



Newsletter from Danish-Chinese Business Forum – June 2007



News from the Secretary General

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Speech by His Excellency Ambassador Xie Hangsheng at DCBF's General Meeting on 11 April 2007

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USD 50 Mio Investment in Nordic Industrial Park (NIP), Ningbo. By Ove Nodland, CFO and Chairman of NIP

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Dear Members,

With summer holiday time approaching it is time for the second newsletter of the year. We are happy to say that we have now reached 97 members. We should like to welcome our new members:

A/S D/S Torm
Bondo & Schultz
Danish Design Centre
First Travel A/S
Galleri Faurschou
ICE A/S
J. Lauritzen A/S
Linak A/S
Plougman & Vingtoft a/s
Svend Høyer A/S
Svendborg Brakes A/S
PILGRIM

The first **Annual General Meeting** was held on 11 April at the head office of Deloitte A/S. The meeting started at 14.00 with a welcome by Chairman Nils Foss who introduced the first keynote speaker Bendt Bendtsen, Vice-Premier and Minister of Economics and Business Affairs. Mr. Bendtsen spoke on the theme of 'Danish Trade Policy. EU-China and China-DK'. This was followed by a Questions and Answers session.

The second keynote speaker was the Chinese Ambassador to Denmark, H.E. Xie Hansheng, who spoke about 'The Sino-Danish Bilateral Trade and Economic Relationship and the role played by DCBF'. You can see his speech below in this newsletter.

After the two keynote speeches, the formal part of the General Meeting started with Chairman Nils Foss presenting his oral report.

In the last few months, DCBF has organized a number of activities. We just completed two series of **Seminars on Chinese Business Culture** which were hosted by our member companies Vestas A/S in Randers and Bech-Bruun in Copenhagen. We should like to thank Ditlev Engel and Peter Lyck for their generosity in making their premises available to us. The seminars were organized together with Kinakonsulentent Hanna Leander and a total of 45 persons participated. The purpose of the seminars was to broaden the participants' understanding of the cultural context of business in China, Chinese negotiation strategies, and last but not least the economic and political structures that play a role in business in China. The speakers included Tony Fang, Verner Worm and Kjeld Erik Brødsgaard from Copenhagen Business School, and Hanna Leanderdal (Kinakonsulentent). From the immediate response that we have received so far, those who participated found the seminars to be very informative and useful and we may consider organizing similar seminars in the future. We have sent out questionnaires to all participants and will use the suggestions we receive to make the seminars even better.

We are still working on the Knowledge Database of members' competences. We are especially searching for short and relevant articles covering the 33 general areas in the database and for articles relating to the topics discussed at our Members' Meetings. Articles relating to Tax Law, Company Law, Labour Law and to Supply Chain Management have recently been added. And with the inclusion of two new areas: Tourism and Energy, we are slowly starting to become more sector oriented.

Next Members' Meetings:

10 September (at 16.00) DFDS Transport A/S
Supply Chain Management in China

8 October (time TBC) Danfoss A/S
The Chinese B to B (Business to Business) markets – China, a new home market

12 November (at 16.00) Carlsberg Breweries A/S
The Chinese retail market – Selling to the emerging Chinese middle class! Branding in China

PLEASE NOTE THAT

***The office is closed for summer holidays from 16th July to 3rd August incl.
We wish you all a good summer and look forward to seeing you again soon.***

Yours sincerely,

Tom Jensen
Secretary General



Speech by His Excellency Ambassador Xie Hangsheng at DCBF's General Meeting on 11 April 2007

Speech by His Excellency Ambassador Xie Hangsheng at DCBF's General Meeting on 11 April 2007.

Respected Vice Prime Minister, President, Ladies and Gentlemen

I feel honoured to attend this meeting with all of you distinguished guests. Please allow me to congratulate you on the first Annual General Meeting of the Danish-Chinese Business Forum.

When DCBF was founded, it had only 14 founder members. But now, after little more than a year, there are more than 90 members, which is very close to the set target of 120 members for 2007.

We therefore have reason to believe that DCBF meets the needs of reality. More and more Danish companies are rushing to business opportunities in Chinese markets. This fast development would not be possible without the painstaking work of DCBF. I therefore think the Danish business circle has made a wise decision in establishing DCBF.

