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Contents

Board of the Chamber and its Chapters	2-3
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Editorial	5
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Chamber News	
2005 – Year of the Rooster, Next Events, New Members	6-7

Brief News	
New Ambassador at the Swiss Embassy in Beijing	8
New Regional Manager for Asia at SOFI	8
In Brief	9-10

Economy	
2004 Sets New Economic Records	11
China's Rising Investments Abroad	11
Swiss-Chinese Trade / Third Quarter 2004	12
Swiss-Hong Kong Trade / Third Quarter 2004	14
Recent Foreign Investments / Joint Ventures	15-18
Swiss Machinery – a Success Story	18-19
China's Automotive and Vehicle Industry	20-21

Legal Matters	
New Business Opportunities for WFOE	22-25
Regulations on Origins of Imports and Exports	25
Law on Digital Signature	25-26

Human Resources	
China's Compensation and Benefits – Study Results	26-27
Report on the Salary Situation in China	28-32
Have You ever Made a Recruiting Mistake?	33-38

News from Members	
Rado – Time for Tennis	39-41
Tiles & Granite from China for Europe	42-44

Services	
Building Bridges between Cultures	45
Photographs and Martial Arts	46-47
Membership Card Values	48

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President's New Year's Message

As the year of the Monkey comes to an end, let me take this opportunity for a review and an outlook on what the year of the Rooster might bring us.

When leafing through the world press including the excellent China Daily of the past few weeks, it occurred to me that practically most of the important 2004 China News was right there in the headlines:

- Foreign trade of one trillion US\$ makes China 3rd largest trader
- Foreign investment sets new record as US\$ 60 billion
- Air China starts trading at London Stock Exchange
- Lenovo buys PC unit of IBM for US\$ 1.75 billion
- Record deals signed with Germany, Italy, France
- China's growth spreading inland
- Domestic firms spread wings abroad
- Latin America excited by Hu Jintao's visit
- China signs Asean Integration Agreements
- China makes the Pacific its playground
- China challenges shipbuilding dominance of Korea
- Chinese outbound travel soars 63.7%
- Procedures for overseas investments simplified
- Economy to maintain fast, stable momentum in 2005
- China GDP likely to reach US\$ 4 trillion in 2020

We could continue the list by picking out a few trade highlights negotiated even in the presence of heads of European government: A record 22 agreements valued at billions of dollars were signed between China and Germany during Mr. Schröder's November visit, including Airbus airliners, locomotives, joint ventures. Bilateral trade in 2004 is expected to reach US\$ 50 billion.

French President Chirac booked orders for 26 airplanes. Alstom sold locomotives and trains worth one billion Euros. Alstom is also involved in the construction of atomic reactors and in building a joint venture chain of gasoline stations.

Italian President Ciampi signed a wide range of deals covering energy, infrastructure, transport and telecommunications.

Meanwhile, President Hu Jintao made a 12-day, four country trip in which he announced more than US\$ 30 billion new Chinese investments in Latin America. He also signed long-term supply contracts to fuel Beijing's torrid economic expansion for years to come. Hu's travels took him to Brazil, Chile, Argentina, Cuba.

China is back not only in the headlines but also in the western minds and on the agendas of many companies to discover this country again, to look for new opportunities or just to be part of the China boom in some way. In the up-coming year of the Rooster there will be plenty of room to welcome newcomers and to share with China-experts the great developments during the past years: Our Chamber will celebrate its 25th anniversary and is looking forward to contribute with special events and activities, to even further strengthen trade and cultural relations between the two countries.

At this stage, I would like to express my thanks to our Managing Director, Ms Susan Horváth, for her outstanding efforts in running the Chamber's various activities and networks.

Sincerely,

Dr. Jörg Wolle
President

2005 – Year of the Rooster

February 9th 2005 – January 28th 2006

The optimism of the Monkey year overlaps the year of the Rooster, but the Rooster tends to be overconfident and is prone to come up with nonsensical plans. While the colourful Rooster brings bright and happy days, he also dissipates energy. Better stick to practical and well-proven paths. Forget about that controversial best seller you were going to write. No get rich quick schemes this year, please!

It may require a great deal of effort this year to resist going off on wild goose chases. Refrain from making speculative ventures. Disappointments and conflicts would result. The Rooster likes to flaunt his authority and a lot of trouble can come from his domineering attitude. But since he also symbolizes the good administrator and conscientious overseer of justice in the barnyard, the peace will still be kept. Everything will be precariously balanced in the Rooster's year, as his dramatic personality can set off all kinds of petty disputes.

This year we may have to expend maximum effort for minimum gain. Try not to fuss too much. Details do need looking into, but don't forget to view the whole picture. Be cautious. Do not aim too high. One is liable to get shot down.

Politics will adhere to hard-line policies. The diplomatic scene will be dominated by philosophical orators who rave a lot about nothing. Governments will be found flexing their muscles at each other, but just for show. There may be no real confrontations. It is just that everyone will be too occupied with himself to hear or care what the other person is saying.

The self-conscious influence of the Rooster will cause us to take offence at the smallest slight. We will tend to be terribly ostentatious about the splendid image we think we project. Dissensions and debates on all fronts will signify the Rooster's penchant for argumentative exercises and will not be likely to do permanent damage to anyone when taken in the right context.

This will be a buoyant year in spite of the Rooster's knack for making simple things complicated. One thing is for sure: he seldom comes up empty-handed. This is the year of one very self-sufficient bird that will never go hungry.

Just keep your eyes open and your mouth shut and check facts and figures before making unprecedented moves. We should all get by without too much hardship. Our pockets will not be empty although our nerves may be a bit frayed.

Source: The Handbook of Chinese Horoscopes, by Theodora Lau, published by arrow Books Limited.



Next Events

Chinese New Year Reception

Tuesday, March 8th 2005

at Zunfthaus zur Meisen, Zurich

Admission for members and with invitation card only.

SWISS Pavilion at Kunming Fair 2005

Osec Business Network Switzerland, in close cooperation with the City of Zurich and with the support of our Chamber, is organizing a joint Swiss participation at:

**China Kunming Import & Export Commodities Fair
June 6th – 10th 2005.**

The focus will be on infrastructure, engineering, construction and environmental technology, however due to the structure of this most important multi-sector fair in the South-West of China, other industries can participate in the SWISS pavilion as well.

For further details see the enclosure in this Bulletin or contact:

Angela Reinhard

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6. Internationale ZfU-China-Tagung

2./3. Juni 2005 (Tagung)

4. Juni 2005 (Vertiefungsworkshop)

Mövenpick Hotel

CH-8105 Regensdorf-Zürich

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Interconsulting Group AG	Hergiswil

Lugano

Municipio di Lugano	Lugano
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Geneva

Mme Cyrille Piguet	Lausanne
EUROSIN H & D	Lausanne
Mme Anli Cuva-Li	Geneva

New Ambassador at the Swiss Embassy in Beijing



*H.E. Dante
Martinelli*

Dante Martinelli, citizen of Chiasso TI was born on 5th October 1947 in Faido. After a professional career in banking, he graduated with honours in 1977 at the "Institut d'Etudes Politiques de Paris (IEP)". After this he started an internship for foreign service officers at the Ministry of Foreign Affairs in Berne. In 1980 he was sent by the Swiss Government as Attaché of the Embassy of Switzerland to Tunis. His following assignment from 1981 to 1985 was in Berne in the Office for European Integration of the Ministry of Foreign Affairs and Ministry of Economy. As a Counsellor and Deputy Chief of the Economic and Commercial Office of the Embassy of

Switzerland in Washington D.C. he lived from 1985 to 1989 in the USA.

From 1988 to 1989 he was also the Alternate Executive Director of the Multilateral Investment Guarantee Agency (World Bank Group) (MIGA) and represented Switzerland, The Netherlands and Cyprus.

From 1989 to 1993 he was Counsellor and Head of the Economic and Financial Service at the Embassy of Switzerland, Paris (France) and was then called in 1993 by the Minister of Foreign Affairs in Switzerland as his Diplomatic Advisor until 1996. The same year D. Martinelli was sent by the Swiss Government as Ambassador of Switzerland to Italy and in November 1999 as Ambassador and Head of the Swiss Mission to the EU in Brussels. Since November 2004 he is Ambassador of Switzerland to China, the Democratic People's Republic of Korea and Mongolia with residence in Beijing.

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New Regional Manager for Asia at SOFI



*Susanne Gross-
mann Binder*

Susanne Grossmann Binder studied History and Economics at the University of Zurich, Switzerland where she graduated in 1993. After working for a Swiss bank

she did a post graduate degree in European Integration at the University of Basel, Switzerland.

In 1995 Mrs. Grossmann Binder joined the Swiss State Secretariat for Economic Affairs (seco) in Berne where she spent nine years. After working in the area of international trade negotiations with a focus on the services sector she joined the Division for Economic Cooperation in 1999. There she was in charge of a number of private sector promotion initiatives. She first focused on infrastructure projects with Swiss companies in North Africa and the Middle East. Beginning in 2000 she worked on private sector financing in developing and transition countries, in particular venture capital funds and other financial intermediaries such as banks and leasing companies. In 2003 she managed a project to reorganize seco's investment activities in the framework of an independent institution under governmental control. Through her work she has established an extensive network with development finance institutions, including the International Finance Corporation, the private sector arm of the World Bank Group.

Susanne Grossmann Binder joined SOFI in September 2004. She is a member of the management team as well as the regional manager for Asia.

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In Brief

- Individual investors in China will be allowed to trade gold under measures designed to improve the market. The liberalization will give investors who have their money in savings accounts a new investment option.
- China has promised to open fully its book and newspaper retail and wholesale sectors to foreign investors by the end of this year, but will continue to bar overseas companies from the politically sensitive publishing business. Foreign companies will be able to establish joint ventures, partnerships or wholly owned companies.
- China will open its auction market to foreign investors from the end of this year. They will be allowed to establish solely-invested auction firms from December 11. The draft rules require the auction firms to have a minimum registered capital of US\$ 120.000. Foreign players are likely to first enter auctions of second-hand cars, real estate and arts and crafts.
- The Tianjin Port Free Trade Zone has received approval to open a trade and industrial park in the United States in Greenville, South Carolina, to provide a base for overseas investment. It is expected that 30 to 50 Chinese trading companies and some 10 manufacturing companies will enter the park in coming years.
- China is currently constructing a large-scale trade centre for the nation's products in the United Arab Emirates. The Dubai-based centre will be the largest trading platform China has ever established overseas with a total investment of US\$ 300 million. It will accommodate about 4.000 Chinese companies.
- Individuals are likely to be allowed to run one-person limited liability companies soon. An expert panel for the amendment of the Corporate Law will submit the revised draft of the law to the National People's Congress by the end of the year. The deregulation will give a boost to private business.
- China seized two million compact discs in the first half of 2004 in its biggest crackdown on piracy after U.S. pressure to end counterfeiting of products from Microsoft software to Hollywood movies. The government sent 13.000 employees to check 8.000 CD and software dealers nationwide, fining violators US\$ 3.6 million. More than 90% of software used in China is counterfeit.
- China will rely more on foreign expertise and financing in coming years as it builds dozens of nuclear power plants to relieve severe shortages of electricity. By 2020 China aims to rely on nuclear energy to meet 4% of its electricity demand, requiring the construction of 27 power plants. Foreign partners will be invited to take part in the construction through bidding.
- A major State-owned hospital in Guangzhou was purchased by a private conglomerate, Beijing-based Yiren Medical Group, for US\$ 1.8 million. The hotel was renamed the Guangzhou Yiren Hospital, becoming a non-profit and privately operated hospital.
- A group of 20 scientists from China and the United States conducted a month-long expedition in the Himalayas and found that glaciers in the area have been waning by an average of 7% annually.
- Wine consumption in China has grown rapidly in recent years. From 1994 to 2000, global wine output grew by 6.5%, but during the same period China's consumption increased by 61.8%. Per capita consumption in China is only 0.5 litres a year, while the annual world average figure is 7.5 litres.
- Expatriates from 105 countries living and working in Shanghai paid US\$ 190 million in income tax in the first six months of 2004, representing 15% of total income tax collected. Since Shanghai officially started issuing expatriate work permits on May 1, 1996, some 59.384 people found employment in the city.
- Shanghai, host of the 2010 World Expo, is stepping up efforts to handle the city garbage estimated to increase to 20.000 tons a day, from the present 16.000 tons. By 2010 the city will be able to recycle about 10% of its waste.
- Watching a movie at the cinema is still the top entertainment option for China's urban residents, followed by web-surfing, TV-watching, reading, sports, electronic games and karaoke. One problem is prices. The cost of tickets has soared to US\$ 2.4-3.6 or even more.
- China ranks 46th out of 104 economies evaluated by the World Economic Forum's latest World Competitiveness Report. A stable macroeconomic environment is China's main strength, but its deficiencies such as weak banks and low prevalence of high technology offset its advantages. Finland remains the most competitive economy. The United States ranks second and Sweden third.

(continued on next page)

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- Trade between China and Germany, China's largest European trade partner, will probably reach US\$ 50 billion 2004. It had totalled US\$ 39.44 billion in the first nine months, a 32.7% rise over 2003. By the end of August, German businesses had invested in 3.871 projects in China, which involved actual investments of US\$ 9.55 billion.
- The European Union Chamber of Commerce in China published the fifth edition of its annual Business in China Position Paper, based on a survey of more than 450 Chamber members. The survey said that 64% of the respondents expected to be profitable in 2004. 27% said they will be profitable within three years.
- China's oil giant Sinopec Group has signed a US\$ 70 billion oil and natural gas agreement with Iran. Sinopec will buy 250 million tons of liquefied natural gas over 30 years. Iran will export 150.000 barrels per day of crude oil to China for 25 years. Of the 226 million tons of oil China imported in 2003, about 13% came from Iran.
- The escalating strength of the Euro has led Chinese travel agencies to consider raising the price of travel packages to Europe. Chinese citizens can only travel to Europe legally through a travel agency.
- China is unlikely to use magnetic levitation trains for a high-speed rail link between Beijing and Shanghai. The head of the Chinese Academy of Engineering says "although magnetic levitation technology is very advanced, the investment is too large and the engineering requirements are very high". Siemens, France's Alstom and Canada's Bombardier are still hoping to sell traditional train technology for the project.
- At the end of September, Hong Kong Stock Exchange had 1.080 listed companies, 282 from the mainland. In 1993 Tsing Tao Beer became the first mainland company to enter the Hong Kong stock market. Since then, the stock value of mainland businesses has risen to US\$ 194 billion, more than one third of the market's total value – six of the top 20 listed companies – are from the mainland.
- By 2010, Beijing residents may start getting their water from the Yangtze River. China's largest water diversion project may start supplying water to Shandong province by 2007 and Beijing by 2010. The project consists of three 1.300 kilometre canals carrying water from the Yangtze along the eastern, middle and western parts of the country.
- China is making an exception to its policy of damping investment growth by approving the construction of three huge steel mills, which are expected to free the country from its dependence on imports in about 3 years. Beijing's policymakers are hoping the trend towards import substitution will thus accelerate.

2004 Sets New Economic Records



Paul Wyss

China recorded a trade surplus of US\$ 32 billion for the whole year, the highest full-year balance since 1998. Exports hit US\$ 593 billion, an increase of 35.4%, while imports rose 36% to US\$ 561 billion.

As a result, the country's foreign currency reserves surged to US\$ 609.9 billion, up 51.3% from a year earlier. The economy grew more than 9%, and it is estimated

that investments in new factories and other fixed assets rose 25% in 2004. Exports and imports together were equal to 90% of China's economic output last year, as production and consumption in the domestic market were rather weak. This reliance on international trade is higher than that of South Korea and Japan at the peak of their earlier economic growth.

China's export drive, helped by an undervalued currency, produced some amazing trade surpluses: US\$ 150 billion with the U.S., US\$ 49.1 billion with the Eurozone. On the other hand, foreign investments continued to stream into China at a record rate, reaching US\$ 60 billion.

With a series of measures, especially with credit controls, China has succeeded to cool down its overheated economy. However, prospects for continued high growth in 2005 remain intact.

Meanwhile, Corporate sponsorship of the 2008 Olympics in Beijing is expected to reach a record figure of US\$ 1 billion. Deals already agreed with six sponsors (including Bank of China and Volkswagen) will raise about US\$ 600 million.

Summary by Paul Wyss

China's Rising Investment Abroad

The outbound FDI of Chinese mainland companies reached US\$ 2.85 billion in 2003, bringing the total overseas investments to US\$ 35.2 billion by the end of 2003. The Chinese mainland is expected to become the world's fifth largest investor behind the US, Germany, Britain and France. A wide range of domestic businesses, from brewers and home-appliance producers to copper mines have embarked on overseas expansion. Some 3,429 mainland enterprises had established 7,470 companies in 130 countries by the end of 2003. State-owned enterprises are still the majority, representing 43% of investors. Private companies account for 22%, limited liability companies 11% and shareholding companies 10%. Some 41% of the investors chose Hong Kong, the U.S., Japan and Germany. 27% of the investors run manufacturing businesses, 10% wholesale and retail, 14% commercial services, 11% construction.

