exploited.

COSCO Shipping stated that, in the next five years it would, based on the ever-changing corporate operating status and external market environment, the UK Branch will fully leverage its geographical, resource, professional and talent advantages to form a container fleet and further improve the ship management and logistics services, build an international ship management platform, a regional shipping service platform and an international talent training platform, so as to gain new competitive advantages and realize the continuous, healthy and sustainable business development of COSCO Shipping in the UK.

(Excerpted from [*Bloom of Youth at the Age of Twenty - Dialogues with Heads of Chinese Enterprises in the UK*] 13. Wang Gang: Braving Wind and Waves for Relentless Advances on the Sea)

1.5.3 Air China: A pioneer in the fight against the COVID-19 in China and the UK, expanding its air routes for greater influence

During the global outbreak of the COVID-19 in 2020, the London

Office of Air China bravely engaged in the fighting against the pandemic, made every effort to ensure the safety of passengers, built a green air passage, increased the capacity of passenger planes in cargo transport, and offered continuous support for the transport of anti-pandemic materials and trade between China and the UK. In the future, Air China will continue to elevate its capability in safeguarding security, offering good services, and improving efficiency and management, thus providing smooth and convenient services for passengers at home and abroad.

Over the past four decades, the London route has been one of Air China's most important international trunk routes. In recent years, Air China has been investing heavily in the UK market. Before 2018, Air China allocated only one daily flight to London. Since 2018, the frequency of Beijing route has been increased from one flight per day to three flights. Routes from London to Chengdu and routes from London to Shanghai have also been opened. Shenzhen Airlines, a holding company of Air China, launched London-Shenzhen direct flights, realizing a complete coverage of the route network from London to Beijing, Shanghai, Shenzhen, and Chengdu, the four core cities in the east, south, west, and north of China, and offering passenger more portfolios. Air China also has made a new breakthrough in international cooperation. London-Shanghai route was originally run at Gatwick Airport. In 2020, Air China seized the opportunity of operating the route at Heathrow Airport, which is beneficial to the organization of cargos and passengers. As an industry leader in the Chinese civil aviation sector, Air China believes that the ability to expand overseas markets and the courage to explore is still very important.

Relying on the route network with Beijing and Chengdu as its hub, Air China’s vision is to become a global leading airline, and the one with strong competitiveness in the global civil aviation industry in terms of safe operation, good service capability and brand influence. In the future, Air

China will continue to improve its performance in safety, service, efficiency, and management, to keep elevating the quality of Beijing international hub, and become a world-class air transportation industry group.

(Excerpted from People's Daily Online: [*Bloom of Youth at the Age of Twenty - Dialogues with Heads of Chinese Enterprises in the UK*] 16. Li Jingjie: Chinese "Phoenix" Bravely Undertaking its Social Responsibility against the COVID-19)

Chapter 2 Doing Business in the UK and Evaluation of Chinese Enterprises

2.1 Overall Business Environment in the UK

According to the report *Doing Business 2020* released by the World Bank, the UK ranks 8th in the world for its business environment. The rankings for each breakdown item are as follows: *Starting a Business (18), Dealing with a Construction Permit (23), Getting Electricity (8), Registering Property (41), Getting Credit (37), Protecting Minority Investors (7), Paying Taxes (27), Trading Across Borders (33), Enforcing Contracts (34), and Resolving Insolvency (14).*

The 2021 World Competitiveness Index report, published by the Lausanne Institute of Management (IMD) in Switzerland on 17 June 2021, shows the UK in 18th place, up one place from last year, having largely remained in 20th place for the past five years. The IMD ranks 64 countries and regions around the world, primarily in terms of economic performance, government efficiency, business efficiency and infrastructure. The UK is ranked 29th, 17th, 21st and 15th in economic performance, government efficiency, business efficiency and infrastructure respectively.

The UK's business environment remains stable over the long term, and Brexit drives tariff reform in favour of non-EU countries. On 19 May 2020, the UK government announced a new most favoured nation (MFN) tariff regime - the UK Global Tariff (UKGT) - which officially replaced the EU's harmonised external tariff regime after the end of the Brexit transition period on 1 January 2021. As the first independent tariff regime issued in nearly 50 years, UKGT is tailored to the UK economy and reflects the UK Government's policy of promoting free trade, reducing and eliminating barriers to trade and opposing protectionism. Under the UK's new tariff regime, 60% of imports (worth around £425 billion) will enter the UK tariff-free from January 2021, according to the WTO rules and other existing preferences, up from 47% previously, and the average tariff rate will fall from 7.2% to 5.7%. And, the UK government expects to make trade negotiations with its major trading partners to increase the proportion of tariff-free imports to 80% by way of a free trade agreement (FTA).

The UKGT reform has its own characteristics compared to the EU's harmonised external tariff system. It is mainly reflected in the following three dimensions: The first dimension is the simplification of tariffs. All tariffs with original rates below 2% have been abolished; the standard tariff bands have been established to simplify the range of rates, and import measures for agricultural products have been simplified. The second dimension is the liberalization of tariffs. The UK government has decided to liberalise tariffs on key raw materials, products that are rarely or not produced in the UK and green products, with a view to reducing costs for British manufacturers and improving production efficiency and export competitiveness. To this end, the new tariff regime eliminates tariffs on nearly 2,000 products, reducing import costs for producers and consumers. The third dimension is that some tariffs remain unchanged. To support business development, the UK has retained tariffs on some raw material products and products in key industry sectors, including agricultural products, ceramic products and cars.

The COVID19 pandemic has changed the UK business environment to some extent. Prior to the outbreak of the COVID19 pandemic in 2020 and the lockdown in the UK, the UK economy was already in a recession brought on by the global economic downturn. Cyclical recessions have occurred in the past and the government has usually been able to emerge from them through fiscal and financial measures, as well as the natural adjustment of the economic cycle in the free market. But the COVID19 pandemic poses a new challenge to the logic of economic recovery. People have to be kept at a distance from each other and life and work patterns are completely redefined. Business models in many sectors such as air travel, tourism, restaurants and bars have also undergone significant changes. The UK government implemented an unprecedented financial assistance scheme during the lockdown to avoid occurrence of massive unemployment. Receiving government subsidies kept a large number of zombie businesses[3] afloat during the lockdown. The impact on a large number of businesses and individuals remains to be seen as the UK government phases out the corresponding employment and business subsidies as the pandemic is brought under control.

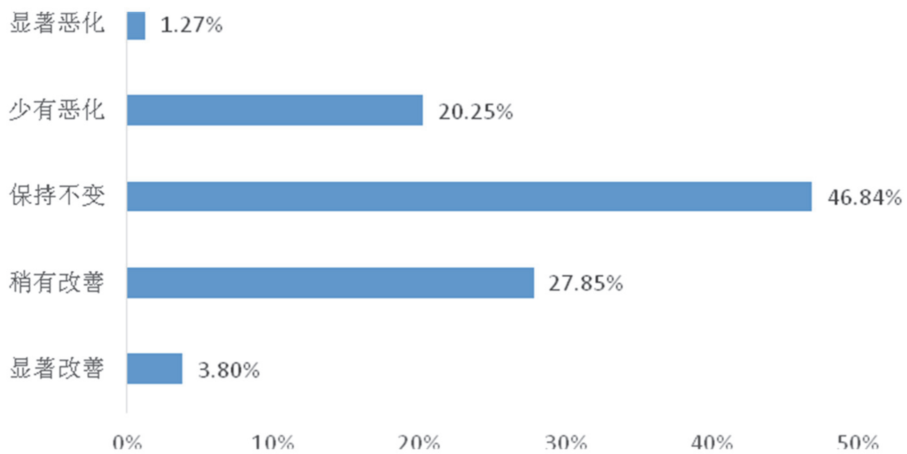
Chinese enterprises in the UK remain positive about the overall business environment in the UK. According to the survey results in the 2021 Report on the Development of Chinese Enterprises in the UK (covering 9 of the 11 industry classification benchmarks), the overall average score is 7.1 (out of 10) for companies' evaluation of the UK business environment, although down from 7.4 in 2020, still reflecting a generally positive attitude, and these companies are more optimistic about the UK business environment in the next two years (Figure 3-1). The survey covered the business environment, political environment, economic and industrial environment, infrastructure, technology and talent.[4] 94% of

[3] This refers to businesses that are operating on a day-to-day basis, but are unable to repay all the debts they owe or are unable to find the cash to invest and grow and are being on the verge of bankruptcy.

