



cutting through complexity

Changsha

Gateway to Inland China

Changsha Investment
Environment Report 2013



Changsha

Changsha is a central link between the coastal areas and inland China

- Changsha is the capital as well as the economic, political and cultural centre of Hunan province. It is also one of the largest cities in central China^(a)
- Changsha is located at the intersection of three major national high-speed railways: Beijing-Guangzhou railway, Shanghai-Kunming railway (to commence in 2014) and Chongqing-Xiamen railway (scheduled to start construction before 2016)
- As one of China's 17 major regional logistics hubs, Changsha offers convenient access to China's coastal areas; Hong Kong is reachable by a 1.5-hour flight or a 3-hour ride by CRH (China Railways High-speed)

Changsha is well connected to inland China and the world economy^(b)

Domestic trade (total retail sales of consumer goods) CNY 245.5 billion

Total value of logistics goods and y-o-y growth rate CNY 2 trillion, 19.3%

Total number of domestic tourists and y-o-y growth rate 79.9 million, 34.7%

Total value of imports and exports USD 8.7 billion

Value of foreign direct investment and y-o-y growth rate USD 3.0 billion, 14.4%

Number of Fortune 500 companies with direct investment in Changsha 49

Notes: (a) Central China area includes Hunan Province, Hubei Province, Jiangxi Province, Anhui Province, Henan Province and Shanxi Province

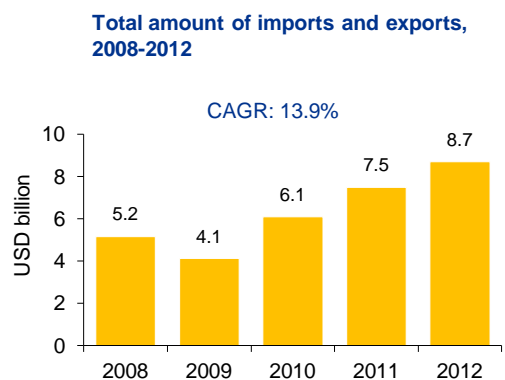
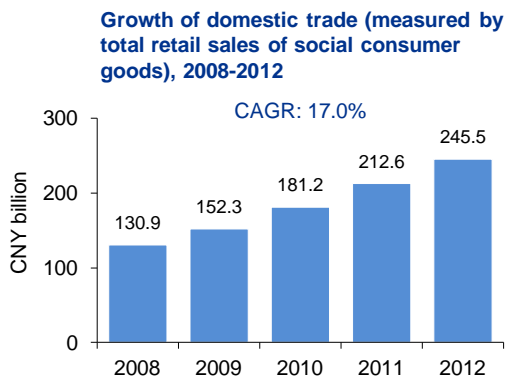
(b) Figures come from 2012 statistics

Sources: Changsha Bureau of Commerce; Changsha 2012 National Economic and Social Development Report

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Map of Changsha and its friendship cities around the world



Sources: Changsha Bureau of Commerce; Changsha 2012 National Economic and Social Development Report; Changsha Bureau of Statistics

Many multinational companies choose Changsha as a bridge to access the China market

Europe

- Carrefour, France
- Danone, France
- Veolia Environment, France
- HSBC, UK
- Fiat, Italy
- Arcelor Mittal, Luxembourg
- Volkswagen, Germany
- Metro, Germany
- Bosch, Germany
- Siemens, Germany
- Nokia, Finland
- A.B. Inbev, Belgium

North America

- Citi, USA
- Cisco, USA
- Honeywell, USA
- McDonald's, USA
- Pepsi, USA
- Magna, Canada

Japan and South Korea

- Marubeni, Japan
- Mitsubishi Heavy Industries, Japan
- Sumitomo, Japan
- Itochu, Japan
- NEC, Japan
- Suzuki, Japan
- Toyota, Japan
- Hitachi, Japan
- Mitsui, Japan
- Fujitsu, Japan
- NYK Group, Japan
- Samsung, South Korea

Other countries and regions

- Hutchison Whampoa, Hong Kong
- Jardine Matheson, Hong Kong
- China Resources, Hong Kong
- Hon Hai, Taiwan

Comments from Fortune 500 companies and investors in Changsha^(a)



Standard Chartered Changsha Branch Management

"We have benefitted by providing services to Changsha's many construction machinery companies who are making outbound investment to regions such as Africa."



Volkswagen Management

"Changsha is well positioned for the automobile sector due to its position in central China, its convenient transportation to other areas, and its developed industry base"

Notes: (a) Companies listed above are part of the 49 Fortune 500 companies with direct investment in Changsha
Sources: Changsha Bureau of Commerce, China Daily



**...or as a base to access
wider markets**

**“The 4th fastest growing city
in global city competitiveness”**

***“Global City Competitiveness Report”,
Chinese Academy of Social Sciences, 2012***

**“National Pilot City
for Intellectual Property”**

State Intellectual Property Office, 2012

“2012 Top 10 Cities for Business”

China Institute of City Competitiveness, 2012

“Best City for Business in Central China”

Forbes Chinese Edition, 2012

“National Culturally-Advanced City”

**The Publicity Department of the Central Committee
of the Communist Party, 2012**

Multinational companies are leveraging Changsha's resources and customer base to implement their growth strategies

Access fast growing local and China market

The consumer market in Changsha and central China is growing rapidly, playing a greater role in China's economy

- Total retail sales of consumer goods for Changsha and Hunan reached CNY 245.5 billion and CNY 785.5 billion in 2012, representing a y-o-y increase of 15.7 percent and 15.4 percent respectively, both figures exceeding the national average of 14.3 percent
- Urban disposable income per capita in 2012 was CNY 30,288 for Changsha and CNY 21,319 for Hunan, an increase of 14.5 percent and 13.1 percent from last year respectively, both higher than the national average of 12.6 percent
- From Changsha, companies can reach the central China^(a) market of 361 million people, about 28 percent of the total Chinese population

Unlock synergies within Changsha's value chain

Changsha has a mature value chain in construction machinery, automobile and parts manufacturing as well as the cultural and creative industry

- Attracted by Changsha's established automobile industry value chain, Guangzhou Automobile Group formed another JV with Mitsubishi after its investment in GAC Fiat
 - “Changsha's comprehensive value chain and good investment environment in automobile and parts created a possible site for GAC's second manufacturing base” – GAC Group management
- Hunan TV has wide-reaching acceptance and influence in China, which was a factor in the decision of other companies to invest in Changsha. An example is Taobao's cross-media JV with Hunan TV in 2009

Leverage cost advantage to build factories and service centres

Changsha's labour and operating cost is at least 10 percent lower than coastal areas

- Changsha is becoming a key alternative for companies in coastal areas to initiate their cost control strategy
 - “Compared to developed cities such as Beijing and Shanghai, Changsha's lower labour cost has provided us with a cost advantage and opportunity to increase profits” – Management, Jingu Service Outsourcing
- Compared to coastal areas, Changsha's labour cost is at least 10 percent lower
 - Changsha's average monthly salary in 2012 was CNY 2,900, which is at least 10 percent lower than that of major coastal cities^(b)

Notes: (a) Central China area includes Hunan Province, Hubei Province, Jiangxi Province, Anhui Province, Henan Province and Shanxi Province

(b) Examples are Nanjing, Suzhou, Hangzhou and Fuzhou

Sources: Changsha Bureau of Commerce; askci.com; Hunan Bureau of Statistics; Baidu Baike; Sohu.com

PepsiCo. Changsha

Changsha PepsiCo Beverage Co., Ltd.

Enter fast growing local and China market

- In 2005, PepsiCo China invested in PepsiCo Changsha as its 20th bottling company in the country. By 2009, the company's performance ranked in the top tier among PepsiCo China's subsidiaries. It has around 1,000 employees
- PepsiCo Changsha's production covers the entire Hunan market, and its carbonated beverage production capacity is around 44 million TEU



PepsiCo. Changsha Management

"Changsha's consumer market has tremendous potential, which allows PepsiCo Changsha to expand capacity"

"Even during financial crises, PepsiCo Changsha's sales kept increasing. One of the reasons was significant demand from Changsha"

A.B. Inbev, Hunan

Hunan Inbev Baisha Beverage Co., Ltd.

