

ASIAN AUTOMOTIVE NEWSLETTER

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

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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, and Hong Kong. Contact details for these offices as well as those of our New York and London offices are on the back page of this newsletter.

If you think BDA's advisory services may be of use to your firm, please contact me via email at cmaynard@bdallc.com, or call me in Tokyo at (81-3) 3433-5803.

Charles Maynard

CHINA

ArvinMeritor's Light Vehicle Systems (LVS) business group has formed a 50-50 JV with **Shanghai SIIC Transportation Electronic Co. (STEC)** to manufacture sunroofs for **Shanghai Volkswagen** at a facility in Shanghai. The new JV increases ArvinMeritor's presence in China, where it currently has three facilities, producing door systems in Zhenjiang and exhaust systems in Pudong and Chongqing. The new business is named **Shanghai ArvinMeritor Automotive Parts Co.** STEC is the auto electronic and electric appliances arm of **SAIC**. It has existing partnerships with **Valeo, Brose, Delphi** and **Lear**. Aug. 11, 2004

Autoliv is to build a steering wheel factory in China - its tenth such facility worldwide and its sixth factory in the PRC. The facility will be integrated into its new airbag plant (11,000 square meters) that is nearing completion in Shanghai. An area of 5,000 square meters and a budget of US\$10m has been allocated. Initial production capacity at the plant is targeted at 1 million units, expanding to 2 million within three years. Production is scheduled to begin in Q3 2005. The plant will be Autoliv's sixth China operation. Local customers for Autoliv's new operation are expected to include **Mazda, Suzuki** and **Changan Auto**. Aug. 3, 2004

Benecke-Kaliko of Hannover, Germany, intends to boost automotive interior trim materials output in China through a JV with local automotive plastics trading company, **Jiangsu Changshun International**. Under the planned JV, Benecke-Kaliko, a subsidiary of the **ContiTech** group of

companies, will invest about €10m (US\$12m) in a factory in the industrial area of Zhangjiagang City, 120km northwest of Shanghai. Jun. 12, 2004

Calsonic Kansei has announced that it plans to build a development center in Shanghai in November this year and two production plants in China. The Japanese component supplier is to invest ¥4.6bn (US\$41.4m) in the sites. Sales are targeted at ¥20bn to ¥30bn by 2008. Radiator and capacitor production is expected to be carried out at one of the production plants with the other concentrating on interior and engine pipe-related parts. Calsonic Kansei's new plant will be geared towards **Nissan's** local production. Aug. 3, 2004

Denso Corporation and **Toyoda Boshoku** have announced a US\$2.3m investment to launch a JV filter manufacturing company in Tianjin, China. The JV is due to begin operations in February 2005. The production will take place at Denso's existing Tianjin plant and will supply **Toyota Motors** and **Daihatsu** with air filters, oil filters and cabin air filters. The JV is 60% owned by Toyoda Boshoku Corporation, with the remaining 40% being owned by Denso Investment Limited. No details on the target production rates were given at this stage, but the 2009 sales target was stated as being US\$48.5m. June 24, 2004

Dongfeng Motor Corp., **Nissan's** JV in China, officially opened its first new plant in China's Guangdong province. The US\$218m plant has an initial capacity of 150,000 units, though only one of its two lines is currently being used. The plant is already making the Nissan *Bluebird* and *Sunny* sedans, which were launched in China in mid-2003. Production of a new sedan, code-named the *X11C*, will begin in September. May 18, 2004

The car-making unit of **First Auto Works (FAW)**, FAW Car, has agreed to sell over RMB300m (US\$36m) in buildings and equipment to local JV **FAW-Volkswagen (VW)**. FAW Car is selling its facilities to FAW-VW following its decision to move its production base to the Changchun High-Tech Development Zone in order to expand production capacity. The carmaker is seeking to expand its

production capacity in order to meet rising local demand for its output, which includes **Mazda** models such as the *Mazda6*. Jun. 15, 2004

General Motors plans to restart production from a stalled vehicle factory in northeastern China in September. GM plans to shift output of its *Buick GL8* executive wagons to that factory from Shanghai, freeing capacity to make more cars at its main plant. The once moribund US\$230m northeastern plant will have capacity to make 50,000 vehicles annually. The new plant, called **Shanghai GM (Shenyang) Norsom Motors Co. Ltd.**, would be effectively run 50-50 by GM and its longstanding Chinese partner, **SAIC**. The restructuring will enable the northeastern plant's products to be sold through Shanghai GM's nationwide sales network. Aug. 10, 2004