[4] Business environment: barriers to market access, openness of markets, tax policies, costs of conducting business, etc.; political environment: policy coherence, political stability, government efficiency, legal and regulatory considerations, etc.; economic and industrial environment: level of economic development, economic stability, integrity of supply chains, economic links with China, etc.; Infrastructure: transport, telecommunications networks, etc.; technology: Employment, research commercialisation, UK-China R&D collaboration, etc.; talent: Employment, labour costs, diversity and inclusiveness, etc.

the Chinese enterprises surveyed believe that the UK market remains important to their global business development, with 18% of respondents considering the UK as one of the top three markets in their global strategy and 14% considering the UK as number one. The survey on the Sino-British relationship shows that over 50% of the respondents remain optimistic about the relationship in the next two years.

Figure 3-1 Chinese Enterprises' Predictions on the UK's Business Environment in the Next Two Years



Source: 2021 Report on the Development of Chinese Enterprises in the UK

The majority of Chinese enterprises consider the impact of the pandemic and Brexit to be temporary. Only 14% and 6% of respondents believe that the COVID19 pandemic and Brexit will have a long-term negative impact, with the vast majority believing that the impact will be unabiding. 64.56% of respondents believe that Brexit is a short-term impact, while 27.85% believe that it has no impact; 63.29% of respondents believe that the pandemic is a short-term impact, while 3.8% believe that it has no impact and 3.8% believe that it has benefited from the pandemic.

Chinese enterprises are concerned about geopolitical risks, with high compliance risks being the second most challenge to certain.

Geopolitical risk is the main challenge for Chinese enterprises growing in the UK, with three-quarters of respondents ticking this box. All of the respondents consider a sound and stable China-UK relationship as a key to business growth. Secondly, high compliance risk is the second most challenge to certain. This was mentioned by 31% of the respondents. Economic growth was also a key challenge, with 25% of the respondents ticking this box. Finally, cultural integration and localisation of business practices is also one of the challenges for Chinese enterprises to grow in the UK. Such differences include not only language and communication, but also the way of thinking and conducting business.

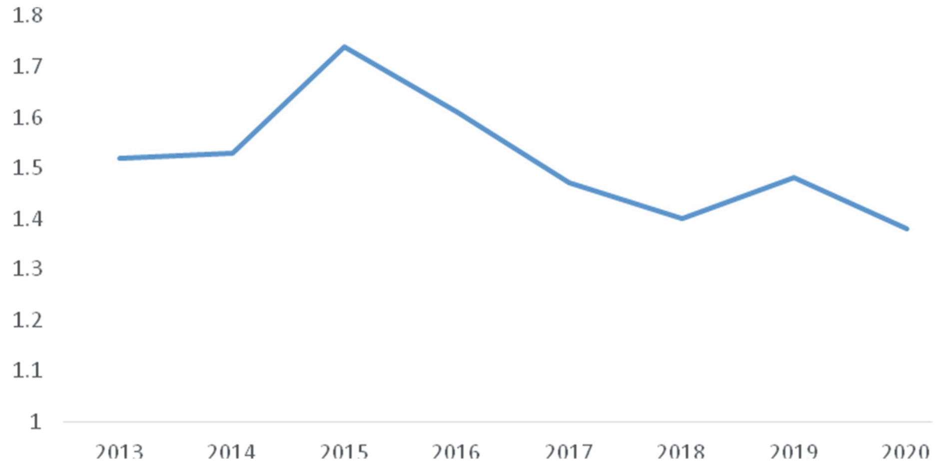
2.2 Introduction to the UK Business Environment

2.2.1 The UK Government

Government efficiency: According to Global Economy (Figure 3-2), the UK government efficiency index in 2020 was 1.38, which is in the medium category (-2.5 being the weakest and 2.5 being the strongest). The index has shown a downward trend since 2015 but remains in the upper middle quarter. The index reflects the evaluation of the quality of government public services, the quality of the civil service and freedom from political pressure, the quality of policy development and implementation, and the credibility of the government's commitment to such policies. The UK Parliament is the UK legislature and an important body governing the implementation of UK government policies, with both Houses of Parliament typically voting on major legislative amendments and changes.

The UK political situation has long been stable and free from intervention by external political forces. However, the government failed to respond to several recent major political, economic and social events timely and didn't take adequate countermeasures. First, the UK's exit from the European Union has had long-term political, economic and social implications. From the Brexit referendum in 2016 to the completion of Brexit in 2020, the Brexit negotiations between the UK and the EU took more than four years, depleting significant human, material and financial resources, and to some extent hindering the momentum of economic recovery; secondly, the government failed to sufficiently prepare for the global spread of the pandemic to the UK. At the end of March 2020, the COVID19 outbreak in the UK led to a massive lockdown across the territory. By the end of July 2022, the cumulative number of people infected with COVID19 was approximately 23.3 million, including 183,000 deaths, and the pandemic has also had a significant impact on the UK economy and society. A government survey report on COVID19 prevention and control released by the UK House of Commons stated that the government's slow response in the early stages of the global outbreak and confusing signals from government and scientific advisers caused more deaths. The report also concluded that COVID19 control failures revealed significant weaknesses in government mechanisms and a lack of transparency in public bodies in terms of sharing important information and advice in a timely manner.

Figure 3-2 UK Government Efficiency Index



Source: Global Economy

Integrity: UK government officials rank top in terms of integrity. According to Transparency International's Corruption Perceptions Index, the UK ranked 11th out of 180 countries in terms of the level of integrity of government officials in 2020, with a score of 77 out of 100, on a par with Canada, Australia, Hong Kong (China); New Zealand ranked the first place, with a score of 88. The rating was compiled from 13 different authoritative data sources or by extracting judging data from survey reports. The strict legislation is regarded as one of the main reasons for the low level of corruption in the UK. As early as 1889, the UK enacted the *Corrupt Practices in Public Bodies Act*, which strictly prohibited active or passive bribery by officials in public bodies, and in 2010, the government issued the *Bribery Act 2010*, one of the UK's toughest anti-bribery laws to date. In addition, UK government actions are subject to parliamentary and judicial scrutiny.

Attitudes to services: UK public services include health care, education, adult social care, children's social care, social security and administration, public order and safety, police, defence and other services (including general government services, economic affairs, environmental protection, housing, recreation and other public order and safety). The government has performed well in terms of the quality of public services, for example, by building low-cost housing in various living quarter, it is capable of meeting the basic needs of people with low incomes or who are unable to work. The government plans to increase housing and public infrastructure in the wake of the pandemic to boost economic and social development in areas that are lagging behind. The National Health Service (NHS) is a free, government-funded health and medical service system for all and is a source of pride to the UK government and public. The NHS played a major role during the pandemic, but at the same time revealed a serious shortage of staff. As a result of both the pandemic and Brexit, the NHS has experienced a shortage of healthcare staff, causing large numbers of patients to wait longer for treatment. The government plans to increase investment in the NHS and improve healthcare service by raising the National Insurance levy rates. Education in the UK is divided into five stages. Pre-school, primary, secondary, adult education and higher education. Education is free for all 5-16 year olds and is supported by the government. Education can be provided by public schools, private schools or home schools.

2.2.2 Investment promotion policies

The UK has a sophisticated legal and regulatory system for investment promotion and transparent investment policies, with no specific restrictions on overseas or domestic investment. In addition to the industrial policies to encourage investment mentioned above, other relevant investment promotion policies include the following:

Preferential tax policies for foreign investors: SME tax incentives (Enterprise Investment Scheme and Venture Capital Trust), R&D tax incentives (R&D relief for SMEs and R&D expenditure relief for large companies), patent tax incentives (companies that have obtained a patent in the UK will be entitled to a 10% discount on the payment of corporate income tax for profits derived from this patent), and investment incentives (Seed Enterprise Investment Scheme, Enterprise Investment Scheme).

Investment funds: The UK government provides a range of policy funds for innovative early-stage businesses, SMEs and high-potential SMEs. For example, the UK Government Venture Capital Fund invests £100 million in SMEs. The UK High Tech Fund leverages private capital through the government to invest in high-tech companies in their early start-up phase. The Early Growth Fund focuses on innovative, intellectually intensive start-ups.

In recent years, overseas investors have begun to acquire UK defence security and sensitive related sectors, and the UK government has begun to take stricter approval and examination measures to 17 key sectors.