Leverage cost advantage to build factories

- A.B. Inbev is a leading global beverage company as well as one of the top five global consumer products companies. It has more than 30 factories in China, including Hunan Inbev, which was established in 2008
- Around 300 employees work at Hunan Inbev's factory which has an annual capacity of around 180,000 tons



A.B. Inbev, Hunan Management

"Inbev benefits from Changsha's convenient transportation and lower logistics cost"

"In order to recruit talented employees, the local government provided us with incentives such as an accommodation subsidy"

Bosch, Changsha

Bosch Automotive Products (Changsha) Co., Ltd.

Unlock synergies with Changsha's value chain

- Bosch Changsha was set up as a wholly foreign-owned enterprise in 2004. Its major business is R&D, manufacturing, and sales of automotive parts and automobile electronic control systems
- In 2012, in order to strengthen automotive parts technology, Bosch Changsha invested CNY 700 million to establish an R&D centre



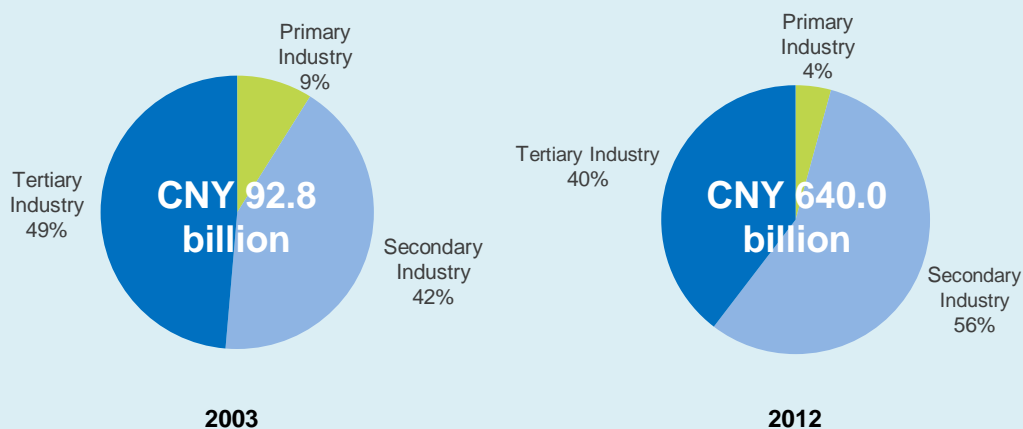
Bosch, Changsha Management

"Our Changsha R&D centre is developing highly localised products and this will benefit our cooperation with the local value chain"

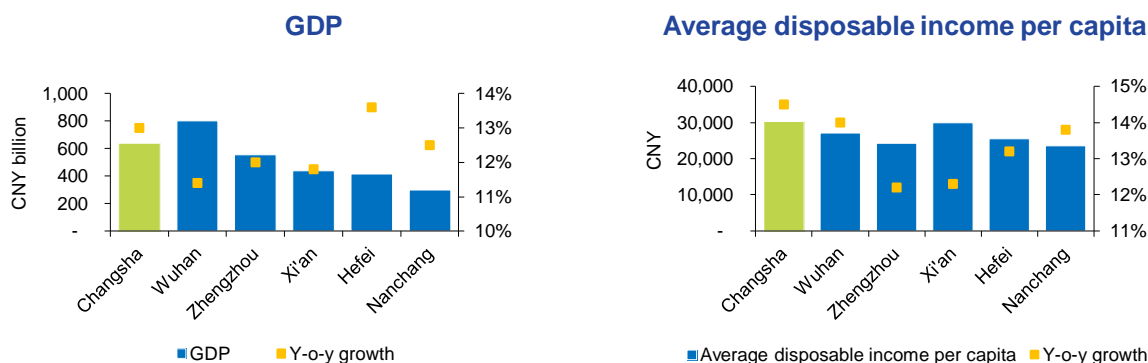
"Changsha's air, railway and highway logistics are all very convenient"

Changsha continues to strengthen its competitiveness

Compared with 10 years ago, Hunan's secondary industry represents a larger proportion of the region's GDP

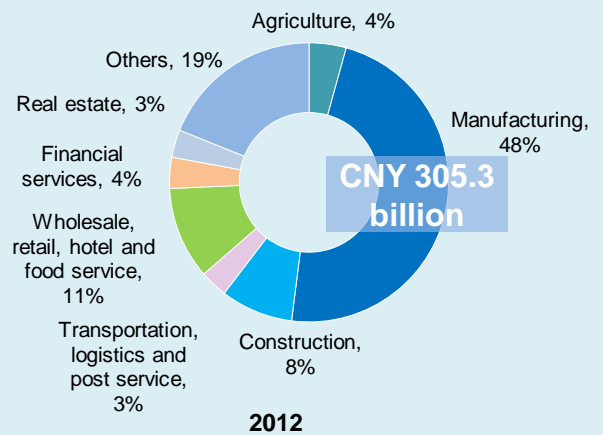
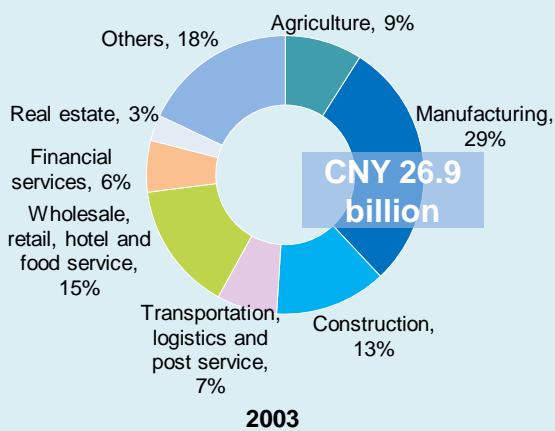


Changsha is economically competitive with other central region cities in China

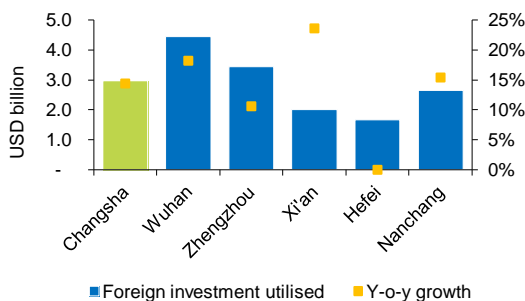


Sources: Changsha Bureau of Commerce; Changsha 2012 National Economic and Social Development Report; Changsha Bureau of Statistics; Wuhan Bureau of Statistics; Zhengzhou Bureau of Statistics; Xi'an Bureau of Statistics; Hefei Bureau of Statistics; Nanchang Bureau of Statistics

Compared with 10 years ago, the scale of Changsha's manufacturing industry has grown 10-fold, strengthening its contribution to Changsha's economy



Foreign investment utilised



Total retail sales of consumer goods



Sources: Changsha Bureau of Commerce; Changsha 2012 National Economic and Social Development Report; Changsha Bureau of Statistics; Wuhan Bureau of Statistics; Zhengzhou Bureau of Statistics; Xi'an Bureau of Statistics; Hefei Bureau of Statistics; Nanchang Bureau of Statistics

Changsha's strategic vision is driving investment opportunities

Development strategy

Economic quality

- Create industry clusters and develop high value-added industry sectors
- Increase domestic consumption and demand
- Develop Changsha as a cultural centre
- Attract and support financial services organisations

City living environment

- Combine urban planning with natural scenic resources
- Improve transportation infrastructure
- Develop cloud computing and digitalisation of public service
- Enhance energy saving

Rural development

- Complete rural public infrastructure
- Enhance rural public services such as healthcare and financial services
- Drive the development of agriculture, tourism and agricultural product processing

Citizen satisfaction

- Recruit and develop talented employees
- Leverage historical / cultural resources
- Increase healthcare resources and promote medical system and public hospital reform

Government service efficiency

- Provide a favourable investment environment, including establishing a tax-free zone, electronic port information platform, etc.
- Simplify administrative processes

Implications for investors

Expanding market:

- The local market is projected to expand as the economy grows and demand increases
- More advanced transportation strengthens connections to other regions within China and globally

