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Research Report on the Investment Environment of **Longkou City, Shandong Province**



Preface

The City of Longkou in Shandong Province, recognized as a Bright Pearl of Bohai Gulf, advantageously sits in the overlapping area of the strategic Central Area of Shandong Comprehensive Pilot Zone for Transformation of Growth Engines, Shandong Peninsula Blue Economic Zone, and Bohai Economic Rim. The city has been ranked among the top 10 in China's lists of top 100 counties and county-level cities in economic development and industrial development.

Staying committed to building a strong industry-driven city for years, Longkou has been making focused efforts to upgrade traditionally advantageous manufacturing industries, such as high-end aluminum, automobile and auto parts, and light manufacturing, while accelerating the development of strategic emerging industries, including new materials, high-end equipment manufacturing, biology-related industries, new-generation information technologies, and energy saving and environmental protection. Additionally, it is continuously improving the clean energy sector located near Longkou Port by leveraging the geographical advantages, and strategically developing modern service industries represented by modern logistics, modern finance, and cultural tourism. During the 13th Five-Year Plan period (2016-2020), Longkou aims to provide more advanced and better products and services. The city is focusing on developing oceanic, urban, industry park, specialized and other new forms of economies, and strengthening the advanced manufacturing, modern service and ecology-friendly delicate agriculture industries. It is also endeavoring to further integrate itself into the global industry chains and value chains, and accelerate the development of a growth model and industry system mainly driven and supported by innovation.

In the new era of development, Longkou is counting on major high-quality projects to enhance its industry layout, accelerate the shift of growth engines, and achieve industry upgrading. A number of major projects in line with the city's goal of industry upgrading, such as the ethane-based multi-product project, the aerospace material industry park and the liquefied natural gas (LNG) terminal projects, are contributing to the development of full-chain industry clusters and supporting systems, and attracting increasing investment from businesses and entrepreneurs based in China and beyond. Meanwhile, based on strengthened industry foundation, the city is working to enable the innovation and entrepreneurship of various market players with an encouraging business environment.

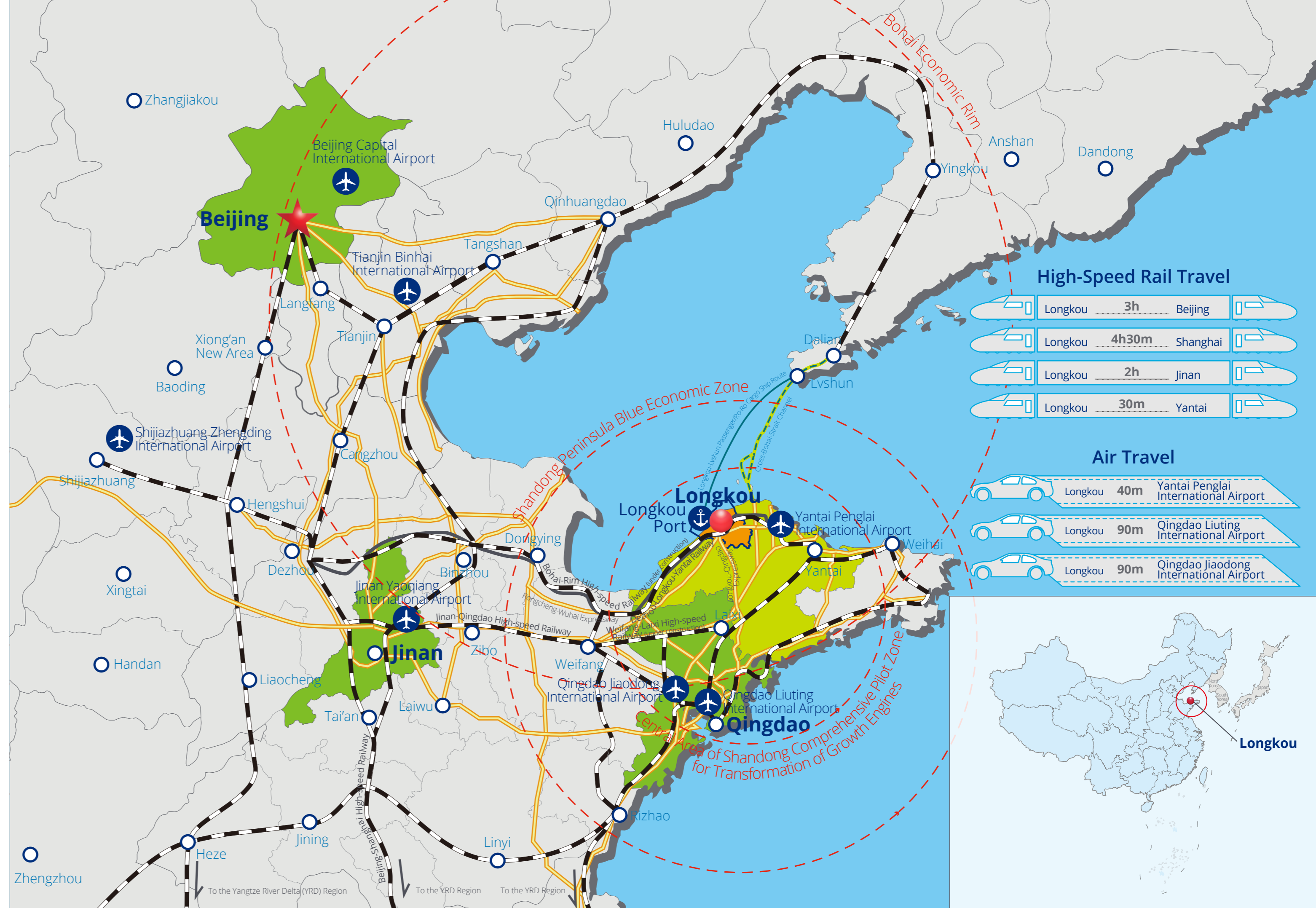
At a time of new opportunities, Deloitte China (hereinafter "Deloitte" or "we") is honored with the request from the Longkou Municipal Government to develop this *Research Report on the Investment Environment of Longkou City, Shandong Province* for investors from an objective third-party perspective using specialized research and analysis methodologies. In addition to information and data on the economic and industry development of Longkou, this report also includes views and insights obtained through interviews with various government officials and companies' management in the city, combined with Deloitte's rich experience in the research of investment environment and industry development. The Research Report aims to present a comprehensive overview of the investment environment in Longkou from the following five aspects:

- Government policies and services
- Business environment
- Infrastructure
- Human resources
- Living environment

The Report also analyzes the development planning of Longkou and featured services provided by competent authorities, presenting insights into its advantages in investment environment and development prospects, specifically:

- Superior geographic location and favorable business and living conditions
- Encouraging government policies and supportive administrative services
- Strong pillar industries and proactive innovation strategies

As China deepens its progress on growth model shift, economic structure optimization, and transformation of growth engines, Longkou is ready to closely align with national strategies to create a more innovative, attractive, competitive and sustainable business environment.



High-Speed Rail Travel

Longkou	3h	Beijing
Longkou	4h30m	Shanghai
Longkou	2h	Jinan
Longkou	30m	Yantai

Air Travel

Longkou	40m	Yantai Penglai International Airport
Longkou	90m	Qingdao Liuting International Airport
Longkou	90m	Qingdao Jiaodong International Airport

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Chapter I

Overview of Longkou City

Basic Facts

1 Long History and Rich Legacies

The City of Longkou was historically known as Huang County, one of the first county-level administrative divisions in China dating back to the Qin Dynasty. In 1986, approved by the State Council of China, it was renamed Longkou, meaning “the mouth of a dragon” in Chinese, due to the unique shape of its bay. People in Longkou are long known for their talents in business, represented by the famous Ding family and many other distinguished merchants.

Longkou has been a hub of politics, economy and culture in Shandong Peninsula. It was the capital of the ancient Lai State and a county town in Qin, East Han, East Wei and North Qi Dynasties, and served as a command center in northern China during the Second Sino-Japanese War. Playing significant roles in Chinese history, Longkou has become a city of rich historical and cultural legacies with great development potential.

2 Bright Pearl of Bohai Gulf with Remarkable Economic Development

Situated in the northwest of Jiaodong Peninsula, and on the south coast of the Bohai Gulf, Longkou covers an area of 901 km² with a coastline extending for 68.4 km. It is bordered by Yantai on the east and Qingdao on the south, faces Dalian and Tianjin across the gulf in the north, and overlooks South Korea and Japan across the sea. As a key part of the Shandong Comprehensive Pilot Zone for Transformation of Growth Engines and the Shandong Peninsula Blue Economic Zone, Longkou is rising as a booming port city in the Bohai Economic Rim.

Longkou has been taking the lead in Shandong Province in terms of total economic volume, fiscal revenues and other key economic indicators. Since 2008, Longkou has been ranked first in the economic development assessment among the counties and county-level cities in Shandong Province and among the best in China’s list of top 100 counties and county-level cities in comprehensive strength.

3 A Bright Future through Transformation and Upgrading

Based on the city’s strong industry foundation, a manufacturing industry cluster has taken shape. Longkou is committed to accelerating the transformation of traditional

Titles & Highlights

- National Model City
- Top Tourist City in China
- National Garden City
- National Health City
- National Excellent City in Culture
- Top 10 of China’s Top 100 Counties in Industrial Development
- National Excellent City in Scientific and Technological Progress
- National Experimental Zone for Sustainable Development
- National New-type Industrialization Demonstration Base
- A City Known for Transportation Aluminum Manufacturing
- An Excellent County-level Administrative Unit in Shandong Province in terms of Economic Development
- A County-level Pilot Zone of Economic and Technological Transformation and Upgrading in Shandong Province

industries and developing strategic emerging industries, with innovation as the primary growth engine. The industry structure has been constantly optimized, which features advanced manufacturing and modern services as two main driving forces and an in-depth integration of the Internet with other industries.

In recent years, Longkou has made great progress in technological innovation through a series of programs:

First, the Partnership Program has been launched to help businesses cooperate closely with prestigious colleges, universities and institutes to establish new research institutions featuring multiple investors, diversified models, corporate operation mechanism, and market-oriented strategies; Second, the Star Program has been rolled out for the development of incubators, including makerspaces, startup café and innovation works, in a bid to provide low-cost yet convenient, open and well-equipped working space for the growth of micro and small enterprises (MSEs); Third, the Upgrading Program is aiming to accelerate the development of promising technological MSEs into high-tech companies and established high-tech companies into leading players in innovation; Last but not least, the Talent Program is dedicated to cultivating and attracting top talents or teams in innovation and entrepreneurship, and talents in high demand. During the 13th Five-Year Plan period, Longkou, will continue to improve the technological innovation system driven by cooperation between businesses, universities and research institutes, and help companies improve their innovation capabilities and core competencies at a fast space.



Local Economy

A Leading County-level City in Overall Economic Strength

- Longkou has maintained a buoyant GDP growth for years, leading the other county-level administration divisions in Shandong Province and beyond. In 2017, the city's GDP increased by 7% on a year-on-year basis to RMB 119.09 billion, the largest at the county level in Shandong, making the city the only one in the province listed in China's top 10 economically strong county-level divisions.
- In 2017, the secondary industry of Longkou continued to expand by 6.8% year on year, recording RMB 67.3 billion in value added; its tertiary industry enjoyed a robust growth, increasing by 7.6% or RMB 47.84 billion on a year-on-year basis and accounting for 58% of the city's GDP.



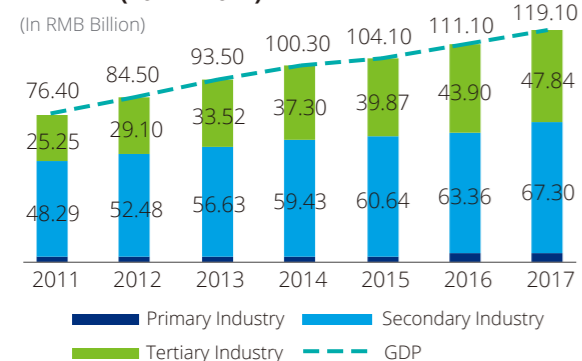
Industrial Development Achieving Larger Scale and Higher Quality

- In Longkou, increasing investments have been committed to the industrial sector pillared by the manufacturing industry. In 2017, the investments in fixed assets made by local industrial enterprises with an annual revenue of RMB 20 million or more reached RMB 73.36 billion, a 9.2% increase from the previous year; in particular, RMB 53.01 billion were devoted to industrial fixed assets, up by 6.6%. Thanks to such strong investments, the city's industrial output has been continuously expanding. The overall output of Longkou's industrial enterprises with an annual revenue of RMB 20 million or more recorded RMB 249.92 billion in 2017, marking a year-on-year increase of 8.7%.
- Longkou has stepped up efforts to improve the quality and efficiency of local industrial development in addition to larger scales, including encouraging businesses to transform and upgrade technology in a systematic way. From 2011 to 2017, a total of RMB 75.5 billion was invested in technological transformation projects. As of the end of 2017, Longkou was home to 19 state-level high-tech industrial companies, while the high-tech industrial sector accounted for 55.27% of the overall output of local industrial enterprises with an annual revenue of RMB 20 million or more.



- Since the 12th Five-Year Plan period (2011-2015), Longkou has been proactively optimizing its industry structure by capitalizing on scientific and technological innovation. From 2011 to 2017, the contributions of the primary and secondary industries to the city's GDP declined by 0.5 percentage point and 6.7 percentage points respectively, while that of the tertiary industry rose by 7.2 percentage points. Longkou has been accelerating the optimization of the industry structure from "secondary, tertiary, primary industry" to "tertiary, secondary, primary industry" (in the order of the proportion of contribution to GRP, from highest to lowest). In 2017, the ratio of primary-secondary-tertiary industries recorded 3.3:56.5:40.2.

Figure 1: Longkou's GDP and its Composition (2011 - 2017)



- In recent years, Longkou has been proactively attracting and supporting major projects that may significantly contribute to the city's overall long-term development. In 2017, the city devoted every effort required to facilitate the implementation of several major projects, including the ethane-based multi-product project with a total investment of RMB 26.9 billion, the RMB 60-billion aerospace material industry park, two LNG terminals costing about RMB 14 billion, and the RMB 2.87-billion Taxus Life Cell Bank. As leading companies and major projects are increasingly settling in Longkou, the city is gaining greater momentum in industrial development.

