

ASIAN AUTOMOTIVE NEWSLETTER

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A quarterly newsletter of developments in the auto and auto components markets

CONTENTS

INTRODUCTION	1
CHINA	1
INDIA	3
INDONESIA	4
JAPAN	4
KOREA	5
MALAYSIA	6
THAILAND	6

INTRODUCTION

We hope you find the *Asian Automotive Newsletter* informative.

BDA is a corporate finance advisory firm that assists multinational clients in identifying and executing acquisitions, JVs and divestments in Asia. We have focused on the automotive sector since our founding in 1996 and are well placed to assist companies from our Asian offices in Tokyo, Korea, Shanghai, Hong Kong and Singapore. Contact details for these offices as well as those of our New York and London offices are on the back page of this newsletter.

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Charles Maynard

CHINA

ADVICS, the Japanese brake components supplier, has established a new subsidiary, **ADVICS Tianjin Automobile Parts Co**, in Tianjin, China. ADVICS put up 95% of the capital and **Toyota Tsusho**, trading arm of the **Toyota** group, 5%, for a total investment of US\$18m. The unit will serve as a base for the manufacturing and sales of automotive brake systems and components in China. Operations are due to start in August 2004 and manufacturing will begin early 2005. Apr. 1, 2004

Baoshan Iron & Steel, China's biggest steel producer, is to supply **Ford** with steel sheets in Europe, having passed a series of quality trials involving a test batch of 700 tons. It is Baoshan's second major export contract, following a deal with **Fiat**. In the first phase, Baoshan will supply "less than 5%" of Ford's European flat-carbon steel needs for 2004. Mar. 11, 2004

Behr GmbH & Co KG of Germany has formed a new JV, **Shanghai Sanden Behr Automobile Air Condition Co Ltd**, to produce 1.4m air conditioning systems this year and will raise production to 3m by 2008. Behr will hold a 17.5% stake in the new company, Japanese compressor maker **Sanden Corp** will hold 35%, **Shanghai Automotive Co Ltd** will have 38.5% and **Shanghai Longhua Industrial Co Ltd** will hold 9%. Mar. 8, 2004

DCX has begun searching for suppliers in China to make low-cost parts for its operations worldwide, starting with local parts for a **Mercedes-Benz** plant that will begin assembling cars next year. DCX expects to buy components both from JVs set up

in China by its existing suppliers and from Chinese parts makers. DCX already has a pool of local suppliers who make parts for **Beijing Jeep**, the company's other JV in China. Other automakers are looking to source cheap parts from China for their worldwide operations. Both **GM** and **Ford** said they expect to buy US\$10bn worth of parts from China over the next few years and are pressuring their suppliers to set up operations in China. Mar. 1, 2004

Eaton Corporation has signed an agreement to form a 50/50 JV with **FAW Jiefang Automotive Co**, the commercial vehicle subsidiary of **China First Auto Works Group (FAW)**, to produce a complete line of medium-duty transmissions for trucks and buses. Terms were not disclosed but sources suggest the deal involves a commitment of some RMB800m (US\$96m). The JV, **FAW Eaton Transmission Co**, will build transmissions in FAW's existing factory in Changchun, Jilin Province. Mar. 31, 2004

Changan Ford, China's biggest mini-vehicle maker, said it had signed a MoU for land use rights to build a second passenger car manufacturing plant, at a greenfield site in Nanjing. Further details are being withheld pending government approval. The new manufacturing site is officially part of Changan Ford, a JV with **Changan Automobile Group**. Ford also is negotiating with another JV partner, **Jiangling Motor Corp**, to produce the *Freestar* minivan, sources said. Feb. 23, 2004

Taiwan Green Point, Taiwan's handset case maker, will enter the auto business through a JV for precision plastic parts with **Gaudlitz** of Germany. The new unit, **Gaudlitz & Green Point**, will have a factory in mainland China, starting with a capital base of US\$6m. Gaudlitz is to take a controlling 51% interest in the factory in Suzhou, Jiangsu Province. Feb. 27, 2004