After Brexit, the UK has defined itself as a more open market and welcomed Chinese investors. The combination of the COVID19 pandemic and Brexit has had a negative impact on the UK supply chain and employee shortages, gradually causing significant and rapid transfer abroad of material production and capital for the manufacturing industry. In this context, the UK government is committed to creating a good investment environment for global investors.

2.2.3 Transport accessibility and information technology

The UK's transport infrastructure includes road, rail, air and water transport. The UK has one of the world's leading transport networks.

Roads: Roads and motorways are the UK's main domestic transport routes. There are approximately 225,000 miles (362,000 km) of roads in the UK. Cars, minivans and taxis are the most common modes of transport, accounting for 85% of passenger miles travelled in the UK, and around 75% of households have at least one car.

Railways (including the underground): The UK rail network is one of the most extensive in Europe, with over 11,000 miles (17,500 km) of lines, 2,500 stations and 1,500 trains per day approximately. London's main interchange stations are Euston, St Pancras, Victoria, Waterloo and Charing Cross. The London Underground system is well established and enjoys the same popularity as the Paris and New York Underground. It has 242 miles (391 km) of track, including approximately 106 miles (171 km) of underground track, and 267 stations. The underground system is accessible to all areas of central London and Greater London, connecting all mainline stations.

Air transport: The UK has the largest air transport system in Europe, with most airlines being privately owned. There are more than 60 civil airports in the UK, 35 of which have annual passenger traffic of 100,000 or more. London has five airports: Heathrow, Gatwick, Stansted, London City and Luton. The first three have major underground connections to central London. Heathrow and Gatwick are the two main centres for overseas flights. London (Heathrow) Airport is one of the largest airports in the world and has two underground stations. According to Statista, only 32.35 million UK air passengers were flown in 2020 due to the pandemic, down from 154 million in 2019. In terms of cargo transport, all UK airports handled 2.63 million tonnes of cargo in 2018, with 2.2 million cumulative movements.

Marine transport: The UK has a large number of large and small ports, of which 100 are commercially important, 52 have an annual throughput of 1 million tonnes or more and those with an annual capacity of 10 million tonnes include. Grimsby-Immingham, London, Tees-Hartlepool, Forth, Milford Haven, Southampton, Liverpool, Sullom Voe, Felixstowe, Dover, etc. According to the 2020 Review of Maritime Transport published by UNCTAD, the UK ranked 11th in the world in terms of fleet deadweight tons (dwt) (excluding fleets in overseas territories such as Bermuda), with a fleet deadweight capacity of 53.19 million tonnes, representing 2.6% of the world's total fleet capacity. Among the European countries, the UK ranks after Greece, Germany and Norway. There are 3,200 km of inland waterways, 620 km of which are used for freight transport. The Thames River is the busiest inland waterway, followed by the Forth River. In 2018, the UK port throughput was 483 million tonnes, 54% of which was cargo between the UK and the EU.

Network communications: The UK has easy access to information technology facilities. As of the first quarter of 2021, Internet coverage in the UK was 96.8%. Internet coverage in England, Wales, Scotland and Northern Ireland was 97.4%, 95.5%, 94.7% and 90% respectively. Gigabit broadband Internet coverage is 42% in the UK. The main Internet service providers are BT, Sky Broadband, Virgin Media, Talk Talk, etc.

Telephone communications: The UK has a fixed-line penetration rate of over 80% and mobile phone coverage of over 90%. A report published by OFCOM in 2021 shows that there are four main UK telephone operators: EE, O2, Three and Vodafone; EE has the largest 4G network coverage of urban mobiles in 2020 (85%), followed by Vodafone (82%), O2 (80%) and Three (79%) respectively. The largest 4G indoor signal coverage was provided by Vodafone and O2 (both 95%), followed by EE (93%) and Three (90%). In rural mobile coverage, EE ranked first place in terms of overall indicators, followed by O2, Vodafone and Three.

Postal communications: The UK has a long history of postal services, dating back to 1516. The state-run General Post Office (GPO) was established in 1660 until 1969 when it was replaced by the Post Office and

British Telecom. In 2011 the UK postal sector was opened up to competitors and the system collection and delivery services were privatised, but retail services remained nationalised. The following are the three most important branches of the British postal service.

Post Office: A state-owned private company that operates a network of 11,000 retail post offices in the UK. Some post offices are directly managed, while others are franchised.

Royal Mail: A private company that operates mail collection and delivery in the UK. It also owns and maintains the country's iconic network of red mailboxes called Pillar Boxes.

Parcelforce Worldwide: A Royal Mail’s courier and logistics subsidiary, which delivers parcels in the UK and around the world.

Several other companies include DHL, FedEx and DPD.

For corporate business mail dispatch services, it is available to contact the postal service and select the appropriate service, including international express, marketing services and data cleansing services. If it is needed not to share the sender’s address with customers, a P.O. Box will be optional, which is a common option for small businesses.

2.2.4 Business costs

For the purpose of setting up a company in the UK, investors are required to consider the costs of water, electricity, gas, fuel, labour, land and rental. Water, electricity, and gas are divided into residential and non-residential (industrial), with industrial prices being higher than residential prices and varying depending on the size of the business. Land and office rentals also vary considerably depending on the area and location.

Water prices: Industrial water charges in the UK include water use charges and sewage charges. The water regulator for England and Wales is

Ofwat, the regulator for Scotland it is the Water Industry Commission for Scotland and the regulator for Northern Ireland is Northern Ireland Water. A fixed annual charge is levied on the amount of water used and the amount of sewage discharged, and an additional annual charge is collected from customers using more than 20,000 cubic metres of water and 100,000 cubic metres of sewage per year. Information on specific suppliers and water prices can be made available on the relevant departmental websites.

Electricity prices: The UK electricity market is open to competitors, with around 30 electricity suppliers. In 2021, commercial electricity prices are as follows. 16.74p/kWh for no more than 8,000 kWh per year, 14.83p/kWh for no more than 20,000 kWh per year, 13.68p/kWh for no more than 40,000 kWh per year and 12.93p/kWh for no more than 80,000 kWh per year. In addition to the above basic prices, there is an additional fixed charge based on the number of days, approximately 24-27p/day.

Gas prices: There are regional and seasonal variations in the price of gas in the UK and over 50 gas suppliers can provide gas in the UK. Commercial gas prices in 2020 range from approximately 3p to 4p/kWh depending on the suppliers, and an additional fixed charge is calculated on a daily basis at approximately 20-80p/day.

Fuel: Fuel prices fluctuate with supply and demand on the international market and prices can vary depending on the region, oil product and suppliers. The main fuel suppliers are BP, Shell, Esso and Total. As of 18 October 2021, the average price of petrol in the UK was 139.46p/litre and the average price of diesel was 143.19p/litre, both up from September by 4.6p/litre and 5.84p/litre respectively.

Labour costs: the UK labour pay is divided into the National Minimum Wage, and the National Living Minimum Wage. Those at school leaving age can be entitled to the National Minimum Wage (21 to 22 years old: £8.26 per hour; 18 to 20 years old: £6.56 per hour; under 18 years old:

£4.62 per hour; £4.30 per hour for apprentices) and workers who have reached the age of 23 are entitled to the National Living Minimum Wage (£8.91 per hour). Under HM Treasury's latest published plans, the minimum wage (for those aged 23 and over) will be increased by 6.6% to £9.50 per hour from April 2022. The statutory minimum wage for young employees aged 21-22 will rise from £8.26 to £9.18 per hour, while apprentice wages will rise from £4.30 to £4.81 per hour.

Land and rental costs: To set up a physical business, investors shall first choose the right location to operate, and land and rent will be an important consideration for businesses. The options for acquiring commercial property include leasing, buying and self-build. The cost of land and rental varies considerably depending on the location, for example, London is far more expensive than other UK cities, with prices in the commercial heart of London's West End exceeding those of other locations. For example, office rentals in London's West End are £112.50 per square foot (1 sq ft = 0.093 sq m) and office rentals in London's Financial City are £70 per square foot. Delivery of commercial property is subject to due diligence by both the buyer's and seller's solicitors.

Self-built commercial buildings: A variety of industrial sites are available in the UK for businesses intending to build their own office space. The average price of industrial land in the UK is £482,000 per hectare, but the price of industrial land varies considerably from region to region, and it also varies according to location. Industrial land prices in Heathrow reach almost £5 million per hectare, while industrial land prices in Wales are much lower, at £556,000 per hectare.

