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Doing business with China

PLUS:

Solent Business Awards, Guildford, corporate finance and more

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The Business Magazine hosted this roundtable event at national audit, tax, advisory and risk firm Crowe's Reading office. Crowe, Charles Kendall Freight and HIFX sponsored the roundtable. Tim Wickham reports on ...

Working with China and the Far East



The Roundtable team

Participants

John Freeme : Chief dealer - corporate foreign exchange, HIFX

Christopher Lethbridge : China market business adviser, China British Business Council

Yingni Lu : Director, 88 Initiative

Robert Marchant : Partner, Crowe

John McLean OBE : Chairman, China Resolutions

Darren Seward : Head of mobile, Westcoast

Robin Stevens : Corporate finance partner, Crowe

Stuart Stoter : Export finance adviser, UK Export Finance

Peter Sunderland : Managing director, Charles Kendall

Max Vialou-Clark : Commercial director, Prodrive

Dr Kegang Wu : Managing director, BCC LinkToChina

Eric Yu : UK open market senior sales manager, Huawei UK

David Murray: Founder and publisher of *The Business Magazine*, chaired the discussion



Stuart Stoter



Kegang Wu

Roundtable chairman **David Murray**, publisher of *The Business Magazine*, set the scene with some statistics: China is the UK's fifth largest trading partner and its second largest outside the EU. **Murray** opened the discussion by asking participants to share their advice for doing business in this huge and diverse market.

China's multiple markets

The first question the panelists tackled was how best to approach the Chinese market. **John McLean** at China Resolutions has been trading with China for 20 years and specialises in corporate governance and dispute resolution. He said China is too large to be treated like a single market: "You really need to look at China as having 34 provincial-level administrations that operate like separate countries. So it's comparable with Europe but with a population of 1.4 billion rather than 600 million. No-one can be an expert in all provinces. My advice would be to focus on a province and concentrate on it."

He added: "Economically, China has done what it said it would do over the past 10 years and in terms of what they want to do moving forward, you can believe they will achieve this too. The issue of US tariffs has upset the apple cart somewhat,

but China publishes its economic plans well into the future, so the current tariffs are really just a blip for them. China plays a tactical game and while there is more openness, companies should approach business warily and go in slowly."

BCC LinkToChina promotes stronger UK/China business connections. **Dr Kegang Wu** agreed with **McLean's** analysis. "Chinese government policy on regulations framework nationally is identical, but implementation details may differ as different provinces put different character twists on them. I focus on Guangdong province, which has a population of around 110 million. China

is the world's second largest importer, so they are not just selling products, and FDI (foreign direct investment) is also significant. I was at this year's London Fashion Week where it was said that 20% of participating companies are from China. In the Shenzhen promotion seminar, I learnt that 40% of wearable products made in China are from the City of Shenzhen. You've got to look at which province or market is best for your company," he said.

Robin Stevens at Crowe suggested: "Choose provinces that are likely to have the most traction for your products and which have a track record of international trade. After all, a company could easily spend its whole life trading with just one province, for example Guangdong, Henan and Shandong, because the populations in each are larger than any European country. See what Chinese government incentives are available. These used to be based on particular regions to help them catch up with others. Now, incentives are based more on specific industries where growth and development are required. Do your detailed planning and research in advance, including using UK resources such as the Department of International Trade and the China British Business Council, so you maximise your chances of success."

Where to start

Christopher Lethbridge at the China British Business Council said: "First, get a clear understanding of your value proposition for doing business in China. And remember, there is growing competition, from Australia, Canada, New Zealand, the rest of Europe, the US and domestically. For example, you can walk into a Chinese supermarket and find hundreds of brands of bottled water from around the world – but what is the differentiating factor? Decide on your USP (unique selling point) so you can target your approach – or you could get lost very quickly."

Prodrive designs and builds racing cars and has done a number of deals with Chinese manufacturers as it takes tentative steps towards greater involvement with potential partners. Commercial director **Max Vialou-Clark** said: "We're not yet ready to consider moving any of our UK manufacturing in China, but we are engaging with potential customers in China."

Charles Kendall Freight's managing director **Peter Sunderland** said that there is more than one road to China, including via free-trade zones. "We advised a Cambridge-based company to move its depot from the UK to a free-trade zone in China to make its supply chain more

effective, which was very successful. But you first have to clearly understand the rules and regulations," he said.

Joint venture benefits

Yingni Lu is a director at specialist advisory firm EcoLeap, which brings UK and Chinese companies and investors together. She thought joint ventures should be an important consideration for UK businesses: "The points others have raised make a lot of sense – you need to know why you want to go there, what value you will bring to China. The most important step after that is to look for a suitable partner you can trust to work with, but without rushing into a partnership."