China's GDP grew from 140 billion US dollars in the early years of opening up to 20.94 trillion US dollars in 2006, an average annual growth rate of 9.6 % over 30 years, meaning a rise in global GDP ranking from 15th place to 4th.

More importantly, China's economy has entered a new stage of growth. More and more attention is put to the quality of development in stead of speed. The central government is determined to change our economic growth pattern and optimize our structure in the coming years. Technology and innovation must play a much more important role; the energy consumption per unit GDP must be greatly reduced; and we should seek to find a balance between economic development and environmental protection.

Danish companies enjoy a great advantage in innovation, energy efficiency and renewable energy. You also have rich experience and mature mechanism in basing your economic development on the above points. Danish companies can have a brilliant future in the Chinese market.

Up to now, almost all important Danish companies have invested in China, totalling 433 different enterprises by the end of 2006, according to statistics from China's side. The contractual foreign investment is 2.21 billion US dollars. The actualized foreign investment is 880 million US dollars.

Encouraged by the great profits made by larger Danish companies in China, more and more small and medium sized enterprises (SMEs) are becoming active in the Chinese market. Around 20 such Danish companies have settled in the Nordic Industrial Park (NIP) in Ningbo. I believe DCBF is of particular importance to SMEs. SMEs don't have as much knowledge about China's traditional culture, trade and investment policies, and area differences, as larger companies do.

In little more than a year, DCBF has carried out all kinds of activities, seminars, meetings and social events to promote Sino-Danish trade. DCBF keeps close contact with the Chinese embassy, and acts as an important bridge between Chinese economic delegations and Danish enterprises.

According to my knowledge, DCBF has been planning an innovation conference since last year. The conference, if it can take place, will benefit our economic ties greatly, with its far-reaching theme, large scale and high level. My colleagues and I fully support the initiative.

When talking about promoting our bilateral ties, the Danish government has also played an important role. The Danish government's recent globalization report clearly states that Denmark and the EU should give more support to Asian countries, including China and India. Two ambassador-level diplomats are being sent to the Danish embassy in Beijing to strengthen our bilateral political and trade relations.

As the representative of China in Denmark, I welcome all levels of exchange and cooperation,

whether between governments or enterprises. Our embassy will do its best to support DCBF and serve all the Danish enterprises who are interested in Chinese markets.

That's all – thank you.

His Excellency Xie Hangsheng
Ambassador of the People's Republic of China



Establishment of a Global Procurement Function in China. By Torben Hjort, Procurement & Logistics Director, Aalborg Industries A/S

Torben Hjort was one of the speakers at the DCBF Members' Meeting at Aalborg Industries on 10 May, where CEO Jan Vestergaard Olsen also gave a presentation on 'Chinese production and sourcing in a global strategy.'

Global sourcing is a major focus area in Aalborg Industries Group's present strategy. Therefore, six work streams have been defined as roads to reach the strategic targets. One of the work streams we are following is development of suppliers in low-cost countries, among others China.

Aalborg Industries has been operating in China for the last 11 years with our own production of boilers for the marine sector. During that same period, the Group has been sourcing various products in China with the main emphasis laid on categories like steel plates, steel tubes, fasteners and fittings. In 2006, the purchases from Chinese suppliers amounted to 10% of the total Group spend.

Comparing the European steel price index with the Chinese one, it becomes evident that the prices in China are markedly lower at the moment. Hence, steel of selected steel qualities is traded at half the European market price. That is exactly why not only the low manufacturing costs make China attractive, but also the lower price level of materials.

If, as a European company, you wish to buy steel in China, you need to realize a few things. The first one is that the selling company has to have an export license, and experience shows that even big companies often do not have such license. Another thing to consider is that companies which do have an export license often split up their sales activities in a domestic sales department and an export sales department. Typically, the price is differentiated between the two departments with the export sales department normally operating at a higher price level than the domestic one.

During the last couple of years, Aalborg Industries has extended its sourcing activities in China to also include products with a higher degree of refinement and thus more technology-driven. The results of our first, thorough market screening for potential suppliers and products were quite discouraging. Not a single supplier or product could be approved right away. A different approach was then adopted for the second round, and instead, we focused on the suppliers' commitment and ability to develop their companies as well as their products. Close co-operations were established in which a customized product range exactly matching the demands of the marine segment was developed.

