Qingdao Shinan District Investment Environment Study

ADVISORY
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Preface

This publication presents an overview of matters to be considered by those contemplating investment in Qingdao’s Shinan District (SND) in China’s Shandong Province.

An important region in eastern China, Shandong Province has seen substantial change in its economic landscape in recent years. Much of this development has been concentrated around Qingdao.

One of Qingdao County’s seven districts, SND is located on the waterfront along the city’s south-eastern edge and is the site of the Qingdao municipal government.

On the economic front, Qingdao has seen rapid development. Enjoying an annual growth rate of 18.1 percent, as at 2007, the county’s GDP reached USD55.4 billion, ranking first in Shandong Province. SND, in turn, achieved a GDP growth rate of 20.6 percent from 2006 to 2007. Both Qingdao and SND have received multiple honours in recent years:

- In 2007, 45 of the world’s Top 500 companies had established a presence in SND; SND was accredited as an advanced district in Shandong’s foreign economic and trade network
- In 2008, the provincial government ranked SND first among twelve development zones in Shandong as an “International Service Outsourcing Base”
- In 2007, Qingdao was ranked seventh in the Beijing International Institute for Urban Development’s “brand strength” assessment of Chinese cities
- In 2007, the Beijing Academy of Social Sciences ranked Qingdao 10th among 35 major Chinese cities for its development as a host of corporate headquarters, seventh for governmental environment, and fourth for openness to foreign investment
- The 2008 hosting of Olympic sailing events (and related investment) is expected to have a lasting impact on Qingdao’s tourism, conference, and logistics capabilities

The business environment, especially with regard to costs, can change quickly in China. Moreover, cost and operational issues vary from company to company and industry to industry.

We recognise that the lack of reliable information, such as cost data, can be an impediment to the investment process. This publication, commissioned by SND, is designed to address the needs of foreign investors for accessible, independently-researched information on the business environment and costs in their district.

Sources of information for this booklet have been cited throughout; and the assistance of the SND government is gratefully noted. This booklet contains information available as of October 2008.

Companies doing business in China, or planning to do so, are advised to obtain current information and company-specific advice from experienced professional advisors. This report should not be construed as a substitute for due diligence on a proposed investment.

Source: 2008 Qingdao Statistical Yearbook; Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City
Located in the south of Shandong Province, overlooking the Yellow Sea, Qingdao’s geographic location and investment climate have attracted a significant number of foreign investment projects.
Qingdao Today

Location

Qingdao is located in Shandong Province, in eastern China

Shandong Province lies on China’s eastern coast. Qingdao County is on the southern shore of Jiaozhou Bay, on the Yellow Sea. The county’s total coastline is about 870 kilometres, including 730 kilometres of mainland coastline, which accounts for one fourth of Shandong Province’s total. Qingdao County is bordered by Yantai to the northeast, Weifang to the west, and Rizhao to the southwest.

Qingdao is within 1.5 hours’ flight time from Beijing and Shanghai, or within 3 hours’ flight time from Guangzhou and Shenzhen; it is also 1.5 hours and 2.5 hours from Korea and Japan, respectively.

Qingdao’s geographic position in China

Note: For illustrative purpose only; flight times are approximate
Source: KPMG analysis
Population and natural environment

Qingdao is a major coastal city in eastern China

- Qingdao's history gives it a unique character
  - Qingdao, originally called "Jiao Ao" was one of the birthplaces of Taoism
  - Over 110 years ago, the Qing dynasty renamed the city and fortified it for their navy
  - Qingdao was also a German Treaty Port (Port Arthur) in the 19th century; and its European architecture adds a special flavour to the city
- Administratively, Qingdao County covers an area of 11,026 square kilometres made up of five satellite cities (Jiaozhou, Jiaonan, Pingdu, Laixi, and Jimo), seven districts (Shinan, Shibei, Sifang, Licang, Laoshan, Chengyang and Huangdao) as well as 178 towns.
- At the end of 2007, Qingdao had a total population of 7.58 million, of which 2.75 million were urban residents

Climate in Qingdao

- Qingdao enjoys a mild climate in the north temperate zone, with moist air, abundant rainfall (775.6 millimetres of rainfall annually), and an annual average temperature of 12.2 degrees Celsius. August and January are the hottest and coldest months with average temperatures of about 25.1 and -1.2 degrees Celsius, respectively.
Travel, housing and healthcare

Convenient transportation

- Qingdao Liuting airport is 32 kilometres away from the town centre, and is 40 minutes by car from SND. It connects to over 40 domestic cities as well as international cities including Tokyo, Osaka, Fukuoka, Seoul and Singapore. There are also direct flights from Qingdao to Hong Kong and Macau.