When businesses develop trading links with China they shouldn't forget about practical details, like tax, advised Crowe partner **Robert Marchant**: "Deals often get done but the company's tax team only finds out later. There could be questions around registration and how much tax will be due, which could erode profit margins on a deal. So, be prepared, find out the tax rules, work out what you will need to pay and when."

SME opportunities

Tread with caution was the general consensus for SMEs eyeing the Far East. **Stuart Stoter** from UK Export Finance said: "Six or seven years ago, many SMEs – from start-ups to well-established businesses – were talking about trade with China. These days, I rarely hear the topic mentioned. That could be because SMEs are well established trading in China and it's no longer a big deal. And perhaps the number of companies that had tried and failed has been winnowed down. Success comes from taking your time – SMEs should take a long-term, strategic approach."

Lu added: "I work with research sector companies looking to export to China and the Far East. The challenge is to match UK expectations with those of the Chinese client. In our experience, UK businesses do best by shopping around, especially in provinces that are attracting UK research organisations and universities, and which are ready to sponsor research in the UK."

China is keen to attract businesses and talented people, agreed **Wu**. "Chinese provincial governments are busy going around the world looking for talent. China has realised that the next stage of its development is all about advanced technologies and services, which depends on human capital. China wants to attract the best and the country is rolling out the red carpet if you are well qualified. I think UK service industries could have a field day working with China in the next 10 years," he thought.



Eric Yu



John McLean



Peter Sunderland



Robert Marchant

Continued overleaf ...

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China offers huge potential for SMEs, **Wu** believed. "My reading from my experience is that among some SMEs there are a large number who have good potential in China but haven't yet done anything about it although they know they should. The big question for us is how can we help more of these Thames Valley businesses into the Chinese market, which is ripe and ready" he said.

British businesses have a great appeal in China, noted **Stoter**: "Saying you're British is a good thing and still has a premium on it. Don't underplay the nature or origin of your goods and services."

Trade from China to the UK is benefiting the Thames Valley economy. The success of Chinese telecoms giant Huawei, with its UK base in Reading, is a good example. Huawei's **Eric Yu** said: "Huawei uses carefully picked local suppliers for marketing and product delivery. We employ nearly 1,000 people in the UK and work with a number of Thames Valley companies."

One of these is Westcoast, whose head of mobile **Darren Seward** said: "We bring in Huawei tablets and mobiles from China and market them in the UK. The UK market is very brand driven and Huawei has done well here over the past 12 months. We see this as a massive opportunity for Westcoast. What is key, as Eric says, is bridging cultural differences between Huawei and UK businesses."

eCommerce entry route

An increasingly popular route to reach Chinese consumers is through eCommerce. "China is the world's largest eCommerce market," **Lethbridge** pointed out. "This presents opportunities for selling direct to consumers as for some products eCommerce can get around some of the cross-border rules and regulations."

A number of Crowe's clients use eCommerce to transact with China. "The whole process is evolving rapidly and things are changing very quickly. While our clients who use eCommerce with customers in China haven't faced any major issues to date, careful planning and early-stage advice is required," said **Stevens**.

Lethbridge added: "Around 90% of Chinese eCommerce is on platforms operated by a few huge conglomerates, like Alibaba. We generally have good relationships with them and regularly let them know if UK companies find IP violations. Alibaba has a reporting system to flag incidents. However, companies should remember that in China trademarks are first to file, not the first to use.. For example, if you give someone your

business card, they could register your logo or product as their own, so make sure you register trademarks and patents before you start out in China."

Getting paid

Doing your homework, finding the right partners and starting to trade with China can be challenging. The panelists also agreed that getting paid for your products and services can be frustrating. **Vialou-Clark** shared a practical example. "We (and our Chinese partner) are finding it difficult getting money out of China. Payment on our first transaction with a Chinese partner was due within 25 days and is now measured in months. We've been told not to worry, that the process is complicated, and that the issue is all about regional and central bureaucracy" he said.

China's foreign exchange controls make this a common problem noted **John Freeme** at foreign exchange broker HiFX. "Getting money out isn't always a swift or easy process. The first time you do it might take longer, for example, if local Chinese banks have never transacted overseas and don't understand the mechanisms for sending money. Getting money in to China is easier than getting it out."

Wu added: "I think taking money out of China is pretty straightforward if you understand the paper work requirement. Many payment delays can be due to misunderstandings in the process. For example, for service contract you need to file it with China's foreign exchange bureau, while some Chinese companies are not experienced to deal with foreign currency procedures. Even some local branches of the foreign exchange bureau and banks can sometimes be confused."

