

COMMITTEE OF THE WHOLE – FEBRUARY 28, 2012

LETTER OF ECONOMIC INTENT, ZIBO, SHANDONG, PEOPLE’S REPUBLIC OF CHINA

Recommendation

The Director of Economic Development in consultation with the City Manager, recommends:

That the City explore the development of an Economic Partnership with Zibo, Shandong, People’s Republic of China through the signing of the attached Letter of Economic Intent.

Contribution to Sustainability

Green Directions Vaughan embraces a *Sustainability First* principle and states that sustainability means we make decisions and take actions that ensure a healthy environment, vibrant communities and economic vitality for current and future generations. Under this definition, activities related to attracting and retaining business investments contributes to the economic vitality of the City. Global competition in the form of trade and business investment, forces even the smallest of enterprises to operate on the world stage. With the assistance of the City, access to government officials and business contacts can be made more readily available.

Economic Impact

The recommendation above will not have any impact on the 2012 operating budget. However, any future activity associated with the signing of a Letter of Economic Intent, such as; any future business mission(s) to Zibo, Shandong that involves the City would be established through a future report that identifies objectives and costs for Council approval.

Communications Plan

Should Council approve the signing of a Letter of Economic Intent with Zibo, Shandong, the partnership will be highlighted in communications to the business community through the Economic Development Department’s newsletter Business Link and Vaughan e-BusinessLink. In addition, staff of the Economic Development Department will work with Corporate Communications to issue a News Release on the day of the signing that highlights the partnership.

Purpose

To obtain Council approval to explore the creation of a business partnership with Zibo, Shandong, People’s Republic of China by signing a Letter of Economic Intent with Zibo.

Background – Analysis and Options

Profile

Zibo, Shandong, People’s Republic of China is a prefecture-level city in central Shandong province. With a population of 4.21 million, Zibo covers a total area of 5,965 square kilometers made up of five districts and three counties.

Manufacturing is seen as the base of Zibo’s Economic Development, in which the local and medical industries play important roles. The local chemical industry spans activities in petrochemical organic and inorganic material processing, pesticide, fertilizer and rubber. The medical industry is also a major force in Zibo. It is the largest production and export base in Asia, of domestic pharmaceutical glass production, and ranks top in China’s medical equipment disinfection technologies market. Other important industries include machinery, compost and advanced materials, textile production, and the electronics sector.

Perspective

In 2008, the Economic Development Department organized a Business Mission to China. The Mission was led by former Regional Councillor Joyce Frustaglio, Councillor Sandra Yeung Racco, Chair of the Economic Development Committee, and Michael DeAngelis, the former City Manager. The delegation met with Mr. Zhang Hongde, Vice Bureau Chief of the Zibo Municipal Sports Bureau.

Subsequently, on November 9 and 10, 2009, Zibo sent a delegation to Vaughan led by Mr. Wang Jianzhong, Deputy Director of the Foreign Affairs Office in Zibo. The purpose of their visit was to continue discussion about opportunities in sporting events and economic development exchanges. The delegation received a presentation on the Active Together Masterplan and toured North Thornhill Community Centre while in the construction phase. The delegation also toured sports and recreation venues in Vaughan (Ontario Soccer Centre, AC Milan Sports Centre, Hot Yoga Wellness Centre, Sports Village), as well as York University Rexall Centre.

On June 8, 2010, the City received a second delegation from Zibo, led by Mr. Chen Jiajin, Vice Mayor of Zibo Municipal People's Government. The purpose of their visit was to continue discussions about opportunities for co-operation in economic development exchanges. The delegation participated in a tour Vaughan, greetings at Council and business meetings with the electricity sector, transformers and automotive parts industries in Vaughan.

The third visit to Vaughan by Zibo occurred on September 23, 2010. This delegation was led by Mr. Yue Changzhi, Chairman of Zibo Municipal Committee of the Chinese People's Political Consultative Conference. The purpose of their visit was to continue discussion about opportunities for co-operation in economic development exchanges. The delegation participated in a City Tour which included the Vaughan Metropolitan Centre.

The most recent visit from Zibo comprised of a Delegation from Shandong Province and their visit to Sungrow Canada, Vaughan on June 22, 2011. A group of 33 delegates visited Vaughan as part of a Mission to Canada and the United States to promote trade and investment cooperation. This delegation was led by Ms. Zhou Ling, Section Chief, Zibo Bureau of Commerce.

Based on the communication and delegations received with Zibo, an option to build and maintain the business relationship with Zibo is through the opportunity of signing a Letter of Economic Intent. The Letter of Economic Intent is considered a key component of doing business in China, in that the relationships with government bodies are nurtured over a period of time which then creates business activity and options for business investors and partners.

Conclusion

As articulated in our 10-year Economic Development Strategy: "Building a Gateway to Tomorrow's Economy, Goal 1/Action 2.3 "Create an 'Asia-Pacific Gateway' association with a series of like-minded communities to develop and enhance trade connections, investment opportunities and collaborative approaches to economic development."

The Letter of Economic Intent is based on creating a framework of initiatives and outcomes for both municipalities that focus on business. In addition, the Letter of Economic Intent is created with a defined timeframe to pursue a more formal economic development partnership if both municipalities agree that it would be beneficial.

The process for entering the Chinese market begins with developing relationships. China is a vast and complex country, which makes doing business more complex than other regions. The economy is diverse and has many distinct economic regions. A challenge in maximizing business opportunities is forging the right connections to advance one's commercial interests and without these connections,

municipal and provincial government efforts to enter the Chinese market may be significantly hampered.

A formal visit to Zibo City, China will be coordinated to take place while city staff participate in the Greater Toronto Chinese Business Association's China Trade Mission scheduled for November 24 – December 3, 2012.

Relationship to Vaughan Vision 2020

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved. Specifically, this report fulfills Vaughan Vision 2020 Goal: Plan and Manage Growth and Economic Vitality.

Regional Implications

Not applicable

Attachment

1. Letter of Economic Intent for Business Partnership with Zibo, Shandong, People's Republic of China
2. KPMG Economic Profile – Zibo City, China

Report prepared by:

Tim Simmonds, Director of Economic Development

Respectfully submitted,

Tim Simmonds
Director of Economic Development

**Letter of Intent of
Establishing Friendly Cooperation Relationship Between
the City of Vaughan, Ontario, Canada
and the City of Zibo, Shandong, P.R.C.**

Mr. Zhuang Ming, the Vice Mayor of the City of Zibo (P.R.C.) and his delegation visited the City of Vaughan, Ontario, Canada on Nov. , 2011. During the visit, Mr. Maurizio Bevilacqua, Mayor of the City of Vaughan, held friendly talks with Mr. Zhuang Ming, and achieved comprehensive consensus on economy, industry, culture and tourism cooperation.