<table>
<thead>
<tr>
<th>Destination</th>
<th>Ticket price (USD)</th>
<th>Flying time (hours)</th>
<th>Number of flights per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>104</td>
<td>1h 15’</td>
<td>112</td>
</tr>
<tr>
<td>Shanghai</td>
<td>108</td>
<td>1h 15’</td>
<td>126</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>260</td>
<td>2h 55’</td>
<td>42</td>
</tr>
<tr>
<td>Shenzhen</td>
<td>268</td>
<td>3</td>
<td>49</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>402</td>
<td>3h 15’</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: www.ctrip.com; www.qdtravel.com

- Qingdao Railway Station is also located in SND (Taian Road), and there are more than 20 trains that depart for Beijing, Shanghai or Guangzhou every day. Qingdao continues to benefit from China’s expanding high-speed rail network.

<table>
<thead>
<tr>
<th>Destination</th>
<th>Ticket price (sleeper, USD)</th>
<th>Travel time (hours)</th>
<th>Number of trains per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>48</td>
<td>5h 54’</td>
<td>49</td>
</tr>
<tr>
<td>Shanghai</td>
<td>56</td>
<td>10h 08’</td>
<td>14</td>
</tr>
<tr>
<td>Nanjing</td>
<td>55</td>
<td>8h 04’</td>
<td>14</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>108</td>
<td>27h 47’</td>
<td>7</td>
</tr>
</tbody>
</table>

Note: There is one daily direct train from Qingdao to Guangzhou, two to Shanghai and Nanjing, and seven direct trains daily from Qingdao to Beijing

Source: www.huoche.com.cn

Housing

- The rental price of apartments in Qingdao obviously varies with location and standard. In 2008, typical monthly rent for an apartment downtown with 3 bedrooms and a Gross Floor Area (GFA) of 130 m² (1,400 square feet) was around USD475.

- Throughout Qingdao there are 131 star-rated hotels. The city has seven five-star hotels and 19 four-star hotels. Average standard room price in a five-star hotel was around USD115 per night in 2007.

Healthcare services

- Qingdao had a 28,107 hospital-bed capacity and 27,566 healthcare personnel, in 251 hospitals and health centres as at the end of 2007.

- SND had 2,945 beds and 3,106 healthcare personnel in 15 hospitals and health centres as at the end of 2007.

Note: Exchange rate: 1 USD = 6.835 CNY, Bank of China, 30 August 2008

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City
Shopping, recreation and education

Qingdao’s shopping and entertainment options are expanding

- Qingdao International Beer Festival, initiated in 1991, is now a major international festival bringing tourism, culture, sports, economy and trade. The 17th annual festival in 2007 attracted 3.6 million people who drank over 1,000 tons of beer.
- Zhongshan Street is a commercial symbol of the Shinan District, while Minjiang Street in SND has become famed for its food, attracting domestic and foreign tourists alike.
- The Qingdao Olympic Sailing Centre hosted the 2008 Olympic sailing and windsurfing competition. The marina meets international standards and has 366 berths and high-standard entertainment facilities, while the Olympic port and park areas have themselves become a new attraction.

Qingdao is a coastal city with many scenic sites

- Laoshan Mountain, which lies on the eastern edge of SND, is famous throughout China for its beauty.
  - Shangqing Temple, also famous throughout China, sits on top of Laoshan Mountain, near a natural spring
- Qingdao’s downtown is dotted with green spaces and hills, including Taiping Mountain which is Qingdao’s central park.
- The Qingdao seaside holiday zone is 25 kilometres long and three kilometres wide, and is designated as a National 4A Scenic Zone by the State Bureau of Tourism.
  - this seaside holiday zone covers Qingdao’s seven beaches which attract people from all over China
- Qingdao has six national historical sites such as the old site of the German Governor’s mansion and “Badaguan Area”, an area of European architecture.

Education

- Qingdao has 25 marine-related research, education and administrative institutions, and a national key comprehensive marine research institute, the Ocean University of China.
- Qingdao has six international schools with over 1,700 students.