Persistence should pay off, advised **McLean**. "You have to be completely and utterly persistent. The rules are set in Beijing, but officials carrying them out in the regions who are handling the nitty gritty can be paranoid about making a mistake in the paperwork. You have to keep at it," he suggested.

The panel discussed various options to speed up the process of getting paid. "Letters of credit can work to your advantage, although they are usually only used with tangible goods rather than services," said **Stoter**.

"Our parent company is Huawei Group and Huawei UK signs contracts with Huawei Hong Kong, which then deals with the Group company in China. This means we have fewer delays moving money," said **Yu**.

McLean said: "We also use Hong Kong as a conduit to China and that makes life significantly easier for us. You could use an intermediary, like a lawyer in China, so you



John Freeme



Darren Seward



Chris Lethbridge



Robin Stevens

know your cash is ring-fenced and under your control."

However, for UK companies without a legal entity setting up Chinese bank accounts isn't an option. **Wu** pointed out: "You can't do this, unless you have a legal presence in China, such as a limited company or a legal representative".

Charles Kendall Freight has set up a Chinese-owned company. "It's important to recognise that there are different ways to do things in China. We did not approach China as a British company, we thought it most logical to start a base from Hong Kong under CEPA. We only employ Chinese staff and pay Chinese taxes and our other Chinese offices branch from our Hong Kong base. To work in China efficiently, you need to be Chinese." said **Sunderland**.

Compliance, governance, disputes

Pick your partners with care, advised **McLean**: "A legal representative is an individual who has power to commit your company to do anything and who can control core decisions. This can be a big issue for European businesses to understand."

Wu thought managing properly of a legal representative office was critical. "They act on behalf of your company, so how you manage them is a key issue here. You have to treat it very seriously."

It's best to do everything possible to avoid problems reaching the point of litigation. "Generally speaking, I don't think UK companies should rely on the Chinese court system to resolve difficulties. The process can be endless," said **McLean**.

Open for business

Wu talked about China's Greater Bay Area strategy that will see Hong Kong, Macau and Guangdong co-operating more closely, with integrated economic development. "This should be of interest to UK companies. There are similarities in practices and regulations between the UK and Hong Kong which help. The three free-trade zones in Guangzhou, Shenzhen and Zhuhai offer freer and more flexible market policies," he explained.

Improved rail links between China and Europe will also offer UK and Chinese companies new opportunities. "The continental rail network is now running regular freight trains in a year, especially from western China, which is away from the coast. Rail should be quicker than sea freight by about one third, although it is likely to be slightly more expensive. But it should be cheaper to transport goods from Europe to China than airfreight" said **Wu**.

Crowe has a major presence and many clients who trade in the ASEAN (Association of South East Asian Nations) market of over 600 million people. "Trading law and practice in countries like Singapore and Malaysia are based on English law, so it can be easier to do business there. However, in practical terms, it can still be very difficult to enforce the law in some jurisdictions and therefore commercial caution and informed local advice is required," said **Stevens**.

UK Export Finance receives a growing number of inquiries from businesses about Cambodia, Singapore and Vietnam. "UK companies generally don't know as much about these 'frontier' markets. We are seeing UK companies choosing Australia as a jumping off point for the ASEAN market. The market is growing very quickly and demand is rising for consumer goods, engineering and technology," said **Stoter**.

Trade war and Brexit

Volatility in emerging markets, particularly with the imposition of US trade tariffs and threats of trade war, means businesses need to think carefully about currencies. "The timing of getting money out of China and the Far East can be problematic. For example, it can take minutes to transfer US dollars compared with days for the Chinese yuan. The cost of hedging back to sterling has doubled in the past seven weeks due to currency movements," noted **Freeme**.

Wu observed: "China trades with most developed countries under WTO rules, rather than free-trade agreements. If the trade war continues then the US/China rate could become a 'special' rate, with the rest of the world operating under WTO rules. A lot of Chinese traders are looking for import/export more with the rest of the world in order to counterbalance the US trade war. I don't think the situation is as disastrous as the media is putting it. Both the US and China are big enough to deal with it. It is an opportunity for Europe and the rest of the world to work more closely with China. China already has free-trade agreements with ASEAN countries and many more. So the question is what sort of free-trade deal would China want with the UK after Brexit?"

Whatever deal is struck will be crucial, as the pull of the Far East strengthens, emphasised **McLean**: "The centre of world trade is moving east. Brexit gives the UK an opportunity for a post-Brexit trade tie-up. China is keen to get more business in Europe, so a UK deal could give them a template for other European countries."

The roundtable ended with **McLean** summing up the sentiment of the panelists: "China and Britain are both trading nations – we'll always look for deals that are good for all of us."



Yingni Lu



Max Vialou-Clark



David Murray



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