This letter of intent of establishing friendly cooperation relationship is created in order to strengthen the ties and relationship as well as achieve common development between the City of Vaughan and the City of Zibo. On the basis of mutual respect and equality, the two parties have reached the following agreements.

1. The two parties agreed to establish friendly cooperation relationship and conduct all-round exchanges and cooperation.
2. The governments of two parties will organize delegations to visit each other to exchange cooperation information to develop mutually-beneficial cooperation. If the condition permits, the mutual visits will be scheduled once a year.
3. Through a series of activities and exchanges, the two parties intend to achieve common development in the fields of economy, science and technology, advanced manufacturing, business investment, logistics, tourism and culture. The two parties have agreed to support the sharing of information and to continue talks on further deepening of their cooperation.
4. Promoting cooperation in new materials, precise instruments, electronics and other hi-tech industries among Zibo New & Hi-Tech Development Zone, Economic Development Departments and local companies of Vaughan.
5. The two parties will entrust the Economic Development Department of the City of Vaughan and the Foreign Affairs Office of Zibo Municipal People's Government to handle the bilateral exchanges and cooperation.
6. The two parties will sign the Agreement of Establish Sister-City Relationship under the mature conditions.

The letter of intent is written in English and Chinese. Both versions have the same equivalency. It has two originals, each party holding one.

The City of Vaughan, GTA,
Ontario, Canada

The City of Zibo,
Shandong, China

Mayor

Vice Mayor



Zibo Investment Environment Study 2010

ADVISORY

AUDIT ■ TAX ■ ADVISORY

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Preface

This publication presents an overview for those contemplating investment in Zibo, Shandong province.

Zibo first opened to international trade and investment over a century ago. In 1904, Zhoucun, one of the five districts in Zibo, was approved as a treaty port by the Qing government and since then it has attracted investment from more than a hundred companies from around the world. British American Tobacco and Mobil (Exxon Mobil Corporation), for example, set up sales representatives as early as 1905.

With China's reopening to the world in recent decades, Zibo's economy has seen significant development. Zibo had a gross domestic product (GDP) compound annual growth rate (CAGR) of 14.7 percent between 2005 and 2009. Despite the financial crisis, Zibo saw 2008-9 GDP growth of 13.2 percent, value-added industrial output growth of 15.0 percent, and Foreign Direct Investment growth of 10.3 percent. This equated to a 2009 GDP of USD36.2 billion, value-added industrial output of USD24.2 billion and Foreign Direct Investment of USD524 million.

Manufacturing is seen as the base of Zibo's economic development, in which the local chemical and medical industries play important roles. The local chemical industry spans activities in petro-chemical, organic and inorganic material processing, pesticide, fertiliser and rubber. The medical industry is also a major force in Zibo. It is the largest production and export base of antipyretic-analgesics in Asia, accounts for 80 percent of domestic pharmaceutical glass production, and

ranks top in China's medical equipment disinfection technologies market. Other important industries include machinery, composite and advanced materials, textile production, and the electronics sector.

Zibo's development has been acknowledged by central government and investors. Since 1992, Zibo has been one of the "Top 50 Cities In Competitive Strength". In 2007, Zibo ranked 37th in the "Top 100 Chinese Cities" list and was one of the 27 "Best Cities for Foreign Investment". In 2009, Zibo ranked 38th in "Forbes' Best Commercial City in Mainland China".

The business environment is evolving rapidly in China. Moreover, cost and operational issues vary from company to company and from industry to industry. Companies doing business in China, or those that are planning to do so, are advised to obtain current information and company-specific advice from experienced professional advisors and to conduct proper due diligence. This publication is dedicated to providing prospective investors with accessible, independent research on the business environment in Zibo, but it should not be construed as substitute for detailed due diligence prior to investment.

The sources of information in this booklet have been attributed throughout; and the assistance of the Commerce Bureau of Zibo is gratefully noted. All images are courtesy of the Commerce Bureau of Zibo, and are reproduced with permission. This booklet contains information available as at February 2010. The exchange rate used in this booklet is USD1=CNY6.8267 (Bank of China rate on 1 March 2010).



The remains of funerary chariots and horses from more than 2000 years ago



1 Zibo Today

- Location and History
- Population and natural environment
- City development plan

Zibo has a long history as the transportation hub of Shandong province and Zibo is a typical city complex comprised of several downtown areas.

Location and History

Zibo is the transportation hub of Shandong province

- Zibo, centrally located in Shandong province, connects the Luzhong mountain area and Lubei plain, and has long acted as a regional transportation hub
 - Today the railway lines of Jiaoji (Qingdao-Ji'nan), Zhangbo (Zhangdian-Boshan), Zidong (Zibo-Dongying) and Xintai (Xindian-Tai'an) all converge in Zibo
 - National Highways 205 and 309, along with highways Jiqing (Ji'nan-Qingdao) G20 and Binlai (Binzhou-Laiwu) G18 all run through Zibo

Historically, Zibo was the capital of the ancient Qi State. It also developed into one of five ceramic centres in China and claims to be a cradle of modern football

- Linzi, now one of Zibo's districts, was the capital city of the Qi State and one of the biggest cities around 2,500 years ago. Some of the earliest Chinese works on the handicraft industry, "Kao Gong Ji", on the agricultural industry, "Qi Min Yao Shu", and on the service industry, "Guan Zi", originated here
- Zibo has an 8,000 year history of ceramics. As one of the top five ceramic cities in Chinese history, Zibo

has been recognised as a "China's Famous City of Ceramics" by the National Light Industry Council and China Ceramics Association, and now exports its ceramics to more than 80 countries around the world

- In July 2004, the International Federation of Association Football (FIFA) recognised Zibo's role as a cradle of modern football, based on the city's importance in the ancient Chinese sport of "Cuju"



The ceremony to grant Zibo City the title of "China's Famous City of Ceramics"

