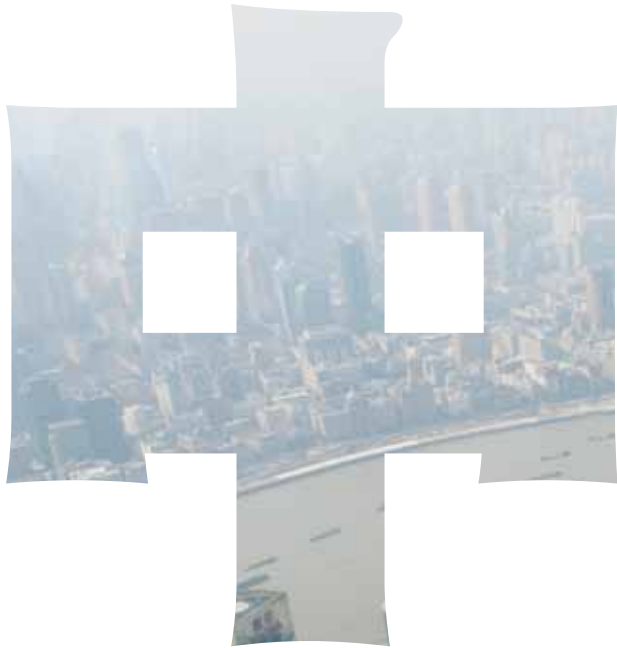




DEVELOPING YOUR INTERNATIONAL TRADE POTENTIAL



**Financial Services in China**  
Opportunities for business





Traditionally, business interest from UK companies has generally focused on a small number of large established cities in China such as Beijing, Shanghai, Shenzhen and Guangzhou. However, these markets are becoming saturated, competition is intensifying and factor input costs are increasing. As a consequence companies are increasingly willing to consider venturing beyond these cities for business expansion and development.

In 2008 UK Trade & Investment and the China-Britain Business Council produced a report entitled "Opportunities for UK Businesses in China's Regional Cities". The aim of the research was to identify where, and how best, UK business can take advantage of the opportunities presented by the ongoing growth of China's regional cities.

In the original research China's financial services industry was identified as a growth sector and one where the UK's capabilities could help to meet China's requirements across a range of industries.

The "Financial Services in China – Opportunities for Business" report aims to build upon the findings of the initial research by focusing on Tianjin and Nanjing, two of the cities ranked highly in the original report. Tianjin, which neighbours Beijing, is a major port and trading hub and the focus of much central government development. Nanjing, situated in the Yangtze River Delta just west of Shanghai, is the capital of Jiangsu Province one of China's wealthiest areas.

Where the initial report covered a broad range of opportunities across the financial services sector, this report focuses on opportunities in the specific sub sectors of professional services, training and consultancy, and venture capital and private equity.

"Financial services is one of the key areas of co-operation between the UK and China. The link has been strengthened by the increasing number of Chinese financial organisations opening offices in the City of London as well as, of course, the UK financial and professional service companies which continue to develop and expand their activities in China. As one would expect in this sector, the personal relationships between people working in both our countries are extremely important and will be enhanced by UKTI's initiative."

Sir David Brewer, Chairman of the China-Britain Business Council

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*Fast track to the world*<sup>UK</sup>

# FINANCIAL AND PROFESSIONAL SERVICES

The financial services market in China of course varies massively from subsector to subsector but can generally be characterised as large by volume with many areas still underdeveloped and under-represented, although progressing and growing rapidly in almost all areas.

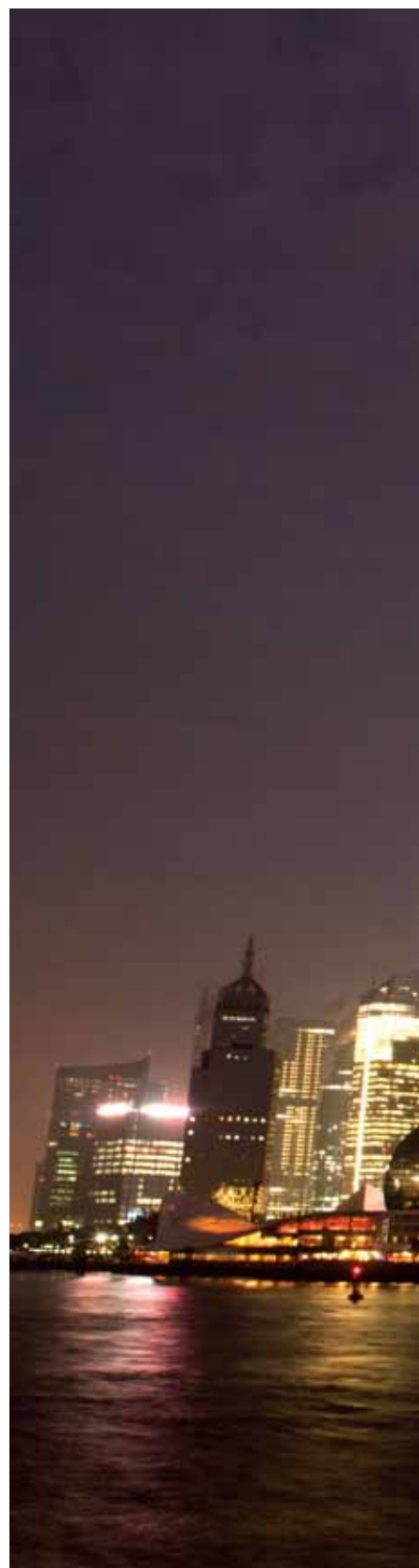
London's well-developed financial and professional services sector possesses the skills and experience necessary to assist and benefit from China's development. Furthermore, the combination of under-representation with high speeds of growth creates opportunities in a raft of areas. Banking, fund management, insurance, pensions, venture capital and private equity, securities, consultancy, training, education, legal and professional services, derivatives, commodities and exchange development are all fields offering potential for British firms. Indeed, plenty of UK companies are already doing successful business in the sector, with UK banks, insurers, lawyers and accountants all among the most successful foreign operatives in the China market.

Chinese domestic financial and professional services companies are developing quickly along with the sector as a whole. Some are now well advanced but the majority remain behind international firms in terms of experience and operational systems. In many areas there is particularly a lack of international expertise. For example, China's major banks are the world's largest and the biggest insurance companies dominate in all areas;

however, they remain largely focused on domestic markets. Despite this, an increasing number are also looking at international markets and are establishing a presence overseas. London is the destination of choice for financial services firms entering Europe.

It is well recognised that the key to progress is know-how and there is a demand for knowledge to help the sector develop. Universities are the major players in training China's financial and professional services talent pool. There are good-quality universities across China which continue to improve their financial services training. However, vocational training as well as consultancy remains underdeveloped and in some areas undervalued. The most experienced talent will generally be found in the major cities, particularly Beijing and Shanghai.

The financial services sector in China is diversifying and new exchanges for numerous tradable products (such as commodities, carbon and property) are being set up in a range of centres around the country as China strives to create a variety of trading platforms; however, most of these remain underdeveloped. Derivatives and more complex financial products are still





somewhat nascent and are treated with caution (albeit interested caution) after the global events of the last few years. Private equity and venture capital is burgeoning but experience is still often lacking, thus there is a desire to work with foreign firms with expertise in this area. Domestic legal and professional services firms are beginning to grow, with mergers and acquisitions common in the sector. Some large players have emerged but the majority of firms remain small and unable to offer international services.

In general terms, clients will often come from the range of international investors in China already acquainted with some of the products and services available in developed markets. Foreign investors in China are increasing rapidly in many sectors, providing a plethora of potential new customers in a range of professional services.

The other client source is the increasingly savvy Chinese market, which is beginning to get to grips with some of the services common in the West. More Chinese firms are looking to internationalise and there is a growing awareness among these companies of the value of specific services – using international lawyers, bankers and accountants will be vital for many of them. In contrast, despite an increasing awareness of the role of financial products, there is still certain scepticism in some quarters of the value of “intangible” services. Pricing and fee structures need to be considered carefully as it can be more complex to get paid for advice than for goods. In addition, customers can be highly price-sensitive and in some areas it can be hard to convince them of the value of products they may not understand or even see the point of.



## Market Access – General Issues

The key government departments to deal with are the financial services regulators which control and manage the market. These are split into the CSRC (securities – [www.csrc.gov.cn](http://www.csrc.gov.cn)), CBRC (banking – [www.cbrc.gov.cn](http://www.cbrc.gov.cn)) and CIRC (insurance – [www.circ.gov.cn](http://www.circ.gov.cn)); also the People’s Bank of China. In addition, you will engage with the local Financial Affairs Offices which are designed to support the development of the sector. Also there are a number of industry associations below the regulators which may be appropriate to make relationships with. Engaging with the local government can be a major asset for your development.

“The Guideline Catalogue of Foreign Invested Industries” will advise firms planning to enter the local market which subsectors are allowed for foreign investment. There is a range of options for entering the market, including agreements with local companies, working through a partner, representative offices, joint ventures

or incorporating. All these involve different regulations and procedures and can depend on the subsector. Headquarters, branches, investments and mergers and acquisitions are all options. Financial services companies will need to look at all relevant laws and regulations. They will need to comply with those corresponding to their sector and China’s policies regarding the opening up of the financial sector as well as the regulatory trends of foreign investment in the financial marketplace.

The appropriate strategy will depend on your individual company needs. Careful preparation and research will be vital for the success of any entry strategy. UK Trade & Investment and the China-Britain Business Council are able to use their network of staff around China and advisers in the UK to provide the information, research and support you will require. Please see the Useful Contacts section for details of how to get in touch.



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The potential for the UK's world-leading financial services industry is not restricted geographically to a small number of well-known centres but can in fact be spread across the country

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### **Where to start?**

Beijing and Shanghai are the traditionally popular centres and the location of choice for many of the companies that have already set up a presence in China. Beijing as the capital is not only one of China's biggest cities but also offers the advantage of acting as home to the central Government and various regulators, which is an important driver for many investors. Shanghai, already home to key financial markets (index futures, Shanghai Stock Exchange, Gold Exchange) and domestic and international companies, has seen its development further bolstered by the April 2009 State Council's goal to mould the city into an international financial services centre by 2020. In addition to this, a number of regional financial services centres will also develop, serving local markets and also offering a more diversified variety of platforms and products. These regional cities offer a range of opportunities for the UK companies willing to seize them. They may be major manufacturing and trading hubs offering banking and

financing opportunities. Some cities have major ports and require maritime services and trade finance. A number of regional cities have particularly high concentrations of enterprise, foreign investment and per capita income which is attractive for private wealth managers and consumer businesses, or the cities may be promoting innovative industries which could be a focus for venture capital. The potential for the UK's world-leading financial services industry is not restricted geographically to a small number of well-known centres but can in fact be spread across the country, depending on the requirements of your business. Tianjin and Nanjing are two such regional cities which offer a number of advantages for UK companies.

## Nanjing

Nanjing is the capital city of Jiangsu Province and one of the four great ancient capitals of China. With a population of 7.7 million, it lies 171 miles north west of Shanghai and covers 2,541 sq. miles of the lower Yangtze River Delta. Nanjing has the third largest economy after Suzhou and Wuxi in Jiangsu province.