The central government implemented the "go out" strategy in recent years and encourages all kinds of ownerships to invest abroad rather than limit themselves to State-owned enterprises. The Ministry of Commerce dramatically reduced the approval procedure for companies who want to invest abroad.

For Chinese companies, the major motivation for overseas investment is to expand their market presence, secure raw material supplies, and seek advanced technol-

ogy. To ease the shortage of raw materials, Chinese companies have been active in acquiring oilfields and mines overseas. Domestic oil giants such as CNOOC, PetroChina and Sinopec spent billions of dollars in acquiring oil and gas reserves in Australia, Indonesia, Kazakhstan and Oman.

Shanghai Automotive Industry Corp clinched a much heralded deal to take over Sangyong Motors, the No. 4 Korean automaking firm.

In Europe, China Southern Airlines joined Air-France led Sky Team Alliance. Another carrier is considering a stake in Hungary's Malev. And the future of MG Rover could hinge on a partnership with China's biggest car manufacturer.

Noranda, Canadian metals producer, is in talks to be acquired by China Minmetals. The deal, valued at US\$ 5.5 billion, would be one of the biggest foreign acquisitions by a Chinese company.

Shenyang Machine Tool Group bought the German Schiess AG, a machine tool manufacturer.

China has invested over US\$ 260 million in 240 projects in Thailand, the highest among ASEAN member countries. It is also the second largest investor in Laos. In Myanmar it ranks No. 7 and in Cambodia No. 3.

Source: China Daily

Swiss-Chinese Trade / 3rd Quarter 2004

(in Mio. CHF)

Comparison to the same period last year / Share: Share of goods in trade with country

Goods	Export Mio. CHF	Export ± CHF%	Export Share	Import Mio. CHF	Import ± CHF%	Import Share
Total selected	2.099,8	24,0	100,0	2.128,0	19,3	100,0
Agricultural products	17,7	88,1	0,8	41,6	-1,1	2,0
Energy carriers	0,3	47,2	0,0	0,0	-100,0	0,0
Textiles, apparel, shoes	34,5	33,7	1,6	533,0	6,9	25,0
Paper, paper products, printed matter	13,9	84,4	0,7	10,0	21,6	0,5
Leather, rubber, plastics	30,3	28,6	1,4	112,3	6,1	5,3
Chemicals, pharmaceuticals	377,9	41,0	18,0	210,7	3,5	9,9
Construction materials, ceramics, glass	10,9	23,3	0,5	24,8	33,8	1,2
Metals and metal products	93,3	37,6	4,4	132,7	43,2	6,2
– Iron and steel	3,4	84,4	0,2	4,8	512,5	0,2
– Non-ferrous metals	19,0	128,6	0,9	7,9	14,8	0,4
– Articles of metal	70,8	22,9	3,4	120,0	41,2	5,6
Machinery, apparatus, electronics	1.173,5	17,1	55,9	544,7	34,4	25,6
– Industrial machinery	912,7	19,7	43,5	70,8	46,6	3,3
– Engines non-electrical	17,8	-31,2	0,8	0,2	-94,8	0,0
– Construction machinery	4,5	82,6	0,2	0,0	-89,0	0,0
– Machinery engineering	890,3	21,3	42,4	70,6	59,4	3,3
– Pumps, compressors, fans, etc.	81,6	34,0	3,9	14,5	96,0	0,7
– Process engineering, heating, cooling equip.	49,2	33,8	2,3	12,4	64,4	0,6
– Lifting and handling equipment	30,1	19,4	1,4	3,3	49,8	0,2
– Machine-tools metalworking	130,0	11,4	6,2	2,9	63,0	0,1
– Machine-tools for mineral materials	11,0	10,6	0,5	0,2	117,2	0,0
– Plastics-, Rubber machinery	26,3	19,0	1,3	0,0	-85,1	0,0
– Machine-tools for wood, cork, etc.	14,4	151,9	0,7	1,0	-24,6	0,0
– Other machinery	172,7	111,4	8,2	6,0	43,4	0,3
– Hand held tools	6,7	79,4	0,3	14,7	79,6	0,7
– Welding machines	32,2	178,9	1,5	0,9	50,1	0,0
– Printing and paper machinery	43,8	-41,3	2,1	1,3	-13,3	0,1
– Textile machines	260,0	6,5	12,4	1,4	41,7	0,1
– Food processing equipment	16,8	-26,2	0,8	5,3	26,2	0,3
– Filtering and purifying machines	5,4	-31,6	0,3	0,7	-2,8	0,0
– Packaging and filling machines	10,2	-0,4	0,5	5,9	71,9	0,3
– Agricultural machines	10,6	-0,8	0,5	0,5	118,1	0,0
– Household appliances	11,2	484,5	0,5	172,7	25,4	8,1
– Entertainment electronics	10,2	707,2	0,5	117,3	26,8	5,5
– Household machines	1,0	47,9	0,0	55,4	22,6	2,6
– Office machines, Computers	8,6	186,7	0,4	152,8	66,0	7,2
– Electrical machinery and electronics	230,2	3,0	11,0	148,0	16,5	7,0
– Power generation, electric motors	52,0	75,1	2,5	33,8	6,5	1,6
– Telecommunications	5,1	-85,6	0,2	23,6	-10,1	1,1
– Electric and electronic articles	173,1	9,4	8,2	90,5	31,3	4,3
– Defence equipment	0,3	-20,3	0,0	0,0	123,8	0,0
Vehicles	4,1	-59,6	0,2	26,5	60,3	1,2
– Road-vehicles	2,2	-29,8	0,1	24,0	57,7	1,1
– transport of persons	0,1	-48,1	0,0	16,0	42,2	0,8
– transport of goods	0,0	-100,0	0,0	0,0	-	0,0
– Special purpose vehicles	0,4	-78,6	0,0	1,7	-2,3	0,1
– Spare parts	1,7	53,6	0,1	6,3	184,9	0,3
– Railway vehicles	1,9	-72,7	0,1	0,5	35,8	0,0
– Aircraft and spacecraft	0,0	-80,9	0,0	0,6	111,4	0,0
– Vessels	0,0	-	0,0	1,4	111,0	0,1
Precision instruments	152,8	25,4	7,3	79,8	34,3	3,8
– Optical instruments, photo	23,7	86,3	1,1	53,3	42,5	2,5
– Surveying instruments	14,6	-4,5	0,7	2,7	-12,0	0,1
– Medical instruments and appliances	45,3	29,0	2,2	8,8	161,8	0,4
– Mechanical measuring, testing, control equipment	69,2	17,9	3,3	15,0	-3,9	0,7
Watches	180,4	31,0	8,6	187,0	32,6	8,8
Other goods	10,4	4,2	0,5	224,9	17,3	10,6

Source: swissmem & Eidg. Zollverwaltung

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Swiss-Hong Kong Trade / 3rd Quarter 2004

(in Mio. CHF)

Comparison to the same period last year / Share: Share of goods in trade with country

Goods	Export Mio. CHF	Export ± CHF%	Export Share	Import Mio. CHF	Import ± CHF%	Import Share
Total selected	2.222,1	11,9	100,0	372,2	-3,2	100,0
Agricultural products	43,1	11,3	1,9	0,7	-35,3	0,2
Energy carriers	0,1	-33,1	0,0	0,0	-	0,0
Textiles, apparel, shoes	77,0	12,0	3,5	47,0	12,4	12,6
Paper, paper products, printed matter	10,2	-3,8	0,5	1,5	89,5	0,4
Leather, rubber, plastics	32,7	13,7	1,5	3,0	12,2	0,8
Chemicals, pharmaceuticals	277,3	4,0	12,5	2,3	-52,4	0,6
Construction materials, ceramics, glass	9,2	31,7	0,4	1,4	56,3	0,4
Metals and metal products	41,7	21,4	1,9	7,5	16,7	2,0
– Iron and steel	0,3	-55,3	0,0	0,0	-0,4	0,0
– Non-ferrous metals	1,1	-21,4	0,1	0,2	61,4	0,1
– Articles of metal	40,2	24,9	1,8	7,2	15,8	1,9
Machinery, apparatus, electronics	291,2	22,2	13,1	94,6	35,7	25,4
– Industrial machinery	161,7	27,7	7,3	1,7	-48,5	0,5
– Engines non-electrical	4,9	91,7	0,2	0,1	-94,2	0,0
– Construction machinery	0,4	84,1	0,0	0,0	-97,2	0,0
– Machinery engineering	156,4	26,3	7,0	1,6	8,7	0,4
– Pumps, compressors, fans, etc.	6,8	-17,3	0,3	0,1	200,0	0,0
– Process engineering, heating, cooling equip.	3,3	38,0	0,1	0,2	109,1	0,1
– Lifting and handling equipment	14,9	-9,6	0,7	0,2	11,0	0,0
– Machine-tools metalworking	34,7	41,9	1,6	0,1	-68,7	0,0
– Machine-tools for mineral materials	1,0	3,3	0,0	0,0	-13,1	0,0
– Plastics-, Rubber machinery	3,9	72,1	0,2	0,0	-75,0	0,0
– Machine-tools for wood, cork, etc.	7,2	33,5	0,3	0,0	-97,6	0,0
– Other machinery	15,7	-26,2	0,7	0,1	-76,9	0,0
– Hand held tools	2,9	107,5	0,1	0,2	519,8	0,0
– Welding machines	1,9	-3,7	0,1	0,0	-80,5	0,0
– Printing and paper machinery	5,7	3,5	0,3	0,0	-84,5	0,0
– Textile machines	55,8	82,8	2,5	0,7	-	0,2
– Food processing equipment	0,5	27,8	0,0	0,0	40,0	0,0
– Filtering and purifying machines	0,6	52,4	0,0	0,1	17,8	0,0
– Packaging and filling machines	1,6	-30,6	0,1	0,0	-60,8	0,0
– Agricultural machines	0,0	-71,9	0,0	0,0	-	0,0
– Household appliances	3,2	-60,8	0,1	10,0	27,0	2,7
– Entertainment electronics	1,8	-75,1	0,1	9,7	31,2	2,6
– Household machines	1,4	32,5	0,1	0,3	-33,6	0,1
– Office machines, Computers	5,6	-36,3	0,3	44,8	60,6	12,0
– Electrical machinery and electronics	120,6	27,3	5,4	37,7	23,6	10,1
– Power generation, electric motors	9,4	37,4	0,4	5,3	51,0	1,4
– Telecommunications	17,9	60,0	0,8	7,9	33,3	2,1
– Electric and electronic articles	93,4	21,7	4,2	24,6	16,4	6,6
– Defence equipment	0,0	-	0,0	0,4	325,8	0,1
Vehicles	0,4	-79,9	0,0	0,8	331,9	0,2
– Road-vehicles	0,3	-84,2	0,0	0,7	382,8	0,2
– transport of persons	0,0	-15,5	0,0	0,7	441,5	0,2
– transport of goods	0,0	-	0,0	0,0	-	0,0
– Special purpose vehicles	0,3	-86,6	0,0	0,0	-100,0	0,0
– Spare parts	0,0	-25,2	0,0	0,1	124,1	0,0
– Railway vehicles	0,0	156,0	0,0	0,0	-90,3	0,0
– Aircraft and spacecraft	0,1	289,6	0,0	0,1	191,4	0,0
– Vessels	0,0	-	0,0	0,0	-	0,0
Precision instruments	53,7	8,7	2,4	6,7	6,5	1,8
– Optical instruments, photo	11,9	29,8	0,5	4,1	-12,8	1,1
– Surveying instruments	5,2	2,9	0,2	0,1	-67,9	0,0
– Medical instruments and appliances	13,3	-18,8	0,6	0,5	101,3	0,1
– Mechanical measuring, testing, control equipment	23,4	24,0	1,1	2,0	88,0	0,5
Watches	1.158,2	13,0	52,1	134,8	-12,2	36,2
Other goods	227,3	5,2	10,2	71,8	-25,6	19,3

Source: swissmem & Eidg. Zollverwaltung

Recent Foreign Investments/Joint Ventures

USA

GENERAL MOTORS enters China's luxury-car market with its Cadillac 3.6 litres V6 retailing at US\$ 62,500. The CTS and Cadillac SRX sports will be assembled at GM's joint venture in Shanghai at the end of this year with imported kits, the first Cadillac production outside the United States. Luxury cars are expected to account for ten percent of China's total car market within the next five years, up from about 6% at present.

LONE STAR, a US private equity group specialized in distressed assets, is to close its Beijing office amid a scarcity of deals. Five years after the Chinese authorities set up four asset management companies to sell non performing loans worth US\$ 168 billion, only one deal worth US\$ 12.8 billion, has been completed.

COCA-COLA opened its fourth plant in Northeast China, located in Changchun, capital of Jilin province. Involving an investment of US\$ 20 million, the plant covers 50,000 square metres, with a building area of 15,500 square metres. It is capable of an annual output of 43 million standard boxes of carbonated beverages, including Coca-Cola, Sprite and Fanta.

WARNER BROS. will create China's first joint venture in film production with State-owned China Film Group, China's biggest film company. Warner will own 30% of the venture, China Film Group 40% and private conglomerate Hengdian Group the remaining stake. A joint venture production must go through the same censorship as locally made films.

UNITED PARCEL SERVICE recently won the right to open 12 additional air routes to China, including a doubling of flights to and from Shanghai. Shipments from China increased 120% in the third quarter compared with last year.

WAL-MART STORES, world's largest retailer, plans to open as many as 15 outlets in China next year, focusing on smaller provincial cities. Wal-Mart already has 40 outlets in major cities, with more than 20,000 employees and a total investment of US\$ 193 million since 1996. The US retailer also relies heavily on China to source its products, buying US\$ 15 billion worth of goods last year.

UNITED PARCEL SERVICE is to take direct control of its core international express operations in China, paying US\$100 million to pay out its local partner, Hong Kong-listed Sinotrans. In December 2005, UPS will expand its control to a total of 23 regional operations, covering 200 cities that produce 80% of China's GDP. By the end of 2005 UPS expects to have 500 branded delivery vehicles, up from just 170 now.

HONG KONG

HUTCHISON PORT HOLDING LTD, daughter company of Hutchison Whampoa controlled by Hong Kong tycoon Li Kashing, signed a 50:50% joint venture contract for the Pudong Phase 5 project. The capital of the venture is US\$ 481 million; the duration will be for 50 years. The Phase 5 project will have four 10,000 tons-berths, two 3,000 tons-berths and 14 cranes.

STAR TV, Rupert Murdoch's Hong Kong-based broadcaster, has won approval to launch China's first wholly foreign-owned advertising company. The approval came as part of China's Closer Economic Partnership with Hong Kong. The venture will be based in Shanghai.

CATHAY PACIFIC AIRWAYS is to buy a 9.9% stake in Air China for about US\$ 200 million. The move will lead to joint marketing and sales, ground handling and cargo handling. Cathay's shareholding will help Air China in its forthcoming IPO likely to take place in Hong Kong and London.

HONG KONG AND SHANGHAI BANKING CORPORATION LTD (HSBC) plans to open branches in up to 20 major cities as China further opens the banking sector. HSBC has already launched branches in 10 mainland cities and is allowed to do renminbi business with local corporates in seven cities.

AUSTRALIA

COMMONWEALTH BANK OF AUSTRALIA will purchase an 11% stake in Jinan City Commercial Bank, with options of going to 20%, the ceiling of ownership by a foreign financial institution in a Chinese bank. Jinan Bank will receive the transfer of business technologies from the Australian bank.

SOUTH KOREA

HYUNDAI MOTOR signed an agreement with Jiang Huai Automotive Group to set up a 50:50% US\$ 780 million joint venture in Anhui province. Hyundai already has a passenger car joint venture with Beijing Automotive Industry Holdings. The new JV will start in 2006.

INCAHEON OIL, South Korea's smallest refiner, has been bought by Sinochem for US\$ 552 million as part of its efforts to meet China's growing demand for oil. It is China's first takeover of a foreign oil company.

(continued on next page)

JAPAN

A **CONSORTIUM**, including Kawasaki Heavy Industries, Mitsubishi, Hitachi, Itochu and Marubeni, won a US\$ 12 billion tender to double the speed of trains in Shandong province, which will be the first major train-related technology transfer from Japan to China. The project is designed to double the speed of conventional Chinese locomotives to 250 kilometres per hour.

TOYOTA is to invest US\$ 461 million in a 50:50% joint venture with Guangzhou Automobile, lifting its production capacity by about 40%. The deal is part of a plan to lift Toyota's market share from about 3% to 10% in 2010. The new facility will make Camry saloons and have an annual production capacity of 100.000 cars.

