



Investment Environment Study

N I N G B O

September 2003

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In the preparation of this report, every effort has been made to offer current, correct and clearly expressed information. However, the information contained herein is intended for reference purposes only.

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Foreword

Foreign direct investment is flowing into China at an unprecedented rate. The Yangtze River Delta in eastern China has always been one of the most developed regions in China. Thanks in part to its unique regional geographical advantages, it continues to have double-digit GDP growth and attract investment from abroad.

This publication presents an overview of matters to be considered by those thinking of investing in Ningbo, a coastal city in Zhejiang Province in eastern China.

KPMG recognises the importance of careful planning with regard to investment in China. Lack of access to information such as cost data can be an impediment to this process. This booklet, commissioned by the Ningbo Foreign Trade and Economy Cooperation Bureau, is designed to address the needs of foreign investors for accessible, independently researched information on the business environment and costs in Ningbo.

The sources of information in this booklet have been attributed throughout; the assistance of the Ningbo Foreign Trade and Economic Bureau is gratefully noted. In addition to secondary information, KPMG was able to analyse data from foreign-invested companies with regard to their actual costs and operating practices. This information and analysis is included in this booklet. This booklet contains information available as at 30 April 2003.

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. Companies doing business in China, or planning to do so, are advised to obtain current information and company-specific advice from experienced professional advisors.

The background of the slide is a detailed historical map, likely from the 17th or 18th century, showing the world's continents and oceans. A large, ornate compass rose is visible in the lower right corner, and a brass compass is positioned in the upper left. The map features various geographical labels in Latin, such as 'OCEANUS SEPTENTRIONALIS' and 'TERRA AUSTRALIS INCOGNITA'.

1 Executive summary

- Ningbo today
- Foreign investment
- Business environment
- Living in Ningbo

Ningbo is located on China's eastern coast and on the southern flank of the Yangtze River Delta, bordering Shanghai to the north and Hangzhou, the capital of Zhejiang Province, to the west.

With one of the finest deepwater ports in mainland China, Ningbo has enjoyed sustained economic growth, and the city government continues to provide institutional and infrastructure support.

Ningbo today



- Located on the East China Sea, Ningbo is situated in one of China's most economically developed regions
- With one of the largest deepwater ports in eastern China, Ningbo is emerging as an international logistics center
- Apart from the deepwater seaport, the city is well connected to other major domestic cities and international cities by air, road and rail. The recently commenced Hangzhou Bridge Project will significantly shorten the travel time from Ningbo to Shanghai, the commercial center of mainland China
- The arrival of foreigners by sea in the 19th century inspired a healthy clothing trade in Ningbo. The highly skilled clothes-makers were renowned throughout Asia for their skill, and today the clothing industry continues to flourish in Ningbo. This relatively small center of 5.4 million people manufactures approximately 12% of all clothing made in China
- The development of economic integration in the Yangtze River Delta has created unprecedented opportunities for cities in the region, including Ningbo. Ningbo has taken advantage of this geographical position as well as other economic and tax incentives. All of this has created an environment in which the city has experienced sustained annual economic growth of above 10%
- Ningbo is encouraging the development of manufacturing industries and has six pillar industries: textiles and garments, petrochemicals, machinery manufacturing, electrical appliances, metallurgy and electronics
- Unlike other metropolises such as Shanghai and Beijing which have a clearly defined downtown area, Ningbo's 11 districts and counties have each developed manufacturing industries with their own characteristics, one of the reasons for Ningbo's sustained economic and foreign trade development
- Ningbo has been an important port since ancient times. Import and export amounted to USD 12.3 billion in 2002, increasing by approximately 30% over the past five years

Foreign investment



- Since the first foreign enterprise was established in Ningbo in 1980, foreign investment has been increasing steadily. The annual growth rate of foreign direct investment (FDI) for 1998-2002 was over 25%
- By the end of 2002, 6,863 projects with foreign investment had been established in Ningbo with FDI amounting to USD 6.13 billion
- Foreign investment is concentrated in the following areas: light industry, textiles, electronics, petrochemicals, machinery, transportation, infrastructure, culture and tourism, and real estate
- Most Foreign Invested Enterprises (FIEs) are in value-added manufacturing industries. Investment in service sectors is focused on real estate and commercial development; 29 of the Fortune 500 companies have established a presence in Ningbo
- MOFTEC data on some 1200 foreign invested companies in Ningbo indicated their average net margin reached 10% in 2001 and their average ROE (return on equity) was 19%
- Ningbo has four national-scale development zones, one hi-tech zone and 10 provincial and municipal level development zones which cater for traditional shipping or trading sectors to hi-tech sectors

Business environment



- Business costs for foreign investment have been included in this booklet, including land, property, labor, telecommunications, transportation and tax costs
- Ningbo has a similar tax environment to other mainland cities, with certain tax benefits offered
- Ningbo has considerable human resources and attracts people from inland provinces to join its workforce. Data indicates those working for FIEs in Ningbo have attained a high-school education or higher
- Ningbo has above-average disposable income per capita and represents a sizable consumer market
- In the 14th century the region became known as Ningbo, which means “tranquil waves”. Its proximity to water, both the sea and a major river system, make it a natural location for a port. Today’s international Ningbo port trades with 84 countries and handles more than 96 million tons of freight annually
- With its logistics facilities, Ningbo represents a foothold for investors who want to develop in the Yangtze River Delta or the wider Chinese market
- Ningbo has a number of professional firms, such as accounting and law firms, to help investors. The government has established authorities to handle foreign investors’ concerns
- Investors need to comply with a series of environmental laws in force since 1982

Living in Ningbo



- Ningbo has a mild climate, which is suitable for most types of manufacturing
- Aside from shopping for tailored clothing, a visitor can see a number of sights. Ningbo houses the oldest private library in China. Tian Yi Ge was originally built more than 430 years ago and stores 300,000 volumes
- Ningbo has a variety of three, four and five star hotels with reasonable prices. High-standard apartments are available downtown
- There are hospitals and global chain stores, restaurants, a stadium and recreational centres to provide an acceptable living environment for foreign investors working in Ningbo



2 Ningbo in context

- Location
- City introduction
- Yangtze River Delta
- Economy
- Pillar industries
- Ningbo's 11 districts
- Foreign trade



Location

Ningbo is located in Zhejiang Province in eastern China

Zhejiang Province is a fertile and densely populated coastal province. Ningbo lies in eastern Zhejiang province on the East China Sea and is less than two hours flying time from Guangzhou, Beijing and Hong Kong, and less than half an hour from Shanghai. The USD 1 billion Cross Sea Project, a massive bridge construction project to be completed in 2009, will further shorten the overland travel time from Ningbo to Shanghai to two hours from the current four hours.





City introduction

Ningbo has a 7,000-year history and a population of 5.5 million, making it the second largest city in the province after Hangzhou

- Two million of Ningbo's 5.5 million people live in urban areas while the rest are rural residents
- Ningbo covers an area of 9,365km². The jurisdiction of Ningbo City encompasses two counties (Xiangshan and Ninghai), three county-level cities (Yuyao, Cixi and Fenghua) and six urban districts (Haishu, Jiangdong, Jiangbei, Zhenhai, Beilun and Yinzhou)
- In ancient times, Ningbo was the starting point of the Silk Road to the west and a major trading port. Today Ningbo is one of four international deepwater harbours in China, which can berth 300,000-ton vessels
- Ningbo has a sub-tropical climate with mild temperatures, moderate humidity and distinctive seasons. The city is also a tourist destination with cultural monuments and historical sites

Ningbo city jurisdiction map





Yangtze River Delta (“YRD”)

Ningbo is a major city in a rapidly developing region

- Shanghai and its neighbouring areas along the Yangtze River form the YRD
- The YRD, an economic giant made up of 15 cities including Shanghai, Hangzhou (capital of Zhejiang Province) and Nanjing (capital of Jiangsu Province), has experienced phenomenal growth over the past decade
- In 2001, the YRD accounted for 21% of China’s industrial production and 17.7% of the nation’s GDP with only 6% of China’s population and 1% of its land mass
- Not only is the Yangtze River Delta emerging as one of China’s most powerful economic regions, but it has been chosen by the central government to lead China to greater prominence on the global economic stage



Source: Ningbo MOFTEC



Economic integration of cities in theYRD

- The YRD's strong economy and location make it an attractive investment location. This is expected to continue as globalisation pushes down transportation costs, and economic integration allows the YRD to realize the benefits of industrial clustering and economies of scale
- Economic integration of the YRD was prioritised and boosted by the Central Government's plan to develop the area into an international economic hub in the manner of New York, London and Tokyo
- Manufacturing activities around Tokyo today account for one-fourth of Japan's total manufacturing sector. Shanghai is following this model and has been positioning itself since the 1990s as the financial services, information and technological development center of the YRD
- To support regional growth, massive infrastructure projects in the delta have been launched, including Pudong International Airport, which is a four hour drive from Ningbo
- Highways linking all of the 15 cities in the YRD are also being built to shorten travel times. When completed, the expanded highway network will reduce bottlenecks and further integrate the individual economic regions within the delta into a better-integrated trading bloc
- The USD 1 billion Cross Sea Project, a massive bridge construction project to be completed in 2009, will connect Ningbo and Shanghai, reducing travel time to less than two hours

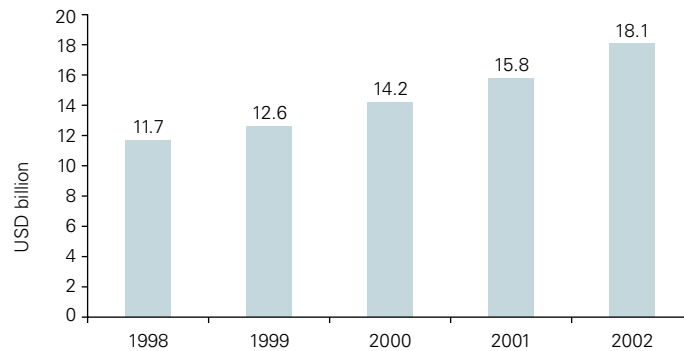


Economy

Ningbo's economy is growing rapidly, with a focus on manufacturing

- In 2002, the city's GDP reached USD 18.1 billion, with a GDP per capita of USD 3,309. This represents a Compound Annual Growth Rate (CAGR) of 11.42% from 1998 to 2002; this is well above the national average

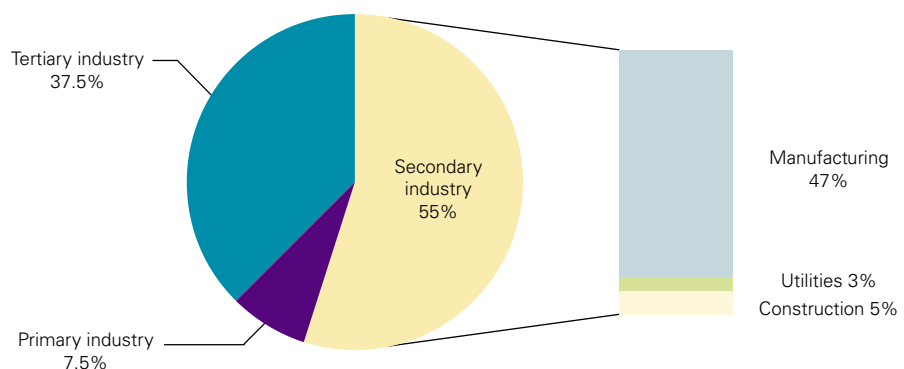
Ningbo total GDP (1998-2002)



Source: (1) Ningbo Statistical Yearbook 2002
(2) Ningbo Statistical Bureau

- Ningbo is a traditional key producer of grain, cotton, oil, aquatic products and other agricultural commodities
- Ningbo's industrial sector is also well-developed, with strengths in:
 - manufacturing: textiles and garments, petrochemicals, machinery, electronics, metallurgy, paper, construction materials, light industry and pharmaceuticals
 - non-manufacturing: power generation, mining and construction
- In 2002, the manufacturing sector accounted for USD 10 billion of Ningbo's GDP, or 54.77% of the total local economy
- Service industries such as tourism have also witnessed rapid growth

Ningbo economic structure (2001)



Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis

- Manufacturing continues to be the engine for economic growth, with production output reaching USD 24 billion in 2002, an increase of 19.1% from 2001

Pillar industries



Six industry sectors in Ningbo act as “pillar industries” underpinning the economy

Industry	2001 Output (USD billion)	Comments
Textile and garments	3.2	Over 2000 garment companies employ more than 100,000 people
Petrochemical	3.2	Zhenhai is one of China's petrochemical industry centers
Machinery manufacturing	2.7	Main products of machinery manufacturing sector include: plastic injection machines, motor parts, powder metallurgical products and high-tension transformers
Electrical appliance	2.2	A rising industry producing range hoods, air conditioners, washing machines, water machines
Metallurgy	0.9	On account of the access to port facilities, the metallurgy industry is developing rapidly with a growth rate of about 8%
Electronics	0.9	Electronics industry is growing by 30% each year. Currently Ningbo has more than 2,000 electronic enterprises

Source: Ningbo MOFTEC

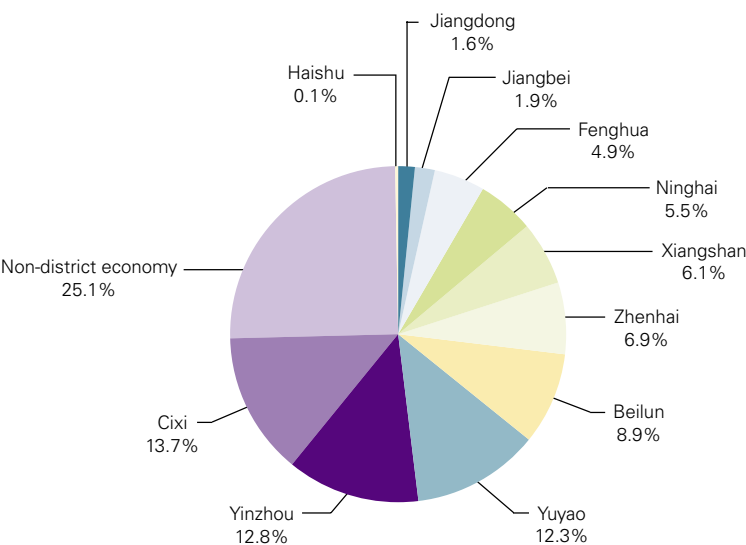


Ningbo's 11 districts

Ningbo is composed of 11 districts

Two counties (Xiangshan and Ninghai), three county-level cities (Yuyao, Cixi and Fenghua) and six urban districts (Haishu, Jiangdong, Jiangbei, Zhenhai, Beilun and Yinzhou) comprise the 11 districts of Ningbo.