Geely Group, the privately held Chinese carmaker, says it will spend more than US\$121m this year to more than double car production to 165,000 vehicles from 81,000 vehicles in 2003. Geely's cars are

priced between US\$4,000 and US\$19,000. Mar. 08, 2004

Honda has filed a copyright infringement suit against **Shuanghuan Auto**, alleging it has copied the design of its *CR-V* sport-utility. Honda said it had approached Shuanghuan, based in Shijiazhuang City, Hebei Province, last September asking it to stop production of its S-RV model after finding that the vehicle's dimensions and design were identical to the *CR-V*'s. Apparently, Shuanghuan would not give ground and so a suit was filed with a court in Beijing in November 2003. The case is still pending. Mar. 30, 2004

Mazda will buy a stake in the **Ford-Changan Motor** JV, paving the way for **Changan Ford** to build Mazda cars. Changan will retain its 50% stake in the JV. Mazda, which is controlled by Ford, currently works in China with **First Auto Works** subsidiary, **FAW Car Co**, building *Mazda6* sedans and the *Premacy* compact MPV. Apr. 2, 2004

Nissan Motor Co's JV in China, **Dongfeng Motor Co**, announced that it would set up a US\$40m car R&D center in Guangzhou, China. The center will work closely with Nissan's R&D center in Japan, beginning in 2005. Under a four-year business plan announced in November, Dongfeng Motor plans to introduce five-passenger models in China. It hopes to sell 300,000 units by 2007, compared with 74,000 last year. Mar. 29, 2004

Sundram Fasteners of India is setting up a factory in the Haiyan Economic Development Zone (HEDZ), Zhejiang Province, to manufacture and sell high-tensile fasteners to the Chinese auto industry. The 100% owned subsidiary, **Sundram Fasteners (Zhejiang)**, will initially have an investment of US\$5m and a capacity of 6,000 tons. Mar. 13, 2004

Toyota announced plans to set up a 50/50 JV with **FAW Group Corp** to manufacture 130,000 engines a year in Changchun, Jilin Province. Capitalized at US\$84.5m, the **FAW Toyota Changchun Engine Co Ltd (FTCE)** will produce engines for the *Crown* luxury sedan, which is to be made by another

Toyota/FAW group JV, **Tianjin FAW Toyota Motor Co Ltd.** FTCE is the third engine manufacturing company established in China by Toyota. Mar. 29, 2004

Toyota has set up a 90/10 JV to make large automotive stamping dies with China **FAW Group Corp.** Capitalized at US\$12m, **Toyota FAW (Tianjin) Dies Co** will begin operation in November, and factory construction and equipment installation are set to begin soon. Mar. 15, 2004

Toyota and **Guangzhou Automobile** broke ground for their new JV, **Guangqi Toyota Engine Ltd (GTE)**, for the production of automobile engines. GTE will have an annual production capacity of 300,000 units and is scheduled to produce 25,000 engines in 2005, all for export to Japan. GTE is capitalized at ¥14.6bn, (US\$133m), with Toyota investing 70% of the capital and Guangzhou Automobile the remaining 30%. Feb. 25, 2004

TRW Automotive and **FAWER Automotive Components Co** have announced the formation of **TRW FAWER Commercial Vehicle Steering (Changchun)**. The new JV will focus on the manufacture and sale of steering gears for the commercial vehicle market. One of its major customers will be FAW Trucks, the biggest truckmaker in China. TRW Automotive has nine facilities in China, including seven JV facilities. Mar. 18, 2004

Valeo SA will invest up to US\$630m in new factories in China in the next two to three years. Valeo also plans to increase its purchasing from Chinese component makers to about US\$1.3bn by 2006 from US\$383m in 2003. A sizeable part of that growth will come at the expense of western European Tier 2 suppliers. Valeo has eight JVs and nine factories in China. The supplier plans to build nine more factories, despite Valeo's worries about patent protection and the widespread copying of its products. Jan. 26, 2004

Volvo has signed a framework agreement with **China National Heavy Truck Corporation (CNHTC)** and **FAW** with the intention of setting up

a US\$200m engine JV in China. Final agreement is expected later this year. Volvo would own 52% and CNHTC and FAW 24% each of the new company, which will manufacture heavy engines based on the Volvo Group's new platform. Mar. 29, 2004