HONDA plans to quadruple its car production in its Wuhan joint venture with Dongfeng Motor from currently 30.000 units to 120.000 units, requiring an investment of US\$ 342 million.

OMRON, leading sensing and control technology provider, is negotiating with Beida Founder, a leading Beijing electronics company, on establishing a partnership. By 2007 Omron expects sales in China to account for 20% of its global total. It will invest about US\$ 300 million by the end of the 2007 fiscal year. The cooperation with Beida Founder will focus on developing automatic ticketing systems for subways and light rail systems.

SONY PICTURES TELEVISION INTERNATIONAL has formed a television production venture with China Film Group which will make Chinese-language programs including drama series and movies. The venture is the first to receive government approval since China widened foreign access to the TV market. The new rules allow foreigners to take minority stakes in television production companies.

HONDA MOTOR is taking legal action against a Chinese manufacturer for allegedly building exact replicas of one of its cars and is considering similar suits against up to nine other alleged Chinese counterfeiters.

BOMBARDIER signed a procurement contract with Guangzhou Metro Corporation valued at US\$ 71 million, marking the company's total supply to the mainland and Hong Kong of more than 1.000 units. The trains will be made at Bombardier's local joint venture, Changchun Bombardier Railway Vehicles Co Ltd. Part of the high-end system, including propulsion and control systems, will be supplied by Bombardier's European plant.

AUSTRIA

AT&S, Europe's largest producer of printed circuit boards, plans to invest about US\$ 121 million in Shanghai to build its second plant. It has already set up a first plant in Xinzhuang Industrial Park to produce printed circuits for mobile phones for an investment of US\$ 145 million. At present in China its emphasis is on telecom-

munications. The plant will be in operation in autumn 2006.

GERMANY

CONTINENTAL, the world's fourth largest tyre maker, producing more than 100 million tyres annually, will form a joint venture with Qingdao Doublestar Company. The venture will help Doublestar sharpen its competitive edge to withstand increasingly fierce competition in the local market. Passenger car sales in China surged 76% last year to 1.97 million units.

LUFTHANSA and Shenzhen Airlines will form an allcargo joint venture airline named Jade Cargo International in which Shenzhen Airlines will take a controlling 51% stake, Lufthansa 25% and Deutsche Investitions- und Entwicklungsgesellschaft the remaining 24%. The new carrier will initially serve domestic destinations and intra-Asian routes to India, Malaysia and Singapore. In a second phase it will extend to Europe and the United States.

SIEMENS MEDICAL SOLUTIONS GROUP launched its R&D and manufacturing base for X-ray tube housing assembly in Wuxi, Jiangsu province. X-ray tube housing assembly is a core component of CT and X-ray systems in the medical engineering fields. The new base is expected to reach an annual production capacity of 4.000 to 5.000 sets.

FRANCE

TOTAL and Sinochem signed an agreement to establish a joint venture to market oil products in North China. The deal will allow Total to become the fourth foreign giant to build a stronghold in China's booming retail market for oil products, after its rivals BP, Royal Dutch/Shell and ExxonMobil. The partners will invest US\$ 108 million; Sinochem will hold 51%. The JV is expected to build 200 petrol stations in Liaoning province, Hebei province, Beijing and Tianjin in seven years.

AIRBUS plans to increase its procurements from China to US\$ 120 million by 2010 from today's level of US\$ 15 million. Five Chinese companies are already involved in making parts for Airbus aircraft. It is the first time for Airbus to involve China in producing A380 components. Meanwhile, A330 and A340 forward cargo door projects are allocated to Shenyang Aircraft Corporation.

ACCOR GROUP, global provider of tourism and other services, with its hotel brands Sofitel, Novotel, Mercure, currently operates 24 hotels in major Chinese cities. Accor also has 10 hotels currently under development in China. Accor's second global business, Accor services, designs, develops and manages innovative solutions for companies to motivate their employees. Accor Services is established in Shanghai and Beijing.

RHODIA and National Blue Star will build a silicon plant in Tianjin Municipality with a planned annual pro-

After studying for a degree in Economics in Beijing, I have held a management position in a world leading international engineering company based in Switzerland for the past six years.

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- **Simultaneous interpreting of Chinese-English, discussions/negotiations**
- **Outgoing and positive character**
- **Ability to be very flexible with regard to working time and travel abroad**

If you feel that there is a mutually advantageous opportunity to use my skills and background, please send a letter/email to:

Swiss-Chinese Chamber of Commerce, Höschgasse 83, CH-8008 Zürich, E-Mail: info@sccc.ch

duction capacity of 200.000 tons. Blue Star will control 75% and Rhodia the rest. Rhodia has built nine joint ventures and seven wholly-owned plants in China. Its investment exceeded US\$ 150 million at the end of 2003.

BNP PARIBAS, leading bank in the Eurozone, plans to increase its business in China by applying for three new licenses for two of its branches. BNP Paribas (China) Ltd, a wholly-owned subsidiary, has already been granted a license to offer renminbi services in Shanghai and is hoping to obtain a license also for Beijing. BNP Paribas currently has branches in Beijing, Shanghai, Tianjin, Guangzhou and a wholly-owned subsidiary in Shanghai.

ITALY

AGUSTA, a major helicopter manufacturer, will establish a joint venture with Jianxi Changhe Aviation Industries Co Ltd to build helicopters in China. Changhe will control 60% of the new company and Agusta 40%. Agusta will move all its A 109E helicopter activities to China. The joint venture plans to produce 100 to 150 helicopters in the next ten years for the Chinese market.

HOLLAND

TPG, Dutch post and logistics group, through its joint venture with Shanghai Automotive Industry Group, expects to achieve sales of US\$ 368 million in 2004 mainly from auto logistics and international parcel delivery. TPG competes with such heavyweights as FedEx, United Parcel Service and DHL. By the end of 2005, foreigners can own 100% of logistics companies in China under WTO rules.

ING GROUP NV and Beijing Capital Group received approval to establish a Beijing branch for a life insurance joint venture. The Beijing branch of ING Capital Life Insurance Company, a 50:50% joint venture by the two firms, is expected to be launched in the first quarter 2005 with an initial force of 300 agents selling a mix of life and personal accident products.

ENGLAND

ROYAL DUTCH/SHELL and UNOCAL of the U.S. have withdrawn from a multibillion-dollar natural gas project in the East China Sea. Under contracts signed in

(continued on next page)

August 2003, Shell and Unocal were required to make a final decision on the project in August 2004. Following an assessment of gas reserves, development costs and gas marketing, they decided not to proceed. Major hurdles for promoting gas consumption in China are a lack of downstream infrastructure and the dominance of cheap coal.

COMPARE GROUP (60%) and Shanghai Electric Company (40%) established a US\$ 7 million joint venture to manufacture equipment for compressed natural gas stations. At present, China has only CNG stations to serve less than 100.000 vehicles. Shanghai has four CNG stations for about 470 vehicles. The city plans to establish ten stations in 2006.

BRITISH PETROLEUM (BP) and Sinopec launched a gasoline station joint venture in Zhejiang province. The joint venture is expected to build and operate 500 filling stations in three years. Sinopec holds 60% in the US\$ 266 million venture and will be the exclusive supplier of oil products.

SWEDEN

IKEA, home furnishings group, is planning to open ten new stores in the next six to eight years. Ikea's China sales during the last 12 months amounted to US\$ 120 million, reflecting the rapid rise in local wages and disposable household income.

VOLVO, Ford Motor-owned group, is negotiating with Ford's partner Changan to build cars in Chongqing. Volvo, which will reach sales of about 4.000 cars in China this year, is keen to enter the smaller-car segment.

DENMARK

AP MOLLER-MAERSK GROUP, world's leading port constructor and operator, entered into a 50:50% joint

venture with Xiamen Port Affairs Co for the development of the Xiamen Songyu Container Terminal. The venture involves a total investment of US\$ 363 million. Construction will begin immediately with operations scheduled in December 2006. The new terminal is designed to lessen overloading at Xiamen's mainstay terminal Dongdu.

SWITZERLAND

SYNGENTA, Swiss agrochemicals company, has won an apology and damages for economic loss after suing Chinese manufacturers for patent infringement of one of its insecticides. The two Chinese companies, Yancheng Luye Chemical and Yancheng Yongli Chemical, based in Jiangsu province, agreed to a settlement. The Chinese companies promised not to repeat the offense, deleted the insecticide from their website, apologized and agreed to compensate Syngenta for economic loss. Syngenta has invested US\$ 150 million in China and employs 400 people there.

ABB plans to double its annual sales in China and will invest at least US\$ 100 million by 2008. About US\$ 2 billion of US\$ 18 billion global sales will come from China in 2004, making China the No. 3 market worldwide after the United States and Germany. ABB has invested more than US\$ 600 million and 27 wholly-owned and joint ventures in China.

CIBA SPECIALTY CHEMICALS aims to more than double its sales in China to US\$ 1 billion by 2009, by expanding its sales network, building up local production capacity and increasing research spending. CIBA operates four main businesses in China: Textile Effects, Plastic Additives, Coating Effects, Water & Paper Treatment. Sales were almost US\$ 400 million in 2003, making China CIBA's third-biggest market after the US and Germany.

Summary by Paul Wyss

Swiss Machinery – a Success Story

Inhabited by about 7 million people, Switzerland ranks among the small countries of the world. Small though it is, Switzerland holds an impressive 7th position among the machinery-exporting countries, the position being even more eminent in certain specific sectors. Thus mechanical and electrical engineering products account for nearly 42% of total Swiss exports (2003), and the engineering industry exports more than two thirds of its total output. In some sectors, such as textile and graphic machinery, up to 95% and more of total production are sold abroad. Other major sectors with high export ratios are precision instruments, machine tools, pumps and compressors, oil hydraulics and pneumatics, food processing and packaging machines, power generation and electri-

cal equipment. In 2003, the Swiss engineering industry's exports totalled 48 billion US\$, of which 69% went to the European, 14% to Asian and 11% to North American markets.

The success story

The industry's 2,500 companies – featuring small subcontracting firms as well as large multi-national organizations – employ about 53% of all industrial workers in Switzerland, a majority of them in small and medium-sized private enterprises. Certainly, the highly qualified and motivated workforce plays a vital part in the Swiss

Swissmem – who we are

Swissmem encompasses the two associations of Switzerland's mechanical and electrical engineering ("MEM") industries: the ASM (Association of Swiss Engineering Employers) and the VSM (Swiss Association of Machinery Manufacturers). These associations represent the business, social and training policy interests of some 950 member companies in dealings with political bodies, national and international organizations, employee representatives and the public. As a major industry federation, Swissmem offers its member firms a range of practice-oriented services, such as consulting on export issues, assistance with labour law problems, sector-specific educational and training programmes and tailor-made activities for the individual divisions. In addition, the ASM is one of the parties to industry's most important collective employment agreement, the GAV.

The MEM industries play a key role in the Swiss economy. Employing some 309'000 people, they are by far the largest industrial employer, and in 2003 they exported goods worth CHF 55 billion, i.e. 42 % of total exports. Companies in the MEM industries have an excellent global reputation as suppliers of technologically advanced products and services and of whole systems and plants.

www.swissmem.ch

success story. Also, Switzerland is a politically stable democracy with a good working climate and hardly any strikes. But a key element in explaining the global success of our industry lies in the deep commitment to research & development (R&D) activities, because keeping abreast with state-of-the-art technology is vital. Continuous technological progress and the international competitiveness of industry hinge on training, research and development. Thus the mechanical and electrical engineering industries accounted with US\$ 2430³⁾ million for 43% of all private-sector expenditure in Switzerland alone on R&D in 2000. R&D outlay in Switzerland and abroad amounted to US\$ 4597³⁾ million.

Still, a major drawback had to be compensated for: The lack of raw materials and the small home market taught the Swiss the need to survive from the work of their own hands. Mass produced goods, asking for large quantities of imported raw material and a huge number of buyers, could neither be manufactured nor sold in a country with a small population. Moreover, mass production would not compete against the output coming from larger countries. The Swiss therefore adopted another strategy. They specialised in producing high-quality and sophisticated goods which found acceptance and appreciation in the whole world. Doing business abroad, co-operating with foreign governments, companies or even individuals is a

long lived tradition in Switzerland. Comparatively new is the tendency to get closer to markets and customers by establishing plants and affiliated companies in various countries.

Contact between customers and suppliers becomes even easier nowadays: The Internet Homepage of Swissmem contains a broad information about the Swiss industry. The site <http://www.swissmem.ch> offers information about the association as well as links to all the member companies. The service is continuously expanded and enhanced.

The Swiss engineering and capital goods industry will continue to keep up with or even out-perform the global competition due to the significant research and development investments. "On site"-research, keeping well in touch with the production process, together with a well formed and motivated workforce guarantee, that the Swiss Engineering Industry can offer products of high quality in due time.

After Year 2002 had seen a veritable worldwide crisis of investment, which affected also the Swiss MEM industries, Year 2003 was somewhat better but still unsatisfactory. New orders were up only 2.8% on the previous year's already low level. Exports rose only 0.9% (calculated on CHF), showing hardly any change on year-back level. In an increasing competitive pricing environment, the strength of the Swiss franc against the euro and the dollar put them at a further disadvantage vis-à-vis their foreign competitors. 2003 was thus a poor year for the Swiss MEM industries. However, all signs and figures as yet available for 2004 show a distinct improvement on all levels but can not be shown as yet on the following trade statistic:

Trade Statistics in Million US\$

		2001 ¹⁾	2002 ²⁾	2003 ³⁾
Imports from all countries	total	77'203	79'422	92'143
	MEM	34'800	33'912	39'474
Exports to all countries	total	78'191	84'102	97'267
	MEM	34'379	34'884	40'606
Imports from China	total	1'334	1'418	1'784
	MEM	358	410	619
Exports to China	total	990	1'319	1'764
	MEM	738	989	1'256

MEM: Mechanical, electrical, electronic and metal-working industries exchange rates:

Ø 2001¹⁾: 1 CHF = US\$ 0.59363

Ø 2002²⁾: 1 CHF = US\$ 0.64505

Ø 2003³⁾: 1 CHF = US\$ 0.74442

China is worldwide the 8th and in Asia the most important trading partner of the Swiss MEM industries.

For further information please contact:

Swissmem The Swiss Mechanical and Industrial Engineering Industries

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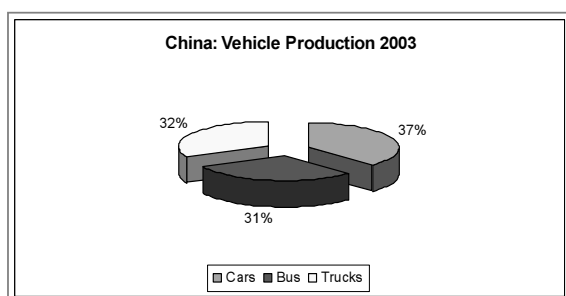
China Automotive and Vehicle Industry: Today's Opportunities and Risks

Status and expected development

The Chinese automotive/transport industry (cars; buses; trucks) appears regularly and prominently in the public eye. No wonder: to own a car is often the dream of man, especially in countries where the ownership of a vehicle is still rather the exception than the rule. In North America, Western Europe and Japan, this industry, its suppliers, and direct as well as indirect dependent businesses, account for up to 40 % of the overall economical activity. China has seen enormous investments into this segment over the last 10 to 15 years, and even though the importance of the vehicle industry has by far not (yet) reached "Western" levels, it is rapidly developing into a prominent segment in every day business.

In the early eighties the pioneers were VW, which transferred its unsuccessful (in Europe) SANTANA line to Shanghai and formed a first automotive joint venture with the Shanghai Automotive Industry Corporation (SAIC), and IVECO, which started building small buses and delivery vans in a JV with Yuejin Motor Co. located in Nanjing.

The big move of other vehicle manufacturers to China occurred during the nineties, and in the last few years almost all known brands from Europe, USA, Japan as well as Korea set up manufacturing JVs somewhere in China. Apart from the ever growing car segment, truck and bus are the other significant segments of the vehicle industry in China, which tend to be overlooked in spite of the fact that in 2003 the production share of cars, buses and trucks were approx. one third each. (see chart below)



Many of the already established Western OEMs announced big expansion plans over the next five years. Thus the VW group invests a further 6 billion Euros in new assembly lines as well as in components plants. On Volkswagen's heels is GM, recently allocating a further US\$ 3 billion investment to strengthen their market position in China. It is easy to understand that such expansion draws into the country further money and technology also on the suppliers' side, partially in fields of already existing activities, partially in new suppliers' fields, such as foundries, tools- and model builders for modern engine plants. Furthermore several OEMs are planning and building local design and engineering centers in China. For some of the face lifts and domestic

adaptations, the design and engineering work is already done in China. This factor should be carefully considered by the suppliers' industry because of its implications on the future product releases and sourcing decisions, that will eventually be made locally, without involvement of the OEMs head quarters.

