



From the view of an entrepreneur
– 10 year experience
in doing business with China

Considering as example the
DIMEX (Taicang) window profile Co., Ltd.,
an associated company of MDB AG, Munich

Munich, 21st October 2004

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MDB AG and the Group



- Listed corporation with 17 associated companies
- Founded in 1991
- 3 main fields in the building supply industry
- Sales volume approx. 130 million Euro
- Share abroad > 80%
- 3 employees at the corporation and approx. 800 in the Group

MDB AG and the Group



MDB AG		
HAUSprofi Group	DIMEX Group	MDB France Group
HAUSprofi Bausysteme GmbH Freudenstadt	DIMEX GmbH Nehren	PANAGET Bourgarré, France
HOME pro France S.A.R.L. Hoerdt, France	DIMEX window profile GmbH Nehren	Armor Panneaux La Chapelle-Caro, France
HOMEpro Benelux B.V. Woerden, The Netherlands	DIMEX ACCORD PROFILE GMBH Alkoven, Austria	Chêne de l'Orne Bellême, France
UNI-Bausysteme GmbH Ansfelden, Austria	DIMEX (Taicang) window profile Co.,Ltd. Taicang, P.R. China	
HAUSprofi-Hungaria Kft. Mosonmagyaróvár, Hungary	DIMEX profil system s.r.o. Blovice, Czech Republic	
HPI-CZ spol. s.r.o. Hradec Králové, Czech Republic	DIMEX Polska Sp. zo.o. Torun, Poland	
MAGE-SK s.r.o. Sala, Slovakia		
MAGE-POLSKA Sp. zo.o. Warsaw, Poland		

Procedure of the potential analysis

1996 Commissioning of Euro Asia Consulting GmbH

Concerning the product portfolio of the MDB-Group the Chinese market was to be analysed with the following task:

- what products are directly marketable
- what products have to be adjusted to the market
- what products are not suited for the market now, however, will be in the future

Altogether, we attended 84 meetings with experts and led 118 telephone interviews within a period of six months.

Market entry of MDB AG in China



The regional emphasis of the research was on East China, especially on the economic centers of Beijing/Tianjin, Greater Shanghai and Greater Kanton.



- Regional distribution of the expert discussions and telephone interviews
from May to December 1996 -

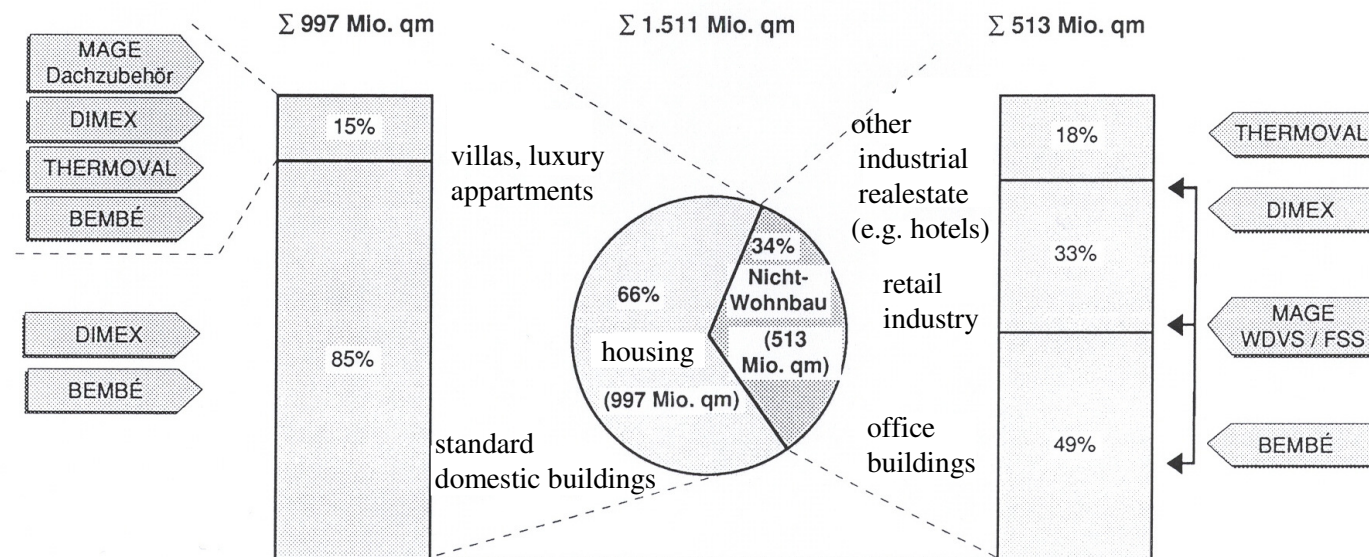


Market entry of MDB in China



The main focus of building completions is on domestic buildings (66%). Generally all fields are interesting for the MD building constructions and interior