GM says it will invest more than US\$3bn in China over the next three years to more than double its current capacity, intensifying a battle with leader **Volkswagen** in an increasingly profitable market. GM, runner-up to Volkswagen in the world's fastest-growing car arena, will introduce almost 20 models over the coming three years in a country that should become its No. 2 market in 2004. GM commanded roughly 19% of China's car market at the end of 2003. GM's China profits tripled to US\$437m in 2003 compared to the previous year, contributing 40% of the company's global automotive profits. GM hopes to boost annual output to 1.3 million units by 2007 through expanding existing factories and building plants. GM sold about 70% more cars in China in Q1 2004 compared to Q1 2003, topping 122,000 units. Jun. 7, 2004

GM also announced plans to move its Asia-Pacific headquarters to China from Singapore and boost investment in its Shanghai design and engineering center by US\$250m. The additional investment in the Shanghai-based **Pan-Asia Technical Automotive Center (PATAC)**, a 50-50 JV with **SAIC**, will help GM develop new models for the China market to fill their plants. PATAC will focus on developing cars for the China market and possibly to develop products for the US or European markets. Jun. 23, 2004

Hyundai Motor Co. plans to invest an additional US\$740m in its China JVs to build a second plant in China by 2007. The additional investment plan is intended to meet Hyundai's earlier stated goals to produce 600,000 units annually in China by 2007. Hyundai Motor operates in China through a 50-50 JV with local partner **Beijing Automotive**, named **Beijing Hyundai**. The JV's local plant has a current annual production capacity of 60,000 units. Construction of the new plant is expected to begin at the end of this year, with completion due in 2007. Jun. 14, 2004

Johnson Controls' Chinese JV, **Shanghai Yanfeng Johnson Controls Seating Company, Ltd. (SYJCS)**, is planning to invest US\$8m to expand its seat-trim cover operations in its Nanhui facility in Shanghai. The Shanghai facility would make fabric and leather vehicle seat covers for export to Johnson Controls' plants in Japan for integration into **Nissan** vehicles. SYJCS has been supplying Johnson Controls' Japanese operations with seat-trim covers since 2000. Jun. 22, 2004

Kia Motors Corp. has unveiled a plan to invest US\$645m in China. Kia Motors' Chinese JV, **Dongfeng Yueda Kia Automotive Co.**, will begin building a second plant in China in July. Kia's new plant would boost the capacity at the JV from 130,000 units to 400,000 units a year by 2006. Kia's JV with **Dongfeng Motors Co.** and **Jiangsu Yueda Investment Co.** is in the eastern province of Jiangsu. Kia and **Hyundai Motor**, its parent company, have said that they plan to roll out one million units in China alone by 2010 as part of the group's plan to become one of the global top five carmakers. Hyundai announced its separate plans for a US\$740m investment in China (see story above). May 13, 2004

Kolon Industries Inc. set up a new polyester tire cord (PTC) plant in Nanjing. The plant, built at a cost of US\$40m, is capable of producing 5,000 tons of PTC annually, Kolon officials said, noting additional investments would expand the company's PTC output in China to 12,000 tons by 2006. Combined with its domestic output of 40,000 tons

a year, Kolon's aggregate PTC output would increase to 52,000 tons in three years, putting it at No. 3 worldwide. Kolon also said it plans to invest US\$15m this year to build an auto airbag manufacturing plant next to its Nanjing PTC plant. By 2006, Kolon is expected to post US\$20m a year in airbag sales in China. May 31, 2004

Motorola has signed an agreement with the **Tianjin Economic Technological Development Area (TEDA)** to build a new electronic systems factory, focused on automotive applications, adjacent to its existing production facilities. The first phase is to be completed in late 2004 and will be approximately 200,000 square feet. Production will get underway in 2005. It will mainly produce auto electronic products including auto engine controls, communications and power transmission systems. May 6, 2004

Japanese component supplier, **New Technology Network (NTN)**, has set up a new automobile bearings company with local partner **Changzhou Guangyang Bearing** in eastern Jiangsu Province. The US\$27.4m JV's operations are to involve R&D, production and marketing of needle roller bearings, clutch release bearings, cylindrical roller bearings and auto wheel bearings. Production at the JV is targeted at 26 million sets in 2005, rising to 78 million sets in 2008. Annual sales are targeted at RMB800m (US\$97m). Aug. 5, 2004

