

# Creating Wealth THROUGH PROPERTY

The monthly newsletter for clients and friends of LCN Legal and for anyone involved in creating wealth through property.

February 2018



## Are you ready for Chinese investors?

Stories suggesting a decline of Chinese investment into the UK are highly misleading. Yes, Brexit and the tightening of Chinese currency controls have had an impact, but the fundamentals can't be denied. According to China Daily, Chinese direct investment into the UK more than doubled in one year – from \$9.2 billion in 2016 to \$20.8 billion in 2017. Denise Li, chief executive of PGC Capital, a Chinese private equity fund that plans to invest £600m in UK property over five years, is quoted as saying "You in the UK see Brexit as huge but back home in China, we see this as a 'first-world problem'."

According to the Financial Times, property remains the most favoured sector for Chinese acquisitions in the UK, accounting for 44% of the value of deals announced between 2012 and the first half of 2016.

This reflects what we see at LCN: steady interest from Chinese private investors and their representatives in property projects. The

question is: what is the opportunity for you personally? And what are you going to do about it?

Imagine that you were in a room full of Chinese investors, all there to hear about your projects. What would you say? How would you say it? What written information would you give them? Chinese people are famously impatient – when they want something to happen, they want it immediately. You should see my wife Xiaofang when she asks me to fix a wobbly toilet roll holder in Chateau Sutton. Chinese people may be 'thin faced' on a lot of things (see the book review on page 3), but they are 'thick faced' in demanding clear responses when it comes to business matters. If you don't have the answers they need – including a crystal clear explanation of what terms you are proposing – you're just a boring interlude between breakfast and lunch.

Even if you did survive that particular 'dragon's den', are you confident that your marketing efforts don't put you at risk of prosecution by the Financial Conduct Authority? The risks involved are no less real than those faced by intermediaries

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and investors who may unwittingly create collective investment schemes or alternative investment funds.

LCN has set its mission to be the millionaire-makers for the property world. That's why we have created our marketing toolkit for property developers (**see the back page for further details**), to help you to prepare yourself to market to ultra-high net worth investors, and transform your business by accessing larger deals and higher returns.

This issue of our property newsletter revolves around celebrating the new Year of the Dog and sharing some of our favourite things about China. Enjoy!



**Paul Sutton is co-founder of LCN Legal and a corporate lawyer with over 20 years' experience of helping clients to create effective structures for property projects. He is the author of the Lexis PSL Practice Note for Property Lawyers on Buying Property SPVs and regularly writes for publications such as Estates Gazette, Tax Adviser, Tax Journal and our blog at lcnlegal.com.**



*Paul Sutton*  
**Paul Sutton**  
Co-Founder, LCN Legal



“A man rises in the world exactly to the same degree that he fears his wife. The peasant treats his wife like a dog or a horse. As a consequence, he is little more than a beast himself. A man who fears his wife will conduct his life properly in order to please her. By conducting his life properly, he will rise in the world. To such a man, his wife becomes a source of strength and a refuge from the misfortunes of the world.”

Li Zong Wu, author of  
**‘Thick Black Theory’**

# Essential briefing:

## UK financial services regulatory risks for property developers and property professionals



This briefing is for property developers and property professionals – including property agents, investors, lawyers and anyone else involved in the sector, who is not already authorised and regulated by the UK Financial Conduct Authority (FCA). Its purpose is to keep you, your clients and business partners out of trouble – by enabling you to spot issues which could lead you to fall foul of UK financial services regulation if you don’t tread carefully.

You might think that you won’t be caught, but if your plans include continuing to build a business in the UK, you will want to protect your reputation and play by the rules.

**Here are some of the main areas you need to look out for:**

### 1. Communicating financial promotions

It is a criminal offence to “communicate an invitation or inducement to engage in investment activity” unless certain exemptions apply. Real estate is not caught by this offence, but shares and loan notes are. There are also special rules about promoting “collective investment schemes”.

### 2. Advising on investments and arranging deals in investments

These regulated activities could cover, for example, circulating a summary of an investment opportunity and introducing an investor and investee to each other. Again, real estate as such is not regarded as an investment for these purposes. However, shares in an SPV or units in a collective investment scheme would be.

### 3. Operating a collective investment scheme

A collective investment scheme (CIS) is any set of arrangements where:

- two or more investors participate in profits or income from property of any kind;
- the investors do not have day to day control; and

- the investors’ contributions and the profits or income due to them is pooled, or the property is managed as a whole.