- Structure building construction 1995 -



Quelle: Ministry of Construction, Beijing, EAC – Euro Asia Consulting

Conclusion

The main result was that pipeline accessories are marketable immediately and PVC-profiles in an adjusted format.

Pipeline accessories

China possesses the most expanded pipeline net in the world and in security relevant areas there was a high demand. Therefore our products were marketable without adjustments.

PVC-profiles

European profile systems are marketable only to a limited extent due to technical and price reasons.

Rep. Office, German Center, Shanghai

In April 1997 MDB AG received authorization for opening the office.

At the same time we were looking for and hired two Chinese engineers with command of the German and English language.

The new employees were trained for several weeks in a seminar at our companies DIMEX and DSI.

The goal was to quickly convey to them the necessary understanding for the products

The representative office acted as basis for the implementation of our organisational structures in China.

Short presentation of DIMEX GmbH

The company is registered at Nehren near Tübingen

- 120 employees
- 33 modern extrusion lines
- Expertise of 30 years in the field of extrusion
- Self developed plastic window systems
- Associated companies in Czech Republic, Poland, China and Austria, representative office in Moscow

Implementation of insight from the research

Our analysis showed that our profile systems have to fulfill the following criteria to reach marketability:

Technique, i.e. sliding- and casement profiles

Price competence, i.e. weight reduction to Chinese standard

Western quality, i.e. high rigidity and high gloss level

We developed four PVC profile systems for doors and windows with Chinese manufacturers.

It took exactly 1,5 years from the market analysis to sales of the first meter from the newly developed profile.

Market entry of DIMEX, Nehren



Structural changes regarding window types are to be expected. Despite the increasing share of casement windows the sliding windows with a share of 70 % remain the predominating window type.

- Development of used window types 1995 to 2000 * -

	Window type	symbolism	Development share in %			Market volume in square metres		
			1985	2000	2010	1985	2000	2010
(1)	Sliding windows ("sliding")		90%	75%	70%	146	148	247
(2)	Casement windows ("casement")		0%	15%	20	0	30	71
(3)	Windows with outward openings ("tilt")		5%	5%	5%	8	10	18
(4)	Windows without opening mechanism		5%	5%	5%	8	9	17
Σ		-	100%	100%	100%	162	197	353

*) The share of casement windows (15%) in the year 2000 was regulated by the Government

- Founded on 7th June 1999 in Shanghai as WOFE
- Relocaton in 2001 from Shanghai to Taicang
- The company is owner of window systems especially developed for the Chinese market.
- The products meet German standard.

- Production on 6 modern extrusion plants
- High-capacity mixing machine
- New factory building, factory area of 7.600 m²
- Today 65 Chinese employees incl. the management