<table>
<thead>
<tr>
<th>International Schools in Qingdao (as at March 2008)</th>
<th>Established</th>
<th>Approximate Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qingdao MITI International School</td>
<td>1996.9</td>
<td>300</td>
</tr>
<tr>
<td>Qingdao International School</td>
<td>1998.8</td>
<td>200</td>
</tr>
<tr>
<td>Qingdao Korean International School</td>
<td>2004.7</td>
<td>700</td>
</tr>
<tr>
<td>Qingdao Yuehua Korea School</td>
<td>2005.2</td>
<td>400</td>
</tr>
<tr>
<td>Qingdao Japanese School</td>
<td>2005.10</td>
<td>100</td>
</tr>
<tr>
<td>Qingdao Future Korean International Kindergarten</td>
<td>2006.10</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City
Economy and Foreign Direct Investment

Economy

Qingdao’s manufacturing and service industries have seen rapid growth

- In 2007, the gross domestic product (GDP) of Qingdao County was USD55.4 billion, with a GDP per capita of USD7,309. From 2003 to 2007, Qingdao County’s GDP grew at a compound annual growth rate (CAGR) of 20.8 percent, almost five percent higher than the national average of about 16.1 percent.

- Manufacturing and construction sectors accounted for 51.6 percent of Qingdao County’s GDP in 2007, with a value of USD28.6 billion.

- Service industry contributions to GDP have marginally grown in recent years, and are higher than the national average. According to 2007 data, the service industry, which covers banking, insurance, transportation, post, telecommunication, and retail, made up 43.0 percent of GDP in 2007, versus a nation GDP of 39.1 percent.

- Qingdao is home to a number of companies that have become well-known in China and overseas, including Haier (home appliances and IT), Hisense (home appliances and IT), Doublestar (shoes), and TsingTao Beer.

Financial services have grown in importance and are now the fifth largest contributor to the service sector, after transportation, wholesale and retail, real estate, and public sector

- In 2007, these sectors together accounted for 66.1% of the service sector GDP in Qingdao County.
  - transportation, logistics and postal sectors represented USD5.82 billion
  - USD4.19 billion came from the wholesale and retail sector
  - the real estate industry accounted for USD2.00 billion

- Qingdao’s financial sector growth means the sector accounted for USD1.79 billion of Qingdao County’s GDP in 2007, 39.5 percent growth on 2006.

Note: \(^1\) Compound Annual Growth Rate (CAGR) is a method of calculating the year-on-year rate over a specified period


Source: 2008 Qingdao Statistical Yearbook

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Foreign Direct Investment

Foreign Direct Investment (FDI) is having a significant impact on Qingdao

- In 2007, utilised FDI in Qingdao County was USD3.81 billion, a value that has been relatively stable since 2004.
- By the end of 2007, 5,207 Foreign Invested Enterprises (FIEs) had been set up in Qingdao County; of these, 305 companies each made investments of over USD30 million.

The focus of foreign investment in Qingdao County is manufacturing

- Manufacturing has represented between 75.5 percent and 86.4 percent of foreign direct investment every year between 2003 and 2007.
- Several non-manufacturing sectors have seen increased levels of foreign investment.
  - 2007 saw particularly strong growth from the real estate sector, with a 9.2 percent contribution in 2007, up from 5.2 percent in 2006
  - Transportation, logistics and postal services increased its contribution from 2.1 percent in 2006 to 4.0 percent in 2007
  - 2006 proved a particularly active year for construction at 3.8 percent, though 2007 saw levels fall back to historic levels of below one percent

The lion’s share of foreign investment in Qingdao County came from Asia, South Korea in particular

- 9,666 foreign investment projects were set up in Qingdao County between 2003 and 2007, with total investment of over USD17.73 billion.
  - South Korean companies invested in 6,000 projects in Qingdao County during these years, with total investment amounting to USD8.76 billion. This represents 49.4 percent of all foreign investment in Qingdao by value
  - funds for 2,192 investment projects originated in the rest of Asia, including Hong Kong (856), Taiwan (455), Japan and Singapore, with their investment totaling USD5.06 billion or 28.5 percent of all investment by value
  - The US, Europe, Canada and Australia accounted for roughly 8 percent of all investment by project numbers

Note: Exchange rate: 1 USD = 6.835 CNY, Bank of China, 30 August 2008
Source: 2008 Qingdao Statistical Yearbook
2 Qingdao Shinan District (SND)

SND
• Introduction

Foreign Investment in SND
• FDI and investment source
• Investment sector and case study of foreign invested enterprise

SND Planning

SND is situated in Qingdao’s downtown area; it is a centre for political, business and finance activities, and is home to investment from an increasing number of Fortune 500 companies.
Qingdao Shinan District (SND)

Introduction

Shinan District is Qingdao’s centre of politics, culture, commerce, technology and finance

- With a total area of 30 square kilometres, SND has a total registered population of 524,000.
- The Qingdao government and Zhongshan Road, the city’s commercial centre, are located in SND.
  - almost all the Qingdao headquarters of financial institutions including banks, insurers, brokerages and trust companies are situated in SND
- SND is divided into a number of areas to facilitate urban planning; these comprise a port and logistics area, tourism area, software and IT area, high-end retail area and financial area.