Population and natural environment

Zibo's climate has four distinct seasons

- Zibo had a population of 4.21 million by the end of 2009 and enjoys a climate typical of medium latitudes with average rainfall of 700 millimetres and average temperatures of 13.8 degrees Celsius, annually

- Since 2005, Zibo has been recognised as one of the "National Garden Cities" by the Ministry of Housing and Urban-Rural Development of the PRC. Zibo had a total green space area of 74.8 square kilometres by the end of 2008, equating to a 35.1 percent green space ratio across the city. Zibo had around 14.7 green square metres per person



Representatives from the Chinese Football Association and Linzi, Zibo present a souvenir of the local area's ancient football history to FIFA

Zibo's geographic position in China



Zibo's transportation map



Sources: (1) Zibo government website
 (2) Statistics Bureau of Zibo
 (3) "Zibo 2009 investment project" issued by the Commerce Bureau of Zibo in 2009

City development plan



Zibo Rongbaozhai Plaza

Zibo is a typical city complex comprised of several downtown areas

- Administratively, Zibo covers a total area of 5,965 square kilometres made up of five districts (Zhangdian, Zichuan, Boshan, Zhoucun and Linzi), three counties (Huantai, Gaoqing and Yiyuan), and including Zibo National New & High-tech Industrial Park. Zhangdian district, as the economic, socio-political and transportation centre of Zibo, is the seat of local government
- Established in their present form in 1955, Zibo's component parts have close ties despite their relative administrative independence from one another

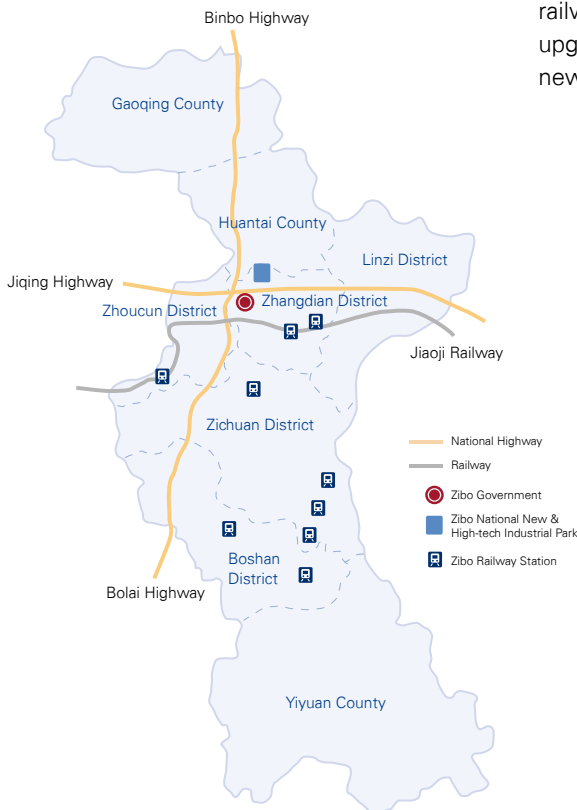
Zibo is continuing its infrastructure consolidation

- Zibo plans to further development its infrastructure, focusing on transportation, energy security, IT infrastructure and water facilities. Local projects underway include railway, highway, and rural road upgrades, and the development of a new logistics centre

Zibo has a clear economic development plan and is on the way to becoming a National Ecological Garden City

- With a city full of history, Zibo's government plans to modernise its tourism industry, with a new reception centre and investment in several distinct historical and tourist centres; it is also encouraging of supporting industries, such as the hotel sector
- Zibo's government plans to modernise the city's commercial sector through investment in retail centres
- Zibo is set to reach "National Ecological Garden City" standards through its ecological infrastructure development
 - In 2010, Zibo is expected to have a total area of green space of 78.04 square kilometres, 35.6 percent green space ratio and 15 square metres green space per person
 - Major city infrastructure projects cover improvements to the Zhulong River, and the upgrading of the city's sewage and municipal waste treatment systems

Map of Zibo





2 Development of Zibo

- Economy
- Consumer market
- Major industry development plan

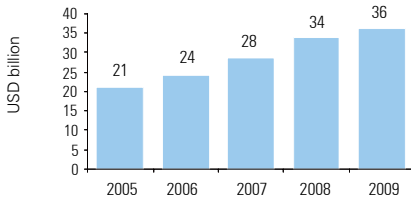
As a major industrial city in China, Zibo has in recent years developed its economy through industrial diversification

"Zibo's economy and local consumption have been steadily developing. I am confident in my company's future development within this local environment. We are currently considering further investments here."

- Vice President of Zibo PPG Sinoma Jinjing Fibre Glass Co., Ltd.
(interviewed by KPMG China, February 2010)

Economy

Zibo's GDP, 2005-2009



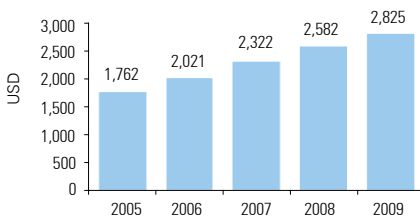
Source: Statistics Bureau of Zibo

Since China's reform and opening-up, Zibo's economy has seen steady growth

- In 2009, the GDP of Zibo was USD36 billion, up 13.2 percent (adjusted for inflation) from 2008 and 1.7 times that of the total in 2005. Up from USD4,766 in 2005, the GDP per capita was USD8,034 in 2009, almost two times the national average
- Manufacturing and construction, followed by the service (or tertiary) industry, are the main drivers of Zibo's economic development. In the past five years, the secondary industries of manufacturing and construction accounted for around 65 percent of total GDP per annum
 - In 2009, primary, secondary and tertiary industries accounted for 3.6 percent, 62.8 percent and 33.6 percent of total GDP, respectively
- In 2009, Zibo had a total of 3,362^(a) major enterprises, who had a value-added industrial output of USD24.2 billion and total sales of USD89 billion, up 15 percent and 16.2 percent, respectively, from 2008
- There are 16 local companies with 20 local stocks and funds listed in domestic and overseas stock exchanges, such as Jinjing Science and Technology Stock Co., Ltd., Shinva Medical Instrument Co., Ltd., Shandong Bohui Paper Industrial Co., Ltd., Jinling Mining Co., Ltd., Shandong Dongyue Chemical Co., Ltd., Shengli Steel Pipe Co., Ltd. and Lu Thai Textile Co., Ltd.
- In recent years, Zibo has been named one of the "Top 50 Cities In Competitive Strength" by National Bureau of Statistics of China. In 2009, Zibo ranked 38th in "Forbes' Best Commercial City in Mainland China"
- Since June 2005, as selected by the State Intellectual Property Office, Zibo has been a trial city for innovations in Intellectual Property protection