DIMEX Taicang



Werbemaßnahmen in Shanghai

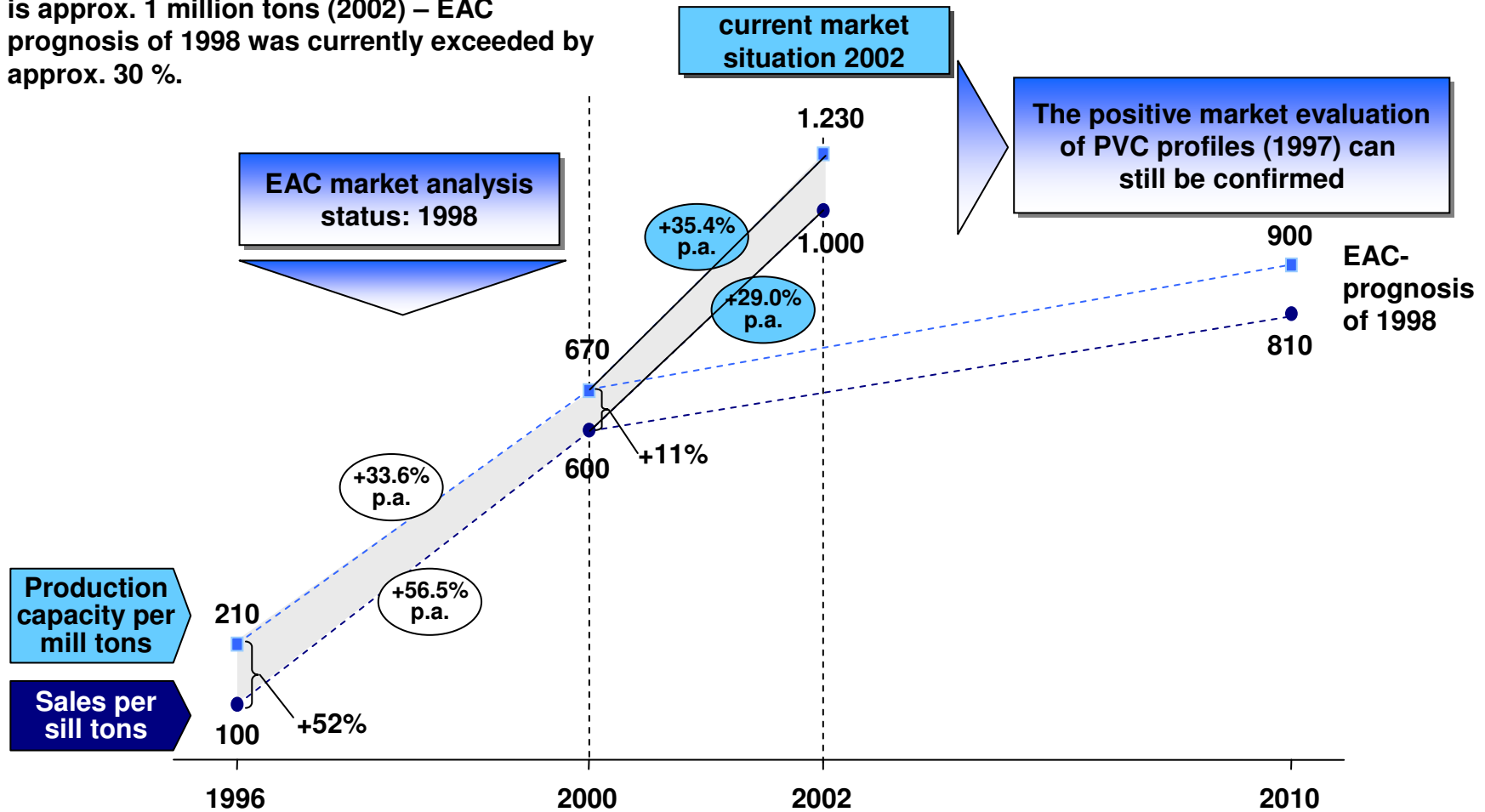


Marktentwicklung



Market development of PVC window profiles in China 1996 – 2002 (per mill tons)

The market volume for PVC profiles in China is approx. 1 million tons (2002) – EAC prognosis of 1998 was currently exceeded by approx. 30 %.