Volvo's Renault Trucks unit has agreed to set up a JV with Chinese truck producer **Dong Feng Motors**. Under the agreement Renault Trucks will buy a stake in **Dong Feng Liuzhou Motors**, a Dong Feng subsidiary, in 2004. The stake size and price have yet to be decided. The JV is to produce 7,000 trucks a year for the Chinese market in five years time. January 28, 2004

Volvo and its Chinese partner, **SAIC**, are to set up a new JV in Qingdao, Shandong Province, named **Sunwin**. Volvo and SAIC will take a controlling 51% stake in the new JV while the state-run Qingdao Public Transportation Group will hold 49%. Mar. 12, 2004

Yokohama Rubber has won approval to set up a company in Hangzhou City to manufacture and market sealants for passenger cars. In the first phase, Yokohama Rubber will build a factory with an annual production capacity of 1,000 tons, bringing it on stream in Jan. 2005, at a cost of US\$1.5m. The second phase, costing a further US\$2.2m, will double capacity within three years. Mar. 19, 2004

INDIA

Ashok Leyland, Hinduja group flagship, has announced plans for a Rup6.5bn (US\$150m) expansion to lift its share of the Indian CV market from 35% to 50% five years from now. India's second largest commercial vehicle manufacturer wants to expand capacity, set up a separate facility for a new generation of trucks, and step up spending on R&D. More money will be spent at Ashok's

Hosur-I plant to augment capacity of engines and transmissions. Apr. 11, 2004

Continental AG has decided to scrap existing deals with European and South Korean manufacturers and outsource its entire production of automobile tire tubes from India. To that end, the firm has signed a deal with Punjab-based Metro Tyres for the sourcing of tire tubes, branded *Continental*, for passenger cars, trucks, tractors and light commercial vehicles. According to industry estimates, production costs of tubes in India are almost 30% cheaper than Europe and 10% cheaper than Malaysia. Metro Tyres is setting up a new plant near Delhi to produce these specialized tire tubes for Continental. Apr. 2, 2004

GM has announced plans to set up a research and development center in Bangalore with an initial investment of US\$21m. The proposed center would employ 400 engineers to support GM's auto manufacturing presence in India as well as the rest of Asia. Mar. 18, 2004

MTU Friedrichshafen, a leading manufacturer of high-end diesel engines, has sent a global sourcing team to look into sourcing auto-component supplies from India. They hope to slowly shift their sourcing from Europe, which now comprises 80% of the total, to India. The auto components MTU is looking to source are for the 2000/4000 series diesel engines to be used in generator sets, construction equipment, railways and marine applications (from yachts to work boats). Apr. 21, 2004

INDONESIA

Fukoku Rubber and **Tokai Rubber** of Japan are joining forces to form an automotive anti-vibration rubber production business in Indonesia. Tokai Rubber will own 34% of the JV, named **Fukoku Tokai Rubber Indonesia**. Capitalized at US\$8.6m, the new company is expected to post

¥660m (US\$6.1m) in sales in fiscal 2004, ¥1.4bn (US\$12.8m) in fiscal 2006 and ¥1.8bn (US\$16.5m) in fiscal 2008. Mar. 30, 2004

JAPAN

Cemedine announced it would sell the 18% of the shares it owns in **Cemedine Henkel**, the automotive subsidiary, to German company **Henkel**. Cemedine and Henkel will own 49% and 51% of the JV, respectively. As a result of the scheduled sale, Cemedine will post an extraordinary profit of ¥160m (US\$1.5m) in the year ending March 2004. Going forward, the JV will no longer be a Cemedine subsidiary. Mar. 22, 2004

DCX will no longer bankroll **Mitsubishi Motors**, leaving the future of the ailing Japanese firm in doubt after failing to agree with other Mitsubishi group shareholders on a bailout plan for Mitsubishi Motors. DCX has not decided whether to sell its 37% stake, and it is not currently seeking a buyer. DCX added the auto maker's refusal to pump more money into Mitsubishi won't put an end to joint projects between the two companies. It is currently cooperating on the development of platforms for *Chrysler's Sebring, Dodge and Neon*, and *Smart's ForFour* as well as DCX's world engine project, which aims to create a four-cylinder engine for use in Chrysler, Mitsubishi and **Hyundai** cars. Apr. 23, 2004

