



DEZAN SHIRA
& ASSOCIATES

QINGDAO





Welcome to Qingdao!



*Adam Livermore
Regional Manager
Dezan Shira & Associates*

Our firm has been operational in Qingdao for many years, servicing foreign direct investors into the city and surrounding areas since 1992. Some of the infrastructure projects concerning the yachting events for the Olympics, including marina design, as well as gantry and mooring infrastructure, and the design and building of yachts themselves, have been undertaken by clients of our firm. Additionally, Qingdao is a popular destination for food processing, especially fruits and other by-products, again an industry we know well and have helped develop in the city.

If you are involved with foreign direct investment into the city or close by, and require an overview of opportunities within Qingdao, the legal and tax implications of doing so, and comparisons with other China East Coastal cities, then just give us a call. We'd be pleased to assist. In the meantime, we hope you find this city overview of use – compiled by our practice from our own local resources and expertise. We hope you find it of use and - we look forward to hearing from you.

With best regards;

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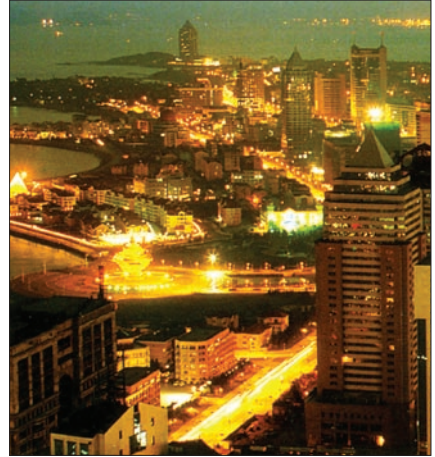
QINGDAO

Qingdao, a coastal city on the peninsula of Shandong province, is one of China's more charming and relaxing cities and a popular tourist destination.



Fast facts

- famed as a pearl on the Yellow Sea coast
- China's second largest foreign trade port after Shanghai.
- host city of the annual Qingdao International Beer Festival
- birthplace of Taoism
- host city to the 2008 Olympics Yachting Events



Qingdao by numbers

Item	Unit	2001	2002	2003	2004	2005	2006	2007
Population	m people	7.105	7.16	7.21	7.31	7.41	7.49	7.58
GDP	RMBbn	131.6	151.82	178	216.38	269.55	320.66	378.65
Proportion : primary industry	%	10.9	9.6	8.3	7.5	6.5	5.7	5.4
: secondary industry	%	49.3	50.4	52.6	54.1	51.9	52.3	51.6
: tertiary industry	%	39.8	40	39.1	38.4	41.6	42	43
GDP growth year on year	%	13.7	14.6	15.9	16.8	16.9	15.7	16
Compared to national	%	7.3	8	9.1	9.5	9.9	10.7	11.4
Per capita GDP (all residents)	RMB	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fixed asset investment	RMBbn	38.44	47.83	73.94	102.54	145.66	148.57	163.5
Growth year on year	%	19.7	24.4	54.6	38.7	45	19.8	23.3
Industrial production value	RMBbn	57.82	68.1	82.55	102.41	126.68	152.75	178.53
Growth year on year	%	16.4	17	20	20.9	21	17.9	16.6
Per capita disposable income of urban residents	RMB	8,731	8,721	10,075	11,089	12,920	15,328	17,856
Growth year on year	%	8.9	13.5	15.5	10.1	16.5	18.6	16.5
Compared to national	%	8.5	13.4	9	7.7	9.6	10.4	12.2
Per capita cash income of rural residents	RMB	3,901	4,195	4,530	5,080	5,806	6,546	7,477
Growth year on year	%	7.3	7.5	8	12.1	14.3	12.7	14.2
Retail sales	RMBbn	35.29	40.05	51.22	60.55	86.59	100.67	119.92
Growth year on year	%	14.7	13.5	15.8	15.8	15.8	16.3	19.1
Exports	US\$bn	9.5	10.57	12.39	15.78	19.42	23.47	28.3
Growth year on year	%	14.9	11.3	17.2	27.4	23.1	20.8	20.6
Imports	US\$bn	5.9	6.35	8.27	11.21	13.6	15.65	17.42
Growth year on year	%	12.3	7.4	30.1	35.6	21.4	15.1	11.3
Contracted FDI	US\$bn	3.61	5.52	8.01	6.77	9.55	3.12	3.81
Growth year on year	%	34	53.9	44.9	27	42.1	-6.7	4.1
Used FDI	US\$bn	1.6	2.38	4	3.82	3.66	3.65	N/A
Growth year on year	%	24.6	48.8	68.8	33.1	13.1	-0.27	N/A
New FIEs	No	1,255	1,832	2,248	2,423	2,530	1,397	1,068
Growth year on year	%	N/A	45.9	22.7	7.8	4.4	-44.8	-23.6

