

Asian Business Forum newsletter

4th edition



THE ASIAN BUSINESS FORUM



Welcome to the latest edition of the PricewaterhouseCoopers Asian Business Forum newsletter.

No doubt, at the forefront of your mind at the moment is the current state of the economy; in this edition of the newsletter we discuss some of these key issues and ways in which you can prepare your business to manage through the downturn.

We are actively partnering our clients through difficult times and tough negotiations. The resilience and determination of the Asian business community at this time is truly evident, not least in the ability to spot opportunities!

This issue also features an interview with Dr Charan Gill MBE which gives an interesting insight into this extremely successful entrepreneur. We also have articles on potential changes to UK corporation tax on foreign profits and VAT refunds, both of which offer welcome tax saving opportunities.

It's a busy season for the Asian Business Forum with our various events, including our sponsorship of the Asian Business Awards which are fast approaching. We hope to catch up with you soon.

Best wishes,

Ruby Parmar
Partner, PricewaterhouseCoopers LLP

UK corporation tax changes: foreign profits - what is the latest?

The Government is proposing the most significant changes to the UK corporation tax rules on foreign profits since the introduction of the controlled foreign companies regime in 1984.

A consultation on the changes, which will affect corporate groups with international activities, has been running since Summer 2007 and we expect at least some of the changes to appear in Finance Act 2009.

If you are considering a reorganisation of your corporate group, then you will need to consider the potential future implications of these proposals, a summary of which is set out below:

- An exemption from UK corporation tax on dividends received from foreign subsidiaries;
- A re-working of the controlled foreign companies rules; and
- A strengthening of the anti-avoidance rules on UK interest deductions.

Whilst a dividend exemption is certain to be welcomed, the Government is concerned about the fiscal cost of such a move.

The changes to controlled foreign companies rules switch the focus from entities to income streams and most companies consider this will, at the very least, significantly increase the compliance burden for those groups that are affected.

The Government maintains that the proposals will be revenue neutral, however, many groups consider that the changes are a major disincentive to locating their top company in the UK.

We recommend that all corporate groups with international activities look closely at their structures to see if they need to take action before Spring 2009.

Trust me

Despite recent tax changes, trusts still have a valuable place in the entrepreneur's tax planning repertoire. Trusts can be used as part of lifetime giving solutions to pass on wealth without passing on control to the next generation. With correct

planning, it is usually possible to minimise inheritance tax charges on transfers to trusts. Non-UK domiciled individuals can still benefit from capital gains tax free roll-up by using offshore trusts to acquire UK assets. Offshore trustees will need to be

conversant with the changes to non-UK domiciled tax legislation, to investigate whether and how they need to segregate income and capital and whether any beneficial elections should be made.

Dr Charan Gill MBE

Dr Charan Gill MBE, the mastermind behind the Glasgow based Harlequin Leisure Group, talks to the Asian Business Forum newsletter.

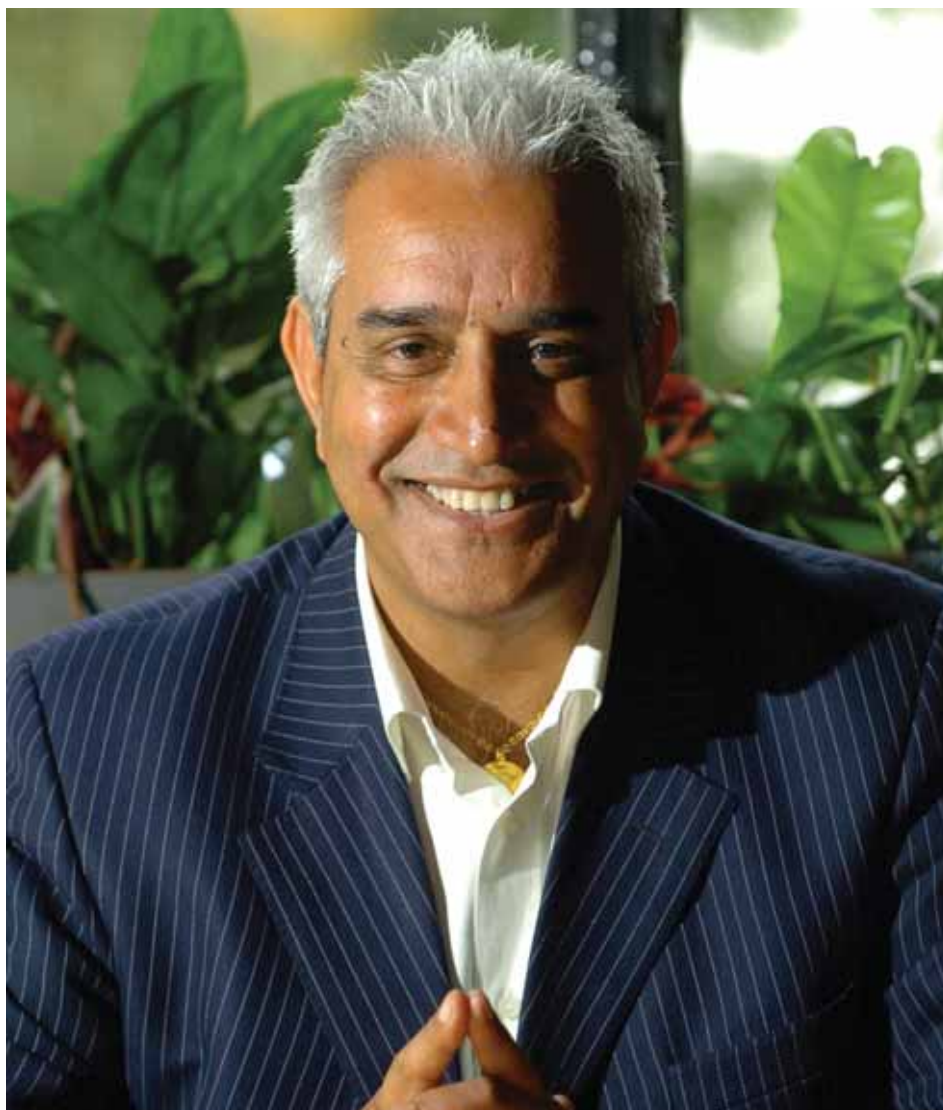
Dr Charan Gill MBE wanted to pursue a singing career, but instead has become a hugely successful entrepreneur; the mastermind behind the Glasgow based Harlequin Leisure Group and often revered as 'Glasgow's Curry King'. "There was no great master plan", he says modestly.