Ningbo GDP by district (2002)



Note: Non-district economy refers to GDP created by the companies that are directly registered with the municipal government

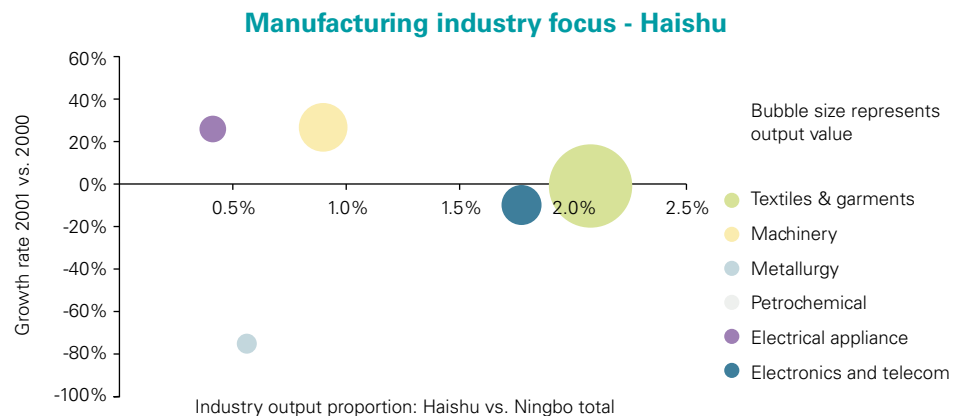
Source: (1) Ningbo MOFTEC
(2) Ningbo Statistical Bureau

Data analysed above exclude data pertinent to the companies that are directly registered with the municipal government and therefore are usually not governed by the regional authorities of the 11 districts.



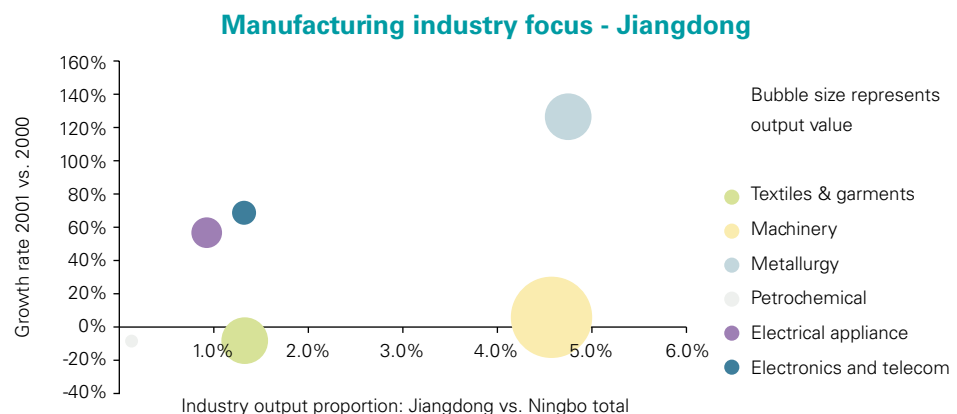
Three districts form the downtown area of Ningbo

- Haishu, pop. 263,000, has always been Ningbo's political, economic and cultural centre with an area of 28.7km². In 2001, its GDP reached USD 0.24 billion. Main industries include textiles and garments, machinery, electronics, metallurgy and processing



Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis

- Jiangdong, pop. 227,400, with Beilun Port to its east and the focus for much of Ningbo's recent development, Sanjiangkou (Three Estuaries), adjoining it to the west, is a central urban district of Ningbo. The Ningbo High-Tech Park is in the north of Jiangdong district and the Ningbo High Education Zone to its south. Jiangdong covers an area of 37.7km². It is being positioned as a science and technology trading district and has been dubbed the "Pudong" of Ningbo (with reference to the development of the Pudong area of Shanghai)

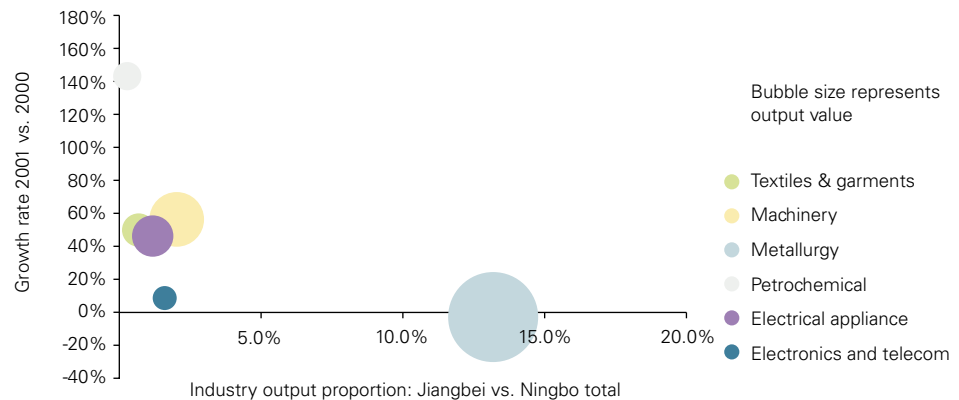


Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis



- Jiangbei, pop. 229,100, is the largest central district in Ningbo with a long history of business and culture. It is bounded by the Yong River to the east and Yao River to the south. It covers an area of 204km². In recent years, the Ningbo Municipal Government has developed the Jiangbei downtown area into a shopping and entertainment center

Manufacturing industry focus - Jiangbei

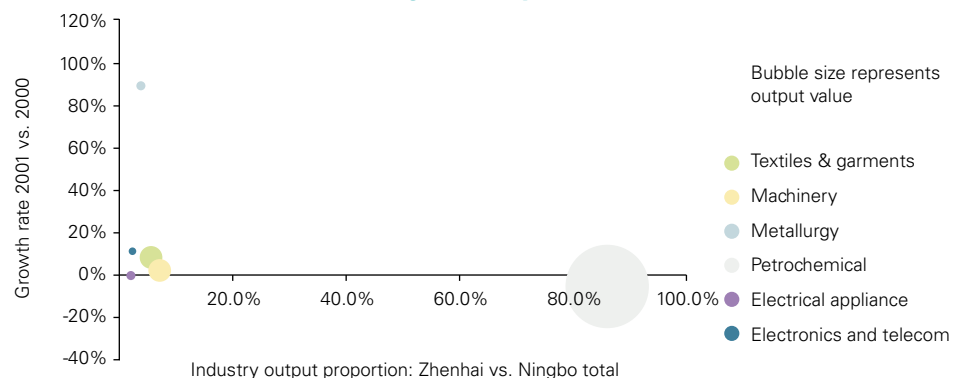


Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis

Zhenhai has a petrochemical and shipping focus

- Zhenhai, pop. 214,000, with Beilun Port to the south and Hangzhou Bay to the north, covers an area of 218km², and has a 21km coastline which includes the Ningbo port
- Over 80% of the petrochemical industry output of Ningbo was contributed by Zhenhai in 2001
- Zhenhai is also the hometown of many overseas Chinese who have recently contributed much to the economic development of Ningbo
- Zhenhai is the location of chemical, textiles, machinery, electronics, light industry and building materials companies that together export approximately 100 kinds of products. Multinationals based in Zhenhai include LG Chemical and Akzo Nobel Peroxides

Manufacturing industry focus - Zhenhai



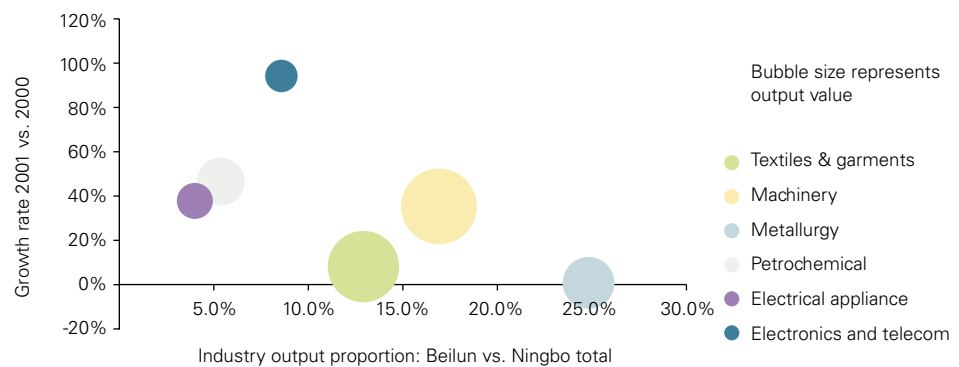
Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis



Beilun has deepwater ports for ships up to 300,000 tons

- Beilun, pop. 322,000, covers a land area of 585km² and a sea area of 258km²
- Ningbo Economic & Technical Development Zone ("NETDZ"), Ningbo Free Trade Zone, and Daxie Island are located in this district. The whole of Beilun district is in the process of joining NETDZ (Please refer to the industrial zone analysis in Chapter 3)
- Beilun accounts for 25% of the metallurgy industry in terms of output. Other key industries include machinery, magnetic materials, electronics and electrical appliances, educational and sports products and clothing

Manufacturing industry focus - Beilun

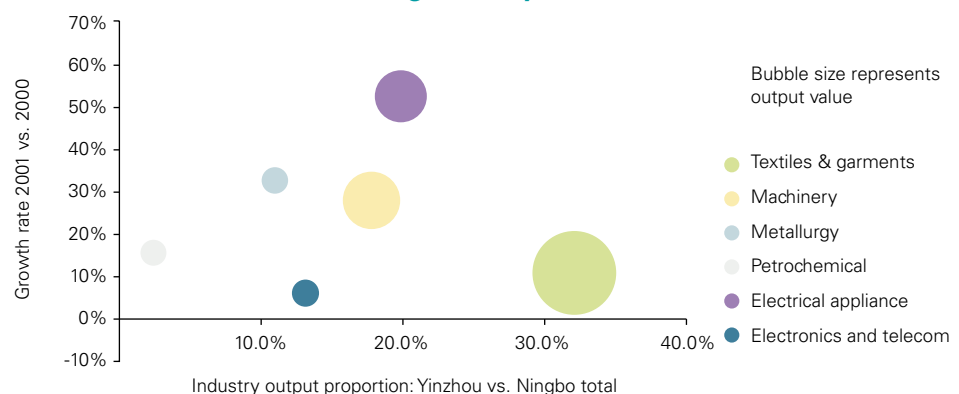


Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis

Yinzhou is the traditional industrial center of Ningbo

- Yinzhou, pop. 742,700, has a diversified industrial base including textiles, machinery, electronics, automobile parts and food. It represents one-third of Ningbo's total textiles and garments output
- There are over 40 high-tech enterprises, and 16 municipal and county-level research institutes in Yinzhou, giving the district capacity for technological research and development

Manufacturing industry focus - Yinzhou

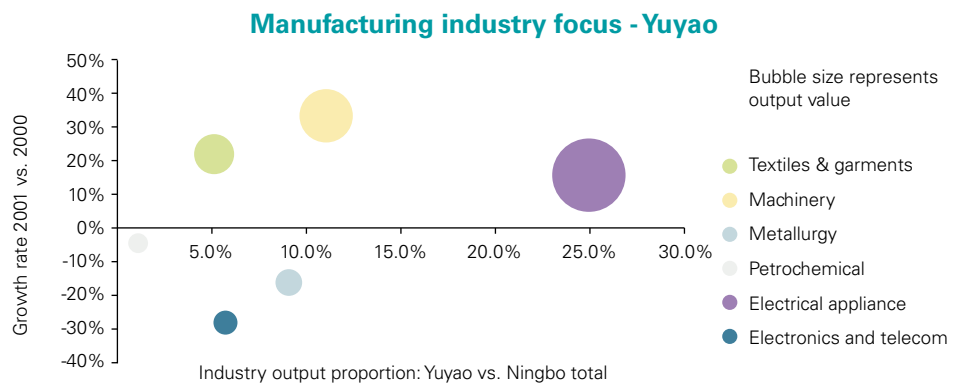


Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis



Yuyao is a newly formed industrial center

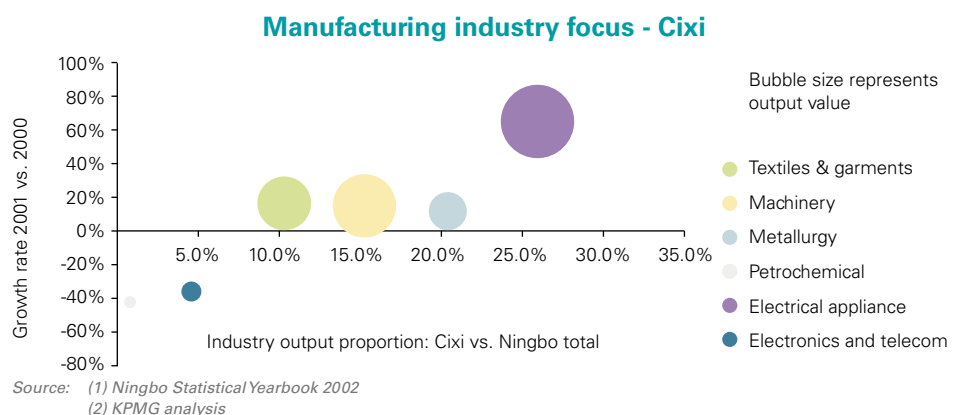
- Yuyao, pop. 828,000, has a total area of 1,527km²
- With a traditional strength in agriculture, Yuyao district is now moving toward electronics and electrical appliances, machinery and instruments, and moulds and plastics as its three major industries, as well as fine chemicals, electromechanical products and new materials
- In 2001, Yuyao's export trade volume reached USD 1.28 billion with 1,000 kinds of products exported to 108 countries and regions, 74.7% of which were electromechanical products



Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis

Cixi is one of the fastest growing counties

- Cixi, pop. 1,250,000, is located in eastern Zhejiang Province on the south shore of Hangzhou Bay. It is in the center of the Shanghai-Hangzhou-Ningbo economic triangle. It covers an area of 1,154km² with a coastline of 78.5km
- Cixi has been one of the fastest developing areas in China, with GDP reaching USD 2.2 billion in 2001. The total output value of agriculture and industry was USD 8.33 billion: industrial output was USD 8.06 billion and the remainder was agricultural output. Main industries are textiles, machinery, electronics and electrical appliances
- The electrical appliance sector has witnessed rapid growth in 2001



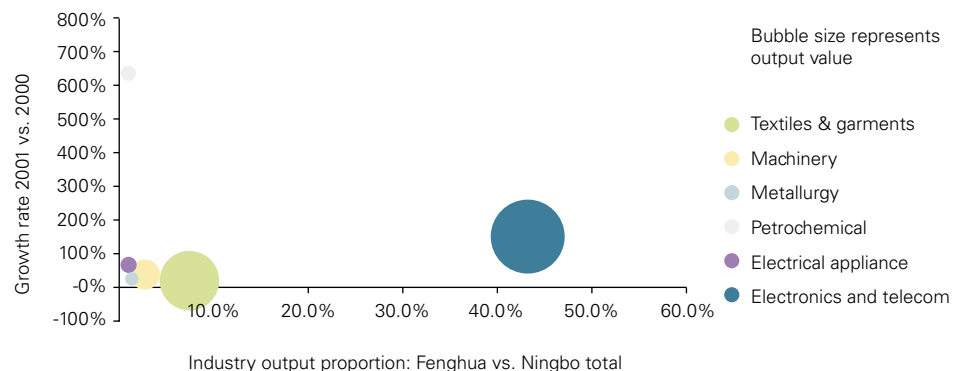
Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis



Fenghua is a tourism center

- Fenghua, pop. 488,000, covers a land area of 1,249km² and a water area of 96km². It is situated on a network of transportation links including the Tongjiang-Sanya North-South Expressway and the Ningbo-Jinhua Expressway across the city
- Among the “100 Top Counties” in the country in terms of overall strength. In addition to traditional strengths in garments, machinery, electronics, foodstuffs and pharmaceuticals, it also has a major aquaculture base, with aquatic products supplied to Shanghai, Nanjing, Hangzhou, Ningbo and exported to Japan and Korea
- Fenghua has many historical sites and scenic areas, and is a focus for tourism. The Xikou Scenic Area and Tuntou Eco-Tourism Exemplary Area are both National Class-A tourist spots; they received a total of three million tourists in 2001

Manufacturing industry focus - Fenghua

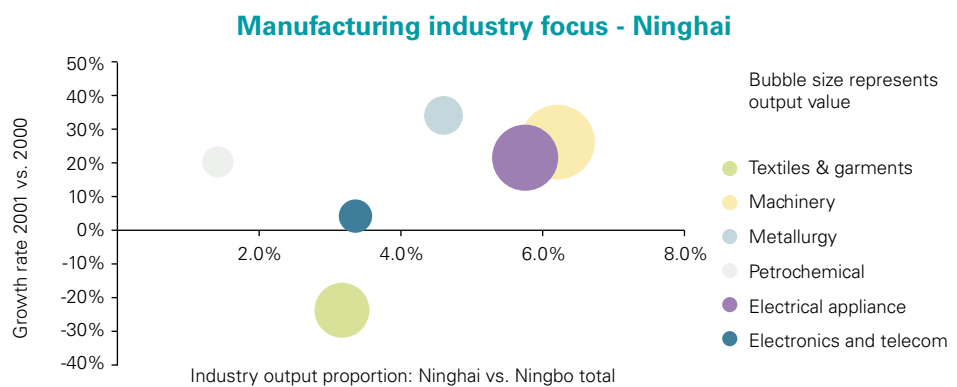


Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis



Moulds and stationery are major manufacturing industries of Ninghai

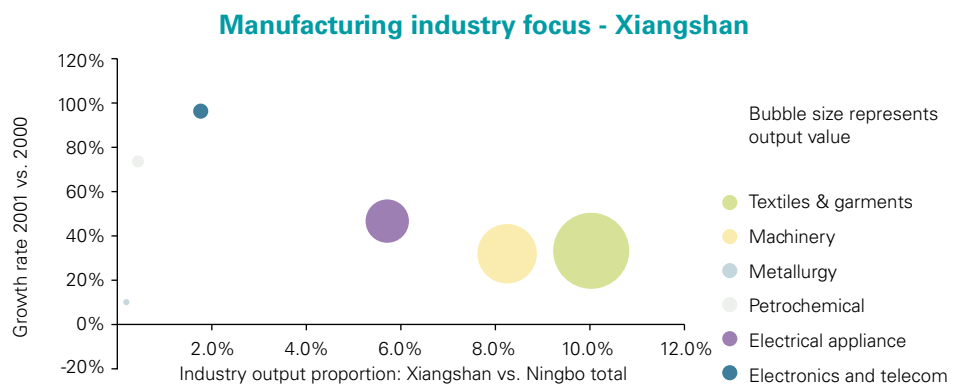
- Ninghai, pop. 583,000, covers an overall area of 1,931km² with 176km of coastline. In 2001, the GDP of Ninghai was USD 0.82 billion, with average annual disposable income of urban residents at USD 2,257
- The six major industries in Ninghai are textiles, mechanics, rubber, plastics, electronics and metal products. An export-oriented economy is developing, with a total import and export volume of USD 238 million in 2001, of which exports were USD 211.1 million



Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis

Xiangshan is rich in natural resources

- Xiangshan, pop. 534,000, covers an area of 1,175km² with 800km of coastline and 608 coastal islands
- Rich in resources and a production center for aquatics, fruit and livestock. The Shipu fishing boat quay is a Ningbo tourist attraction



Source: (1) Ningbo Statistical Yearbook 2002
(2) KPMG analysis

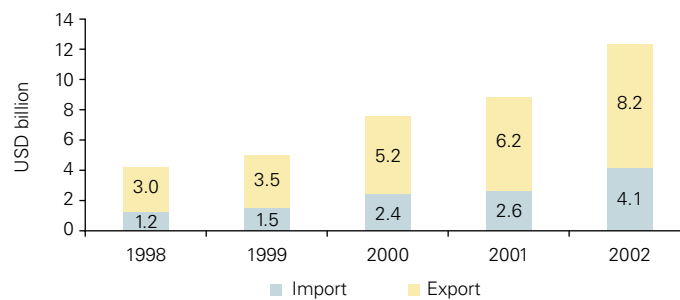


Foreign trade

Both imports and exports are increasing annually by about 30%

- As a historical port city for foreign trade, Ningbo has been one of three foreign trade ports in China since the 7th century CE. In 2002, the self-oriented import and export trade volume of Ningbo amounted to USD 12.3 billion, with CAGR from 1998-2002 of 31 %
- Imports and exports have been increasing rapidly in Ningbo, and are expected to accelerate with China's accession to the WTO

Import and Export growth (1998-2002)

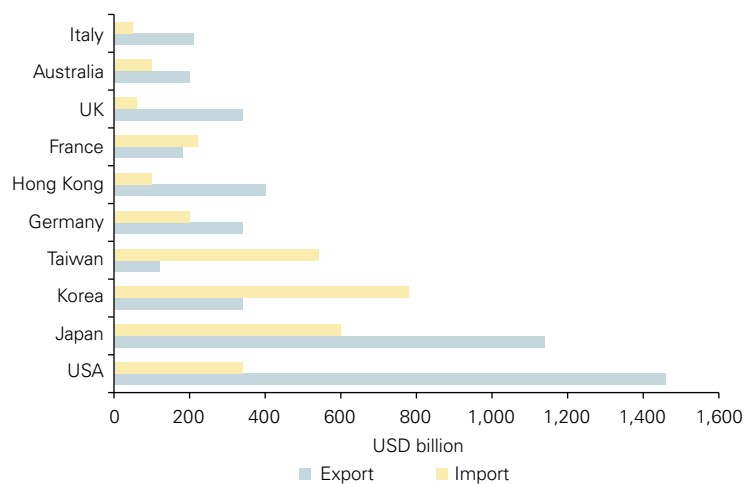


Source: (1) Ningbo Statistical Yearbook 2002
(2) Ningbo Statistical Bureau

Trade with the US reached 15% of the city's foreign trade volume

- The US and Japan have been Ningbo's biggest trading partners

Top ten foreign trade partners (2002)



Source: Ningbo MOFTEC



Garments are the main export product

- Besides traditional products, such as garments and clothing accessories, electronic and hi-tech products are playing a more important role in export activities
- Imported goods consist of raw materials such as crude oil and metals

Top Export and Import products

Export	Import
1. Apparel and accessories	1. Primary plastic
2. Textiles	2. Steel
3. Plastic products	3. Television, radio parts
4. Lamps and lanterns	4. Telephone and wireless telephone
5. Bearings	5. Cinnamene
6. Valves	6. Waste copper
7. Electricity suspension protection systems	7. Crude oil
8. Pens	8. Paper pulp
9. Machinery	9. Wool
10. Wire and cable	10. Metal processing machine tools
11. Shoes	11. IC and micro-electronic parts
12. Trunks and bags	12. Textile machinery
13. Automotive parts	13. Synthetic fibre yams
14. Furniture	14. LPG
15. Seafood	15. Rubber and plastic processing machinery

A photograph of three business professionals walking outdoors. On the left, a man in a dark suit and patterned tie holds a brown folder. In the center, a man in a light grey suit is gesturing with his hand. On the right, a woman in a grey suit is smiling. They are all looking towards the right side of the frame.

3 Ningbo foreign investment

- Foreign Direct Investment
- Key investors
- Analysis of existing FIEs
- Development zones

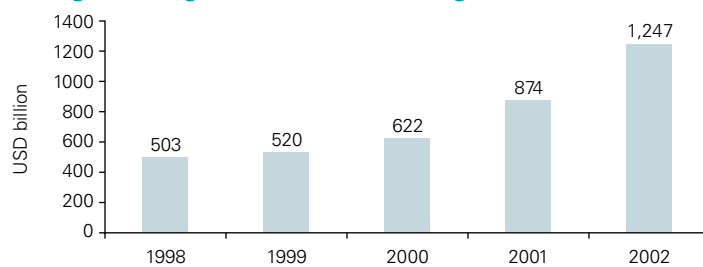


Foreign Direct Investment – trends

Foreign Direct Investment (FDI) to China is having a growing impact on the Ningbo economy

- Since the first foreign enterprise was established in Ningbo in 1980, FDI has been increasing steadily. The CAGR of FDI for 1998-2002 was over 25%
- By the end of 2002, 6,863 projects with foreign investment have been established in Ningbo with FDI amounting to USD 6.13 billion

Ningbo foreign direct investment growth (1998-2002)

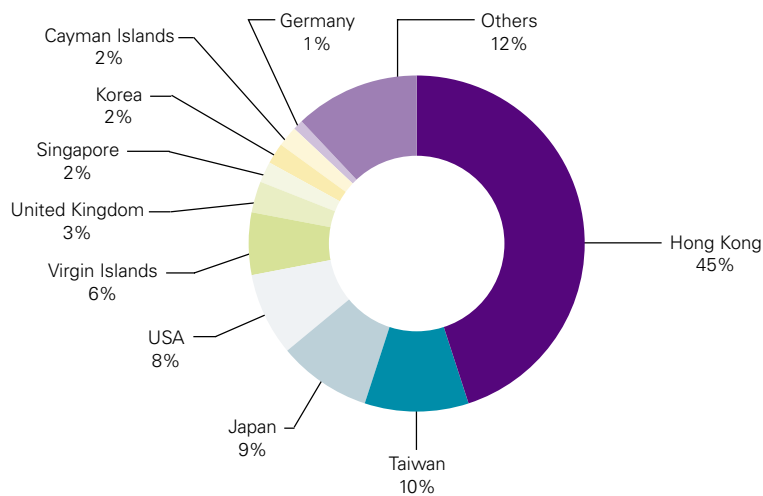


Source: (1) Ningbo Statistical Yearbook 2002
(2) Ningbo Statistical Bureau

Asian investment forms the lion's share of FDI in Ningbo

- Most FDI to Ningbo comes from Asia, which accounts for 68% of the total FDI from 1988-2002
- Hong Kong accounts for 45%

FDI in Ningbo by country of origin (1988-2002)

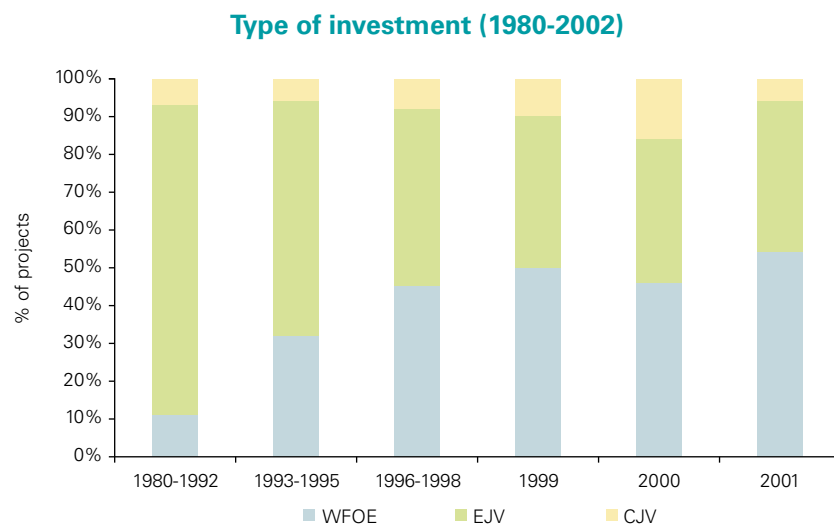


Source: Ningbo MOFTEC



63% of foreign investors chose to establish Wholly Foreign-Owned Enterprises (WFOE) in 2002