Qingdao, a coastal city on the peninsula of Shandong province, is one of China's more charming and relaxing cities and a popular tourist destination. Qingdao also hosts many fairs and festivals throughout the year, the most famous of which is the annual Qingdao International Beer Festival, held the last two weeks of August and attracting upwards of a million visitors and over 20 international brewers. Qingdao has now evolved into one of Shandong peninsula's most important cities for commerce.

History

Brief overview



- > birthplace of Taoism, with inhabitants settling the area 6,000 years ago
- > during the Tang dynasty (681-907) Qingdao took full advantage of its sea location by becoming a very important city for commerce
- > was forcibly occupied by Germany in 1897 and became a major naval base for Far East operations; European style architecture and the Tsingdao Brewery are two remnants of German occupation and influence
- > in WWI, control of the city changed hands multiple times between China and Japan until China seized final control on June 2, 1949
- > since 1984 the city has developed quickly as a modern port as well as a leading tourist destination

Geography

Brief overview



- > located on the southern part of the Shandong Peninsula, bordered by the Yellow Sea to the east and south, Qingdao has a 870 kilometer long coastline.
- > covers a total area of 10,654 square kilometers, of which the central urban area comprises 1,102 square kilometers
- > the population is 7.58 million, including an urban population of 2.7 million in the city proper, and 4.8 million in the five county-level surrounding cities
- > is located 318 kilometers east of Jinan and 890 kilometers southeast of Beijing
- > includes the seven districts of Shirnan, Shibei, Sifang, Licang, Chenyang, Huangdao and Laoshan, and the five county-level cities of Jiaozhou, Jiaonan, Jimo, Pingdu, and Laixi
- > Qingdao enjoys 730 kilometers of continental coastline and 274 square kilometers of shallows which allow for harvest of marine products including salt, shrimp, sea cucumber, abalone, scallops and seaweed
- > natural resources such as gold, graphite, bentonite, marble, granite, diamonds, magnesite, mineral oil, coal, and iron, are relatively abundant

Infrastructure

A well developed highway system, port, and airport, make Qingdao accessible by land, air or sea. Qingdao is China's second largest foreign trade port after Shanghai, and the nation's largest iron ore port.

Road

The roads in Qingdao stretch over 5,935 kilometers with nine expressways totaling 525 kilometers, which account for one-sixth of the total provincial mileage. Main highways include the Jinan-Qingdao, Jiaozhouwan and the Qingdao-Yinchuan expressways. As a vice-provincial-level city, Qingdao ranks first in terms of expressway traffic mileage in China. The Seaside Highway, opened in 2006, is one of the main frameworks of Qingdao's transport system. It starts from the Kaolao Dam in the north of Jimo city and ends at the junction with 204 national highway near Liushudi Village in Joanan city. The total length is 169 kilometers.

Railways

Qingdao's railway development picked up during the late 90s. The Qingdao Railway Station provides daily connections to more than 15 major cities throughout China including Beijing, Shanghai, Xi'an, and Chengdu.

Airport

Qingdao Liuting International Airport is located in Chengyang District, Qingdao City, about 12 kilometers from the downtown area. In 2006, total passengers exceeded 6.8 million. The airport services 17 international and 84 domestic routes, including flights to and from Seoul, Daegu, Tokyo, Osaka and Hong Kong. There are over 128 international flights per week from Qingdao, and 422 flights per week for short haul destinations.

Port and waterways

The Port of Qingdao is an important hub of international trade and sea-going transportation, with established trade relations with more than 90 international sea routes to over 450 ports in more than 130 countries and areas. The port handled 7.7 million standard containers in 2006, making it one of the top 10 ports in the world.

Qingdao's Ferry provides transportation to locations such as Incheon, Korea and Shimonoseki, Japan. Orient Ferry Ltd. operates a regular service between Shimonoseki on the western tip of the main island of Honshu, and

the Chinese port city of Qingdao. The journey takes approximately 40 hours.