Nissan is urging international suppliers seeking a bigger piece of Nissan Motor Co.'s business to move to China and supply its local partner, **Dongfeng Motor Co.** Those who supply Nissan in China will have an opportunity to supply Nissan's worldwide operations, said Dongfeng Motor Co. President Katsumi Nakamura in an interview. Nissan is encouraging international suppliers to set up factories in China because few local suppliers meet its criteria for quality, cost, delivery and product development. Local production of parts is critical to winning Nissan business, Nakamura said. By mid-2006, China's tariffs on imported parts will drop to 10%, down from approximately 15% today. Nissan is also trying to improve local suppliers' technology, quality and management skills by

finding foreign partners for its commercial truck components suppliers. May 31, 2004

Australian supplier, **Pacifica Group**, has formed a JV manufacturing operation in China. The company has signed a letter of intent with a privately owned American components manufacturer with expertise in foundry operations in China. Production is scheduled to begin in March 2005 at a facility in Dalian. Pacifica's chief automotive business is braking equipment manufacturer, **PBR International**. PBR already has plants in Thailand and Malaysia and licensing agreements with **Delphi** in Korea and China, and with **Japan Brake Industrial** in Japan. Apr. 27, 2004

French automaker, **Renault**, has announced plans to set up a 300,000-unit annual production JV with **Nissan** partner **Dongfeng** in China from 2006. Dongfeng currently has an auto-making JV with Renault global alliance partner Nissan in China. June 29, 2004

Siemens VDO Automotive plans to manufacture petrol fuel injection nozzles in Changchun, China, beginning in January 2006. The injectors made in China will be produced to meet the needs of all of Siemens VDO's customers in Asia, from Japan to India. The project investment will be €10m (US\$12.2m). The Deka VII production facility in Changchun will be a clone of Siemens VDO's other two injector facilities in Italy and in the US. Siemens VDO's Changchun factory, established in 1995, produces engine management control units, sensors and fuel rail assemblies. Aug. 11, 2004

Toyota Motor Corp.'s new JV has been approved by China. The JV will have a total investment of RMB3.7bn (US\$447m) to make *Camry* sedans in the southern city of Guangzhou. The JV, which will be 50% owned each by Toyota and state-run **Guangzhou Automobile Group Co. Ltd.**, will have an initial capacity of 100,000 *Camrys* a year. The plant will be built in the city's new Nansha industrial zone. Toyota and its Chinese partner will soon establish a JV company, and plant construction will start later this year. The plant will use the engines produced by Toyota's other

Guangzhou JV, **Guangqi Toyota Engine Ltd.** Aug. 5, 2004

French component supplier, **Valeo**, has announced new expansion plans for China including the introduction of new product lines and the opening of a technology center in Wuhan. The French component supplier has eight production facilities in China and is the market leader in the local electrical systems and wiper systems market. The company's local sales have risen by around 30% annually and are expected to double in the next two years to €600m (US\$736m). Valeo is to open its first R&D center in China later this year to develop advanced lighting systems for Chinese and European carmakers. The component supplier is aiming to develop new products in China both for local demand and global markets. Jun. 9, 2004

Visteon announced plans to further expand its Asian operations. Visteon, which currently has 20 manufacturing facilities located across the region, will boost its presence by launching a technical center in a 50-50 JV with **SAIC** in Shanghai, where it recently opened its new Asian corporate offices. The JV center will develop products for Visteon's Chinese and global customers. In 2003, Visteon Asia-Pacific recorded US\$1.5bn in revenues, up by 25% year-on-year. Visteon's Chinese operations are organized under a JV with local partner, **YanFeng**. Jun. 9, 2004

Chinese market leader, **Volkswagen**, has announced plans to build a new US\$240m auto plant at its local JV with **SAIC** with an initial capacity of 150,000 cars annually from 2006. The plant should be completed in two to three years and would underpin the company's export drive. This would mark the first major export base for a western carmaker in China. May 9, 2004

Volkswagen also plans to invest €540m (US\$650m) in two engine plants in China. VW's twin proposed plants, together with a €240m (US\$288.4m) factory already in the works, would boost its engine-making capacity to more than a million units per annum. VW can already make about 750,000 engines a year - nearly its entire car

production capacity - in China. One of the plants, to be built with partner **SAIC**, would have capacity to produce 300,000 engines annually. The other plant, to be built with its other Chinese partner, **FAW**, would be in the northeastern city of Dalian. Jun. 10, 2004

INDIA

German automotive group, **Bosch**, will invest Rup10bn (US\$216m) in India over the next four years as part of its Asian expansion plans. According to Bosch, a significant part of the investment will be directed towards the introduction of common rail diesel injection systems, including application, testing and manufacturing. The entire investment will be routed through **Motor Industries Company Ltd.**, the Indian subsidiary in which Bosch holds a 60% stake. Aug. 23, 2004