2.2.5 Financial Environment

Financing environment: the financing environment in the UK is relaxed, and enterprises invested in the UK can enjoy a complete range of financing services offered by British banks and relevant financial institutions. Financing channels in the UK includes debt financing and equity financing. The financing modes can be divided into direct financing and indirect financing.

Indirect financing: the main channel of indirect financing is British banks, which is also the most important financing channel, including loan, lease financing (purchase of large-sized equipment such as cars, aircraft, etc.), trade financing, invoice financing, etc.

Direct financing: listed companies can also raise funds through direct financing means, including equity financing (raising capital through the sale of shares) and debt financing (issuing bonds).

Emerging Funding: to support the development of technology start-ups and small businesses, the UK government also provides new ways of funding such as funding accelerators (assisting start-ups in financing and offering guidance) and crowdfunding (mainly for small businesses).

London---Global Financial Center: The United Kingdom is a hub of global financial services and a leading international financial center. According to the latest edition of Z/YEN Global Financial Centres Index (GFCI) published on Sept 24, 2021, London held the second position only next to New York, and the two EU cities, Paris and Frankfurt, ranked the 10th and 14th places respectively. Since September 2018, London has lost the top spot in the GFCI rankings, ranking the first position for 23 times and the second position for 7 times in the total 30 editions published. In this ranking, London takes the lead in terms of business environment, infrastructure and financial sector development. Financial institutions in the UK (banks, insurance companies and asset management companies included) employ 1.1 million people, mainly in London. If support staff is counted, over 2 million people involve in finance in the UK.

The financial services industry in the UK develops in a steady way, which is attributable to the following three aspects: firstly, the UK is a very open economy for foreign-invested financial institutions, and there are no special restrictions on overseas investors. Foreign financial institutions carry out banking, securities and insurance businesses in the UK through sole proprietorship, joint ventures or mergers and acquisitions. The capital accounts in the UK are open to international capital, which allows free getting in and out of capitals by means of securities, stocks, funds and other investment methods, and there is no foreign exchange control policy. Therefore, the UK financial market can provide a wealth of financial products and services for global investors. Secondly, the UK has established a sound and stable investment environment and a full-fledged legal system. In order to adapt to new financial business needs and control risks, the British government will unify the regulation model. Thirdly, the UK government encourages competition and creates a good supervision environment.

The impact of Brexit on the UK's financial service sector is limited. Before Brexit, it was common for financial institutions in the UK to set their European management headquarters or business headquarters in the country and conduct cross-border customer marketing and product sales by virtue of the EU Financial Services Passport. According to major mainstream media reports and the information of official websites of banks, a small proportion of British bank employees (less than 5% of the total number of employees) moved out of the UK after Brexit only to meet the EU regulatory requirements and business expansion demand. The EU Financial Services Passport automatically expires upon Brexit, UK and EU are assessing financial services areas where reciprocity applies. Besides, clearing and settlement of Euro-denominated derivatives will last until the end of June 2022 as agreed by the two sides. The EU now plans to extend the deadline to the end of June 2025 to stabilize the EU financial system.

On the other hand, some British banks have increased their size of workforce and expanded business scope after Brexit. Goldman Sachs, for instance, has newly employed 900 staffs in the UK, who mainly engage in retail business and cash management. The Bank of Mitsubishi UFJ has added 400 staffs to its London office to expand market trading and investment banking in London. Societe Generale has allocated 3,600 staffs for asset management, securities and investment banking businesses in the new office building in the New City of London. Brexit will also bring opportunities for booming financial services sector in the UK as it can make its own financial regulation rules to adapt to the development trend of international financial institutions. At present, the UK government is actively making reforms to enhance financial competitiveness while ensuring the efficiency and quality of financial regulation. London has a long history as the financial centre boasting resources of a large quantity of financial institutions, customers and with abundant liquidity, which will not change overnight. But the long-term impact of Brexit on Britain's financial services industry and financial center remains to be seen.

China-UK Financial Cooperation: the highest level of financial cooperation between the Chinese and UK governments includes the China-UK Economic and Financial Dialogue and the China-UK Strategic Dialogue.

China-UK Economic and Financial Dialogue: it is a mechanism for dialogue and cooperation between China and the UK focusing on the macroeconomic situation and global economic governance, trade & investment and cooperation on major projects, financial reform and financial market development, and cooperation in strategic and new areas. The first round of the dialogue was held in Beijing in 2008. The China-UK Economic and Financial Dialogue was held in London in 2019. So far, the two countries have held ten Economic and Financial Dialogues. In the 2019 China-UK Economic and Financial Dialogue, China and the UK announced 69 policy outcomes, among which, cooperation in trade and investment (Table 3-1), financial reform and financial market development (Table 3-2) were the most extensive and highlighted, including market access based on the principle of competitive neutrality, capital market interconnectivity, internationalization of the RMB and extensive cooperation on fintech and green finance. The main outcomes are as follows:

Table 3-1 Cooperation Outcomes of the 10th China-UK Economic and Financial Dialogue - Trade and Investment

Main policies	Summary of Cooperation
1. Multilateral trading system	China and the UK agreed to fully implement the WTO obligations such as transparency and notification, make joint efforts to ease global trade tensions, giving priority to resolving the current WHO Appellate Body crisis, support and keep the commitment of "intensifying discussions on international rules to strengthen industrial subsidies" made at the China-EU Summit's, and improve WTO rules to better address trade issues in the 21st century, including E-commerce, value-added trade and trade in services.
2. Business environment	Both sides acknowledge the importance of the principle of competitive neutrality in guaranteeing equal treatment of enterprises of all forms of ownership in such areas as market access and licensing, commercial operations and government procurement; both sides agree to strengthen cooperation in the application of international standards, in particular by expanding the list of mutually recognized standards; the commitment that technical standards and guidelines for data security should be open and transparent is reaffirmed.
3.The service sector	The two sides agree to advance cooperation on accounting standards and cross-border accounting supervision; they will cooperate in construction market in areas open to each other's companies, work together to promote the Chinese government's recognition of English proficiency tests offered by UK Further Education Colleges and other English language teaching institutions in the UK.

4. Expand market access	The UK-China Beef Protocol was signed, aiming to ratify the export of UK's beef to China by the end of 2019. By autumn 2019, China will send experts to the UK to carry out technical exchanges on scrapie and study and formulate assessment standards for lifting the ban on UK lamb exports. Promote to lift the ban on importing UK poultry and poultry products from areas with avian influenza. Chinese and British companies are welcome to invest in each other's biofuel market. Strengthen the exchange and cooperation in the research and application of animal experimental methods for cosmetics and work together to make the export of cosmetics meet the requirements of import laws and regulations.
5. Customs affairs	Provide the Chinese and British enterprises with legal guidance on customs and establish a legal, compliant, transparent, conducive and predictable trade environment; facilitate the consultation and entry into force process for the transition from the China-EU Customs Cooperation and Mutual Administrative Assistance Agreement (CCMMA) to the China-UK Customs Cooperation and Mutual Administrative Assistance Agreement; promote the mutual recognition of "Authorized Economic Operator (AEO)" between the customs departments of the two countries.

Source: Chinese government websites

Table 3-2 Cooperation Outcomes of the 10th China-UK Economic and Financial Dialogue - Financial Reform and Financial Services

Financial Cooperation Areas	Summary of Cooperation
1. Financial Regulation and Policy Cooperation	
(1) Protection of financial consumers	Both sides acknowledge the importance China attaches to in financial consumer protection and the UK's professional experience in this area and agree to strengthen cooperation in this area.
(2) Experience sharing and exchange of regulatory departments	Strengthen experience exchange and cooperation in financial regulation, including currency anti-counterfeiting, central bank digital currencies, anti-money laundering regulation, crypto assets and stablecoin innovation technologies.
2. Cooperation on financial market development	

(1) Banking industry	Banks of the two countries are encouraged to deepen cross-border cooperation. The UK welcomes Chinese institutions to set up branches in London. The two sides will share their experiences in providing equity financing to SMEs through the Small Business Growth Fund (BGF).
(2) Capital market	China welcomes UK investors to invest in China's capital markets through QFII, RQFII, Shanghai-Shenzhen-Hong Kong Stock Connect and other channels and agrees to approve and issue QFII and RQFII quotas to UK institutions.
	The Shanghai-London Stock Connect is officially launched, and eligible companies listed on the London Stock Exchange are welcome to issue Chinese Depositary Receipts (CDR) under the Shanghai-London Stock Connect on the Shanghai Stock Exchange.
	The China Securities Regulatory Commission (CSRC) and the UK's Financial Conduct Authority (FCA) have signed a memorandum of understanding on regulatory cooperation to further improve the mechanisms related to the Shanghai-London Stock Connect.
	Both sides support qualified Chinese custodian banks to provide bond custodian services to investors.
	China welcomes qualified British banks to develop lead underwriting of non-financial debt financing instruments in China's interbank bond market.
	Set up an inter-industry working group on capital markets between China and the UK and discuss within this framework the way to promote capital market connectivity between the two countries.
	Deepen bilateral cooperation in the foreign exchange market.
	The two sides agree to continue the feasibility study on the China-UK bond market interconnection arrangement, including the feasibility of extending the trading hours of the China Foreign Exchange Trade System (CFETS).
3.Asset management	The two sides look forward to publishing the Feasibility Study Report on Mutual Recognition between China and UK Funds.
	China is encouraged to reform and improve the QDII quota and RQDII systems.