Analysts are warning that China's automotive (car) industry is heading towards major overcapacity in the foreseeable future. This scenario is certainly realistic, however, should this happen, it will only be temporary. Every automotive OEM or supplier with a long term strategy will therefore not be dissuaded from having a meaningful presence in the world's potentially single biggest market. On the other hand, it is crucial for an investor to look realistically at China's potential. The sheer number of 1,3 billion people is a tempting figure and can easily lead to overestimation of the opportunities.

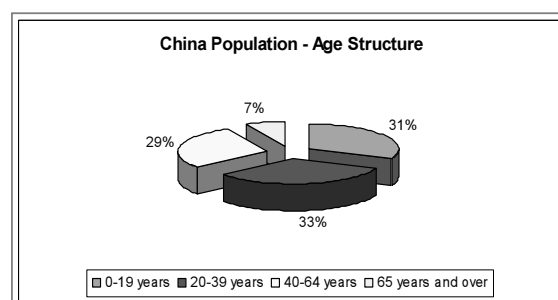
How to view the car industry potential

It is worth to have a closer look at China's demographics through the eyes of a car OEM, or an automotive supplier. The issues are:

"Who are the Chinese who will be able to buy a car in the foreseeable future?" and

"What is the realistic potential, longer term?"

The first constraint comes from the population's age structure. (see following chart)



Today's potential car buyer segment is concentrated in the age group of the approximately 18 to 40 years old Chinese.

Why? Most of the people aged 40 or more will not consider driving a car. Driving is a skill beyond their "comfort zone" also in view of the dense, and sometimes chaotic traffic in metropolitan areas. For mobility these people will continue to use public transport.

The coming generation, in the age group 0 to 18 years old, who will grow up in a "car environment", are the future potential car driver, under the assumption that they will have the means. Here we see the second constraint: the purchasing power. The medium per capita income moves presently on average from \$ 1000 to \$ 1200 p. a.; in the coastal area it is around \$ 4000 p. a. Those incomes are by far not enough to buy a vehicle. According to ex-

perts the annual income required to apply for a loan that would allow the purchase of a vehicle is between \$ 7'000 and \$ 10'000.

The third severe constraint is the missing and/or lacking infrastructure; e. g. roads! Not that China's government would not work on their roads, on the contrary. The country's infrastructure has improved considerably since the mid-nineties, especially in major metropolitan areas as well as connections between big cities. However, the road- and express way-net cannot keep pace with the yearly output of cars.

Considering these facts, the realistically estimated number of potential buyers in China for now, and some time to come, is probably around 40 to 50 million. Admittedly, it is a small percentage of 1,3 billion, however, it still remains the biggest potential market in the world for automotive.

The Automotive Suppliers' Industry

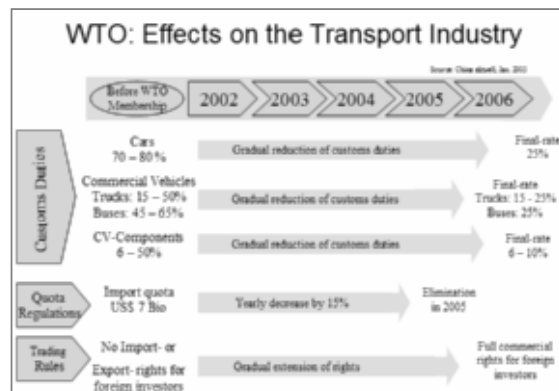
Originally all Joint Venture contracts of foreign automotive OEMs required localization for products and components of 40 % of the car value at SOP (start of production). The biggest challenge was that China had (and still has) plenty of local automotive suppliers, because of the big domestic vehicle industry. However, most of these suppliers would not qualify for supply to the new JV manufacturer lines. In order to overcome this hurdle, the OEMs – especially in the early nineties – increasingly asked their tier one suppliers to follow source (*), and invest in local manufacturing facilities. Today most of the tier one automotive suppliers have own facilities and/or JVs in China. This fact has not only helped the OEMs to fulfill their contractual local content commitments, it also helped many domestic suppliers to dramatically improve their own product performance because of the input by their foreign investment partners (investment and technology).

For a long time there was no or little pressure on the next levels of suppliers, the so called tier two/tier three, to do the same and invest in China. However, this has started to change. Firstly because many sub-suppliers saw new opportunities and decided to expand their business, investing in a market that guarantees new growth over a long period of time. Secondly because some tier ones are asking for inland product deliveries in order to comply with the tightening cost structure.

The price factor

As mentioned above, one important factor to localize production in China is the price. Before China's WTO entry, vehicles were not cheaper, on the contrary, they were considerably more expensive. The automotive OEMs and their suppliers enjoyed price protection behind high import tariff barriers. Now, with China's WTO membership, the whole game has changed: import tariffs have already been reduced considerably, and by 2006 they will be at the internationally agreed levels. (see chart) Car prices are on the slide, being slashed by double digit percentages. This has consequences for the suppliers, leaving them less room for imports from their sub-suppliers abroad. The time when OEMs and their

suppliers enjoyed prices and profits well above the level achievable in Western markets have passed. With import duties dropping lower, the increasing number of wealthy Chinese can select between purchasing domestic vehicles, or imported models.



Opportunities for the Supplier Industry

Every move for a company outside the home market, especially to a very different cultural environment, bears risks and is worth taking a closer look. Supposing the main reason for considering an expansion in China would be the request of an existing, important customer to follow source (*), then this would certainly be worth considering. Having an established customer buying right from the start from the new facility is, by all means, a good incentive. However, it is even more crucial for an investor to know who else is already there in the same or a similar area of business, who else could be gained as a customer, where else can the products be sold or exported to. China is an enormous market, worth looking at by itself, however, in Asia there are plenty of emerging economies that are becoming increasingly important as business partners.

All of these facts and considerations may still not be reason enough for every supplier to the transport industry to invest in this part of the world, but for many, who are now in the process of contemplating this move, the crucial question should be:

"Do we, or can we, afford not to participate in the world's future biggest market?"

(*) Follow source = establish a local supply facility in the country where the customer is operating a subsidiary assembly line.



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New Business Opportunities for WFOE



*Stefan Schmid,
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Swiss exports to the People's Republic of China are growing rapidly on an annual basis, last year by almost 90% to CHF 712 million. This clearly demonstrates that China is one of the most important growth markets for Swiss based groups.

Swiss exports are obviously mirroring the tremendous growth of the Chinese economy. A growth that seems to have accelerated in the light of the fact that China has become a member of the World Trade Organization ("WTO") in 2001. As such, China has committed itself to liberalize its market in the five consecutive years, including waiving most of the existing market entry barriers and restrictions with the aim to unify the domestic market.

Liberalization of the Chinese domestic market for foreign investors

An important step on the way to liberalization is the new administrative measure "Decree No. 8" issued by the Ministry of Commerce (MOFCOM) in April 2004). It removes most of the entry barriers faced by foreign investors in accessing the Chinese domestic retail and wholesale market, such as greatly reducing the registered capital requirement, expanding the allowable business scope and delegating approval authority from the central to the provincial level in specified circumstances.

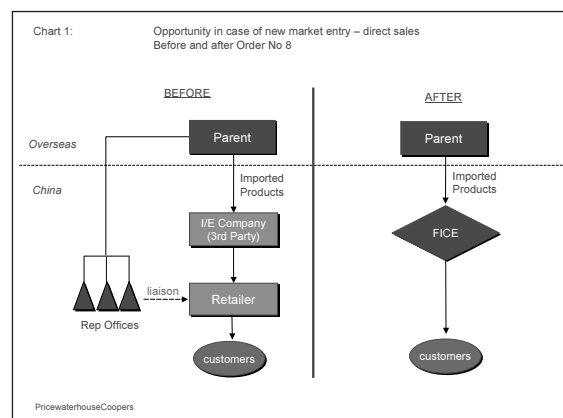
This new measure became formally effective as of 1 June 2004, but was, for wholly foreign owned enterprises (WFOE), to a large extent not applicable before 11 December 2004.

Starting in December, a significant number of product and geographical restrictions were waived, newly allowing foreign invested commercial enterprises (FICE) to be engaged in wholesaling and retailing.

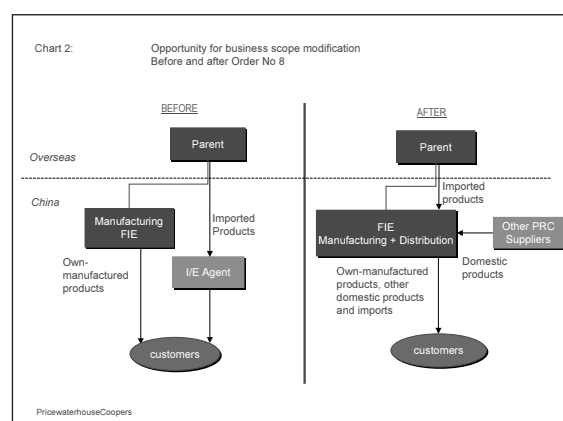
In more detail, the allowable business scope for wholesale commercial enterprises now includes wholesale of merchandise, commission trade (commission agent), import and export of merchandise and other auxiliary services, whereas the scope for retail commercial enterprises includes retail of merchandise, importation of

merchandise on its own account, procurement of domestic merchandise for export and other auxiliary services.

This opens interesting new business opportunities. For example are Swiss groups no longer forced to use Chinese controlled import-export agencies and retailers for selling their products in Mainland China, allowing them to gain full control over their Chinese distribution channels (Compare Chart 1).



Moreover, the new measure also provides opportunities for existing Foreign Invested Enterprises ("FIE") to include retail and wholesale in their business scope by applying for a business scope expansion. This expansion of scope is mainly intended to benefit the existing manufacturing FIEs in China, enabling such companies to be engaged in the distribution of imported group products in China (Compare Chart 2).



A further benefit of the measure is that a number of financial restrictions are eased. The most important is a significant reduction of the capital requirement for the formation of a FICE. The minimum capital requirements are now set to be in line with the requirements as stipulated in the PRC Company Law. In other words, the minimum registered capital for a wholesale commercial enterprise is RMB 500,000 (CHF 77,600) under the Company Law instead of RMB 80 million (CHF 12.4

(continued on page 24)

It's not just advisory.*

*It's planning, initiating, evaluating and implementing M&A transactions.

*It's analysing business crises and helping resolve them.

*It's preventing, identifying and investigating economic crime.

*It's improving processes to boost profitability.

*It's analysing and mitigating business risks.

*It's boosting IT efficiency and minimising IT risks.

*It's enhancing the efficiency of finance and treasury.

*It's our core competence, alongside tax & legal and assurance.

*It's «Connected Thinking».

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PRICEWATERHOUSECOOPERS 

PWC conference "Doing Business in China & Asia"

On 9 November 2004, the Swiss Chinese Chamber of Commerce and PricewaterhouseCoopers have co-hosted a well-received China & Asia business conference at the World Trade Centre in Zurich. More than 80 delegates from a selection of high profile Swiss based multinational companies and other interested parties attended the conference. The conference agenda was designed to provide delegates with an overview of new business and legislative developments in China & Asia during five key plenary sessions as well as detailed insight into specific topics of interest during more informal workshop sessions.

The plenary sessions were both informative and lively with speakers attending the conference from both PricewaterhouseCoopers offices in China, Singapore and Switzerland as well as external speakers highlighting the cultural and value system difference between China and the West. A variety of interesting topics were covered in the plenary sessions from the new "Order no. 8" and "China's Special Transfer Pricing Regime" to "Cash Repatriation Strategies" and "Best Practice Business Models in Asia". During the workshop sessions, the agenda was widened further to include "Intellectual Property in China", "Expatriate Employees Issues", "M&A activities in China", "Relocating Business from Switzerland", and "Transfer Pricing Across Asia".

The feedback from delegates was extremely positive with a number of follow-ups highlighting the importance of such events to Swiss based companies. Given demand for places, the conference was repeated on 10 November in Geneva for a further 50 delegates.

PricewaterhouseCoopers currently has the largest professional services firm in China and is represented extensively by a network of offices throughout Asia. In organizing focused events and conferences on China & Asia within the Swiss market, PricewaterhouseCoopers has demonstrated its expertise in assisting clients with the expansion plans and/or general Asian business strategies.

For more information on how PricewaterhouseCoopers may assist you in your China strategy, please contact:

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Mio) under the old measure. Similarly drastic reductions also apply for retail commercial enterprises.

Certain further stringent financial market access prerequisites such as the requirements on annual turnover and asset base for foreign investors have been fully eliminated. In short, major entry barriers have been removed. Thus, this measure made it possible for both large multinationals and also small and medium size Swiss groups to establish a wholly owned Chinese subsidiary.

As a consequence, the number of foreign groups with their own Chinese subsidiaries including Swiss groups will inevitably rise, resulting in an increased competitive pressure for Chinese groups.

Proposed tax reform

The continuous liberalization of the Chinese domestic market for foreign investors has hence resulted in an increased pressure to harmonize the Chinese tax laws.

Currently, there are two distinct sets of income tax laws, one for FIEs (companies with a direct foreign participation of at least 25%), and another for Domestic Enterprises (DEs). The statutory income tax rate applicable to both FIEs and DEs is 33 per cent, however, Government statistics reveal that, after taking tax incentives into account, the average effective income tax burden for FIEs is approximately 15 per cent, as opposed to 25 per cent for DEs.

The reason for this difference is that the Chinese government had originally rolled out the red carpet for foreign investors by offering generous tax holidays, export tax incentives, advanced-technology incentives and so forth, to attract foreign capital and know-how despite the rather difficult market circumstances. This distinction between FIEs and DEs does no longer seem to be appropriate in a liberalized domestic market.

As a consequence, China's Deputy Finance Minister, Mr. Lou Jiwei, announced in February 2004, that the government plans to unify the tax code for domestic and foreign companies. According to sources from the Ministry of Finance (MOF) and State Administration of Taxation (SAT), the draft income law is expected to be submitted to the National People's Congress in March 2005 for approval, and may come into effect as early as 1 January 2006.

While recent rumours give reason to speculate that the effective date of the revised tax code is likely postponed, it seems reasonable to expect that the unified corporate income tax rate will be reduced from 33 per cent to some 25 to 28 per cent, combined with a repeal of certain tax incentives currently granted to FIEs, including:

- the two-year exemption and three-year 50 per cent reduction of income tax for "productive" FIEs;
- reduced income tax rates for FIEs operating in "special" zones such as special economic zones, and economic and technological development zones, and
- the reinvestment tax refund for FIEs reinvesting after-tax profits for a further five years.

FIE already benefiting from a tax incentive will most likely be eligible for application of "grand-fathering"

rules allowing them to use the existing tax incentives for a transitional period.

It seems wise to carefully consider the prospective tax reform when planning to establish an own presence in China or changing the current Chinese business set-up in order to make use of the new possibilities of the administrative measure (order no. 8).

Should a Swiss group for example consider establishing an own production site in China, it may be critical to incorporate the Chinese subsidiary while the tax incentives for FIEs are still available, so that the company may benefit from the expected grand-fathering rules.

Alternatively, should a Swiss group already be present in China with a number of companies, some profitable some loss making, it may be possible that the business scope extension introduced by order no. 8 allows to merge the companies in order to take advantage of the accumulated losses and thus reduce the taxable income. Obviously, before taking a final decision, one should carefully analyse whether the tax reform package will be extended with the possibility to apply for tax consolidation, making a mainly tax driven merger superfluous.

Cash repatriation

The continuous liberalization of the Chinese domestic market gives good reason to expect increased profitability of the Chinese operations.

Careful planning of the appropriate business model and the subsequent cash repatriation at the time of setting up the Chinese operations is, therefore, critical.

Depending on the business model there are a number of alternatives to the straightforward distribution of after tax profits, such as service fees, technical fees, royalties (e.g. for trademarks, technology, or know-how) or even cost sharing.

In China, each of these repatriation strategies have different licensing and control requirements as well as different potential tax implications. Therefore in deciding how to repatriate money from China, it is important to pick the right mechanism to ensure that the regulatory controls can be satisfied as well as to minimize the taxes that are payable.

For example, in the worst case, a royalty paid from a Chinese subsidiary might be subject to 10% withholding tax as well as the 5% business tax, this would result in a remittance tax of 14.5% on the full royalty. Careful planning can avoid this type of undesirable tax consequences in China and may even improve the group's Swiss tax position.

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Regulation on Origins of Imports and Exports

(Issued by the State Council, subject: International Trade, effective from October 1st 2004, repeal: Rules on Origins of Exports 1992, Provisional Rules on Origins of Imports 1986, source www.china.org.cn)

This regulation applies to the determination of origins of imports and exports when non-preferential trade measures, such as Most Favoured Nation treatment, anti-dumping, counter-veiling, safeguard measures, administration of origin marks, national-specific limitation, tariff quota, and such activities as governmental procurement and trade statistics apply. Where preferential trade measures are concerned, this regulation shall not apply. The determination of origins under the latter scenario will be dealt with by rules to be enacted in accordance with international agreements to which China is a party.