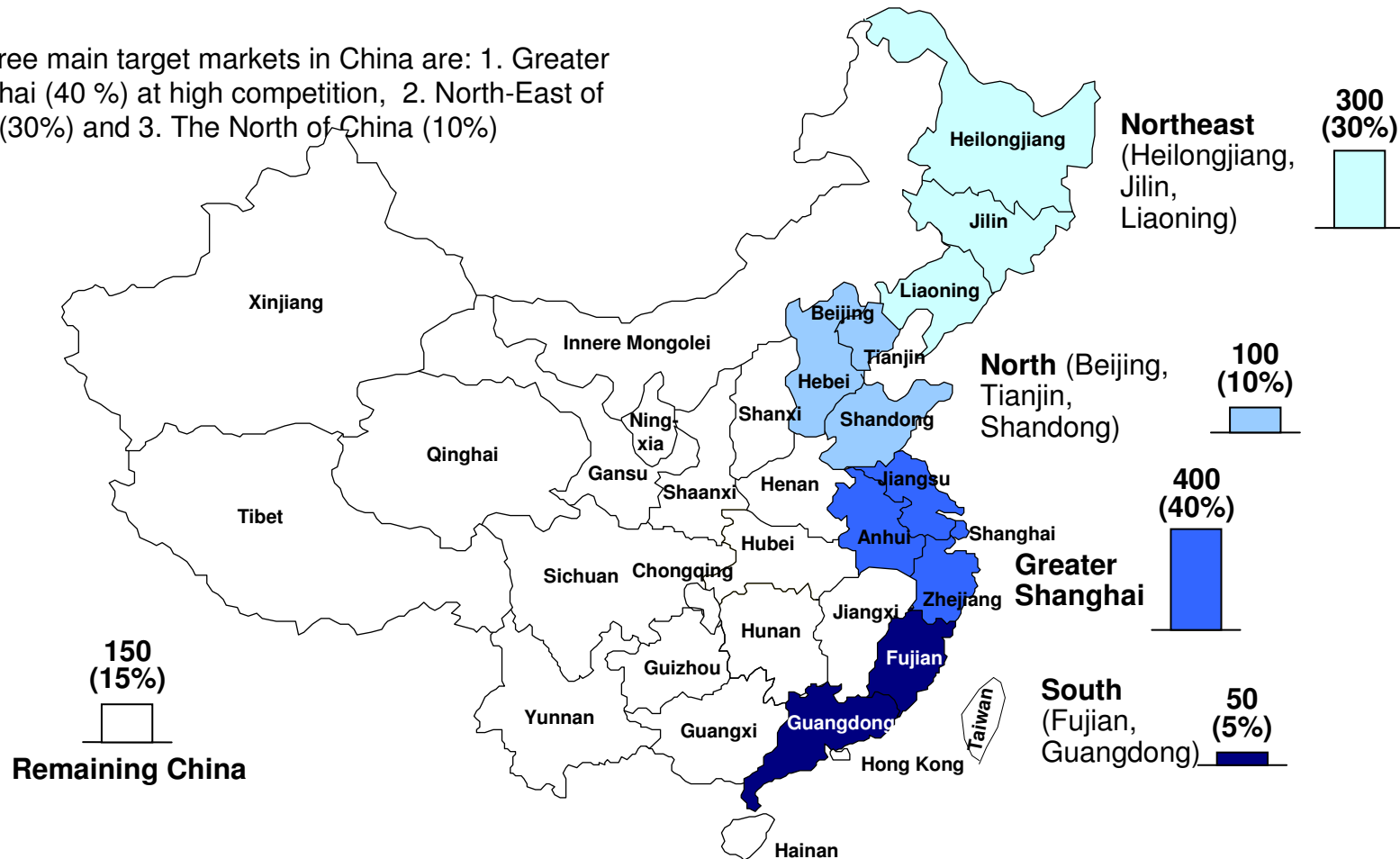
Regional market structure



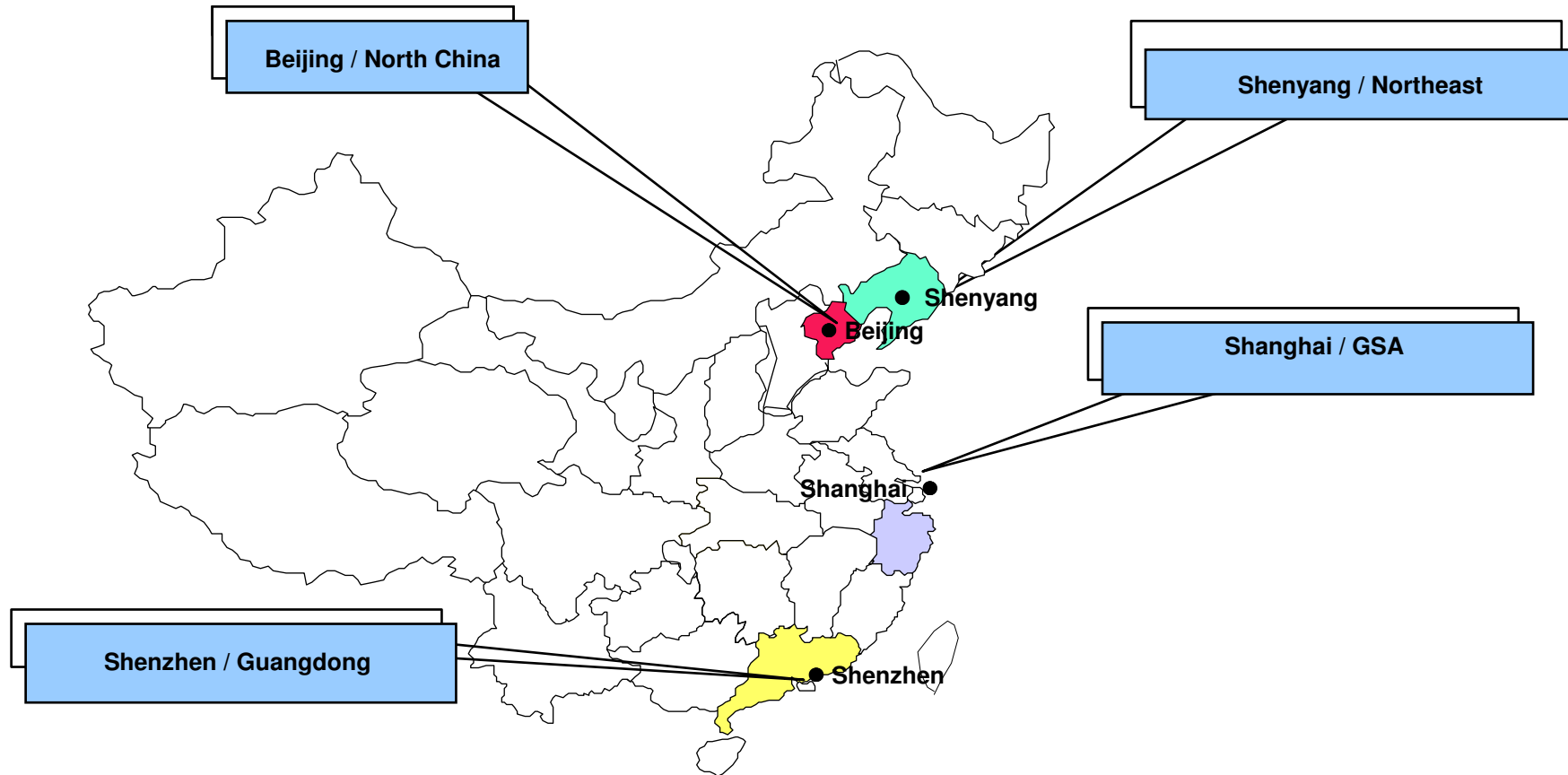
Regional market structure of PVC window profiles in 2002

Market volume 2002 per mill tons

The three main target markets in China are: 1. Greater Shanghai (40 %) at high competition, 2. North-East of China (30%) and 3. The North of China (10%)