	The UK will continue to issue Qualified Domestic Limited Partner (QDLP) and Qualified Domestic Investment Enterprise (QDIE) licences to eligible UK institutions.
	Both sides welcome qualified UK institutions to register, in accordance with the requirements of registration, as a wholly foreign-owned enterprise or joint venture of private equity fund management at the Asset Management Association of China, to provide investment advice, and to register to be a Fund accounting and Valuation (FA) and the Transfer Agent (TA) private equity service provider.
4. Insurance and pensions	Support exchanges and cooperation between Chinese and British insurance industry associations.
	China welcomes the UK side to study with the Ministry of Human Resources and Social Security on the reform of China's pension system.
	Jointly explore the possibility of a pilot automatic registration in the second pillar of the pension system in China and investing pension assets in offshore markets.
5. Internationalization of RMB	Both sides support further internationalization of RMB, agree to continue to promote cross-border RMB transactions, support the use of RMB as a settlement currency in bilateral trade and investment, and pledge to support the expansion of the UK RMB clearing bank, continue to promote the development of the offshore RMB market in London and encourage innovation in RMB financial products. China welcomes more qualified UK commercial banks and financial market infrastructure to join in the RMB cross-border payment system.
6. Fintech	Strengthen open banking services, regulatory sandboxes, pilot projects, pilot mechanisms, cross-border regulatory cooperation and information sharing among payment institutions.Both sides welcome the proposed collaboration between the Internet Finance Association of China (NIFA) and UK fintech companies such as Brismo to promote the sustainable development of the P2P market in China. China welcomes eligible British fintech companies to apply for non-bank payment licenses.
7. Green finance	The two sides agree to establish the UK-China Green Finance Centre in London and follow the *Belt and Road Initiatives Green Investment Principles*. Both sides recognize the importance of promoting the development of international standards for sustainable finance and

	will work together to integrate climate-related risk factors into the financial system.

Source: Chinese government websites

In recent financial dialogues, China and UK have actively promoted the "Shanghai-London Stock Connect" project. During the seventh China-UK Economic and Financial Dialogue held in September 2015, China and UK announced to conduct the feasibility study on the "Shanghai-London Stock Connect". In November 2016, at the 8th China-UK Economic and Financial Dialogue, the two sides agreed to study and prepare for relevant operational systems and arrangements, pushing the "Shanghai-London Stock Connect" project into the next stage. At the ninth China-UK Economic and Financial Dialogue in December 2017, the two sides agreed to speed up preparations and launch the "Shanghai-London Stock Connect" at an appropriate time.

The official launch of the "Shanghai-London Stock Connect" project is one of the significant outcomes of the 10th China-UK Economic and Financial Dialogue. The "Shanghai-London Stock Connect" refers to an interconnection mechanism between the Shanghai Stock Exchange (SSE) and the London Stock Exchange (LSE). The "Shanghai-London Stock Connect" enables cross-border transactions and connectivity through depositary receipts (DR). Unlike the "Shanghai-Hong Kong Stock Connect" and "Shenzhen-Hong Kong Stock Connect", the "Shanghai-London Stock Connect" is a transnational transaction mechanism, under which, relevant Chinese and UK enterprises need to issue DR and realize the two-way interconnectivity between SSE and LSE through a mutual listing and cross-border conversion of DR.

The China-UK capital market will be further deepened. Philip Hammond, the then Chancellor of the Exchequer, said the "Shanghai-

London Stock Connect" was a groundbreaking initiative, and its launch was a "strong vote of confidence" in the UK market. During the 10th China-UK Economic and Financial Dialogue, Huatai Securities became the first Chinese company to list on the London Stock Exchange, raising $1.692 billion. According to the market forecast, HSBC Holdings will become the first UK company trading shares via CDR in mainland China under the "Shanghai-London Stock Connect" project. Beyond that, the two sides will conduct a feasibility study on the China-UK Bond Connect, so the scope of interconnectivity between the Chinese and British capital markets will be enlarged in the future.

China-UK Strategic Dialogue: in May 2004, China and the UK issued a joint statement announcing the establishment of a comprehensive strategic partnership and a regular meeting mechanism. In December 2005, the first round of the China-UK Strategic Dialogue was held in London. During the 9th China-UK Strategic Dialogue in Beijing on July 30, 2018, the two sides conducted constructive exchanges on such hotspot issues as deepening bilateral economic & trade cooperation and upholding multilateralism, laying the groundwork for opening a new chapter in the "Golden Era" of China-UK relations.

2.2.6 Mainstream Media

Mainstream media in the UK: such media is usually large in both size and scope of group coverage, including BBC, Reuters, Financial Times, The Guardian, The Independent, Daily Telegraph, Sky News, The Times and the Daily Mail.

2.2.7 Talent Supply

The UK brings together the world's elites in the fields of finance, law, architecture, and art. Enterprises can find the talents they need in London. The cluster effect can be found in British enterprises. For example, talents related to law, consulting and financial services are mainly distributed in financial centers such as London and Edinburgh. London is the cultural and artistic center of Britain; car manufacturing talents are distributed in the North-East of England; the UK is also the base of global talent cultivation, and it is home to 130 universities, including well-known universities and traditional institutions like Oxford University, Cambridge University, Durham University, London School of Economics and Political Science, Imperial College London. With 1% of the world's population, the UK boasts four of the world's top 20 universities, 15% of the world's most influential research achievements, the third largest number of publications and the second largest number of Nobel Prize winners.

2.2.8 China-UK Economic and Trade Agreement and Synergy Mechanism

On May 15, 1985, China and the UK signed the Agreement between the Government of the People's Republic of China and the Government of the United Kingdom of Great Britain and Northern Ireland on the Promotion and Mutual Protection of Investment in the UK.

In June 2011, China and the UK signed the Agreement between the Government of the People's Republic of China and the Government of the United Kingdom of Great Britain and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Income and Property Gains. In February 2013, the two sides signed the Protocol of Amendment to the Agreement between the Government of the

People’s Republic of China and the Government of the United Kingdom of Great Britain and Northern Ireland on the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Income and Property Gains. The Agreement and Protocol took effect on December 13, 2013, and will be implemented in China on January 1, 2014, according to a statement by the State Administration of Taxation of China.

In June 2013, the People's Bank of China and the Bank of England signed a bilateral currency swap agreement with a scale of RMB 200 billion / £20 billion. In October 2015, the People’s Bank of China and the Bank of England decided to expand the bilateral currency swap scale to RMB 350 billion/£35 billion. In November 2018, the two sides renewed the China-UK bilateral currency swap agreement (RMB 350 billion / £ 35 billion).

On June 17, 2014, China and UK issued the China-UK Joint Statement and the China-UK Joint Statement on Climate Change, and welcomed the signing of the Memorandum of Understanding on Strengthening Cooperation on Green and Low-carbon Urbanization (enhancing technical cooperation in low-carbon urban planning, pollution control and medical development). The Ministry of Commerce of China and the Department for Business, Innovation and Skills of the UK signed the Memorandum of Understanding on the Establishment of an Investment Promotion Working Group within the Framework of the China-UK Joint Economic and Trade Commission.