- WFOEs have gradually become the main type of investment, replacing Joint Ventures (JVs)
- Contractual Joint Ventures (CJVs) have remained less common with generally less than 10% of projects adopting this structure



Source: Ningbo MOFTEC

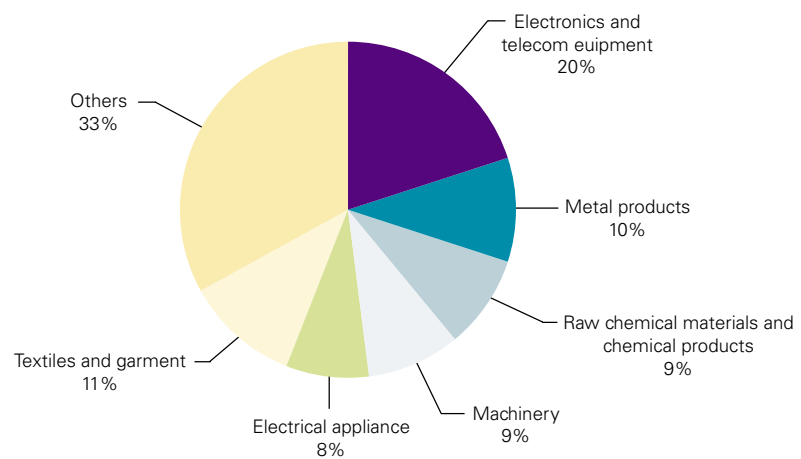
Foreign Direct Investment – top sectors



FDI to date has focused on manufacturing

- Manufacturing accounted for 76% of total FDI in 2002
- Foreign investment is concentrated in the following industries: light industry, textiles, electronics, petrochemicals, machinery, transportation, infrastructure, culture and tourism, real estate and commercial centers
- Most FIEs are in value-added manufacturing industries. Investment in service sectors is focused on real estate and commercial development

A breakdown of manufacturing industries by FDI (2002)



Source: Ningbo MOFTEC

Key investors



Ningbo has managed to successfully attract major multinational companies to locate operations or representative offices in the city.

29 Fortune 500 companies have a presence in Ningbo

- Most of the companies that have a presence in Ningbo are involved in chemicals or electronics, such as Dow, Exxon, DuPont, Akzo Nobel, LG and Toshiba

International investors in Ningbo

Industry	Investor
Textile	Marubeni Mitsubishi Koyo Senshoku Itochu Nissho Iwai AsahiKasei
Steel	Nisshin Steel
Chemical	Akzo Nobel Messer LG Chemical Dow Chemical
Petro processing	Esso Eastern Inc. BP
Office equipment	Xerox
Machinery	Mannesman Sumitomo TRW Samsung
Pharmacy	Abbott
Smelting and pressing	Mitsui
Electric equipment	Hitachi Toshiba
Food	Kawasho Daiei Tomen
Retail	Carrefour Auchan Metro
Agriculture	Chia Tai

Source: Ningbo MOFTEC



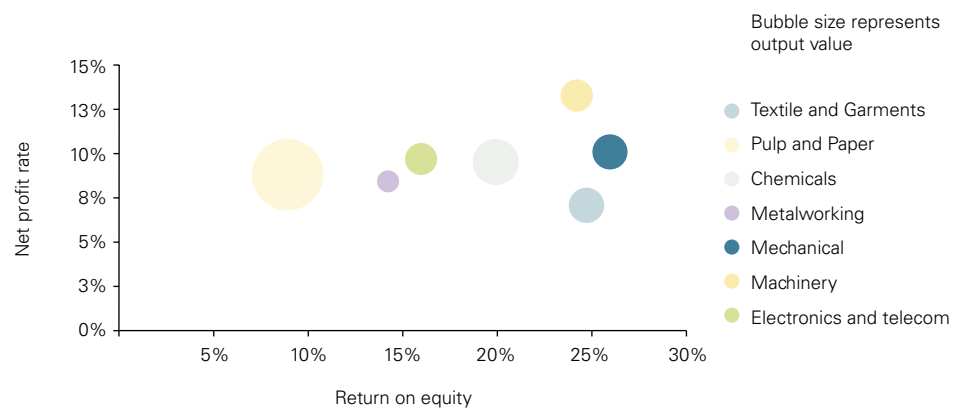
Analysis of existing FIEs

The first foreign enterprise was established in Ningbo in the 1980s. By 2002 more than 4,000 FIEs were in operation in Ningbo. Most FIEs in Ningbo are of a manufacturing nature.

KPMG analysed MOFTEC data on some 1200 foreign invested companies in Ningbo regarding their net margin and ROE (return on equity):

- For the selected FIEs, 2001 results show the average net margin is 10%
- For the FIEs for which we have data, 2001 results show the average return on equity is 19%

Performance of selected FIEs (2001)





Development zones

Ningbo has four national-scale development zones, one hi-tech zone and 10 provincial and municipal level development zones which cater to both shipping and trade sectors, as well as hi-tech sectors.

The Ningbo Economic & Technical Development Zone (NETDZ) is the largest in Ningbo, with GDP of over USD 1.2 billion

- Opened in 1984, many multinational companies have already established a presence in NETDZ
- By July 2002, 686 enterprises had settled in NETDZ from nearly 30 countries and regions with accumulated FDI of USD 2.1 billion
- 16 of the top 500 multinational companies have set up ventures here, including Esso, Dow Chemical, Mitsui, Mitsubishi Itochu, Marubeni, Asahi Chemical, Kanematsu, Sumitomo, Iwai, Hoechst, Mannesman and Samsung
- Major industries include:
 - Port
 - Power Generation
 - Chemical
 - Stainless Steel
 - Shipbuilding
 - Paper manufacturing
 - Electrical
 - Textiles
 - Food and Oil Products
 - Plastic and Rubber
 - Hi-tech
- The Ningbo Municipal Government recently decided to merge the Beilun district with NETDZ



The Ningbo Free Trade Zone (NFTZ) has multiple functions including export processing, foreign trade and bonded warehousing

- Established in November 1992, NFTZ is the only free trade zone in Zhejiang province
- Its main functions are export processing, foreign trade and bonded warehousing
- Within a half to three-hour drive are four international airports; a direct Customs clearance vehicle system links Shanghai Pudong International Airport with NFTZ
- NFTZ has witnessed rapid development over the past decade. More than 3,000 enterprises have set up factories and offices in the Zone, of which 634 are foreign funded with a total utilized FDI of USD 0.62 billion

The Ningbo Export Processing Zone (NEPZ) is designed for export-oriented companies

- Established in June 2002, NEPZ's planned area is 3km²
- NEPZ has many financial incentives
- NEPZ began operations in July 2003

The Daxie Economic Development Zone (DEDZ) features a deepwater coastline

- Established in 1993, DEDZ is operated by the China International Trust and Investment Corporation (CITIC), a state-owned conglomerate
- It is situated in the middle of Beilun harbor, one of China's four deepwater trans-shipment harbors, and on international shipping routes
- Major projects in the zone include the BP LPG terminal for eastern China, the crude oil trans-shipment base of SINOPEC, and a high-grade bitumen project by Liwan Petrochemicals
- CITIC's aim is to turn DEDZ into an international mega-port and world-class foreign-oriented economic zone



The Ningbo Hi-Tech Park is the only hi-tech zone in the region

- The Ningbo Hi-Tech Park, jointly developed by the Chinese Academy of Sciences and the Ningbo Municipal Government, was opened in July 1999
- The park's leading products are computer motherboards, network terminals, IC components, software serial, photoelectric apparatus, light-reflecting material, plasma display panels and simulators

Ningbo also has provincial and municipal development zones

- Each of Ningbo's districts has its own development zone. These also have the necessary infrastructure (power, road connections and water) in place, plus a zone administration that can assist investors with routine set-up and operational issues



Ningbo zone profiles

Name of the zone	Total industry output 2002 (USD million)	Accumulated FDI (USD million)	Planned area (km ²)	Developed area (km ²)	Main industries
National grade development zones					
Ningbo Economic & Technical Development Zone	3,920	2,080	29.6	21.0	Electronic products, machinery, food processing, chemical products, textile
Ningbo Free Trade Zone	315	620	3.0	2.4	Computer and peripheral equipment; Micro-electronic products and IC, machinery, automobile parts
Ningbo Daxie Development Zone	320	117	36.0	11.4	Storage at port, petroleum processing and chemical products, machinery
Provincial and municipal grade development zones					
Ningbo Hi-Tech Park	458	54	18.9	4.0	Micro-electronic products, software, telecommunication products, new material
Zhenhai Economic Development Zone	361	174	34.0	6.8	Machinery, electronic products, textile, chemical products
Yuyao Economic Development Zone	795	130	23.1	14.1	Electronic products, electronic equipment, automobile parts
Cixi Economic Development Zone	365	64	14.7	10.5	Electronic products, machinery, food processing
Fenghua Economic Development Zone	102	68	8.5	4.0	Electronic products, machinery, medical machinery, apparel
Ninghai Economic Development Zone	317	47	15.0	7.1	Mould, rubber products, plastic products, machinery
Xiangshan Economic Development Zone	296	28	20.0	6.5	Knitting apparel, automobile parts, machinery
Yin County Industry Zone	60	46	12.3	2.0	Machinery, electronic and telecommunication products, jewellery processing
Jianbei Industrial Zone	63	13	13.6	4.6	Electric products, automobile parts, machinery
Haishu Technical Industrial Zone	N/A	4	0.5	0.5	Metal products, electronic products
Ningbo Hi-Tech Park, Jiangdong sub-zone	N/A	27	1.8	0.5	Machinery, electronic and telecommunication products, new material

Note: Accumulated FDI is as at end of 2002

Sources: (1) Ningbo MOFTEC
(2) Development zones
(3) KPMG analysis



The characteristics and competencies of different zones vary

KPMG has assessed the relative strengths of Ningbo's 14 zones based on four criteria: reliance on foreign trade, internationalization, infrastructure and services.

- Foreign trade focus: the reliance of the zone on import and export activities. In addition, the index shows the orientation of the sales of zone tenants
- Percentage of foreign direct investment: FDI absorption by the zone and the proportion of foreign investment enterprises to total zone tenants
- Infrastructure: infrastructure including electricity, industrial gas and water, heat, sewage disposal and telecommunications
- Services: Availability of services including banks, insurance, customs inspection, notaries, law firms, accounting firms, engineering design companies and logistics companies

Zone characteristics

Name of the zone	Foreign trade focus	Percentage of FDI	Scope of infrastructure	Scope of services
National grade development zones				
Ningbo Economic & Technical Development Zone				
Ningbo Free Trade Zone (Export processing zone)				
Ningbo Daxie Development Zone				
Provincial and municipal grade development zones				
Ningbo Hi-Tech Park				
Zhenhai Economic Development Zone				
Yuyao Economic Development Zone				
Cixi Economic Development Zone				
Fenghua Economic Development Zone				
Ninghai Economic Development Zone				
Xiangshan Economic Development Zone				
Yin County Industrial Zone				
Jiangbei Industrial Zone				See note below
Haishu Technical Industrial Zone				
Ningbo Hi-Tech Park, Jiangdong sub-zone				

Note: Jiangbei, Jiangdong and Haishu are located in central Ningbo. These three zones take advantage of service institutions that are based in the downtown area.

Sources: (1) Ningbo MOFTEC (2) Development zones (3) KPMG analysis



4 Ningbo business environment

- Costs
- Taxation in Ningbo
- Human resources
- Consumer markets
- Transportation links
- Cultural and legal environment
- Professional and government services
- Environmental considerations

Costs – land



Foreign companies may buy a “Land-use Right” but cannot own property outright

- In China, land is either subject to state ownership or “collective” ownership. In general, urban land is subject to state ownership and land outside cities is subject to collective ownership
- Foreign companies cannot own land; most lease land by paying for a fixed term Land-use Right, typically 50 years for industrial land, 40 years for commercial land and 70 years for residential land
- Most companies acquire a “granted Land-use Right”. A one-time fee is paid to the local government in exchange for a Land-use Right certificate

Land prices are regulated by the government through a system of benchmark prices for different grades of land

- The Ningbo government has established a Benchmark Land Price Scale (BLPS) for industrial land with basic site services such as supplies of water and electricity, and connections to a main road
- Land grading is based on zoning by the Land Administration Bureau

Benchmarking price for granted land use right (USD/sqm)

Grade	Commercial use	Real estate use	Industry use
1	604	366	-
2	409	265	-
3	264	155	-
4	122	101	45
5	68	61	37
6	46	42	31

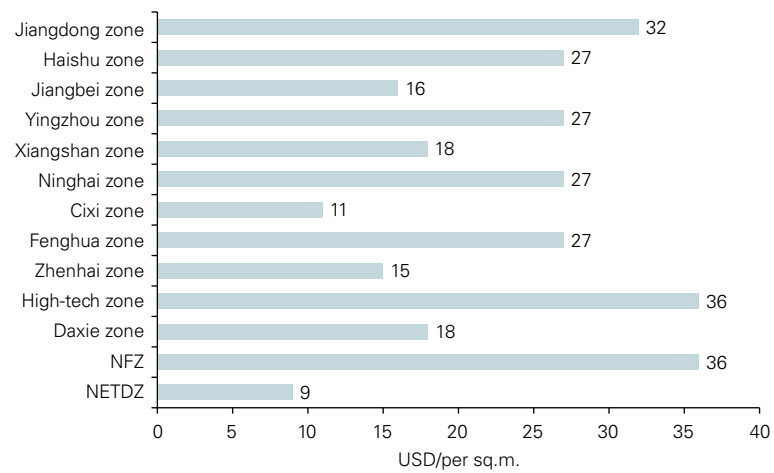
Source: Ningbo land administration bureau



Most available land has all the necessary infrastructure in place

- The actual transfer price of the land is subject to negotiation with the administrative committee of the development zones
- All zone land comes with necessary infrastructure including: electricity, industrial gas, industrial water, sewage disposal, telecommunication facilities and connections to the main road
- Actual prices may be adjusted based on negotiations with the management of the zone. Recent cases show deal prices are often lower than the BLPS