Local Economy (Continued)

A Continuously Expanding Consumer Market

- Longkou is striving to serve as a regional logistics hub for goods and a nationally recognized tourist destination, while seeking and developing new consumption growth areas. In 2017, the retail sales of consumer goods in Longkou grew by 10% over the previous year to a total of RMB 43.33 billion. In the same year, the per capita disposable income of urban and rural residents both increased by 7.9%, to RMB 45,013 and RMB 20,554 respectively.
- Focusing on e-commerce, advanced manufacturing and modern logistics, Longkou is proactively implementing the "Internet Plus" action plan to accelerate the deployment of Internet-based innovations in every possible sector of the economy and society. Efforts have been made to use these digital innovations in creating new business models and promoting the efficient and steady development of new technologies, industries, business types and growth models.

Increasingly Attractive to Foreign Investments

- In recent years, Longkou witnessed a rapid growth in foreign-funded companies. In 2017, 26 new foreign-invested projects were signed to settle in Longkou, whose contractual investment value totaled USD 270 million, marking an increase of 20% year on year, with the execution value amounting to USD 200 million, up by 9%. As of the end of 2017, it enjoyed a total contractual foreign direct investment (FDI) of USD 6.95 billion, with USD 4.21 billion executed.
- Longkou has benefited from strategic partnerships with a wide range of overseas investors based in more than 120 countries and territories, including the US, Germany, France, Canada, Italy, Russia, Finland, South Korea, Japan, Hong Kong, Macao and Taiwan. As of the end of 2017, the city was home to a total of

1,106 projects utilizing foreign capital, including 358 major projects receiving an investment of USD 10 million or featuring a contractual foreign investment of USD 5 million.

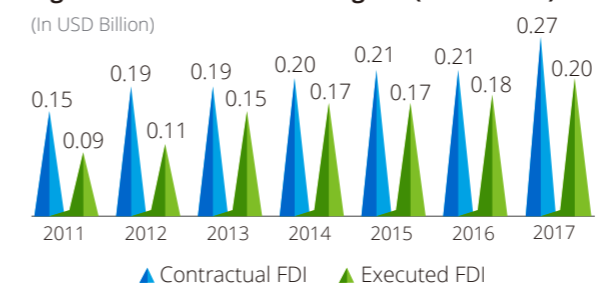
A Vibrant Capital Market

- As of now, Longkou has been speeding up the formulation of incentive policies to attract more financial resources and capital, which will then be deployed to better develop the real economy and support industry transformation and upgrading.
- Longkou ranks first among counties and county-level cities in Shandong regarding the number of companies listed on China's two main boards. By the end of 2017, the city was home to 8 listed companies with a total financing amount of RMB 35.96 billion. In addition, there were 30 companies preparing to be listed. As Longkou-based companies have demonstrated remarkable achievements in attracting funds from the capital market in recent years, enabling companies to go public is proven to be a critical way for Longkou to leverage the capital market for economic transformation and upgrading.
- Since the beginning of 13th Five-Year Plan period, Longkou has been strongly drumming up interests in social sector investment, and expanding effective investments in advanced industries, energy saving and environment protection, infrastructure and wellbeing of the people. Public-private partnership (PPP) programs have been rolled out in social good sectors, such as municipal public utilities, healthcare and elderly care.

Table 1: Major Business Players in Longkou

Listed Companies Established in Longkou	Fortune Global 500 Companies
Shandong Nanshan Aluminum	<ul style="list-style-type: none"> • Hong Kong and China Gas • Ahlstrom-Munksjö, Finland • Air Products & Chemicals, USA • Google, USA
Hengtong Logistics	
Longji Machinery	
Xingmin Intelligent Transportation Systems	
Shandong Dawn Polymer	
Weilong Grape Wine	
Lontrue	
Zhongji Innolight	

Figure 2: FDI amounts in Longkou (2011 - 2017)¹



Note: For the purpose of this report, the foreign investment amounts recorded in RMB in the monthly statistics reports of Longkou in 2016 have been converted into USD at the exchange rate on December 30, 2016 issued by the State Administration of Foreign Exchange of China. Source: 1. Monthly statistics reports of Longkou in 2017; 2. Statistical Communiqué of Longkou (2017); 3. 2018 Longkou Municipal Government Work Report; 4. Longkou Municipal Statistics Bureau; 5. Longkou Municipal Bureau of Commerce; 6. Longkou Office of Financial Management



Transparent and Targeted Government Policies (for Industry Development)

As institutional reform keeps bringing out enormous social vitality, Longkou has maintained sound economic development momentum with steady growth and improved quality in a steadily improved business environment. Seizing fresh opportunities presented by new circumstances during the 13th Five-Year Plan period, the city has been continuing to focus on institutional reform on industry development, technological innovation, talent support systems and financial services, constantly injecting impetus into its development.

Policies in Support of Industry Development

➤ Support for Business Expansion and Growth

As an effort to enhance the competitiveness of local companies, Longkou has introduced a series of favorable policies including rewarding companies for their contribution to the local economy. Incentive packages are granted to qualified projects in proportion to their contribution to the local economy, which include industrial projects, projects in strategic emerging industries, and those promoting the development of headquarters economy and creating non-local tax sources. A mechanism of providing targeted support through case-specific analysis has also been adopted to facilitate major projects.

➤ Promotion of Industry Transformation and Upgrading

In a bid to accelerate the transformation and upgrading of traditional industries as well as the innovative development of strategic emerging industries, Longkou has rolled out a series of favorable policies to encourage the development of local companies through internal culture, capacity and brand building.

For local traditional industries, incentive packages are granted to companies developing in line with the national and municipal governments' policies in transforming and upgrading the industry structure.

As for emerging industries, Longkou offers great support to the development of electronic information, aerospace, new energy vehicle, medical and health care as well as military and defense industries.

➤ Business Operating Cost Reduction

Longkou has launched several measures to reduce operating costs for local companies, including reducing governmental service charges, providing subsidies for infrastructure facility costs, and offering office subsidies capped at RMB 2 million. These measures have substantially reduced burdens on local companies, bringing out their vitality in production and operation.

➤ Local Brands Promotion

In support of well-known local brand promotion programs including "Quality Shandong Brands & Intelligent Longkou Manufacturing" and "Trustworthy Shandong Brands", the municipal government has provided a dedicated fund of RMB 6 million for the development of local brands on a yearly basis. This fund aims to encourage local companies to leverage traditional media and Internet-based new media to promote themselves, expand market presence, and become better positioned to go global.

➤ Incentives for Investment and New Projects

In order to improve the business environment of the city for investment and business operation, Longkou has introduced a set of targeted incentive policies for the implementation of new projects. Fixed asset investment projects and new projects launched by qualified companies newly incorporated in Longkou are entitled to funding capped at RMB 30 million per project, and those projects using newly-acquired land are entitled to extra funding.



Source: 1. Longkou Municipal Government, *Incentive Policies on Attracting Business, Investment and Talent and Accelerating Transformation of Development Model*, November 2017; 2. CPC Longkou Municipal Committee and Longkou Municipal Government, *Opinions on Accelerating the Program of Upgrading the Manufacturing Industry of Longkou*, November 2017.

Chapter II Government Policies and Services

Transparent and Targeted Government Policies (for Technological Development)

Policies in Support of Technological Innovation

With a view to continuously enhancing technological innovation and outcome transformation, Longkou has formulated comprehensive supporting policies, and offered a wide range of services to encourage innovation, including dedicated funding, intellectual property protection, promotion of outcome transformation, and technological business incubation.

Strong Support for Technological Innovation

An Improved Incentive Package

To stimulate creativity and enthusiasm of technological specialists, an incentive package (see Table 2) comprising of rewards and subsidies for technological innovation and cooperation has been improved, creating a favorable environment for innovation.

An Innovative Services Platform

As part of its efforts to provide more complete services for the technological market, the city has been promoting the development of technological consulting and other knowledge-based technological services by leveraging modern information technologies. It is also striving to foster a professional technological services platform clustering specialized service providers. New industry forms such as “design + brand”, “design + technology” and “design + culture” are encouraged for enhanced capabilities to provide all-round superior design services, enabling industrial R&D and design to move up the value chain.

Dedicated Fund for Technological Innovation

In 2017, the Longkou Municipal Government set up a dedicated fund of RMB 20 million to support technological advancement and innovation. Planned to be increased on a yearly basis in accordance with the growth of the fiscal revenue, this fund aims to provide strong financial support for the city's technological innovation.

Promotion of Technological Outcome Transformation

With a view to promoting technological outcome transformation, Longkou has provided subsidies and rewards for the following qualified organizations in the city: These financial supports have created a favorable environment for enterprises to innovate and commercialize technological outcomes.



Source: CPC Longkou Municipal Committee and Longkou Municipal Government, *Strategic Action Plan of Longkou City on Accelerating Innovation-driven Development (2016-2020)*, November 2016

Table 2: Science and Technology Subsidies and Rewards in Longkou

Subsidies/Rewards	Amount
First Prize of the Science and Technology Award	RMB 300,000 for each specialist
Science and Technology Cooperation Award	RMB 100,000 for each project
Science and Technology Progress Award	RMB 5,000 – 30,000
Patent Award	RMB 5,000 – 30,000
Subsidies for Invention Patents	An invention patent in mainland China: A one-off subsidy of RMB 2,000 during application; A one-off subsidy of RMB 5,000 after the granting of the patent; Reimbursement for the patent fee within three years after the granting of the patent.
	An invention patent outside mainland China: A one-off subsidy of RMB 5,000 during application; A one-off subsidy of RMB 10,000 after the granting of the patent.
	A one-off reward of RMB 30,000 for enterprises obtaining more than five patents within one year; A one-off reward of RMB 50,000 for enterprises obtaining more than ten patents within one year.

Technological Business Incubation

Longkou has been actively promoting the development of business incubators, and encouraging the incubators to build alliances with technological services institutions in areas including finance, investment, technology transfer and intellectual property. As more favorable resources in technological services are being pooled into the incubators, innovative enterprises including high-tech startups are enjoying comprehensive and diversified one-stop services.

Intellectual Property Protection

Longkou is seeking to establish a social credit system for intellectual property, a fast track for protecting state-level intellectual property, and a response mechanism for major international intellectual property disputes, to facilitate the protection of industry innovation and intellectual property.

Transparent and Targeted Government Policies (for Talents and Financial Development)

Attracting High-caliber Talents

In recent years, Longkou has made great efforts to attract and recruit more targeted professionals in an efficient way, especially high-caliber talents for innovation and entrepreneurship projects, to create a stronger high-level talent pool.

To further unleash the potential of talents in innovation, the city has launched a series of attractive incentive policies. Companies that recruit high-caliber talents will be granted dedicated subsidies of up to RMB 600,000. As part of the Longkou Talent Program, a dedicated fund of no less than RMB 100 million has been set up to provide subsidies for experts under the “1,000 Talents Program”¹, “10,000 Talents Program”² and others, and offer financial rewards for doctorate, master, and bachelor degree holders who are newly recruited or have been working in Longkou more than three years. On top of that, the city has set up awards to attract managerial elites and professional researchers.

Enhanced Talent Services

Complete with its talent support policies, Longkou provides considerate talent services. It has issued the Longkou Talent Cards to ensure consistent support for talents, offering a wide range of services including entry and exit procedures, family members' employment, children education, housing and healthcare. In addition, a comprehensive service system consisting four categories of designated personnel, who are responsible for general services, contact, healthcare and innovation support respectively, has been established to better satisfy high-level professionals who live and work in the city.

Business Startup Support

A variety of supporting policies have been launched to facilitate innovation and entrepreneurship in the city. A qualified entrepreneur, who has established a technology-based company in Longkou and acts as main person-in-charge, will be granted up to RMB 10 million for equipment purchase and R&D, according to the actual input and project progress. For major startup projects, specifically tailored support will be provided to bring practical benefits to these companies.

Policies in Support of Talents Development

Integrated Financial Resources

To amalgamate financial resources and diversify its industry forms, Longkou has made great efforts to attract financial institutions. It has developed favorable policies tailored to new financial institutions, local financial organizations, as well as equity investment companies, financial leasing companies and financial service agencies, providing support such as office subsidies and rewards based on their contributions to local development or investment amounts.

Incentives for Companies to Go Public

Longkou has developed incentive policies to encourage companies to go public and listed companies to merge and restructure. The incentive packages include subsidies for preparation of going public, a reward of up to RMB 10 million after being listed and up to RMB 3 million after refinancing.

In addition, the municipal government has cooperated with banks, securities institutions and private equity firms, to provide more credits support for publicly-traded companies.

Policies in Support of Financial Development

Enhanced Support in Credits

Endeavors made by Longkou to increase the scale of credits and improve the efficiency of credits granting include simplifying loan approval procedures and promoting financial institutions to increase the amount of the first loans and first loan guarantees.

Moreover, Longkou encourages innovation in credits models and products, and supports the establishment of a joint credit investigation mechanism which is led by one bank and supported by several other banks.



Note: 1. The “1,000 Talents Program”, also known as the Recruitment Program for Innovative Talents, targets people under 55 years of age who are willing to work in China on a full-time basis, with full professorships or the equivalent in prestigious foreign universities and R&D institutes, or with senior titles from well-known international companies or financial institutions. 2. The “10,000 Talents Program”, also known as the National Special Support Program for High-level Talents, aims to get 10,000 brainy people specialized in the natural sciences, engineering, philosophy, social sciences and higher education to come to China.

Source: 1. Longkou Municipal Government, *Incentive Policies on Attracting Business, Investment and Talent and Accelerating Transformation of Development Model*, November 2017; 2. CPC Longkou Municipal Committee and Longkou Municipal Government, *Strategic Action Plan of Longkou City on Accelerating Innovation-driven Development (2016-2020)*, November 2016; 3. CPC Longkou Municipal Committee and Longkou Municipal Government, *Opinions on Proactively Implementing the Longkou Talent Program*, December 2015; 4. *Rules on Efficiently Recruiting Targeted Talents in Longkou (Interim)*, December 2017

Highly Efficient Government Services

Focusing on the transformation of growth engines, the Longkou Municipal Government has been deepening reform to delegate power, streamline administration and optimize government services. In 2017, with a view to creating a more encouraging business environment, the city government made visible efforts to provide optimized governance featuring less approval items, higher efficiency and better services, while improving administrative service procedures to shorten case handling duration.

Administrative Services for Businesses in Longkou

Service Item Lists

In 2017, the municipal authorities and township-level (or subdistrict-level) authorities in Longkou issued the lists of public service items, containing 495 services offered by 44 municipal authorities and 79 services by township-level (or subdistrict-level) authorities respectively. In the same year, the lists of 67 online services and 1,900 one-trip services were also released to provide clear and effective guidance for businesses.

One-window Acceptance Full-process Regulation

Longkou has adopted a “one-window acceptance” mechanism for investment and construction projects, providing a whole package of highly efficient and coordinated one-stop services. To be specific, a case is received at a dedicated window, and categorized, reviewed and approved by different offices, before the requested certificate or document is released at the same window.