SND is also famous for its beautiful scenery and tourist sites

- Over three-quarters of Qingdao’s tourist resorts are located in SND, due to its scenic coast and beaches.
- Fushan Bay in SND hosted the sailing and windsurfing competitions of the 2008 Olympic Games.
- Shinan District’s green coverage was 34 percent in 2007, which translates to 21 square metres per person.

Map of Shinan District

Note: For illustrative purpose only; tourism area includes all of SND’s coastline.
Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City; KPMG analysis
Foreign Investment in SND

FDI and investment sources

SND is home to thousands of foreign invested companies
- Due to large investment in real estate in 2007, SND received a 184% year-on-year increase in utilised FDI, reaching USD196 million.
- As at the end of 2007, 950 FIEs had been established in SND; of these, 40 companies had invested over USD10 million each.
- More than 45 of the world’s Top 500 companies are present in SND.

Sample of the world’s Top 500 enterprises in SND, 2007

<table>
<thead>
<tr>
<th>Company</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aeon (JUSCO)</td>
<td>Retailing</td>
</tr>
<tr>
<td>KFC</td>
<td>Restaurant</td>
</tr>
<tr>
<td>Carrefour</td>
<td>Retailing</td>
</tr>
<tr>
<td>HSBC</td>
<td>Banking</td>
</tr>
<tr>
<td>ITOCHU</td>
<td>Trading</td>
</tr>
<tr>
<td>B&amp;Q</td>
<td>Retailing</td>
</tr>
<tr>
<td>Suez Environment (Sino-France Hairun)</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>McDonald</td>
<td>Restaurant</td>
</tr>
<tr>
<td>Marubeni</td>
<td>Trading</td>
</tr>
</tbody>
</table>

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City; KPMG analysis

Note: Percentages based on number of projects

Investment sources
- South Korean companies traditionally have a strong presence in SND, with almost 40 setting up in 2007 alone.
- Companies from Europe, the Americas and Japan are also investing in SND in large numbers, together accounting for 47 of a total of 118 foreign investments in 2007.

Note: Exchange rate: 1 USD = 6.835 CNY, Bank of China, 30 August 2008
Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City
Investment sector and case study of foreign invested enterprise

Sector description
• In terms of investment value, the top three industry sectors for foreign investment in SND in 2007 were real estate (alone accounting for 81.0 percent of investment); professional services (accounting, legal services) and logistics.
  - 2007 was particularly strong for real estate investments; since 2003 professional services and logistics have also grown in significance

<table>
<thead>
<tr>
<th>SND’s FDI utilisation in selected sectors, 2003 and 2007</th>
<th>2003 (million USD)</th>
<th>2007 (million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate</td>
<td>4.0</td>
<td>158.5</td>
</tr>
<tr>
<td>Professional services</td>
<td>1.9</td>
<td>18.9</td>
</tr>
<tr>
<td>Logistics</td>
<td>2.1</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City; KPMG analysis

Projects under negotiation
• New projects are continually being negotiated between SND and foreign investors; as at July 2008 the sectors covered included wholesaling, retailing and restaurant and real estate.

Case study of foreign invested enterprise
• The case study below illustrates the investment experience of a foreign-invested retailer in SND.

Case study of a foreign invested enterprise
Qingdao Aeon Dongtai – one of the SND’s top 500 companies
Qingdao Aeon Dongtai was set up in 1996 as a retail-focused joint venture of the Japanese retailer Aeon and Qingdao Supply and Marketing Cooperative. In 2007 Qingdao Aeon was the top retailer in Qingdao, and ranked 26th by revenue and 11th by profit among all foreign invested enterprises.

Aeon’s entry point into China, its flagship centre opened in 1998 in SND’s downtown Hong Kong road, with an area of 40,000m² and over 1,700 employees. The store targets higher-end customers with a focus on providing a quality consumer experience.

Since 2005, revenue and gross profit have grown at a CAGR of 21% and 19%, respectively. The company has increased its investment seven times since its USD48.18 million start-up, with total investments now amounting to USD104.09 million. In 2006 and 2008 the company set up two new shopping centres in Shandong province, and plans to further expand in the province, while Aeon itself will target sites throughout north and eastern China.

Note: This case study is a summary of investment and operations history of Qingdao Aeon Dongtai Co., Ltd. based on information provided by the Bureau of Foreign Trade & Economic Cooperation of SND
Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City
SND Planning – key initiatives

- As a host city of the 2008 Olympics, upgrade work included investment in several coastal promenades and in areas of particular architectural heritage.