Investment opportunity:

- Benefit from city resources in manufacturing, logistics, financial services, energy conservation, agriculture, culture, and healthcare

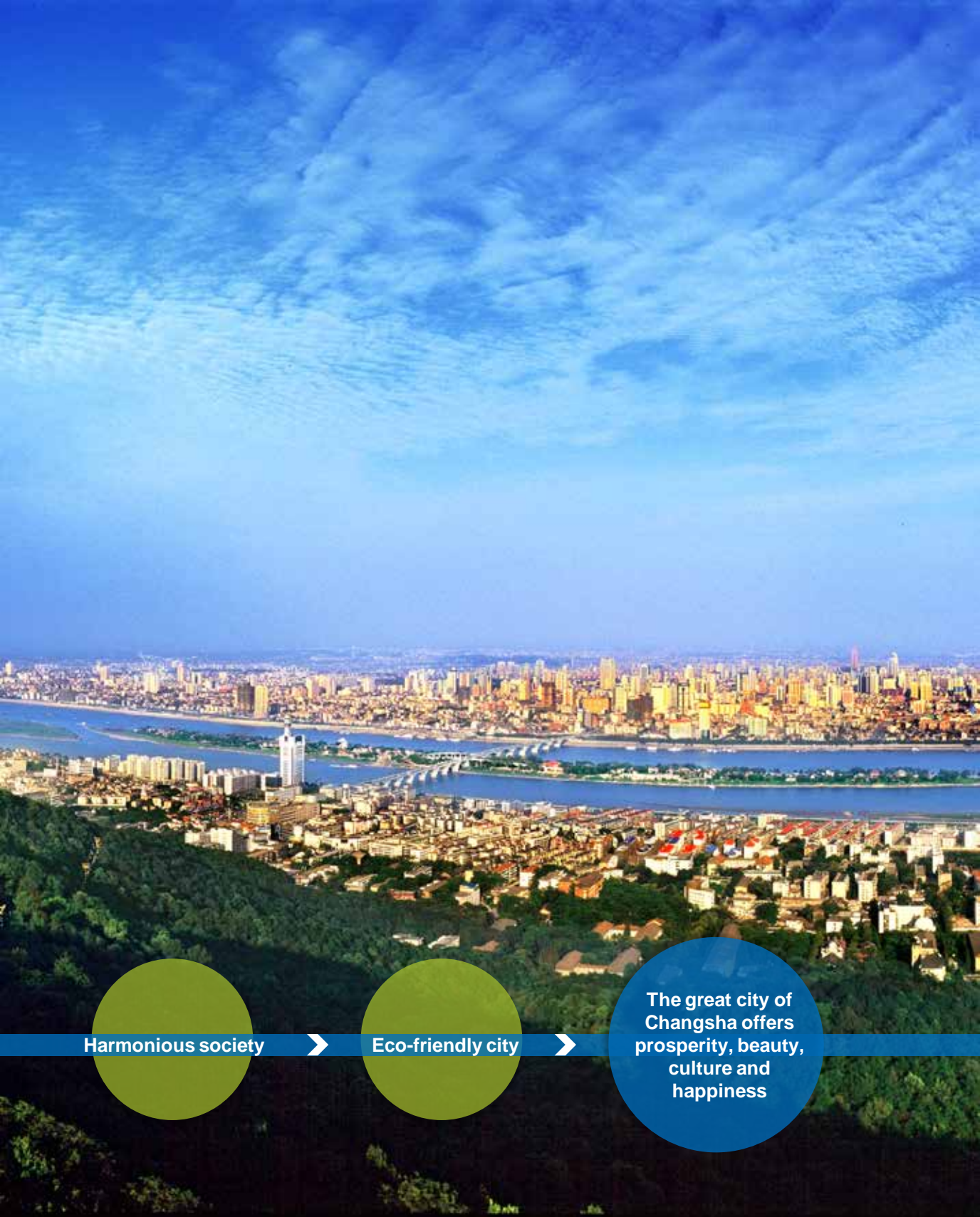
Improving city support:

- Government support for talented employee recruitment and development
- More convenient public service such as customs and administration service
- Better business and living environment

Changsha's development vision

Modern city
in central
China

International
city with a
unique
culture




Harmonious society

Eco-friendly city

The great city of
Changsha offers
prosperity, beauty,
culture and
happiness

Sources: Changsha's 12th Five-year Plan of Economic and Social Development

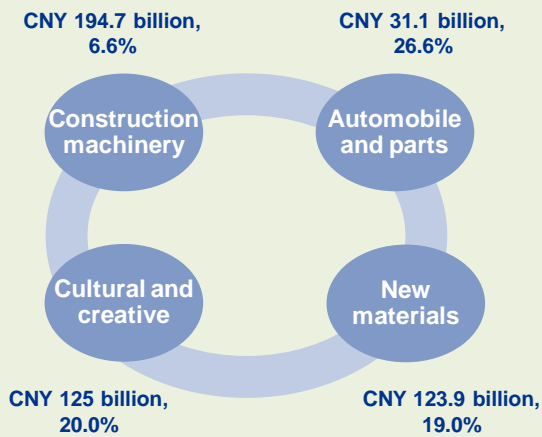
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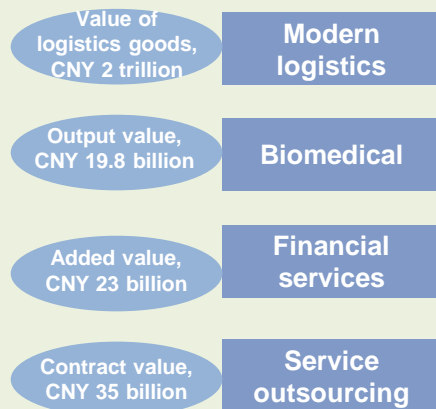
Changsha is developing a modern industry structure with sector clusters

- 13 Strong foundation for the construction machinery industry**
- 15 Complete value chain for automobile manufacturing**
- 17 New material industry clusters are achieving rapid growth**
- 19 Cultural and creative industry fosters national companies and brands**
- 21 Other fast growing industries underpin investment opportunities**

Focus industries' output value and y-o-y growth rate ^(a)



Emerging industries are forming clusters ^(a) (illustrated with the four industries below)



Notes: (a) Figures come from 2012 statistics

Sources: Changsha Bureau of Commerce; Changsha 2012 National Economic and Social Development Report

Strong foundation for the construction machinery industry

The construction machinery industry is one of Changsha's major industries. Products such as concrete pumps have a leading position in domestic and global markets

- In 2012, Changsha's construction machinery industry generated an output value of CNY 194.7 billion, a 6.6 percent increase from last year and it represented 24 percent of Changsha's total industrial output value
 - Changsha's construction machinery industry output value is 32 percent of China's total
- Major companies in this industry have strong R&D capability. Their products, such as concrete pumps, have a leading position within China
 - Major machinery companies such as Zoomlion, Sany and Sunward own hundreds of national patents
 - Sany's concrete pump product set the Guinness World Record three times by exceeding the maximum height of extending arm
- These industry leading construction companies have been focusing on global expansion
 - Sany announced the acquisition of German company Putzmeister in early 2012
 - Zoomlion completed the acquisition of Italian concrete machinery company CIFA in 2012

Construction machinery industry's 2015 sales revenue is expected to reach

CNY 250 billion

Future development is expected to include:

- Extend and complete the industry value chain
- Improve innovation ability and develop core technology
- Strengthen international cooperation and global expansion

Examples of major construction machinery companies in Changsha

- | | |
|-------------|----------------------------|
| ■ Zoomlion | ■ Feny |
| ■ Sany | ■ Ruilong Heavy Industries |
| ■ Sunward | ■ Zhongli Machinery |
| ■ CHTC Jove | ■ Dingli Tech |
| ■ Osaint | ■ Xieli Hydraulic Co. |
| ■ Sinoboom | ■ AVIC Landing Gear |

Case company introduction

Case study

AVIC Landing Gear Advanced Manufacturing Corp. (AVIC Landing Gear)