Consumer Market

Zibo's disposable income per capita, 2005-2009



Source: Statistics Bureau of Zibo

Zibo offers a developing consumer market to investors

- Personal disposable incomes have increased steadily
 - In 2009, Zibo's urban residents' disposable income per capita was USD2,825, around 8.3 percent higher than that of the Shandong Province average
 - In 2009, Zibo average residents' expenditure was around USD1,858 per annum, around 6 percent higher than that of the Shandong Province average
- Throughout 2009, Zibo's consumer market showed steady growth, with annual retail sales reaching USD12.7 billion, an increase of 19.1 percent compared with 2008
- Zibo has the largest high-end wholesaler market in the region, Zibo Yiwu Market. Other major shopping areas are: Ceramic & coloured glaze Market in Boshan district, Zhoucun Commercial Street, Zibo Qisai Science Plaza, Rongbaozhai Qilu Arts Plaza, Linzi Chemical Products Plaza, Zichuan Construction Materials Plaza and Zhoucun Textile Plaza

Note: (a) "Major" enterprises are companies with expected annual turnover above USD732,000

Sources: (1) Statistic Bureau of Zibo

(2) "Shandong 2010 average expenditure is expected to grow 7 percent", 5 February 2010, Shandong News Net

(3) "Shandong average expenditure was USD1,760", 27 January 2010, Weifang First News Net

(4) "Zibo 2009 Statistic Report", 26 February 2010, Statistics Bureau of Zibo

Major industry development plan



Sinopec Qilu Co., Ltd.



Shinva Medical Instrument Co., Ltd.



Lu Thai Textile Co., Ltd.

A major industrial centre, Zibo is Shandong province's third largest centre of value-added industrial output. The chemical, machinery, medical, textile, electronics, composite and advanced materials and ceramic industries are all represented

- The chemical industry is the single largest contributor to Zibo's industrial base, and a major production base for petro-chemicals, chlor-alkali chemicals, fine chemicals and chemical composite and advanced materials
 - By the end of 2009, Zibo had a total of 1,400 chemical manufacturers, of which 696 had revenues exceeding the equivalent of USD28.3 billion
 - To further industrial integration, Zibo has established the national-level Qilu Chemical Industry Area and the provincial Huantai Fluorine Silicon Material Industry Area
 - Zibo's chemical industry is expected to reach a total value-added industrial output of USD7 billion, total sales of USD41 billion (a 15 percent annual growth), and to have 10 companies with total revenues over USD700 million and five companies with total revenues over USD1.5 billion by 2011
- Machinery production is also a key driver of the Zibo economy. At present, this includes transportation equipment, electrical equipment machines, and measuring instruments. Growth areas are auto parts and energy saving products production
 - At the end of 2009, there were 2,000 machinery manufacturers in Zibo, of which 750 had revenues equivalent to over USD11.7 billion
 - By 2011, the machinery industry is targeted to reach total revenues of USD14.6 billion, and to have established at least two national-level technical and research centres as well as more than 45 provincial-level equivalents. Targets also include ten machinery manufacturers with total revenues of over USD146 million and a series of production bases focusing on pump, auto and parts, glass-lined equipment, glass bottle machinery, wind power equipment, nuclear equipment and raw materials
- Zibo's fast growing local medical industry boasts both a Medical Products Production and Export base as well as a National Biomedicine Industrial Base
 - By the end of 2009, there were 54 major medical sector manufacturers, with total revenues of USD3.2 billion, up 21.3 percent from 2008. This places Zibo as the medical production centre of Shandong province, with output covering pharmaceuticals, medical equipment, medical-use packaging materials, and Traditional Chinese Medicine
 - By 2011, the medical industry is targeted to reach total revenues of over USD5.1 billion, with three manufacturers each having revenues exceeding USD700 million. There are plans to set up five national-level technical and research centres and 16 provincial-level equivalents



Opening ceremony of China (Zibo) New Material Technology Forum & International Technical Achievements Exchange and Trade Talk



"China Dragon" ceramic products produced in Zibo and used at Diaoyutai State Guesthouse

- As a long-standing pillar of the local economy, textile production spans cotton and synthetic fibres
 - In 2009, there were 232 major textile manufacturers employing more than 100,000 people, with revenues of USD3.6 billion. By 2011, Zibo is targeted to have textile revenues of USD5.9 billion, with ten manufacturers exceeding revenues of USD146 million, and 20 manufacturers exceeding USD73.2 million. Zibo will set up more than two national-level technical and research centres as well as ten provincial-level equivalents
 - Spurred on by the global financial crisis, Zibo has focused on modernising its textile industry across designated production bases (e.g. Zhoucun Traditional Textile Industry Area, Gaoqing New Textile Industry Area and Zichuan Apparel Industry Area) and reducing its dependence on high-energy and polluting techniques
- The electronics industry has seen steady growth, with future focus on component and integrated circuit production, as well as micro-motor and software development
 - Zibo government has issued various incentive policies to drive industrial development, and set up a special fund for the local electronics industry in 2008. In 2009, there were 148 major manufacturers with revenues totalling USD3.2 billion
 - The establishment of three provincial electronics Industry Areas (for electronic instruments, electronic elements and micro-motor products) and Zibo Software Industry Area has attracted hundreds of companies to cluster in the area. At present in Zibo, there is one national technical and research centre as well as six provincial equivalents,
- two provincial software technical centres, two PhD research stations and one national electronics laboratory
- The composite and advanced materials industry is also seen as crucial to Zibo's high-technology economic developments
 - Zibo's composite and advanced materials industry is a leading national centre in particular niches with growing intellectual property capital. Zibo's composite and advanced materials Industrial Base ranks sixth among 43 National composite and advanced materials Industrial Bases
 - Over the next five years Zibo is prioritising cluster development for several production niches, including fine chemicals, macromolecule, and inorganic non-metallic materials
- Zibo's ceramic industry spans production of cultural and household items as well as components for other manufacturing and the national defence industries
 - The local ceramic industry includes ceramics for daily-use, building sites, art, gardening, and high-technology functions. Its output is exported to over 80 countries as far as the Americas and Africa
 - Local building ceramics production totals over 1 billion square metres annually, accounting for 20 percent of the China total. The total production of daily-use ceramics in Zibo accounts for over 50 percent of Shandong province's total output and over 67 percent of the province's export market
 - Zibo is prioritising the development of high-end daily-use, building, functional, art and composite material ceramics