GKN of Britain has launched a public tender offer for all of the outstanding shares in Japanese driveline components supplier, **Tochigi Fuji Sangyo** (TFS), which it does not already own. GKN acquired a 33.3% stake in TFS in Mar. 2002, buying all of **Nissan's** 20.4% share and stock owned by other companies. At ¥340 (US\$3.28) per share, the total consideration to acquire the 66.7% of TFS shares is ¥8.2bn (US\$77.4m). About one-third of TFS business is with Nissan. TFS and GKN Driveline

have been partners for 18 years in a viscous coupling JV in Japan, and have been co-operating more closely on other products since GKN acquired its initial stake in TFS. GKN Driveline says its offer has the full support of the TFS board of directors and the founding family, including both Chairman and President. Apr. 6, 2004

Toyota has unseated **Ford** as the world's second-biggest automaker. Toyota now holds 11% of the global car market but is aiming for 15% by the end of this decade. By profitability, too, Toyota is far ahead of the pack. Its bottom-line profit came to around US\$7bn last business year. Meanwhile, Ford earned a net US\$495m in 2003, returning to the black for the first time in three years. January 26, 2004

Tower Automotive has sold its 30.76% stake in **Yorozu Corporation** back to the Japanese firm by means of a share buy-back transaction on the Tokyo Stock Exchange. News of the deal broke not long after Tower denied reports of stalled talks with its bankers about extending its credit line to pay off US\$200m in bonds it must redeem by August 1. The company insists it is not turning away from expansion in Asia. Mar. 15, 2004

Wanxiang Group Corp, China's largest private-sector auto parts supplier, plans to establish a wholly owned subsidiary in Japan later this year with an eye toward acquiring a Japanese auto parts manufacturer, company sources said. Wanxiang, the first major Chinese autoparts maker to set up in Japan, plans to reinforce its marketing of brake-related components and other parts to Japanese automakers and is already in negotiations to acquire a Japanese auto parts supplier. The company in question is believed to specialize in making auto body parts and is suffering from a capital shortage. Mar. 22, 2004

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KOREA

BMW will increase procurement in South Korea, particularly for sourcing display and electronics parts from South Korean suppliers. BMW Korea said **Hyundai Mobis**, **Hyundai Autonet**, **Samsung Electronics** and seven other firms are on BMW's preliminary list. Feb. 2, 2004

China National Bluestar Group has been stripped of its "preferred bidder status" by **Ssangyong Motor's** creditors for the sale of a controlling stake in Ssangyong after Bluestar failed to present revised terms with clear figures on price and a "support letter" showing it had received Chinese government approval. Apr. 1, 2004

DCX and **Hyundai Motor** are holding crucial talks about the future of their alliance, amid doubts about plans to build commercial vehicles and engines together. DCX has a 10.5% stake in Hyundai, but tensions have been rising between the German and South Korean carmakers since last autumn, when the pair put their commercial vehicle plans on ice and publicly clashed over competing operations in China. A collapse of its partnership with South Korea's largest carmaker would deal a further blow to Daimler's strategy in Asia, where it has already pulled out of its partnership with **Mitsubishi Motors**. Apr. 22, 2004

GMDAT, South Korea's third-largest automaker, said it would invest about US\$1.5bn on expansion in the next few years to produce new models and diesel engines. The investment would help GM Daewoo compete with top-selling SUV models like the *Santa Fe* produced by **Hyundai Motor** and the *Sorento* by **Kia Motors**, both at home and abroad. The new SUV model will also be exported to Europe and North America. Analysts said the new SUV could also be introduced to China. Mar. 11, 2004