- AVIC Landing Gear was established in 2008. It is a company focusing on the manufacturing of aeroplane landing gear, hydraulic parts, foreign advanced landing gear parts, and forklift cylinders
- In addition to landing gear, the company has been leveraging Changsha's other machinery industry value chain and has developed more than 500 hydraulic products for automobiles, motorcycles and forklifts. These products are sold to more than 300 companies across 29 provinces in China
- The company has total assets of CNY 1.3 billion and is staffed with more than 3,000 employees



AVIC Landing Gear Management

"Changsha government has actively provided support to us. On one occasion they helped us negotiate with the power company and solved the problem with the power connection without interfering with the project process"

Complete value chain for automobile manufacturing

Changsha's automobile manufacturing industry benefits from a cluster covering the whole value chain and improved R&D capability

- In 2012, Changsha's automobile and parts industry reached an industrial output value of CNY 31.1 billion, representing a 26.6 percent increase from 2011
- The complete value chain includes companies covering automotive R&D, parts manufacturing and car manufacturing, creating synergies for auto industry participants
- Emerging R&D capability includes:
 - Remote driving control
 - Vehicle-to-Grid technology, which allows battery charging from the grid as well as battery power release
 - Dual Mode technology, which can control both the power generator and the engine
 - Dual Dry Clutch Transmission technology

Automobile and parts industry's
2015 sales revenue
is expected to reach

CNY 200 billion

Future development is expected to include:

- Support the development of automobile manufacturing, such as coach car, SUV, truck and cars for special usage
- Enhance core parts technology development, for example, the technology for automotive electronics, engines, axles and chassis

6 main types of automobiles and parts

Coach car, truck, SUV, special usage car, passenger car, new energy car

Changsha's automobile and parts value chain and major companies



Sources: Changsha Bureau of Commerce; Changsha's 12th Five-year Plan of Economic and Social Development

Case company introduction

Case study

GAC Fiat Automobile Company (GAC Fiat)

- The company was established by Fiat Italy and GAC as a JV in 2010. It mainly focuses on R&D, manufacturing, sales and after-sales of passenger cars, engines and parts
- Total investment amount reached CNY 5 billion and the phase one capacity reached 140,000 cars annually
- The first series of automobiles were introduced in September 2012 and the sales reached 12,000 in two months
- The current number of automobile dealers reached 113 and this is expected to exceed 200 by the end of 2013



“As Hunan’s capital, Changsha’s convenient transportation significantly lowered the company’s logistics cost”

New material industry clusters are achieving rapid growth

Changsha's new material industry is growing rapidly, with key products having a high market share worldwide

- In 2012, Changsha's new material industry reached an output value of CNY 123.9 billion, increasing 19.0 percent from 2011 and representing around 15.5 percent of the city's total industrial output value
- New material companies in Changsha are global leaders in their respective sectors. For example:
 - Liyuan New Material's capacity for continuous band-shaped nickel foam reached about 5 million square metres, making it one of the largest manufacturers in the world for this material
 - In 2012 Shanshan Toda's sales volume of lithium battery reached about 5,000 tons, ranking it as the largest company nationally and the third largest company globally
 - Lens Technology's screen products are installed in over 60 percent of mobile phones, computers and digital cameras globally
- The new material industry employs talented professionals
 - Changsha has ten academicians from Chinese Academy of Sciences and Chinese Academy of Engineering, three national key laboratories and five national engineering centres
 - Over 1,000 new materials professionals, including masters, Ph.D.s and post-doctoral researchers are trained annually

New material industry's
2015 sales revenue
is expected to hit

CNY 100 billion

Future development is expected to include:

- Focus on the development of new energy material, new metals, advanced composites, and energy conservation material
- Support building material sector
- Drive research and sector growth in next-generation bio-materials, information technology materials and rare earth elements

Examples of major companies

- | | |
|--------------------------|-----------------------------|
| ■ Shengtong Group (SNTG) | ■ Corun |
| ■ C-Kingdon Group | ■ Broad Home Industrial Co. |
| ■ Shanshan Toda | ■ Boyun |
| ■ Lens Technology | ■ Meimei Tech. |
| ■ Reshine | |

Sources: Changsha Bureau of Commerce; Changsha government website; Cinic.org; People.com; Ocn.com; Chinasmartgrid.com; Anhui news; Sina.com; Changsha's 12th Five-year Plan of Economic and Social Development

Case company introduction

Case study

Changsha Meimei Technology Co. Ltd. (Meimei Tech.)

- Meimei was established in 2006 and focuses on R&D and production of valve regulated lead acid battery and traction battery. About 40 percent of the company's products are exported to overseas markets
- In line with business growth, the company has been increasing its registered capital which reached a total of USD 53 million as of the end of 2012
- The company employs about 800 staff and aims to expand to a scale of 1,500. The revenue is forecasted to grow at 10-20 percent annually in the next three years



Meimei Tech. Management

"Changsha has abundant non-ferrous metal reserves, providing reliable raw material"



Meimei Tech. Management

"Located in the centre of mainland China, Changsha enjoys abundant and inexpensive labour supply"

Sources: Official website of Meimei Tech; Management interview of Meimei Tech.

Cultural and creative industry fosters national companies and brands

Changsha's cultural and creative industry has a strong foundation in media, animation and publishing

- The 2012 total production value reached CNY 125 billion, which ranked number one among provincial capitals in central China in terms of scale and proportion of local GDP
- Changsha has a strong foundation in media, animation and publishing
 - In 2012, Hunan TV's average daytime audience rating ranked number one among provincial TV stations
 - By the end of 2012, Changsha's production of animated programmes ranked number one nationally for the 4th consecutive year
 - E-green Apple is one of China's earliest digital publishing companies. It has an annual capacity of 200 trillion characters

The cultural and creative industry's 2015 sales revenue target is

CNY 200 billion

Future development is expected to include:

- Changsha aims to actively explore new development models, including "Culture + Innovation", "Culture + Technology", "Culture + Finance", "Culture + Tourism", through guiding companies in other sectors such as technology, financial services and tourism, to develop cross-sector cooperation with cultural and creative companies
- Changsha also plans to drive industry growth through other initiatives, such as:
 - Establishing industry investment funds
 - Providing financial subsidies

Case company introduction

Case study

Talkweb Information System Co. ("Talkweb Information")

- Established in 1996, Talkweb operates in mobile animation, mobile education and e-commerce. It has subsidiaries in 29 provinces of China with headquarters in Changsha
- Talkweb went public in Shenzhen Stock Exchange in 2008, which made it the first animation company to go public in China and it was selected as one of China's 18 leading animation companies by the Ministry of Culture, Ministry of Finance and State Administration of Tax in 2010
- The company has gone through a rapid growth phase, achieving a total revenue of CNY 430 million in 2012, an increase of 16.5 percent from last year. The employee number in headquarter exceeded 1,000 and this number is expected to grow



Talkweb Information Management

"Hunan's TV and media business has a significant influence over China and we are trying to integrate these advantages and resources. While we try to develop the company, we are dedicated to participate in building an active mobile internet environment"

Sources: Official website of Talkweb Information; Management interview of Talkweb Information.