In the Western part of the world, we are focusing a great deal on "Lean"; we practice spotting activities that are not value-creating as well as unnecessary waste. In China, waste is banned, and the Chinese often take steps on their own initiative to eliminate what they consider waste. Even if this conduct seems logical, it often collides with the Western concept of quality. One of our significant success criteria during the development processes is being in proximity of the suppliers, constantly developing the relations and ensuring understanding and sustainability. The main challenges in this process are the linguistic barriers and physical distances.

As a direct consequence of the above, Aalborg Industries decided in 2006 to establish our own procurement office in China, and right after that, the office was established in Shanghai. The purpose of establishing the office was to set up a specialized procurement team able to cover the entire Group's demand for sourcing in China.

The procurement office now functions as a shared service centre and constitutes the single point of contact between Aalborg Industries' entities and the Chinese suppliers. The office has obtained an export license and is therefore able to ensure the desirable, low domestic price level for the Group. In addition, the office handles refunding of VAT and ensures certificates and export documents.

Furthermore, the office takes care of the following key tasks:

- Finding, qualifying, contracting and managing low-cost sources of selected categories of

components and commodities at the request of the entities.

- Proactively introducing substitutes and alternatives to the Group.
- Supporting the purchase organisation in Asia by establishing the “Lead buying” model for common categories and suppliers.
- Negotiating with selected suppliers on behalf of the Asian entities.
- Establishing a baseline at item level, thus rendering establishment of a tracking system in all Asian entities possible.
- Working out an activity list in co-operation with the local buyers, defining the savings potential and deadlines.
- Managing strategic purchase for other Chinese entities, especially concerning the global strategies.

By establishing the procurement office in China, we have decreased the distance between the Group entities and the desirable Chinese market, and enabled close relations with selected suppliers to be established and extended.

With the present sourcing setup in China, Aalborg Industries is well positioned to utilize the fast raising markets to the East.

Torben Hjort

*Procurement & Logistics Director
Aalborg Industries A/S*



New Income Tax Law in China. By Doris Tang, Partner of Gangda, a Shanghai based Law Firm

Doris Tang spoke on the theme 'New Business Legislation in China' at a DCBF Members' meeting on 16 April 2007 hosted by Bech-Bruun.

In March 2007, PRC government promulgated the Enterprise Income Tax Law, which will take effect from January 1, 2008.

Until the new law comes into effect, China has a dual-income tax system for domestic-funded enterprises and enterprises with foreign investment (FIEs). Though the ordinary income tax rates for domestic-funded and FIEs are all 33%, there are limited preferential income tax treatments designed for domestic-funded enterprises. For FIEs, lower enterprise income tax rates of 15% and 24% are available to FIEs in a number of areas. In addition, there are also other kinds of tax incentives for FIEs, for example, the well-known 2-year exemption and 3-year 50% deduction policy for manufacturing FIEs. For [foreign enterprises (FEs)], the ordinary withholding income tax rate is 20%. But for passive incomes derived from China, such as interest, rental, and royalty, the tax rate is lowered to 10%. Dividends derived from FIEs are fully tax exempt.

According to the Ministry of Finance of the PRC, the actual income tax levy under the current tax system is 25% for domestic-funded companies and 15% for FIEs.

Tax Payers

The new income tax law has adopted the concept of "resident enterprises" and "non-resident enterprises". "Resident enterprises" refer to enterprises incorporated or having its effective management institute in China, such as FIEs, while "non-resident enterprises" refer to enterprises registered offshore and having no effective management institute in China.

Income Tax Rates

The new income tax law adopts a unified income tax rate at 25% for all resident enterprises. For qualified small/thin revenue enterprises, a lowered rate of 20% may be available and for high/new tech enterprises encouraged by the state, the rate can be further lowered to 15%.

Tax Incentives

Under the current new income tax law, there are still tax incentives available, but it adopts a policy that is predominantly industry based, with limited geographic considerations. Tax exemption and reductions are targeted primarily towards agricultural, forestry, farming, fishing industries.