Pre-approval of Cases Joint Review and Approval Mechanism

Longkou has put in place the pre-approval of cases and the joint review and approval mechanism for investment and construction projects, effectively simplifying the administrative approval procedures for businesses. When a case is accepted at a service window, competent authorities will start the pre-approval procedure notwithstanding temporary lack of some documents. As a result, the approval duration has been reduced significantly to only 29 working days.

Agent Services

An agent service system has been rolled out in Longkou in accordance with the *Opinions on Providing Administration Services through Commissioned Agencies*. With this system, certain administrative approval services and the application of certain licenses may be provided free of charge by dedicated personnel, through appointment, or at the site of the requesting business. As of now, a number of agent service branches have been established in downtown, subdistricts and villages/communities to fully meet the needs of businesses across the city.

Fewer Requirements on Registration

To continue the reform to allow one company to set up branches while getting registered just once, or allow two or more companies to register at the same address.

Less and Lower Government Fees

To publicize a list of fees charged to businesses and lower the fees.

Real-time Demand-response Services

To provide overtime services for businesses whenever requested.

Information Collection and Sharing

To connect with the cloud-based e-government public service platform and other information sharing platforms of Shandong Province, so as to share in real time the data on population, legal entities and credit status.

“Internet Plus” Smart Services

To promote electronic and digital government services by leveraging the Internet, such as the “Internet + Tax-related Services”.

Case Study

The Longkou Municipal Government has been actively providing all-round supports for companies in accordance with their needs throughout the business development. Take Shandong Dawn Polymer (SHE: 002838) as an example. The government provided targeted and comprehensive services for the company in project implementation and talent recruitment.

To facilitate the project invested by Dawn Polymer, the city government organized a joint meeting for the authorities to offer specific suggestions and instructions on project application and approval. A “green channel” and a dedicated team were also put in place to provide more convenient services.

In addition, the municipal government has also greatly facilitated Dawn Polymer in talent recruitment. According to our survey, the government conducted on-site interviews on human resources to get a precise understanding of the company’s needs, and then took the lead to organize match-making events for the company to contact with high-caliber professionals. As of now, Dawn Polymer has an academician workstation, and is cooperating with five experts qualified in the “1,000 Talents Program” and one expert in “10,000 Talents Program”.

Source: 1. *Opinions on Optimizing the Business Environment in Longkou*, November 2017; 2. Longkou Municipal Government, *Plan for Implementing the Pre-acceptance of Cases in Need of Further Information Submission and the Joint Review and Approval Mechanism for Investment in Construction Projects in Longkou*, November 2017; 3. Longkou Municipal Government, *Action Plan for Deepening Reforms on Delegating power, Streamlining Administration and Optimizing Government Services for Enhanced Governance*.



Overview of Industry Development

With a robust industrial strength, Longkou has developed clusters in high-end aluminum, automobile and auto parts, light manufacturing, strategic emerging industries, port industries and modern services. During the 13th Five-Year Plan period, the city will continue to build a sound industry system that has global influence and long-term competitiveness, significantly contributing to the regional economic growth.

High-end Aluminum

Overview: Enjoying a strong strength in the aluminum industry, Longkou boasts as the only city in the world that is equipped with a complete industry chain of aluminum, covering an array of areas from automobiles, high-speed trains, ships and freight trains to new energy equipment, aerospace and high-end civil use. In 2017, the prime operating revenue of high-end aluminum industry of Longkou totaled RMB 59.93 billion with an increase of 11.4% over the previous year.

Leading Companies: Shandong Nanshan Aluminum Co., Ltd, Longkou Conglin Aluminum Co., Ltd, Shandong Longkou Sanyuan Aluminum Co., Ltd, Shandong Longkou Boruite Metal Containers Co., Ltd., Longkou Orui Jin Packaging Co., Ltd.

Automobile and Auto Parts

Overview: As the largest auto parts manufacturing city at the county level and one of the first nine machinery manufacturing bases in Shandong Province, Longkou hosts the Provincial High-End Equipment and Auto Parts Manufacturing Industry Park, which is home to 106 automobile and auto parts manufacturers (including 59 enterprises with an annual revenue of RMB 20 million or more and 2 listed enterprises), with a total asset value amounting RMB 15.5 billion. In 2017, the prime operating revenue of automobile and auto parts industry in the city reached RMB 46.92 billion, up by 10.4%.

Leading Companies: Longji Group Co., Ltd., Xingmin Intelligent Transportation Systems (Group) Co., Ltd., Longkou Vehicle Tubing Co., Ltd., Shandong Conglin Fruehauf Automobile Co., Ltd.

Light Manufacturing

Overview: Longkou is endeavoring to promote its light manufacturing industry represented by intensive food processing, textiles and clothing, stationery, glassware and papermaking. The intensive food processing industry of the city has developed five pillar sectors – processing of wine, cereals and oil, aquatic products, livestock and poultry, and fruit and vegetables. Additionally, Longkou has established a one-stop garment industry chain covering from fabrics to ready-to-wear clothes, and cultivated domestically and internationally renowned brands in stationery, glassware and papermaking.

Leading Companies: Weilong Grape Wine Co., Ltd., Lontrue Co., Ltd., Shandong Nanshan Zhishang SCI-TECH Co., Ltd., Longkou Konor Glass Technology Co., Ltd., Ahlstrom Yulong Specialty Paper Co., Ltd., Taishan Musical Instrument Co., Ltd.



Source: Longkou Municipal Investment Promotion Bureau

Overview of Industry Development (Continued)

Strategic Emerging Industries

Overview: Longkou is accelerating the development of strategic emerging industries including new materials, high-end equipment manufacturing, bioindustry, new-generation IT and energy saving and environmental protection. The total annual revenue achieved by the strategic emerging industries in Longkou amounted to about RMB 17.24 billion in 2017, up by 7.7% over the previous year, and is expected to grow to over RMB 60 billion in 2020.

Leading Companies: Shandong Dawn Polymer Co., Ltd., Zhongji Innolight Co., Ltd., Longkou CIMC Raffles Offshore Limited, Longkou Bluetooth NC Equipment Co., Ltd., Lapis Lazuli Pigments Co., Ltd., Yantai Apollo Biotechnology Co., Ltd., Shandong Yaxin Environmental Technology Co., Ltd.

Ports and Port Industries

Overview: Longkou Port is a national loading port for exporting the coal in North China and a national quality port for storing crude oil, and also serves as China's largest transportation hub for export to Africa and a distribution center for imported bauxite and alumina. In recent years, Longkou has been implementing the strategy of taking advantage of its ports, majorly Longkou Port, and related booming port industries represented by clean energy to boost the city's development. In 2017, ports in Longkou handled 91.93 million metric tons of cargos and 792,000 TEUs of container in total, achieving a total annual revenue of RMB 45.24 billion along with the port industries, an increase of 26.1% over the previous year.

Leading Companies: Longkou Port Group Co., Ltd., Shandong Energy Longkou Mining Group Co., Ltd., Huadian International Longkou Power Generation Co., Ltd., Longkou Lanting Liquefied Natural Gas Co., Ltd.

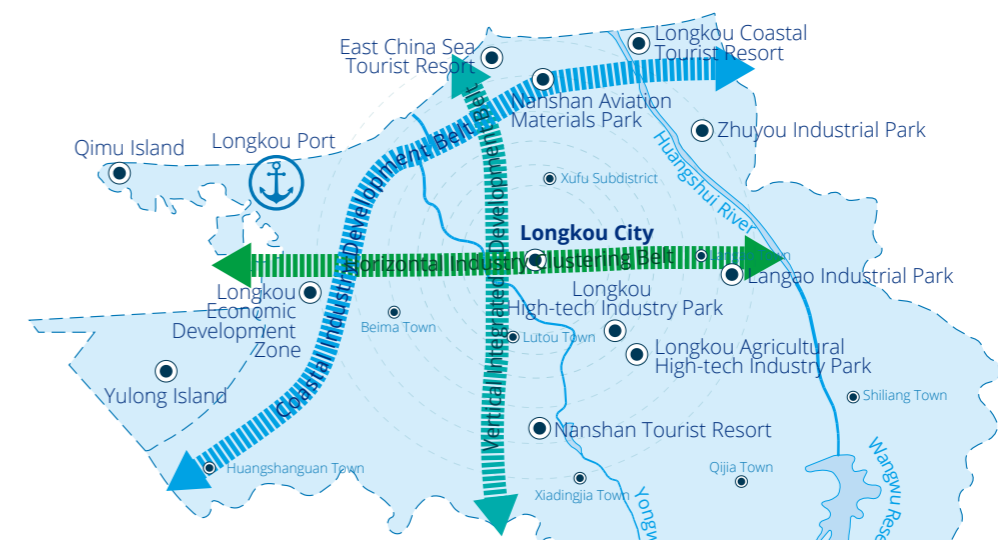
Modern Services

Overview: Longkou has developed proactively the modern logistics industry depending on its well-developed ports and privileged geographic location; established a full-fledged modern financial system consisting of banking, insurance, securities, financing guarantee and financial leasing; and built up various types of high-end tourism including tourism for recreation and health, air and cruise trips and exhibition and business trips.

Leading Companies: Hengtong Logistics Co., Ltd., Longkou Bingang Liquid Chemicals Dock Co., Ltd., Longkou Shengtong Group Co., Ltd., Shandong Hualu Shipping Co., Ltd., Shandong Longkou Rural Commercial Bank Co., Ltd., Longkou BOC Fullerton Nanshan Community Bank, Nanshan Tourism Group Co., Ltd.

Industry Layout

Longkou is dedicated to building a new industry layout that scientifically combines the Longkou Port, three development belts and diverse industrial clusters.



Note: Up to now the industry layout featuring one port as a leading hub, three belts as driving forces and diverse clusters as the foundation has taken shape in Longkou. As is shown in the figure above, one port refers to Longkou Port; three belts refer to the Horizontal Industry Clustering Belt, Vertical Integrated Development Belt and Coastal Industry Development Belt; and the diverse clusters refer to all the specialized industry clusters in local towns or subdistricts.

Source: Longkou Municipal Investment Promotion Bureau

Key Competitive Industry Clusters – High-end Aluminum

As clearly put forward in the *Development Plan for the Non-ferrous Metal Industry (2016-2020)* issued in 2016 by Ministry of Industry and Information Technology, China plans to develop high-end non-ferrous metal materials with a focus on aluminum. With a solid aluminum industry foundation, Longkou will be dedicated to establishing the largest high-end aluminum industry center in China during the 13th Five-Year Plan period, aiming to increase the annual prime operating revenue of this industry to RMB 100 billion by 2020.

Industry Titles

- In 2010 – The only State-level High-tech Industrialization Base for Aluminum and Aluminum Alloy Processing in China
- In 2012 – State-level Aluminum Deep Processing Demonstration Base;
- New Aluminum Alloys Base built under the 12th Five-Year Plan of China
- In 2013 – The only State-level Aluminum Alloy Pressure Processing Engineering Technology Research Center in China
- In 2015 – The City Known for Transportation Aluminum Profiles

A Complete Aluminum Industry Chain Highlighted by High-end Products

Longkou boasts a complete and technologically advanced aluminum industry chain that focuses on the production of industrial profiles for construction and transportation. Its market shares of rail transit vehicle profiles, can materials and aluminum foils in China are 70%, 50%, and 30% respectively. In recent years, Longkou has stepped up endeavors to connect its aluminum industry with the global market and develop cutting-edge products for military use. It has also been dedicated to expanding the application of aluminum in more fields, including automobiles, high-speed trains, ships, aerospace, freight trains, new energy equipment, and high-end civil use, quickening the pace of optimizing and upgrading the aluminum product structure.

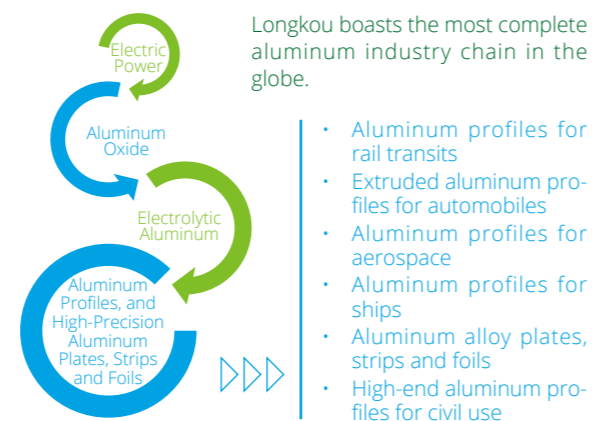
Industry Agglomeration Led by Top Enterprises

Supported by leading enterprises, such as Nanshan Group and Conglin Group, Longkou has achieved a large-scale clustering effect in high-end aluminum, with a group of industrial parks built to form a positive interaction cycle. For example, the Donghai Industrial Park, invested by Nanshan Group, has attracted many upstream and downstream aluminum-related companies, as well as other companies and projects. The Park, equipped with complete facilities from schools, hotels to hospitals, has achieved diversified and integrated development. The Aviation Material Industry Park, based in the Donghai Industrial Park, has best exemplified how the abundant aluminum resources are capitalized on to build a processing center of aluminum alloys for aerospace application.

Case Study

Shandong Nanshan Aluminum Co., Ltd. (SHA: 600219) is the only listing company specializing in aluminum profiles in China. It has the shortest and most complete aluminum supply chain in the globe, from energy, aluminum oxide and electrolytic aluminum to aluminum profiles, and high-precision aluminum plates, strips and foils. It is the largest production base in Asia with the highest installed capacity for the complete specifications of high-precision aluminum plates, strips and foils. The company's products have been applied in areas covering aerospace, ships, high-speed trains, industrial aluminum profiles and high-end civil profiles, and exported to countries and regions around the world serving many world-class companies, such as the Boeing Company, Tesla Inc., Rolls-Royce PLC, Figeac Aero, CRRC Corporation Limited (CRRC) and Commercial Aircraft Corporation of China, Ltd. (COMAC).