Other fast growing industries include biomedical, modern logistics, service outsourcing and financial services

National bio-industry base

Changsha's biomedical industry is growing quickly, and the city has the only national bio-industry base in central and western China

- In 2012, Changsha's biomedical industry reached a total output value of CNY 19.8 billion, increasing 31.8 percent from 2011
- The city plans to develop its medicine, bio-breeding and bio-manufacturing sectors with a focus on modern Chinese medicine, chemical medicine, bio-product, medical equipment and grain products such as super rice
- The output value of Changsha's national bio-industry base accounts for one third of that of Hunan province. The base has attracted hundreds of bio-medicine companies, such as Jiuzhitang and Fangsheng Pharmaceutical

2015 target for output value

CNY 50 billion

 **31.8%**

2015 target value of logistics goods

CNY 3 trillion

Pilot city for modern logistics and modern services

Changsha is one of China's 17 major regional logistics hubs, one of the 46 pilot cities for modern logistics and one of the pilot cities for modern services. The logistics industry is on a fast development track

- In 2012, Changsha's total value of logistics goods reached CNY 2 trillion, increasing 19.3 percent from last year
- According to *The Development Plan for Changsha's Modern Logistics (2011-2020)*, the city plans to build five logistics parks and ten logistics centres. These are expected to drive the clustering of industry companies and support the following goals:
 - 50 percent of the logistics companies will belong to clusters in logistics parks
 - The output value of logistics industry from logistics parks will reach 60-70 percent of the logistics industry output value of Changsha

 **19.3%**

Other fast growing industries include biomedical, modern logistics, service outsourcing and financial services

Pilot city for service outsourcing

As a national pilot city for service outsourcing, Changsha has more than 700 software and service outsourcing companies

- The total contract value of Changsha's service outsourcing industry reached CNY 35 billion in 2012, an increase of 18.1 percent from 2011
- In 2007, Changsha was selected as one of the "Pilot Cities for Service Outsourcing". The city's four key zones including Changsha High-tech Zone, Qingzhu Lake Eco-technology Zone, Longpin High-tech Park and Yuelu Technology Park were designated as "service outsourcing pilot areas"
- According to *The Development Plan for Changsha's Service Outsourcing (2011-2020)*, the number of employees in this industry is to reach 150,000 and the total contract value is to surpass CNY 50 billion by 2015

2015 target for contract value:

CNY 50 billion

 **18.1%**

2015 target for added value

CNY 30 billion

Emerging financial services sector


Changsha aims to attract companies in this sector and establish itself as a regional financial centre

- In 2012, Changsha's financial services industry added value reached CNY 23.1 billion, an increase of 11.6 percent from last year
- In addition to the four major state-owned banks, Changsha has branches of many foreign banks, including HSBC, Citi, Shinhan, Standard Chartered, BEA, as well as joint-stock commercial banks such as Industrial Bank and Minsheng Bank
- To further develop the financial sector, Changsha aims to attract more financial organisations, especially regional headquarters, so as to strengthen its influence in this industry



Sources: Changsha Bureau of Commerce; Changsha's 12th Five-year Plan of Economic and Social Development

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Changsha continues to improve its public facilities to meet the requirements of its fast growing industries

27 Convenient transportation facilitates market expansion and cost control

31 Investment services and favourable policies help companies manage costs

34 A large, affordable workforce helps reduce labour cost

35 Clusters and facilities in industrial zones support companies to grow

37 Positive commercial environment enables companies to maintain growth

39 Modern public infrastructure provides a favourable living environment



Convenient transportation and logistics

- International airport with direct flights to 76 domestic and overseas cities
- National railways include Beijing-Guangzhou railway, Shanghai-Kunming railway (to commence in 2014) and Chongqing-Xiamen railway (to start construction before 2016)
- Highways extending 517 kilometres with further extension planned
- Changsha port with a 2012 throughput of 30.9 million tons, is one of China's 23 main inland ports. It recently started contracted shipping with Shanghai



Investment services and operating cost

- Changsha and industrial parks have set up preferential policies to attract investment and promote industry development, such as tax incentives, land and construction subsidies
- For large investments, companies are entitled to enjoy more convenient "Green Channel" support^(a)
- Local government supports the growth of key companies. For example, Changsha High-tech Zone earmarks an annual subsidy of CNY 200 million for industry development



Human resource and labour cost

- 97 science and research organisations. In 2012, public funds spent on research reached CNY 298 million, an increase of 10 percent from 2011
- 50 universities, with 310,000 annual graduates
- Incentives to attract talent, such as financial subsidies
- More than 10 percent lower labour cost than coastal cities



Industrial zones and facilities

- Four industrial zones and eight industrial parks have a total area of 467 square kilometres (28 percent in use or under construction)
- Industrial clusters have formed in the zones' focus areas, which will benefit companies as a result of synergies
- Industrial zones and parks can provide favourable policies on tax and financing



Public facilities, business and living environment

- Completing business facilities such as hotels, office buildings and a subway system
- Hospitals and schools dedicated to expatriates
- Pleasant climate and abundant tourism resources

Notes: (a) Large investments refer to investments from Fortune 500 enterprises, foreign investments above USD 10 million, manufacturing industry investment above CNY 100 million. For more information, please contact Changsha Bureau of Commerce

Sources: Changsha Bureau of Commerce



Convenient transportation facilitates market expansion and cost control

Huanghua International Airport has direct flights to 60 domestic cities and 16 international cities and regions. It also handles an increasing amount of cargo transportation

- Huanghua airport is 17 kilometres from downtown. It has direct flights to 60 domestic cities and 16 international cities and regions, plus seven flights to Paris, Frankfurt, London, Los Angeles, Vancouver, Sydney and Melbourne with one transfer in Shanghai
- The 2012 travel throughput reached 14.7 million trips, an increase of 7.8 percent from 2011. The cargo amounted to around 110,000 tons, a 44.7 percent increase from 2011
- After 2012 expansion, the airport reached a travel throughput capacity of 18 million trips and cargo transportation capacity of 400,000 tons

Completion of the railway network is expected to provide the city with high-speed and inter-city rail transportation

- Changsha is located at the intersection of China's three main railways: Beijing-Guangzhou railway, Shanghai-Kunming railway and Chongqing-Xiamen railway
 - Beijing-Guangzhou railway has started operation, Shanghai-Kunming railway is to commence in 2014 and Chongqing-Xiamen railway is scheduled to start construction before 2016
- Seven inter-city railways are scheduled to be completed in the next five years, including Changsha-Zhuzhou-Xiangtan railway and Changsha-Yiyang-Changde railway

3 National major high-speed railways

7 Inter-city railways linking surrounding cities

One of major **23** inland ports

18 million travellers



Changsha's fast-growing highway system facilitates transportation

- In 2012, Changsha opened three new highways, including Daweishan-Liuyang, Changsha-Xiangtan, Liuyang-Liling, which extended the total length of highways to 517 kilometres, an increase of 78.9 percent from last year
- The ring-road highway and Changsha-Liuyang highway are under construction and they are scheduled to start operation at the end of 2013

Changsha port is an important inland port along Yangtze River with an increasing throughput

- Xianing Port, Changsha's main port, is one of 23 main inland ports in China. Eight 1,000-ton berths are located in Xianing Port
- Changsha port achieved a throughput of 30.9 million tons in 2012 and this is expected to reach 40 million tons by 2015
- Changsha has started container contract shipping ^(a) to Shanghai

Notes: (a) Contract shipping refers to contracted port, contracted shipping route, contracted shipping time, contracted schedule, and contracted price
Sources: Changsha Bureau of Commerce; camoc.com; Changsha Wanbao.com; Hunan Online

Convenient transportation facilitates market expansion and cost control



Air transportation cost for general cargo ^(a)

From Changsha (CNY/kg)				
Destination	45-100 (kg)	100-300 (kg)	300-500 (kg)	>500 (kg)
Hong Kong/Macau	13	11	11	10.5
South Korea/Taiwan	9	8	7.5	7
Japan	15	14	13	12
South East Asia	15	14	13	12
South Pacific	20	19	18	17
USA/Canada	31	29	27	25
Western Europe	23	21	21	20
Middle East/South Asia	31	28	26	24
South America/East Europe/Africa/Others	35	33	32	30

Notes: (a) The prices are estimates and may fluctuate
Sources: Changsha Bureau of Commerce

Railway transportation

Cost and duration to transport a 20-foot container from Changsha to the following cities

Destination	Cost (CNY)	Duration (days)
Beijing	4,944	8
Shanghai	3,794	6
Guangzhou	2,529	4
Shenzhen	3,365	5

Marine transportation

Cost and duration to transport a 20-foot container from Changsha to the following cities

Destination	Cost (CNY)	Duration (days)
Hong Kong	4,000	12
Osaka	4,000	12
Los Angeles	12,500	28
Rotterdam	9,850	40
Hamburg	9,850	40
New York	20,500	40

Notes: Above price is based on the April 2013 quotation, which is during the peak season. Marine cost fluctuates throughout the year

Air flights and tickets

Domestic travel by air from Changsha to the following cities

Destination	Ticket price (CNY)	Flying time (minutes)	Flights per week
Beijing	1,220	120	98
Shanghai	890	90	98
Guangzhou	690	70	25
Shenzhen	730	80	21
Chongqing	740	60	70