Nanjing is keen to foster a burgeoning financial services community and it has a number of advantages, given its logistics and location. Nanjing is the capital of Jiangsu Province, one of China's wealthiest areas. It is in the heart of the Yangtze River Delta – an area claiming to be home to only 5 per cent of the population but 20 per cent of China's GDP, and the city's GDP has been growing faster than the national average. International companies have already begun flocking to the area and it boasts over 400 of the Fortune 500 companies.

Nanjing is well connected and a high-speed train opened in 2010, cutting the journey to Shanghai down to 73 minutes. Nanjing will also be on the Beijing-Shanghai high-speed rail link which will cut the journey between China's two biggest cities to under 4 hours. Thus, while Shanghai is close and easily accessible, Nanjing can offer cheaper input costs. With the announcement of Shanghai's plans to develop as an international financial services centre, Nanjing will hope to develop as a regional hub complementing the more international role that Shanghai is likely to play, and potentially offering outsourcing options.

Discussions are already taking place between financial services officials in Shanghai and the neighbouring provinces of Jiangsu and Zhejiang to co-ordinate developments in this sector.

According to the Jiangsu Financial Affairs Office, Jiangsu accounts for 10 per cent of the total value of China's financial services sector and the province's best developed companies tend to be based in Nanjing. The city has branches of more than 92 financial institutions consisting of 29 banking institutions, 60 insurance institutions and three securities institutions. With income at RMB 18 billion, the sector accounts for 5.5 per cent of the city's GDP. This is up 28.3 per cent, making the financial services industry one of the fastest growing parts of the Nanjing economy.

In Nanjing, Jianye District has been built with the aim of attracting foreign firms to Jiangsu. The local government are offering incentives including subsidies to major companies such as land, rent, tax, and recruitment assistance. The government has expressed an eagerness to attract more branches and headquarters of international businesses to Jianye and expressed a particular interest in welcoming UK insurance companies. Potential UK investors into Nanjing should engage with the local government and development zones to investigate what incentives are open to their company.

As a major industrial and commercial centre, Nanjing also has a growing number of Chinese firms looking to globalise and expand overseas. This offers a further opportunity for UK companies. Several Jiangsu companies have already expanded abroad to access markets or capital, for example Sinosoft ([www.sinosoft-technology.com](http://www.sinosoft-technology.com)), a Nanjing company, is already listed on AIM. Jiangsu's native financial service companies are also growing, with major players including Huatai Securities and the Bank of Jiangsu.

Another advantage Nanjing boasts compared with some of the less developed regional cities is that of human resources. HR for the financial services sector is relatively well developed, although there is a large reliance on universities, with many graduates for the sector coming from Nanjing University, Nanjing Audit University, Southeast University and Nanjing Finance University.

While there is undoubtedly a good range of opportunities and advantages for activity in Nanjing, it is not all plain sailing. One company we interviewed reported that clients in Nanjing can be more conservative than in the first-tier cities. This can be a common criticism of regional cities in China.



## Tianjin

Tianjin is a provincial-level city under direct control of the central Government. It has a population of 11.8 million and is located just 69 miles south east of Beijing. Tianjin is home to the largest comprehensive and commercial port in North China and is an integral part of the Bohai Bay Economic Zone, which is one of the three biggest economic zones in China.

Tianjin, like Beijing, Shanghai and Chongqing, is a municipality directly under the central Government. Tianjin has received a good deal of government attention and this has manifested itself through its designation as the "3rd development area" following in the footsteps of the development of Shenzhen Special Economic Zone in the 1980s and Shanghai Pudong New Area in the 1990s. In 2006, Tianjin Binhai New Area was selected as "financial pilot trial area" in the national "11th Five Year Plan" and Binhai has been designated as the focal point for government attention. As well as a focus on developing itself as a financial services centre, this is driving growth across all sectors, which will create a larger market for financial and professional services, as well as a range of investment opportunities. Dongli district government report that as a result of the five year plan GDP growth has been over 17 per cent for the last three years, and per capita income is also increasing in double digits.

There is plenty of proof across China that government focus reaps real results. This will be a driver for UK firms to consider Tianjin for business. Madeleine Sturrock of Pancathay Consulting, who has focused much of

her work on Tianjin, felt its status as the "3rd development area" is the city's main selling point, especially coupled with an advantageous location and good transport links – including large and growing ports and a traditional industrial strength in a wide range of sectors.

Due to this central government attention Tianjin has a degree of leeway for decentralised financial innovation and there are a number of pilot projects in Tianjin. In October 2009 NDRC began a special programme named "The Trial of Financial Innovation Reform in Tianjin Binhai New Area". The Programme reaffirms major reforms in financial enterprises, financial services, financial markets and financial openness. It allows pilots and trials of these reforms to be arranged in Tianjin Binhai New Area and since then some developments have been made in industry funds, private equity, consumer finance and finance leases.

Tianjin Economic-Technological Development Area (TEDA – <http://en.investteda.org>) predicts that this trial will provide opportunities for UK companies in a range of areas including private equity, innovation investment, offshore finance, finance leases, factoring, accountancy and data processing.

The emphasis and momentum behind development is illustrated by the current building of Yujiapu in Tianjin, which is to be a new financial services zone to complement Tianjin Financial City which includes Jiefang Beilu. These areas are designed to provide good facilities and a "friendly environment" for the institutions and enterprises interested in setting up in Tianjin.

## Tianjin Financial City:

Tianjin Financial City is located in the Heping district of the municipality, with Jiefang Beilu as its centre. This area is the traditional cluster for the banking industry and plans for the area feature a combination of new construction and the refurbishment of some existing historical buildings. The plans involve a reported total investment of some RMB 14.5 billion.

## Yujiapu Financial District:

Yujiapu Financial District is located in the Central Business District in Binhai New Area. It is under construction at the moment and has an area of some 1.5 square miles and the total building area is over 3.6 square miles. Plans include a 45-minute train to Beijing. The local government have professed an aim to make Yujiapu the largest financial district in the world within ten years and while these may be ambitious claims it will be helped by a designated total investment of RMB 120 billion for the area's development. The plans are mainly designed for investment by securities, funds and insurance companies. In late 2008 the first carbon exchange in China was set up there.

Although Tianjin is receiving much attention and investment from central Government and it has the desire to develop as a financial services centre for Northern China; in reality it will struggle to offer the same as Beijing as the political centre. Thus it is likely to develop as a regional hub with certain niche offerings. However, the government focus combined with a range of other advantages will still make Tianjin an important centre. The city is also one of China's most prosperous.

It is 30 minutes on the fast train from Beijing. It has one of China's largest ports which is set to be further expanded and as a result it has a large (and growing) proportion of potential clients involved in importing and exporting. In addition to its good logistics and proximity to the Capital, Tianjin is also able to offer investors cheaper input costs than are available in Beijing and may thus be a possible destination for back-office processing or activities where a presence in the main two centres is not necessary.

International investors list the free-trade zone, communication and transportation network, the talent pool, high per capita GDP and government focus and incentives as the main reasons for establishing operations in Tianjin.

As well as institutions designed to help foreign investment, including the Tianjin Municipal Service Centre for Foreign Investment, Tianjin also has a good range of dedicated areas such as development zones, a bonded area, a new technology industry park and an export processing zone, which enjoy various preferential policies issued by the central government.

While talent can be hard to find in some regional cities, Tianjin is one of the strongest, boasting a number of good-quality universities such as Nankai University, Tianjin University, Tianjin University of Finance and Economics and Tianjin Foreign Studies University. TEDA tells us there are 25 universities and colleges and over 140 academic institutes in Tianjin, and also claim that, as one of China's municipalities, they attract talent from other parts of China as well. Proximity to Beijing offers another potential talent pool.

Due to its history and position as a major port, Tianjin has a good share of outward-facing enterprise. Much of this has been export-focused and trade volumes are good, but also companies are beginning to set up operations overseas across the globe. For example, the development zone has established the TEDA Suez Industrial Park in Egypt. Companies from Tianjin are increasingly interested and active in foreign direct investment.

As part of its growth as a financial centre Tianjin has developed or begun developing a number of exchanges including, for example, China's first national over-the-counter (OTC) equity bourse, the Precious Metal Exchange, Bohai Commodity Exchange and the Cultural and Art Goods Exchange. They have also worked on establishing three capital exchanges: Tianjin Binhai International Stock Exchange, Tianjin Stock Exchange, and Tianjin Financial Capital Exchange, although Shenzhen and Shanghai will undoubtedly remain the centres for capital markets. There is also the Emission Trading Exchange. It should be emphasised that many of these are not fully developed but the local authorities see this as part of creating the institutions that will help foster a hub of financial services in the city.

### **Tianjin – The Incentives**

Tianjin's desire to develop its financial services industry has led to a raft of incentives to encourage companies in the sector to establish operations in the city. Some companies are entitled to receive rebates equivalent to 100 per cent of the sales taxes and business income tax they pay in the first and second year (counted from the year when they start their business), and subsequently 50 per cent of the sales taxes and business income tax they have paid from the third to the fifth year. If an enterprise has a registered capital of RMB 1 billion or over, it may receive support of up to RMB 15 million.

Financial enterprises and core business departments of the headquarters of financial enterprises may receive support of 100 per cent of the sales taxes and business income tax paid in the first and second year and 50 per cent for the subsequent three years.

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17% +

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**Dongli district government report that as a result of the five year plan GDP growth has been over 17 per cent for the last three years, and per capita income is also increasing in double digits.**



If a financial enterprise has registered capital of over RMB 1 billion, it may receive financial support of up to RMB 15 million. A core business department of national or larger scale may receive support of RMB 5 million and a regional one may receive RMB 2 million. If a financial enterprise buys an office building for its own use in TEDA, it may enjoy support of RMB 1,000 per square metre up to a maximum of RMB 10 million. Such companies can also enjoy exemption from deed tax and property purchase tax for three years. For rented offices monthly support of up to RMB 30 per square metre is available for three years (up to 3,000 square metres).

Professional services firms including "famous firms", consultancy companies, HR firms or enterprises whose annual tax contribution exceeds RMB 1 million will receive rebates on 100 per cent of the sales taxes and business income tax for the first and second year, and 50 per cent for the next three years. Support of RMB 10 per square metre (on up to 1,000 square metres) is available on rented office space for three years. Professional services enterprises whose annual tax contribution exceeds RMB 500,000 will receive support of 50 per cent of income and sales taxes they pay in the first five years.

More policy-related information is available on the website of the Tianjin Finance Bureau and Local Tax Bureau: **[www.tjfinan.gov.cn](http://www.tjfinan.gov.cn)**

## Tianjin – Policies and Regulations

A series of policies have been issued in Tianjin in order to attract foreign investment.