Establishing, operating or winding up a CIS are controlled functions and therefore an FCA-authorised person must be appointed to operate any CIS. The promotion of collective investment schemes is also tightly regulated.

### 4. Managing an Alternative Investment Fund

The concept of an Alternative Investment Fund (AIF) is similar to that of a collective investment scheme, but wider in reach. Unlike a CIS, it includes corporate vehicles. The manager of an AIF must be registered with the FCA.

For details of our Marketing Toolkit for Property Developers, which will help you stay safe while you build your base of high net worth investors, see the back page of this newsletter or email us at [info@lcnlegal.com](mailto:info@lcnlegal.com).

“ Many of us were taught that when someone slaps you, you should turn the other cheek. This is not always the best course of action. There is a time to submit to being slapped, and there is a time to hit back twice so you will not be slapped again.

 **BOOK REVIEW**

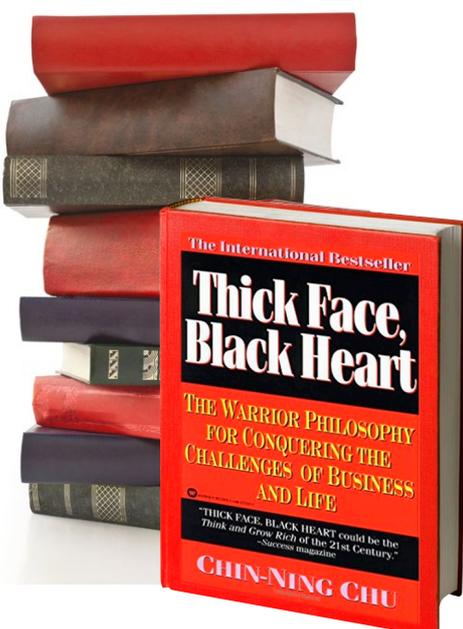
# Thick Face, Black Heart

By **Chin-Ning Chu**

*‘Thick Face, Black Heart’* (subtitled *‘The Warrior Philosophy for Conquering the Challenges of Business and Life’*) is more than just another self-help or business book. It is entertaining, enlightening and darkly fascinating. It combines Eastern philosophy with stories from ancient China, many of which make Game of Thrones look anaemic.

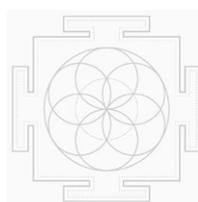
The author, Ms Chu, was born in Tianjin, China in 1946. She grew up in Taiwan and emigrated to the USA in 1969. She became a successful business consultant and business management writer, and died in 2009.

Chu’s book is based on a philosophical treatise called *“Thick Black Theory”* which was written by Li Zong Wu and was first intended to be published as a series of essays in The Chengdu Daily in 1911. In fact, the adverse reaction to the first instalment was apparently so intense that the rest of the series was cancelled. *“Thick Black Theory”* describes the ways used to obtain and hold on to political power: *“thick face”* (shamelessness), and *“black heart”* (ruthlessness).



The detail is breathtaking in its nakedness – such as ‘six ways to obtain an official position’, which are summarized as follows:

1. **Emptiness:** empty your mind of anything that does not relate to your appointment to the position you seek.
2. **Worming in:** take every little opportunity to advance your prospects.
3. **Self-praise:** constantly seek to bring your qualifications to the attention of those who can help you.
4. **Flattery:** ingratiate yourself with those who can help you, through flattery to their faces and to others.
5. **Threats:** make people understand that it might be unfortunate for them if they did not co-operate, and you ended up in a superior position to them. But be very subtle in your threats.
6. **Bribery:** use small bribes to create a sense of obligation, and large bribes to seal the appointment.



Chin-Ning Chu has taken the concepts of *‘thick face’* (which she describes as a shield) and *‘black heart’* (which becomes a spear), and used them as the core of a collection of principles for personal and business success, illustrated by stories of historical figures such as Abraham Lincoln and emperors in ancient China, as well as stories from the author’s own business life.

According to Ms Chu, we attain success in life by cultivating our warrior spirit and dedicating ourselves to expressing our own unique nature and in-built killer instincts. She challenges accepted wisdom: “Many of us were taught that when someone slaps you, you should turn the other cheek. This is not always the best course of action. There is a time to submit to being slapped, and there is a time to hit back twice so you will not be slapped again. ... If you turn the other cheek because you are afraid to hit back, it does not mean you are morally superior. It simply means you are a coward.”