3 Investment in Zibo

- Foreign direct investment
- Zibo National New & High-tech Industrial Park and other industrial parks
- Registration procedures and incentive policy

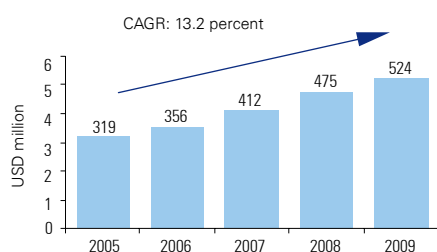
By the end of 2009, Zibo had attracted cumulative total Foreign Direct Investment (FDI) of USD3.1 billion

“Zibo's government was very helpful in finding sufficient land for our needs and facilitating the land use rights process. In addition, they are keen to regularly meet to discuss any operational challenges that we face. We are confident in our future here and are making further investments locally.”

- General Manager of Citizen (Zibo) Precision Machinery Co., Ltd.
(interviewed by KPMG China, March 2010)

Foreign direct investment

Utilisation of FDI in Zibo, 2005-2009



Source: Commerce Bureau of Zibo

Number of FIEs and average investment in Zibo (By the end of 2009)		
Industry	No. of FIEs	Average investment (USD million)
Chemical materials and manufacturing	200	2.36
Textiles	136	1.71
Special equipment manufacturing	79	0.99
General equipment manufacturing	66	1.57
Electronics	50	0.93
Medical-related	46	2.52

Source: Commerce Bureau of Zibo

The global financial crisis has not impacted FDI in Zibo

- In 2009, FDI in Zibo reached USD524 million, up 10.3 percent from 2008; of this, utilised FDI was USD388 million, up 24 percent from 2008, ranking second in Shandong province
- As at the end of 2009, Zibo had attracted 637 foreign investors from over 60 countries and regions, of which 136 companies' contracted value exceeded USD10 million
- As at the end of 2009, 18 "Fortune 500" companies had an established presence in Zibo, including Siemens, General Electric, Tyco Electronics, Mitsui, SK, Mitsubishi Heavy Industries, and Kohler

Manufacturing has been the major focus of investment to date

- By the end of 2009, Zibo had attracted cumulative total FDI of USD3.1 billion, of which, manufacturing accounted for 76.4 percent. A total of 1,905 foreign companies contributed to this total
 - In 2009, manufacturing had a total FDI of USD296 million, accounting for 57 percent of total FDI

- Zibo's major industries, including chemicals, textiles, machinery and electronics equipment, are the main attractions for FDI

Foreign investment source

- The single largest source of foreign investment was Hong Kong, accounting for 35 percent of cumulative total FDI by the end of 2009
- The U.S., Europe and Taiwan are also major sources, together accounting for 22 percent

Zibo is also open to outside direct investment in its major projects

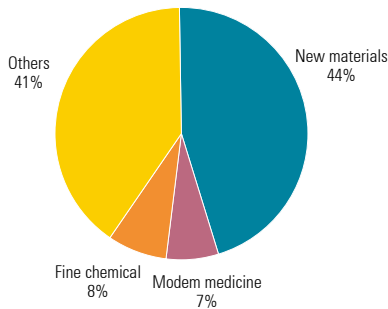
- In 2010, major projects covering chemical, electronics, auto and parts, modern manufacturing, logistics, tourism development, composite and advanced materials, textile and medical industries are all underway, with capital requirements ranging from USD4.39 million to USD290 million
- More details on major projects can be found from the Commerce Bureau of Zibo or the Investment Promotion Bureau of Zibo, listed in the "Service institutions" at the end of this booklet

Zibo National New & High-tech Industrial Park and other industrial parks



Zibo National New & High-tech Industrial Park

The distribution of industrial output in ZNNHIP, 2009



Sources: Economic Development Bureau of Zibo National New & High-tech Industrial Park; Zibo National New & High-tech Industrial Park Administration Commission

“As the financial crisis started, Zibo’s government reacted fast and reduced the pension insurance ratio paid by enterprises by around one to two percent. This helped our cost base. The Healthcare industry wasn’t and won’t be affected by the financial crisis and our revenue in 2009 reached around USD44 million. We are poised for further growth.”

– Vice President of DSM Zibo Pharmaceutical Co., Ltd. (interviewed by KPMG China, February 2010)

Background

- Zibo has one of 56 National New & High-tech Industrial Parks throughout China. With a total area of 121 square kilometres, Zibo National New & High-tech Industrial Park (ZNNHIP) was approved by the National State Council in November 1992 and construction began in 1993. ZNNHIP obtained ISO14001 Environment Management System certification in 2005
- ZNNHIP has a range of national high technology and research centres, and includes industrial bases for composite and advanced materials, biomedicine and Traditional Chinese Medicine, electronics and specialist glass production
- As a key contributor to Zibo’s development, ZNNHIP has averaged output annual growth rates since its inception of around 30 percent

The park’s industrial focus

- In 2009, total industrial output in ZNNHIP reached USD17.2 billion, up 23 percent from 2008. From 2005 to 2009, ZNNHIP’s total industrial output increased at a CAGR of 25.6 percent
- Through its years of development, ZNNHIP has formed composite and advanced materials, modern medicine and fine chemical industry clusters. In 2009, all three together reached a total industrial output of around USD10.2 billion, accounting for 59 percent of total industrial output in ZNNHIP. The distribution of industrial output as at the end of 2009 is shown on the left