Some other incentives include:

- (1) Super deduction will be allowed for salaries paid to disabled employees;
- (2) Taxable income may be reduced by a deemed deduction calculated according to a certain percentage of venture capital investment in encouraged business;
- (3) There will be shorter depreciation life or accelerated depreciation for certain fixed assets due to improvement of technologies;
- (4) Reduction will be available for incomes generated from products using new technology or other technologies that protect the environment protection or save energy.

Tax Adjustment

Under the new income tax law, there is a chapter named special tax adjustments. This chapter is

aimed to crack down on tax arrangements set up with the main purpose of avoiding tax. With this chapter, the government will strengthen its administration over transfer pricing arrangements between related parties. Under the new income tax law, all companies are required to file a report of related parties transactions to the tax authority together with their annual tax return. There is also a general provision that gives the tax authority the power to adjust taxable income where business transactions are arranged without reasonable business purpose. The interest disbursement paid to an affiliate for any of its credit investments and equity investments in excess of the prescribed standards shall not be deducted in the calculation of the taxable amount of income.

In case there are tax adjustments imposed by the tax authority, the tax payer will be required to pay interest for such adjusted amount, but so far no penalties will be imposed.

Grandfathering

There are some grandfathering policies available for companies established before the issuance of the new tax law.

For companies that are entitled to a lower tax rate, there will be a transition period for as long as 5 years from the effective date of the new income tax law during which they can still pay income tax at the rate they currently use. For companies enjoying fixed term tax exemption or reduction, they may further enjoy such policies until the expiration of the approved term.

For new high-tech/new-tech companies engaged in business specially encouraged by the state, if they are incorporated in areas with special tax treatments, there may be additional transition arrangements available to them.

In order to further encourage investment in western region of the PRC, existing tax incentives in this regard will continue.

Tax for Non Resident Shareholders

Non-resident companies will be imposed an income tax on incomes derived from China. In general, there will be a withholding income tax at the rate of 20%. It is not yet clear what kind of tax incentives will be available to non-resident enterprises but the law does offer the possibility for preferential treatments, which will be subject to the implementation rules to be formulated by the State Council of the PRC.

It is worth noting that there is a new tax arrangement agreed by the mainland China and Hong Kong governments since 2007, according to which the withholding tax rate on dividends payable by enterprises in mainland China to Hong Kong residents (legal entities or individuals) will be lowered to 5% (holding at least 25% equity interest in the dividends payer) or 10% (holding less than 25% equity interest in the dividends payer). With this arrangement, there are observations that foreign investors who are not Hong Kong residents might be required to pay withholding tax at the same rates or likely at a higher rate than these rates applicable to Hong Kong residents.

In general, the new income tax law provides the framework and principles for enterprises income taxes and leaves the details for its implementation to be formulated by the State Council of the PRC. It is expected that the implementation rules of the new Enterprise Income Tax Law will be published this year before the new income tax law comes into effect.

Doris Tang

dtang@fangdalaw.com

Dir: + 8621-5298-5205



USD 50 Mio Investment in Nordic Industrial Park (NIP), Ningbo. By Ove Nodland, CFO and Chairman of NIP

Nordic Industrial Park (NIP) invests USD 50 mio. for new office, production and R&D facilities in Ningbo. The construction starts in a couple of months and the whole project will be complete by the end of 2008. Currently 25 companies are established there. NIP has as the only industrial park in China obtained full ownership of its park.

NIP (Nordic Industrial Park) is located in the rapidly developing city of Ningbo, which is part of the greater Shanghai area. It was established in 2002 and as the only industrial park in China, it has obtained full ownership of its park. The park's total area is approximately 350,000 m², and 50,000 m² of these are currently used for buildings. When the park is fully developed, its total building mass will cover an area of 200,000 m².

Why Ningbo?

For most investors in China, choosing a location is often based on a number of important factors, one of which is chance. I had spent more than 3 years in the Sichuan province in central China working on a complicated long-term project of changing a wholly state-owned company into a Joint Venture, with the World Bank as one of the investors. I was convinced that any new project would have to be located close to the coast, in a more developed and internationalized area.

I had lived and worked in Shanghai, a city I was equally convinced would not be a viable alternative, as in many ways it has come too far in its development process, and is too big and expensive for small and medium-sized projects. However, for business reasons I still wanted my new project to be located in the Yangzi delta and thus close to the coast, and after some thorough research I chose Ningbo. The most important factors in this decision were infrastructure, logistics, a varied industrial base, China's highest ratio of private entrepreneurs, access to qualified labor, a clean environment, and, last but not least, open and highly qualified government officials who had specific plans to develop Ningbo in cooperation with foreign investors.