Where more than two countries are involved in the production of those goods in question, the country in which substantial changes eventually take place is regarded being the country of origin. The basic criterion to determine "substantial changes" is the customs classification. "Substantial changes" are deemed to have taken place where raw materials from another country are processed in one country, which results in goods whose customs classification is different from the raw materials.

Nevertheless, once it has been shown that processing or handling of goods is conducted with a view to evade P.R.C laws and regulations on anti-dumping, counter-veiling and safeguard measures, customs authorities will not take such processing and handling into account when determining the origin.

Law on Digital Signature

(Issued by the Standing Committee of National People's Congress, subject: Civil Procedure, effective from April 1st 2005, source www.china.org.cn)

Digital Signature for the purpose of this Law refers to electronic data contained in or attached to a digital doc-

ument, the purpose of which is to identify the signatory and evidence acknowledgement from the signatory of the contents therein.

Parties may agree to use or not to use digital signatures and digital documents. Where parties have agreed to use digital signatures and digital documents, the legal effects

of the documents shall not be denied because of its electronic form. Nevertheless, this provision is not applicable in the following circumstances:

- (1) Personal relationships such as matrimony, adoption and heritage;
- (2) Transfer of real estate proprietary rights such as land and houses;
- (3) Public utility services such as provision of water, heating, gas and electricity;
- (4) Other circumstances under which digital signatures are prohibited by laws and administrative regulations.

Reliable Digital Signatures have the same legal effects as hand-written signatures and seals. Digital Signatures meeting the following conditions are treated as being reliable:

- (1) The electronic data belongs exclusively to the signatories at the time when these data are used to create digital signatures;
- (2) These data is solely controlled by the signatories at the time when the digital signatures are created;
- (3) Changes to the Digital Signatures are able to be discovered after such signatures have been created;
- (4) Changes to the contents of digital documents bearing Digital Signatures are able to be discovered after such signatures have been created;

Meanwhile, parties are free to conclude agreements upon conditions of reliable signatures used by them.

Source: Wenger & Vieli

<http://www.wengerlaw.ch/EN/publications/1/index.asp>

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China's Compensation and Benefits – Study Results

2004 has continued to be an active year for China's labour market. Despite government efforts to slow the economy, investment has continued on a robust path, which has not eased pressures that companies continue to face in retaining staff. In September, Hewitt Associates released the findings of the annual China Compensation and Benefits Surveys conducted in conjunction with the American, German, French, and other Chambers of Commerce in China. Now in its fourth year, the survey captures detailed salary and benefits information for over 1600 companies in China divided into major cities and industries – the largest survey sample to date. Recent results presentations by Hewitt provided insights into the current labour market situation, and the salary and benefits trends in Shanghai as compared to its sister cities Guangzhou and Beijing.

Salary increases in Foreign Invested Enterprises have continued to move at a clip, averaging 7.4% in 2004. Voluntary turnover levels have also remained relatively stable on average, hovering between 10–12% for the past few years. But as with previous years this percentage can be deceiving: functional turnover in engineering, sales, marketing, and HR functions are typically far above the average in both manufacturing and non-manufacturing enterprises around China. These stand-outs are not surprising given the talent needs and profiles of companies, and the relative lack of skill sets in functions such as marketing.

Interestingly, companies are seeing more movement not in high level staff but rather professional and senior professional level staff. “We are seeing that top executives and senior managers are beginning to settle into their roles, and be more reluctant to jump organizations

for a few extra dollars”, said Stella Hou, Talent and Organizational Consulting Analytics practice leader for Hewitt Greater China. Actual salary increases in 2004 for professional and senior professional level staff in manufacturing organizations, however, topped the market at ranges between 7.5% and 8.2%, capturing an increased emphasis on retaining foundation staff that are more easily overlooked. Companies have been so focused on middle management and key staff, that they have diverted their attention away from those consistent performers that meet expectations. Hou remarked that it is “important not to forget about those staff that keep your business moving day to day. They are easily lured away by other opportunities for only a fraction more if they feel underappreciated or disengaged.”

In terms of actual salary levels, the survey shows that pay differences remain between manufacturing and non-manufacturing firms. This year, a middle manager in a Shanghai manufacturing organization earned a median of RMB 200,000 per year total cash, while a similar employee in a non-manufacturing organization earned RMB 250,000 per year. At the top of the organization, however, Hewitt sees pay levels coming together across the Beijing, Shanghai and Guangzhou – a trend which follows organizations' need to source and relocate talent across any of China's major cities. European firms, which traditionally offer less cash and more extensive benefits than their American counterparts, this year also made strides to narrow the cash compensation gap. Data results showed that pay levels this year in American and European firms were very close, most noticeably in the Shanghai manufacturing sector.

Pay levels in second tier cities, while rising at a rapid rate, are still 20–40% below those in first tier cities. How-



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- Produktions- u. Vertriebsaufbau
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ever, at senior levels it is not uncommon to see 1st tier city pay levels in order to attract and retain the right management. The war for talent in growing areas such as Suzhou, Nanjing, Tianjin, and Chongqing continues to create difficulties for companies operating in these environments. Organizations have seen record movement of staff in areas like Suzhou, as the influx of new employers strains the availability of resources at all levels of the organization. Sometimes that means shop floor workers picking up for a job in the same industrial park...just around the corner.

The compensation differences between industries also continue to be a prominent and important point for companies to consider in salary benchmarking. The high-tech and chemical non-manufacturing sectors are the highest payers, followed by the banking industry. Pharmaceutical and Insurance industries come in at the lower end of the scale. These differences illustrate and support the maturity of China's industries, and the trend for employees to remain and develop within a single industry.

On the topic of benefits, this year's survey data indicates that the use of supplemental benefits is on the rise, with more companies thinking long term in benefit plan design. Prevalence of savings plans, retention bonus plans, stock plans, and even supplemental pension programs showed increases over last year. These are in addition to the basic supplemental medical and insurance programs that between 80–95% of surveyed companies provide. Hou remarked, "The focus is on retention, and making strategic HR decisions which can help balance cost while delivering the most value."

So what should companies think about this coming year?

- Shift from fixed costs to variable costs...make the most of variable pay plans and drive performance men-

tality. Employees will respond to the challenge and the potential reward.

- Increase use of long term over short term incentives...key employees are still the focus of long term incentive program planning with heavier emphasis on retention bonus plans, and other attractive supplemental benefits.
- Think "total rewards"... best employers do more than just offer competitive pay and benefits. Best Employers in China also incorporate and communicate other elements that reinforce why their company is a great place to work. Be it recognition and development opportunities or colleague interactions and general quality of life, all of these aspects have the potential to be important parts of the employment relationship...and retention tools.

By Jessica Pfeifer, Senior Consultant, Hewitt Associates Shanghai

*Companies interested in purchasing a copy of the 2004 Compensation and Benefits Surveys, Local National Staff, should contact Kelly Wu
Kelly.wu@hewitt.com*

Other city, industry and benefits reports also available.

Report on the Salary Situation in China

Recently, the leading human resource website, ChinaHR.com, released its updated salary report, which is the 9th issue of the report. The report is done by ChinaHR, a result after professional analysis of the statistics collected from 39,979 online salary surveys during the first 5 months of 2004.

ChinaHR.com, since 2000, has been the first one to make use of internet to collect data in order to release a report of the salary situation. The report is an online research done with the participation of hundreds of thousands participants, within most industries and the largest in this area. It is published every 6 months. So far there are 9 issues released. It has become one of the most important references for the white-collar workers to understand their salary situation.

Compared to the previous one, the latest report shows 3 characteristics. First, the general salary level has stopped decreasing. It remains stable but still on a relatively low level through recent years. Second, the ranking of the salary situation in different cities has not changed much except for a big drop of Shenzhen position. The annual average salary of Shanghai still remains the highest. Third, among those with high educational background, the salary level of undergraduates is getting closer to that of MBAs, which still remains the highest, and surpasses that of doctors.

The general salary level becomes stable but remains low

Compared to the second half of 2003, the situation of the first half of 2004 gets better. The salary level has stopped decreasing and became stable, which is a result of the implementation of the policy to encourage employment on the one hand and the improvement of the service structure in 2004 on the other.

However, the situation is not optimistic yet because of increasing pressure on the employment situation and the

demand of employees' quality, in addition to the trend that employees are getting more internationalised. What is more, the increase on the salary of the middle or above level of white-collar workers in the large enterprises has been done and will not change in a considerable way in the near future. For those in the middle or below middle level brackets, their salary situation is getting rather competitive due to the fact that there will be more than 2 million graduates arriving on the job market this year.

According to the report, the annual average salary is RMB 35'921, including employees from Hong Kong, Macao, Taiwan and abroad. The average salary of China mainland is RMB 35'555, basically remaining the same compared to the second half of 2003. In the following is more details:

10% with an annual salary of less than RMB 12'000
25% with an annual salary of less than RMB 16'800
50% with an annual salary of less than RMB 25'500
75% with an annual salary of less than RMB 44'000
90% with an annual salary of less than RMB 72'000
95% with an annual salary of less than RMB 96'000

Sunny Shanghai's job market vs cloudy Shenzhen's salary situation

In recent years, Shanghai's economy has been very promising. The city government has introduced new policies to improve the employment situation. The main one is to issue the Shanghai Residency Permit which enables migrants to enjoy almost the same rights of living in Shanghai as Shanghai's permanent residents do. This has considerably improved the situation for introducing high quality people, thus to speed up the development of the economy. Shanghai has become a new hot market for human resources, replacing the city of Shenzhen. It is not surprising that Shanghai's salary maintains the same level in the first half of 2004 since becoming the highest one last year.

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What needs to be mentioned is compared with Shanghai's promising market, the one of Shenzhen, which used to be on the top, has lost its charm. The future is depressing too. One reason of this situation is, compared with cities of Beijing and Shanghai, Shenzhen is lacking big projects in recent years, which leads to the shortage of fixed investment and the slower growth of GDP. Another reason is that, out of fixed investment a large amount is in the real estate, concealing financial risk. This may turn into a market bubble. The salary of Shenzhen's white collar workers is influenced by the development of the economy and has shown no improvement in the last months.

In the 9th issue of the salary report, Shanghai's salary situation remains the same as in the last report, continuing to be the highest among all big cities in China, with an annual average of RMB 47'634 and an annual market median of RMB 36'000.

Beijing keeps its second place with an annual average salary of RMB 44'626, slightly more than the result from the last research, its annual market median is RMB 36'000, the same as that of Shanghai.

Guangzhou moves up to the third place, with an annual average salary of RMB 39'471, close to the last result.

Shenzhen drops to the forth place. The annual average salary has decreased by RMB 3'000 to RMB 40'000, while its annual market median showed a drop of almost RMB 4'000.

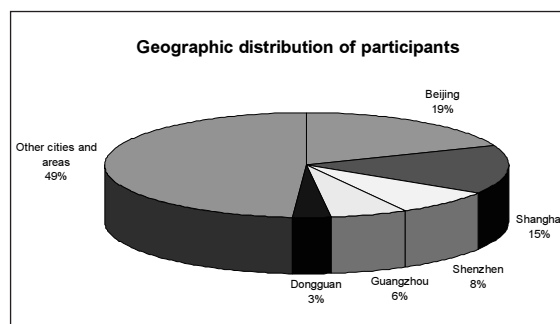
The table below shows the ranking situation of cities with more than 300 participants in the survey:

City	Annual Average Salary (RMB)	Annual Market Median (RMB)	Participants
Shanghai	47'634	36'000	5'453
Beijing	44'626	36'000	6'907
Guangzhou	39'471	30'000	2'065
Shenzhen	39'305	30'000	3'066
Hangzhou	37'535	28'000	590
Nanjing	36'289	26'600	544
Suzhou	34'978	25'008	782
Xiamen	33'996	24'500	350
Tianjin	33'712	24'000	903
Chengdu	32'599	24'000	580
Dongguan	31'229	24'000	1'169
Foshan	31'188	24'000	335
Ninbo	31'024	24'000	354
Guangdong Province	30'118	21'600	1'067
Qingdao	29'176	21'600	321
Zhejiang Province	29'101	21'600	304
Chongqing	28'405	21'600	430
Jiangsu Province	28'005	19'200	438
Wuhan	27'044	19'200	623
Shenyang	26'703	23'040	336
Changsha	25'698	20'400	483
Xian	24'867	18'200	487
Zhengzhou	22'240	17'200	304

* Guangdong Province means that places other than Guangzhou, Shenzhen, Dongguan, and Foshan

The geographic distribution of participants

People who participated in the survey are mainly from Beijing (19%), Shanghai (15%), Guangzhou (6%), Shenzhen (8%), and Dongguan (3%), accounting for more than 50% of the total. The participants from Beijing, Shanghai and Guangzhou make up almost 40% of the total.



Telecommunication industry stays on the top and IT catches up

Due to the rapid development of the mobile business and the increasing demand of telecommunication services, the salary of the industry stays at the top according to the report, with an annual average salary of RMB 48'958, 10% higher than the second position. The absolute value remains the same as the previous report.

Medical equipment is in the second place. The annual average reaches RMB 45'204, about RMB 1'000 lower than the last time. The Chinese medical equipment industry has maintained a growth rate of 15%. The sales in 2002 exceeded RMB 60 billion. The SARS breakout in the first half of 2003, though, had a great impact on the economy and social life in general, and seemed to have created a good opportunity for the medical equipment industry. Lots of equipment related to SARS was sold out. Some enterprises achieved their annual goal of sales within several months. Entering into another steady growing period of the Chinese economy, the demand for medical equipment will remain strong in the next couple of years.

The daily consumer products (food, beverage, tobacco etc.) and the finance industry rank third and forth respectively. Both have an annual average salary of more than RMB 42'000. The industry of daily consumer products has a large market potential because of its low cost and fast return on investment. With the accession to WTO, the Chinese economy has undergone rapid development. However, the market of consumer products is still underdeveloped. Thus most multinational companies producing daily consumer products are in favour of the Chinese consumption market, which has accelerated the growth of income of the industry in 2004.

IT industry drops to the 11th place, with an annual average salary of RMB 38'115, remaining the same as that of the last report. It is good to see that Internet has finally

(continued on next page)

Industry	Annual Average Salary (RMB)	Annual Market Median (RMB)	Participants
Communication & telecommunication	48'958	36'000	2'100
Medical equipments	45'204	36'000	239
Daily consumer products (food, beverage, etc.)	44'021	32'500	961
Finance (investment, insurance, stock, banking, foundations)	43'297	33'300	950
Petrochemical, raw materials, mining	42'798	30'000	844
Pharmaceutical, biochemistry	40'283	31'200	714
Electronics & microelectronics	40'128	30'000	1'567
Construction & real Estate	40'106	30'624	2'164
Home appliances	38'696	30'000	565
Internet, E-commerce	38'390	30'000	663
IT	38'115	28'500	5'080
Electric energy, power	37'667	28'400	634
Automobiles, Motorbikes (manufacturing, main-tenance, accessories and spares)	36'296	26'000	851
Textile (accessories, home apparel, leather products, etc.)	36'258	26'400	940
Trade, import & export	36'167	28'000	1'753
Professional service (consulting, finance & accounting, law)	36'030	25'600	1'026
Instrument, apparatus	35'886	27'200	234
Media, entertainment, publishing	35'449	30'000	403
Environment protection & equipment	34'754	25'800	157
Manufacturing, processing	34'714	25'200	2'140
Machinery manufacturing, electromechanical equipment, heavy industry	34'423	24'200	1'816
Transportation, logistic, express delivery	34'404	25'200	852
Marketing, Advertising, PR	33'115	24'000	1'329
Agency service (HR, real estate, trade mark and patent, technology, etc.)	32'359	24'000	258
Interior design & furnishing	32'056	24'000	513
Wholesale & retail	30'584	23'400	700
Printing, packaging, paper industry	30'325	23'300	351
Tourism, hotel, service industry	27'998	18'000	893
Property management, business centre	27'734	21'000	317
Art & culture	27'291	24'000	228
Agriculture, husbandry, sideline production, wooden industry	27'201	18'000	169
Associations	26'905	14'400	40
Training centre, education, academic institute	26'346	20'400	1'295
Others	25'931	18'000	1'381
Sport & leisure	25'886	18'000	137
Medical & health service	25'829	20'000	690
Office supplies	25'640	16'200	131
Non-profit organizations	24'897	15'600	38
Government organizations	23'775	18'000	455

stopped being sluggish, moving up 3 places to the 10th position. According to the analysis from the American Business Week, the IT industry will have its booming era once more very soon due to the emergence of all kinds of internet-related services. Also in accordance with other research, though, more than 40% American IT workers did not have an increase in their salary in the past year, but 60% are positive about the future situation. The research also forecasts that there will be at least a 3% increase in 2004. As a high-pay industry, IT industry still has plenty of potential.