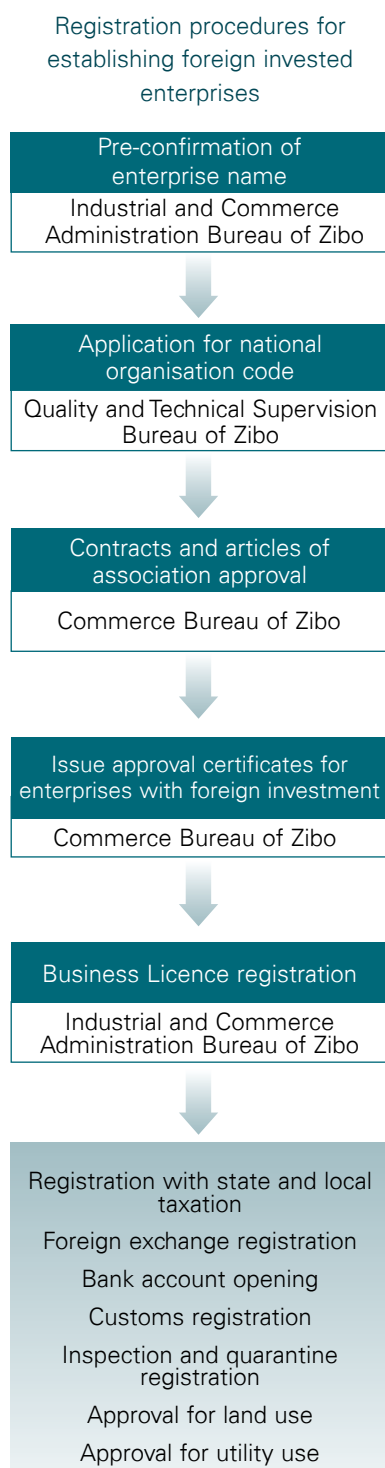
- ZNNHIP is undergoing modernisation of its high technology ceramics macromolecule, modern medicine, fine chemical and electronics industries centres

Many “Fortune 500” and well-known local companies are present

- By the end of 2009, ZNNHIP had attracted investment from more than 20 countries and regions, with a total of 184 foreign enterprises. “Fortune 500” companies, such as Siemens, DSM Group and Air Products and Chemicals Inc., have an established presence in ZNNHIP – Established in 1995 and located in ZNNHIP, DSM Zibo Pharmaceutical Co., Ltd. (DSM Zibo) is one of the major antibiotics suppliers in China and a high-tech enterprise in Zibo. National Healthcare Reform has helped boost demand in the healthcare market, and DSM Zibo is confident of its future market development
- There are over 3,700 companies operating in ZNNHIP, of which 120 companies are from high technology industries. 12 of the 16 listed companies in Zibo are located in ZNNHIP. Major local companies such as China National Chemical Corporation, China National Materials Group, China Resources Group, also have a presence

Besides the ZNNHIP, Zibo is also home to the national-level “Qilu Chemical Industrial Area” and eight provincial-level Economic Development Zones

Registration procedures and incentive policy ^(a)



Zibo offers tax incentive policies and administration fee deductions support

- Newly established manufacturers in a national-level or provincial-level Economic Development Zone^(b) with a total investment of over the equivalent of USD14.6 million (CNY100 million), may be eligible for a rebate of the locally retained VAT in the first two years of operation. With a total investment between the equivalent of USD7.3 million (CNY50 million) and USD14.6 million (CNY100 million), a manufacturer may be eligible for a rebate of 50 percent of the locally retained VAT over the same period
- Newly established manufacturers in national-level or provincial-level Economic Development Zones with a total investment over USD14.6 million (CNY100 million), or with its products listed in the "High-tech Product Catalogue", may be eligible for a rebate of the locally retained Corporate Income Tax during the first five years of profitability. With total investment between USD7.3 million (CNY50 million) and USD14.6 million (CNY100 million), a manufacturer may be eligible for a rebate of the locally retained Corporate Income Tax for the first three years, and a 50 percent rebate for the subsequent two years
- Service sector projects (excludes real estate) with a total investment over USD2.9 million (CNY20 million), may be eligible for a rebate of the locally retained Corporate Income Tax for the first three years of profitability, and a 50 percent rebate for the subsequent two years
- Investments in R&D and creative industries (no limitation in investment amount) may be eligible

for a rebate of the locally retained Corporate Income Tax for the first three years of profitability, and a 50 percent rebate for the subsequent two years

- Administration fees required by national and provincial governments may be outside of Zibo control, however, Zibo government also works to minimise local city administration fees

ZNNHIP also offers incentive policies

- High-tech enterprises with a local tax contribution over USD7.3 million (CNY50 million) may be eligible for a rebate of the 50 percent of contribution exceeding that threshold. Where their annual increase in tax contribution is lower than the growth in the area's total tax income, any rebate may be limited to 30 percent
- High-tech enterprises with a local tax contribution over USD1.46 million (CNY10 million) may be eligible for a rebate of 40 percent of contribution exceeding that threshold. Where their annual increase in tax contribution is lower than the growth in the area's total tax income, any rebate may be limited to 20 percent
- High-tech enterprises approved by the ZNNHIP may be eligible for other rebates in line with national incentive policies on high-tech companies in the first six years of the investment's operation
- Newly established enterprises in modern service industries with a local tax contribution over USD1.46 million (CNY10 million) may be eligible for a 50 percent rebate of the contribution exceeding that threshold in the first three years of operation and a 30 percent rebate in the subsequent three years

Note: (a) Local governments often attract investment through rebates of locally retained Corporate Income Tax. We note that the central government has questioned the validity of such rebates, but there is no related regulation at present.

(b) Zibo has eight provincial-level economic zones: Qilu Chemical Industry Area, Boshan Economic Development Area, Zhangdian Economic Development Area, Zhoucun Economic Development Area, Zichuan Economic Development Area, Linzi Economic Development Area, Huantai Economic Development Area, Gaoqing Economic Development Area and Yiyuan Economic Development Area

Sources: (1) Commerce Bureau of Zibo

(2) Economic Development Bureau of Zibo National New & High-tech Industrial Park

(3) "Zibo Incentive Policy on Investment", Zibo government (2008) No. 7



4 Operating costs

- Land, factory and office building costs
- Labour costs
- Utilities
- Transportation costs

Operating costs are crucial factors when selecting a plant or office location. Zibo has well established infrastructure to meet investor requirements. In the latest "China City Competency Report", Zibo was ranked fourth nationally with regard to cost advantage.

"Our company has benefited from abundant labour. Zibo is rich in technical workers, we are satisfied with our local recruitment base. And both railway and highway options from Zibo are convenient."