We have never regretted this decision.

Why and how?

We made our first investment in Ningbo in 1999, with the establishment of a greenfield project (WOFE), producing permanent magnets under the label Daiyoo Electronics Co. Ltd www.daiyoo.com. After about two years, we found ourselves in the familiar situation of requiring qualified and competent ex-patriates. We identified the need for a serious alternative tailored for other small and medium-sized enterprises wanting to invest in China. It had to be an alternative that would make it easier to resolve the many conflicts and problems that we had experienced. At the same time, the local government saw the need to have access to such competence enabling them to make a competitive offer to this segment of investors. We therefore quickly agreed on the ideas that later led to the establishment of NIP. Our first cooperation agreement was a formal one based on a gradual building up in the park, which meant that smaller investments and less binding of capital would be required. The main principles of the agreement had to do with buying land, and distributing investments in buildings according to the needs of the companies.

As things developed, however, this did not turn out to be the right approach. Therefore we renegotiated our agreement in 2006 and purchased the whole area (350,000 m²), with the aim of completing the Industrial Park with our own investments by 2008/2009. Our experience with frequent policy changes carried out by the central government of China convinced us that gradual investment would compromise the aims and principles that had been laid down in the 2002 agreement, especially in relation to the access to and usage of land. We also noted a change in the market, where the feeling was that business startup activity would intensify once the decision to make this investment had been made. We therefore wanted to be able to offer

complete office solutions in order to attract more companies with a requirement to get established quickly in Ningbo.

Experiences thus far

We have had many valuable experiences in this process, both as investors and as facilitators for other investors in the industrial park. The most important of these may be summarized as follows:

- It is of utmost importance to become well acquainted with the appropriate rules and regulations in China, and stay aware of the frequent changes to these. A good network is an important factor for success in connection to this, especially when many challenges need to be dealt with in a responsible way. Many companies make the mistake of choosing easy solutions, and might be tempted to enter the grey zone of corruption which still exists. This is a very costly solution that can have disastrous results. Stay away from any offers of "paid solutions" - corruption never pays off. Fortunately the Central Government is getting more and more hard-handed when dealing with corruption. Go for transparent solutions that work in the long run, with realistic plans that lay out the challenges that lie ahead and which will make the government take a proactive stance and find the right solutions. Without the right network this approach can of course seem complicated and time-consuming, and it is easy to be tempted to choose short-sighted and unethical measures.

- Send your very best people to China. When you invest in China, you invest in the future. The aim is not to squeeze short-term profits out of lower costs. Much too often investors send inexperienced persons without the motivation that is needed to build up an office or subsidiary in China - and this can be a very costly experience.

- The experience curve is steep and different today from what it was a few years ago. Not long ago there was a general idea that China still had a long way to go. This was confirmed by the first impression visitors got when they landed at China's airports. Now, anyone coming to China will get a totally different impression. China now has modern airports, hotels, infrastructure, and easy access to competent advice for foreigners. Nowadays it is only when negotiating the final details, or when you want to start up or run your company in China that you are confronted with the harsh reality that China, in many ways, still needs to develop. It is essential that you are prepared for this.

- There are a lot of so-called "China experts" these days, offering solutions to basically any situation. There are instances where a person who has spent less than a year in China writes books on "How to do business in China". Be aware that laws and regulations change rapidly and that not all experts can keep what they promise. Nobody can provide you with a total solution to your challenges nor can they give you the absolute truths about China. The best you can do is to check with several reliable sources, ensuring that you base your decisions on the most sound and relevant advice.

- It is much easier to establish and run a business in China today than it was only a few years ago, and this development is likely to continue in the years to come. One great challenge is that the types of investments typically made in China and investors' expectations change at the same rapid pace. It can be difficult to get a true picture of the the quick development that China is actually undergoing. And combined with the fact that China is still a developing country in many aspects and business areas, many major challenges will remain for foreign investors in the years to come.