The latest report shows that the annual average salary is RMB 38'390, around RMB 3'000 up than that in the last report.

Salary varies largely in different types of units

Foreign companies, with an annual average salary of RMB 47,585 and an annual market median of more than RMB 36'000 are placed highest. They have far surpassed the national average and are over 10% higher than the second place, Joint Ventures.

Institutions and government organizations do not change so much, still ranking in the last two places. What needs to be mentioned is that according to the research on satisfaction, institutions, government organizations and state-owned enterprises are marked by obvious dissatisfaction. Foreign companies and JV are more welcome by the white collar workers.

Unit Type	An. Aver. Salary (RMB)	An. Mark. Median (RMB)	Participants
WFE & Rep offices	47'585	36'000	7'655
JV	41'330	32'000	4'700
SOE	33'351	24'000	5'439
Private enterprises	31'899	24'000	15'864
Government organisations	27'596	19'000	623
Institutions	24'787	18'000	2'854

Salary of MBA drops around RMB 3'000

Generally speaking, the salary increases with the educational background. Among the participants with education lower than undergraduate, the annual average salary of people with higher education is about RMB 10,000 higher than those with lower education. The annual average and market median of undergraduates are higher than people with a Ph.D degree.

The employment of MBAs is not optimistic in recent years because more and more people are taking MBA courses and because the MBA schools and MBA graduates are not all convincing and satisfying. Therefore, MBAs are facing a risk of devaluation. Despite the highest ranking in the table below, the salary of MBAs is becoming similar to that of undergraduates, the market median is even lower than that. The absolute value of the annual average of MBAs shows a drop of about RMB 3'000, and its market median is RMB 6'000 lower, a more than 10% decrease.

Education	50% Market Median (RMB)	95% Market Median (RMB)
Below college	15'600	48'000
College	24'000	72'000
Undergraduate	35'000	108'000
Postgraduate (except for MBA)	57'600	156'000
MBA	54'000	182'000
Ph.D	46'000	152'000

Ability of speaking foreign languages has a great influence on salary levels

The better command of foreign languages, the higher the salary. According to the analysis of participants who answered the question of foreign language ability, it is easy to conclude that people with a high level in foreign language ability are more competitive. People speaking foreign languages fluently have an annual average of RMB 53'151 (RMB 2'000 increase), RMB 16'000 more than those whose foreign language level is medium. People of the medium level have around RMB 800 more on their annual average, while those on the common level are only RMB 300 up on their annual salary.

Selective change of job will increase the salary

Most of the participants of this research part expressed the dissatisfaction with their current salary situation.

More than 55% said 'acceptable' or 'not satisfied'. Only 1.05% answered 'very satisfied'. On the contrary, 20.86% people thought they were paid not enough considering the efforts they make.

Many people expect to have a salary increase through changing jobs. The research shows that 74% got more salary by changing to a new job (the new average salary is up to 2 times more than the previous one). However, 26% of the participants did not change jobs for salary reasons.

Salary increase with age and work experience

According to the report, people of 31-45 have a decent salary with an annual average of RMB 50'000. Those of 36-45, who are at the peak of their career, have the highest salary. The annual average is more than RMB 57'000.

People younger than 20 years of age have the lowest salary. The annual average is only 13'592. Big increases happen in two stages: from 21 to 25 and from 26 to 30. The salary of the second stage is more than 60% that of the first one. The salary starts to decrease after the age of 46, but staying relatively high.

Age	Annual Average Salary (RMB)	Annual Market Median (RMB)	Participants
less than 20	13'592	11'800	1'069
21-25	24'331	19'200	16'018
26-30	41'184	35'000	12'401
31-35	54'124	42'000	5'128
36-40	57'019	42'000	1'570
41-45	56'530	41'000	606
46-50	52'896	40'000	234
more than 50	47'127	36'000	118

Salary increases slowly with the work experience. People with more than 6-year work experience have an annual average of more than 45'000.

Work Experience	Annual Average Salary (RMB)	Annual Market Median (RMB)	Participants
less than 6 months	18'889	13'100	1'645
6-12 months	21'270	18'000	1'841
1 year	22'239	18'000	3'286
2 years	26'515	21'600	5'528
3 years	32'675	24'600	5'335
4 years	34'949	28'000	3'898
5 years	39'354	32'000	4'046
6-9 years	47'431	36'000	6'151
10-15 years	52'797	39'000	3'847
more than 16 years	50'885	36'000	1'567

Published by ChinaHR.com, 2004

Translated by Yujia SONG
The General Consulate of Switzerland, Shanghai

Circular on Certain Issues Regarding the Application of Taxation Agreements and Law on Personal Income Tax to Individuals without Domicile within China

Issued by the State Administration of Taxation, subject: Personal Income Tax, effective from July 1st 2004, source www.chinatax.gov.cn

The Circular mainly clarifies rules for three issues: calculation of length of stay in China, calculation of the actual working time on the date of arrival and leaving, application of tax agreements to senior management staff.

The non-domiciled individuals' length of stay in China, which is the basis for determining the category of taxation obligations, shall be calculated in accordance with his actual length of stay. The day on which they arrive at or leave China shall be counted as one day.

When calculating the working time of non-domiciled individuals who hold positions both in domestic and overseas institutions or only hold positions in overseas institutions, the day on which they arrive at or leaves China shall be counted as half-day.

Where non-domiciled individuals hold senior management positions in China-based enterprises and the taxation agreement between their national State and China do not specify whether payment derived from such senior management positions is covered by the provisions on director's fees, such payment shall be taxed in accordance with provisions on dependent personal services. On the other hand, where such persons hold both the directorship and senior management positions in China-based enterprises, the payment derived from these positions shall be taxed under the head of director's fees.

Provisions on Administration of Assessing and Approving Applications of Foreigners for Permanent Residency in China

Issued by the Ministry of Public Security, Ministry of Foreign Affairs, subject: Permanent Residency, promulgated on August 15th 2004, closing date August 15th 2004, source www.fmprc.gov.cn

The 29-article Provisions prescribe rules for issues regarding applications for permanent residency in China, including eligibility, application materials, approval procedure, approval authority, and lost of permanent residency status.

Foreigners who are in good health, with no criminal records and abide by laws of China may apply for permanent residency in China, provided they satisfy one of the following conditions:

- (1) Make direct investment in China while the investment situation is stable in 3 consecutive years and has a proper taxation record;
- (2) Take the post of a vice manager or above, or have the associate advanced technician title such as associate professorship or above, for no less than 4 years within which the accumulative stay in China is no less than 3 years, with proper taxation records;

- (3) Make significant or outstanding contributions to China, or contributions being greatly in China's needs;
- (4) Being the spouses or unmarried children under the age of 18 of the persons referred to in paragraph 1, 2 and 3;
- (5) Being the spouse of a citizens and permanent resident of China, whose marriage has lasted for no less than 5 years during which they have resided in China for no less than 9 months each year for no less than 5 years with places of residence and stable sources of incomes;
- (6) Being a dependant unmarried child under the age of 18;
- (7) Being a dependant elder person above the age of 60 who has direct relatives in China but have no direct relatives overseas and who has resided in China for no less than 9 months each year for no less than 5 years with places of residence and stable sources of incomes.

The permanent residents of China shall reside in China for no less than 3 months each year. Even if provincial public security authorities at the place of their residence waive the requirement of a 3-month residency, they shall reside in China for no less than one accumulative year within every 5 years.

Source: Wenger & Vieli

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Have You ever Made a Recruiting Mistake?

There can hardly be any organisation that can legitimately claim never to have made a recruiting mistake. One recent investigation argued that up to 60% of all hiring decisions prove to be mistakes within the first year. At a time when most organizations are under intense cost pressure, such mistakes are simply unacceptable. They cause considerable and unnecessary turbulence, and constantly disrupt the development of effective work teams. It is often said that 'you hire by skill and fire by character' and there is a great deal of truth in this. Put another way by Jim Collins (author of 'Good to Great'): "The old adage 'People are your most important asset' is wrong. People are not your most important asset. The right people are."

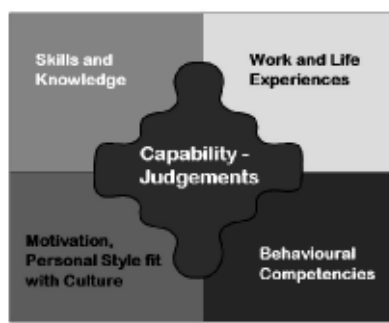
What do we mean by assessment?

Put simply, introducing an effective assessment methodology to identify talent and ensure that those recruited stand the best chance of fitting into the organization's culture will help to appoint:

- The right people, to the right posts, at the right time.

Applied correctly this will establish a management framework for making staffing decisions and related investments that is based on an organization's mission, strategic plan, budget and required workforce competencies. We use the term 'converted capability' to show how assessment methodologies should be integrated into management decision-making. Skills and knowledge are definable and often testable. Work and life experiences help to determine capability. Motivation, personal style and the overall 'fit' with organizational culture can be identified. Behavioural competencies condition interpersonal attitudes and have a direct impact of teamwork. Finally, capability and judgement-making are tied into a person's cognitive approach.

Fig 1 – Converted Capability



The key benefits to be expected from an effective assessment process include:

- More effective utilisation of employees through accurate and efficient alignment of the workforce to strategic objectives
- The ability to swiftly and efficiently find replacements for important vacancies – critical as companies face increased turnover coupled with labour market shortages and limited compensation levels

- The ability to produce realistic staffing projections for budgetary purposes
- More efficient and effective use of recruitment resources
- Better focused investment in training, retraining, development, career counselling and productivity enhancement
- Helping to maintain or improve a company's diversity profile.

Where are we today in China?

In the West, the concept of assessment is well developed and widely accepted as a crucial part of successful, efficient business operations. Human Resource Development in China, however, is a concept yet to be adopted on a large scale, and the potential for improvement in corporate efficiency is therefore significant. In China, assessment would have a market effect on the following areas:

- Identifying inflated CVs
- Going beyond skills and education to identify talent in the workforce
- Ensuring continuity in succession planning and the localising of a labour force
- Making hiring a more accountable process through the construction of core teams rather than having all decisions made by one or two people
- Understanding the nature of work and identifying a person with the correct level of capability for a role
- Building a successful staff retention program

Why and where is assessment useful?

Assessment can be put to efficient use within organizations to ensure a fully integrated recruiting process, focused primarily on the areas of:

- Employee screening
- Performance potential
- Auditing management teams
- Training and further development
- Employee retention
- Outplacement

What are the tools for assessment? LPA™: Behavioural pattern

The LPA™ is a computerised 'expert' psychometric assessment that uses an integrated battery of 6 questionnaires to analyse 29 characteristics. The assessment relates personality to the realities of the working environment by cross-referencing between Personality Characteristics, Team Roles, Conflict Handling, Work Styles, Learning Styles and Professional/Managerial style. Comprehensive psychological analysis is built-in, and text reports in plain language ensure that the results are easily understood.

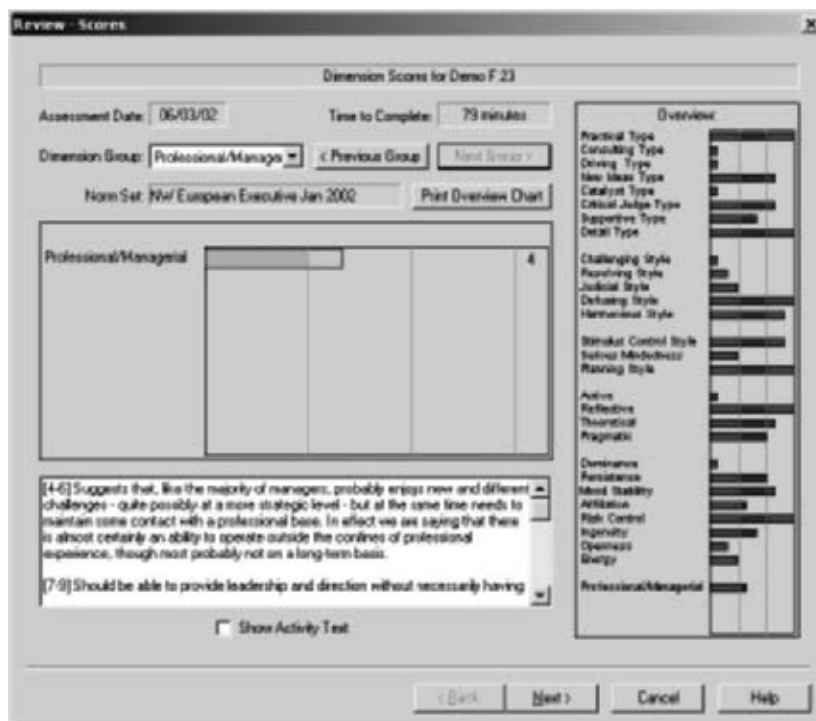


Fig 3 – Team Analysis

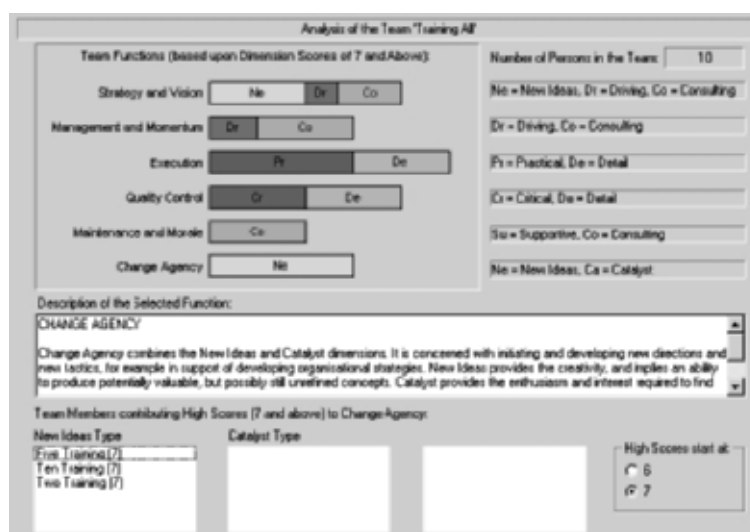


Fig 2 – On Screen Feedback

Key LPA™ features include:

- Candidate questionnaire available online
- On screen feedback to enable the counsellor and candidate to review the results and identify connections between the 6 assessments.

Team analysis to identify strengths and weakness in any selected team of people



Fig 4 – Management Themes

Management themes that identify an organisation's culture and show how an individual contributes.



Danzas. More Danzas.

Danzas, global leader in air and ocean freight, DHL Worldwide Express, global leader in air express, and Deutsche Post Euro Express, European leader in parcel delivery have joined together under the name DHL to create a new standard in express delivery, freight and logistics. The new DHL offers you more performance, more service and more options in more than 220 countries. To find out more about what we can do for you, visit us at www.dhl.ch

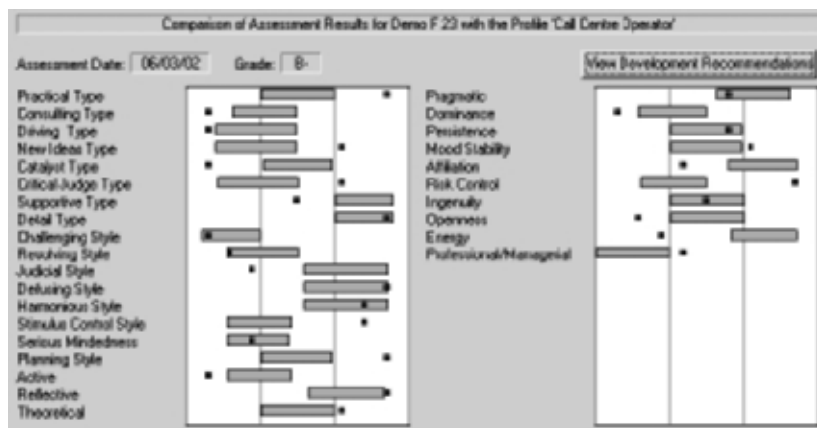


Fig 5 – Match Person to Profile

A powerful profiling utility that enables the user to establish required score ranges and see how well a candidate matches these. In cases where a candidate's score lies outside the required range, development recommendations are provided to suggest ways of compensating for the mis-match.

MCPA™: Capability & Potential

In the MCPA™ we look at work in a very specific way, dividing it into 7 Levels of Work of increasing complexity and uncertainty. Each level has a corresponding time horizon to describe the time out to which decisions have to be made.

The MCPA™ assesses a candidate's current level of capability, and by relating this to age it offers an estimate of how that capability is likely to grow over time. By matching current capability to current level of work we ensure that a person is 'in flow' and able to make effective and timely decisions. Computerised reports offer a record of the candidate's responses to the questionnaire and graphical displays of the results.