- Financial Controller of Gardner Denver Nash Machinery Ltd.
(interviewed by KPMG China, February 2010)

Land, factory and office building costs



Zibo's sewage treatment plant

Foreign companies may buy a "land use right" but cannot own property outright

- Foreign companies cannot own land in China; most lease land by paying a one-time fee to the local government in exchange for a land use right certificate. Industrial land is leased for a maximum of 50 years
- According to the law, land transfers are subject to public bidding, auction and listing

Purpose-built factories can be constructed in Zibo in a minimum of 30 days using a simple steel-frame structure

- An indicative cost to construct a single story steel-frame plant with a height of 8-15 metres is USD77.6 per square metre; a steel-reinforced concrete factory with a height of 4-5 metres is USD153.8 per square metre
- Monthly rent for a standard factory (steel-reinforced concrete factory with six floors) is around USD1.4 per square metre

Office buildings

- High-end office buildings in downtown Zibo have convenient access to the railway stations. Rent in these buildings is typically USD3.7-5.1 per square metre per month

Zibo class-one industrial and commercial standard land prices (As at end 2009)

District/county	Commercial standard land price (USD/m ²)	Industrial standard land price (USD/m ²)
Zhangdian (including ZNNHIP)	272	120
Linzi	183	108
Zichuan	165	92
Zhoucun	173	70
Boshan	164	65
Huantai	150	63
Yiyuan	105	46
Gaoqing	88	40

Source: Commerce Bureau of Zibo

Selected Class-A office building rentals in Zibo (As at end of 2009)

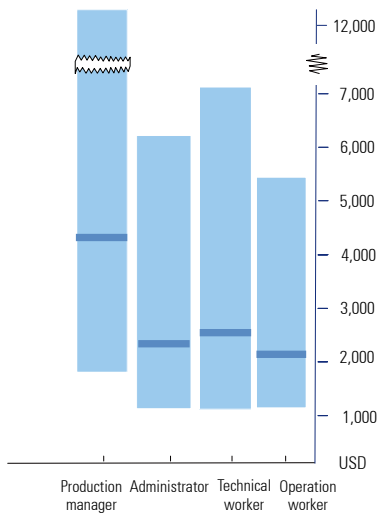
Name	Occupancy rate	Monthly rental (USD/m ²)
Guomao Tower	95%	4.4-5.1
Zuanshi Business Tower	90%	4.4
Luzhong Chenbao Tower	90%	4.1
Hongcheng Mingzuo	85%	4.1

Note: Rental includes management fees

Source: Zibo real estate enterprises interview

Labour costs

Annual salary level in Zibo 2009 ^(a)



Note: (a) The annual salary includes basic salary, social welfare, bonus and compensation
 Source: Labour Bureau of Zibo

Zibo is rich in labour resources

- In 2009, Zibo had 148,000 students graduating either from high-school or university, of which 17.8 percent had completed their diplomas or higher
- By the end of 2009, Zibo had around 140,700 skilled workers, of which 4,938 had advanced technical qualifications, 12,563 had medium technical qualifications, and 2,715 were classified as “highly skilled”, up 22.1 percent, 9.1 percent and 41.9 percent on 2008, respectively

In 2009, average Zibo employee annual income^(a) was under USD4,395 (CNY30,000)

- The chart on the left details the range and mean average for annual salaries of employees in various job categories in Zibo
- Salaries for higher-level staff tend to be directly related to the size of the company and thus vary significantly

Social welfare benefits must also be paid by the company and thus need to be considered when estimating total staff costs

- All enterprises must contribute to a range of benefits required by the government on behalf of employees, including pensions, injury, unemployment, medical and maternity insurance, together with housing fund
- The level of contribution is based on a percentage of an employee’s salary, as set by the local authorities (details shown below)
- These non-salary costs are equivalent to roughly 37 percent - 40.5 percent of an employee’s base salary. There is however a minimum cap of USD60 (CNY409) per month of social welfare benefits per employee, and a maximum of USD300 (CNY2,046) per month

Social welfare paid by employer in Zibo	
Pension insurance	20%-22%
Injury insurance	0.4%-1.9%
Unemployment insurance	1.4%
Medical insurance	6.5%
Maternity insurance	0.7%
Housing fund	8%

Source: Labour Bureau of Zibo

Note: (a) Annual income includes basic salary, social welfare, bonus and compensation
 Sources: (1) Labour Bureau of Zibo
 (2) “Zibo 2009 Statistic Report”, 26 February 2010, Statistics Bureau of Zibo

Utilities



Library of Shandong University of Technology

- Zibo has the modern utilities infrastructure to meet local demand
 - Zibo has 13 sewage treatment plants, with a water sewage treatment capacity of 789,000 cubic metres per day; it has a water supply capacity of 1.22 million cubic metres per day
 - Zibo has 135 power substations of 35 kV or above; the maximum load of the electricity network is 3.4 million kW
 - Zibo has access to natural gas via pipeline, with total supply of 630 million cubic metres per annum
- Zibo has a modern information, communications and technology infrastructure
 - There are three main internet access methods: DDN, LAN and ADSL. The cost for a leased ADSL with a 2Mb per second transfer rate is USD11 per month while the costs for a LAN with a 10Mb and 100Mb per second transfer rate are USD14 per month and USD293 per month, respectively

Utility prices in Zibo (including ZNNHIP) (As at end of 2009)

Utility	Price
Water (USD/tonne)	
Domestic (Including sewage fee)	0.48
Industrial (Including sewage fee)	0.50
Electricity (USD/kVA)	
Domestic	0.072-0.080
Commercial	0.093-0.102
Industrial	1kV-10kV: 0.090
	35kV-110kV: 0.088
Natural gas (USD/m ³)	
Domestic	0.29
Industrial	0.37

Sources: Zibo water supply company; Price Bureau of Zibo

- The prices for DDN are shown in the table below:

DDN monthly rental (USD) (As at end of 2009)

Speed	Local connection within the same district	Local connection between different districts	Domestic connection outside Zibo
768Kbit	630	879	1,172
1Mbit	732	1,099	1,318
2Mbit	879	1,172	1,758

Source: China Unicom, Zibo Branch



Zibo International Conference and Exhibition Centre

- Telephone options include international-standard fixed line, mobile phone and Internet Protocol (IP) services; costs are shown below

Telephone Charges (As at end of 2009)				
	Local call	Domestic call	International call	
	Cents/min	Cents/min		Cents/min
Fixed line	3.22 for the first 3 minutes and 1.61 thereafter	1.03/6 seconds	Hong Kong, Macau, Taiwan	2.9/6 seconds
			Other countries	11.7/6 seconds
Mobile	2.9-5.9	1.03/6 seconds	Hong Kong, Macau, Taiwan	22
			Other countries	67.4
IP phone	n.a.	4.4+local call charge (dial 17951 or 17909)	Hong Kong, Macau, Taiwan	22+local call charge
			US, Canada	35+local call charge
			UK, France, Germany, Japan, Korea, Singapore, Thailand, Malaysia, Indonesia, Australia	52.7+local call charge
			Other countries	From 67.4+local call charge to 175.8+local call charge