Current status

We believe that our 4 years of experience in Ningbo have provided us with a trust-worthy and competitive alternative for our client companies, and that we get good references from the approximately 25 companies operating in NIP today (e.g. 3 American, 5 Norwegian, 1 Swedish, 1 Finnish and about 10 Danish companies). The Danish companies are A&O, Barker Jørgensen, DALI, Formkon, Jade Gate, LJM Group, Nilfisk-ALTO, Norwell, RM Group, TAJCO).

Our experienced organization consists of 7 business leaders from the Nordic countries as well as highly competent local people. We have a very good relationship with the local authorities, who help and support NIP and the companies that are operating here. Through meetings with a wide range of organizations and companies in various business areas, and through our marketing efforts, we have a thorough understanding of what it takes to plan, start up, and run a company's operations here. I am sure that we have only seen the beginning of globalization and no doubt there will be great focus on China in the coming years. We also know that there are many local Chinese companies, with the right technology and competences, eager to globalize and expand their businesses. The combination of these elements has been fundamental to our planned investment of 45 to 50 million US dollars over the next 24 to 30 months.

The purpose of our investment

NIP will still focus its operations on being a total supplier for small and medium-sized enterprises, from the planning stage to the actual running of companies. We aim to provide a safe environment for the companies operating in our park, granting them access to a great network of government officials, organizations, and local business partners - all in an industrial / business park that can meet the growing business requirements.

We see a sharp increase in companies with a keen interest to make use of vacant and accessible production facilities in China. This allows them to focus more on the development of technology and rationalisation at their home company and reduces the amount of investments needed. Furthermore, we see that service companies within design, product development, consultancy and other non-production-oriented activities, are increasingly getting interested in China. They want to be present in an environment where they can meet international companies for cooperation and globalization. A rising number of companies with similar interests and ambitions are currently established in science and technology parks in their home country, and we plan to facilitate the establishment of clusters of innovative companies in our park.

We are going to build approximately 50,000 m² of new combined administrative offices/ production halls, similar to those that we have already constructed, with units ranging in size from 3,000 m² to 6,000 m². If a client specifically requests a larger unit, this will also be possible.

We will also build approximately 50,000 m² of a new kind of facility, more suited to companies that focus on lighter production such as prototype development. The smallest units will be 1,000 m², the largest 4000 m². These buildings will have 3 storeys, thereby ensuring a great degree of flexibility.

The greatest change that will come, however, is our new 50,000 m² office complex, where we will create an environment for companies that need a smaller office with access to administrative services, or bigger companies within the service sector whose main activities are not production-related, for instance engineering, design, import and export, consulting, etc. Our cooperation with local entrepreneurs and companies, who will be invited to also get established in the park, together with universities, technical schools, and local authorities, will give us the opportunity to extend our range of services to these kinds of companies, who will then be able to cooperate with international science and innovation parks.

Construction will start in September and the facilities are scheduled to be completed by summer 2009.

Ove Nodland

CFO and Chairman of NIP (Nordic Industrial Park)

Ove Nodland is CFO and chairman of NIP and has lived in China since 1995 – the last 8 years in Ningbo. Ove is also honorary citizen in Ningbo and Economic Consultant to the People's Government of Zhenhai and Vice Chairman in the Association of Enterprises in Ningbo with Foreign Investments.

.asia Asia Gets its Own Domain Name

Our member Bech-Bruun has sent us the following information relating to the registration of .asia domain names..

Europe got the .eu domain name and soon Asia will follow suit with its own domain name .asia, which will become the official domain name for Asia, Australia and the Pacific region.

The up and coming domain name .asia will cover more than 73 countries with a total population of around four billion and it is expected that this domain will become one of the most popular on the world wide web.

Companies with business interests in Asia, Australia or the Pacific Ocean region should therefore be aware of the possibility of registering .asia domain names.

It is expected that application for .asia domain names can start from autumn 2007 (although exact prices and dates have not yet been made available). Due to the huge potential in the .asia domain, it is recommended that you already now consider which domain names you wish to register.

The application procedure is different from the .eu domain procedure.

For further information you may contact Bech-Bruun:

Inge Kirstine Skou Nielsen

iks@bechbruun.com

tel. 72 27 35 04

or

Lisbet Andersen

lan@bechbruun.com

tel. 72 27 34 17 04