Figure 3: Aluminum Industry Chain in Longkou



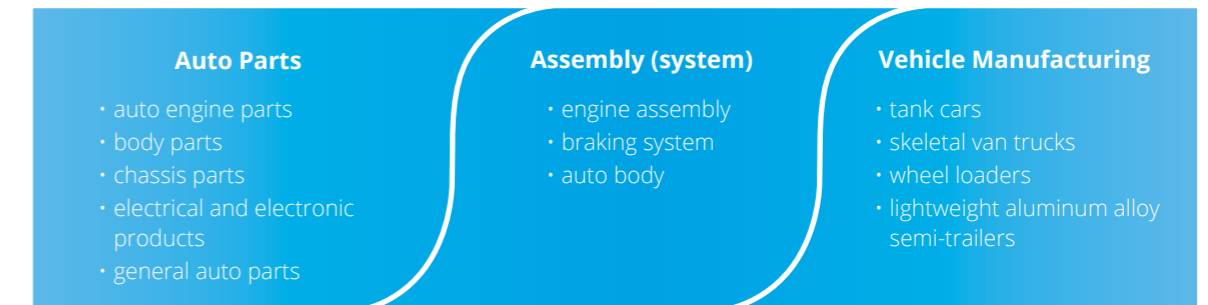
Core Technology Strength Underpinned by R&D and Innovation

Over years, Longkou has continued its efforts on developing a closer industry-university-research-politics partnership and strengthening R&D and innovation on core technologies, to maintain the growth momentum of the aluminum industry. For example, as a R&D and production center of aluminum profiles for high-speed trains, metros and light rails in China, Conglin Group has the first dual drive extruder with a capacity of 10,000 metric tons in the world and the most complete types of large and medium-sized extrusion production lines in China that can produce 100,000 metric tons of various high-end aluminum profiles every year.

Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Shandong Nanshan Aluminum Co., Ltd.

Key Competitive Industry Clusters – Automobile and Auto Parts

Boasting a long history of developing the automobile and auto parts industry, Longkou has developed an advantageous product structure pillared by braking systems, engine systems, and tires and rims. The city now is home to 106 automobile and auto parts manufacturers and two listed enterprises – Longji Group Co., Ltd. (SHE: 002363) and Xingmin Intelligent Transportation Systems (Group) Co., Ltd. (SHE: 002355).



Wide Product Range and High Competitiveness

As one of the major manufacturing bases of automobile and auto parts in China, Longkou mainly produces engine parts, body parts, chassis parts, electrical and electronic products, as well as general auto parts, which can be further classified into over 60 categories and more than 260 varieties, covering 93% of the parts needed for vehicle manufacturing. The city's production and sales volumes of brake assemblies, brake discs, brake drums, wheels, storage batteries, oil pipes, fuel injection systems and driver's tools have been listed top ten among its domestic competitors.

Extensive Cooperation with Downstream Enterprises

More than 60 companies in Longkou are now auto parts suppliers for major domestic vehicle manufacturers such as China FAW Group, Dongfeng Motor Corporation, SAIC Motor, DFL, Beijing-Hyundai Auto, Beiqi Foton Motor, Beiben Trucks Group and Xiamen King Long Motor Group. There are also a large number of supporting systems providers for large domestic powertrain companies including Weichai, Changchai, DEUTZ (Dalian) Engine, Yuchai, Wuxi Diesel Engine Works and Liuchai Engine, whose products are also sold to dozens of other countries and regions. So far, Tier 1 and 2 suppliers in Longkou for vehicle manufacturers and part assembly manufacturers account for 70% of the city's automobile and parts companies, generating 80% of the total revenue of the industry.

Leading Technology in R&D and Innovation

In 2009, Longkou witnessed breakthroughs made in manufacturing vehicles such as lightweight aluminum alloy semi-trailers, tank cars, skeletal van trucks and wheel loaders. It now has eight auto models listed in *China's Vehicle Manufacturers and Product Announcement*, and the only enterprise granted the qualification by the Ministry of Industry and Information Technology of China in manufacturing aluminum semi-trailers.

Table 3: R&D and Technology Platforms in Longkou

Category	Number	Note
Enterprise-based Technology and Engineering Center	11	1 at the national level 4 at the provincial level
Industry Technology Centers	3	1 at the national level 2 at the provincial level
Brands and Products	17	2 National Inspection-Exempted Products 1 China Famous Trademark 6 Famous Brands of Shandong 8 Famous Trademarks of Shandong
High-tech Enterprises	70	19 at the national level

Source: Longkou Municipal Investment Promotion Bureau

Key Competitive Industry Clusters – Light Manufacturing

Thanks to the sound development of its manufacturing industries, Longkou has formed a competitive light manufacturing industry represented by intensive food processing, textiles and clothing, stationery, glassware and paper-making.

Intensive Food Processing

➤ **Overview:** The intensive food processing industry, one of Longkou's most competitive edges, composed of five pillar sectors including wine processing, and fruit and vegetable storage and processing. In 2017, the city's total annual prime revenue of the food processing and storage industry reached RMB 26.37 billion, an increase of 9.8% over the previous year, and the number of enterprises with an annual revenue of RMB 20 million or more recorded 61.

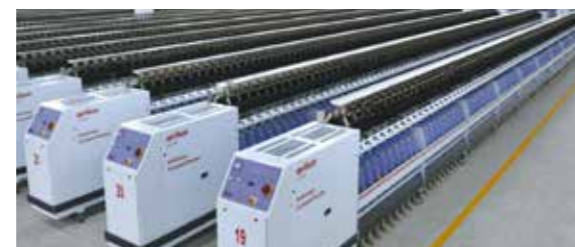
➤ **Leading Companies:** Weilong Grape Wine Co., Ltd. (hereinafter "Weilong"), Lontrue Co., Ltd. (hereinafter "Lontrue"), Yantai Lvjie Co., Ltd., Yantai Youmei Food Co., Ltd., Yantai Longkou Andre Juice Co., Ltd., Longkou Xiangchi Cereals and Oils Co., Ltd.



Textiles and Clothing

➤ **Overview:** In the textiles and clothing industry, Longkou has developed a whole value chain from fabric production to clothing design, manufacturing, marketing and after-sale services, becoming one of the world's largest production bases for compact spinning fabrics.

➤ **Leading Companies:** Shandong Nanshan Fabric & Garment Co., Ltd, Yantai Bulaidun Clothing Co., Ltd., Yantai Nanshan Bowen Garment Co., Ltd., Yantai Changlong Textile Co., Ltd.



Case Study

As an excellent enterprise in Chinese clothing industry, Shandong Nanshan Zhishang SCI-TECH Co., Ltd. (hereinafter "Zhishang") boasts a one-stop value chain, from the sheep's back to the finished suits. Zhishang has built several platforms to catalyze its technological innovation, such as a nationally recognized laboratory, a national high-count all wool products development base, provincial technology research and industrial design centers, and research institutes of wool textile and business suits. In partnership with the International Wool Secretariat, the company has launched the world's first and only international wool innovation center in 2013, whose product was listed among the Top Ten Textile Innovations for 2017.

Zhishang has managed to lead the market with its own innovative technologies, such as mobile order service, ODM and advanced customization service, VR fitting service, and fabric sample images drawing via CAD.

Source: 1. Longkou Municipal Investment Promotion Bureau

Strategic Emerging Industries

New Materials

➤ **Overview:** Longkou has been committed to forming full-fledged industry chains of new eco-friendly functional materials, advanced structural materials, and high-performance composite materials, focusing on R&D capacity building in high-quality new organic active materials, synthetic rubber, high-performance sealing materials, engineering plastics, and synthetic resins. Home to a number of leading enterprises represented by Shandong Dawn Polymer (SHE: 002838), Lapis Lazuli Pigments, and Longkou Keda Chemical, the city has attracted plenty of high-end projects.

➤ **Leading Companies:** Shandong Dawn Polymer Co., Ltd., Longkou Union Chemical Co., Ltd., Fuer Special Equipment Co., Ltd.



Case Study

At the U.S.-China Business Exchange held in November 2017, which was attended by both the U.S. President Donald Trump and Chinese President Xi Jinping, the Longkou-based Nanshan Group concluded a USD 26 billion, 20-year-long ethane purchase agreement with the American Ethane Company (AEC), setting the transaction price based on "the market price of ethane in the U.S. + liquefaction costs + freight costs". Under the agreement, AEC will supply 2.6 million metric tons of ethane to Nanshan Group every year, and jointly invest in the ethane-based multi-product project with a planned production capacity of 2 million metric tons per year launched by Nanshan Group at Yulong Island of Longkou.

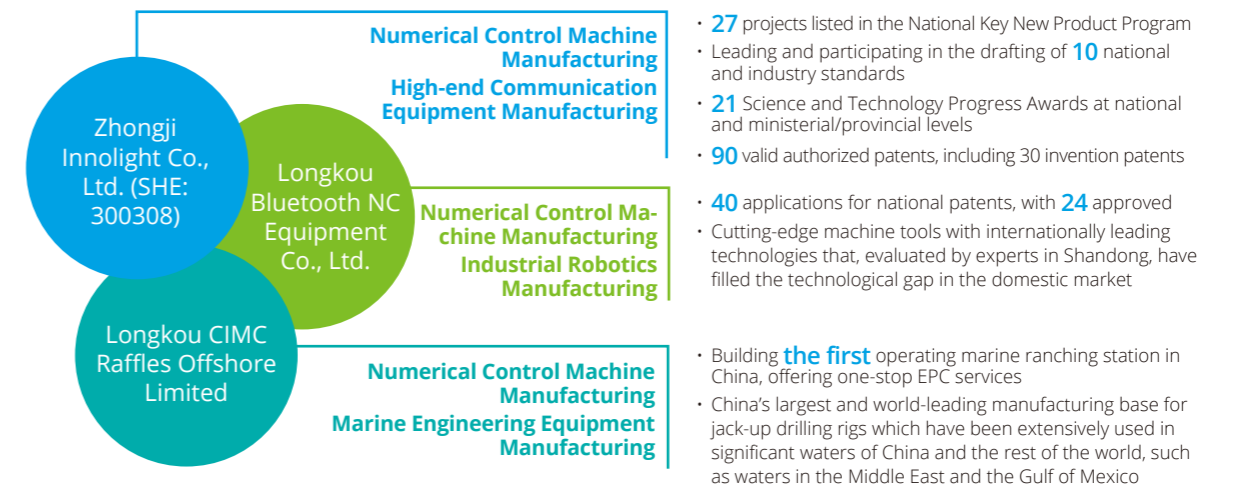
All the ethane purchased under the agreement will be used for producing ethylene, which will effectively satisfy the soaring demand of ethylene in China and attract a large number of upstream and downstream companies to settle down in Longkou, facilitating the city's development into a significant supply base of raw chemical materials in China. The ethane-based multi-product project introduces the ethylene production method via cracking of ethane mixture which is mature, reliable, safe, environmental friendly, and easy to perform, playing an exemplary role in the petrochemical engineering industry in Shandong Province, and even in China.

High-end Equipment Manufacturing

➤ **Overview:** The city has speeded up efforts to promote the smart and information-based development of manufacturing industries, in particular the high-end smart equipment manufacturing. Longkou has increased the production capacity of complete sets of large equipment represented by railway vehicle equipment, marine engineering equipment, whole sets of production lines, and digital design and manufacturing platforms for complex electromechanical systems.

➤ **Leading Companies:** Zhongji Innolight Co., Ltd., Longkou CIMC Raffles Offshore Limited, Longkou Bluetooth NC Equipment Co., Ltd.

Figure 4: A Non-exhaustive List of the Leading High-end Equipment Manufacturers in Longkou



Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Longkou Municipal Development and Reform Bureau

Strategic Emerging Industries (Continued)

Biological Industry

Overview: In recent years, Longkou has made significant breakthroughs in developing and industrializing oral insulin based on the key cutting-edge biological technologies of purification of traditional Chinese medicine, biofilm and nanoparticle-based embedding, which enables 80% to 85% of insulin delivery. Remarkable progress made in oral insulin delivery programs makes the oral form of the medicine a reality, filling in the technological gap domestically and internationally. Longkou will endeavor to make breakthroughs in the research and application of stem cells, biological agents and biopharmaceuticals.

Leading Companies: Yantai Apollo Biotechnology Co., Ltd., Yantai Hengyuan Bioengineering Co., Ltd., Shandong Zhenlong Bio-Chemical Group Co., Ltd.

New-generation IT

Overview: Longkou has taken forward-looking and supportive measures to promote industries including telecommunications network, Internet of Things, and e-commerce. Take Xingmin Intelligent Transport Systems as an example. Xingmin ITS is a company aiming to build an industry chain of intelligent and connected vehicles with hardware, software and operation services at the core. Its T-box, a factory-installed terminal hardware, has the largest installed base in the current new-energy vehicles market. Besides, businesses and programs that offer intelligent and smart city services based on Internet and big data have been attracted to Longkou, represented by the optical communications program of Zhongji Innolight, Wanxiangtao, a cross-border online shopping platform, of Nanfeng Internet Technology, and Cheyian, an e-commerce platform, of Longji Machinery.

Leading Companies: Zhongji Innolight Co., Ltd., Xingmin Intelligent Transportation Systems (Group) Co., Ltd., Shandong Longji Machinery Co., Ltd., Shandong Nanfeng Internet Technology Co., Ltd.

Energy Conservation and Environmental Protection Industry

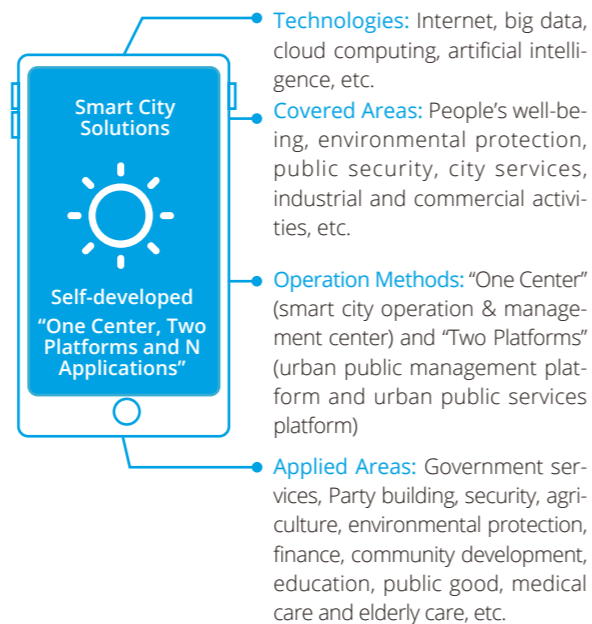
Overview: In 2006, the flexible electromagnetic fan clutch was listed in the "China's Top Ten Energy-saving Products", while the integral hyperbola alternator was granted a national patent for generating power at a low speed, both developed by the Longkou-based Zhongyu Thermal Management System Technology Company. Capitalizing on advanced technologies, Zhongyu has developed a smart automotive thermal management system that has heralded a new phase of low carbon emission. In environmental protection field, Longkou is vigorously developing China's world-class device for treatment of solid and hazardous wastes, and focusing on building a national-level research and training center for environmental protection technology and resource reuse, and a provincial-level center for analysis, testing and identification.

Leading Companies: Shandong Yaxin Environmental Technology Co., Ltd., Longkou Zhongyu Thermal Management System Technology Co., Ltd.