The main policies and regulations include:

- Tianjin Regulation on Further Encouraging Foreign Investment.
- Preferential Policies on Introducing Good Varieties and Advanced Technologies to Develop Agriculture by Foreign Investment.
- Tianjin Policies on Further Supporting the Development of Enterprises and Attracting Foreign Investment.
- Provisions of Tianjin Economic-Technological Development Area on Promoting the Development of Modern Service Industry.
- Interim Provision of Tianjin Economic-Technological Development Area on Encouraging Venture Capital Investment.
- Provisions of Tianjin Economic-Technological Development Area on Promoting the Development of the High and New Technology Sectors.
- Tianjin Taxation Preferential Policies to Promote its Modern Service Industry.
- Tianjin Preferential Policies to Promote Headquarter Companies and the Development of Financial Industry.

The following websites are also useful:

- Tianjin Commerce Bureau: [www.tjcoc.gov.cn](http://www.tjcoc.gov.cn)
- Tianjin Government: [www.tj.gov.cn](http://www.tj.gov.cn)
- Tianjin Economic-Technological Development Area (TEDA): <http://en.investteda.org>

# TRAINING AND CONSULTANCY

Tianjin Financial Affairs Office:

*"We think training in the financial and professional service sector is very important. It is of great necessity and it is very valuable. Training in these areas is necessary for the business development of any financial institution and is the foundation of the survival and development of these institutions."*

Yitian Accountants:

*"Two people in our company are taking ACA training provided by ICAEW. We hope we can set up good relationships and work with UK accountants in the future."*

An under-represented and developing financial services sector lacking expertise in certain areas will throw up inevitable opportunities for education, training and consultancy to help develop the sector and develop more complex products and services which we have already here in the UK. This lack of experienced talent in some areas is undermining the government development strategy in the financial services sector and also impeding broader opportunities as companies find it hard to employ the right people. The UK has a wide range of consultants, professional training bodies and universities that can help Chinese individuals, organisations and companies fill the skills gaps required as the economy develops further.

Training and education has historically been an important part of Chinese culture and the role of education is growing as China develops economically. University numbers (and numbers of universities) in China are increasing, as are students heading abroad to study. However, the emphasis remains on university education, though there is a burgeoning private sector. Meanwhile, as well as individuals, companies are looking to be more competitive. For them to fulfil this goal and to develop they will require training and management consultancy.

However, despite education being highly valued in Chinese society, consultancy has been a difficult sell for many foreign companies and it remains hard to market intangible services. Some have found that selling services as training, and creating a product that more closely resembles what potential customers are accustomed to has been more successful than marketing their work as consultancy. Interest in your offer may be high, but creating a product that customers are willing to pay for is, unsurprisingly, the key to success.

While companies will need to adapt their offering to suit local tastes, there are also a growing number of foreign companies entering the Chinese market. These are likely to want to up-skill their staff and are a potential source of clients as well as Chinese firms.





International firms understand the role of training and report that it has proved an important part of staff retention in regional cities.

Universities play the dominant role in training in most cities, including Tianjin and Nanjing, which boast some of China's top universities. However, vocational training remains underdeveloped in these cities and many others. Chinese training bodies often lack the sophistication and experience of their foreign counterparts. Many can't offer the full gamut of qualifications there may be demand for and often only lower level qualifications are available (compared with universities). However, while there is still a larger focus on high academic degrees, there seems to be a trend towards international standards of qualifications which will suit UK providers.

With regard to clients, large corporates, both Chinese and international in a range of sectors, told us they are happy to consider employing foreign training firms as long as the offering is suitable and matches a requirement.

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### Nanjing

Nanjing is eager to develop as a regional financial services centre acting to complement the rise of Shanghai, which has been designated by the central Government to develop as an international financial services centre. For Nanjing to develop along these lines, the city will need to increase the human resources pool and skills levels. Local officials have indicated that they would be keen to have assistance from the UK in a range of areas where training could be offered.

As is true of many cities there is a reliance on universities for education, and it has some of China's better universities. Nanjing University of Finance & Economics (NUFE) is one of the key institutions. Nanjing University is also important. There are existing links between some UK universities and Nanjing – for example, the University of Essex and Nanjing University are working together as are Coventry University and Nanjing University of Science and Technology. However, there are no integrated courses.

### Tianjin

The Tianjin government recognises talent as one of the most important factors in attaining their goal of becoming a financial services centre. They have stated clearly that training in relevant services needs to be strengthened as the talent required for the desired rapid development of Tianjin and Binhai is currently insufficient. They added that they see an opportunity for UK firms to provide assistance in this area.

Tianjin aims to become a financial services hub for Northern China. While Beijing is likely to remain the key centre due to its role as the capital and the home of the regulatory bodies, Tianjin is likely to progress as a regional financial services centre. However, as well as developing the necessary physical infrastructure and institutions, this will require an increase in HR and skills levels. Local officials indicate that they would be keen to have assistance from the UK in areas where appropriate training can be offered.

The Tianjin Financial Services Bureau told us that financial services personnel already work closely with Beijing and Shanghai but would like to co-operate more closely with them in financial services training.

Tianjin boasts a number of strong universities including Nankai University, Tianjin University (both in China's top 20), the specialist Tianjin University of Finance and Economics and over 140 other academic institutes.

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## CASE STUDY:

# INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES (ICAEW)

With 134,000 members ICAEW is a world leader in the accountancy and finance profession. It entered the China market in 2006 through a Memorandum of Understanding with the Chinese Institute of Certified Public Accountants (CICPA). In China they primarily work with university graduates, company CEOs and financial directors to undertake and facilitate a wide range of professional activities including education and training of students, continuing professional development for members, maintenance of professional and ethical standards and cutting-edge work on technical accounting issues.

“For foreign professional training institutes to succeed in China, it is important to get two things right: One is to understand the local market and demand. The other is to establish good relations with local government. If the former is considered as a prerequisite, the latter is a big plus,” says Julia Jin, Senior Manager at ICAEW Beijing representative office.

Julia believes the opportunity for professional training is vast as China currently needs accountants and professionals who have internationally recognised qualifications. “We have benefited from the events organised by the China-Britain Business Council in terms of getting greater exposure to potential clients, and also work with CICPA and universities to explore collaboration opportunities together,” Julia adds. However, the opportunities

do not appear to be as straightforward as in the western world and it requires a lot of effort to develop potential leads into real business.

Getting support from government is crucial. “Without local government support you will probably only secure individual interest; but with support, you can conduct business on a much larger scale,” Julia explains.

The biggest barrier ICAEW has encountered is the cultural difference between the East and the West. For example, part of ACA qualification requirements is to have the trainees’ boss to agree on mentoring support during the studying process. Normally, however, Chinese trainees are very reluctant to let their boss or colleagues know they are taking professional training. It is more of a personal choice and decision. ICAEW uses a well-established western system. To make it work in China it has had to be adjusted and tailored to the needs of Chinese students.

ICAEW is a relative latecomer in the foreign professional training market. ACCA, CIMA, CGA-Canada and CPA-Australia all have an established presence in China, but there is less competition in second-tier cities such as Tianjin and Nanjing. ICAEW currently has an office in Beijing and is looking at expanding into other cities. Julia says: “The China market is still developing but this means there’s great potential for us to tap into.”

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**“Without local government support you will probably only secure individual interest; but with support, you can conduct business on a much larger scale.”**

Julia Jin, Senior Manager –  
ICAEW Beijing representative office

## The Competition

Your competition is likely to be other international training bodies. The foreign competitors will largely depend on what area of training you are offering. Most of these companies tend to be from English-speaking countries. Chinese firms and organisations are more useful as partners, and companies we spoke to expressed an eagerness to co-operate with foreign organisations.

The majority of training companies operating at the moment, particularly the local companies, are focused on helping students achieve better academic grades rather than offering supplementary or professional qualifications.

## Training and Consultancy Opportunities

There are training opportunities across the range of financial and professional services where there is a need for development, where regulations permit and where the appropriate strategy can be identified.

The Tianjin Financial Affairs Office told us: *“The financial service industry in Tianjin is rapidly developing at the moment and advanced management ideas and first-class management experiences are needed in the city. Being a financial centre with a long history, the UK should have much to offer, so there should be opportunities for British financial firms in Tianjin – with your large pool of financial talent, the advantage of the English language, high-quality expertise in this sector and the relevant supporting services.”*

TEDA’s Professional Investment and Business Invitation Office is happy to welcome organisations who can provide relevant and appropriate professional training.

Education and Training Centre – The Tianjin government are interested in becoming a hub for education, training and qualifications. They are interested in developing a dedicated vocational training centre and are keen for UK companies to support this initiative. PanCathay Consulting ([www.pancathay.com](http://www.pancathay.com)) is helping push this forward and is happy to work with British ETQ companies that are interested.

### Chinese Companies ‘Going Global’

TEDA feels, therefore, that there is a good market demand for training services. It adds that as well as providing professional training to local businesses, UK firms could help Tianjin companies to better understand overseas markets, the operating environment, demands, opportunities, relevant international or regional laws and regulations and business principles – as well as introduce them to useful business events and exhibitions.

### Accountancy

There will be an increase in the need for well-qualified accountants as the overall economy develops. While the “big four” dominate this sector, China would like to see a home-grown domestic rival emerge. Local firms will grow and they will need the expertise to manage this growth. They will need international expertise to manage the big ticket cross-border deals which the big four currently dominate.

### CFA Training

CFA training is quite a mature market in China, with a number of training centres active in leading cities like Beijing, Shanghai, Guangzhou, Shenzhen and Nanjing. Two of the major providers are Sinron Education ([www.sinron.cn](http://www.sinron.cn)) in Beijing and Golden Future ([www.gfedu.net](http://www.gfedu.net)) in Shanghai. Many universities with financial faculties also engage in CFA training.

### Legal Services

In law, firms are generally small but growing and there is a major need for improved firm management to help cope with this and further development. Local law firms are also seeking to gain more expertise in company and finance law, international trade and related legal services like dispute resolution. The Law Society and Bar Council are already running some training initiatives with Chinese counterparts and often work with UK law firms to deliver training, though this is unpaid.

Baode Law, a Tianjin-based law firm ([www.baodelawfirm.com](http://www.baodelawfirm.com)), told us they would be very happy to work with UK counterparts providing consultancy and training services in Tianjin.

### Risk Management

As the financial services industry gets more complex, there is a greater need for risk management and there is a lot of interest in this area. However, it can be difficult to get paid for advice on this, so fee structures need to be carefully considered (see Seizing The Opportunities section).

### Venture Capital/Private Equity

The Government wants to improve the VC/PE industry to help support growth industries, particularly hi-tech, high-value industry and green technology. However, the industry is relatively new in China and so lacks expertise. The UK has this expertise and there is eagerness across the country to work with companies that can offer training in this area. There is a particular lack of talent that understands both the technological issues behind innovations and the financing models available through VC/PE. TEDA reported that while its aim is for Tianjin to become China's predominant centre for private equity, fund managers are still insufficient.

### Exchange Development

Tianjin and Nanjing want to develop a niche to become regional financial centres, and they see exchanges as a way to do this. However, they need expertise and experience to do this effectively. Local officials indicate they would like to work with foreign experts to facilitate this. Central Government approval is needed to establish these mechanisms. Tianjin has received permission for a number of these, notably the OTC exchange, and as a pilot city is in a good position to develop further in this area. Thus services geared towards market regulation, compliance and risk management in relation to the existing exchanges, those under development (such as the metals and carbon trading exchanges) and the exchanges yet to be developed – all could be welcomed.