Notes: The prices above are estimates and may fluctuate
Sources: Changsha Bureau of Commerce

Investment services and favourable policies help companies manage costs

Investment process

Location selection

Sample investment services

- Provides information regarding projects seeking investment, such as projects listed in the following URL:
www.cstrade.gov.cn/swt/swt/project_list.asp
- Supplies local investment environment information
- Offers assistance contacting local companies
- Engages in detailed discussion of investment requirements

Enterprise setup (1)

- Changsha Government has set up a Green Channel to assist key investment projects with major issues for enterprises during their setup procedures ^(a)
- Assists companies to obtain land use rights ➤
- The industrial parks can help with enterprise setup and construction procedures ➤

Sample impact to operating cost

➤ Operating cost: land

- Enterprises can purchase land use rights from the government and such rights usually last 50 years
- According to China regulations, land use rights need to go through the process of public bidding, auctions or public postings of available land
- Different industrial zones offer various land use right prices which are open to negotiation. For example, Changsha ETDC can offer discounts for specific projects:
 - For high-tech projects, key industrial projects and other major projects benefiting Changsha with a total investment amount over USD 30 million and annual tax contribution over CNY 10 million, 30 to 100 percent of its land purchase fee can be refunded within 3-5 years from company setup

Notes: (a) Key investment projects include projects from Fortune 500 companies, foreign investment with contract value over USD 10 million, and manufacturing projects with contract value over CNY 100 million. Further details can be obtained from Changsha Bureau of Commerce
Sources: Changsha Bureau of Commerce



Enterprise setup (2)

- Changsha Government has set up a Green Channel to assist key investment projects with major issues for enterprises during their setup procedures ^(a)
- Assist companies to obtain land use rights ➤
- The industrial parks can help with enterprise setup and construction procedures ➤



Growth and expansion

- Tax incentives are provided for hi-tech and technology advanced service companies
- Financial subsidies are available for companies in the service outsourcing industry
- The R&D expense of companies within the engineering equipment, automobile and components industries can be deducted before income tax

➤ Operating cost: factory construction

- Enterprises can build factories within industrial parks, and construction fees remain relatively stable year on year (see table on the next page)
- For hi-tech companies located in Changsha Hi-tech Zone or other provincial / national level industrial parks, support is provided for part of the construction fee exceeding CNY 42/m²
- Standard factories are also available for rent, with annual rent usually in the range of CNY 160-360/m²
 - A “standard factory space” refers to a six-floor steel-reinforced concrete factory with a floor area of 1,000m² and height of 4-5m

➤ Operating cost: tax incentives and financial subsidies

- Changsha provides a number of tax incentives and financial subsidies to support development of companies, such as:
 - Recognised hi-tech companies enjoy a favourable income tax rate of 15 percent
 - Changsha has set aside CNY 50 million to provide subsidies to service outsourcing companies

Notes: (a) Key investment projects include projects from Fortune 500 companies, foreign investment with contract value over USD 10 million, and manufacturing projects with contract value over CNY 100 million. Further details can be obtained from Changsha Bureau of Commerce
Sources: Changsha Bureau of Commerce

Investment services and favourable policies help companies manage costs

Price for Land Use Rights (LUR)

Price for LUR (CNY/m²), 2012

	2011	2012
Changsha National High-Tech Industrial Development Zone (CHTIDZ)	480	525-600
Changsha National Economic and Technology Development Zone (CETZ)	550	550
Ningxiang National Economic and Technological Development Zone (NXETZ)	390-525	390
Liuyang National Economic and Technology Development Zone (LYETZ)	120-140	340

Relatively stable cost for plant construction

Plant construction cost (CNY/m²), 2012

	CHTIDZ		CETZ		NXETZ		LYETZ	
	2011	2012	2011	2012	2011	2012	2011	2012
Based on a floor area of 1,000 m ² and height of 8-15m for a single storey steel-frame factory	400-600	500-800	800-1,000	1,000	800-1,000	900	1,500	800,-1,500
Based on a floor area of 1,000 m ² and height of 4-5m per floor for a three to six-storey steel-reinforced concrete factory	800-1,200	1,000-1,500	1,000-1,500	1,500	1,000-1,400	800-1,400	1,300	800,-1,500

Sources: Changsha Bureau of Commerce

A large, affordable workforce helps reduce labour cost

Changsha has a large, high-quality workforce to support the human resource strategy of investors

- Changsha has 97 scientific research institutes, 50 colleges and 310,000 college graduates, ranking number one among central cities for its large number of colleges and graduates
- As a leader in the industrial machinery industry, Changsha has a sizable professional and technical workforce
- Changsha has 32 technical schools and in 2011 the city had 43,000 graduates with a background in electronics, auto repair, and machinery
- According to a 2012 survey conducted by Changsha's Furong District, the average turnover rate at corporations was around 9.6 percent

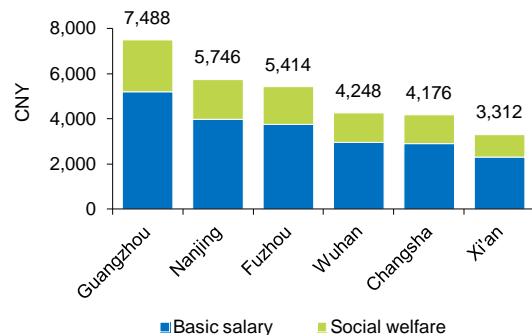
Labour costs in Changsha are competitive when compared to coastal and major inland cities

- Changsha has advantageous salary and labour costs (including social benefits) when compared to major coastal cities
- In this study, Wuhan, Xi'an, Fuzhou, Nanjing and Guangzhou were chosen for comparison. Changsha has lower labour costs compared to coastal cities of Guangzhou, Nanjing and Fuzhou, and sits in between inland cities of Wuhan and Xi'an (see the figure on the right)
- According to local rules, a company is obligated to pay social welfare at 44 percent of their employees' basic salaries; therefore, for an employee with a monthly salary of CNY 2,900, the employer needs to pay an additional CNY 1,276 to meet social welfare obligations (see the figure on the right)
- Changsha's employee salary levels are relatively stable, with the average growth rate being 5-10 percent (see the table on the right)

The government provides incentives for highly skilled employees

- According to the "Government Talent Introduction Plan," Changsha recruited more than 10,000 professionals during 2009-2011, including 4,000 technical and 3,000 management personnel
- The government is earmarking CNY 30 million each year to fund incentives to attract skilled individuals to move to Changsha, particularly those with professional qualifications or business start-ups. The science and technology industrial park and district also provides supporting funds
- The government has also budgeted CNY 60,000 per Doctorate degree holder and CNY 30,000 per Masters degree holder as an incentive to attract individuals who have signed a labour contract with Changsha-based companies for a duration of three or more years

Basic salary and social welfare for Changsha and selected cities, 2012



Reference salaries for Changsha's employees

Position	Yearly salary (CNY)	
	2011	2012
Manufacturing Manager	20,110-164,000	22,100-185,000
Accounting Manager	19,160-168,740	21,200-177,500
Sales Manager	14,500-143,300	15,400-151,000
Technical staff	15,460-101,330	19,300-108,000
Operating staff	12,240-136,600	14,000-77,500

Note: 'coastal city' refers to cities located in provinces that border the ocean

Sources: Changsha Bureau of Commerce; Official website of Changsha Furong District Government; Guangzhou Bureau of Statistics; Nanjing Bureau of Statistics; Fuzhou Bureau of Statistics; Wuhan Bureau of Statistics; Xi'an Bureau of Statistics;

Clusters and facilities in industrial zones support companies to grow

Four industrial zones and eight industrial parks help drive Changsha's development

- Changsha currently has 12 major industrial parks, four of which are national-level economic development zones, and eight of which are provincial-level industrial parks. Together, the zones and parks cover an area of 467 km²
 - The four national level zones are the Changsha National High-Tech Industrial Development Zone (CHTIDZ), Changsha National Economic and Technology Development Zone (CETZ), Ningxiang National Economic and Technological Development Zone (NXETZ) and Liuyang National Economic and Technology Development Zone (LYETZ)
- Changsha's industrial zones and parks have grown rapidly in recent years
 - In 2012, large-scale companies in the “four zones and eight parks” generated CNY 139.2 billion in added industrial value, realising a CAGR of 35.5 percent between 2009 and 2012. This accounted for 60.3 percent of added industrial value citywide