In December 2013, the Chinese and UK governments signed the Memorandum of Understanding on China-UK Research and Innovation Cooperation and decided to set up a £200 million joint science and innovation fund. In October 2015, China and the UK established an innovation partnership. In December 2017, the Chinese Ministry of Science and Technology and the Ministry of Education and Science signed the Memorandum of Understanding on Science, Technology and Innovation Cooperation during the Fifth Meeting of the China-UK High-Level People-to-People Exchange Dialogue.

Other agreements signed by the two countries include: the Agreement on China-UK Economic and Trade Relations in 1979, the China-UK Memorandum on Preferential Loan Arrangement in 1988, the Memorandum of Understanding on Securities and Futures Regulatory Cooperation by China Securities Regulatory Commission and HM Treasury and the Securities and Investments Board of the UK in 1996, the China-UK Memorandum of Cooperation on Environmental Protection, the China-UK Joint Statement of Financial and Economic Dialogue, etc.

2.2.9 Legal Environment

The legal system in the UK is relatively mature, and it is composed of statutory law, common law, and convention. English laws are widely used in areas such as global trade, commerce, and financial services. The legal system in the UK has had a profound influence on countries around the world. At present, the British legal system is adopted in the global trade and commerce field. Every year, a large number of maritime, insurance and international trade disputes from other countries and regions are submitted to British courts and arbitration institutions for adjudication. The Financial Law is the epitome of the UK adapting to the external environment and changing itself flexibly. The Company Law focuses on the protection of small companies; the Labor Law biased the protection of employee rights; there is no independent tax law in the UK, so statutory law, EU laws, case law and tax authority statements are adopted. Companies operating in the UK also need to comply with intellectual property protection and anti-money laundering laws to avoid penalties or even sanctions.

Trade Law: On April 29, 2021, the UK Government promulgated the *Trade Law*. The law represents the first trade-related law after Brexit, which provides a transparent environment for the UK's international trade, lowers non-tariff barriers, featured by more economic cooperation with third party countries and an information sharing mechanism.

Financial Law: UK financial services law is widely adopted in modern financial services around the world. The *Financial Services Act 1986* established the authority and basic framework of the Financial Regulation Authority and provided an important reference for the formulation of global financial regulation rules. The *Financial Services and Markets Act 2000*, which was formally enacted in 2001, marks a historic reform for UK financial regulators to adapt to the complex financial environment and business needs. The UK also has formulated many laws that affect global financial services. For example, the UK's *Syndication Loan and Market Competition Ac*t profoundly impact how syndicated lending is structured and operated globally.

Company Law: in November 2006, the British Parliament passed the *Company Law 2006*, which is a significant revision of the *Company Law 1985*, and its focus is to benefit the growth of small enterprises. The Act has four main objectives: to increase shareholder participation and create a culture of long-term investment; to ensure better regulation and a "small business first" approach; to facilitate the setting up and running of companies; to provide flexibility for future changes. This law reflects the direction of the modernization of company law.

Labor Law: the UK Labor Law defines the differences between employees, workers, and self-employed people. The fundamental rights of employees and workers include obtaining the national minimum wage, preventing illegal deduction of wages, statutory minimum paid leave, working no more than the prescribed hours per week, etc. Other core elements include: every employee is entitled to receive a statement of the terms of employment within 2 months of the commencement of employment, which must identify basic terms and conditions, such as working hours, salary, sick leave, holidays, notice periods, grievance procedures and disciplinary procedures.

Other rights enjoyed by employees: pension, salary during sick leave, salary during maternity leave, contributions to social security, etc.

Main procedure for dismissal by employer: in general, unless the employee is employed temporarily or has less than two years of service, the employer may only dismiss an employee for just and reasonably good reasons (e.g., refusal of assignment of work, gross negligence, inability to work due to long-term illness, etc.), with a written notice at least one week in advance. Employees shall be legally compensated according to their ages, duration of service, etc.

Since the UK Labour Law is derived from EU law, it will be reformed after Brexit.

Tax Law: Britain has no separate tax law. The UK tax law is mainly derived from statutory law, EU law, case law and tax authority statements. Like other English laws, the legal framework for taxation consists of a series of acts of Parliament. The fundamental principles of tax law are outlined in the acts of Parliament, and the courts are responsible for interpretation. The individual income tax laws include the *Income Tax and Corporate Tax Act 1988*, the *Capital Allowances Act 2001* and the *Income Tax Act 2007*. Laws relating to capital gains tax include the *Capital Gains Act 1992*; Laws relating to corporate income tax include *Income Tax and Corporate Tax Act 1988*, *Corporate Income Tax Act 2010*, etc.

Environmental Protection Law: The British government attaches great importance to environmental governance and has formulated the "Contaminated Land System" according to the *Environmental Protection*

Law of 1990, which requires the responsible person to repair the contaminated land. If there is no clear responsible person, the land user or occupier shall repair the contaminated land. The *Environmental Permitting Regulations (England and Wales) 2016* stipulates that companies shall obtain permits for drainage, groundwater extraction, exhaust emissions and waste management. The UK government also has specific laws and regulations on producer safety (The Waste Electric and Electronic Equipment (WEEE) Regulations 2013 and *Producer Responsibility Obligations (Packaging Waste) Regulations 2007)* and health and safety (*Health and Safety at Work Act 1974*), etc. Guided by the United Nations ESG (Environment, Social and Governance) principles, the UK financial regulatory authority requires financial institutions including banks to disclose climate-related risks and all listed companies are required to make climate-related financial disclosures in accordance with TCFD requirements since 2022.

Intellectual Property Law: intellectual property covers copyrights, patents, designs and trademarks. Infringements of intellectual property rights include theft, design, production and compiling of products and brands invented by others. The UK has passed legislation to protect intellectual property rights, including the *Trade Marks Act 1974, Patent Act 1977, Patent Rules 2007 and Patent (Fee) Rules 2007, the Design Rights Section: Copyright, Designs and Patents Act 1988,* and *the Copyright Act*. Intellectual property protection is also one of the keyways the UK supports innovation and company growth.

Anti-money Laundering Law: the free and open market environment in the UK makes it easy to be a destination for money laundering. Britain attaches great importance to combating anti-money laundering crime and clearly stipulates that attempting or helping money laundering is a major crime. Relevant laws include the *Proceeds of Crime*

Act 2002, Terrorism Act 2000, Terrorism Assets Freezing Act 2010, Money Laundering, Terrorist Financing and Money Transfer (Information on the Payer) Regulations 2017. On January 10, 2020, the UK passed the *Combating Money Laundering and Terrorist Financing (Amendment) Regulation (the Fifth AML Directive, 5MLD)* to enhance due diligence.

Chapter 3 Expectations and Suggestions of Chinese Enterprises on Investments and Operations in the UK

3.1 Views of Chinese enterprises in the UK on the UK business environment and their expectations and suggestions for the UK government

3.1.1 Views on the UK business environment

Chinese enterprises in the UK remain confident in the UK business environment. According to the 2021 Report on the Development of Chinese Enterprises in the UK, over 80% of survey respondents are optimistic about improving revenue and profitability in the next two years. The majority of companies surveyed do not anticipate the impact of external challenges such as Covid-19 (86%) and Brexit (94%) to last over the longer term. Chinese enterprises generally expect that the UK government could improve the business environment in the aspects of strengthening the stability of investment and trade policies, providing more incentives and infrastructure support for investment projects, reducing trade barriers, providing more convenient visa policies for executives, etc. (See Table 5-1). Nearly half of the entities surveyed had plans to expand the scale of their investment in the UK and no entities had plans to divest, largely due to their optimism over the long-term prospects for UK-China collaboration. 95% expressed a neutral to optimistic view about the future of UK-China relations.

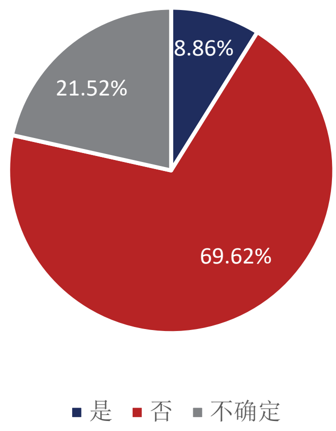
Table 5-1 Actions the UK government may take to help improve the business environment in the next 2 years (Respondents may select up to 3 options)

Content	Ratio	Qty.
Reduce trade barriers	39.24%	31
Strengthen the stability of investment and trade policies	70.89%	56
Provide more convenient visa policies for executives	32.91%	26
Provide more incentives and infrastructure support for investment projects	48.10%	38
Reduce difficulty in applying for licenses and permits	16.46%	13
Other	6.33%	5

Source: 2021 Report on the Development of Chinese Enterprises in the UK

The UK has a free business environment, and the UK laws treat domestic and overseas investors equally. The UK government values highly of investment promotion and has a department specially set up to provide assistance and guidance to companies. The Department for International Trade is the UK government department specializing in investment, working to provide suggestions and information on funding, financing, recruitment, and operations for overseas companies coming to invest in the UK and recommend specialist advisers and key contacts to help investors seek partners and secure financial incentives. Local governments are also key institutional promoters for investment promotion. Chinese enterprises may consult the department concerned or local government agencies for more effective information before investing in the UK. As revealed in Fig. 5-1, Chinese enterprises seldom experience discrimination in the UK (including boycotts, targeted policies, etc.).