Cost of industrial land in industrial zones



Source: Management of zones

Costs – property



Purpose-built factories can be constructed in Ningbo in 45 days using a simple steel-frame structure

- The cost to construct a single-storey steel-frame plant is approximately USD 36/m² (based on a 500m² size and height of 8-10m)
- The cost to construct a four-storey steel-reinforced concrete factory is roughly USD 72/m² (based on a floor area of 1,500m² and height of 4m per floor)
- The average time to construct a standard steel-frame or reinforced concrete plant is 45 days and 135 days respectively

Within the industrial zones, pre-built factory space is available for rent; commercial premises are available throughout the city

- Industrial zones, such as the NETDZ, have standard factory space available for rent
 - the annual rental varies from USD 12/m² to USD 15/m² depending on the amount of space taken
 - tailor-made factory buildings (factories with specific technical or size requirements are available upon request)
- Top office buildings are located in the center of the city, with easy access to the airport and railway stations
- Space in these buildings rents for roughly USD 12/m² per month

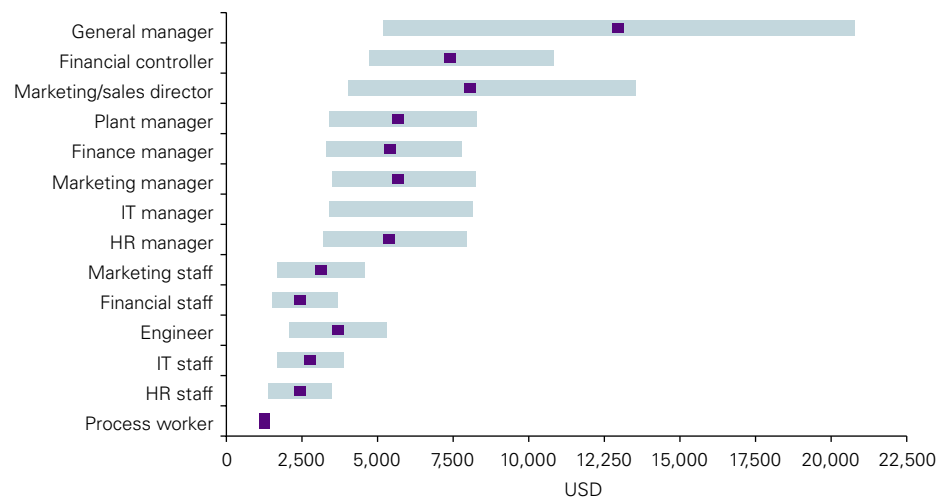
Costs – labor



Annual salaries for locally hired staff are generally below USD 5,000

- The total cost of employment consists of a basic salary and “social welfare” benefits, such as pension contributions
- The typical range – and average – of annual salaries (including bonuses) for employees in FIEs in Ningbo are shown in the chart

Distribution of salary level (2002)



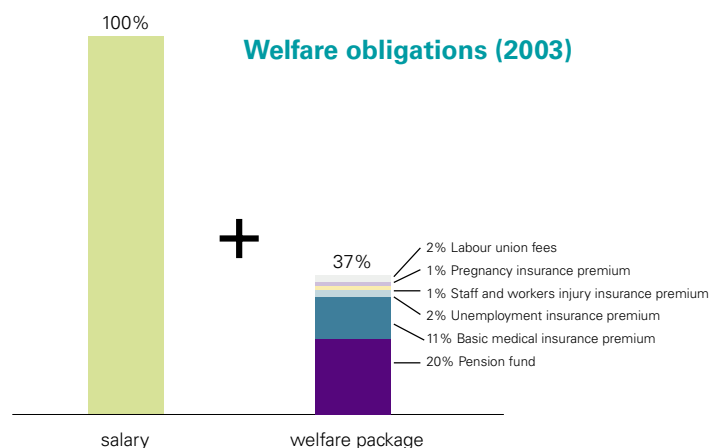
Source: KPMG analysis

- Salaries for higher level staff (such as a plant or marketing manager) tend to be related to the size of the company and thus have a wider range than for line staff

“Social welfare” benefits must be paid by the company and must also be considered when estimating total staff costs

- All enterprises incorporated in Ningbo must contribute to a range of benefits on behalf of employees, including pension, unemployment insurance, medical insurance and union fees

- The level of contribution is based on a percentage, set by the local authorities, of an employee’s salary, roughly totalling 40%



Source: KPMG analysis

Costs – telecommunications



Telephone options include fixed line, mobile phone and Internet Protocol (IP) services

- In Ningbo, China Telecom is the primary service provider for fixed line services; China Mobile is the primary mobile telecoms provider. For IP services there are a number of firms to choose from

Cost of telecom service

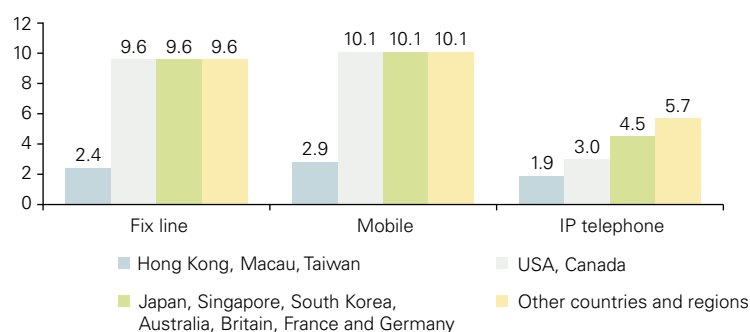
	Local call	Domestic call	International call	
Fixed line/min USD	0.03 for the first 3 minutes and 0.01 thereafter	0.09	HK, Macau, Taiwan	0.24
			Other countries	0.36
Mobile/min USD	0.05	0.13	HK, Macau, Taiwan	0.29
			Other countries	1.01
IP/min USD	N/A	0.04 per minute plus local call charge	HK, Macau, Taiwan	0.18
			US, Canada	0.29
			Japan, Southeastern Asia	0.43
			Other countries	0.55

Notes: (1) Local call refers to calls within the city; domestic call refers to calls from Ningbo to any place within China; international call refers to calls to Hongkong, Macau, Taiwan and other countries and regions
 (2) Off-peak discounts of 40% are granted for calls to 15 countries, including Japan, the US, Singapore, Australia, Britain; Canada and Germany
 (3) Cost rounded to the nearest cent
 Source: China Telecom

Fixed line telecommunications are reliable, although internet calls are an economic alternative

- IP call service is a lower cost option for domestic and international calls
- As shown, international IP calls are approximately half to one-third the cost of a comparable fixed line or mobile phone call

Cost of international call: USD/ten mins



Source: (1) China Telecom
 (2) China Mobile
 (3) KPMG analysis



Data line connections are available to 40 countries from Ningbo

- In Ningbo, digital data network (DDN) is the data line most widely used by corporate customers
- DDN lines can be used for secure and reliable high-speed internal connections between company sites, and for high-speed access to the internet
- A DDN line from China Telecom can be connected to 40 countries by optical cable and satellite, routed through one of China's three international DDN gateways (Beijing, Shanghai and Guangzhou)
- Broadband network access services such as DDN and local area network (LAN) are widely available in Ningbo
- The annual cost for a leased LAN or DDN with a 10 Mbps transfer rate is USD 1,446 and USD 7,229 respectively

Speed	DNN annual rental: USD	
	Local	Domestic
9.6 kbit/s	120	301
19.2 kbits	145	325
64 kbit/s	181	422
128 kbit/s	241	602
256 kbit/s	301	663
384 kbit/s	386	747
512 kbit/s	458	843
768 kbit/s	518	964
1 M	602	1,084
2 M	723	1,446

Note: DDN price may vary based on access speed, service area and distance
Source: China Telecom



Costs – utilities

Ningbo has the power supply to meet the needs of industrial and commercial users

- For ordinary commercial and industrial consumers, the cost of electricity is about USD 0.083/Kwh
- For large-scale industrial consumers (i.e. operations with over 350 KVA transformer capacity such as electroplating factories), there are two charges for electricity:
 - a basic monthly charge, payable regardless of the volume of power consumed, is about USD 2/KVA of transformer capacity
 - an additional consumption charge of about USD 0.06/Kwh
- Ningbo has set up a system of peak and valley prices for electricity where the peak price is 15% higher than the standard price while the valley price is 29% lower

A national gas pipeline will connect Ningbo's industrial areas to the gas resources in the East Sea Continental Shelf at the end of 2004

- Currently LPG is the main industrial gas used in Ningbo
 - the price of LPG is USD 350/ton
 - the caloric value is 46,000 megajoules/ton
- Natural gas resources have been detected in the East Sea Continental Shelf, 350km southeast of Ningbo. It is expected that local natural gas resources will be in place by the end of 2004
- The launch of the west-east gas pipeline project signals good news for the 30 million people who live in the YRD. By the end of 2005, the delta can further address its current industrial pollution arising from over-reliance on energy from coal or petroleum

Ningbo has considerable water resources

- The cost of industrial water is USD 0.18/ton

Costs – transportation



It costs about USD 1,500 to transport a TEU from Ningbo to LA

- Costs of sea transportation are subject to frequent change. Data provided is as at May 2003

Sea transportation and transit time

	Freight (USD)	Transit time (Day)
Hong Kong	200	3
Osaka	320	4
Singapore	350	8
Melbourne	950	23
Los Angeles	1425	16
Rotterdam	1562	28
Hamburg	1562	28
New York	2670	28

Note: Sea freight means the tariff for shipping a 20 foot container of general cargo from Ningbo to the selected destinations

Sources: Sinotrans Ningbo International Container Transportation Co., Ltd.

Air express costs from Ningbo to New York are around USD 250 for a cargo of 50kg

Cost of air express transportation (USD)

	25 kg	50 kg	100 kg	500 kg
Hong Kong	63	78	114	410
Tokyo	90	120	205	831
Sydney	205	199	361	1494
Hamburg	205	319	373	1645
London	235	331	373	1645
Paris	256	259	398	1614
New York	229	241	446	1916
Los Angeles	211	229	398	1735

Note: Air express freight means the respective cost of 25kg, 50kg, 100kg and 500kg consignments of general cargo from the Ningbo airport to the selected destinations

Source: Sinotrans Ningbo International Air Freight Co., Ltd.



It costs about USD 18 to transport a cargo of one ton from Ningbo to Shanghai by highway

- Highway transportation is still relatively expensive, but very fast at less than one day to Shanghai

Cost and transit time of highway transportation

	Freight (USD)	On road time (Day)
Shanghai	18	0.25
Beijing	46	3
Guangzhou	54	3

Note: Highway freight means the charge for transporting 1 ton general cargo from Ningbo to the selected destinations
Source: Sinotrans Zhejiang Co., Ltd.

It costs about USD 43 to transport a cargo of one ton from Ningbo to Beijing or Guangzhou by rail

- Compared to shipping cargo by highway, the cost of railway transportation for one ton of general cargo is cheaper
- However, low flexibility makes shipping by rail a less common practice

Cost and transit time of railway transportation

	Freight (USD)	Transit time (Day)
Beijing	43	3
Guangzhou	42	3

Note: Railway freight means the charge for transporting 1 ton general cargo from Ningbo to the selected destinations
Source: Sinotrans Zhejiang Co., Ltd.

Taxation in Ningbo



Ningbo's tax environment is similar to that of other locations in China, and its development zones offer location incentives which are broadly similar to those of zones elsewhere in the country.

Companies are advised to carefully consider potential taxation issues prior to making investments. This chapter provides general taxation information for reference only.

The tax regime in Ningbo is similar to that in other cities in China, with few local characteristics

- The tax year in China runs from 1 January to 31 December
- Foreign enterprises (i.e. those operating without a legal entity in China) may apply to the Ningbo tax authorities for approval to use their own 12-month fiscal year for tax computation and payment purposes if using the calendar-based tax year poses difficulties. This exception, however, has rarely been extended to FIEs in China

Foreign companies need to register with the Ningbo tax authorities

- FIEs and foreign enterprises must register with the local tax authorities within 30 days of completing their business registration. A tax registration certificate is then issued to the FIE
- Where an enterprise restructures or terminates its operations, its tax registration certificate must be amended or cancelled accordingly. Taxpayers should also notify the local tax authorities of any changes in their registration details

There is a set schedule for documents that must be filed with the local tax authorities

- Provisional income tax returns are due within 15 days of the end of each quarter
- Final income tax returns are due within four months of the end of the tax year together with:
 - the financial statements
 - an audit certificate issued by a Certified Public Accountant registered in China

Corporate income tax



FIE tax rates can be as low as 15% in designated locations, but changes are on the horizon

Under the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, income tax is normally charged on taxable profits at 30%, plus a 3% local surtax. However:

- The income tax rate is reduced to 15%, without any local surtax, in certain special zones or designated cities
- FIEs of a manufacturing nature with an operating period exceeding 10 years are exempted from income tax for two consecutive years commencing from the first profit-making year and are entitled to a 50% income tax rate reduction in the subsequent three years of operations

Currently, there are two corporate income tax laws running in parallel for FIEs and domestic Chinese investment enterprises. Generally, FIEs enjoy more preferential tax treatment than domestic firms.