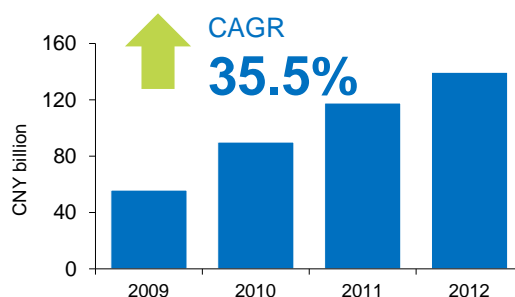
Industrial zones provide companies with land and offer preferential policies

- Industrial zones offer quality land for investors. Changsha has abundant land for further expansion
 - Total projected area for the four national industrial zones is 467 km², only 28 percent of which is currently developed
- Industrial zones provide investors with tax incentives and preferential financing policies, for example
 - For fixed asset investments above CNY 500 million in electronics, equipment manufacturing or new materials, CHTIDZ provides companies with a supplement of at least 10 percent of the fixed asset investment amount

Clusters in industrial zones provide companies with value chain support

- The industry clusters in industrial parks are maturing and they can provide companies with value chain support, for example:
 - LYETZ has attracted about 60 GMP standard pharmaceutical companies and these companies' total capacity represents two-thirds of Hunan's total

Industry added value for large-scale companies in Changsha's “four zones and eight parks”, 2009-2012



Sources: Changsha Bureau of Commerce; Official website of Changsha Bureau of Commerce

Changsha's four national industrial zones and eight industrial parks focus on different industry sectors. All of these areas are located within 40 km of the airport and the inland port



Four industrial zones and eight industrial parks:

1. Changsha National High-Tech Industrial Development Zone
2. Changsha National Economic and Technology Development Zone
3. Ningxiang National Economic and Technological Development Zone
4. Liuyang National Economic and Technology Development Zone
5. Longping High-tech Park
6. Jinxia Economic Development Park
7. Wangcheng Economic Development Park
8. Ecology Science and Technology Park
9. Tianxin Industrial Park
10. Muyun Industrial Park
11. Liuyang Manufacturing Base
12. Jinzhou New Area

Industry sectors' related zones and parks

Industry sector	Related zones and parks
Construction machinery	2 , 8 , 10 , 11
Automobile and parts	2 , 8 , 10 , 11
New material	1 , 3 , 5 , 6 , 7 , 10 , 12
Biomedical	1 , 4 , 5
Trade and logistics	6 , 7 , 9
Electronic information	1 , 2 , 4 , 5 , 12
Advanced manufacturing	1 , 3 , 10 , 12
Environment protection	1 , 8
Food and beverage	2 , 4 , 7
Service industry	3 , 5 , 12

Sources: Changsha Bureau of Commerce

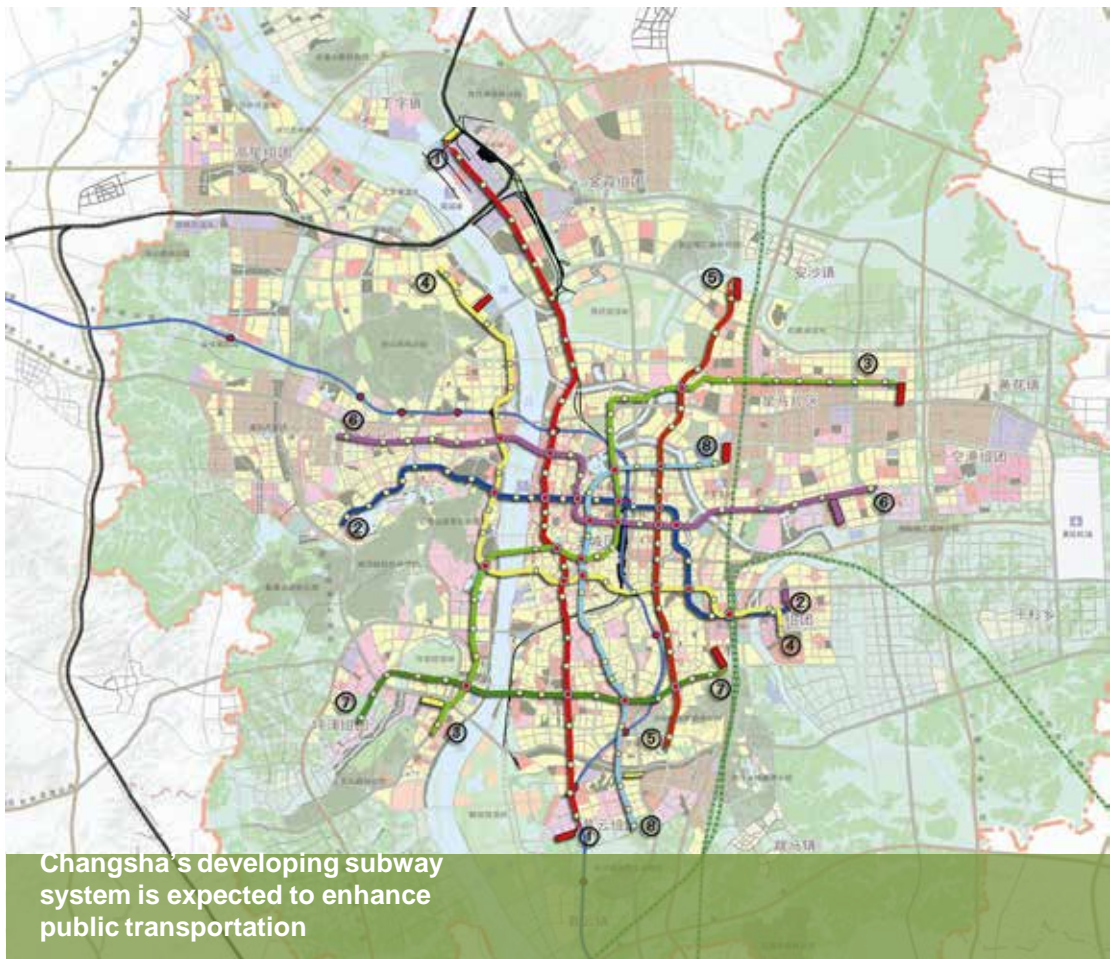


**Positive commercial environment
enables companies to maintain
growth**

Changsha offers a wide variety of accommodation options

- There are 35 high-end hotels located in Changsha, including 22 four-star and 13 five-star hotels
- Changsha also has a full range of economy hotels, including Hanting Inn, Motel 168, Home Inn and Jinjiang Inn, which provide clean standard rooms ranging from CNY 110 to CNY 200 per night
- Long-term expats have several options for lodging in Changsha, ranging from apartments to serviced rooms in one of Changsha's hotels
 - In 2012, the average purchase price of a condo in downtown Changsha was around CNY 6,545/m²; the rental for a 100m², two bedroom apartment was about CNY 1,500/month

Sources: Changsha Bureau of Commerce



Subway Line	Construction period
Line 1	2010-2014
Line 2	2009-2013
Line 3	2013-2016
Line 4	2013-2017



Changsha has a convenient transportation system

- Changsha's public bus system has a standard one-way ticket price of CNY 1 for non-air conditioned buses, and CNY 2 for air-conditioned buses
- By the end of 2012, about 6,280 cabs were available for passengers, with prices starting at CNY 6 for the first 2 kilometres and CNY 1.8 for each additional kilometre in the daytime, and CNY 7 and CNY 2.16 respectively at night
- Four subway lines are under construction and are expected to be in operation between 2013 and 2017

Sources: Changsha Bureau of Commerce



Modern public infrastructure provides a favourable living environment



Changsha has a developed medical care system, with a number of different types of medical institutions