Western area renewal
- The western area of Shinan District contains many of Qingdao’s beaches and is a landmark of Jiaozhou Bay.
- The western area plan focuses on renewing old buildings, improving traffic conditions, developing leisure facilities and adding commerce and retail space.
- Currently, the western district is divided into three areas (north area, middle area and south area). The government plans on converting these areas into tourism, business and high-end residential zones. An ocean sailing training centre and a tourism district near the port are included in the city’s plan.
- Construction work is well underway and the whole project is due for completion by the end of 2010.

Zhongshan Road renovation plan
- Zhongshan Road is Qingdao’s prime shopping street and has buildings dating back to the early 1900s. Its European architectural style is a feature of the street.
- Plans are in place to convert Zhongshan Road into a commercial pedestrian zone with 2,000 parking spaces above and below ground.
- Based on the history and culture of Zhongshan Road, two tour routes, named “German Feeling” and “Qingdao Past,” are planned; other initiatives include improving the main roads and preserving historical buildings.
- The government has completed the renovation of main roads and razing of sub-standard buildings in 2007. The whole project is planned for completion by the end of 2010.

Shinan Software Park construction plan
- Shinan Software Park construction plan was one of the “State Torch Projects – Software Industry Base” approved by the Ministry of Science and Technology in 2002 and set up in 2003; it is located in the downtown area and near Qingdao’s sailing competition bay.
- The total floor area of Phase One is 260,000 square metres, of which 100,000 square metres for the R&D building have been completed; Phase One of the Park enjoys a 100 percent occupancy rate.
  - over 100 foreign and domestic software companies have already established a presence, including RP, LINKSNET, Sina, Microsoft, IBM, UFIDA, and Langchao Group
- Phase Two of the park started in 2006 and is planned to be in use by the end of 2008.

<table>
<thead>
<tr>
<th>Phases</th>
<th>Site area (m²)</th>
<th>GFA (m²)</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>126,000</td>
<td>260,000</td>
<td>Completion</td>
</tr>
<tr>
<td>2</td>
<td>99,000</td>
<td>115,000</td>
<td>Completion by end 2008</td>
</tr>
</tbody>
</table>

Note: GFA = gross floor area
Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City
3 Operating costs

- Human resources
- Labour costs
- Utility costs
- Office building costs

Qingdao’s labour force and operating environment are detailed in this chapter, together with data on costs of investors such as HR costs and rental costs.
Human resources

Qingdao has a large and flexible work force

- According to a report published by Qingdao government, during the period of China’s 11th 5-year plan (2006 to 2010), Qingdao will have a labour force\(^2\) of about 5.29 million people each year (excluding non-resident population).

- With the development of Qingdao, the number of temporary residents from outside Qingdao has grown rapidly suggesting that the actual labour pool is large and flexible.
  - there are some 1 million migrant workers in Qingdao, most in their twenties; this is double the number in 2000

New graduates in Qingdao

- Qingdao has 25 universities, 22 technical schools, 73 vocational secondary schools and 311 middle schools.
  - two universities and two technical schools are located in SND, as well as one vocational secondary school and 16 middle schools.

- Major educational institutions include Qingdao University and the Ocean University of China; together supply roughly 10,000 graduates to the local labour market each year.
  - 8,679 students graduated from Qingdao University in 2007. In all, the university has around 2,700 postgraduate students at any one time
  - In 2007, Ocean University of China had 2,816 graduating students. In all, the university has around 5,600 studying at postgraduate level

Note: \(^2\) Definition of Labour force: people whose age is between 15 and 64 (National Statistical Society of China)

Source: “Qingdao City Population Development the 11th 5-year Plan” published by Qingdao government; 2008 Qingdao Statistical Yearbook; Qingdao University; Ocean University of China

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Labour costs

Salaries for most positions are below USD10,000 per year

- Total employment costs consist of a basic salary and “social welfare” benefits, such as pension contributions and basic medical insurance.
- Typically annual salary in foreign invested companies is approximately USD2,000 higher than that in local companies; the higher the position, the larger the gap.
- The table below is the guideline released by the government detailing indicative salary level in some positions in FIEs in Qingdao in 2008.

<table>
<thead>
<tr>
<th>Position</th>
<th>Salary (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales manager</td>
<td>9,963</td>
</tr>
<tr>
<td>Production manager</td>
<td>9,633</td>
</tr>
<tr>
<td>Finance manager</td>
<td>10,008</td>
</tr>
<tr>
<td>Administration manager</td>
<td>7,593</td>
</tr>
<tr>
<td>Human Resource manager</td>
<td>7,903</td>
</tr>
<tr>
<td>Secretary</td>
<td>5,283</td>
</tr>
<tr>
<td>Accountant</td>
<td>5,293</td>
</tr>
</tbody>
</table>

Source: Qingdao Labour and Security Bureau

“Social welfare” benefits must also be paid by the company

- All enterprises must contribute, on the behalf of employees, a range of benefits required by the government, including pension, unemployment insurance, medical insurance and housing funds.
- The level of contribution is based on a percentage of an employee’s salary set by the local authorities.