China's WTO entry is expected to impact the taxation system

- The current discriminatory tax system will be abolished to provide a level playing field for both FIEs and domestic firms. The income tax laws for FIEs and domestic investment enterprises are expected to be unified, although an official timeline has not been fixed
- General speculation is that the income tax rate for FIEs will be increased, and tax incentives currently available only to foreign investors will be abolished. There are, however, indications that existing FIEs could be "grandfathered" in some way

Foreign investors in Ningbo's development zones are eligible for tax reduction and exemption

FIEs in the Ningbo's development zones are entitled to the following preferential income tax treatment:

- Income tax is charged at a reduced rate of 15% for high-tech FIEs
- High-tech manufacturing FIEs with an operating period exceeding 10 years are exempted from income tax for two consecutive years commencing from their first profit-making year followed by a three-year 50% reduction in the income tax rate. An "advanced technology" manufacturing FIE is entitled to an extended three-year tax holiday where the income tax rate would be reduced to 10%
- Such tax treatment is subject to confirmation by the Ningbo tax bureau

Turnover taxes



Turnover taxes include Value-Added Tax, Business Tax and Consumption Tax

According to the PRC Value-Added Tax (VAT) regulations, companies engaged in the sale of goods, provision of processing and repair services, and the importation of goods into Chinese territory must pay VAT at a rate of 17%, subject to the following exceptions:

- A special 13% VAT rate is applied to sales of certain goods such as cereals and vegetable oils, and some categories of printed materials, utilities/fuels, and agricultural supplies and equipment
- Taxable goods refer to tangible moveable properties, and include certain utilities such as electric power, heating power and gas. A small number of goods are exempt from VAT, including contraceptive drugs and devices, antique books and imported apparatus and equipment for direct use in scientific research, scientific experiments and teaching

Providers of services are subject to Business Tax (BT) based on the gross receipt for the services. Taxable services include any service related to transportation, construction, finance, insurance, post, telecommunication, cultural activities, sports and entertainment.

- BT rates are generally either 3% or 5%. However, for entertainment businesses, the applicable rates range from 5% to 20%
- BT is payable in Renminbi (RMB). Taxable amounts in foreign currencies are converted into RMB using a prescribed conversion method which must be consistently applied by the taxpayer
- It should be noted that a transaction is never subject to both VAT and BT
- Consumption Tax (CT) is levied on the importation, production and processing of luxury or high-end goods into or in China, including tobacco, alcoholic drinks, cosmetics, skin and hair-care products, jewellery, fireworks, gasoline, diesel, tyres, motorcycles and motorcars
- Taxable goods exported by a taxpayer are exempt from CT, unless otherwise stipulated by the State Council
- CT rates range from 5% to 48%

Other taxes



Customs duties on imported goods are charged on the landed price and are being reduced in stages

- Customs duties are charged on the importation of goods into China. The various rates of Customs duties can be found in the “Import and Export Tariff of the PRC”, which is part of the Customs Regulations
- For many years, China has been significantly reducing its Customs duty rates on most imported goods. WTO membership has bound China to a program of further reductions
- The dutiable value of an import is calculated on its landed price, including the price of the import, packing expenses, freight, insurance and other services incurred before unloading the import at the port of discharge. The dutiable value of an import item is converted into RMB in accordance with rules set by the State Administration of Foreign Exchange (SAFE)

Withholding tax is charged on certain remittances out of China

- For rental, interest, licence fees and royalties remitted out of China, overseas companies which receive any of the above income are subject to a PRC income withholding tax
- The percentage withheld is based on the rate set out in the tax laws and is applied to the amount of the remittance
- Companies are subject to withholding tax either at the point of making overseas remittance by the PRC payer or at the point of making an accounting accrual for the above fees in their financial accounts

Individual Income Tax (IIT) is a progressive tax with a maximum rate of 45%

- Employers or salary payers are legally obliged to withhold the appropriate amount of IIT from the employment income of employees and directly remit the tax to the PRC tax authorities
- The employer is responsible for any tax under-withheld or underpaid
- The basic formula is:

$$IIT = \text{taxable income} \times \text{tax rate} - \text{quick deduction factor}$$



Stamp duty is applicable to certain types of documents in China

All parties executing or receiving dutiable documents in the PRC are subject to Stamp Duty. Dutiable documents include:

- Contracts or similar documents on sales, processing, contracting of construction and engineering projects, property leasing, goods transportation, storage and custody, loan, property insurance and technology
- Deed of property transfer
- Business account books
- Permits and licenses
- Other documents determined dutiable by the Ministry of Finance

Human resources



Ningbo provides over 50,000 graduates from different schools and universities for the labor market

Type of school	Number of graduates
University and College	4,172
Middle school	21,050
Specialized school	7,432
Technical school	2,902
Vocational school	14,558

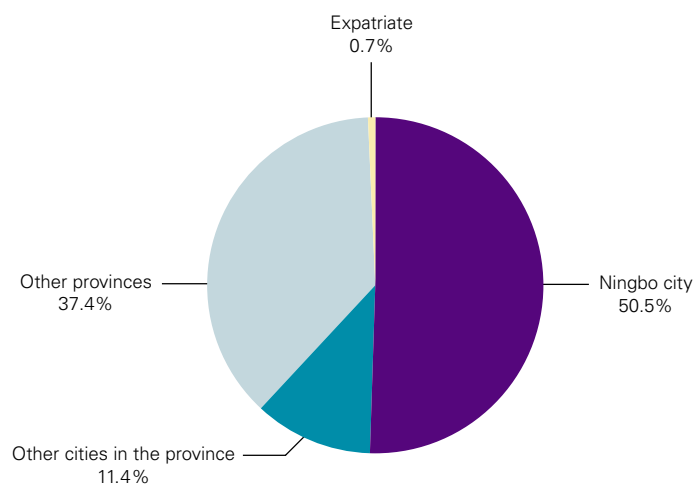
Source: Ningbo Statistical Yearbook 2002

- Ningbo has been an attractive place for workers from inland China, such as the northeast and west of the country

As a fast developing area, Ningbo attracts over one-third of its labor demand from other parts of the country

- Foreign companies can hire people from any location, and many process workers tend to be hired from outside Ningbo and even Zhejiang Province

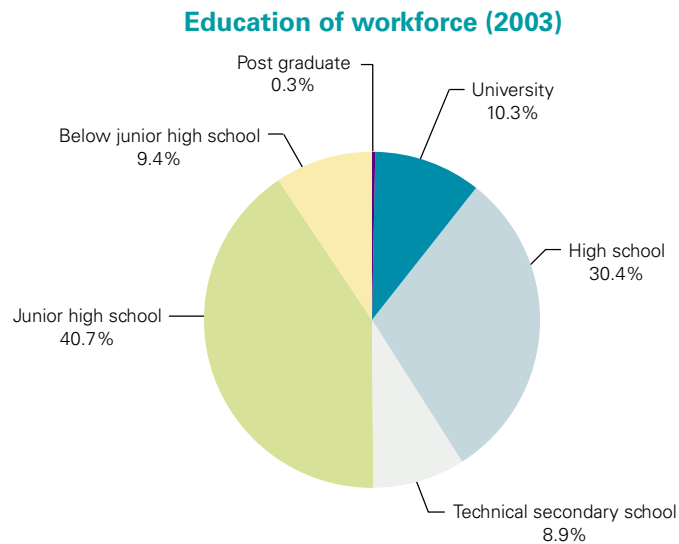
Origination of workforce (2003)



Source: KPMG analysis



Most employees in FIEs have received at least a high school or technical school education

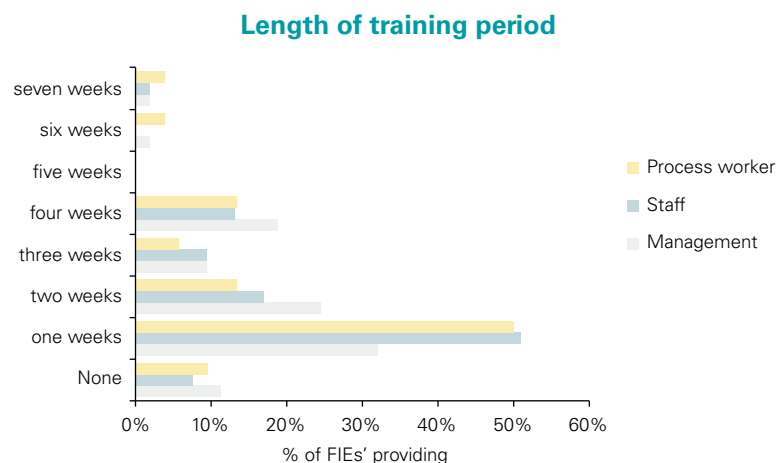


Source: KPMG analysis

- The Chinese government provides nine years of free basic education to citizens, including:
 - primary school (six years)
 - junior high school or middle school (three years)
 - technical school and high school provides an additional three years of education

Employees working for foreign employers have likely received further training

- Most of the employees in FIEs in Ningbo receive at least one week of training annually



Source: KPMG analysis



Ningbo companies have a standard work week and a number of public holidays per year

- The normal work week is up to 40 hours, Monday through Friday
- Overtime is not prohibited but must be based on mutual agreement between employees and employers
- Public holidays include New Year's Day, Chinese New Year (three days in late January or early February), Labor Day (May 1-3) and National Day (October 1-3). Many local companies typically give longer breaks at Chinese New Year and National Day, but this is less common in FIEs

Most employees have at least one week of annual leave each year

- The amount of vacation varies from industry to industry and company to company, but most workers receive one week's paid vacation, with additional time off based on seniority
- The majority of foreign companies in Ningbo give employees 5-10 days of annual leave

Termination procedures are straightforward, but some regulatory arrangements should be observed

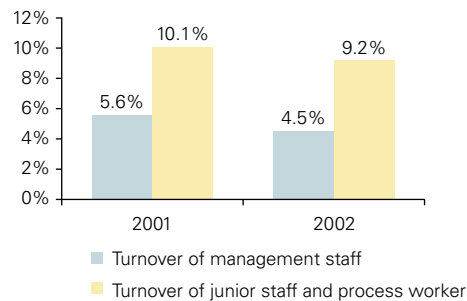
- Most employers customarily give at least one month's notice before termination of an employee; companies must also provide mandatory severance pay, normally determined by length of service
- There are two major legal documents governing labor issues in China: the Labor Law, which applies to all companies in the PRC; and the "Regulations on Labor Management in Foreign Investment Enterprises" (1994 Regulations) which applies to FIEs
- If an employer terminates an employment contract, it must first notify the union before taking action. However, only 900 FIEs out of approximately 2,000 have established their own unions
- The Labor Bureau must also be notified in the case of mass dismissals



Annual staff turnover at FIEs is roughly 9% – much less for manager-grade staff

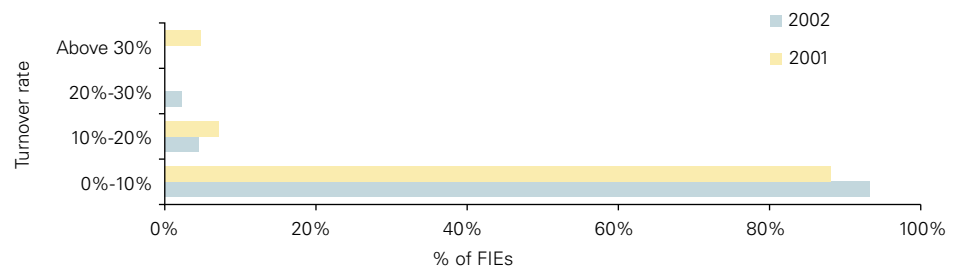
- Turnover rates have not changed significantly in recent years
- Based on KPMG analysis of FIEs, the average turnover rate for management staff and junior staff in 2002 was 4.5% and 9.2% respectively
- Almost all FIEs analyzed reported annual management turnover of 10% or less

Turnover rate (2001-2002)

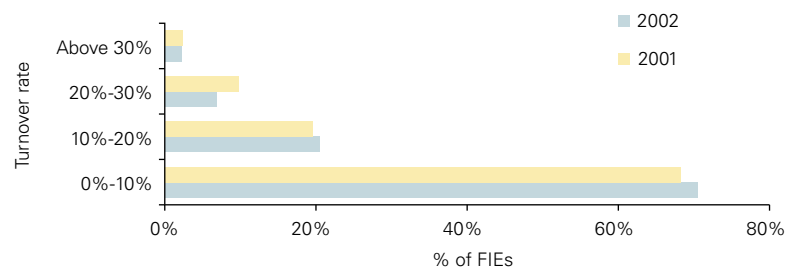


Source: KPMG analysis

Turnover rate of management staff (2001-2002)



Turnover rate of junior staff and process workers (2001-2002)



Source: KPMG analysis

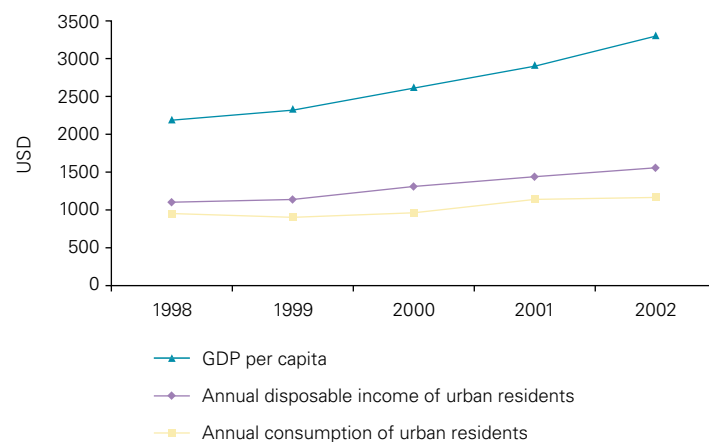


Consumer markets

Urban residents have an annual per capita disposable income of over USD 1,500

- Within 500km of Ningbo city, a population of over 30 million is concentrated in five cities
- All these urban centers are within a several hour drive from Ningbo. The network of national highways passes through Ningbo and makes vital connections to Shanghai and other major cities in Zhejiang and Jiangsu Provinces
- Ningbo GDP per capita reached USD 3,309 in 2002, roughly 11% CAGR from 1998 to 2002
- Ningbo annual disposable income per capita reached USD 1,500 in 2002, rising at a 9% CAGR from 1998-2002
- Ningbo has a number of multinational hypermarket chains, including Carrefour and Metro, and chain restaurants Pizza Hut, McDonalds and KFC

Ningbo per capita GDP, annual disposable income and consumption (1998-2002)