- At the end of 2012, Changsha had 4,270 medical institutions, including 255 hospitals and health centres. In Changsha, both the Third Xiangya Hospital and Changsha Central Hospital offer medical services to foreigners
 - The Third Xiangya Hospital has won national recognition for the quality of its services



Changsha has strong international educational resources

- Several schools are available for the children of expats in Changsha, including:
 - Lushan International Experimental School that provides education resources covering primary and middle schools as well as an international department
 - Changsha (Weixi) International School that provides primary school courses



Changsha Huangcai Reservoir



Changsha's long history, comfortable climate, and rich tourism resources make it a liveable city

- Changsha's written history dates back as early as 1600 B.C. In 1982, it was designated as a "historic city" by the State Council, one of the first cities in China to receive the honour
- Changsha has a subtropical climate with four distinct seasons. In 2012, the local rainfall and average temperature were 1,730 mm and 17.6°C
- Changsha has one National AAAAA tourist attraction, 15 National AAAA tourist attractions, two national key scenic spots and 11 nationally protected cultural sites



Changsha also offers ample leisure and entertainment options

- "Hunan Cuisine" is one of China's eight major cuisines, with more than 4,000 dishes
- Changsha has a range of cafes, theatres, and other entertainment and leisure options, for example the Grey Soup SPA, Qingzhu Riverside Golf Club and Tianhan Grand Theatre

Sources: Changsha Bureau of Commerce

Appendix : Useful contacts

For investment and business

Changsha Municipal Bureau of Commerce

10th Floor, The First Municipal
Government Mansion
No.218 Yuelu Road, Changsha
Postcode: 410013
Website : www.cstrade.gov.cn

Foreign Investment and Service
Administration
Tel: +86 (731) 8866 6056
Email : csinvest2008@yahoo.com.cn

Foreign Investment Liaison Department
Tel: +86 (731) 8866 5557
Email : hinvest@yahoo.com.cn

Foreign Trade Department
Tel: +86 (731) 8866 5556
Email : ld_trade@126.com

China Council for the Promotion of
International Trade, Changsha branch AND
China Chamber of International Commerce,
Changsha Chamber
Address : No.182, Chaoyang Road,
Changsha
Tel : +86 (731) 8416 5136
Website : www.cscpcpit.org

For major industrial zones

Changsha Riverwest, Xiandao District
Management Committee
No.668 Riverwest, Lugu Road, Changsha
Tel : +86 (731) 8899 5180
Website: www.csxdq.gov.cn

Changsha High-Tech Development Zone
Management Committee
No.668 Riverwest, Lugu Road, Changsha
Tel: +86 (731) 8899 5542
Website : www.cshtz.gov.cn

Changsha Economic and Technical
Development Zone Management
Committee
No.2 Xingshasanyi Road, Changsha
Tel: +86 (731) 8401 1101
Website : www.cetz.gov.cn

For other government bureaus

Changsha Development and Reform
Committee
5th Floor, The First Municipal Mansion
No.218 Yuelu Road, Changsha
Tel : +86 (731) 8866 5530
Website: fgw.changsha.gov.cn

Changsha Housing and Urban-rural
Development Committee
10th Floor, The First Municipal
Mansion
No.218 Yuelu Road, Changsha
Tel : +86 (731) 8866 5908
Website : www.zgcsjs.com

Changsha Industry and Information
Technology Commission
8th Floor, The First Municipal Mansion
No.218 Yuelu Road, Changsha
Tel : +86 (731) 8866 6008
Website : www.csgy.gov.cn

Changsha Municipal Bureau of Land and
Resources
No.238 Laodong East Road, Changsha
Tel: +86 (731) 8299 6215
Website : www.csgtzy.gov.cn

Changsha Municipal Bureau of
Transportation
No.269 Wanjiali Middle Road, Changsha
Tel: +86 (731) 8815 1200
Website : <http://jtysj.changsha.gov.cn>

Changsha Municipal Bureau of Urban-
rural Planning
9th Floor, The Second Municipal
Government Mansion
No.218 Yuelu Road, Changsha
Tel: +86 (731) 8866 6205
Website : www.csup.gov.cn

Changsha Municipal Bureau of
Environmental Protection
No.160 Chaoyang Road, Changsha
Tel: +86 (731) 8412 9654
Website : <http://hbj.changsha.gov.cn>

Changsha Municipal Bureau of Human
Resources and Social Security
No.1 669 Lotus Middle Road Yiduan
Tel: +86 (731) 8490 7958
+86 (731) 8866 6050
Website : www.csldbz.gov.cn
www.crx.com

Changsha Municipal Bureau of Industry and
Commerce
No.411 South 2nd Ring Road, Yiduan,
Changsha
Tel: +86 (731) 8997 1997
Website : www.csaic.gov.cn

Changsha Municipal National Taxation
Bureau
No.269 Shaoshan Road North, Changsha
Tel: +86 (731) 8418 5602
Website : www.csgtax.gov.cn

Changsha Municipal Local Taxation Bureau
No.1 Baisha Street, Changsha
Tel: +86 (731) 8511 8960
Website : www.cstax.gov.cn

Major website links

Hunan Provincial Government
www.hunan.gov.cn

Changsha Municipal Government
www.changsha.gov.cn

Changsha Business
www.cstrade.gov.cn

Changsha Customs
changsha.customs.gov.cn

Xingchen Online
www.changsha.cn

Changsha Real Estate Development
www.haofz.com

Changsha Online Map
www.changsha.edushi.com

Changsha Tour
www.csta.gov.cn

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In 1992, KPMG became the first international accounting firm to be granted a joint venture licence in China. It is also the first Big Four accounting firm in Mainland China to convert from a joint venture to a special general partnership, as of August 1, 2012. The firm's Hong Kong operations have additionally been established for over 60 years. This early commitment to the China market, together with our unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in our appointment by some of the China's most prestigious companies.

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KPMG has set up the Global China Practice (GCP) to assist Chinese businesses that plan to go global, and multinational companies that aim to enter or expand into the China market. There are currently over 50 China Practices in key investment locations around the world. They provide investment knowledge and assistance on matters across the investment life cycle.

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Plaza, 59 Beizhan Road
Shenyang 110013, China
Tel : +86 (24) 3128 3888
Fax : +86 (24) 3128 3899

Xiamen

12th Floor,
International Plaza
8 Lujiang Road
Xiamen 361001, China
Tel : +86 (592) 2150 888
Fax : +86 (592) 2150 999

Shenzhen

9th Floor, China Resources
Building
5001 Shennan East Road
Shenzhen 518001, China
Tel : +86 (755) 2547 1000
Fax : +86 (755) 8266 8930

Macau

24th Floor, B&C, Bank of China
Building
Avenida Doutor Mario Soares
Macau
Tel : +853 2878 1092
Fax : +853 2878 1096

Shanghai

50th Floor, Plaza 66
1266 Nanjing West Road
Shanghai 200040, China
Tel : +86 (21) 2212 2888
Fax : +86 (21) 6288 1889

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46th Floor, Zhujiang No.1
Plaza, 1 Zhujiang Road
Nanjing 210008, China
Tel : +86 (25) 8691 2888
Fax : +86 (25) 8691 2828

Qingdao

4th Floor,
Inter Royal Building,
15 Donghai West Road
Qingdao 266071, China
Tel : +86 (532) 8907 1688
Fax : +86 (532) 8907 1689

Chengdu

18th Floor, Tower 1, Plaza
Central
8 Shuncheng Avenue
Chengdu 610016, China
Tel : +86 (28) 8673 3888
Fax : +86 (28) 8673 3838

Hangzhou

8th Floor, West Tower, Julong
Building , 9 Hangda Road
Hangzhou 310007, China
Tel : +86 (571) 2803 8000
Fax : +86 (571) 2803 8111

Fuzhou

25th Floor, Fujian BOC Building
136 Wu Si Road
Fuzhou 350003, China
Tel : +86 (591) 8833 1000
Fax : +86 (591) 8833 1188

Guangzhou

38th Floor,
Teem Tower,
208 Tianhe Road
Guangzhou 510620, China
Tel : +86 (20) 3813 8000
Fax : +86 (20) 3813 7000

Hong Kong

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
Tel : +852 2522 6022
Fax : +852 2845 2588