City infrastructure

In early 2006 the Qingdao Municipal Government announced a plan to erect five offshore wind turbines each with a capability of five mega-watts. The turbines will serve as power generating units for the maritime events of the 2008 Olympic Games to be held in Qingdao. As one of the six projects signed at the three-day second Sino-German forum in 2006, the project is expected to receive a EURO 50 million investment from Germany.



Economy and investment climate

Qingdao is the wealthiest city in Shandong province and has the second highest GDP of all Chinese provinces. It is one of China's 10 most economically and 10 best commercial cities.

Qingdao has the same authority as provincial governments for economic administration. In 2007, Qingdao realized a GDP of RMB378.65 billion (up 18.1 percent). In 2007, exports totalled US\$28.3 billion, and imports amounted to US \$17.42 billion.

As the result of continuous industrial restructuring, Qingdao now has six pillar industries, specifically electronics and communications, information and electric home appliances, chemicals and rubber, food and beverage, automobile and ship building and garment and accessories.

Priority is being given to five industrial groups – traffic and transportation facilities, electronic information and home appliances, textile and

garment, chemistry and pharmaceuticals and food processing. Qingdao is also home to many famous Chinese brands. These enterprises account for more than half of the city's total economic aggregate. State-owned enterprises are still the mainstay of the famous brands, including Haier, Hisense, Double Star, Jifa and Tsingtao Beer, accounting for 4.8 percent of the country's total. Haier, the country's largest home electronics producer, saw its sales income exceed RMB1.7 billion in 2006. The brand is valued at RMB60 billion and is said to be among the world's top 100.

A study done by the World Bank in 2006 ranked Qingdao as the 11th most attractive city for domestic investors, and 7th most attractive city for foreign investors. Qingdao is also ranked 5th in government effectiveness vis-à-vis foreign firms. The local government is often praised for being effective in creating an investment friendly atmosphere. Only six cities are ranked in the highest quintile for all five measures in the study – overall investment climate for foreign and domestic firms, government effectiveness toward domestic and foreign firms, and progress toward a harmonious society. Qingdao is one of these six “golden cities”.

Development zones and ports

Qingdao Port

Qingdao is a famous natural port, foreign trade port and a shipping hub on the west coast of the Pacific Ocean. As China's third largest port in terms of container throughput, Qingdao Port also operates Asia's biggest crude oil terminal and the world's top iron ore terminal. With 70 productive berths, 24 of which are deep sea water berths for vessels of over 10,000 dwt, the port has 97 international shipping routes that connect with more than 450 ports around the world. Currently seven Fortune 500 companies have established subsidiaries in Qingdao Port, including Mitsubishi from Japan and ABB from Sweden. Its foreign trade volume exceeded 168.33 million tons, second only to Shanghai.

Besides its large-scale container, crude oil and iron ore facilities, the port is also equipped with a first-class coal terminal and state-of-the-art

grain-handling base, and the largest EDI center in Mainland China. The port is 75 percent export-oriented, ranking first in China. Qingdao Port became one of the top 10 world commercial ports in 2006, after its handling capacity shot up to 224 million tons, 20 percent more than the previous year. In the first half of 2007 Qingdao Port handled 130 million tons of cargos and 4.5 million TEUs. At present, the port has three harbors with 78 berths, including 46 10,000-plus ton berths.

Qingdao Economic and Technological Development Zone

Established in 1984, it is one of the first 14 National-level economic zones approved by the State Council and occupies a total area of 20.2 square kilometers. In 2007, the GDP for the zone reached RMB378.65 billion, an increase of 18.1 percent over the previous year. The industrial production value reached RMB178.53 billion, an increase of 17 percent over the previous year.

In mid 2005, there were a total of 167 newly approved foreign funded projects, an increase of 21 percent over the previous year. The total amount of investment equaled US\$2.12 billion, an increase of 2.7 percent. Among the foreign firms were eleven Fortune 500 companies, and 41 projects of more than US\$10 million. Contracted investment totaled US\$1.32 billion, while actual utilized investment exceeded US\$741 million. Businessmen from over 20 Chinese provinces and municipalities and over 50 foreign countries and regions have invested a total of over US\$9 billion in the zone.

The zone has an excellent transportation network and is linked to three expressways. It is accessible from downtown Qingdao either via expressway or sea routes, is about 24 kilometers to the city by sea and 66 kilometers by expressway. Trips to the city take approximately 30 minutes via ferry or 12 minutes via speedboat. It is a 53 kilometers (40 minute drive) to the airport.