Deloitte's Observation

According to the 2016 *China Life Sciences and Healthcare Investment Promotion Report* and the 2017 *Global Life Sciences Outlook* by Deloitte, China's pharmaceutical industry will maintain a medium-to-high growth rate and continue to see an increasing demand during the 13th Five-Year Plan period, with biotechnology playing an increasingly important role in the industry. Based on the current global practices and development trend of the industry, Deloitte thinks that biotech medicines will gradually take market share from traditional medicines and be presented with significant development opportunities in certain fields.

Figure 5: Smart City Solutions

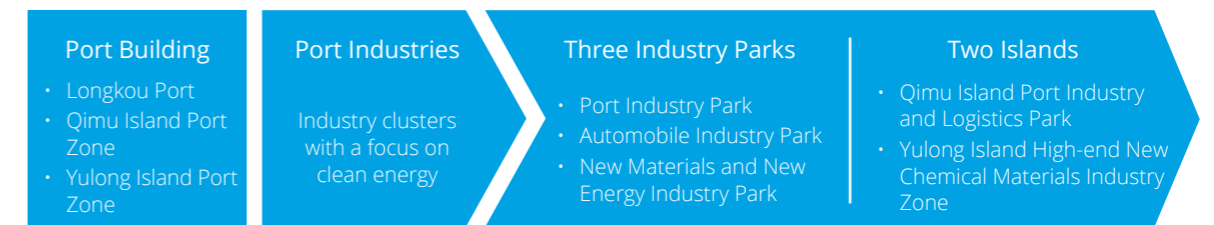


Source: Longkou Municipal Investment Promotion Bureau

Ports and Port Industries

According to Deloitte's Global Trends to 2030: Impact on Ports Industry, Asia is playing an increasingly dominant role in the world shipping industry. Against this backdrop, Longkou is proactively seeking development through port building around the city, particularly the century-old Longkou Port and the port zones of Qimu and Yulong Islands, while staying committed to promoting port industries with a focus on clean energy for sustainable and coordinated development.

Figure 6: Strategic Planning of Ports and Port Industries in Longkou



Favorable Port Conditions

Longkou is currently home to 31 products berths, including 2 at 150,000 DWT and 7 at 100,000 DWT, boasting a total throughput of over 60 million metric tons. Free from siltation and freezing, the ports operate more than 330 days a year. Over 80 domestic and international shipping routes have been built to facilitate port trade with more than 60 countries and regions. The ports in Longkou have also developed special shipping services including those for bauxite, coals, liquid chemicals, and grain as well as containers, ro-ro vessels, and breakbulks trading around the world.

Leading Companies: Shandong Longkou Port Group Co., Ltd., Nanshan Qimu Island Port Development Co., Ltd., Shandong Energy Longkou Mining Group Co., Ltd., Huadian International Longkou Power Generation Co., Ltd., Longkou Lanting Liquefied Natural Gas Co., Ltd., Longkou Ganghua Fuel Gas Co., Ltd.

A Clean Energy-driven Industry Pattern

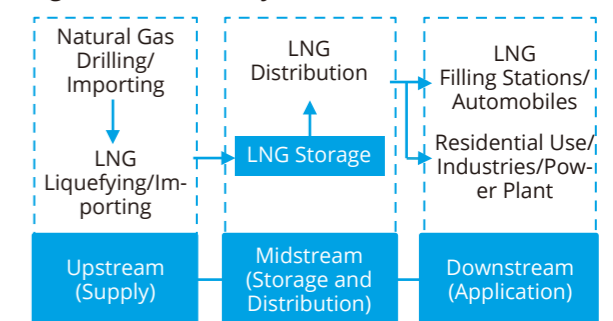
As a sort of clean and efficient quality energy, Liquefied Natural Gas (LNG) has become a top choice in many countries to improve their energy structures and air quality, enabling buoyant development of the LNG industry.

Two LNG terminals with an estimated overall investment of RMB 14 billion were launched as part of the efforts to build Longkou into one of the largest clean energy demonstration bases in northern China. Via the national pipe network, the established terminals will be able to directly connect to and provide energy for North China where gas is in great shortage, largely reducing the seasonal influences on energy supply to guarantee steady LNG supply and improve peak-load regulating capability.

As a midstream component of the LNG industry, the terminals are designed to help extend the LNG industry chain of Longkou by accelerating the clustering of downstream sectors, including storage, gasification and logistics, and boosting the development of downstream distributing companies.



Figure 7: LNG Industry Chain



Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Shandong Longkou Port Group Co., Ltd.

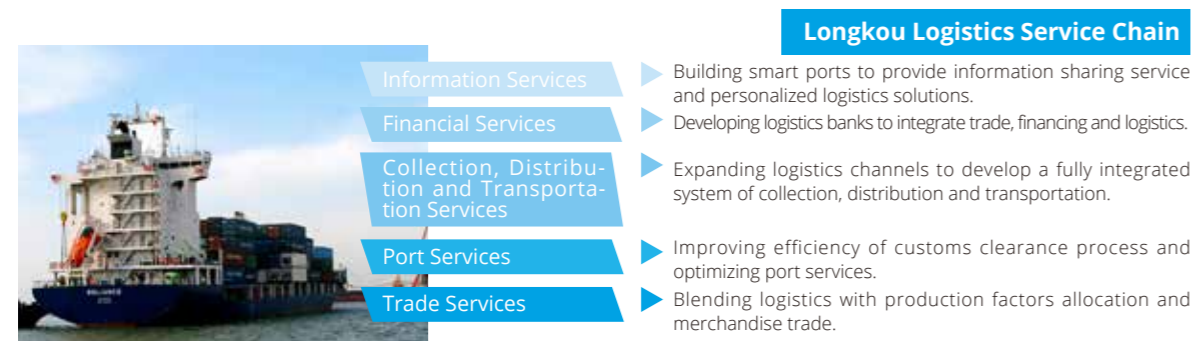
Modern Service Industries – Modern Logistics and Finance

Modern Logistics

➤ **Overview:** Longkou has been vigorously accelerating the building of Longkou Bonded Logistics Center (B type) which features a logistics system consolidating maritime transport, land transport, bonded logistics and distribution network. The logistics industry in Longkou has witnessed the transformation from single-functional logistics node into a comprehensive logistics platform providing a full range of integrated logistics services including transportation, processing, trade and commerce services, port services, finance and information services. During the process, Longkou Port has risen as the largest bonded logistics center on the south coast of the Bohai Gulf, while the non-truck freight brokerage platform of Hengtong Logistics (SHA: 603223) has exemplified how to integrate Internet and logistics innovatively.

- Logistics Services: Integrating information, finance, collection, distribution and transportation, port and trade services
- Logistics Bases: China National Offshore Oil Corporation Longkou Logistics Base, Sinopec Shengli Oilfield Offshore Oil Ship Center
- Logistics Park: Longkou Port Logistics Park

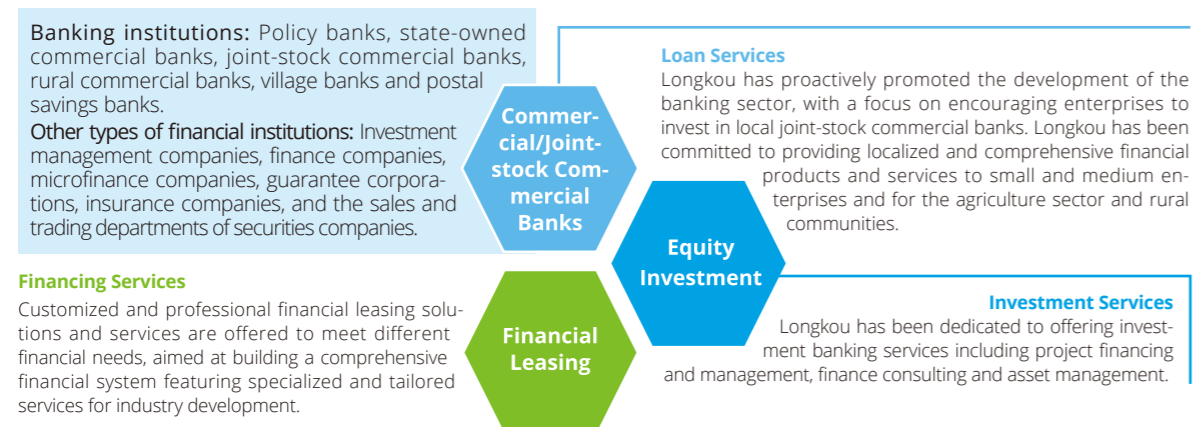
➤ **Leading Companies:** Hengtong Logistics Co., Ltd., Longkou Bingang Liquid Chemicals Dock Co., Ltd., Longkou Shengtong Group Co., Ltd., Shandong Hualu Shipping Co., Ltd., CMST Energy Trade Center.



Modern Finance

➤ **Overview:** The past few years has witnessed an increase not only in the variety but in the quantity of financial institutions in Longkou. With a total number of 70, these financial institutions have developed a comprehensive financial system covering bank, insurance and security services. With a focus on commercial banks, joint-stock banks and microfinance institutions, Longkou has dedicated to developing an array of policy-based and inclusive financial institutions providing services covering insurance, securities, financing guarantee and financial leasing, better addressing the diversified financial needs of enterprises.

➤ **Leading Companies:** Yantai Bank, Hengfeng Bank, Bank of Communications, Huaxia Bank, Industrial Bank, Longkou Rural Commercial Bank, Longkou BOC Fullerton Nanshan Community Bank.



Source: Longkou Municipal Investment Promotion Bureau

Modern Service Industries – Cultural Tourism

Tourism is emerging as a powerful economic driver for China, and a new wave of development is set to sweep the industry during the 13th Five Year Plan period. With a pleasant climate and splendid landscapes, Longkou has developed a thriving tourism and leisure industry. In 2017, the city received 5.8 million tourists from across China and worldwide, pocketing a direct revenue of RMB 8 billion.

Natural Resources and Cultural Heritage

Longkou has many natural attractions, including Nanshan Mountain and Huangshui River. It is also culturally rich, known for its Buddhist heritage, folk traditions and a unique merchant culture, with an important role in modern China's revolutionary history. Now, the city is developing its tourism and leisure industry in a "Coastal Belt, River and Mountain" layout, aimed to promote local tourism and culture in a mutually reinforcing manner.



➤ Coastal Belt

Target: Integrating coastal resources to develop a tourism and leisure hub along the coastline.
Core attractions: Longkou Coastal Tourist Resort, East Sea Tourist Resort, etc.

➤ Huangshui River

Target: With a focus on the local cultural heritage of Xu Fu and the Shandong merchant culture, best represented by the wealthy Ding Family, developing a destination for both sightseeing and culture exploring, which links the southern mountainous areas with the northern coastal parts of the city.
Core Attraction: Huangshui River, the mother river of Longkou.



➤ Southern Mountain Range

Target: Integrating stunning mountain landscapes with unique experiences of exploring local Buddhist heritage, folk traditions, farm life and the revolutionary history of modern China along the southern mountain range.
Core Attractions: Nanshan Mountain (a national 5A-level scenic spot), Wangwu Reservoir Nature Reserve, Laishan Mountain Provincial Nature Reserve, etc.

A New, Integrated Approach to Tourism Development

The city is pooling together its tourism resources and exploring innovative ways to promote integrated development of tourism and other industries that benefits all.

Cultural Tourism: Longkou offers visitors a true taste of rural life in beautiful natural surroundings, and unique experiences of the city's industrial heritage with manufacturing site visits, exhibitions and hands-on activities. It is also developing cultural and creative products such as seafood, wines and dough figurines.

Festivals and Events: The city has a lively calendar of cultural performances, themed events and tourist festivals, such as "Read Longkou", "Longkou Cultural Consumption Season" and "Yantai Local Tourism Festival".

Cultural industry parks: In different parts of the city, based on local industrial strengths, a number of cultural industry parks for startups are developed, with a focus on local intangible heritage exhibition, stationery manufacturing, and glass crafts production.



Case Study

Nanshan Tourism Group (NTG) operates starred hotels and resorts, international travel agencies and golf clubs, integrating tourism with business conferences, hospitality and wellness services, as well as performances and exhibitions. The Nanshan Health Valley, developed and operated by NTG, is a premier coastal tourist resort that combines the essence of a national 5-A level scenic spot, an international leisure and wellness center, a dedicated hospital, starred hotels and theme parks, and has been recognized among the "best featured towns" in Shandong.

Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Nanshan Tourism Group; 3. Longkou Municipal Tourism Bureau

Key Industry Development Platforms

To promote innovation-driven development, transformation, and upgrading of local industries, and guided by the overall strategy of "integrated development of industries, port trade and the city", Longkou strives to optimize input efficiency and the use of its land resources, giving full play to the unique strengths of its different districts.

Longkou Economic Development Zone (LEDZ)

Established in 1992, LEDZ has been among the most competitive provincial-level development zones in Shandong and is a pilot zone for innovative administrative measures. After years of efforts to develop port-based industries, it is now home to over 140 industrial enterprises with an annual revenue of RMB 20 million or more. In 2017, the gross output value in LEDZ hit RMB 52.04 billion.

➤ **Priority Industries:** Ports and port industries, auto parts manufacturing, modern logistics and emerging strategic industries

➤ **Specialized Parks:** Automobile Industrial Park, Longkou Port Industry Park, New Materials and Energies Industrial Park, Qimu Island Port Industry and Logistics Park, Yulong Island High-end New Chemical Materials Industrial Zone

➤ **Leading Companies:** Longkou Port Group Co., Ltd., Shandong Energy Longkou Mining Group, Huadian Longkou Power Generation Co., Ltd., Dawn Group, Longji Group Co., Ltd., Xingmin Intelligent Transportation Systems (Group) Co., Ltd., Hengtong Logistics, Longkou Lanting Liquefied Natural Gas Co., Ltd.



Longkou High-Tech Industry Park

The 35-km² Longkou High-Tech Industry Park was built in 2001 and approved as a provincial-level development zone in 2006. The Park has supported 105 domestic and international companies, including seven high-tech enterprises, operating over 20 corporate R&D centers, technology research facilities, and engineering centers. In 2017, the Park reached a gross output value of RMB 11.89 billion.

➤ **Priority Industries:** new non-ferrous metal materials, auto parts manufacturing, intensive food processing and storage

➤ **Specialized Parks:** High-Tech Pioneering Park, SME Pioneering Park, Jiayuan Smart Manufacturing Base

➤ **Leading Companies:** Shandong Nanshan Aluminum Co., Ltd., Lontrue Co., Ltd., Longkou Xingyu Auto Parts Co., Ltd., Longkou Longbeng Diesel Oil Jet High-Tech Co., Ltd., Yantai Lvjie Co., Ltd.