## Featured Chinese Training Providers

**Hentane (Hantang) Education Group** ([www.hentane.com](http://www.hentane.com)) is a Chinese financial and taxation education and training provider with branches in ten cities (Beijing, Tianjin, Chongqing, Xian, Dalian, Chengdu, Xining, Kunming, Jinan and Urumqi) with over 400 professional staff. It offers public courses on finance and taxation, including (among other products) certificate courses, online courses, corporate financial training courses and academic education. It works with both individual and corporate clients and also with Chinese universities to promote its high-end formal schooling courses. It opened in Tianjin in March 2008 and has since trained some 800 clients.

It is already co-operating with some American training providers and would like to work with UK firms as well. It is particularly interested in projects targeted at high-ranking financial and taxation officials and individual clients. It would like to work with companies that can provide formal and long-term courses which issue certified qualifications. They added that while Tianjin's universities are strong, in addition to academic qualifications people working in a range of spheres, including banking officials and CFOs, need additional qualifications and training.

Hentane says:

*"In Tianjin, the financial sector is boosted by the publication of various encouraging government policies, and Binhai New Area is at the forefront in this regard. Internationally qualified financial talent will be needed urgently in Tianjin and education and training courses from the UK that can provide top-level international certification will be required. We could work together with relevant UK institutions on this point as we have various resources, including potential students/clients."*

**Golden Future** ([www.gfedu.net](http://www.gfedu.net)) is a Chinese professional and financial training provider with more than ten branches throughout China including one in Nanjing. It offers high-end certificated training including CFA, FRM, CFRM, PRM, RFA and CPA programmes; also technical training, online courses, and corporate financial training. The Nanjing branch opened in 2008 in co-operation with Nanjing University.

**Nanjing Audit University** (<http://english.nau.edu.cn>) has recently set up a training centre for senior finance personnel which also serves as a centre for auditing and finance training for staff from across China, and as an examination centre for auditing autodidacts.

For insurance training, **the Financial and Insurance Dept of Nanjing University** (<http://nubs.nju.cn/en/aboutus.php/j12>) organises qualification tests and training for practitioners in Jiangsu and across the country. It has established a range of training and test centres including the Training and Test Centre for Insurance Practitioners (the only national-level centre for insurance practitioners in Jiangsu Province), LOMA and CPCU training and test centres, the Test Centre for Chinese Actuaries, the Test Centre for North American Actuaries and the AIA-Nanjing University Actuary Centre.

## Seizing the Opportunities

There is a demand for knowledge and the key is finding the best way to get paid for the transfer of knowledge. A number of international bodies are giving information for free. Many have done so hoping future fee-paying work will be forthcoming.

### Tailor your Offer

Understanding the market is essential. Communication with students and potential clients is vital in order to understand their wants and needs. Work out where the demand is and tailor your offering to this need.

There is, for example, less inclination to pay for consultancy, and the value of intangibles is not as well regarded as in the UK. While the opportunities are large, and competition lower, this feeling is likely to be stronger in regional cities. Consultancy is better marketed as training courses. Certificates are also often appreciated as this helps to underline the tangible benefits of the service and makes the format similar to models that clients are more accustomed to.

## Relationships and Recommendations

You should establish good relationships with local governments. Organisations like the local financial affairs office, SASAC bureau and industry associations will be useful contacts; as will the relevant professional organisations. These contacts can help you reach a much wider group of potential clients.

Recommendations are also important in winning business. Local companies tell us that existing clients help by recommending them to potential new clients.

### Local and Cultural Considerations

You need to bear in mind certain cultural differences. For example, firms are less likely to pay for the training/ qualifications, and training costs will often be covered by individuals. Where individuals are responsible, they are generally wary of letting their bosses and colleagues know about their training and study plans which are often considered private. If your course content needs the involvement of a boss, this may affect potential students.

In terms of getting clients to sign up, there is a key difference from the UK. In Britain many companies rely on the majority of customers enrolling via the internet, whereas in China, it's face to face.

English language levels can be slightly lower in regional cities, which can cause problems for some trainers if they do not tailor their approach accordingly.

## Market Entry and Market Access

For financially-related education, the decision making lies with regulators (CBRC for banking, CIRC for Insurance and CSRC for securities) and industry associations. The regulators have industry associations which set the industry standards. If foreign institutions want formal accreditation they will need to engage with these or the Occupational Skills Testing Authority (OSTA) of the Ministry of Human Resources and Social Security ([www.mohrss.gov.cn](http://www.mohrss.gov.cn)), though this is usually for those who wish to work with a local partner.

Identifying the key industry associations for your sector will be one of the first steps you will need to take.

In terms of strategy, companies will often work with partners, and education collaboration projects are quite a mature area in China. This may be a regulatory necessity, or it may serve to access a wider potential client base. So finding the right partner is vital. CBBC and UKTI can help you with this.

You may wish to work with universities as they are usually the dominant players in training and education. This is feasible, and we have spoken with companies who have successfully done this. However, you have to make sure your offer is of real quality and will provide genuine benefit to the university and its students. Just being international is generally not enough.

Representative offices have generally been the preferred option for those training companies that have chosen to establish a presence on the ground. ICAEW for example has already established representative offices. Establishing a representative office can be reasonably straightforward but there are severe limitations on what you can do (no sales!). A considerable tax burden also needs to be considered.

Companies may wish to consider online learning as an option for training, although there will be regulatory issues to deal with and sales tend to be more effective in China if carried out face to face rather than over the internet.



### **Training and Consultancy – Policies and Regulations**

Relevant laws and regulations to look at include:

- Regulations on Sino-Foreign Cooperation in Running Schools.
- Administration Methods on Sino-Foreign Cooperation in Running Vocational Schools.
- Education Law of the People’s Republic of China.
- Vocational Education Law of the People’s Republic of China.

# PROFESSIONAL SERVICES

Stephenson Harwood:

*“The amount of work between international business and China is expected to grow in the next few years. We also see an increasing number of UK small- and medium- sized businesses entering the Chinese market as well. This points to opportunities for us as our main services are to provide legal assistance for multinational corporations doing business in China.”*

Yitian Accountants:

*“We hope we can establish good relationships and work with UK accountants in the future.”*

The market for professional services in China is undoubtedly developing along with the economy. The sector remains somewhat under-represented but is growing rapidly, and is also receiving government attention as an area for improvement. UK and other international firms are already very active in China and many large international law firms now have a presence on the mainland, as do the major accountancy companies. Smaller firms are also increasingly engaging with China, often through local partnerships as they look to help their existing clients’ blossoming interest in China and work with Chinese clients coming in the other direction and investing internationally.

## **Domestic Legal Services**

Few Chinese law firms specialise or have expertise in international business, whether that is working with international companies entering China, or helping Chinese firms expanding overseas. In addition, few are capable of operating in English. Most Chinese firms remain small, especially in regional cities. However, there is a trend of mergers increasing the size of some companies; these are more interested in developing international business and a few have now established offices overseas.

While this general inexperience among domestic legal services providers gives international firms a competitive advantage in some cases, non-Chinese law firms are generally more expensive than domestic rivals, so where there is a choice and quality is not the key issue, Chinese clients may be inclined to use local law firms due to cost and culture. Restrictions on permitted activities by non-Chinese law firms add another motivation for using native companies when possible (see Market Entry and Market Access section below for further details on regulations).





### **Chinese Accountancy and Professional Services**

In accountancy the “big four” are also the biggest four in China – significantly larger than the fifth place local firm Zhongrui Yuehua (PricewaterhouseCoopers (PwC) is some five times bigger by fee income). However, it has been noted that there is a desire in China to develop a genuine domestic competitor and there will be a trend of consolidation of firms, mainly through mergers and acquisitions.

Nanjing’s development plans expressly state the desire to accelerate the development of “financial intermediary service organisations” to meet the city’s economic development needs. This includes the intention to use restructuring and reorganisation to create a group of professional, credible and competitive accounting firms.

### **Potential Clients – International Investors in China**

The lack of international experience among many domestic firms creates a market for UK firms able to offer this expertise to Chinese clients or partner firms. International service providers win a lot of this international business, both outbound and inbound.

A still increasing number of foreign companies across all sectors are doing business in China, and this trend will continue. Whether setting up a representative office, establishing a joint venture or incorporating a company, these businesses all require the relevant professional services (including tax, audit and legal services) to facilitate their investment. The UK is one of the largest western investors in China, and British companies are likely to use British service providers where possible. As more companies become interested in business in China, UK service providers will see increasing requests from existing clients to help facilitate this, and not having a capacity to enable this could result in a loss of clients as well as potential business.

International investors into China use a combination of advisers, but most have told us they generally prefer using international firms where it is possible and practical to do so. However, when specialist knowledge, local contacts or regulations require it they will use local firms. There will be a growing number of foreign firms in China in a wide range of sectors – all requiring professional services – and there will be a particular growth of firms entering rapidly developing regional cities such as Tianjin and Nanjing as they follow clients and look to access new, growing markets.

### **Potential Clients – Chinese Outbound Investment**

Chinese outbound investment is also increasing. Along with the rapid development of China’s economy a growing number of Chinese enterprises want to expand business in overseas countries. Working with these outbound investors has been an important driver for the big four’s success and is also an important part of UK legal firms’ work in China. Chinese firms trading internationally often use foreign law firms. While traditionally most foreign trade was processing, particularly in Tianjin, there is now a move towards enterprises purchasing high-quality assets and resources from overseas. As Chinese companies increasingly look abroad, the need for foreign legal advice will continue to grow and more international firms will gain local Chinese clients.

CJIETCC Group is a large prefabricated housing firm from Nanjing that now operates in over 80 countries. CJIETCC told us that they intend to list abroad in the near future and when they do so they will certainly use international professional services firms. They also informed us that as an experienced international Chinese firm they prefer the high-cost high-quality companies for international professional services work as they are generally easier to communicate with and also better understand their company’s needs.

There are over 400 Chinese firms that have invested in the UK and many are regional headquarters also serving Europe alongside other international markets. UK firms don't just help direct investment in the UK, however, and London is a hub of legal activity for Chinese companies' investments in other geographies such as West Africa, where there is a considerable focus of Chinese investment.

### **Where to focus?**

Competition in China's major cities is now rather fierce as these have been the first point of entry for many professional services firms. While the volume of business is undoubtedly larger in places like Shanghai and Beijing, many firms are realising a larger slice of a smaller pie might suit them better and they are looking at regional cities across China.

### **Nanjing**

Nanjing is one of China's more mature cities and is also provincial capital of one of China's richest regions, home to many of China's top companies. However, clients and customers may still have less awareness of international professional services brands than Beijing and Shanghai. Deloitte set up in Nanjing in 1998 to access the rising number of potential clients in both Jiangsu and Anhui provinces for which Nanjing is a hub. They particularly see good prospects for the development of Nanjing's private companies.