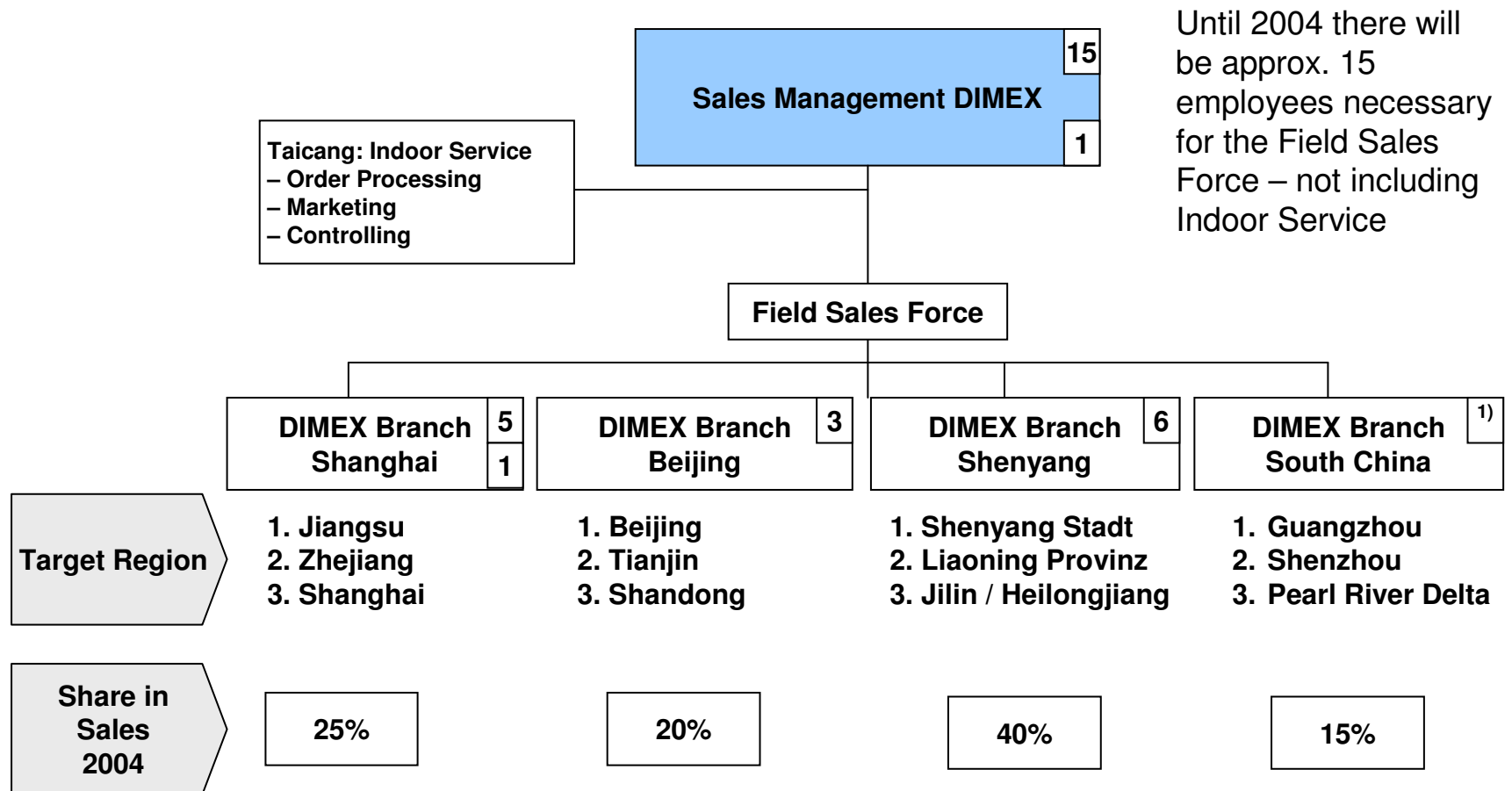
Sales offices



Planing of resources



Planing of resources DIMEX Taicang 2004



1) Distributors

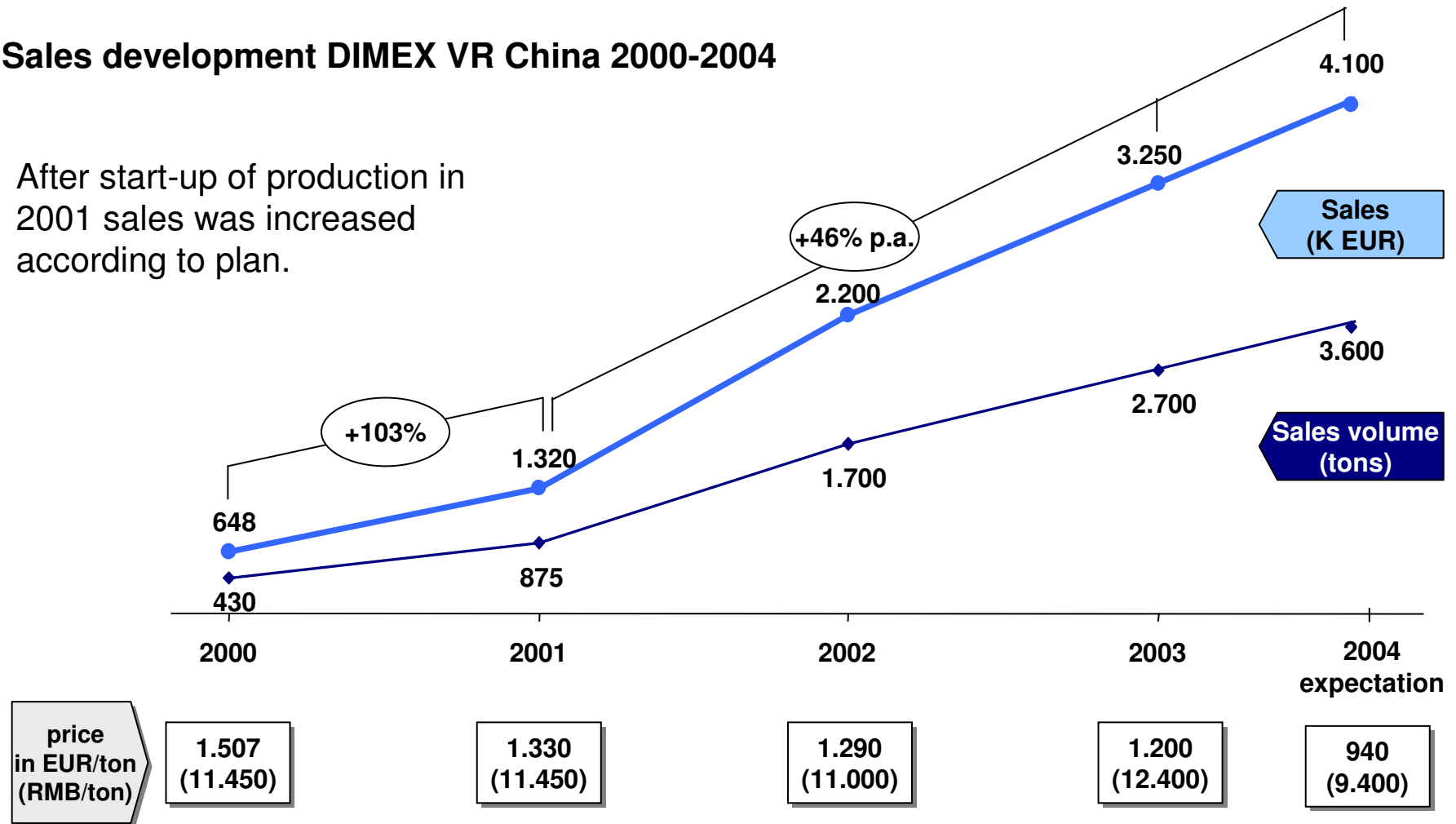
Quelle: EAC Analyse

Sales development 2000-2004



Sales development DIMEX VR China 2000-2004

After start-up of production in 2001 sales was increased according to plan.



Current status

Since the decision on 21st March 2000 of starting up an own extrusion approx. 5 million Euro were invested.

The company is working to full capacity with 5.000 tons per year.

Current status

Due to the lasting low production costs in China the markets in Taiwan, Korea, Japan and Southern Europe are developed at the same time.

The goal is to achieve sales in the amount of 50 million Euro per year within the next five years.

The downside

In China sheer turbo capitalism is ruling.

Any new good product is copied immediately by private and governmental companies likewise.

Therefore one has to shorten the life cycle of a product drastically and force the competitors into continuous investment.

The downside

However, this alone does not mean the silver bullet as until now the Chinese banks also even finance companies operating with the greatest losses.

Consequence of which is that the profitable branches of trade and niches show high overcapacities as in profile systems.

Further, medium-sized and larger companies are not interested in issues concerning business management reasons.

The downside

Losses are of secondary interest as long as liquidity is given.

No wonder that the capital goods industry sells their products at prices close to the material costs.

It seems that depreciation of expensive machines are neglectable values as they are not cash relevant.

The downside

How could it be otherwise that companies lay off employees on short notice when difficult market conditions arise, lay down production for six months or a whole year and then „continue“ with an improved business environment.

As long as one does not orientate oneself on the Chinese market solely and sees the location as the suitable platform for Asia with the lowest average costs, one is less vulnerable to the unpredictability of the market participants.

The downside

Which means we have to learn from the Chinese people:

If the market is good it will be served, otherwise you have to switch to other possibilities and wait until times will improve.

Here also quality is preferred to quantity more and more.

You only can meet competitors with dumping prices in China this way.

If one does not have money or alternative markets one has to resign or go home and bemoan ones losses.