Kia Motors has recruited Asian parts makers to follow it to its new €700m (US\$854m) assembly

plant in Slovakia, but the Korean automaker has not ruled out using European suppliers. **Hyundai Mobis** and seven or eight other Asian components companies will be the major suppliers to the plant. Hyundai Mobis will invest €85m (US\$223m) in a plant adjacent to the Kia factory in Zilina, while other new Asian suppliers will be located at industrial parks in a 50-60 kilometer radius around Zilina. Hyundai Motor said that it and other supplier firms would invest a total of US\$1.4bn into the new European production center in Slovakia. Mar. 22, 2004

Nissan Motor plans to end technology transfers to **Renault Samsung Motors** after 2005. Nissan, 44.4% owned by France's **Renault**, hopes to avoid an overlapping of product lineups in South Korea by ending the technology agreement. Renault Samsung, acquired by Renault in 2000, has built small and midsize cars based on models developed by Nissan since 1995. The company will produce vehicles based on Renault's models after 2005. Mar. 8, 2004

Tower Automotive has acquired the remaining shares of **Seojin Industrial Co** for disclosed terms. Tower had held a 66% equity interest in Seojin, which supplies frames, modules and structural components to the Korean automotive industry. Seojin has eight manufacturing plants and 1,300 employees in South Korea. Mar. 8, 2004

MALAYSIA

Continental AG, the German tire manufacturer and components group, is planning to strengthen its presence in Malaysia by expanding production with its JV partner **Sime Darby**. This is part of its goal to shift production to low-cost countries in order to serve North American demand, but also for Asia. The tire maker is investing a total of €150m (US\$183m) in the first phase, with investments for the total project totaling more than €250m. By 2008,

this will create an additional annual capacity of 7m passenger tires and 700,000 tires for commercial vehicles. Mar. 17, 2004

Mitsubishi Motors Corp has sold its 7.9% stake in Malaysian car maker **Proton** for US\$99m in its latest move for funds. The sale also increases the likelihood that Proton will ally with another foreign partner or be bought out. Mar. 9, 2004

Sime Darby Group wants to take over **Hyundai's** business in Malaysia. The proposed acquisition, valued at RM641.7m (US\$168.9m) involves the acquisition of 51% equity interest in Hyundai-Berjaya Corporation, 51% in Hyumal Motors and 51% in Inokom Corporation. The proposed acquisition is subject to agreement. Upon completion of the proposed acquisition, Sime Darby will be required to undertake a mandatory take-over offer for the remaining 49% interest in Hyundai-Berjaya. Apr. 5, 2004

THAILAND

Thailand's auto industry reached record levels for the second straight year in 2003 thanks to the implementation of AFTA (the ASEAN Free Trade Area) last year. Many leading automakers are expanding their production in Thailand, making that nation their base for the entire ASEAN region. The result is that vehicle production in Thailand reached a total of 750,500 vehicles, up 28% from the previous year. Production for sub-compact passenger cars increased 250% to the 128,000 unit-level while 1-ton pickup trucks rose 23% to reach 470,000 units, accounting for more than 60% of all vehicles made in Thailand in 2003. Feb. 27, 2004

Mitsubishi Motors plans to launch production of its new generation of light pickups in Thailand in August next year. Mitsubishi will invest up to Bht11.7bn (US\$296m) to make Thailand its export base for a line of new pickup trucks, lifting its annual

capacity in the kingdom from 83,500 to 116,000 units. Mar. 3, 2004

Nissan Motor said it will pay Bht7.6bn (US\$194m) to buy majority control of auto assembler **Siam Nissan Automobile Co** and distributor **Siam Motors & Nissan Co**, raising its stake to 75% from 25%. About two-thirds of the new investment will go into expanding production. Nissan wants to make more pickup trucks and passenger cars in Thailand to export to neighboring countries. Nissan also plans to increase its stakes in its ventures in Malaysia and the Philippines. Apr. 5, 2004

Yokohama Rubber plans to invest Bht1.9bn (US\$48.4m) to establish a company to manufacture radial tires for trucks and buses. A plant with an annual capacity of 315,000 tires will be constructed in the first phase, to begin operation in Apr. 2005. In the second phase, capacity will be doubled to 600,000 tires. Phase one will cost ¥5.5bn (US\$50.5m). Mar. 19, 2004

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. For further information on BDA's services or on any of the articles in this newsletter, please contact the offices below.

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