### **Tianjin**

Being one of China's most outward-looking cities Tianjin has historically seen a large amount of international trade and settlement. As one of China's most important ports, and with its role serving Beijing and Northern China, this continues, and there are already a lot of foreign firms with operations in the city, particularly in the various development zones. TEDA reported that at the end of 2009 it had seen the establishment of 4,734 foreign-funded enterprises with an accumulated investment of US\$53.8 billion. With a wide number of sectors represented, there are a variety of companies that are potential clients, international and local. Though it should be noted alongside this that some of the local professional services companies are more experienced than in other regional cities.

### **The Competition**

As in the West, accountancy is dominated by the "big four". In 2007 the biggest firms in China by fee income were PwC (RMB 2.6 billion), Ernst & Young (RMB 2.3 billion), Deloitte Hua Yong (RMB 2.1 billion) and KPMG Hua Zheng (RMB 1.9 billion). These were far bigger than their nearest Chinese competitors, Zhongrui Yuehua, ([www.chncpa.cc](http://www.chncpa.cc)) who received RMB 0.5 billion. The next biggest firms were Li Xin ([www.pcpa.com.cn](http://www.pcpa.com.cn), part of BDO), XinYong ZhongHe ([www.shinewing.com](http://www.shinewing.com)), Daxin ([www.daxincpa.com.cn](http://www.daxincpa.com.cn)), Wan Long ([www.wanlonggroup.com.cn](http://www.wanlonggroup.com.cn)) and Zhongshen ([www.cacpa.com.cn](http://www.cacpa.com.cn)).

Deloitte listed the other three members of the big four as their main competitors but added that in recent years there has been an increase in competition from local firms. The Chinese Government would like to see a globally competitive domestic player emerge, and local companies are increasing in size and operation, often through M&A.

The majority of the largest international law firms now have a presence in China. Legal competition can be quite heavy in some cities, particularly the first-tier cities where most international law firms have their offices and where the more advanced Chinese firms are often based. Due to this it may be sensible to look at regional cities where there is less international competition (and none with the advantage of a local office); where local firms may lack international experience, and therefore the ability to compete for business with an international angle.

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## CASE STUDY:

# STEPHENSON HARWOOD

Stephenson Harwood is a full-service international law firm with strong historical links to China. It was on William Harwood's return to London after practising in China that he and Henry Stephenson created the firm of Harwood & Stephenson in 1875.

Peter Bradley, Stephenson Harwood's senior partner, is optimistic about the opportunities for UK law firms in China. "The amount of work between international business and China is expected to grow in the next few years. We also see an increasing number of UK small- and medium-sized businesses entering the Chinese market. This creates opportunities for us as one of our main services is providing legal assistance to multinational corporations doing business in China."

Initial Public Offerings (IPOs) have taken up the largest share of Stephenson Harwood's business over the past few years. Stephenson Harwood has advised on more AIM listings of Asian companies than any other firm. According to Peter, the relevant regulatory controls have tightened up with the implementation of Ordinance Ten<sup>1</sup>. However, the situation is expected to loosen in the next few years. "It is worth noting one difference between listing in China and the UK which is that, generally speaking, Chinese listing offers a higher price-earnings ratio as it is driven by supply and demand and currently there is too much money chasing too little supply".

China is perceived as being a very fertile market for mergers and acquisitions, although the regulation for M&A is relatively new and untested. Cultural issues still pose a major obstacle especially during the integration of a Chinese company after acquisition by a foreign company or vice versa.

At present Stephenson Harwood has offices in Shanghai and Guangzhou and are planning on opening an office in Chongqing, in southwest China. "Regional cities like Chongqing enjoy certain advantages such as less competition and lower costs. Setting up an office is tricky in China for foreign law firms." According to Peter, there are limitations on how many offices they can open and it can be difficult to find the right management personnel in regions outside the major economic centres of Beijing, Shanghai and Guangzhou. "The most significant barrier for foreign law firms is that we are not allowed to practise law in China. We can only provide advice to companies, mostly multinational corporations, on doing business in China", Peter adds.

On being asked to proffer some advice to UK law firms looking at entering the China market, Peter states that the market is still immature at the moment. "If I can use a person's age as an analogy, legal services in China are only in their twenties. This is good news for us as it means there is great potential for us to tap into. Nevertheless, to be successful in China, you have to be patient and invest time in building up good relationships."

<sup>1</sup> Provisions on Mergers and Acquisitions of a Domestic Enterprise by Foreign Investors, [http://www.bjreview.com.cn/document/txt/2009-08/17/content\\_212277.htm](http://www.bjreview.com.cn/document/txt/2009-08/17/content_212277.htm)

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**"The amount of work between international business and China is expected to grow in the next few years. We also see an increasing number of UK small- and medium-sized businesses entering the Chinese market."**

Peter Bradley, Senior Partner  
– Stephenson Harwood

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## CASE STUDY:

# DELOITTE TIANJIN

Deloitte Tianjin was established in 1996. It currently employs about 260 staff. It offers audit and tax advisory services and assists foreign companies investing and operating in China.

With the growth of domestic enterprises, Deloitte Tianjin is increasingly focusing on assisting Chinese clients expanding abroad. According to Wang Shuo, Senior Consultant at Deloitte Tianjin, the biggest challenge when working with Chinese customers is to sell consultancy and advisory services. "Chinese customers are not used to paying a large amount of money for advice. This will change as society develops but will take time," Shuo confides.

In terms of identifying new clients, Shuo has found that organising regular seminars and workshops can be very effective. "We host regular events to provide updates on new tax regulation and legislation. Sometimes we organise them in conjunction with various business councils. These PR activities are very effective in terms of promoting our profile as well as networking with potential clients."

Surviving in the world of accounting is not easy as the competition is pretty fierce. "Our major competitors are the other "big four" accounting firms but we also face challenges from local firms. Local accounting firms have price advantages as well as good local connections. To outperform them we strive to offer the highest standard of service and have built up an elite team. We place a great emphasis on client relationship management and strengthening our relations with local government officials."

For other firms looking to enter the market Shuo offers the following advice: "They will face competition both from the big four and local firms. Therefore they need to position themselves carefully in the market and differentiate themselves from the competition. They will have to take time to establish good relations with local authorities and be clear about the value they are adding."

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**"We place a great emphasis on client relationship management and strengthening our relations with local government officials."**

Wang Shuo, Senior Consultant  
– Deloitte Tianjin

## Professional Services Opportunities

For professional services firms, clients in China will fall under three categories: UK and international companies investing in China, Chinese firms expanding overseas and finally domestic work for Chinese companies. However, due to regulations (as well as culture) this final area can be difficult for international firms to access.

Local companies generally use Chinese law firms to handle domestic work so this is much harder to find, not least because of strict regulations on what foreign law firms can do. However, Deloitte told us *“The demand for professional services in the domestic IPO market as well as accounting, auditing and tax consulting services is growing quickly, while the competition grows at the same time.”* There is also demand for advice on corporate restructuring and mergers and acquisitions. Companies will also consider foreign law firms for overseas arbitration.

### Accountancy

The general development of the Chinese economy will undoubtedly bring a need for more sophisticated accountancy for growing firms, particularly for firms expanding overseas that may need international tax and auditing services. Chinese accounting standards are broadly in line with international standards and must be used by listed firms, centrally controlled SOEs and all large- and medium-sized companies. Chinese firms entering the EU are allowed to use Chinese Accounting Standards (CAS) rather than IFRS. Presentation of accounts to international standards is necessary for cross-border M&A.

## International Capital Markets

There are some restrictions affecting listing overseas, notably “Ordinance 10”. However, there are still over 50 Chinese firms listed in London, and this has proved a good source of work for the firms able to advise on these transactions. In addition to this international work, UK firms can advise on domestic listings in China. The active capital market in China is providing good opportunities for accountancy firms with a presence in the market.

### Corporate Finance

Knowledge of accessing non-bank capital can be limited, so accountants and legal firms will find opportunities advising Chinese companies on how to present themselves to potential investors as well as legal and accounting standards and compliance.

### Corporate Restructuring, Mergers and Acquisitions

Many Chinese firms need professional advice on how to restructure – either to increase efficiency or to fulfil criteria to prepare to list or engage in M&A activity. Regulation on M&A is relatively new and untested but is likely to be an important area of opportunity. A local Chinese law firm in Nanjing reported that some local companies prefer making use of overseas financing platforms, especially in mergers and acquisitions.

### Dispute Resolution and Arbitration

London can be used as a centre for dispute resolution. UK legal firms and barristers are finding work advising Chinese firms on a variety of methods of resolution, and working these into contracts.

## Intellectual Property Rights

As more Chinese firms develop their own technology and look to internationalise their market, they will require advice on how to protect their products. China already has some leading companies – Huawei, for example, is one of the largest patent filers in the world.

## Nanjing

Nanjing will have an increasing number of firms expanding beyond China’s boundaries in the coming years. Indeed, they already have some companies listed internationally such as Sinosoft that is listed on the London AIM market. Companies branching out overseas will come from a range of sectors. Those particularly worth exploring are hi-tech enterprises in software and life sciences which will be looking to expand their market and/or access capital.

**JC Master** ([www.jcmaster.com](http://www.jcmaster.com)) is a law firm based in Nanjing providing legal solutions to both multinational and Chinese clients; the firm presently comprises over 30 lawyers, of which eight are partners. The firm’s major areas of practice include M&A, securities and capital markets, foreign direct investment, venture capital and funds, and dispute settlement. It is particularly interested in working with UK companies in the fields of FDI, M&A, securities and capital markets.

**G&D Law** ([www.gdlaw.org](http://www.gdlaw.org)) is a partnership law firm administrated by the Justice Department of Jiangsu Province and claims to be one of the top law firms in Jiangsu. G&D provides domestic and overseas clients with all-round and integrated legal services, in both the civil and commercial law arenas. G&D lawyers are organised into eight departments: corporate and securities, banking and insurance,

international business and maritime, construction engineering and real estate, IT and intellectual property, medicare and education, litigation and arbitration, and investigation and execution. G&D is keen to co-operate with a UK law firm and has done so previously.

## Tianjin

The local government indicate they see opportunities in all the areas listed above and that all these provide good potential for UK companies in Tianjin. However, they added that concrete communication between the UK companies and their Chinese counterparts will be required to make the deals to take advantage of this potential.

The Tianjin Financial Affairs Office reported:

*“Many kinds of Tianjin enterprises would like to explore business overseas. UK professional service providers could communicate with Tianjin companies either via the two sides’ relevant industry associations and organisations or via direct communication between the companies.”*

*Areas that will need UK assistance may include consultancy on business expansion, overseas market assessments, advice on relevant industry policies and principles in overseas countries, help with the practicalities of setting up a company overseas, international taxation and audit services and even shipping. They could also work with them on enhancing production efficiency, reducing running costs, business development directions and helping Tianjin enterprises in terms of enhancing their core competitive edge and forging internationally recognised brands.*

**Baode law firm** in Tianjin ([www.baodelawfirm.com](http://www.baodelawfirm.com)) tells us that it is already capable of providing “foreign related” legal services to its clients but that it would still like to co-operate with UK counterparts to assist UK law firms to set up representative offices in Tianjin. Based on the needs of Chinese clients they would seek to entrust UK law firms to handle business concerning the UK or other foreign countries’ laws and regulations. It would also like to accept business from UK companies or individuals, and provide them with legal services related to China’s laws and regulations.