Fig. 5-1 Discriminatory Treatment encountered by Chinese enterprises in the UK



Source: 2021 Report on the Development of Chinese Enterprises in the UK

The UK allows for free flow of capital. The UK imposes on regulations on foreign exchange. In October 1979, the UK abolished exchange controls, due to which there is no remittance controls, no restrictions on the inflow and outflow of foreign currency and no restrictions on the outflow of company profits. Any companies or individuals capable of providing appropriate information are allowed to open accounts in local banks.

3.1.2 Changes in the external environment

The post-pandemic and post-Brexit era will see changes in the UK business environment, both external and internal, which interact with each other. Politically and economically, the external environment will change in the following four aspects.

Firstly, the post-Brexit political environment change will be felt. The UK needs to reshape its foreign policies. Judging from the UK government's recent diplomatic strategies, the UK will move closer to the

US in military security and international affairs as proven by the following three actions. Primarily, it has established AUKUS together with the US and Australia which is committed to the strategic eastward shift and the construction of the Indo-Pacific strategy, and Liz Truss, who promotes the strategy, has succeeded Dominic Raab as Foreign Secretary. Next, the UK is willing to join the United States-Mexico-Canada Agreement as an alternative to the divisive United Kingdom–United States Free Trade Agreement. Finally, the UK has not enlarged the disarray caused by the US's withdrawal from Afghanistan and the likelihood to follow the US's lead in future military actions and security remains high.

Secondly, Chinese enterprises in the UK will suffer a greater operational pressure as the pandemic uncertainties remain and. Despite the full lifting of the lockdown in the UK, the risk of an outbreak remains high. Affected by the pandemic, global supply chains have been disrupted, leading to shortage of capacity and rapid hike in transport prices. The UK is suffering too. Rising prices of goods, including fuel, raw materials, and some commodities, will add to company costs. In addition, there are greater uncertainties in business environment, companies are thus exposed to fluctuations in interest rate, exchange rate and commodity price due to market volatility.

Thirdly, companies will suffer a greater cost pressure since there is a greater likelihood of tighter macro policies in the UK. On the fiscal policy front, currently the UK government's wage subsidy programme for corporate employees ended at the end of September 2021, and in the future, support for corporate guaranteed loans will be stepped down and tax rates on large enterprises will be raised to offset fiscal deficit. On the monetary policy front, the BOE has signalled a tightening of monetary policy considering the currently persistent high inflation. The UK market expects a base rate increase from 0.5% to 1.25% by the end of 2022. Along with the interest rate hike, the mortgage product cost will rise accordingly.

Fourthly, Chinese enterprises in the UK is likely to see a more complex global trade pattern in the short term. The EU is the UK's largest trading partner, and the UK has entered into trade agreements with many countries around the world via the EU. The post-Brexit UK needs to set its trade rules and renegotiate bilateral trade agreements. Many businesses take the UK as a bridgehead in Europe and operate in a way that is based in the UK to radiate into the European region. As a result, enterprises in the UK will have to prepare an increasing amount of customs clearance documents and procedures in the short term. The UK and the EU are negotiating over trade arrangements in Northern Ireland. If no deal is made, the UK may suspend part of its free trade agreement with the EU and the EU may sue the UK. Facing these uncertainties, trade efficiency and operating costs for both businesses will suffer. The companies concerned still need to watch progress and make appropriate response plans.

3.1.3 Expectations and suggestions for the UK government

3.1.3.1 Key expectations of Chinese import and export trade enterprises in the UK

The post-Brexit UK should strengthen trade ties with various countries and secure trade agreements to create a favorable free trade and business environment for enterprises. The UK government should further simplify customs clearance procedures to improve trade efficiency and provide appropriate support and guidance on export control and declaration of special items to reduce the risk of legal proceedings for enterprises in the UK. In view of the supply's shortage in the UK, importers should be entitled to corresponding tariff concessions. Import and export enterprises are particularly sensitive to foreign exchange fluctuations, so the government should instruct enterprises to take relevant hedging measures in the context of complex external environment for avoiding losses caused by fluctuations in exchange rate and interest rate.

3.1.3.2 Key expectations of Chinese investment enterprises in the UK

According to the 2021 UK Chinese Business Development Report survey, High compliance risk was the second most selected challenge, cited by 31% of the entities surveyed. Shifting the UK policy towards Chinese investors was cited by 14% of respondents - up from 8% last year - and is likely to be in response to the UK's National Security and Investment Act which came into force on 4 January 2022. The act allows the UK government to proactively scrutinise acquisitions in 17 areas that get involved in the UK's defence and security sector, including advanced materials, advanced robotics, artificial intelligence, civil nuclear, communications, computing hardware, and critical suppliers to government[5]. This act also retrospectively reviews the deals closed between 12 November 2020 and commencement of the act.

Addressing high compliance challenge has become one of the keys to the development of Chinese enterprises in the UK. While strengthening their own compliance training, Chinese companies still anticipate the UK government to simplify the review process for overseas investors to boost their enthusiasm for investment in the UK. The UK government should provide specific guidance and suggestions for Chinese companies on how to familiarise themselves with the business environment, such as the company incorporation procedures in the UK and scientific cooperation.

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[5] The 17 areas are advanced materials, advanced robotics, artificial intelligence, civil nuclear, communications, computing hardware, critical suppliers to government, suppliers to emergency services, cryptographic authentication, data infrastructure, defence, energy, military and dual-use, quantum technologies, satellite and space technologies, synthetic biology and transport.

The UK government should clarify the UK's protected areas and not politicise business activities; it should comprehensively consider and verify major business decisions against Chinese companies to avoid a lose-lose situation (refer to the Huawei case); it should support major projects in which Chinese companies are involved to avert the adverse impacts of sudden interruptions, unless lawbreaking behavior occurs; it should act as a go-between for technological and talent cooperation between Chinese enterprises and local enterprises and optimum resource distribution by establishing project platforms and organising information exchange events; it should lead Chinese enterprises to appropriate policy funding support and to special economic zones, especially those small and medium-sized Chinese enterprises with innovation and high growth potential, and should provide them with the UK government should guide Chinese enterprises to enter special economic zones, especially small and medium-sized Chinese enterprises with innovation and high growth potential, and should give them preferential policies such as low taxes and low rents to promote local employment and revitalise economic development.

Case study: The UK government excludes Huawei equipment from its 5G network

Huawei has been operating in the UK market for some two decades. It employs 1,600 people in the UK, builds research centres in Edinburgh, Bristol, Cambridge and Ipswich, and funds research at Imperial College, University of Southampton, and University of Surrey. Huawei plans to invest £3 billion in the UK over the period 2018-2022, according to Huawei's website.

The UK's decision to exclude Huawei equipment from its core 5G network is a typical behavior to politicise business. This decision is made after twists and is closely linked to the changing situation in US-China relations (Table 5-2). On 28 January 2020, the UK government allowed

Huawei into the non-sensitive parts of the country's 5G network, requiring its market share up to 35%; on 22 April, the UK government reiterated that it is firmly committed to allowing Huawei into its 5G construction without any further change or reconsideration. On 2 July, when responding to the influence of Hong Kong's National Security Law on the UK's decision to restrict Huawei products, the UK Prime Minister Johnson said, "I'm not willing to see critical national infrastructure at risk of being controlled by suppliers from potentially hostile countries and will consider carefully how to proceed with it." Ultimately, on 14 July, the UK government made the decision to ban Huawei 5G equipment: 1) buying new Huawei 5G equipment will be banned after 31 December 2020; 2) all Huawei equipment currently in use in the UK will be removed from 5G networks by the end of 2027; and 3) Huawei will remain be ruled out of the most sensitive core parts of the UK's 5G networks. The decision exactly come when Sino-US trade became tense and the Trump administration-imposed pressure on the UK to crack down on Chinese 5G equipment.