He began his working life at Yarrow's shipyard on the Clyde in 1969, and was soon moonlighting in a local restaurant, the Ashoka. When his wife became pregnant with their first child on an extended holiday to India, he knew he had a major decision to make and opted to return to Glasgow and work full time in the Ashoka, to support his family. "Though I knew I wanted to work for myself, I didn't plan to do this in the restaurant business. I gravitated towards this because of my friends who worked in the catering industry."

In 1984, Gill was able to purchase the Ashoka and through determination and hard work was able to make the business a success. The business grew organically and when nearby restaurant sites came on the market, Gill bought the freehold to prevent his competitors gaining a toe hold in the same area. His hard work and perseverance in the face of difficulties, as well as "never taking short cuts and being willing to do an honest day's graft", have led to the creation of the Harlequin Empire. In March 2005, the Harlequin Restaurant Group was sold, leaving Gill to concentrate on Harlequin Properties and Harlequin Developments, which now includes a portfolio of a "few hundred residential properties." His daughters are part of the team and are currently working on re-branding the business to focus on their particular area of expertise.

For Gill, the biggest challenges have arisen when things are going badly and the test has been in how he has responded. One particular challenge that stands out was venturing into the food manufacturing business. "At the time, I thought that moving into this line of business was the logical progression for a restaurant owner, though I quickly learnt that it is so very different to running a restaurant," Gill recalls.

Despite having been through difficult times, his philosophy is easy going. "I've learnt that what feels bad today will undoubtedly



feel different in 24 hours time. I've therefore learnt not to dwell on the bad things as there's always a solution to the problems we face." He also copes with these inevitable challenges by asking for advice and drawing on the experiences of his trusted business advisers and fellow entrepreneurs who have experienced the same issues in the past. His current challenges are similar to those faced by many other entrepreneurs as a result of the economic credit crunch. "If I wanted to do something now, would I be able to raise the required financing?"

Gill responds to many of these ups and downs with a sense of humour. The last time he laughed out loud in the office was "probably today". He was influenced by his grandfather who showed him the importance of being successful, as well as inspired by several entrepreneurial giants: Richard Branson and Donald Trump. Gill draws motivation from members of the Entrepreneurial Exchange in Scotland, where he meets like minded people who share the same interests and concerns. Since making a speech at the annual conference six years ago, Gill is now the vice-chairman of the organisation, which currently has around 470 members.

Gill's proudest achievement to date has been collecting an MBE from the Queen, which he was awarded in the 1998 New Year's Honours List for his outstanding contribution to the food and catering industry. "An MBE is not something you can really work towards and aim for, and so it was great to feel appreciated and gain recognition for my efforts." But his ambitions don't stop there. In the next five years, Gill would like to expand his real estate business with a view to passing it on to his children to take forward.