**Zhonglun Wende** (ZLWD – [www.zhonglunwende.com](http://www.zhonglunwende.com)) is a general-service Chinese law firm. Its headquarters are in Beijing with branch offices in Shanghai, Chengdu, Shijiazhuang, Tianjin, Taiyuan and Wuhan and it also has established offices in London, Paris and Riyadh. ZLWD is interested in working with medium-sized UK law firms for mutual referrals and has done this successfully in the past. It would also like to talk to fund managers looking to raise money in China.

**Yitian Group** ([www.yitiangroup.com.cn](http://www.yitiangroup.com.cn)) covers a range of professional services and comprises an accountancy firm “Tianjin Guoxin Yitian Accountants Co Ltd” as well as an assets appraisal firm, tax affairs firm, real estate evaluation firm, engineering cost consulting firm and a management consultancy. Yitian acknowledges that local companies need assistance with international taxation and it hopes to set up relationships and work with UK accountants in the future. It has also used UK training firms in the past – with two staff members currently taking ACA training with ICAEW.

## Seizing the Opportunities Fees

China is a very cost-sensitive market. This does give an opportunity for smaller companies to compete on price against their larger rivals. Some Chinese firms don’t value the quality of services as much as western counterparts; thus it can be difficult to get services paid for and quality paid for. Therefore cost sensitivity, fees and price structure are very important considerations.

As well as getting the costs right it will be important to get the charging structure right. Some foreign companies have reported problems with pricing and payment as Chinese clients are not as accustomed to well-accepted western pricing structures. This has to be carefully considered with any work you may be doing. Some firms have reported altering fee structures so as to put more as upfront payments, and this, along with instalments and staged payments, is often used and may be appropriate for you.

Those companies that have had more international exposure, especially those with a presence overseas already, are more likely to appreciate the value of quality, and also may better understand your fee structures.

## Local Knowledge

Knowledge of international markets and experience can provide some UK firms with a competitive advantage, but while this creates a wide range of opportunities, UK companies must also understand local policies and culture and through this become accepted by local clients so as to access this potential. A Chinese law firm reported that its key competitive advantage is that foreign firms often don't fully understand the execution of government policy.

G&D Law Firm in Nanjing suggest working with CBBC and UKTI or a well-known UK financial services firm as a means to help with promotion and credibility.

## Market Entry and Market Access

### Establishing a Presence

Many large firms now have a presence in China, and while law firms are only in first-tier cities accountants have spread throughout the country. International lawyers with a presence in China tend to set up in Beijing, Shanghai or Guangzhou but conduct business across the country. Many use their more substantial Hong Kong operations as a regional hub.

## Working with a Partner

For those without the resources to set up their own presence in China, another option is to work with Chinese partner firms. There are good opportunities for mutual referrals and some Chinese law firms are willing to forge relationships with UK counterparts, although these will rarely be exclusive. This is often a popular and economic option and brings the added advantage of established access and relationships with potential clients and Government.

We have identified law firms, such as Baode in Tianjin and ZLWD, that have expressed an eagerness to work with UK firms helping your clients in China and entrusting their clients to you in the UK and abroad.

If you are to establish a partnership it is vital that the partner is right for you. Ambitions must be matched and it is also important to verify that they will have potential clients to send in your direction as well. Local influence, relationships and networks are also worth considering.

Many foreign accountancy firms are operating through networks with domestic firms. Again, there is an eagerness from some Chinese companies for partnerships, and we have spoken to firms such as Yitian who are keen to work with UK companies.

Baode Law (a local legal firm), told us they felt that *"for foreign companies entering China for the first time, setting up a joint venture is not a bad way to begin. Given the special features in the financial services sector, finding a suitable partner in the local market is perhaps another choice. Via your local partner you could better communicate with local governments. The most important things you should do include understanding operating principles and established practices in the local market."*

UKTI and CBBC have services that can help you identify Chinese firms that match your requirements. In addition, regular missions from the UK to China, and delegations visiting Britain, also provide the opportunity to find such partners. Jack Yu of the Law Society feels that *"finding a suitable partner can make all the difference, finding the right firm can create a win-win result helping to better service your clients, and theirs."*

## The Right People

Getting the right people will be vital, whether that be your own staff if setting up a presence, or finding the right partner if that is the route you choose. You will need to make sure they share similar ambitions to your firm. You will also need to find people who are aware of the local environment, and employing staff who understand local conditions is a good way to negate some of the potential pitfalls of cultural differences. Local staff bring cultural knowledge and an awareness of the market that can help to win business. Trust is important for gaining clients and local understanding helps with this.

## Regulation

The key problem is regulation, particularly in law. Foreign firms act as consultants and are only allowed to advise on international laws and practices including the implications of the Chinese legal environment. They cannot directly get involved in legal affairs concerning Chinese law.

They are allowed to work with Chinese law firms and entrust clients to them for legal affairs concerning Chinese laws. However, they may not employ Chinese lawyers and – while secondments are permitted – the Chinese lawyer may not practice Chinese law while on secondment. There are also restrictions on acting in arbitration proceedings within China, and foreign lawyers are often not allowed to even attend Chinese court hearings.

There are also tight rules on law firms setting up offices in China and a company has to be in a city for three years before it is allowed to expand. As a result of this, most law firms are still located only in Shanghai and Beijing, although they are winning business across the country from there. Firms must also annually register with the Ministry of Justice which can be a rather bureaucratic, time-consuming process.



# VENTURE CAPITAL AND PRIVATE EQUITY

Albany Capital:

*"The number of companies in China is vast and many of them have great growth potential with the right strategy and development capital – and that's where we step in."*

China Zhuanghe Investment:

*"If the Chinese currency continues to rise against the pound, investments in RMB will have an automatic return for investors."*

Chinese companies are developing more technology and moving up the value chain. The Government is keen to foster this. They want to stimulate domestic consumption and they also see the value to the economy of higher margin goods and exports. This emphasis is already beginning to see a burgeoning amount of home-grown R&D and this trend towards "designed in China", rather than "made in China", will continue and pick up pace. Patent filing in China is increasing rapidly in absolute numbers, although it should be noted that this is currently dominated by a handful of major companies.

This rise "up the value chain" means that there will be innovative technological developments by Chinese companies that will offer potential investment opportunities for foreign investors. The potential of these companies will be further bolstered by increases in domestic per capita consumption as the Chinese market also grows. Meanwhile, the development of new financial instruments and markets will provide investors with a growing number of options for exiting investments.

While working with state-owned enterprises can often prove difficult, there are numerous private companies across the country which will need capital. They often don't have the same access to bank lending that SOEs have and many are very interested in finding capital support via private equity or venture capital. Regional cities such as Nanjing and Tianjin have a number of fast-growing companies and R&D centres which may offer investment opportunities.

Some companies are looking at China from another angle and are hoping to raise funds there for international investment, and the absolute number of wealthy companies and individuals is growing. However, many are happy focusing their investment in China: the economy is growing fast, they better understand the investment environment and they don't need to worry about the regulations on overseas investment. Nevertheless, there is a desire in some quarters to diversify their exposure and invest across a range of geographies. The Chinese Government has been one of those to do this, and through its sovereign wealth funds has invested in a range of asset classes across the world. China Investment Corporation (CIC) describe its portfolio as "mainly composed of equity, fixed income and alternative assets, in both developed and emerging markets. Our alternative investments include hedge funds, private equity, commodities and real estate."





## Tianjin

The Tianjin government is keen to develop the hi-tech industry (as is also the case throughout China) and this will create an increasing demand for PE/VC services.

In March 2006 the first industry investment fund in China, the “Bohai Industry Investment Fund” ([www.bohaicapital.com](http://www.bohaicapital.com)) was established in TEDA in Tianjin. Tianjin Venture Capital Co calculates there now to be 127 VC companies in Tianjin with a total registered capital of over RMB 11 billion, and 363 PE firms with a total registered capital of RMB 73.5 billion which they fully expect to increase. In Binhai New Area there are some 35 foreign invested venture capital funds with total investment and registered capital of US\$846 million. The Binhai authorities have established an RMB 2 billion “Venture Capital Investment Guidance Fund of Binhai” to encourage local R&D and innovation, and a number of international venture capital organisations have been involved.

However, TEDA also told us that despite its drive to make Tianjin a centre for the development of private equity, fund managers are still insufficient and it is keen to attract more. The desire of the government to increase activity in PE/VC is manifesting itself in tax incentives. Tianjin is offering tax breaks to funds setting up there whereby local tax can be refunded. Meanwhile, you are not necessarily restricted to operating and investing in that city alone.

To further encourage the development of the sector, “Private Equity Fund Centres” have now been established

in three Chinese cities (Beijing, Shanghai and Tianjin) to help with some of the practicalities. The local government claim this will provide an invaluable service to assist foreign investment funds. These same three cities have also all applied to instigate Qualified Foreign Limited Partnership schemes (see the Seizing the Opportunities section below for details).

It is also worth noting that, as a municipality directly under central government control, Tianjin has additional power and a degree of leeway for financial services innovation. It is one of four cities (Beijing, Shanghai and Chongqing being the other municipalities) to issue local regulations to attract fund managers.

In terms of exiting investments, Tianjin has a couple of additional options on offer, depending on the investment. The city has a Property Rights Exchange and has also set up a Stock Rights Exchange as a platform for exiting investments. Equity transfer is another option and Tianjin’s over-the-counter (OTC) exchange hopes to provide an equity trading platform for non-listed companies. However, it should be noted that these exchanges generally remain underdeveloped for the time being.

As part of its drive to develop as a centre for private equity and venture capital, Tianjin plays host to several key forums including the China International Private Equity Forum (CIPEF – [www.pe-fund.com/cipef\\_en](http://www.pe-fund.com/cipef_en)), an annual event and China’s biggest relating to investing and financing, and also the “Tianjin Private Equity Forum” ([www.tjjr.gov.cn](http://www.tjjr.gov.cn)).

## Nanjing

The National Development and Reform Commission (NDRC) is keen to encourage investment in the Yangtze River Delta and its policies are designed to stimulate PE and VC fundraising and investment in the region.

The current Five Year Plan for Nanjing expresses the need to accelerate the development of the venture capital system, and the Nanjing government has plans to set up a “Start-up Investment Guidance Fund”. This is designed to support the establishment and development of start-ups and will also channel funds towards growing enterprises that comply with the economic, social and industrial development plans for the city.

The “China Nanjing Industry and Capital Fusion Promotion Centre” was established in 2009 to assist VC companies operating in the region. Its major functions include assisting with companies’ technological innovation and branding, promoting the fusion of industry and capital as well as organising contact between enterprises and VC/PE investment institutions. It also intends to act as a one-stop shop for a range of investments in Nanjing – helping with setting-up, registration, technical information, market forecasts, programme assessment, training and legal consultation. The local government hope this will help Nanjing to better utilise venture capital so as to help its companies climb the value chain and foster innovation.