Fig 6 – Levels of Work

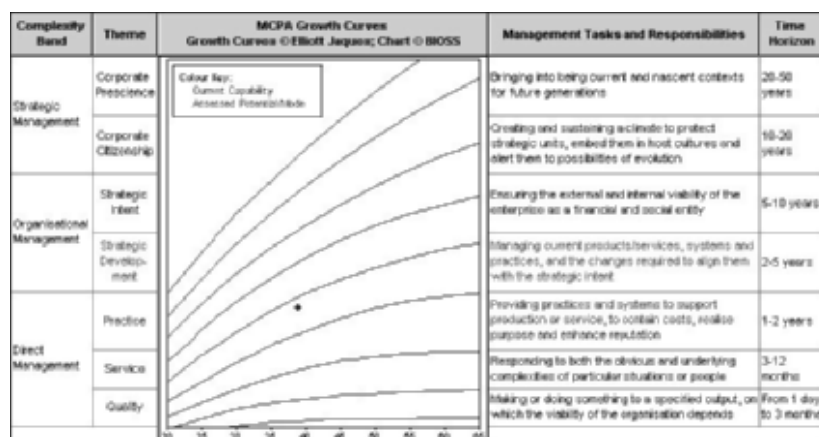
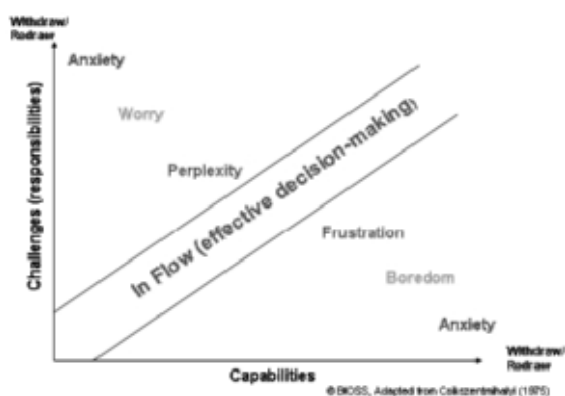


Fig 7 – Growth Curves

Key MCPA™ features include:

- Candidate questionnaire available online.
- Individual Growth Curves to show current level of capability and forecast growth in capability over time.

Fig 8 – 'Flow'

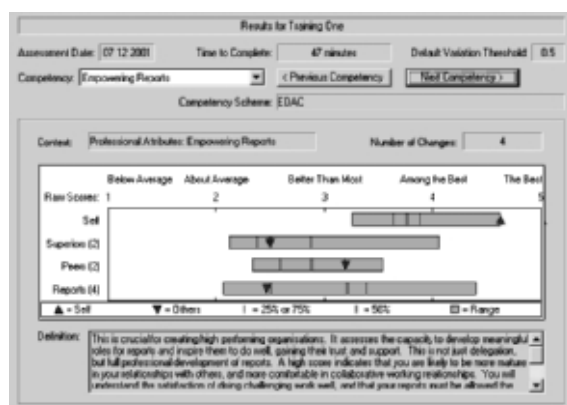


Visual indications of the degree to which an individual is 'in flow' with his or her work.

EDA™: 360° Performance Feedback

To gain a real understanding of the perceptions that surround performance, the EDA™ gives a full 360° perspective. It is a powerful research-based instrument that looks at 16 competencies found to be critical to success for leadership and management at senior executive levels. The EDA™ references an individual's self-assessment to assessments by superiors, peers and reports and displays the results graphically.

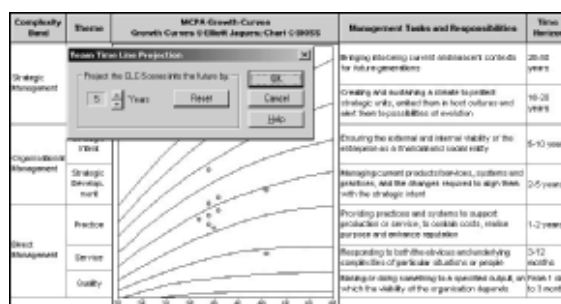
Fig 10 – The EDA™ Display



Key EDA™ features include:

- Questionnaires available via the Internet
- Coverage of both positive and negative aspects of performance, can also be used as an 'EQ' assessment
- Includes both individual and group results
- Fully customisable, so can be used with any set of competencies and questions. This makes it ideal for testing and developing competencies
- Validates competencies by establishing how relevant these are at all levels

Fig 9 – Projecting Team Capability



The ability to display group results and see how these change over time

Summary

The assessment systems introduced above make the fullest use of available computer technology and the Internet. The practicalities of a computer-based system allow for the rapid and accurate collation of assessment data, and include powerful management utilities to ensure the maximum return to both individuals and organizations.

These assessments are used only by trained and accredited practitioners who are able to make full use of the wide-ranging data produced by the programs. The ability to look at the dynamic relationships between personality, functional areas relating directly to the working environment such as conflict handling, individual capability, and the perceptions that surround performance makes this arguably the most comprehensive assessment methodology currently available. As such we can address issues that range from an individual assessment for career counselling through to a full Organisational Development study in a major company.

Global acceptability

In one form or another, elements of this assessment package have been in constant development since the 1960s based on the comprehensive research of Elliot Jaques, Gillian Stamp, Meredith Belbin, Thomas & Kilmann, Edwin Ghiselli, etc. Key contributors to this process included Ashridge Business School in the UK and the US National Defense University. A full independent validation of the approach used to identify cognitive capability was conducted at a national R&D level by the Research Institute for the Behavioral and Social Sciences in Washington DC.

(continued on next page)

Users of these assessments range from Brazil to China and include major organizations in both public and private sectors such as ICI (global), Budget (Europe), BAA (UK), Huntsman (global), Embraer (Brazil), Camargo Correa (Brazil), Transnet (S Africa), National Defense University (USA), TATA Group (India), NEC Business Solutions (Australia), ABN AMRO (Netherlands), GSK (China).

The differentiation

There is no other integrated suite of assessments that provides objective and independent answers to all these vital organizational questions:

- What is the organizations' culture and how well do executives fit this culture?
- Are there underlying reasons why different parts of the organization perform better than others?
- To what extent can executives be developed to maximise their contribution to the organization?
- What is the capability of the executive body and how is this capability likely to increase over time?
- What exactly is the nature of the work being done, and how well matched are executives to their roles (both present and projected)?
- What competencies should we value when taking the organization forward towards corporate goals?
- What are the real perceptions that surround executive performance?
- How healthy is the organization – is it working as an integrated team, or are there areas of dysfunction and conflict?
- Who should succeed who in the organization?
- Who should we select to join the organization?

By using the LPA™, MCPA™, EDA™ suite of assessment tools, corporate users will be able to take complete control of the process, using their own practitioners, trained and accredited by SRC. They will have:

- Have access any time, anywhere to web-based questionnaires in a fully secure environment
- Conduct assessments in English, Chinese, Portuguese, Dutch, etc.
- Receive personalized one-on-one feedback from a certified counsellor
- Create job profiles for assessment and career management
- Access Development Recommendations to assist in matching people to roles
- Use comprehensive built-in statistical analysis to compare all data
- Draw on well-established global norms for cross-cultural and other comparisons
- Create local norms for further domestic analysis studies
- Customize a company's competences into the on-line questionnaires and feedback sessions
- Build up a company specific norms as required

SRC – The China Practitioner

Shanghai Rainbow Consulting (SRC) is a professional HR consulting firm with expertise in executive assessment, competence modelling and organization development. It is the China practitioner and associate of the Executive Development Assessment Centre (EDAC). EDAC serves its global clients with the suite of patented tools: LPA™, MCPA™, EDA™. Since 1998 Ms. Dan Zhu, SRC's Managing Partner and Board Member of the Benelux Business Association in Shanghai, has been facilitating assessment service for leading European business school and locally operating international firms. Recent cases in assessment:

- Localizing current expatriate Site Manager by identifying local talents in a multinational company
- Over 200 employees' competence evaluation in a 49/51 joint venture
- Pre-employment assessment of workshop operators in a wholly foreign owned firm
- Assessment centre project for shortlist candidates for various managerial functions in both multinational companies and small & medium-sized firms.

SRC has the expertise in advising senior management on the strategic impact of human resources to their business strategy. It also has a solid track record in helping thousands of professionals to upgrade their business knowledge and plan their career paths.

SRC comprises a team of ex-corporate veterans and talented individuals in HR management, business operation, applied social psychology and knowledge management.

By being the China associate, SRC is part of EDAC's global network, which has presence in the US, UK, Europe, South Africa, Middle East, India, Australia and Brazil.

For further information please contact:

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Web: www.rainbowcareer.com

Address:

*SRC, Suite 6B, COSCO Tower
720 Pudong Dadao, Shanghai
200120, People's Republic of
China*

Rado – Time for Tennis

Anyone interested in sport inevitably associates Rado watches with tennis. This is hardly surprising, as the Swiss watch manufacturer has been intensively involved in tennis sponsoring for 20 years.

In the jubilee year Rado has – for the first time – been the official partner of two major tournaments in China: the China Open in Beijing and the Heineken Open in Shanghai.

A brand conquers the world

In the mid-80's, Rado entered, with great success, into tennis sponsorship at the Rado Swiss Open in Gstaad. With commitment and exceptional activities, the Swiss watch company quickly established itself as an official timekeeper on the international tennis circuit. Rado, market leader in the manufacturing of scratchproof watches with individualistic design, now counts itself amongst the most important tennis-sponsorship partners.

Resolute dedication to one sport has proved its worth. Just as in its product strategy, Rado believes in purpose-

fulness and continuity in the area of marketing activities too. With clearly defined objectives, the innovative firm has used tennis sponsorship consistently and successfully as a means of building brand awareness and image.

Today Rado is present at two of the four Grand Slam Tournaments – in France at Roland Garros and in Melbourne at the Australian Open. In addition Rado is the official timekeeper and partner at several major tournaments at venues spread out all over the world.

No center court without corner clocks

One of the most successful ideas in tennis sponsorship is the corner clock. Soon after its introduction, it was well on the way to becoming a permanent fixture at the world's tennis venues.

Originally, the corner clock only measured the time of day and playing time. But Rado, known in the watch world for its pioneering spirit, improved it in 1996 with another typically innovative step.

The new models amazed everyone with a whole range



The longest tennis game in history was played during the French Open Roland Garros in 2004 – two French players, Fabrice Santoro and Arnaud Clément, played for 6 hours 35 minutes – timed accurately by Rado.



of additional digital information. Ever since, the Rado corner clocks have additionally displayed outside temperature, humidity, service speed and even one-off running texts to spectators all over the globe.

Rado Sintra 'TopSpin' and the tennis collection

For the 20th anniversary of Rado tennis sponsorship the company presented a new, exclusive model linked to tennis: 'TopSpin' – an agelessly elegant, sporty chronograph in modern design based on the successful 'Sintra' line, but ingeniously coupled with a tennis motif: The edge of

the bezel is marked in the appropriate places with the numbers 0, 15, 30 and 40, which are used to count points in tennis. The small seconds window has the form of a stylized tennis ball.

The 'TopSpin' was introduced into the market as an individually numbered edition, limited worldwide to only 600 watches.

Following the success of the Rado Sintra 'TopSpin' Rado decided to produce special, numbered editions of the Sintra Tennis Chrono dedicated to different tennis tournaments such as the French Open Roland Garros, the Australian Open or the tournaments in China.

Rado's engagement in tennis will continue, because, as Rado President Roland Streule says: "Precision, tenacity, elegance and technique are a large part of the fascination of tennis. The same qualities characterize the Rado philosophy – and this makes the combination of Rado and tennis an unbeatable mixed double!"

Rado honored the Chinese Olympic gold medal winners in tennis during the China Open in Beijing.

October 2004 was a very busy month in terms of tennis in China. During the first half of the month, the male and female tennis stars gathered in Beijing for the China Open, with the men continuing to Shanghai to play at the Heineken Open.

The Chinese's increasing attraction to tennis has not only started since the surprising victory of their doubles team in tennis at the Olympic games in Athens, but the recent success of Chinese tennis players Li Ting and Sun TianTian has certainly helped in making this year's two tournaments some of the major sports events taking place in China.

Rado will return to the tennis courts in China also in 2005. The watch manufacturer has just signed a contract with the ATP (Association of Tennis Professionals) to be the premium partner and official timekeeper during the men's Masters Cup in 2005 – 2007.

The arrival of the Tennis Masters Cup, the culminating end-of-season men's tennis event, is expected to further boost the development of tennis in China, where the sport has been attracting growing public enthusiasm in recent years. Shanghai will be the host city for the Tennis Masters Cup from 2005 to 2007, with the tournament taking place at the city's Qizhong Tennis Centre, which will be one of the biggest tennis facilities in Asia with a total investment of over 2.4 billion yuan (US\$ 290 million).

Rado, official timekeeper at both the China Open in Beijing and the Heineken Open in Shanghai, took the opportunity to honour the achievements of Ms Li Ting and Ms Sun TianTian.

Kris Fei, well-known Chinese singer and Rado Ambassador, handed over a Rado watch to each of the tennis stars in recognition of their success and what they have done for tennis in China.

For further information, please contact Mrs. Sandra Perez at:

Rado Watch Co. Ltd.

Bielstrasse 45

CH-2543 Lengnau/Switzerland

Phone: +41-32-655 6384, Fax: +41-32-655 6270

E-mail: sandra.perez@rado.com

For information about Rado products, please visit www.rado.com

GENERAL DATA

Foundation of the Company

1917 Foundation in Lengnau of the watch movement company Schlup & Co., from which Rado later emerges

1957 Presentation of the first watch collection under the brand name RADO

Ownership

100% of shares with Swatch Group Ltd., Neuchâtel, Switzerland

Number of Employees

approx. 300 (Switzerland and abroad)

Number of Point of Sales

approx. 8,000 (worldwide)

Number of Service Centers

approx. 300 (worldwide)

Address of Headquarters

Rado Watch Co. Ltd.

Bielstrasse 45

CH-2543 Lengnau/Switzerland

Internet: www.rado.ch

E-mail: touch@rado.com

Telephone +41 32 655 6111

Fax +41 32 655 6112

Distribution worldwide

In over 100 countries

25 division (Swatch Group subsidiaries)

Distribution Greater China

Swatch Group (China), Rado Division (offices in Beijing, Shanghai, Guangzhou, Shenyang),

Swatch Group (Hong Kong) Rado Division

Swatch Group (Taiwan, Rado Division, Taipeh)



Li Ting, Zhen Jie, Sun TianTian, Kris Fei, Rachel Tan (Miss China International 2003) and Gloria Ting (Miss Malaysia 2004) during the Rado event at the Beijing Open.

Tiles & Granite from China for Europe

History

During one of his frequent visits to a construction site, Max Waser stumbled upon some polished tiles, to his trained eye, they were of outstanding quality, and having been involved in the business for many years, was naturally curious as to the origin.

On his next visit to the same construction site some days later, his curiosity led him to a surprising discovery: he noticed that the tiles were packed in boxes labelled in what was later to be confirmed as Chinese.

Max took a carton with him. He knew someone whom he could ask – Claude Röllis wife Wei is a Chinese citizen – surely she could help. Naturally it didn't take Wei long to understand who was responsible for the manufacturing and shortly thereafter contact was made to the company – the idea was conceived.

The relationship which Wei was able to build proved to be very fruitful; product information was supplied, and assistance for the potential exportation to Europe was offered.

Based on the technical information received, Max Waser decided to order a container (approx. 22 tons or 1'000 m²) to see if the real thing was as good as the promise. Eight weeks later the container arrived in Stansstad, any doubts regarding the product quality were laid to rest.

A visit to the Chinese manufacturer was planned, and Wei's Chinese heritage paid dividends, without the understanding and respect for the Chinese culture the company may never have been conceived. The variety and size of the product would enable the embryonic "First Stone (Switzerland) Ltd." to offer a unique characteristic in the European market, and that at a commercially attractive price.

Market research, discussions with potential clients and a successful negotiation with the manufacturer were factors which gave Max Waser and Claude & Wei Rölliduan the confidence to establish the company which we now know as "First Stone (Switzerland) Ltd". The vision: to be the first address for the very best quality tiles and granite products from China.

Mr. Lu Wenjie, the Chinese Consul General for Switzerland and Liechtenstein attended the founding ceremony in Buochs on the lake of Lucerne; a gesture underlining the importance of the event.

First Stone (Switzerland) Ltd. was founded in July 2002 and officially registered in January, 2003. First Stone has the exclusive distribution rights to supply tiles from the manufacturer in Central Europe including Switzerland, Germany, Scandinavia and Great Britain. France and Austria are currently targeted as future growth markets.

Current European Union restrictions do not allow imports from China through companies located in Switzerland. "First Stone (Europe) GmbH" was founded enabling direct import to the European Union.

Our Chinese Partners

"First Stone's" products are manufactured in Southern China close to the Zhujiang river delta. Foshan, the regional capital, has been the centre of the ceramics industry which has a 5000 year heritage.