The dreams of singing haven't been left behind in the wake of years of hard work – indeed the outlet has helped him in his career. Gill joined a local band, known as the *Bombay Talkies*, when young and found that "it opened more doors and gave me more contacts than being an entrepreneur. One time when travelling in India, our band was invited to tea with the Indian Prime Minister!" The band members still try to meet up whenever possible and singing remains a great way for Gill to unwind.

In 2006, Gill published his autobiography, *Tikka look at me now*, published by Black and White Publishing, ISBN 1845021002.

PricewaterhouseCoopers conducted its own analysis into corporate insolvencies and found that the number of corporate insolvencies in quarter three of 2008 has risen by 20% from quarter two of the year, but was up by 40% on the same quarter of last year. In total, 4,039 businesses across England and Wales entered into insolvency in July, August and September of this year, a figure which is at a five year high.

However, all is not lost. There are still many things businesses can be doing to manage through the downturn and ensure they don't become one of the insolvency statistics. Our experience suggests that most insolvency is down to inadequate planning by management to deal with these more challenging conditions.

There are five key areas to focus on at the present time in order to effectively manage through a downturn: strategy, finance, operations, people and stakeholder management.

Strategy

In a consumer led downturn, the first questions for any business to answer must be, "Are my products or services seen as discretionary purchases by my customers, or am I threatened because I supply other businesses in the discretionary sector?" Regardless of where you believe your business to be today, to assess the possible impact of the downturn and to take advantage of opportunities that will arise, ask yourself some strategic questions such as:

- How flexible is my business model – will it allow me to react quickly to a change in my business environment?
- What is my long term financial position – how significant could a loss of revenue be?
- What are my competitors doing and are there opportunities for organic growth in my sector?

By reviewing your strategy at this stage, you can ensure you are well-prepared to manage through.

Finance

The second area to consider is finance. When times are hard, cash is king. Commentators suggest that the companies who emerged from the last recession as sector leaders had more cash on their balance sheet than the losers. In the current climate, companies could be forgiven for thinking that their chances of refinancing their debt are slim, but debt funding is still available to businesses with a well thought out plan and a robust cash position.

Operations

Flexibility is the name of the game when it comes to companies improving their operational position in a downturn. Now is the time to make some hard-nosed decisions about what they are going to spend money on. Winning companies stay light on their feet, deploying all their resources, including people, in the area of the business most likely to do well in the conditions while directing their operational energy towards tapping the opportunities that arise.

People

A critical first step for businesses is to identify the talent that cannot be lost. Ensuring the right reward structures are in place for employees will keep you ahead of your competitors. To support this, regularly communicating with your employees will reinforce their commitment to your business and increase your chances of retaining them both now and when the upturn begins. Companies that manage people

costs effectively, whilst motivating their employees to flex their output according to business needs, will survive where others fail. Costs such as share schemes, sickness pay, benefits and car schemes are often over-looked and represent opportunities for quick wins to ease the hit to your balance sheet. The pension scheme can also be a significant financial burden, however, there are a number of ways to justify reducing your cash commitment. You do not need to wait until the next valuation is due to review this. During turbulent times, it is important to make decisions quickly.

Stakeholder Management

Finally, businesses must ensure they are managing their stakeholders effectively and keeping them on board. Managing stakeholders well in difficult times is crucial to executing a winning strategy. In today's often complicated business environment, there is only one way to manage these diverse relationships and that is through good communication. Keep shareholders and lenders informed, stay on the customers' agenda and safeguard assets by keeping up dialogue with employees.

Much of this might seem like common sense, but in our experience it is not common practice. If companies are proactive in these areas, these businesses will be well placed to weather these turbulent times and emerge from the downturn stronger.

For more information, please visit www.managinginadownturn.com



Once in a lifetime opportunity for cash!

Were you in business before 1997?

If so, then you may be sitting on a once in a lifetime opportunity to get some cash back from the tax man.

In short, as we sit here in 2008, we know how VAT applies to various situations. So, for example, we know that if we have a staff party we are able to recover the VAT on it. However, in 1997, we were under the impression that we could not. As a result, no one would have reclaimed VAT on expenses incurred on staff parties in the period from 1973 to 1997.

Normally, the time limit for reclaiming VAT that should not have been paid, or could have been recovered, is limited to three years due to rules brought in by the Government in 1996. However, after many years of litigation, the Government has now conceded that the way it introduced those rules was illegal and is, therefore, giving all businesses the opportunity to reclaim VAT for the periods from 1973 to 1997, if this should not have been paid, provided that claims are submitted by 31 March 2009. Interest will also be due, sometimes on a compound basis.

All industries are affected but particular areas of interest are retailers, mail order operators, manufacturers, charities, financial services businesses, insurance businesses, motor dealers, recruitment businesses, gaming and bingo businesses, house builders, opticians, hotels, tour operators, hire purchase companies, pension funds and the health sector. If you are in any of these sectors, it is worth investigating whether you are entitled to a refund from HMRC.