Components of social welfare, Qingdao, 2007

- In Qingdao these non-salary costs are equivalent to roughly between 37.4 percent and 53.5 percent of an employee’s base salary; i.e., the total employment cost of a worker on an annual salary of USD4,000 will be approximately between USD5,496 and 6,140. There was a minimum of around USD60 per month of social welfare benefits per employee in 2007.

Note: Total employment costs in this report do not include employee bonuses; Exchange rate: 1 USD = 6.835 CNY, Bank of China, 30 August 2008

Source: Qingdao Labour and Security Bureau; Qingdao Housing Provident Fund Management Centre
Utility costs

A full range of telecommunications services are available in Qingdao

- Telephone options include fixed line, mobile phone and Internet Protocol (IP) services; costs, as of July 2008, are shown below:

<table>
<thead>
<tr>
<th>Telephone charges (USD cents/unit time)</th>
<th>Local call</th>
<th>Domestic call</th>
<th>International call</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed line</td>
<td>3 for the first 3 minutes and 1 thereafter</td>
<td>1/6 seconds</td>
<td>Hong Kong, Macau, Taiwan other countries 3/6 seconds</td>
</tr>
<tr>
<td>Mobile</td>
<td>5/minute</td>
<td>1/6 seconds</td>
<td>Hong Kong, Macau, Taiwan other countries 12/6 seconds</td>
</tr>
<tr>
<td>IP phone</td>
<td>5/minute</td>
<td>4/minute</td>
<td>Hong Kong, Macau, Taiwan US, Canada 22/minute</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>UK, France, Germany, Japan, South Korea, Australia other countries 67/minute</td>
</tr>
</tbody>
</table>

Source: Qingdao Communications Administration

- There are three main internet access methods: DDN, LAN and ADSL. The prices for DDN, as of October 2008, are shown in the table below:

<table>
<thead>
<tr>
<th>DDN annual rental (USD)</th>
<th>Speed</th>
<th>Local connection within the same district</th>
<th>Local connection between different districts</th>
<th>Domestic connection outside Qingdao</th>
</tr>
</thead>
<tbody>
<tr>
<td>768 Kbit/s</td>
<td>629</td>
<td>907</td>
<td>1,171</td>
<td></td>
</tr>
<tr>
<td>1 M/s</td>
<td>732</td>
<td>1,097</td>
<td>1,317</td>
<td></td>
</tr>
<tr>
<td>2 M/s</td>
<td>878</td>
<td>1,171</td>
<td>1,756</td>
<td></td>
</tr>
</tbody>
</table>

Source: Qingdao Communications Administration

Cost of transportation

- The public transportation system in Qingdao is convenient and extensive. Bus travel is USD0.15 per trip, while the price for air-conditioned buses is USD0.44.

- From 5 a.m. to 10 p.m., taxis charge USD1.0 for the first three kilometres, and USD0.18 per kilometre thereafter; from 10 p.m. to 5 a.m., they charge USD1.0 for the first three kilometres and USD0.23 per kilometre thereafter.

Note: Exchange rate: 1 USD = 6.835 CNY, Bank of China, 30 August 2008
Source: Qingdao Communication Administration and Qingdao Taxi Administration Hotline
Office space

SND has a variety of modern office towers

- SND had 13 grade-A office buildings with 710,000 square metres of floor space and 21 grade-B buildings with 980,000 square metres of floor space as at March 2008; by the end of 2009, there will be three new grade-A and six new grade-B buildings in the district; and the floor space of grade-A and grade-B office buildings will reach 850,000 and 1.03 million square metres, respectively.

Grade-A office buildings in SND

- Average rental of grade-A office buildings in SND was USD0.5/day/m² in 2007; their average sales price was USD2,341/m².
- By the end of March 2008, the vacancy rate in SND was 5 percent for grade-A offices.