## The Competition

While there are already many venture capital and private equity companies registered in Tianjin and Nanjing, many of these lack the experience of UK firms. As such, these local companies may prove to be useful partners rather than competition; they will bring something different to the table such as contacts and local knowledge. It is of course vital that you are properly remunerated for any knowledge shared.

Foreign firms are entering the market. However, China is now the world's second- largest economy and with a wealth of rapidly developing companies spread across the country in a range of sectors, the effects of international competition remain limited.



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## CASE STUDY:

# ALBANY CAPITAL GROUP

Albany Capital Group is an activist and pre-IPO investment company focused on China. It has a number of investments in China which focuses on well established, well run and entrepreneurial companies that have a strong market position in Northern China and are benefiting from the growth of China's middle-class consumers.

Albany Capital has a successful track record in introducing such companies to the UK stock market and working in partnership with them by providing development capital and international management expertise. Examples of successful investments include China Food and Sorbic China who are respectively, the ninth largest producers of soya sauce and third largest producers of sorbates in China.

John McLean, the Chairman of Albany Capital, believes the market for venture capital firms in China is huge. "The number of companies in China is vast and many of them, with the right strategy and development capital, have great growth potential – and that's where we step in".

Albany Capital understands that advisory services are hard to sell in China both for financial and cultural reasons. John makes clear: "There are no blueprints you can bring in and say 'off you go'". But what sets Albany Capital apart from its peers is its unique business model. To facilitate the growth of the investee companies, Albany normally appoints a non-executive chairman from its London headquarters and a project line manager from Hong Kong or Singapore to help the Chinese companies with forecasting, strategy, marketing and human resources.

In terms of raising capital, the majority of the money Albany Capital raised is from the UK. Sometimes it has Asian and even Chinese investors on board as well. Issues associated with China to do with transparency and getting payment can cause potential investors concern. "Our reputation helps to ease these concerns. The projects we have completed and the models we use demonstrate credibility to potential investors," John explains.

The biggest practical issue Albany Capital/investee companies encountered was obtaining internal banking facilities. "It is very difficult to get local funding for small- and medium-sized businesses in China unless you are very well connected locally. We managed to get banking facilities but it took us nearly one year to go through the process."

Despite these difficulties, Albany still has great confidence in the opportunities that China presents and is considering opening a new office in Northern China to strengthen its presence in China

The advice John gives to other UK venture capital firms is twofold: First is to do business with people you can get on with and in areas you understand and you believe in. The other is to be prepared to invest time and effort. "Be clear about what you want to achieve, then go there and invest your resources in understanding the culture and the people."

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**"Be clear about what you want to achieve, then go there and invest your resources in understanding the culture and the people."**

John McLean, Chairman  
– Albany Capital

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## CASE STUDY:

# SUSTAINABLE DEVELOPMENT CAPITAL LLP

Sustainable Development Capital LLP is an investment advisory firm, advising financial institutions and government entities on investment opportunities in the environment market globally.

In China it has been involved in a number of eco-city projects, working closely with the Ministry of Construction and Chinese developers. One example is the high-profile Dongtan Eco-City project where SDC acted as an adviser to Shanghai Industrial Investment Corporation.

Apart from the advisory side of the business, SDC invests in projects directly. It looks for opportunities to finance energy saving projects mainly in industrial and manufacturing facilities. These could be existing opportunities designed by Chinese developers seeking capital or projects and investment opportunities that it creates itself.

Jonathan Maxwell, CEO of SDC, is very positive about the outlook of the energy efficiency sector in China. "We are very excited that we are involved in this sector as the market is enormous. Energy efficiency is a clear priority for the Chinese Government and China has the clearest policy in the world for the reduction of energy consumption." As well as government policy, inefficient use of energy also drives up the market demand in this sector. According to Jonathan, China uses two to four times more energy per unit per capita GDP than Japan does.

SDC has built up a strong team in China. It currently has an office in Hong Kong and plans to establish a presence in Beijing later this year. "Both the office and team act as a platform to collect local knowledge and intelligence and create an extensive network of relationships in the Chinese environmental market," Jonathan explains.

"We are doing our best to understand the Chinese market but still face some daunting challenges." According to Jonathan, financial advisory services are very hard to sell in China. "Although the Chinese Government and developers are extremely interested in our advice, they are reluctant to pay any formal consultancy fees." When getting involved in eco-projects, a lack of political support can derail the whole process. "Dongtan is a classic example. Although we delivered everything we could from a commercial provider's perspective, the political support wasn't there," Jonathan adds.

Because of these difficulties with the advisory side of the business, SDC now focuses more on creating investment opportunities in China related to reducing the energy use and pollution from major industrial facilities. In fact, SDC is in the process of creating its own fund which will be the first institutional fund to provide equity to finance energy efficiency projects in China.

Looking into the future, Jonathan is full of enthusiasm about realising SDC's ambitions in China. He believes the key for UK companies to succeed is to "bring know-how, technology and business models that will help China achieve sustainable development. This is what China needs and where we can add significant value."

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**"We are very excited that we are involved in this sector as the market is enormous. Energy efficiency is a clear priority for the Chinese Government and China has the clearest policy in the world for the reduction of energy consumption."**

Jonathan Maxwell, CEO  
– Sustainable Development Capital LLP

## Venture Capital and Private Equity Opportunities

Mr. Ji Jianye, Mayor of Nanjing:

*“Government departments will provide convenient policies and services for VC institutions when they come to Nanjing and provide a good environment for the co-operation between companies and venture capital/investment institutions.”*

These forms of investment are a relatively new area to China so local firms want to benefit from foreign expertise which the UK has in abundance. There is real interest in co-operating with British companies that can bring experience to the table and many of the Chinese firms we have spoken to have been interested in working with UK counterparts.

There are also opportunities to work with local governments and development zones, which see PE/VC as a useful way of funnelling capital to deserving companies. Many of these are offering co-funding or matched funding co-operation. Chengdu Hi-Tech Zone for example is looking for private equity and venture capital firms to co-operate with in investing in some of its growing hi-tech companies. Hi-tech zones are also often the location of choice for high-growth technological and innovative Chinese firms and may be a good source for potential investment targets.

As well as opportunities for investment within China there is also the possibility of raising funds from China. The sovereign wealth funds (SWF) have worked with international fund managers and there is a desire in some quarters to spread investments into the global market. China Investment Corporation ([www.china-inv.cn/cicen](http://www.china-inv.cn/cicen)) is the best-known sovereign wealth fund but the National Social Securities Fund ([www.ssf.gov.cn](http://www.ssf.gov.cn)) and the State Administration for Foreign Exchange ([www.safe.gov.cn](http://www.safe.gov.cn)) are also SWFs. All would like UK parties interested in working with them to refer to their respective websites for details.

### Tianjin

The Financial Affairs Office in Tianjin:

*“Along with the rapid economic development in Tianjin, enterprises in Tianjin need and welcome investment from foreign PE/VC firms.”*

There are tax incentives to set up a fund in Tianjin. This will make it an attractive location as it may be possible to pay little or no local tax (although you will still need to pay national tax) and you are not necessarily restricted to investing in Tianjin. As well as a reduced tax burden to ease the practical process of establishing a fund, the Tianjin Financial Affairs Office has set up the “Tianjin Private Equity Fund Service Centre” in TEDA dedicating to providing services to foreign and domestic PE funds. This includes help with providing office space, matchmaking services and assistance with communications.

**China Zhuanghe Investment** ([www.chinazhuanghe.com](http://www.chinazhuanghe.com)), that has people working in the UK and China, would like to work with potential UK investors and funds and is particularly interested in Tianjin which it sees as a great location for PE/VC investment. This is in large part due to the government focus on developing this industry.

**Tianjin Venture Capital Co Ltd** ([www.tjvc.com.cn](http://www.tjvc.com.cn)) is a state-owned venture capital firm, registered in TEDA in 2001. Its registered capital is RMB 260 million, the total sum of its managed venture capital, and its registered capital is RMB 900 million. The company’s main business is to set up commercial venture capital funds in Tianjin by working with overseas and social institutions via joint ventures. It is also designed to manage commercial venture capital funds, to conduct equity investment into hi-tech and high-growth enterprises and to provide them with value-added services.

It would like to work with UK venture capital firms, equity investment companies or other types of enterprises that intend to invest in China:

- to set up venture capital funds by joint venture,
- to set up equity investment funds by joint venture, or
- to transfer advanced technology from the UK to China.

## Nanjing

Featured Local Companies:

### Govtor Capital

Founded in 1992, Govtor Capital ([www.js-vc.com](http://www.js-vc.com)), also known as Jiangsu Hi-Tech Investment Group, is a leading Chinese VC firm. With over US\$2.3 billion capital under management, Govtor Capital has invested in over 220 innovative companies focusing on green technology, new materials, media, biotech and the internet. The same group also manages Jiangsu Venture Capital Co Ltd (JSVC) which was first approved to engage in hi-tech investment by Jiangsu provincial government in 1997. JSVC's primary operation is investing in high-growth SMEs. It provides portfolio companies with financing, resource management advice, technical assistance and management consultancy. Up to 2009 JSVC had invested in a total of 21 projects, seven of which have been listed on the mainland and one in Hong Kong.

### Nanjing Hi-Tech Venture Capital (NJVC)

Founded in 2001, NJVC (<http://english.nj-vc.com>) is the VC arm of Nanjing State-owned Assets Investment & Management Holding (NSAIM) and 13 other domestic companies. It is designed to develop businesses with sophisticated and new technology. It runs a number of funds including Nanjing Zhongcheng VC Investment Fund (Zhongcheng) which is an RMB 380 million fund and was formed in September 2009. It targets growth-stage enterprises in hi-tech sectors including new material, new energy, electronics and communication, biopharmacy, environmental protection, and energy saving. Managed by NJVC, Zhongcheng is also the first privately-offered fund in Nanjing City that is formed with the limited-liability company structure.

### Nanjing Heding VC Investment Management (Heding)

Heding is Nanjing State-owned Assets Investment & Management Holding (NSAIM)'s first Sino-foreign joint venture VC firm. It is a JV between NJVC and Tembusu Partners (a Singapore-based PE firm). It is entrusted with the management of the US\$80 million Nanjing Growth Fund established by the two parties.

## Seizing the Opportunities Market Entry and Market Access

Foreign investors can either look to partner with a local fund to take a stake or set up a joint venture, or establish a new fund.

### Partnerships

There are a number of options for investment structure, and as yet partnerships have been necessary for RMB-denominated funds.

Foreign-invested partnerships (FIPs) are a new option for investing in China and allow co-operation between a number of foreign parties, or a mixture of foreign and Chinese, and create a vehicle for VC/PE investment.

Tianjin, Beijing and Shanghai have all applied for Qualified Foreign Limited Partnership (QFLP) pilot schemes, and Shanghai's proposal has now been approved in principle. This will allow international investors to put money into RMB-denominated private equity funds (the contribution will be a maximum of 50 per cent); these QFLPs will then enjoy the same treatment as local funds.