Establishing effective internal controls

At this current time, establishing effective internal controls is high on the board's agenda. There is a view among many stakeholders that well controlled businesses can make more money. The right controls are those that mitigate risk in an efficient and cost effective way and are supported by an embedded culture of controls awareness and sustainable monitoring.

Triggers to look for:

- The organisation has inefficient and confusing business processes
- Controls are not aligned with key business processes
- Controls are often manual and don't leverage technology (such as ERP SAP or Oracle systems)
- The organisation has suffered a controls breakdown
- The organisation has suffered from an incidence of fraud

Questions for management/shareholders:

- Are you under pressure to create efficiencies, yet at the same time ensure risks are effectively managed?
- Are your controls aligned with your key business processes? Do you know what these key processes are?
- Are many of your controls manual?

- Are you utilising technology to automate?
- Are controls over cashflow and working capital effective, particularly at a time when 'cash is king'?
- Are your controls and compliance activities cost effective?

Controls optimisation is a process of continuous improvement. It is built around a proven risk based approach to internal control. What approach you take to optimising controls will be specific to your business, but the key areas to address will include:

- Manage complexity - enhance understanding of key controls to enable companies to standardise and simplify processes, and create more responsive and aligned organisations
- Build efficient finance functions - balance objectives of managing compliance and financial control, reduce costs and improving performance
- Mitigate risk and drive high performance - by adopting and implementing a top down and risk based approach
- Leverage technology - to automate costly manual processes.

PricewaterhouseCoopers has a four phase approach which forms the controls optimisation cycle:



- Assessment - perform risk assessment and analyse the current internal control environment at the corporate, business process, and IT systems level
- Controls improvement - implement recommendations to optimise controls i.e. address gaps, rationalise, automate and standardise controls
- Sustainable controls - establish and maintain a system of control with clear accountability, an efficient testing and monitoring structure, supported by effective use of technology
- Process improvement - identify opportunities to improve existing business processes, systems and controls which will reduce cost, improve risk management and drive real business benefit.

Asian Business Forum events

Asian Business Forum annual networking event

PricewaterhouseCoopers Asian Business Forum annual networking event is to be held on 1 December 2008. The annual forum has become a popular event in the entrepreneurial calendar.

Our guest speakers for the evening will be Vijay Patel, Founder and Chief Executive Officer of Waymade Healthcare Plc and Professor Gareth Jones, Visiting Professor Instituto de Impresa and INSEAD as well as

Founding Partner of Creative Management Associates. We hope to see you for what is sure to be an enjoyable evening.

Asian Business Leaders roundtable

The PricewaterhouseCoopers Leeds office recently hosted an Asian Business Leaders roundtable. The lunch was held on 13 August 2008 and was arranged in conjunction with the Asian Business Development Network, the business support group which helps entrepreneurs from minority groups. The aim of the lunch was to bring together a number of key Asian businesses in the area and to allow them to network, share their experiences and to talk about the obstacles to growth for Asian businesses. The lunch encouraged the discussion of issues which affect Yorkshire's Asian business community and aimed to find ways of helping them achieve their potential. The other objective was to raise the profile of Asian businesses locally. The event was chaired by Ajaz Ahmed, the co-founder of Freeserve who sits on a number of boards and is a member of the governing council at the University of Huddersfield.



Pictured (from left to right) are Ajaz Ahmed – SoSavvy, Steve Crow – PwC, Katherine Bullock – PwC and Arshad Chaudhry – Asian Business Development Network.

Supporting the business community

Asian Business Awards 2008

As part of our commitment to the Asian business market, PricewaterhouseCoopers is once again proud to be one of the leading sponsors of the Asian Business Awards. In addition, we will be sponsoring the Young Achievers Award. We would like to wish all the participants good luck!



Magic Bus Gala 2008

The Magic Bus Gala took place on 16 October 2008 at the Dorchester Hotel in London. Ruby Parmar and Dipan Shah of PricewaterhouseCoopers attended, taking a table at the event.

Magic Bus is a child's rights based organisation working for at risk and marginalised children in Mumbai since 1999, through the medium of sport and outdoor education. Since its inception, Magic Bus has reached out to over 30,000 children living in some of the poorest conditions in the world: in the slums, streets, red light districts and construction sites of Mumbai. Through football and outdoor programmes children are taken away from the negative choices of the streets and learn about team work, fair play and communications. They develop self-esteem and look forward to a more positive future.

For further information about Magic Bus please visit www.magicbusindia.org or contact Kate Snow directly at kate@magicbusindia.org or by telephone on 0207 022 1980.

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