High-Tech Pioneering Park

Established in 2015 within Longkou High-Tech Industry Park, the Pioneering Park covers 378.89 acres of developed land available for industrial uses. As the first high-tech startup park in Longkou, it has invested RMB 150 million in supporting emerging businesses of strategic value, including new energies, new materials, high-end equipment manufacturing, and energy conservation and environmental protection.

Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Longkou Economic Development Zone; 3. Longkou High-Tech Industry Park

Key Industry Development Platforms (Continued)

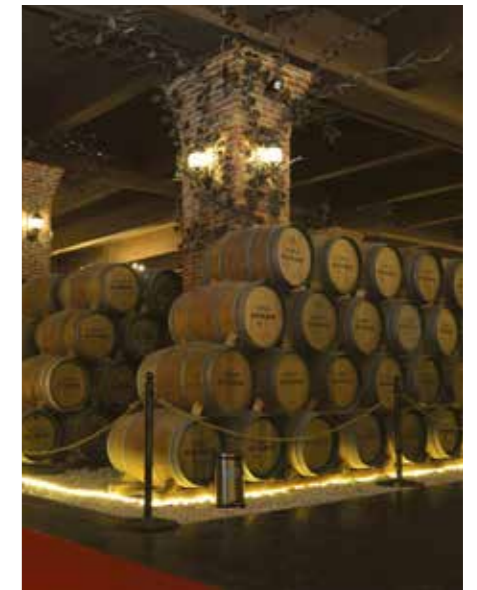
Longkou Provincial-level High-tech Agriculture Development Zone (LPHADZ)

Established in January 2017, LPHADZ consists of a 10.91-km² core zone (1.51 km² for construction and 9.4 km² for R&D experiments and agricultural demonstration activities), and nine demonstration parks covering a total area of 260 km² in seven towns or communities of Longkou, with services expanded to neighboring cities and counties and most parts of the Jiaodong Peninsula. Specialized in precision farming and high-value processing, and featuring value chain development and international operations, LPHADZ is developing a full range of highly competitive and sustainable industries.

➤ **Priority Industries:** fruit deep processing, modern warehousing and logistics, leisure and wellness-based agriculture

➤ **Specialized Parks:** Apple Intensive Cultivation Demonstration Park, Vineyard for High-end Wines, Modern Fruit Deep Processing Industry Park

➤ **Leading Companies:** Longkou Institute of Pomology, Bayer Crop Science (China) Shandong R&D Center, Weilong Grape Wine Co., Ltd, and Longkou Xinglong Grape Cooperative



Longkou Coastal Tourist Resort

Established in 2008, the 19.73-km² Coastal Tourist Resort is a national-level special marine conservation zone and a provincial-level wetland natural reserve at the estuary of the Huangshui River, with national-level coastal protection forests. In 2017, it achieved a gross output value of RMB 1.43 billion, with a contractual foreign investment of USD 11 million.

➤ **Priority Industries:** tourism

➤ **Leading Companies:** Conglin Group (headquarters)

Zhuyouguan Town Industrial Park

Established in 2008, the Zhuyouguan Town Industrial Park covers an area of 19.6 km², with an infrastructure investment of RMB 200 million. It is home to a number of internationally leading companies with an actual investment totaling RMB 7 billion. In 2017, it achieved a gross output value of RMB 14.6 billion.

➤ **Priority Industries:** high-end equipment manufacturing, high-end aluminum materials, automobile and auto parts production

➤ **Specialized Parks:** Japanese-owned Corporate Park, German-owned Corporate Park

➤ **Leading Companies:** Conglin Group, Ahlstrom Yulong Specialty Paper Co., Ltd., and Zhongji Innolight Co., Ltd.



Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Zhuyouguan Town Industrial Park; 3. Longkou Coastal Tourist Resort; 4. Lan'gao High-tech Youth Entrepreneurship Park

Business Environment for Innovation and Entrepreneurship

Longkou has launched Partnership, Star and Upgrading Programs to drive new momentum for innovation and entrepreneurship with more enabling platforms and services.

Achievements in R&D and Innovation

Awards & Patents

Longkou has won a number of awards in R&D and innovation, including one first prize of the National Science and Technology Progress Award, four second prizes of the National Science and Technology Award, two China Patent Gold Awards and eight first prizes of the Shandong Province Science and Technology Progress Award, standing out in Yantai by the number of invention patents. As of the end of 2017, 13,260 patent applications had been filed (7,469 granted), including 2,881 for invention patents, with 493 granted.

High-tech Enterprises in Bloom

As of the end of 2017, the city was home to 70 high-tech enterprises, including 19 recognized at national level and 2 designated as "state-level innovation-driven enterprises", generating a gross output value of RMB 177.81 billion.



Supporting Policies and Measures

To step up technological innovation, Longkou has launched a dozen enabling policies and preferential measures to encourage and provide better support for innovation activities of high-tech enterprises, including weighted pre-tax deduction of R&D expenses.

Table 4: Technological Innovation Platforms in Longkou

Platforms	Number
Engineering Research Centers	1 at national level, 2 provincial-level models, 9 provincial-level, and 17 municipal-level
Corporate Technology Centers	5 at national level, 12 provincial-level, and 20 municipal-level
Key Laboratories	3 at provincial level
Innovation-driven Enterprises	2 at national level and 3 provincial-level
International Technology Cooperation Centers (Bases)	2 at provincial level

Longkou has been improving financial services for technology-based enterprises, especially for SMEs. Led by the local government, a variety of earmarked funds, including the "Fund for Technology Progress and Leading Innovation", have been set up to support applied technologies R&D, corporate independent innovation, and transformation of technological achievements. Since the 12th Five-Year Plan period, the city has invested over RMB one billion in applied technologies R&D, and has led corporate investment of more than RMB 10.5 billion in R&D activities. Meanwhile, Longkou endeavors to promote clustering of financial institutions, provide services for public listing of local enterprises and develop trust financing, to create a more supportive financing environment for businesses to prosper.

Financial Services

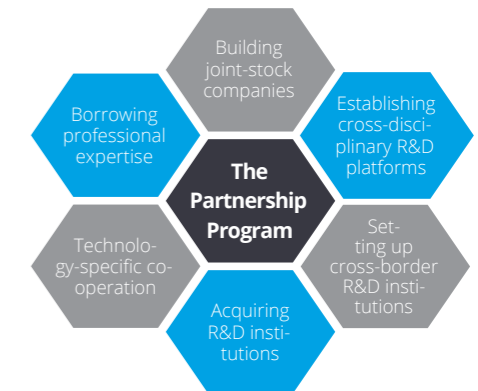
Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Longkou Municipal Technology Bureau; 3. Longkou Municipal Development and Reform Bureau

Business Environment for Innovation and Entrepreneurship (Continued)

Industry-University-Research Partnership

To further promote technological R&D and innovation, Longkou has launched the Partnership Program, which encourages industry-university-research partnerships. Supported by the government, the program connects local companies with universities and research institutions worldwide. By the end of 2017, over 100 companies in Longkou have established long-term technological partnerships with major research institutions and universities in China, with 37 technological innovation platforms built. Currently, a total of 209 industry-university-research partnership projects are underway in the city.

Figure 8: The cooperation model of the Partnership Program



Case Study

The Dawn-BUCT high polymer lab and joint-stock company, established through the technological and financial cooperation between the Dawn Group and Beijing University of Chemical Technology (BUCT), is a successful example of the Partnership Program. Drawing on the technological know-how of BUCT, the Dawn Group overcame the challenges in designing large-scale, specially-structured dynamic vulcanization reactors, which led to a major technical breakthrough for the manufacturing of thermoplastic vulcanizates (TPV), making possible China's first TPV production line with an annual capacity of 10,000 metric tons. Now, the company has developed over 60 new products, and is one of the largest producers of modified plastics with the most versatile product offerings in northern China, making the city a national leader in the production of polymer composites.

Cultivation of Technological Enterprises

Longkou has launched the "330" initiative to nurture a series of technology-based SMEs with intellectual property rights and competitive products. On top of this, the Upgrading Program has been undertaken, offering preferential policies, project application support and incentives to help emerging technological SMEs grow into high-tech companies, and further into leading innovators.

The "330" initiative

- To nurture "30 fast-growing innovative enterprises"
- To support "30 key technological innovation projects"
- To "commercialize 30 innovative technologies"

Longkou has launched the Star Program, helping technology-based enterprises to grow with high-tech entrepreneurship service centers and business incubators. Now, Longkou has attracted more than 20 technological companies, with over 130 projects launched for merchandising innovative technologies, and 600 high-tech projects posted online.

Business Incubation Support



- To develop a complete chain of technological startup nurseries, incubators and accelerators
- To connect incubators with technological service providers specialized in finance, investment, technology transfer and intellectual property rights
- To establish overseas business incubators or entrepreneurial enclaves
- Entrepreneurship training and exchanges for makers at vocational schools
- At least 2-3 makerspace demonstration zones and 1 entrepreneurship service platform to be established

Source: 1. Longkou Municipal Investment Promotion Bureau; 2. Longkou Municipal Technology Bureau; 3. Longkou Municipal Development and Reform Bureau



Chapter IV Infrastructure

Transportation Network

Thanks to its continuous efforts for a well-integrated network of air, road and sea transport in recent years, Longkou has engaged itself into the coordinated development of the Bohai Economic Rim encompassing Beijing, Tianjin, and other cities surrounding the Bohai Sea in Hebei, Liaoning, and Shandong provinces.



Rail Transportation

Over years, Longkou has been improving its rail transportation network. In 2005, the Dajiwawa-Laizhou-Longkou Railway all the way through to Longkou Port was put into operation. In 2013, the Longkou-Yantai Railway, serving as a channel for passenger and freight transport that traverses Longkou from west to east, began construction. In 2015, Longkou was included in the Bohai-rim high-speed railway network as planned by the National Development and Reform Commission (NDRC) of China. In 2018, the upgrading project of Dajiwawa-Laizhou-Longkou Railway was launched to improve its transport capacity.

➤ Put into use in January 2018, the Longkou-Yantai Railway serves as a vital transport artery that running through Longkou, providing direct intercity railway services to many cities including Beijing and Tianjin.

➤ The upgrading Dajiwawa-Laizhou-Longkou Railway connects the Longkou-Yantai Railway in the east and the Dezhou-Dajiwawa Railway in the west, constituting the Dezhou-Longkou-Yantai Railway as part of the interconnected railway system in Shandong. Once the Dezhou-Longkou-Yantai Railway begins operation, it will extend the economic hinterland of Longkou Port to Shanxi, Shaanxi and western Inner Mongolia. Longkou Port will then serve as a transit hub, enabling the virtuous circle of transporting coals from and metallic ores to the west by rail. Meanwhile, it can help reduce transport distance and increase its own competitiveness by providing more efficient cargo collection and distribution services. Upon completion, the Dezhou-Longkou-Yantai Railway will also contribute to increasing the flow of economic resources between Longkou and its neighboring cities, and promote the collaborative economic development of the regions along the railway line.

Dezhou-Longkou-Yantai Railway

Dezhou - Dajiwawa Town in Weifang - Longkou - Yantai



Bohai-Rim High-speed Railway

In 2015, the proposal for the construction of the Tianjin-Yantai High-speed Railway was put forward by NDRC in order to form a comprehensive railway transportation network connecting major cities around the Bohai Sea. As part of the Bohai-Rim High-speed Railway system, the Weifang-Yantai railway line with a stop in Longkou is scheduled to begin its construction at the end of 2018, which will shorten the travel time from Longkou to Yantai Penglai International Airport. When this railway line comes into service, it will take only less than 2 hours from Longkou to Jinan, 3 hours to Beijing, and less than 4.5 hours to Shanghai.

Air Transportation

Longkou lies within 40 minute-drive from Yantai Penglai International Airport (40 km away), which provides nonstop flights to major cities in China, including Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Chengdu, Wuhan, and several international destinations in South Korea and Japan. In addition, Longkou is well connected to the global market by sharing conveniently accessible air transportation of Qingdao Liuting International Airport serving major destinations in Germany, Australia, Russia, Singapore, Thailand, Malaysia, and other countries.



Source: 1. Longkou Municipal Transportation Bureau; 2. Longkou Municipal Investment Promotion Bureau; 3. The 13th Five-Year Plan of Longkou City

Transportation Network (Continued)

Road Transportation

Longkou enjoys an interconnected highway network, consisting of six east-west and seven north-south highways, with a total length reaching 1,844.5 km. Since the implementation of the 13th Five-Year Plan, the intercity and inter-provincial highway network connecting Longkou to adjacent cities has been further improved.



➤ **The Rongcheng-Wuhai Expressway (G18)** is an east-west expressway that connects Rongcheng, Shandong and Wuhai, Inner Mongolia, running through Tianjin, Ordos and other cities. With a maximum speed at 120 km/h, this expressway to be completed by the end of 2018 will provide a convenient channel between East China and West China to transport agricultural and sideline products and natural resources such as coal.

➤ **The Longkou-Qingdao Expressway (S19)** is one of the north-south expressways in Shandong's highway network consisting of "five north-south highways, four east-west highways, one ring highway and eight connecting highways". It connects the Qingdao-Yinchuan Expressway in the south and the Longkou Port Distribution Expressway (interconnected with Rongcheng-Wuhai Expressway) in the north. After completion in 2018, this project will slash the travel time between Longkou and Qingdao to 1.5 hours at a maximum speed of 120 km/h.

Ports

Longkou has seen the incessant growth in Longkou Port, a National Category-I open port founded in 1914. In 2017, Longkou Port, together with other ports in the city, handled 91.93 million metric tons of cargos and 792,000 TEUs of containers, which is expected to increase to 120 million metric tons of cargos and 1 million TEUs of containers by the end of 2020. The Port has been developed into the largest hub for export to Africa and a distribution center for imported bauxite, and has been approved as one of the first National Designated Ports for Grain Imports.

<p>Currently, Longkou Port hosts 30 production berths, whose berthing capacity varies from 50,000 to 150,000 metric tons (including two 100,000 metric ton liquid chemical wharves), and has an approved throughput of over 60 million metric tons. Since the implementation of the 13th Five-Year Plan, Longkou Port has been further optimizing its infrastructure through upgrading and expansion of the deep-water berths and deep-draft channels.</p>	<p>Longkou Port has a storage area of 3.3 million m², with the liquid chemical storage capacity reaching 2.03 million m³ and the grain tank storage capacity 260,000 m³. Moreover, the bonded function of the Port has been improved by the operation of an export supervised warehouse, which consists of an export supervised warehouse of 21,000 m², an import bonded yard of 304,000 m², and a bonded tank area of 510,000 m³.</p>	<p>Longkou Port now operates more than 80 shipping routes, linking to both domestic and foreign destinations in over 60 countries and regions around the world. The Port enjoys close connection with customers in the hinterland of Chinese market, by taking advantages of the convenient transportation network featured by the combination of land transportation and waterways.</p>	<p>Qimu Island Port, a modern deep-water port under construction by Nanshan Group, is designed with 22 production berths, 9 of which are at 150,000 -200,000 metric tons. During the 13th Five-Year Plan period, this Island Port will step up the infrastructure building for clean energy storage and transportation.</p>
Well-equipped Infrastructure	Upgraded Storage Capacity	Powerful Logistic Network	Well-poised New Port

Source: 1. Longkou Municipal Transportation Bureau; 2. Longkou Municipal Investment Promotion Bureau; 3. The 13th Five-Year Plan of Longkou City

Public Infrastructure

In recent years, Longkou has continuously improved its land resources use and energy supply infrastructure.