Note: Local call charge refers to local fixed line telephone charges
Sources: China Unicom Zibo Branch; China Mobile Zibo Branch

Transportation costs



Huiqing Bridge

- Shipping from Zibo can be through Qingdao or Shanghai ports. Transporting a 20-foot container of general cargo from Zibo to Qingdao Port takes around three hours. The cost and time of transportation from Zibo to major ports in the world through Qingdao port are shown below left
- Zibo is conveniently located for highway and railway transportation
- Air cargo is also a choice in Zibo
 - Companies, such as FedEx, provide domestic and international airfreight express transportation from Zibo to destinations all over the world. The prices are shown below

Through Qingdao Port, cost and time of transportation from Zibo (By the end of 2009)

Destination	Cost (USD)	Days
Hong Kong	740	5
Osaka	937	3
Kaohsiung	1,165	6
Singapore	1,047	8
Los Angeles	1,655	15
Rotterdam	2,270	30
Hamburg	2,270	30
New York	2,461	30

Note: Cost of transportation refers to transporting a 20-foot container of general cargo from Zibo to the selected destination; above prices are estimates and may fluctuate with changes in materials and fuel prices
Source: SinoTrans Limited Zibo Branch

Cost and Transit time: highway and rail transportation (As at end 2009)

Destination	Highway		Railway	
	Cost (USD)	Days	Cost (USD)	Days
Beijing	674	2	375	4
Shanghai	1,201	2	501	5
Guangzhou	2,637	3	945	8
Qingdao	249	1	227	2

Note: Cost of transportation refers to transporting a 20-foot container of general cargo from Zibo to the selected destination; above prices are estimates and may fluctuate with changes in materials and fuel prices
Source: SinoTrans Limited Zibo Branch

Cost of air express transportation for general cargo (USD) (As at end of 2009)

Destination	Cost (<=0.5kg)	Cost (between 0.5kg and 1 kg)
Hong Kong, Macau	13	31
Taiwan	13	37
Japan, Korea	17	40
Singapore	19	45
US, Canada	26	70
Australia	23	56
UK, France	32	76
Brazil	38	97
Russia	56	126
Turkey	37	89
South Africa	54	125

Note: Prices are estimates and may fluctuate with changes in materials and fuel prices
Source: China Post Zibo branch



5 Business and living environment

- Travel and housing
- Education and healthcare
- Shopping and recreation

Zibo offers diversified residential and living choices for investors. Zhangdian district ranks at the top on living environment in Shandong province.

Travel and housing



Ma An Mountain

Zibo is well connected to other major Chinese cities

- Zibo residents can fly from Ji’nan Yaoqiang International Airport and Qingdao Liuting International Airport. The travel time from Zibo downtown to Ji’nan Yaoqiang International Airport is within an hour by car
- Zibo is the rail transportation hub of Shandong province and therefore a major centre in eastern China’s rail network

Several housing options are available in the city

- Long-term residents in Zibo have several housing options, ranging from renting apartments to serviced rooms in one of the many hotels
 - Zibo has two 5-star hotels, seven 4-star hotels and 21 3-star hotels (An additional hotel, Lanhai International, is awaiting 5-star accreditation)

- The cost of renting a two-bedroom, 100 square metre (1,076 square feet) apartment in the downtown area starts at approximately USD73-146 per month

Zibo local transportation is cheap and convenient

- The public transportation system in Zibo is convenient. Bus travel is USD0.15 per trip, or USD0.09 with a transportation card
- Taxis charge USD0.88 for the first three kilometres, and USD0.18 per kilometre thereafter during the day time; USD1.03 for the first three kilometres and USD0.23 per kilometre thereafter at night
- Vehicle rental is available in Zibo. A vehicle plus driver costs around USD1,025-1,172 per month (assuming a mid-high end sedan)

Domestic travel by train (As at end of 2009)

Destination	Hard sleeper (USD)	No. of trains per week	Travel time (hours)
Beijing	22-32	49	3.3
Shanghai	23-35	42	8.5
Guangzhou	40-44	28	25
Ji’nan	1-5	560	0.8
Qingdao	9-40	301	1.6

Note: Time is for the fastest train service
Source: Zibo railway station



Historical Commercial Street

Sources: (1) Statistics Bureau of Zibo
(2) Price Bureau of Zibo

Education and healthcare

Zibo has a strong academic community

- Zibo has eight universities, 30 vocational high schools, including the nationally renowned Shandong University Of Technology

Zibo offers a range of healthcare facilities and services

- By the end of 2009, Zibo had 1,386 health institutions, including 123 general urban hospitals, 156 community health service centres, and nine Women & Children

hospitals. Together they total 21,200 beds and 25,100 healthcare staff, of which 10,700 are qualified doctors and 9,400 registered nurses

- Several hospitals in Zibo cater to expatriates, including the Central Hospital of Zibo, Number One Hospital of Zibo, Zibo Traditional Chinese Hospital and Zibo Women & Children Hospital

Shopping and recreation

Many shopping and entertainment options are available in Zibo

- A number of multinational and national retailers, including Wal-Mart, Jusco, Rt-mart, Da Shang, Yin Zuo, Li Qun, Zhenhua Plaza and Tesco have set up outlets in Zibo
- Gyms, history and natural museums, parks and other recreational facilities in and around Zibo provide plenty of entertainment options for residents and visitors alike

As an ancient capital, Zibo is a tourist attraction

- As capital of the Qi State during the Chunqiu Period more than 2,500 years ago, Zibo has many historical places of interest, such as the History of Museum of the Qi Kindom, Linzi Ancient Chariots Museum, and The Funerary Horse Pit
- Zibo has six AAAA tourism areas and 12 AAA tourism areas attracting over 20 million national and international visitors annually



Foreign students visit a school in Zibo



6 Service institutions

Zibo government offers a range of business approval services to increase investors' efficiency. Zibo Administrative Service Centre was founded in 2003 with the aim of providing "one-stop-shop" services to foreign investors.

Service institutions

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