Many of the principles in the book are essentially amoral, even criminal – and sometimes horrifyingly so. However, she also adds another key element: Dharma, meaning ‘duty’ or ‘right action’. According to Chu, all beings have their own Dharma and all situations and circumstances have a specific Dharma. Dharma is not determined by the mind, but is already there – inbuilt – as part of the way the universe works. The choice is simply whether we adhere to it or not. Chu’s prescription is to recognize your duty, and to fulfil it with dedication and duty. For example, an employee’s Dharma is simple: to support the employer wholeheartedly.

**Thick Face, Black Heart is a fascinating read on at least two levels – one as an insight into Chinese culture, and another as a practical tool for guarding our values and achieving a peaceful state of mind. Highly recommended.**

## Our top 5 off-the-beaten-path ancient sites to visit in China



**1. White Horse Temple**  
The first Buddhist temple in China, established in 68AD



**2. The Longmen Grottoes**  
The finest examples of Chinese Buddhist art



**3. Shaolin Temple**  
Including its 'Pagoda Forest' of 240 tombs commemorating abbots and monks



**4. The temple of The Yellow Emperor**  
Dedicated to the founder of Chinese civilisation, said to be the ancestor of all Chinese people



**5. Kaifeng**  
The ancient capital of Song Dynasty and the subject of China's most famous painting 'Along the river during the Qingming Festival'

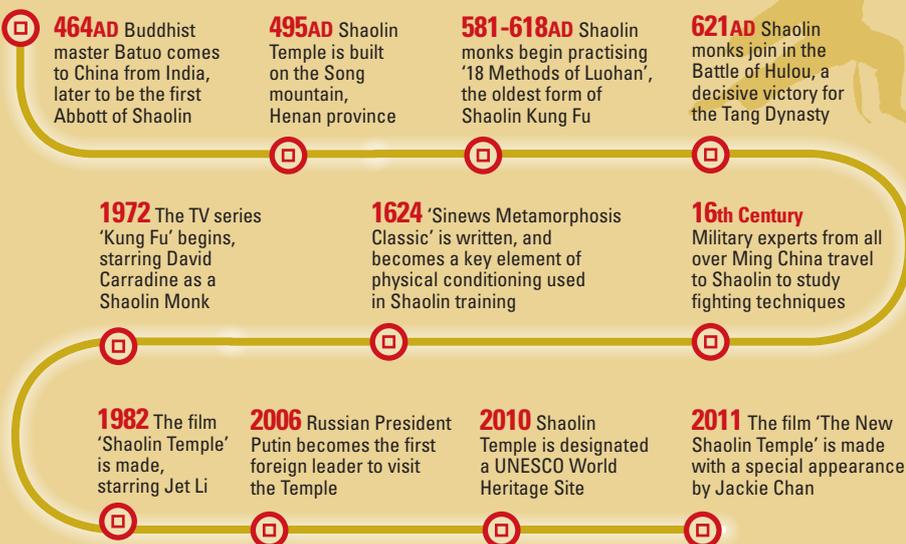
## Marketing toolkit for property developers: attracting funds from private investors

LCN Legal has advised property developers on a range of structures for locking in private investment, enabling our clients to raise hundreds of millions in development capital. Much of our work has involved negotiating bespoke arrangements with investors. Inevitably, not all of those negotiations result in signed agreements. Developers who have a strong investor base are naturally in a much better negotiating position. Although crowdfunding platforms can provide a short-term solution, they can provide poor value for money, and ultimately developers are not in control.

We came to realise that we can help at a much earlier stage, by showing developers how they can manage their own fundraising activities and market themselves to prospective investors, without exposing themselves to legal claims or criminal prosecution. By creating this toolkit, we aim to give more developers the benefit of what works, so that they can significantly increase the scale of their projects - at a much lower cost than would otherwise be the case.

Email us at [info@lcnlegal.com](mailto:info@lcnlegal.com) to request the marketing toolkit to help you to market (advertise) to Ultra High Net Worth Individuals without breaching FCA regulations.

## Evolution of an Institution: Shaolin Temple



## Testimonial for LCN legal

*"I am very impressed by the detailed guide of the six structures most commonly used by private investors when investing property development projects. I would highly recommend LCN Legal to cover the legal structure and advise for the investors who are considering investing in the UK real estate development."*

**Zhenmei Xi**, Head of Global Investment at Doyen Global.