The UK will infact suffer more from Huawei ban. The decision to eliminate Huawei would not help the UK build its position as a leader in the 5G era, instead the country may even miss out on the economic benefits of the era. From the UK telecoms operators' viewpoint, it would be costly for major 5G service operators in the UK to remove and replace Huawei equipment worthy of billions of pounds; from the UK end users' viewpoint, they would lose their mobile phone signal and experience a degraded service. The decision has limited impact on Huawei's operation, yet it will hamper the company's future business expansion. On the one hand, the UK, which accounts for less than 1% of Huawei's global revenue, would have little impact even if sales of 5G network equipment were to go to zero. On the other hand, this U-turn of the UK government will inevitably have a negative impact on Huawei's expansion into other developed markets and generate implications beyond the geographical confines of the UK. The exact impact waits to be further assessed.

Chinese banking sector in the UK: There are 10 Chinese banks operating in the UK till now. Bank of China is the first Chinese bank to establish an entity in the UK, and large state-owned banks and joint-stock banks have set up branches there (Table 5-2). Chinese banks mainly provide M&A, trade finance and corporate loans to Chinese enterprises going abroad, as well as serve the investment and financing needs of local clients. The asset size of Chinese banks and financial institutions is small, amounting to less than 1% of the total asset size of the UK banking sector (approximately £10 trillion), and there is much room for business expansion. While Chinese banks proactively engage with local markets and higher value-added businesses, it is recommended that the UK government create better business development opportunities for Chinese financial institutions and provide Chinese enterprises, international students, and high net worth individuals with convenient services in the UK, such as preferential treatment in visas for international students and employees. Regarding corporate clients, the government should simplify the review procedure for large Chinese companies going abroad and take the results of due diligence investigations by the Chinese side as an important basis. Regarding banks' financial institution business, in the context of RMB internationalisation, the London offshore RMB market is relatively active, thus the UK regulators should consider accepting RMB capital injection for capital injection or capital increase of financial institutions established in the UK. Moreover, although the UK's financial regulation is largely derived from the EU legal system, the UK's 'principles-based' regulation is different from the EU's 'rule-based' approach in essence. The post-Brexit UK attempts to develop its own financial regulation laws, yet many of the financial regulation rules are still in the initial consultation stage. It is recommended that the UK financial regulators expedite its introduction of new rules and regulations, strengthen communication with Chinese financial institutions and give sufficient buffer time to minimize the risk of regulatory violations.

Table 5-2 Types of incorporation date of Chinese banking institutions in the UK

Name	Type	Incorporation Date
Industrial and Commercial Bank of China (London) Limited	Subsidiary	May 2003
Industrial and Commercial Bank of China London Branch	Branch	September 2014
ICBC Standard Bank PLC	Holding subsidiary	2015
Agricultural Bank of China London Branch	Branch	April 2018
Bank of China (UK) Limited	Subsidiary	October 2007
Bank of China London Branch	Branch	November 1929
China Construction Bank (UK) Limited	Subsidiary	March 2009
China Construction Bank London Branch	Branch	February 2015
Bank of Communications London Branch	Branch	June 2016
China CITIC Bank London Branch	Branch	June 2019
Shanghai Pudong Development Bank London Branch	Branch	February 2018
China Merchants Bank London Branch	Branch	June 2016
China Minsheng Bank London Representative Office	Branch	July 2020
Haitong Bank London Branch	Branch	May 2001

Source: Compiled by Bank of China based on public information

3.1.3.3 Chinese enterprises need to recruit professionals

Considering that the UK minimum wage is increasing from April 2022 and the country continues to transform toward a high-wage economy, businesses may face higher costs. The government can help companies expand their employment channels in the following ways. Firstly, universities and industries are combined to establish a talent pool in universities, and job fairs, presentations and other activities are organised to help companies establish ties with universities. Secondly, some companies may recruit international talents who are familiar with both China and the UK and offer special support for those who are suitable for the enterprises. Thirdly, the exchange of talent across industries is promoted and special policies are launched to support recruitment in industries with labor shortages.

3.1.3.4 Expectations for the UK and Chinese governments

It is recommended that the two countries continue to strengthen communication and deepen cooperation on fields such as international governance, climate change and financial services to promote sound development of bilateral relations. Accelerating the China-UK industry regulation signing facilitates the agreements and arrangements of bilateral corporate development. Enhancing multi-level cooperation between the UK and Chinese civil society organisations, think tanks and industry associations helps the UK government make positive business decisions on Chinese enterprises. Both governments may leverage the strengths of the UK and Chinese enterprises in talents, infrastructure projects and financing services to instruct them in developing third country markets together.

3.2 Actions the CCCUK may take to support operation of Chinese enterprises

The China Chamber of Commerce in the UK (CCCUK) is positioned as a bridge for China-UK economic and trade cooperation and a non-profit organisation representing and serving interests of Chinese enterprises. It aims to help Chinese enterprises in the UK integrate into mainstream British society faster, provide platforms for business exchanges and cooperation and offer tailor-made professional services for them. Primarily, CCCUK should strengthen its business promotion. It may hold high-level dialogues on technology exchanges and cooperation to promote investment in the UK for businesspeople from all over China, and make more efforts in local market surveys, various seminars, industry exchanges and business training activities, etc. Next, it should further cooperate with local business associations (e.g., 48 Group Club and China-Britain Business Council) to keep up with the latest developments of local industries and outstanding enterprises and give effective support to Chinese enterprises in the UK in business development and business cooperation. Finally, it should articulate expectations to the UK and Chinese governments on behalf of Chinese enterprises to facilitate the optimisation of business environment.

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Appendix 1:

Introduction to China Chamber of Commerce in the UK

China Chamber of Commerce in the UK

China Chamber of Commerce in the UK (CCCUK) was founded in 2001 (previously known as the China Enterprises Association in Britain), mainly consists of Chinese enterprises in the UK and Chinese economic and trade organisations. The CCCUK is a non-profit organisation representing and serving interests of Chinese enterprises, aiming to promote China-UK economic and trade relations.

In 2015, China Enterprises Association in Britain was re-named as the China Chamber of Commerce in the UK. The CCCUK aims to establish close relations with appropriate UK government departments, companies and business associations, to promote China-UK cooperation and assist the establishment and future growth of Chinese enterprises in the UK.

At present, our members include nearly 300 leading Chinese companies in the UK, covering dozens of sectors, including finance, insurance, telecommunications, energy products, technical manufacturing, real estate construction etc. The CCCUK has 27 Standing Committee member companies, and four committees including, Financial Committee, Trade Committee, Technology Committee and Supervisory & Management Committee. With support from the Chinese Embassy in the UK, the CCCUK has grown into an important force representing business interests of Chinese enterprises in the UK and conducting external exchanges as well.

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Appendix 2:

List of China-UK Bilateral Economic and Trade Agreements, Conventions and Mechanisms for Economic and Trade Cooperation

[1] May 1985, Agreement between the Government of the People's Republic of China and the Government of the United Kingdom of Great Britain and Northern Ireland on the Promotion and Reciprocal Protection of Investments

[2] January 2009, UK-China Cooperation Framework

[3] June 2011, Agreement between the Government of the People's Republic of China and the Government of the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Income and Property Gains

[4] February 2013, Protocol of Amending the Agreement between the Government of the People's Republic of China and the Government of the United Kingdom of Great Britain and Northern Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Income and Property Gains

[5] June 2013, the People's Bank of China and the Bank of England signed a bilateral currency swap agreement valuing RMB 200 billion/£20 billion

[6] December 2013, Memorandum of Understanding on UK-China Research and Innovation Cooperation

[7] June 2014, Joint Declaration between the Government of the People's Republic of China and the Government of the United

Kingdom of Great Britain and Northern Ireland
[8] June 2014, Memorandum of Understanding on the Establishment of the Working Group on Investment Promotion under the Framework of the China-UK Joint Economic and Trade Commission
[9] October 2015, UK-China Joint Statement on Building a Global Comprehensive Strategic Partnership for the 21st Century
[10] December 2017, Memorandum of Understanding on Cooperation in Science, Technology and Innovation
[11] China-UK Economic and Financial Dialogue (EFD)
[12] China-UK Joint Economic and Trade Commission (JETCO)

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