Source: (1) Ningbo Statistical Yearbook 2002
(2) Ningbo Statistical Bureau

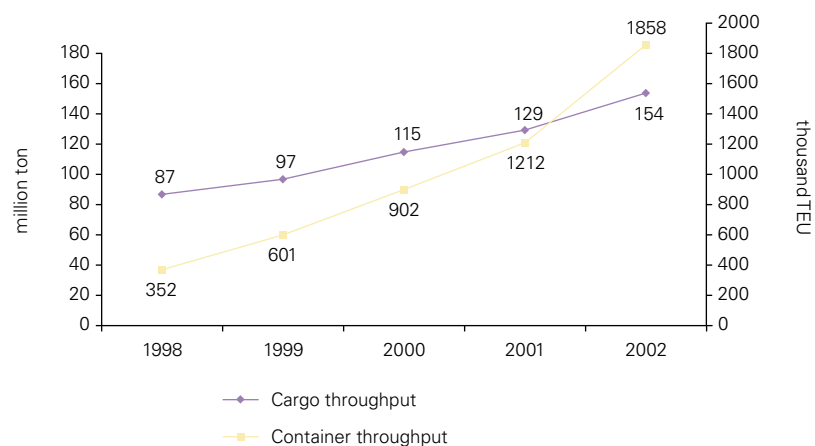


Transportation links

Ningbo Port is situated in a natural deep-water port, on the southeast coast of China

- Ningbo Port is famous for its deep water, smooth current, calm seas, vast dockland, and is frost and silt-free, which has made it a center for regional shipping
- Ningbo Port is well connected to inland highways and railway networks
- From 1998 to 2002, the cargo throughput of Ningbo Port increased at an average of 15% per year and container throughput at 51.5% per year, ranking this port the fastest growing for four successive years. The cargo throughput of the whole port in 2002 reached 154 million tons, the second highest in mainland China; container throughput reached 1,858,000 Twenty Foot Equivalent units (TEU), the sixth in mainland China
- The channel to the Beilun Port Area of Ningbo Port is normally 30-100m deep, and even the shallowest section, 4km long, is over 21m deep at high tide. As a result, vessels of 200,000-300,000 tons can enter and leave the port freely
- Ningbo Port has 134 berths of over 500 tons, including 35 of over 10,000 tons and some of the largest berths in China:
 - 50,000-ton berths for liquid chemicals
 - the dedicated container berth for fourth and fifth generation container vessels
 - ore trans-shipment berth for 200,000-ton vessels (also for vessels of 300,000 tons)
 - 250,000-ton terminal for crude oil

Cargo and container throughput of Ningbo port (1998-2002)



Source: Ningbo port inspection bureau



Ningbo Port comprises three port areas: Beilun Port Area, Zhenhai Port Area and Ningbo Harbor Area

- Beilun Port Area covers an area of 150km² generally exceeding 50m in depth. The narrowest part of the watercourse is over 700m wide. Any 250,000 ton heavy load ocean-going vessel can navigate this watercourse freely, and 300,000-ton vessels may enter or leave at high tide
- Currently 27 deep-water ports have been constructed and put into service, including 100,000-ton and 200,000-ton ore trans-shipment berths (the 200,000-ton berth can receive 300,000-ton oversize cargo carriers), 250,000-ton crude oil jetty, 80,000-ton international container berths, coal berths, and general purpose berths.
- Currently equipped with 20 berths, including seven 10,000-ton berths, Zhenhai Port Area loads and unloads coal, liquid chemicals, domestic trade containers and bulk and general goods
 - it is capable of receiving the world's largest bulk chemical ships
 - the 50,000-ton liquid chemicals berth is currently the mainland's largest chemical berth on the coastline
- Ningbo Harbor Area, also known as Old Ningbo Port, handles cargo trans-shipment for the coastal areas in eastern Zhejiang Province as well as passenger transport. The annual cargo throughput is around 1.5 million tons, and passenger liners connect Ningbo to Shanghai and other cities in the YRD



There are 74 container shipping routes connecting Ningbo to the rest of the world

- Ningbo has navigable waterways of 1,478km in length. The 252-km long Hangzhou-Ningbo Canal connects with the Beijing-Hangzhou Canal and can accommodate 40-ton vessels
- Ningbo has 42 International Liner Container Routes with more than 400 monthly departures

Container liner companies with business operations in Ningbo Port

Container liner	Company
Ningbo-Europe & Mediterranean Sea	CMA, LT, MSK, CSC, HMM, K-LINE
Ningbo-U.S. West Coast	COSCO, MSK, CSC, NYK, NLL, LT
Ningbo-Middle East	PIL, NYK, NLL, WANHAI, COCL
Ningbo-Russia East Coast	GORNOZAVODSK
Ningbo-U.S. West Coast-U.S. East Coast	WILHELMSEN
Ningbo-Republic of Korea	KMTC, NOLN, CO-HE, NOSCO, NS, CSC
Ningbo-Hong Kong	ZOSCO, TOS, LIFEN, WH
Ningbo-Southeast Asia	ZIM/CSC, COSCO/PIL
Ningbo-Japan	OOCL, NOSCO, SITC, CSC, APL, COSCO
Ningbo-Japan-Taiwan	COSCO
Ningbo-Taiwan	MS
Ningbo-Other Domestic Ports	ZOSCO, SINO, OF, HUILONG, PUHAI, ZHENDONG, CSC, XINDA, XINLIANG, YANGTZE

Sources: Ningbo MOFTEC



Ningbo is well served by rail; several major national rail lines pass through the city

- Inner port railways are linked to the national railway network by the Xiaoyong (Hangzhou-Ningbo) Line
- Ningbo has two railway stations, the North Railway Station which is focused on freight trains, and the South Railway Station, focused on passenger trains
- The North Railway Station is a national Class A station with 15 platforms

Ningbo is connected to the national highway network

- Ningbo is situated on a number of national and provincial highways, including the Zhejiang Expressway (the operator of which is listed on the HK Stock Exchange), the 329 National Highway to Hangzhou and Zhoushan, and local highways connecting Ningbo to other cities in Zhejiang Province, such as the 34 Provincial Highway from Ningbo to Wenzhou and the 36 Provincial Highway from Ningbo to Jinhua
- The USD 1 billion Hangzhou Bay Bridge, to be completed in 2009, will shorten the travel time from Ningbo to Shanghai to two hours from the current four hours

It takes three days for airfreight shipments from Ningbo to reach the west coast of the US

- Many companies provide domestic and international airfreight express from Ningbo to destinations all over the world
- Ningbo Yueshe Airport handles domestic air shipments while most of the international shipments can be sent via international airports in Shanghai
- It takes two days for cargo to reach other Asian cities from Ningbo, three days to Australia and the west coast of the US, and four days to the east coast of the US and Europe

Proposed bridge route

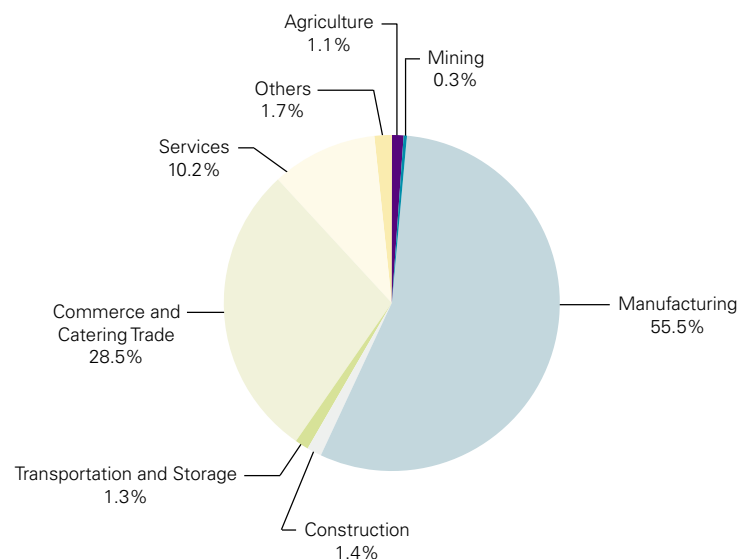


Cultural and legal environment



- Due to its geographic location and seaport, Ningbo has been a gathering place for merchants engaging in foreign trade for several hundred years. The culture of trading helped form the entrepreneurship of the local people
- Compared to major industrial cities in northern China, the state government has less capital investment in Ningbo. The private sector role in the local economy is more pronounced than the traditional industrial cities
- Ningbo people are known as entrepreneurs, with a large number of private companies

Newly established private enterprises in Ningbo, by sector (2002)



Source: Ningbo Industrial Commercial Administration Bureau
Note: Percentage of new private companies

Professional and government services



Ningbo has a range of banking and insurance services

- Apart from 17 domestic commercial banks, three banks with partial foreign ownership have so far been established in Ningbo: Zhejiang Commercial Bank (operated by Hongkong Nanyang commercial bank), Concord Bank, and Bank International Ningbo (owned by Bank International Indonesia)
- Most of the national insurance companies have a branch office in Ningbo
- Local firms provide professional services including law firms that provide services from legal advice to litigation assistance and accounting firms that provide audit services and accounting services
- International professional firms (law firms, accountants, etc) also provide services, from their offices in Shanghai, to local and foreign-invested companies in Ningbo

Ningbo Foreign Trade and Economy Cooperation Bureau (NFTECB) promotes foreign investment

- One of the major functions of NFTECB is to promote Ningbo and attract foreign investment. Foreign investors are encouraged to visit them with questions and/or problems
- NFTECB provides services from preparing documents for a new company establishment, to coordination among the government bodies that an investor has to deal with in the process of setting up a new company
- NFTECB assists investors who have already made their investment in Ningbo with issues encountered either in operation or expansion

The Municipal government has been implementing a series of reforms in order to create a more business friendly investment environment

- The reforms have involved all government agencies providing services to foreign investment, including tax authorities, customs and NFTECB itself
- Foreign investors are also encouraged to comment on the services of the government and its agencies

Environmental considerations



Laws on environmental protection in China were strengthened in the 1980s and 1990s

- A number of new environmental laws have been introduced in China over the past 20 years, including the “Marine Environment Protection Law” in 1982, “Water Pollution Prevention and Control Law” in 1984, “Air Pollution Prevention and Control Law” in 1987, “Solid Waste Pollution Prevention and Control Law” in 1995 and “Noise Pollution Law” in 1996.
- Additional regulations deal with approvals and permits, tolerance standards and pollution discharge levies
- In Ningbo, the Environmental Protection Bureau and the Municipal Utilities Bureau are in charge of environmental issues
- Environment approvals are an integral part of the series of approvals required to authorize a project. There are the five key stages:
 1. Project proposal and approval of project proposal
 2. Feasibility study
 3. Design stage
 4. Construction stage
 5. Trial run
- Currently there are several standards that apply to waste water and air pollution, the main ones being:
 - Integrated Wastewater Discharge Standard GB 8978-1996
 - Comprehensive Emission Standard of Air Pollutants GB 16297-1996

However, both environmental protection regulations and waste emission charge rates are being revised. The new standards are expected to come into force in 2004.

A photograph of two men playing chess in a library. The man on the right, wearing a blue shirt and a patterned tie, is looking down at the chessboard. The man on the left is partially visible in profile. In the background, there is a bookshelf filled with books and a lamp with a red pleated shade. A semi-transparent white box is overlaid on the center of the image, containing the section header and a list of topics.

5 Living in Ningbo

- Travel
- Housing, hotels and healthcare
- Shopping, recreation and education
- Climate

Ningbo is a coastal urban city in eastern China. It has a long history and traditional culture, and with increasing levels of foreign trade and investment, it has become “user-friendly” for foreign visitors and residents.

Ningbo enjoys a sub-tropical monsoon climate featuring mild temperatures, moderate humidity and distinctive seasons.

Travel



Ningbo is within easy reach of China's major cities

- The airport currently operates 38 domestic and international routes non-stop to such major destinations as Beijing, Shanghai, Guangzhou, Shenzhen and such international destinations as Hong Kong and Bangkok
- The Ningbo Yueshe Airport is a 30-minute drive from downtown Ningbo

Travel by air

	Ticket price (USD)	Travel time (hours)	Flights per week
Shanghai	36	0.5	34
Beijing	133	2	23
Guangzhou	134	2	22
Hong Kong	230	2	10
Macau	225	2.5	2

Note: Ticket price refers to the price of economic class

Source: CAAC Ningbo ticket center

Rail is a popular means of travel in China, and Ningbo is on a main national railway line

- Ningbo is also well connected to other major cities in China by railway. The main railway station is located downtown and has daily expresses to such major cities as Beijing, Shanghai and Guangzhou

Travel by train

	Ticket price (USD)	On road time (hours)
Shanghai	12	4.5
Beijing	61	24
Guangzhou	48	24

Note: Ticket price is based on the price of a business class seat on an express train

Source: Ningbo railway station ticket center

Ningbo is well-connected to several major cities by road

- Ningbo is situated on a number of national and provincial highways, including the Zhejiang Expressway
- It is a four hour drive from Ningbo to Shanghai; this travel time will be cut to two hours upon the completion of Hangzhou Bay Bridge, expected in 2009

Housing, hotels and healthcare



A number of housing options are available in the city, including two five-star hotels

- Ningbo has two five-star hotels, nine four-star hotels and 28 three-star hotels. The standard daily rate for a room ranges from USD 32 to 97, with discounts available for longer stays
- Larger hotels offer a range of facilities including conferences and ballrooms, western restaurants, and gymnasium and sports facilities
- Long-term residents in Ningbo have other housing options, including renting a serviced apartment or villa
 - the cost of a three-bedroom, 100m² (1,076ft²) apartment in the downtown area is approximately USD 350 per month
 - the cost of a four-bedroom, 250m² (2,691ft²) villa in the downtown area is approximately USD 1,000 per month

	Number of hotels	Number of rooms	Average charge per night (USD)
5 star	2	580	97
4 star	9	1884	59
3 star	30	3649	32

Source: Ningbo Tourism Bureau

Many hospitals and clinics provide basic and specialist medical care

- Ningbo has an adequate health care system. It has one international clinic under construction. The expected average lifespan of Ningbo citizens is 75.8 years
- Western medicine was introduced to Ningbo at an early stage. Starting in the second half of the 18th century, missionaries from western countries came to practice Western medicine. The first Western medical hospital, Huamei Hospital, now known as Ningbo No. 2 Hospital, was established in 1843
- At present, there are two medical education facilities in Ningbo: the Medical College of Ningbo University and Ningbo Medical School
- Ningbo has 921 medical institutions with 14,393 beds or 2.65 beds per thousand people. Specialized medical skilled workers amount to 19,566, averaging 3.68 per thousand people. There are 9,673 doctors, averaging 1.78 per thousand people