If you haven't done business with China before you may find working with a partner (whether a foreign partner who has experience in the market or a local partner) could be helpful. Local support can be very useful by providing access and understanding of the market and operational environment; however, it does affect your freedom and flexibility. It goes without saying that if a partnership is to be entered into, finding the right partner is vital. You will also need to carefully negotiate how you will be compensated for the expertise you are bringing to the table.

Tianjin Venture Capital Co feels that, *"Foreign financial services providers who want to enter the Chinese market need to understand the market conditions in China and the local characteristics of the demand for financial products. They should employ local staff wherever suitable and they should factor China's national conditions into their existing service methods and their existing financial products to realise localisation in these aspects."*

*A better entry route may be to work with and co-operate with China's government agencies or state-owned enterprise in order to obtain credit and relevant government resources."*

### **Regulations and registrations**

Investments from foreign entities must adhere to the regulations of the Ministry of Commerce (MOFCOM) and companies will have to follow these regulations concerning what sorts of companies they can invest in. Some sensitive sectors such as the telecoms industry are restricted or prohibited for foreign investment; thus it is vital to investigate the restrictions on sectors you are interested in. MOFCOM's "Guideline Catalogue of Foreign Invested Industries" contains details of which subsectors are allowed for foreign investment.

You will need approval from the State Administration for Foreign Exchange (SAFE) when transferring your funds into China. Registration will be necessary with the local AIC bureau. In Tianjin this is the Tianjin City Administration of Industry and Commerce and the registered capital for a fund management enterprise as a company with limited liability is a minimum of RMB 1 million.

### **RMB or US\$**

Regulations now favour onshore investments in RMB and a key decision in your China strategy will be whether to set up a US\$ fund or an RMB fund. Some foreign firms have already begun investing in RMB and subsequently exiting through domestic listings in Shanghai or Shenzhen. A dollar fund will need to apply to SAFE individually for approval for each investment it makes, which is the same as any foreign investment. An RMB fund is already converted so you don't need the approvals again. You will also benefit from any appreciation of the RMB against the pound. This would have automatically given an approximate 30 per cent rise in an investment over the

last two years. However, an RMB fund investment will limit the ability of the company to list overseas and approval from SAFE for the establishment of the fund may also be time-consuming. You will also be likely to need a partner.

### **Exits**

In general, most exit strategies rely on IPOs, although Tianjin Venture Capital Co believes that another good route is repurchase by the entrepreneur or to transfer before the listing. M&A and secondary offers make up most of the non-IPO exits, whereas management buy-outs are uncommon in China. The addition of the Shenzhen ChiNext board, designed for high-growth hi-tech companies, has given another good option for listings. This market, however, remains volatile and price/earnings ratios are often above 60.

Remitting profits is not a problem as long as you are structured correctly, though returns must pass through the foreign exchange control system. Foreign investors can remit their legally made profits outside China as well as other rightful incomes and surplus after liquidation, as long as they have paid due taxes required by Chinese laws. Tax is one of the major issues you will need to carefully consider as you will be subject to both national- and local-level taxes. An appropriate structure is vital, and also, while national-level tax is largely unavoidable, with local incentives from places like Tianjin this tax burden can be lessened.

## Venture Capital and Private Equity – Policies and regulations

Company Law of the People's Republic of China, the Partnership Enterprise Law of the People's Republic of China and the Trust Law of the People's Republic of China have stipulated several of the ways of setting up operations in China.

Other policies and regulations of interest include:

- Administrative Measures for the Establishment of Partnership Enterprises within China by Foreign Enterprises or Individuals.
- Interim Provisions on the Takeover of Domestic Enterprises by Foreign Investors.
- Provisions Concerning the Administration of Foreign-funded Business starting Investment Enterprises.
- Provisions on the Establishment of Investment Companies by Foreign Investors.
- Interim Measures on the Management of Venture Capital Enterprises.
- Measures on the Registration and Management of Partnership Enterprises.

In terms of tax, the Tianjin Financial Affairs Office suggests companies should be aware of the following:

- Enterprise Income Tax Law of the People's Republic of China.
- Provisional Regulations of the People's Republic of China on Business Tax.
- State Taxation Administration Notice on Foreign Investment Venture Capital Firms to Pay Corporate Income Tax.
- Notice on Taxation Issues for the Promotion of the Development of Venture Capital Companies.



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Pearls City



## APPENDIX 1: Industry Events

For up-to-date details of trade shows, exhibitions, seminars and missions concerning financial services as well as a range of sectors in which your clients may work, please visit:

[www.cbbc.org/  
what\\_we\\_do/events](http://www.cbbc.org/what_we_do/events)  
or [www.ukti.gov.uk](http://www.ukti.gov.uk)

### **Existing UK-China Financial Services Initiatives**

#### **Going Global**

The Going Global initiative positions the UK's financial services industry as the partner of choice for Chinese companies seeking capital or to expand internationally. This CBBC and UKTI initiative is focused on an ongoing series of events in China where UK financial services companies are given the opportunity to present to a Chinese business audience about the UK's financial services industry.

#### **Insurance in Practice**

An ongoing series of events designed to highlight how insurance can help Chinese companies develop. UK companies are given the opportunity to present to a Chinese business audience, and one-to-one meetings are also arranged to allow further detailed discussion. "Insurance Innovations" was held in Nanjing in April 2010, attracting over 100 representatives of Chinese companies.

#### **Lord Mayor of the City of London's Annual Visit to China**

The Lord Mayor of the City of London visits China every year with the objective of promoting the UK's financial services industry. He meets top officials and regulators as well as participating in business events. He is accompanied by business delegations, who gain access to a range of official calls and events. The Lord Mayor visited Tianjin in 2008 and Nanjing in 2007.

#### **Sir David Brewer's Visits to China**

Sir David Brewer, CBBC Chairman and Financial Services Sector Champion China for TheCityUK Overseas Promotion Committee, regularly takes business delegations to China, meeting with both Chinese companies and government officials.

#### **Get involved**

For details on how to get involved in these initiatives please contact Duncan Levesley at the China-Britain Business Council ([duncan.levesley@cbbc.org](mailto:duncan.levesley@cbbc.org)).

## APPENDIX 2: Useful Contacts

### UK Trade & Investment

To find out more about your local UKTI International Trade Team please visit:  
**[www.ukti.gov.uk/ukti/ournetwork](http://www.ukti.gov.uk/ukti/ournetwork)**

Qingling Guo, International Trade Adviser, UKTI London  
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### China-Britain Business Council

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### TheCityUK

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### Other Useful Contacts

China Jiangsu Provincial Economic and Trade Office in Europe, Fan Zhigang, Representative in Britain  
Tel: +44 (0)12 4570 2466  
Email: [fan.zhigang@essex.gov.uk](mailto:fan.zhigang@essex.gov.uk)  
[www.china-jiangsu.org](http://www.china-jiangsu.org)

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Email: [dmlwsf@yahoo.com.cn](mailto:dmlwsf@yahoo.com.cn)  
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<http://en.investteda.org>

The Financial Affairs Office of Tianjin Municipal People's Government, Jiang Yiming, Director, Policy and Regulation Department  
Tel: +86 22 8381 8423  
Email: [jiangyiming@tjjr.gov.cn](mailto:jiangyiming@tjjr.gov.cn)  
[www.tjjr.gov.cn](http://www.tjjr.gov.cn)

### Useful Links:

- China-Britain Business Council:  
**[www.cbbc.org](http://www.cbbc.org)**

Both the UKTI ([ukti.gov.uk](http://ukti.gov.uk)) and CBBC websites contain details of outward and inward missions offering opportunity to interface directly with Chinese business and officials throughout the year and mention your event if appropriate.

- British Diplomatic Posts in China:  
**<http://ukinchina.fco.gov.uk/en>**
- British Chamber of Commerce in China: **[www.britcham.org](http://www.britcham.org)**
- China Business Guide:  
**[www.ukti.gov.uk/uktihome/item/106372.html](http://www.ukti.gov.uk/uktihome/item/106372.html)**

## APPENDIX 3: Key Sources

### Case Studies

Albany Capital, John Maclean,  
Chairman

Deloitte, Wang Shuo, Senior Consultant

Institute of Chartered Accountants of  
England and Wales, Julia Jin, Senior  
Manager Beijing Representative Office

Stephenson Harwood, Peter Bradley,  
Partner

Sustainable Development Capital,  
Jonathan Maxwell, CEO

### Tianjin

Bank of Tianjin, Ms Sang Ruimin,  
Vice President

Bohai Securities Co Ltd Mr Li Jiang,  
President Assistant

China Zhuanghe Investment, Frank Gao,  
Chief Representative (UK)  
[www.chinazhuanghe.com](http://www.chinazhuanghe.com)

Dongli Economic Development Area,  
Liu Feng, Management Committee of  
Tianjin DEDA

GlaxoSmithKline (Tianjin) Co. Ltd.,  
Miranda Liu, Assistant to GM

HSBC Bank (China) Company Limited  
Tianjin Branch, Ming Xin, President  
[www.hsbc.com.cn](http://www.hsbc.com.cn)

Joy Mining Machinery, Dave Smith,  
Strategic Accounts Manager  
[www.joy.com](http://www.joy.com)

Newland UK, Jerry Wang, Chief  
Strategic Officer China

PanCathay Consulting, Madeleine  
Sturrock, Managing Director  
[www.pancathay.com](http://www.pancathay.com)

Standard Chartered Bank (China)  
Limited, Zhang Lei, Assistant to  
President

TEDA, Zhang Shuo, Section Chief,  
The 3rd Section, Investment  
& Promotion Division  
[www.investteda.org](http://www.investteda.org)

Tianjin Baode Law Firm, Zhao Yu,  
Partner, Lawyer

Tianjin Financial Affairs Office, Jiang  
Yiming, Director, Policy and Regulation  
Department, Han Quan, Director of  
General Business, Zhang Jianhua,  
Wang Liangyu, Researcher  
[www.tjjr.gov.cn](http://www.tjjr.gov.cn)

Tianjin Hantang, Song Weijun,  
General Manager  
[www.hentane.com](http://www.hentane.com)

Tianjin Innovative Finance Investment  
Co Ltd, Ye Shuai, Project Manger

Tianjin Investment Promotion Centre,  
Frances Niu, Project Manager of  
European Department

Tianjin People's Government  
Mr. Jiang Yiming, Division Chief,  
Division of Policy and Regulation  
of the Office of Finance

Tianjin Venture Capital Co Ltd,  
Guan Chunxiang, Vice President  
[www.tjvc.com.cn](http://www.tjvc.com.cn)

UK Trade & Investment, Scott Strain,  
First Secretary Financial Services,  
British Embassy Beijing

Yitian Group's Accountant Firm,  
Sun Nan, Director  
<http://english.yitiangroup.com.cn>

Zhonglun Wende, Haibin Xue, Partner  
[www.zlwd.com](http://www.zlwd.com)

## Nanjing

Backbone Solutions IT Group,  
Andrew Clarke

Bank of Jiangsu, International  
Business Department

China Jiangsu International Economic-  
Technical Cooperation Corporation,  
Dai Minglei, Manager  
[www.zjgj.com](http://www.zjgj.com)

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