The Huangdao Train Station is also located in the zone and connects to the entire national rail network. The station has 26 regular trains, transporting a total of 30 million tons annually. The largest train has a capacity of 36 tons.

Qingdao Hi-Tech Industrial Development Zone

Established in 1992 and located in the eastern part of Qingdao city, the park covers an area of 16.7 square kilometers. The park comprises the Hi-Tech Product Export Base, Biology Valley, University Science Park, Software Park, Huite Industrial Zone, and more.

The park is in a central location with Qingdao's new downtown to the west, Laoshan National Park to the east, and the beach just 12.5 kilometers to the south. It is also situated just 12 kilometers from Qingdao harbor, 15 kilometers from the railway station, and 17 kilometers from the airport. Furthermore, the park has also invested RMB2.4billion (US\$293 million) into its infrastructure construction.

High-tech industries and enterprises are concentrated in the northern part of Qingdao Hi-Tech Park. Universities, institutions, research centers and a residential area make up the central part. The southern part of the Park consists of a resort area and tourist attractions.

To date, the park has attracted many companies and enterprises in the fields of electrical appliance, computers, communication technology, medical equipment and automobile parts. Key enterprises such as Haier, Lucent, Neusoft, Auhai Biotech, Qingdao Magtech and Hexago Metrology have all flocked to the zone. The total export value of the Park is US\$240 million and more than 30 foreign companies have invested in the park, including Lucent, Coca-Cola, and Hewlett Packard. It also comprises, Haier Industrial Park, the headquarters for the famous Chinese electrical appliance manufacturer. More than US\$2.4 billion has been invested in the park by over 600 foreign and joint venture projects.

According to statistics, the park is ranked third among the 52 high/new technology zones of its kind in China.

Qingdao Free Trade Zone

Established in 1992, the Qingdao Free Trade Zone is the only bonded area in the Yellow River basin and duly receives preferential treatment. Covering an area of 3.8 square kilometers, the area enjoys being certificate-free, tax-free and bonded

among other special policy treatments. The area's main function is to develop international distribution, procurement, exhibition, and trade, as well as export processing and bonded warehousing. Highlighting the concept of "small government and big service", the area has constantly improved its investment environment and established the "fee-free investment zone" and the "fee-free agency service zone".

The Qingdao free trade zone follows the model of the standard Free Trade Zone in China and enjoys a series of preferential policies including tax rebates and smoother registration process for imports and exports, tax exemptions and special policies for export trade processing, bonded warehousing, etc.

The zone has attracted international investors from over 40 countries as well as domestic investors from over 20 provinces. There are more than 2,000 investments, of which almost 1,000 have come from foreign, private, and joint ventures. Total contracted foreign investments have already reached US\$160 billion.

On November 11, 2005, the Qingdao Bonded Distribution Park, which was an experiment on "area-port integration", successfully passed the acceptance by the state and formally began operating. This represented a solid step taken by the Qingdao Bonded Area in establishing a free-trade port area.

Travel and tourism



- Qingdao has won the "award for entrepreneur satisfaction" for its excellent environment for investment and living and is also noted for its beautiful and pleasant climate
- is a leading tourist destination due to its seaside setting and good weather



- is a transport hub for the country's east coastal region and a major port for foreign tourists to enter and leave China
- major attractions include Mount Laoshan, Qingdao International Beer Town, parks, beaches etc.
- boasts 24 different styles of architecture with obvious European influence
- is host of the watersports events of the 2008 Summer Olympics
- enjoys mild summers and relatively warm winters with an annual average temperature of 12 C

Resources

Government organizations

Qingdao Government

Website: www.english.qingdao.gov.cn

General information

Qingdao Expat Community Guide

Website: www.qingdaoexpat.com

Qingdao Travel Guide

Website: www.travelchinaguide.com/cityguides/shandong/qingdao/

Development zones, ports

Qingdao Economic & Technical Development Zone

Website: www.qda.gov.cn/en/index.htm

Qingdao Free Trade Zone

Website: www.qdftz.com

Qingdao Hi-Tech Industrial Park

Website: www.qinno.com/en

Port of Qingdao

Website: www.qdport.com/en



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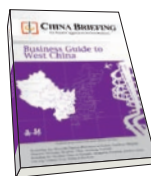
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