- Hospitals in Ningbo have been equipped with medical apparatus and instruments such as nuclear magnetic resonators, whole body CT, linear accelerators, large X-ray machines, digital subtraction angiographers, automatic biochemistry analyzers and colour Doppler
- Ambulances from the First Aid Center can reach any spot in the urban area within 15 minutes of a call

Shopping, recreation and education



Ningbo's shopping and entertainment options are expanding, with many international retailers setting up in the city

- Ningbo now has a number of multinational hypermarket chains, including Carrefour and Metro, and chain restaurants Pizza Hut, McDonalds and KFC
- Gyms, golf (Ningbo currently has one golf course), history museums, parks and other recreational facilities in and around Ningbo provide plenty of weekend entertainment options for residents and visitors

An ancient city, Ningbo has many scenic sites

- Ningbo has 243 historical sites under government protection, including:
 - Hemudu Cultural Relics (7,000 years old)
 - Tianyi Pavilion Library, the oldest library in China
 - Baoguo Temple, and the Former Residences of Chiang Kaishek in Fenghua

Ningbo has a complete educational system

- Ningbo has 13 universities and many secondary schools
- Ningbo has one international school

Type of school	Number of graduates
University and College	13
Middle school	321
Specialized school	11
Technical school	14
Vocational school	92
Primary school	964
Kindergarten	1,618

Source: Ningbo Statistical Yearbook 2002

Climate



Ningbo enjoys a subtropical climate

- Annual average temperature is 16.5 °C, with an annual average rainfall of roughly 1,400mm
- Summers are hot and humid, with the annual rainy season between May and September. In winter, the mercury seldom dips below zero – the average winter temperature is around 7 °C
- Ningbo's humidity levels are relatively constant year round at roughly 80%
- In terms of air pollution, Ningbo's air is generally better in summer, with an Air Pollution Index average of around 60, and worse in winter months when the index averages over 80 (2000 data)
- The following table contains climate information for Ningbo (1971-2000 data except Air Pollution Index)

	Sunshine hours	Rainfall (mm)	Average temperature (°C)	Average humidity (%)	Average air pollution index
Jan	112	67	4.9	79%	84.7
Feb	105	75	6.0	78%	75.9
Mar	113	128	9.5	81%	78.5
Apr	145	118	15.2	79%	83.4
May	161	126	20.2	79%	66.9
Jun	143	205	24.0	85%	58.2
Jul	226	174	28.1	82%	54.1
Aug	218	166	27.8	82%	52.8
Sep	158	175	23.7	83%	63.1
Oct	149	89	18.7	80%	77.2
Nov	133	66	13.0	78%	94.2
Dec	138	49	7.3	76%	79.8

Source: Ningbo Meteorologic Bureau



6 Useful Information

- Useful contacts in Ningbo
- Ningbo fact sheet
- Economic performance indicators
- Set-up procedures and authorities
- KPMG contacts in China

Useful contacts in Ningbo

Ningbo Foreign Trade and Economy Cooperation Bureau

190 Ling Qiao Road, Ningbo, China 315000

Website: <http://www.ningbochina.com>

Telephone: 0086-0574-87328188

Fax: 0086-0574-87328288

Ningbo Foreign Investment Development Board

Telephone: 0086-574-87328188-5858

Fax: 0086-574-87315992

Email: invest@ningbochina.com

Foreign Investment Service Center

Telephone: 0086-574-87328188-5778

Fax: 0086-574-87327429

Email: service@ningbochina.com

Foreign Investment Complaint Coordinating Center

Telephone: 0086-574-87328188-5760

Fax: 0086-574-87327710

Email: complain@ningbochina.com

Other government contacts

Ningbo Development Planning Commission

91 North Jie Fang Road, Ningbo, China 315000

Telephone: 0086-574-87365131

Fax: 0086-574-87362364

Ningbo Industrial Commercial Administration Bureau

40 Chang Chun Road, Ningbo, China 315010

Telephone: 0086-574-87328688

Fax: 0086-574-87309150

Ningbo Land Resource Bureau

1 San Shi Road, Ningbo, China 315010

Telephone: 0086-574-87328888

Fax: 0086-574-87303061

Ningbo Environmental Protection Bureau

545 Liuting Street, Ningbo, China 315012

Telephone: 0086-574-87114484

Fax: 0086-574-87132019

Ningbo State Taxation Bureau

8 Baizhang Road, Ningbo, China 315040

Telephone: 0086-574-87732285

Fax: 0086-574-87732060



Other government contacts

Ningbo Local Taxation Bureau

19 West Zhongshan Road, Ningbo, China 315010

Telephone: 0086-574-87188114

Fax: 0086-574-87188482

Ningbo Customs of People's Republic of China

19 Mayuan Road, Ningbo, China 315010

Telephone: 0086-574-87139000

Fax: 0086-574-87139600

Ningbo Import and Export Commodity Inspection Bureau of China

144 Liuting Street, Ningbo, China 315010

Telephone: 0086-574-87134708

Fax: 0086-574-87112693

Ningbo Foreign Exchange Administration Bureau of People's Bank

138 North Jiangdong Road, Ningbo, China 315040

Telephone: 0086-574-87333266-60206

Fax: 0086-574-87374406

Ningbo Economic and Technical Development Zone

Floor 4 Chuangye Building, 477 Mingzhou West Road, Beilun, Ningbo, China 315800

Telephone: 0086-0574-86850179

Fax: 0086-574-86850971, 86850169

Website: www.netd.com.cn

Ningbo Free Trade Zone

Ningbo Beilun Free Trade Zone Mansion, China 315800

Telephone: 0086-574-86870412, 86820711

Fax: 0086-574-86820169

Website: www.nftz.com

Ningbo Daxie Development Zone

Ningbo Daxie Development Zone, China 315812

Telephone: 0086-574-86768969, 86768458

Fax: 0086-574-86768433

Website: www.citic-daxie.com

Ningbo High-Tech Park

599 Jiangnan Road, Ningbo, China 315040

Telephone: 0086-574-87903667, 87901409

Fax: 0086-574-87901115

Website: www.nbhttp.gov.cn

Ningbo fact sheet



Location	Location in Zhejiang province in eastern China
Area	9,365km ²
Population	5.5 million
Currency	RMB
Exchange rate	RMB 8.28 per USD 1
Time	GMT +08:00
Country telephone code	+86 (China); 0574 (Ningbo)
Climate	Subtropical monsoon climate with four seasons. Average annual temperature of 16.5 °C
Public holidays	1 January; 1, 2 and 3 May; 1, 2 and 3 October and three-day Chinese New Year in January/February
Power supply	220 V
Languages	Mandarin (Putonghua); Ningbo dialect
Entering the country	<p>All foreign visitors to the PRC/Ningbo require visas.</p> <p>Visas are normally for a single entry and for a period of one month. Foreigners wishing to take up employment need to apply for employment visas from the PRC embassies and consulates upon presentation of an employment approval document issued by the Organizations Bureau. They should also apply to the Public Security Bureau for residence permits and will need evidence of sponsorship from their employing organizations in the PRC.</p>

Economic performance indicators

	2000	2001	2002
GDP calculated based on current year index (USD billions)	14	16	18
GDP per capita (USD)	2,625	2,917	3,309
Annual disposable income of urban resident (USD)	1,316	1,445	1,563
Foreign direct investment (USD millions)	622	874	1,247
Import (USD millions)	2,373	2,647	4,110
Export (USD millions)	5,168	6,245	8,163

Source: Ningbo Statistics Yearbook, 2000, 2001, 2002

Set-up procedures and authorities



The process of setting up an FIE has three main stages: application, approval and registration. During this process, many documents must be prepared and filed with the relevant authorities.

1. Sign letter of intent

A letter of intent is the expression of an intention in which common objectives and principles of cooperation are documented, but which is, as a rule, not legally binding. There are no requirements as to the contents of a letter of intent, but it usually includes the name and location of the company, the company's objectives, the anticipated overall investment, the intended share capital, (and interest held by each party and the JV term, if applicable).

2. JV: Project proposal for approval

A project proposal must be filed with the Ningbo Development Planning Commission and Ningbo MOFTEC, and must include information on the project as set out in the letter of intent, and further particulars on the partners and the preliminary feasibility study. As a rule, the Chinese partner arranges this.

3. WFOE: Application report

A project application report must be filed with Ningbo MOFTEC. The application report should include a description of the project, information on the size and quality of the required land, water, energy and raw materials. It should also include information on the principal activities of the investor.

4. Reservation of name of the proposed enterprise

Once the proposal/application has been approved, the name of the company, often set forth in the letter of intent, can be pre-registered with the Ningbo Industrial and Commercial Administration. In any event, the name should be registered prior to signing the JV contract and the Articles of Association.



5. Feasibility study

The feasibility study report to be filed with the Ningbo Development Planning Commission and Ningbo MOFTEC includes:

- a description of market demand for the product(s) or service(s) to be provided by the JV/WOFE
- forecast of market developments
- the location of the production site
- supply of raw materials and energy
- transportation overview, technological and production facilities
- organization of production
- measures for environmental protection and schedule for construction
- extent and form of raising capital, foreign currency income and expenditure forecasts, distribution of profit

6. JV Contract and Articles of Association

The Chinese version of the JV contract and Articles of Association have to be submitted to Ningbo MOFTEC for approval.

7. Approval a certificate

A certificate will be issued upon approval.

8. Business registration

Within 30 days of the date of the Approval Certificate, the directors must submit the application for Business Registration to the Ningbo Industrial and Commercial Administration. Registration is documented by the issuance of a Business Licence. The date of issue is the official date of establishment of the JV.

9. Business License

On obtaining the Business Licence, the company must be registered with the authorities.



10. Registration with the authorities

■ Tax

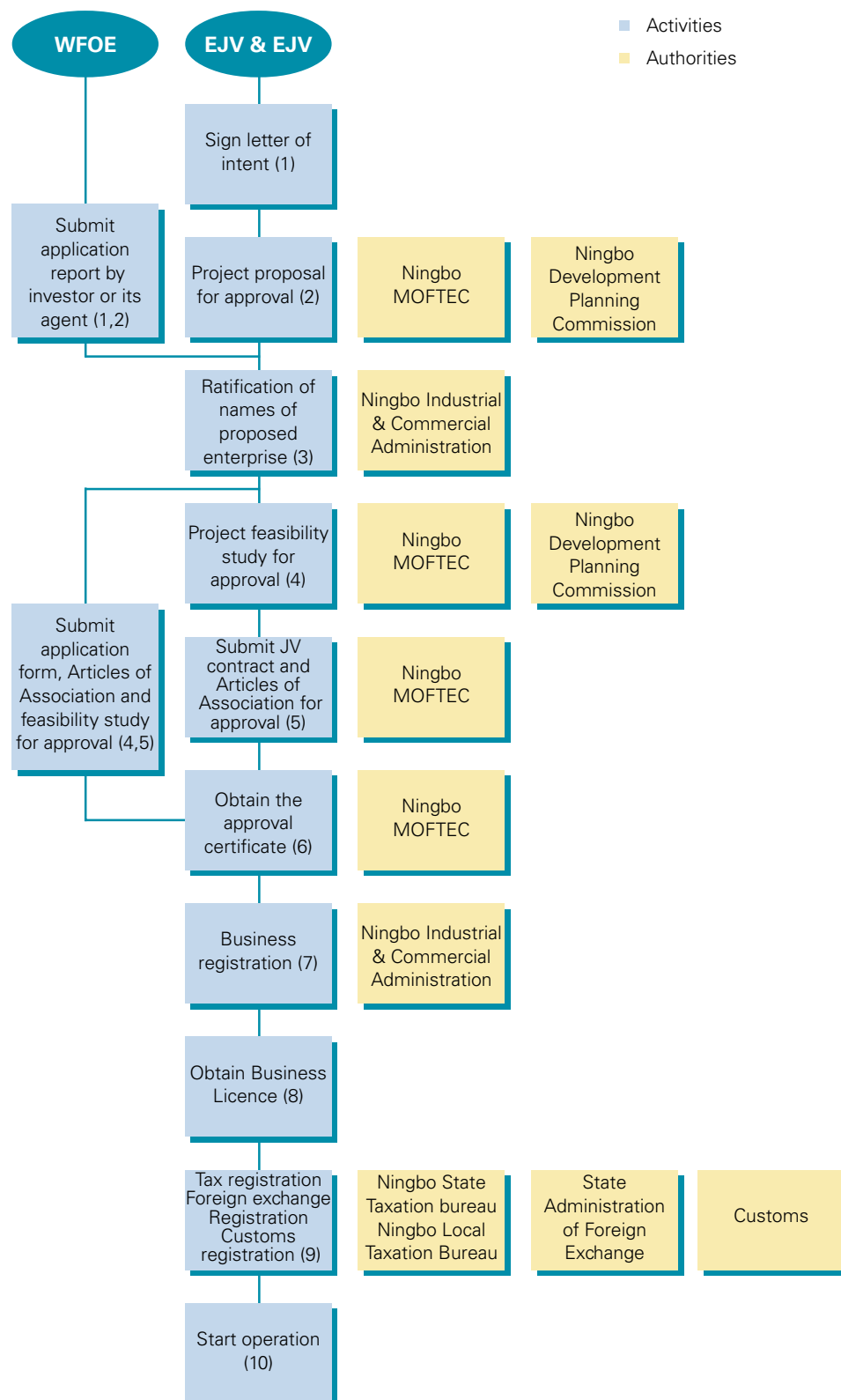
Taxation registration must be effected with both the Ningbo State Taxation Bureau and the Ningbo Local Taxation Bureau. Each of the tax authorities issues a tax registration certificate.

■ Foreign exchange

A foreign exchange registration certificate for foreign funded enterprises must be obtained from the Ningbo State Administration of Foreign Exchange. This certificate is required to open a bank account denominated in foreign currency.

■ Customs

Customs in Ningbo is responsible for processing applications of imports and exports.



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