Sample Grade A properties in SND (March 2008)

<table>
<thead>
<tr>
<th>Office</th>
<th>Occupancy</th>
<th>Rental USD/day/m²</th>
<th>Selling price USD/m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hisense Building</td>
<td>100%</td>
<td>0.51</td>
<td>Lease only</td>
</tr>
<tr>
<td>Int’l Finance Centre</td>
<td>100%</td>
<td>0.48</td>
<td>Lease only</td>
</tr>
<tr>
<td>Merchant Bank Mansion</td>
<td>99%</td>
<td>0.47</td>
<td>2,341</td>
</tr>
<tr>
<td>Flagship Tower</td>
<td>98%</td>
<td>0.47</td>
<td>2,341</td>
</tr>
<tr>
<td>Fenghe Square</td>
<td>95%</td>
<td>0.59</td>
<td>2,234</td>
</tr>
</tbody>
</table>

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City; real estate agencies in Qingdao

Grade-B office buildings in SND

- Grade-B office buildings, in contrast, charged an average rental of USD0.33/day/m² in 2007; their average sales price was USD1,719/m².
- Vacancy rates have fallen gradually over the past three years; by the end of March 2008, the average vacancy rate was 15 percent.

Sample Grade B properties in SND (March 2008)

<table>
<thead>
<tr>
<th>Office</th>
<th>Occupancy</th>
<th>Rental USD/day/m²</th>
<th>Selling price USD/m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Xinyu Langu (SND software park)</td>
<td>100%</td>
<td>0.34</td>
<td>Lease only</td>
</tr>
<tr>
<td>Time Square</td>
<td>95%</td>
<td>0.44</td>
<td>2,048</td>
</tr>
<tr>
<td>Parkson Business Centre</td>
<td>90%</td>
<td>0.26</td>
<td>1,317</td>
</tr>
<tr>
<td>Huanhai Mansion</td>
<td>90%</td>
<td>0.29</td>
<td>1,756</td>
</tr>
<tr>
<td>Jinfu Mansion</td>
<td>80%</td>
<td>0.34</td>
<td>1,756</td>
</tr>
</tbody>
</table>

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City; real estate agencies in Qingdao

Note: Exchange rate: 1 USD = 6.835 CNY, Bank of China, 30 August 2008
4 Incentive policies

- Taxation in Qingdao

Qingdao’s tax environment is similar to that of other coastal cities in China. Prior to making investments, companies are advised to carefully consider potential taxation issues. This chapter provides general taxation and other incentive information for reference purposes only.
Taxation in Qingdao

The tax regime in Qingdao is similar to that of other cities in China

The taxation year in China runs from 1 January to 31 December.

Foreign-invested companies need to register with the Qingdao tax authorities:

- FIEs, and those foreign enterprises which constitute a permanent establishment, must submit the relevant documents and register with the local tax authorities within 30 days after obtaining the business licenses. A tax registration certificate will then be issued.
- When an enterprise restructures or terminates its operations, which leads to altering the content of its tax registration details, its tax registration certificate must be amended or cancelled accordingly.

The Application documents for the enterprise income tax that must be filed with local taxation authorities are as follows:

- Declaration of quarterly revenue should be delivered within 15 days after the end of the quarter.
- Declaration of annual revenue should be delivered within four months after the end of the fiscal year, together with the following documents:
  - financial report
  - audit report submitted by Chinese Institute of Certified Public Accountants (CICPA)
  - other documents required by Qingdao tax authorities depending on the nature of your application

In China, major taxes which foreign investment enterprises should pay include corporate income tax (CIT), turnover taxes, stamp duty, import duty and individual income tax (IIT)

- Corporate income tax (CIT)
  - The new “Corporate Income Tax Law of the People's Republic of China” has been effective since 1 January, 2008. The new law aims to unify the scope, tax rate, tax deductions, and preferential tax policies for both foreign-invested enterprises and domestic enterprises. The primary objective is to create "a level playing field" and a standardised and transparent fiscal environment that favours fair competition for all enterprises in China. It is anticipated that the tax reform will help enhance China's economic structure and upgrade the country's industry
  - The new law provides for three different corporate tax rates as follows:
    - The standard tax rate is 25%
    - A reduced tax rate of 15% is applicable to "encouraged" hi-tech enterprises, regardless of the location of the enterprises in China
    - A reduced tax rate of 20% is applicable to small-scale enterprises earning a "small profit"
  - It is important to note that the new law has revoked the existing five-year tax holiday (i.e. two-year exemption and subsequent three-year 50 percent reduction of applicable tax rate) for newly established manufacturing FIEs. Transitional grandfathering relief has been introduced for qualifying FIEs established prior to the promulgation of the CIT law
- Corporate income tax can be exempt on public infrastructure projects supported by the government. Exemption lasts for the first three years, with a 50 percent reduction in the applicable tax rate for the following three years.

- CIT is normally charged on a company’s taxable profits at a unified rate of 25 percent for both foreign and domestic companies.

- Other major taxes include turnover taxes, stamp duty, import duty and individual income tax.