Land Supply

Longkou has been focusing on optimizing the development and use of land resources. It has encouraged the local enterprises to undertake factory reconstruction with no increase of the land use and upgrade industries in an "emptying the cage for new birds" way.

Energy Supply

Boasting large reservoirs and abundant resources of coal, oil and gas, Longkou provides sufficient energy support for the city's infrastructure facilities including water, electricity, heat and gas, and serves as Shandong Peninsula's key energy base as well.

➤ **Water Supply:** Operating one surface water plant and two underground water plants, Longkou has a daily water supply capacity of 140,000 metric tons, among which 100,000 metric tons are for industrial use.

➤ **Electricity Supply:** Longkou is home to Huadian International Longkou Power Generation, Nanshan Thermal Plant and other major power generating enterprises. As of now, the total installed electricity capacity of Longkou has reached about 3.15 MW, and will keep increasing as the construction of another two 0.66 MW generator units is under planning.

➤ **Gas Supply:** The continental shelf next to Longkou has great potential for oil and gas resources. As early as in 2004, China National Offshore Oil Corporation (CNOOC) has finished the construction of the gas processing plant at Qimu Island in the southern Bohai Gulf, which can annually process more than 0.63 billion m³ of gas and supply to the whole Yantai-Weihai region. In 2008, CNOOC established a supply base providing logistic services for the off-shore oil and gas field in Longkou. As of now, the annual gas supply of Longkou has reached 0.42 billion m³, with a maximum daily supply of 1.5 million m³. Benefiting from projects of building the Nanshan branch of the Tai'an-Qingdao-Weihai gas pipeline by China National Petroleum Corporation and two LNG terminals in Longkou, the city's gas supply capacity will continue growing.



Table 5: Factor Prices of Longkou

Water	Institutions and General Industries	5.3 RMB/m ³
	Special Industries	10 RMB/m ³
Electricity	Large-scale Industries	0.6024-0.6474 RMB/kWh (1-220kV or ≥220kV)
	General Business Sectors	0.7339-0.7639 RMB/kWh (≤110kV)
	Agriculture	0.5300-0.56 RMB/kWh (<1kV or 1-110kV)
Heat	Public Projects	36 RMB/m ³
Gas	Non-Residents	3.211 RMB/m ³
	Vehicles	(CNG) 4.216 RMB/m ³



Source: 1. Longkou Municipal Investment Promotion Bureau; 2. The 13th Five-Year Plan of Longkou City



Chapter V Human Resources

Human Resources

In recent years, following the Talent Program with a focus on the strategy of building an increasingly competitive Longkou by pooling more talents, the city has made considerable achievements in attracting and fostering talents, laying a solid human resources foundation in Longkou.

Human Resources Supply

➤ Vocational Talent Pool

Longkou takes a leading role in China's modern vocational education. In the past few years, the city has proactively promoted the strategy of school-business cooperation to develop industry-based vocational education with improved quality through advancing public and private vocational education at the same pace. More than 30,000 highly skilled technical professionals are trained per year by ten key vocational training institutions in Longkou.

Yantai Nanshan University	Yantai Nanshan Golf School
Longkou Senior Technical School	Yantai Conglin Technical School
Yantai Nanshan Vocational-technical School	Shandong Longkou Mining Group Senior Technical School

➤ Yantai Nanshan University

Maintaining cooperation with more than 3,000 companies, Yantai Nanshan University signs customized talent cultivation agreements, i.e. training technical professionals in accordance with companies' specific talent needs by developing targeted specialties, with over 40 companies every year, such as Nanshan Group, Shandong China Coal Industry & Mining Group and Shandong CVIC Software Engineering Co., Ltd.

➤ Higher Education Resources

Approved by China's Ministry of Education in 2005, Yantai Nanshan University was upgraded into a general higher education institution featuring undergraduate education supplemented by higher vocational education, being one of the first private universities in Shandong Province. According to the *Chinese Private Universities Rankings 2017-2018* (www.nseac.com), Yantai Nanshan University was ranked first in Shandong and sixth nationally.

Longkou also enjoys the rich higher education resources from its neighboring cities, ensuring high quality talents supply for local enterprises. By 2017, there had been more than 100 general higher education institutions (including international higher education partnerships) in Yantai, Weihai, Qingdao, Jinan and other peripheral cities, represented by national key universities like Ocean University of China, China University of Petroleum and Shandong University.

Ocean University of China	China University of Petroleum
Shandong University	Shandong Normal University
Shandong University of Finance and Economics	University of Jinan
Harbin Institute of Technology, Weihai	Beijing Jiaotong University, Weihai
Ludong University	Yantai University



Source: 1. Longkou Municipal Leading Group Office of Talent Management; 2. Longkou Municipal Public Employment (Talent) Service Center; 3. Longkou Municipal Science and Technology Bureau; 4. Longkou Municipal Bureau of Human Resources and Social Security; 5. Longkou Municipal Education and Sports Bureau

Human Resources (Continued)

► Sufficient Supply of High-caliber Talents

As of 2017, the talent pool of Longkou had expanded to around 155,000 people, among which 55,000 hold a bachelor's degree and over 5,500 with a master's or higher level degree or associate senior-level/senior-level professional titles. On top of that, it is distinguished by 157 high-caliber professionals, including academicians from CAS (Chinese Academy of Sciences) and CAE (Chinese Academy of Engineering), experts recruited under the "1,000 Talents Program" and "10,000 Talents Program" of China or enjoying a special subsidy from the State Council of China, professionals qualified in the Taishan Scholars Program and the Taishan Industry Leading Talents Program of Shandong Province, and the "Double-hundred Plan" of Yantai City.

• Attracting and Recruiting Professionals

Since 2015, Longkou has been building up a county-level highland of talent development based on the Talent Program, annually recruiting more than 2,000 professionals across the board.

In 2017, Longkou Technology and Talent Exchange Center was established in Silicon Valley, USA, with the aim of better serving its local industry development.

43 academicians from CAS and CAE as well as experts under the "1,000 Talents Program" and "10,000 Talents Program" of China

13 experts enjoying a special subsidy from the State Council of China

15 professionals qualified in the Taishan Scholars Program and the Taishan Industry Leading Talents Program of Shandong Province

• Nurturing Talents

Longkou is now home to three national-level postdoctoral science and research workstations, two provincial-level postdoctoral innovation practice bases, five CAS/CAE academician workstations, and one provincial-level technician workstation and one at the municipal level of Yantai City. Supported by those high-level talent platforms, Longkou has nurtured six experts enjoying a special subsidy from the State Council of China, four experts and five technicians with outstanding achievements recognized at the provincial level, and two chief technicians of Shandong Province.

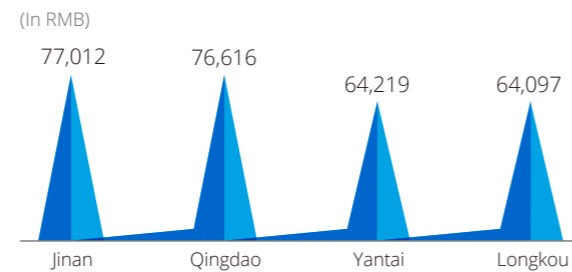
Innovation and Entrepreneurship Competition for High-level Professionals

In 2017, the First Innovation and Entrepreneurship Competition for High-level Professionals was held in Longkou, bringing a new model of talent recruitment featuring "leading talents + teams + projects". Taking the competition as a cooperative platform, Longkou has worked with premium financial institutions and local major companies to strengthen the development of competitive industries with specialized capital resources. Meanwhile, it has provided support to the selected innovation and entrepreneurship projects with cutting-edge technologies and great potential from China and abroad, helping them establish themselves in the city.

Human Resource Costs

In 2017, the employees' average annual salary¹ in Longkou stood at RMB 64,097 and local companies annually assumed 32.44% to 40.48% of the Five Insurances and One Fund² for their employees, which shows Longkou is highly competitive compared with other major cities of Shandong Province regarding labor costs.

Figure 9: Employees' Average Annual Salary of Major Cities in Shandong Province (2017)



From January 1, 2017 to April 30, 2018, the rate of unemployment insurance in Shandong Province decreased from 1.5% to 1%, in which the percentage that the Longkou-based companies assume was reduced from 1% to 0.7% and the employees from 0.5% to 0.3%.

Table 6: Proportion of the Five Insurances and One Fund Contributed by Longkou-based Companies (2017)

Categories	Percentage
Pension Insurance	18%
Unemployment Insurance	0.7%
Medical Insurance	7%
Employment Injury Insurance	0.24%-2.28%
Maternity Insurance	0.5%
Housing Provident Fund	6-12%
Total	32.44%-40.48%



Chapter VI Living Environment

Note: 1. This report adopts the average payment of employees in urban non-private companies to represent general employees' average annual salary in Longkou; 2. The Five Insurances and One Fund refer to the pension insurance, unemployment insurance, medical insurance, employment injury insurance, maternity insurance, and the housing provident fund.

Source: 1. Longkou Economic Statistics; 2. *The Yearbook of Shandong 2017*; 3. Official website of Yantai Municipal Bureau of Human Resources and Social Security; 4. Longkou Municipal Bureau of Human Resources and Social Security; 5. Yantai Municipal Statistics Bureau; 6. Yantai Housing Provident Fund Center

Education and Healthcare

A Comprehensive Education System

A comprehensive education system that covers from preschool education to higher education, general and vocational education, public and private schooling has been developed in Longkou, serving as an important part of the city's investment environment. Longkou now has 101 kindergartens, 23 primary schools, 26 general middle schools (i.e., 8 junior middle schools, 15 nine-year-education schools, 2 senior middle schools and 1 twelve-year-education school), 5 secondary vocational schools, 1 special education school and 1 university.



Longkou No. 1 Middle School

Founded in 1892 and formerly known as Huayang Academy, Longkou No. 1 Middle School is a century-old renowned school in China. As a model school in Shandong, it has been cultivating excellent students for major Chinese universities such as Beijing Institute of Technology, Nanjing University, Shandong University, China University of Petroleum (East China) and Northwest A&F University. It has also set up an international department which provides students with opportunities of overseas learning and development. It is the sister school of West High School in Salt Lake City of the USA. In addition, the School has been recognized as the base for international education by the Overseas Learning Service Center under the Department of Education, Shandong Province.

Adequate Healthcare Resources

Longkou has basically put in place a medical community regime and a tiered diagnosis and treatment system led by the Grade III public hospital. As of now, Longkou has 38 medical and healthcare institutions (including 1 Grade III hospital and 5 Grade II hospitals) and 5 medical communities, offering a total of 4,578 beds and staffed by 2,110 doctors and 3,948 other medical personnel.

Table 7: Number of Healthcare Institutions in Longkou (2017)

Category	Number
General hospital	19
Specialized hospital	4
Preventive healthcare institution	1
Nursing home	1
Health service center/Health center	13
Total	38

Longkou People's Hospital

This Grade III Level B public general hospital is comprised of 40 clinical and medical technical departments, integrating medical treatment, research, teaching, disease prevention, healthcare and rehabilitation. So far, it offers a total of over 3 million times of treatment in outpatient services annually and admits more than 60,000 inpatients a year with 1,500 licensed beds and 1,200 available beds. Equipped with 20 high standard laminar flow operating rooms, it carries out over 25,000 operations every year.



Source: 1. Longkou Municipal Education and Sports Bureau; 2. Longkou Municipal Health and Family Planning Bureau; 3. Official website of the Longkou Municipal Government; 4. Official website of the Longkou No. 1 Middle School

Living Environment

Marvelous Natural Ecological Environment

Longkou is featured with four distinct seasons and pleasant climate. With mountains and hills in its south and plains and sea in its north, the city has since ancient times been depicted as "with high mountains ahead, and sea behind its back."

With 21 mountains including Mount Lu and Mount Lai, Longkou offers a breath-taking view from the top of the mountains where peaks overlap with each other surrounded by luxuriantly trees. High quality mud flats stretch along the 68.4-km-long coastline spotted with natural sea water baths. Extending beyond the sand beach is the 10-km-long green belt, resembling a green Great Wall safeguarding the newly built business buildings and residential area nearby. In addition, Longkou has established four provincial-level natural reserves including Mount Lai, Dapiao Mountain, Yi Island and Huangshui River Estuary Wetland, offering a touch of nature for urban dwellers in the hectic city.



As of the end of 2017, the forest coverage and green coverage in Longkou have reached 55.6% and 44.93% respectively with 14.98 m² of public green space per capita. Residents in Longkou feel like live in a picturesque park featuring exuberant trees.



Source: 1. The Yearbook of Longkou 2017; 2. The 13th Five-Year Plan of Longkou City

Comprehensive Business and Living Facilities

Business Facilities: Longkou has set up a complete set of amenities including restaurants, large-scale shopping centers and entertainment centers. The commercial districts in the city include Boshang Shopping Plaza and Zhenhua Shopping Center in the east, and the Nanshan Road Business Circle comprised of Xinyuan Shopping Plaza, a commercial pedestrian street and Wuzhou International Trade City, all providing local residents with convenience for recreation, dining, shopping and entertainment.

Hospitality & Exhibition: The city's seven star hotels, represented by Nanshan International Conference Center, Donghai Moon Bay Seascape Hotel and Nanshan Hotel, offer full-fledged facilities, relaxing environment and professional services. They are ideal choices for conferences, exhibitions, political and business talks, banquets, performance as well as travel.

Longkou Nanshan International Conference Center

Located in the national 5A Nanshan Tourist Area, the Nanshan International Conference Center enjoys pleasant natural environment and convenient transportation. As the first five-star hotel in Yantai, it has integrated functions of business reception, high-level business meetings, international exhibitions, large-scale celebration and performance as well as recreation and vacation. It has 11 conference rooms of different sizes and the Nanshan Grand Theatre, which can satisfy various needs from high-level business meetings to large-scale performances.