Over 25% of the worlds porcelain is produced in this area, and is a major contributor to the success of the local economy. In 2003 a turnover of US\$ 25 billion was generated by some 200 manufacturers. Experts expect that China will overtake both Spain and Italy as the leading producer of ceramic porcelain within the next decade.

Our partner manufactures "First Stone" products uses "State of the art" machinery from German and Italy, and achieves an output of approximately 18'000'000 m² per annum, that equates to a daily output of 50'000 m² of tiles per day! The company has been audited to internationally recognized quality standards, and achieved ISO 9001 Certification in 2002.

The products, ceramic tiles up to an unbelievable size of 120 cm x 120 cm, are typically found on the facades, floors and walls of hotels and many other public buildings where elegance and hard wearing robustness are required.



Headquarter of First Stone (Switzerland) Ltd. in Buochs; Am Seeplatz.



First Stone's full product range is displayed at their showroom in Buochs, Nidwalden, Switzerland. Viewing by appointment only.

Our partners are a major sponsor for the Olympic Games in Beijing 2008, and exports its products to the USA, Canada, Australia and more recently to Europe through the partnership with "First Stone".

Manufacturing

First Stone is specialized on supplying the highest quality, polished ceramic tiles, this cannot be achieved without the very best raw materials. The main components such as clays, feldspars, sand and silicates are quarried in Southern China, and the processes employed can be compared to glass manufacturing.

The manufacturing process entails the dyeing of a sand-water solution – the customer determines the colour – next the mixture is pumped into drying silos and heated to 600 °C. Hydraulic presses then compress the materials to resemble tiles. Then its into the kiln for firing, one hour at 1'250 °C, before pressing and 4–5 polishing operations.

And the result? A fully vitrified finish guaranteeing resistance to frost, scratching, chemicals and weathering and at the same time offering an elegant, smoothly polished surface comparable to that of granite or marble, but even more durable!

Quality

As previously mentioned, "First Stone" products are more water and frost resistant than granite. Indeed the 'Centro Ceramico' in Bologna in Italy tested our products in June 2003, and their findings: surface quality, water absorption, frost resistance etc. were higher than the required standards for EN176 and ISO.

Further testing was carried out in June 2004 confirming our Quality Certification. More details relating to these tests and standards can be found on our website.

As further confirmation of our superior quality product, a leading architectural magazine recommends our products for both internal and external use. Perhaps they appreciated the trueness of the edges of our products, allowing a precise finish and reducing to an absolute minimum the need for unsightly grouting.

If you're looking for a top quality appearance with durability then you should consider our 50 cm x 50 cm tiles, weighing 5 kg each, they are ideal for facades as rain screen cladding.

Supply Chain

A closely linked supply chain is a must. Communication is the glue that holds it together. Our skills include not only the local language, but also an understanding of cross-cultural aspects to which others can only aspire. And the benefit to our customers: seamless interfaces and responsiveness to their needs.

Goods are forwarded by sea in 20FCL containers from Foshan China to the European ports in Rotterdam, Helsinki, Tallinn or Felixstowe. From here the goods are either shipped to our warehouses in Basle and Stansstad or are transported directly to our larger clients. Transport from factory to warehouse would normally take 4 to 5 weeks.

Typically the final leg of the journey to such clients as Raab Karcher Baustoffe GmbH in Germany is made by road.



**grossformatiges,
poliertes Feinsteinzeug
aus China**

**höchste Qualität:
beste EN-Testergebnisse
im "Centro Ceramico"
Bologna**

**interessantes Preis/
Leistungsverhältnis**



Storage and Distribution

First Stone (Switzerland) Ltd. which has responsibility for all business in Switzerland, holds between 15'000 m² and 30'000 m² at any one time at its storage facility in Basle harbour. Our Stansstad depot holds small quantities. Despatch response in the Swiss market can be within hours.

Bonded storage facilities are also available for European Union customers if required, however the majority of European orders are shipped directly in containers.

Agreements with wholesalers like BR Bauhandel AG (Richner Bäder und Plättli), our largest partner in Switzerland, facilitate collection of goods directly from storage in Basle.

References and Catalogue

A detailed, full colour catalogue illustrating our comprehensive range of colours and sizes is available on request.

Whether it's an internal or an external finish, or simply a striking design feature you're looking for; you'll find a fount of inspiration in our brochure. "*In situ*" examples show just some of the many possibilities where our products are typically used.

Our website also contains many more photographs of examples of First Stone installations.

Future Growth

Our goal is to become a serious competitor in Northern Europe by the end of 2006.

Turnover in Germany and Switzerland is steadily increasing, due to our experienced agents in these two countries. A demand for our product is now emerging in Scandinavia and the Baltic states with interest also being generated in the UK.

Developing our business in the wider Europe has been a slow, steady process and growth has been achieved through a mixture of hard work, experience and patience. Our belief is that this is due to a general misconception that all Chinese products are inexpensive and of sub-standard quality.

We had to prove to our potential customers that our products could achieve comparable performance, offer commercial advantage and that we could deliver a higher level of service than our established competitors such as "Panaria" or "Mirage". It was not until we had achieved these qualifying parameters that our business began to grow.

Of course First Stone (Switzerland) Ltd. and First Stone (Europe) GmbH are still relatively young companies but Claude Rölli-Duan sees growth potential particularly in Scandinavia, Northern Germany, Austria, parts of Eastern Europe and the Baltic countries. "Even though we are now driving the business forward we are committed to supporting our partners and maintaining our high quality and service levels".

"One area of potential growth for First Stone is rain screen cladding systems, where there is a demand for our larger format tiles for use as building facades. We have

recently secured a large contract to provide a total cladding solution for a client in Finland working in partnership with a large Austrian company who provides the fixing system for our tiles".

Examples of such a system can be found at the "Gatwick Hilton" Hotel, London, "The Harbour Tower" in Lisbon and the "Triumph Tower" in Moscow.

Claude Rölli says "It is this kind of joint venture that will enable us to penetrate new markets in the future".

In response to the recent success the General Manager and marketing team of our Chinese partners travelled to Europe to meet the First Stone team, the reason: first and foremost to commit to the drive regarding the market growth in Europe, and second, to investigate the joint participation in one of the leading tile fairs in the world, CERASIE in Bologna in 2005 or 2006.

Company Information

First Stone (Switzerland) Ltd.

Am Seeplatz 3
CH-6374 Buochs
Phone 0041 (0)41 620 11 01
Fax 0041 (0)41 620 11 05
info@FirstStoneLtd.com
www.FirstStoneLtd.com

First Stone (Europe) GmbH

Am Röttgen 11 – 13
D-47829 Krefeld

Business:

International trading company specialising in ceramic tiles and granite.

Founded in Switzerland:

1 January 2003 with CHF 100'000.– in shares to CHF 1'000.–

Founded in Europe:

1 July 2004 with EURO 25'000.–

Our People:

Max Waser, Managing Manager (Switzerland)
Hans Peter Günther, Managing Director (Europe)
Claude J. Rölli-Duan, Commercial Director
Wei Rölli-Duan, Communications Manager
Employees – 3
International Agents – Austria, Germany

Products:

Polished porcelain tiles of A Grade Quality in various sizes ranging from
50 cm x 50 cm 9 mm depth up to 100 cm x 100 cm 14 mm depth.

Building Bridges between Cultures

sinoKultur's workshops help businesses and organisations create stronger sino-swiss partnerships

In order to develop the foundations for long-term, successful relationships with Chinese working or business partners, it is important to have insight and understanding of China, its history, economy, politics as well as its cultural background.

sinoKultur, an organisation founded in Switzerland in 1997, enables a realistic look into China by offering a varied selection of cultural events and services. Some of the cultural events organized include concerts, contemporary art, theatre, dance, film and literature. The agenda on www.sinoKultur.ch website keeps you informed about present cultural events in Switzerland. Services include translations (in German, Chinese and English), accompaniment of delegations (in Switzerland, Europe and China), language training (Mandarin), as well as introduction into traditional Chinese musical instruments (the erhu, Chinese knee-violin and the pipa, Chinese lute).

Going to China and dealing with Chinese people requires thorough preparation and an open and positive attitude. sinoKultur offers introductory workshops for doing business in China. They are designed to support businesses and their employees to prepare themselves for the cultural challenges of working and living in China (groups and individuals). After completing the workshop, participants will have greater comprehension of Chinese culture and economy, and key knowledge about behavioural norms in a Chinese business and social environment. The language module gives participants useful "survival" phrases and vocabulary. This workshop is modular and can combine the following elements:

– An Introduction to China

The Chinese political system, economy, geography, demography, transformation, history, folklore, relations China & Switzerland.

– Doing Business with the Chinese

Opportunity and risk, case studies, Swiss businesses in China, support in China & Switzerland, dominant business values, business "do's and don'ts".

– Values and Social Customs in China

Values and beliefs, cultural expressions, communication, traditions, social etiquette.

– "100 Chinese Words"

Useful survival phrases and key vocabulary as well as an introduction to Chinese writing, standard language and dialects.

– Guest speakers

A variety of expert speakers can be arranged from the fields of business, politics and academia.

The workshop is offered as 1-2 full days training, according to the modules selected. The location will be decided according to the participants' wishes. We have ex-

perience with clients and partners such as TES (technical English services).

For further information

visit the website of sinoKultur

www.sinokultur.ch

or contact Ms. Tina Müller Khan

e-mail: sinokultur@sinokultur.ch

Book of Etiquette in Chinese



*Author: Jie Schneebeli-Chen,
eidg. dipl. Hotelier/Restaurateur*

This new book is an ideal gift for your Chinese business partners and friends and also a helpful pocket book for Chinese travelling in Europe and the other western countries.

The Chinese reader finds many answers to questions of behaviour and etiquette that often come up while enjoying food and drink in the western world. It also gives practical advice on hosting and serving guests at home as well as in a restaurant. It describes how a guest should behave and understand western manners and good conversational rules. Published in Chinese in April 2004, it is available in all larger bookshops including Xin Hua Bookstore Beijing, China.

*For additional information visit:
www.sinoswisstravel.ch*

Photographs and Martial Arts

Sixteen photographs from the East, a wonderful Dojo in downtown Zurich and two dedicated people who are willing to combine the art of photography with the art of asian martial arts. These are the ingredients needed to create a series of special events. Private View Thursday, March 3 2005, 7pm

By Marc Keller

North, Central and South America, New Zealand and various parts of Europe have all been my goals for many longer and shorter trips so far. So I went west, south and north, but I hesitated to go east. What kept me off from trying to develop this great and important part of our world? Was it the language that I did not understand, or the letters I could not read? Were it the people who look different than I am used to? Was it the cultural background I did not understand?

I cannot exactly tell, maybe it was a little bit of everything that made me prefer many other countries and regions to the East. Or maybe I just preferred to go the easy way by travelling through countries where I knew the languages and where I can read the street signs, train timetables or menus...

It took me some years until I finally decided to pack my bags and take off. The only thing that was sure for a long time already was that I will be travelling overland,

trying to avoid taking planes. Since I had about six months to spend, I wanted to spend my time not only in a specific region but I also wanted to realize how I got there. "The going shall be the goal of this journey, and not the getting", did I say to myself, quoting the famous proverb.

And so, it was a nice evening in the summer of 2003, I boarded a train in Uster carrying my backpack and a vague idea in my mind to go East as far as Laos. And to my own surprise – not like I felt when I took off for other trips – I was not nervous at all. But of course, why should I have been nervous? The first part of this trip was just a train ride from Uster via Zurich to Vienna. And from there it was just a short boat ride to Budapest, so what's the matter? Another train ride brought me to Constanta, at the Romanian shore of the Black Sea. And it only took just a days journey more on a bus, and I arrived in Istanbul. And – you guessed it – only some more hours travelling, another bus took me right into the Caucasus as I crossed the border between Turkey and Georgia.

Just a couple of months later, after crossing Georgia, Azerbaijan, Uzbekistan and Kyrgyzstan I found myself at around 12'000 ft above sea level in Irkestam, a border town between Kyrgyzstan and China from where one of the most fascinating and impressive parts of this journey started, as I crossed the People's Republic of China from west to east. What followed was something like 'taking



Roof-study 1 (Chongqing)



Rice and light (Zuozhuang)

the long way home' as I headed back west crossing Mongolia and Siberia to reach Moskow from where it was just a stone's throw to return to Zurich.

Already before starting this trip I was planning to document my journey with the camera. But photography turned out to be much more than just my travellers 'part time job'; I got more and more fascinated by taking pictures, it became an obsession to make me expose almost one hundred rolls of slide films.

Several slide shows already thrilled hundreds of people and the great feed-backs made me go one step forward: I chose a set of 16 outstanding photographs (all taken in China with the exception of one) and enlarged them to be displayed in galleries.

The very first 'real' exhibition will be something very special because it will not 'only' take place in a regular gallery but in the beautiful Dojo of Alfons Lötscher, who is running this place of great atmosphere with enormous enthusiasm since the year 2000. And as a matter of course, in a Dojo like that, there will not 'only' be photographs to be looked at but as well high class performances of Tai ji quan and Aikido that will certainly make you doubt the fact that you are in Zurich and not in the East yourself.

It would be a great honour for us to welcome you at the Dojo Zurich 6.

Private View including Taj ji quan and Aikido performances:

Thursday, March 3 2005, 7pm

Exhibition and movies:

Friday, March 25 2005, 7pm: "Spring, Summer, Fall, Winter... And Spring"

Saturday, March 26 2005, 7pm: "Twilight Samurai"

Sunday, March 27 2005, 7pm: "Zatoichi"

Dojo Zurich 6, Riedtlistrasse 23, 8006 Zurich (near Schaffhauserplatz)

Exhibition March 3 until April 21 2005, open during Dojo Zurich 6 training hours.

For further information please check

www.ostreise.bitflux.com

and

www.dojozuerich6.ch

Swiss-Chinese Chamber of Commerce

www.sccc.ch

Events, publications, special topics

Membership Card Values



The Membership Card of the Chamber is a gesture to say thank you and to give you a special status as a member of the Swiss-Chinese Chamber of Commerce. The Membership Card is valid for one year and will be renewed with every consecutive year after the payment of the membership fee.

The card not only identifies you as a legitimate member of the Chamber but also entitles you to benefit from services rendered by us and the Chapters in Switzerland and the People's Republic of China. Besides our events, members can take advantage of hotel-bookings, consumptions at Chinese restaurants and suppliers of Chinese goods at reduced rates.

Further services will be added according to new partner agreements and are regularly going to be announced in the Bulletin. Below you find the list of Chinese restaurants and suppliers in Switzerland, where you get 10–30 % off the regular price, when showing your personal membership card.

RESTAURANTS

China Restaurant Rhein-Palast

Untere Rheingasse 11
CH-4058 Basel
Ø 061-681 19 91 Fax 061-261 99 46

China Restaurant Astoria

Neumarktstrasse 38/rue du Marché-Neuf
CH-2500 Biel-Bienne 3
Ø 032-322 83 22 Fax 032-322 83 63

China Restaurant BAO TAO

Bernstrasse 135
CH-3627 Heimberg
Ø 033-437 64 63 Fax 033-437 64 62

Cheng's China Restaurant (mit Seeterrasse)

Marktgasse 15
CH-8640 Rapperswil
Ø 055-210 17 70 Fax 055-410 14 51

Restaurant Züri-Stube

Steinwiesstrasse 8
CH-8032 Zürich
Ø 01-267 87 87 Fax 01-251 24 76
E-mail: info@tiefenau.ch

BAMBOO INN

Culmannstrasse 19
CH-8006 Zürich
Ø 01-261 33 70 Fax 01-870 38 88
closed on Mondays

Restaurant CHINA-TOWN

Bälliz 54
CH-3600 Thun
Ø 033-222 99 52 Fax 033-222 99 52

CHINA GARDEN

Schützengasse 12
CH-8001 Zürich
Ø 01-211 71 00 Fax 01-212 35 61

SHANGHAI

Bäckerstrasse 62/Helvetiaplatz
CH-8004 Zürich
Ø 01-242 40 39

ZHONG HUA

Zähringerstrasse 24
CH-8001 Zürich
Ø 01-251 44 80 Fax 01-251 44 81

SUPPLIERS / FURNISHINGS

GALLERY JJ – "East Meets West"

Bahnhofstrasse 28
CH-6300 Zug
Ø 041-720 21 21, Fax 041-720 21 22
E-Mail: galleryjj@hotmail.com

TRAVEL/DELEGATIONS

Alpine Sightseeing GmbH

Seebahnstrasse 109
CH-8003-Zürich
Ø 01-311 72 17, Fax 01-311 72 54
E-mail: info@alpinetravel.cc

CULTURE AIR TRAVEL S.A.

8C Avenue de Champel
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FIRST TRAVEL ENTERPRISE

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Ø 01-322 66 88, Fax 01-322 66 90
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HOTELS

HOTEL TIEFENAU ZÜRICH

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(For hotel-bookings in China, please turn to the Chamber directly.)