- Turnover taxes include value-added tax (VAT), business tax (BT) and consumption tax. Stamp duty is applicable on certain types of instruments, such as contracts on sales and property transfer. Customs duty is charged on the importation of goods into China. Individual income tax (IIT) is a progressive tax with a maximum rate of 45 percent.

- All FIEs and foreign enterprises (FEs) can enjoy the following preferential tax treatments.

  - losses of FIEs can be carried forward to be offset against profits for a maximum of five years.

  - service providers are subject to BT based on gross receipts in most cases. FIEs, FEs and foreign individuals are exempted from BT for their income from technology transfer, technology development and gains from technical services.

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City
5 Appendices

- Registration procedures for establishing foreign investment enterprises
- List of useful contacts
Registration procedures for establishing foreign investment enterprises

Foreign investment enterprises not involved in restriction, concession, or specially limited industry or whose total investment is less than USD50 million

1 working day
Pre-confirmation of enterprise name
(Qingdao Industrial and Commercial Administration Bureau)

Project approval and feasible research approval
(Bureau of Foreign Trade and Economic Cooperation, Shinan District, Qingdao city)

Approval of contracts and Articles of Association
(Bureau of Foreign Trade and Economic Cooperation, Shinan District, Qingdao city)

4 working days

Foreign investment enterprises involved in restriction, concession, or specially limited industry or whose total investment is more than USD50 million

Project approval and feasible research approval
(Qingdao Foreign Trade and Economic Cooperation Bureau and Bureau of Foreign Trade and Economic Cooperation, Shinan District, Qingdao city)

Approval of contracts and Articles of Association
(Qingdao Foreign Trade and Economic Cooperation Bureau)

4 working days

Obtain approval certificate
(Qingdao Foreign Trade and Economic Cooperation Bureau)

Registration at Qingdao Industrial and Commercial Administration Bureau

10 working days

Grinding of national organization code
(Qingdao Quality and Technical Supervision Bureau)

5 working days

Granting approval of making company seal
(Qingdao Public Security Bureau)

Same day

Tax registration
Foreign exchange registration
Account open
Programming
Approval of water and electricity use
Application for labour use

Finance registration
Customs record
License for special limited
Application for land use
Investment permit

Source: Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City

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List of useful contacts in SND

**Bureau of Foreign Trade & Economic Cooperation, Shinan District, Qingdao City**
Room 1810, Building A1, No. 286 Ningxia Road, Qingdao 266071
Tel: +86 (532) 8872 9736

**Bureau of Development & Reform, Shinan District, Qingdao City**
Room 1802, Building A1, No. 286 Ningxia Road, Qingdao 266071
Tel: +86 (532) 8872 9706

**Bureau of Urban Construction & Administration, Shinan District, Qingdao City**
Room 1003, Building A1, No. 286 Ningxia Road, Qingdao 266071
Tel: +86 (532) 8872 9155

**Bureau of Finance, Shinan District, Qingdao City**
Room 1903, Building A1, No. 286 Ningxia Road, Qingdao 266071
Tel: +86 (532) 8872 9776

**Bureau of Cultural Affairs, Shinan District, Qingdao City**
Room 1708, Building A1, No. 286 Ningxia Road, Qingdao 266071
Tel: +86 (532) 8872 9770

**Bureau of Hygiene, Shinan District, Qingdao City**
Room 1705, Building A1, No. 286 Ningxia Road, Qingdao 266071
Tel: +86 (532) 8872 9761

**Qingdao Municipal Development and Reform Commission**
No. 11, Hong Kong Middle Road, Qingdao 266071
Tel: +86 (532) 8591 1454

**Qingdao Economic and Trade Committee**
No. 11, Hong Kong Middle Road, Qingdao 266071
Tel: +86 (532) 8591 1156

**Qingdao Foreign Trade and Economic Cooperation Bureau**
No. 6, Hong Kong Middle Road, Qingdao 266071
Tel: +86 (532) 8591 8107

**Qingdao Industrial and Commercial Administration Bureau**
No. 1, Zhangpu Road, Qingdao 266071
Tel: +86 (532) 8573 0889

**Qingdao Municipal Overseas Investment Promotion Bureau**
No. 12, Hong Kong Middle Road, Qingdao 266071
Tel: +86 (532) 8502 8112

**Qingdao State Taxation Bureau**
No. 236, Yanan No. 3 Road, Qingdao 266071
Tel: +86 (532) 8389 1226

**Qingdao Quality and Technical Supervision Bureau**
No. 123, Yanan No. 3 Road, Qingdao 266071
Tel: +86 (532) 8309 5555

**Qingdao Public Security Bureau**
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