As an important hotel for reception in Longkou, the Nanshan International Conference Center has received a good many major Chinese leaders and won honorary titles including "Service Brand in Shandong", "Top 10 Beautiful Star Hotels in Shandong China", "Best Recreation & Resort Hotel" and "Best Hotel for Conferences" for its superior services.

Living Environment (Continued)

A Great Variety of Cultural Activities

With a profound cultural history and fine social conduct, Longkou advocates the virtue of filial piety and the Longkou spirit featuring honesty, business-friendliness, kindness and enterprise. Its city brand of "Longkou – A beautiful city dwelled by good folks" has been added renewed radiance in this era. In 2017, Longkou was included into the first batch of country-level model cities in China.



► **Cultural & Sports Facilities:** Longkou has set up a great variety of recreational facilities including museums, libraries and stadiums, and has planned to build the Longkou Olympic Park, Public Sci-Tech and Cultural Activity Center and Nishan Academy that combines library and academy of classic learning, in order to enhance residents' happiness in life.

► **Cultural Activities:** As a time-honored culturally renowned city, Longkou holds the International Xu Fu Cultural Festival every year, to commemorate his meritorious feats in his journeys to the eastern seas. In addition, to carry forward the traditional Chinese virtue of respecting the elderly, Longkou hosts city cultural brand activities in-

cluding Longkou Filiality Cultural Festival and Nanshan International Longevity Cultural Festival to demonstrate to the whole world the unique charm of Longkou's traditional culture.

► **Sports Events:** Longkou has in recent years hosted a variety of sports events. Relying upon the Nanshan International Golf Club, Longkou has successfully organized a number of international golf events. And the CGA Nanshan International Training Center in Longkou has become the first training base for Chinese golf team. Since 2016, Longkou has been organizing the international marathon race, which has been upgraded to an A-level sporting event of Chinese Athletic Association. The marathon race has attracted thousands of players from all over the world annually, which has significantly enhanced the city's renown globally.

Longkou Nanshan International Golf Club

The Nanshan International Golf Club in Longkou consists of the International Golf Club, Danling Golf Club, Qingdao Linghai Golf Club, and Yantai Mashanzhai Golf Club. It has for several times been recognized as one of the "Top 10 Golf Clubs in China". The CGA Nanshan International Training Center, built upon the Danling Golf Club, has been designated as the state golf team training base in China by General Administration of Sport of China and China Golf Association.

To train young golf players into world-class professionals, the CGA Yantai Nanshan Golf School (Full-time) was established by China Golf Association in cooperation with Nanshan Group. Integrating golf skill training with elementary school, middle school and specialized secondary education, the school has adopted a system that aims at cultivating professional golf players meeting international standards, which helps train a good many excellent professional golfers.

The Club, since its establishment, has successfully hosted golf events at all levels including Asia-Pacific Amateur Championship, Nanshan China Masters, US Woman Open Championship, China Amateur Championship, HSBC Youth Golf Championship, and the National Youth Championship.



Source: 1. *The Yearbook of Longkou 2017*; 2. *The 13th Five-Year Plan of Longkou City*

Cultural Landscapes

Longkou has established a unique system for travel and recreation featured with comprehensive facilities, targeting different groups of tourists interested in religion and history such as Nanshan Buddha, the first copper-made sitting Buddha in Asia, in high-end recreation such as the 16 standard golf courses, in relaxation and leisure for the elderly such as the top-level Health Valley in China, in culture for Confucian businessman with the focus on the Ding Family Residence and in coastal resort supported by the gold coastline.

Nanshan Tourist Area

Nanshan Tourist Area, a 5A national tourist area authorized by the Ministry of Culture and Tourism of China located in the picturesque Mount Lu in Longkou, is an extraordinary tourist resort that combines natural scenery with cultural landscape, just as depicted by Tao Yuanming, an ancient Chinese poet in "In people's haunt I built my cot; Of wheel's and hoofs noise I hear not. I pick fenceside asters at will; Carefree I see the southern hill". The whole area consists of three parts: the Religion, History and Culture Park, the Theme Park – Happy Valley and the East Sea Tourist Area. The Religion, History and Culture Park situates the Nanshan Temple, the Xiangshui Nunnery, the Nanshan Abbey and the Lingyuan Temple all dating back to the Jin and Tang Dynasties, highlighted by the Nanshan Buddha and the Nanshan Pharmacist Jade Buddha. The thousand-year-old temples, pavilions, corridors, pagodas combine to present a grand picture with irresistible appeal to visitors.



Ding Family Residence

Ding Family Residence, located at West Street of Donglai Subdistrict in Longkou, was established by Ding Baiwan from a rich family in the Huang County in early Qing Dynasty (AD 1644–1912). It is currently the largest well-preserved Chinese architectural complex of the "siheyuan" (quadrangle courtyard) style, a historical type of residence that was commonly found throughout China, and it has been classified into a major historical and cultural site protected at the national level. Occupying a total area of 3.1 hectares and a floor area of 8,042 m², the Residence now consists of 240 rooms. Walking in the Residence, you'll experience the Confucian businessman culture with a profound history.

Huangshui River Wetland Park

Huangshui River Wetland Park is a typical urban ecological wetland covering a total area of 427 acres, of which land area covers 295 acres. The Huangshui River Estuary Wetland Nature Reserve in the Park is the first of its kind at provincial level in Yantai with tightly concentrated wetland resources that features a diverse ecological system and abundant species resources. Here egrets and water-birds fly down to congregate on the sands, and fragrant flowers are set against the luxuriant grass and tree, making the park an ideal place to get away from the hectic city and have a close contact with nature.



Source: 1. *The Yearbook of Longkou 2017*; 2. *The 13th Five-Year Plan of Longkou City*



Chapter VII Summary and Vision

Summary and Vision

Based on the analysis of the investment environment in Longkou, the city's four major advantages for attracting investment are concluded as follows:



1. A Coastal City Well Connected to the Rest of China and Beyond

Known as the “Pearl of the Bohai Gulf”, Longkou enjoys an advantageous location at the heart of the Jiaodong Peninsula. Its multimodal transportation network conveniently connects the city to other parts of Shandong Peninsula and further to the Beijing-Tianjin-Hebei region for a coordinated development, making possible a frictionless flow of industry inputs, technologies and talents between Longkou and the rest of China and even Japan and South Korea.

As a coastal city favorably situated in eastern China, Longkou has launched the “Port Upgrading” project, actively responding to China’s Belt and Road Initiative to better connect to international markets. Now, it maintains various partnerships with over 60 countries and regions, aiming to develop itself into a more open, international port city.

2. A Strategic Pioneer in Industrial Transformation and Upgrading

As a core part of the Shandong Comprehensive Pilot Zone for Transformation of Growth Engines, and built on its strengths as China’s No.9 industrially developed county-level cities, Longkou is upgrading its traditionally advantageous industries and seeks to create new engines of economic growth by developing emerging strategic industries.

Based on its industrial advantages, Longkou is seizing China’s strategic opportunities to optimize the local industry structure, dedicated to creating an attractive business environment for investors and entrepreneurs. The launch of a number of major promising projects, including the ethane-based multi-products and the LNG terminal projects, is further driving coordinated development throughout the value chain, which in turn will bring more strategic opportunities and help cultivate a thriving market.

The Longkou Economic Development Zone, High-tech Industry Park, Provincial-level Agricultural High-tech Industry Park and other platforms have grown rapidly, each with specialized functions and unique positioning, providing strong support for industry transformation and upgrading in the new era.



3. A Leader in Promoting Innovation as a New Growth Engine

To better support innovation and entrepreneurship, the city has launched three programs – the Partnership Program, which facilitates industry-university-research partnerships; the Upgrading Program, which helps technological enterprises to achieve breakthroughs in their R&D and innovation programs; and the Star Program that supports incubation of new promising businesses.

Aiming to create a more enabling environment for talents to thrive and lead innovation and entrepreneurship, the Longkou Talent Program is in place which offers a series of incentive packages and subsidies to qualified professionals, with a comprehensive set of supportive measures.

The city has attracted many high-caliber professionals, contributing their expertise to local innovation and entrepreneurship activities, including academicians and experts under China’s “1,000 Talents Program” and the “10,000 Talents Program”.

4. An Enabling Business Environment

Committed to creating a highly efficient and service-oriented environment for business with streamlined administrative procedures, Longkou has launched a full range of policies that facilitate various market players to grow and thrive. As part of its 2018 initiative of “The Year of Creating an Enabling Business Environment”, the city is actively reforming local administrative system to provide more transparent and efficient government services for businesses in Longkou. A series of supportive measures have been in place, including the Service Item List, a “one-window acceptance” mechanism, and the pre-acceptance of cases and the joint review and approval mechanism. During the 13th Five-Year Plan period, Longkou will continue to deepen institutional reform, while further attracting talents to help drive innovation and entrepreneurship.

As a pioneer in the reform and opening up and innovation-driven development, Longkou is dedicated to enhancing the core competitiveness of local enterprises at the higher end of the value chain. The city is also creating a liveable environment for all with a complete range of services. It is developing itself into an inclusive, open, and vigorous port city, and a hub of innovative and sustainable industries on the Bohai Gulf.



Appendix I: Requirements on registered capital and total amount of investment of foreign-funded enterprises in China

Methods of Capital Contribution

Foreign investors may make capital contribution in freely convertible foreign currency, in cross-border RMB directly, or in non-currency property such as machinery equipment, industrial property and proprietary technology. With the approval of relevant tax authorities, foreign investors may also use their RMB profits obtained from other foreign-funded enterprises held by them in China.

Requirements on Capital Contribution

The registered capital of a limited liability company shall be the capital contributions subscribed by all shareholders as registered with the company registration authority. When administrative regulations and the decisions of the State Council stipulate the actual paid registered capital and another amount on the minimum registered capital of a limited liability company, such stipulations shall prevail.

Each shareholder shall make the capital contribution it subscribes as specified in the articles of association of the company on time and in full. If a shareholder makes its capital contribution in currency, it shall deposit the full amount of capital contribution in currency in a bank account opened by the limited liability company. If capital contribution is made in non-currency property, the transfer procedures for the property rights therein shall be handled according to the law. If a shareholder fails to make capital contribution in accordance with the preceding requirements, it shall, in addition to making capital contribution in full to the company, be liable for breach of contract to the shareholders that have made their capital contributions on time and in full.

Proportions of Registered Capital to Total Amount of Investment

The proportions of registered capital to total amount of investment used for the establishment of foreign-funded enterprises in China should meet the requirements in the table below. These requirements also apply to the increase in capital of foreign-funded enterprises. In this case, these requirements only apply to the new investment portion and not the total increased investment.

Total amount of investment (in USD)	Minimum requirement for registered capital (in USD)
>30 million	At least 1/3 of the total amount of investment, and more than 12 million if the total amount of investment is less than 36 million.
10 million – 30 million	At least 40% of the total amount of investment, and more than 5 million if the total amount of investment is less than 12.5 million.
3 million – 10 million	At least 50% of the total amount of investment, and more than 2.1 million if the total amount of investment is less than 4.2 million.
<3 million	At least 70% of the total amount of investment.



Source: 1. *Detailed Rules for the Implementation of the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises in China* (2014 Revision); 2. *Company Law of the People's Republic of China* (Order of the President, No.8 of 2013); 3. *Provisional Regulations for the Proportion of Registered Capital to Total Amount of Investment of Joint Ventures Using Chinese and Foreign Investment* (issued by the State Administration for Industry and Commerce, No.38 of 1987).

Appendix

Appendix II: Main Taxes Applicable to Foreign-funded Enterprises in China

Income Taxes	Scope of Taxation	Tax Payable
Enterprise Income Tax	A resident enterprise shall pay the enterprise income tax on its incomes derived from both inside and outside China. For a non-resident enterprise having offices or establishments inside China, it shall pay enterprise income tax on its incomes derived from China as well as on incomes derived from outside China but having actual connections with the said offices or establishments.	Standard rate: 25% Withholding tax rate: 10% Small meagre-profit enterprises: 20% High- and new-tech enterprises: 15%
Individual Income Tax	Individuals who have resided for one year or more in China shall pay individual income tax on their incomes gained within and outside China. Individuals not residing in China and individuals who have resided in China for less than one year shall pay individual income tax only on their incomes gained within China. Taxable individual incomes comprise 11 categories including wages and salaries and remuneration for personal services.	Wages and salaries: 3%-45%
Turnover Taxes	Scope of Taxation	Tax Payable
Value-added Tax	Entities and individuals that sell goods or labor services of processing, repair or replacement, sell services, intangible assets, or real estate, or import goods within the territory of the People's Republic of China are taxpayers of value-added tax.	Standard rates: 6%, 10%, 16% Charge rates: 3%, 5%
Consumption Tax	Entities and individuals engaged in the production, processing on a commission basis, or importation of the taxable consumer goods shall pay consumption tax. Consumption tax is calculated based on sales value or sales volume. Taxable consumer goods comprise 15 categories including tobacco, alcohol and cosmetics.	Based on sales value: 1%-40% of the sales value Based on sales volume: Beer and yellow rice wine: RMB 220-250 /t Refined oil: RMB 1.20-1.52 /L Compound method: White liquor: 20% of the sales value + RMB 0.5/500g Cigarette: 36%-56% of the sales value + RMB 0.003 /stick (+ 11% of the sales value + RMB 0.005 /stick for wholesale cigarettes)
Customs Duty	The consignees of imported goods, the consignors of exported goods and the owners of entry articles are obligatory customs duty payers.	Tax rates vary with the type of goods in question
Other Taxes	Scope of Taxation	Tax Payable
Deed Tax	Entities or individuals to whom titles of land or houses have been transferred within the territory of the People's Republic of China shall pay deed tax according to the prices of the immovable properties transferred to them.	Standard rates: 3%-5%
Real Estate Tax	Owners of taxable housing properties in urban areas shall pay real estate tax based on the taxable values or the rental incomes of the taxable housing properties.	Based on the taxable values: 1.2% Base on the rental incomes: 12%
Land Value-added Tax	Entities and individuals that gain incomes from the transfer of the right to use state-owned lands, property right of buildings and the attached installations shall pay land value-added tax based on the added value.	Standard Rates: 30%-60%
Stamp Duty	All entities and individuals which conclude or receive taxable documents shall pay stamp duty based on the number of pieces of the taxable documents or the amount of payment indicated in the taxable documents.	Standard rates: Based on the amount of payment: 0.005%-0.1% of the amount of payment Based on the number of pieces: RMB 5 /piece

Source: State Administration of Taxation of China (by May 1, 2018)

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Administrative Committee of Longkou Economic Development Zone

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Administrative Committee of Longkou High-tech Industry Park

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Administrative Committee of Longkou Coastal Tourist Resort

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