Ford India has hired 700 workers at its Indian plant to double annual production capacity to 100,000 cars. The factory, near Chennai, is switching to a double eight-hour shift later this month with a total work force of 1,700. It began production in 1999 after an investment of some US\$400m. In addition to domestic sales, exports are modest but slowly increasing. The plant exported 24,000 kits last year to Ford subsidiaries in China, Africa and Latin America. Ford India is bullish on the outlook for 2004 after a strong performance in the first seven months of the year, which saw sales increase to 14,038 sedans, 48% more than the same period last year. Ford India has invested Rup17bn

To submit stories to future editions of this newsletter, please contact Ms. Sora Ahn in New York on 212.265.5300 or sahn@bdallc.com.

(US\$361.7m) in India over the last four years. Aug. 11, 2004

Stoneridge Inc., the Ohio-based electronics manufacturer, announced that it has entered into a JV with Indian components supplier **Ashok Minda Group** to manufacture electronic instrumentation equipment for the automotive and truck markets in India and surrounding countries. Manufacturing operations are set to begin at the Indian company's Pune plant in 18 months' time. Ashok Minda's existing customers in India include **GM India, Ford India, Tata Motors, Maruti, DaimlerChrysler** and **Mahindra and Mahindra (M&M)**. No further details on the JV were disclosed. Aug. 17, 2004

Ball bearing manufacturer **Timken** will expand its Indian research and development center this year to serve booming Asian markets. Its Bangalore facility, which is the only Asian R&D facility out of the ten run by the American multinational, has received US\$12m in investments over the past six years. Timken hopes to see the same kind of rapid growth in India as is occurring in China. The wholly owned subsidiary, named **Timken Engineering & Research India**, will also collaborate with Timken's 80%-owned local subsidiary, **Timken India**. Timken India has plans to lift output by 25% and upgrade production technology. Apr. 26, 2004

INDONESIA

Michelin has acquired 10% of Indonesia's biggest tyre manufacturer, **Gajah Tunggal**, inking an agreement on May 12 as part of a deal to manufacture and distribute tires in the Indonesian market. The financial details of the deal were not announced, but the agreement, according to which GT will manufacture Michelin group-branded tyres in Indonesia, is said to be worth in the region of

US\$20m. Gajah Tunggal is owned by Singapore-based **Garibaldi Venture Fund**. May 14, 2004

JAPAN

Delphi is expanding its operations in Japan. Delphi recently shifted an engineering facility from Akishima, Tokyo to **Toyota's** home base in Aichi Prefecture to test its electronics components and other products. The US component supplier also plans to set up two new customer support centres in Utsunomiya, Tochigi Prefecture and Hiroshima to work with **Honda** and **Mazda** respectively. Delphi is aiming for Japanese companies to account for 10% of its total sales by 2010, from its current 3.5%. Jul. 26, 2004

Japanese component supplier, **Fuki Kiko**, has completed the 100% acquisition of Faurecia's Steering Systems business, **Faurecia Systemes de Direction**, which in 2003, with around 500 employees, generated sales of some €70m (US\$87m). Fuji Kiko, meanwhile, posted consolidated sales of €30m (US\$637m) in 2003 and has a workforce of 2,300. Fuji Kiko is a subsidiary of the Japanese power-steering supplier **Koyo Seiko** and is one of its main steering column suppliers. This sale has now propelled Fuji Kiko to become Europe's third-largest steering systems company. Aug. 2, 2004

KOREA

Modine Manufacturing Company of Wisconsin has acquired the automotive climate control division of South Korean supplier **WiniaMando** for US\$90m, calling the deal a major expansion into Asia. The deal is expected to increase Modine's

turnover of over US\$1bn by more than 15%, providing complementary products to Modine's existing portfolio. The wholly-owned unit, to be renamed **Modine Korea**, will manufacture automotive air conditioners and heaters to be sold locally as well as in China. The unit posted W214.1bn (US\$186m) in sales last year while it was still part of WiniaMando. It operates a subsidiary and JV in China. May 5, 2004

Schaeffler Group, the umbrella company for auto suppliers **INA**, **FAG** and **LuK**, opened a new R&D center in Ansan, South Korea, on May 7. Schaeffler, through its subsidiary **FAG Bearings**, already has a research and development center, **FAG Bearings Korea**, in Changwon and is anticipating its expansion in Korea to aid its entry into other Asian markets. May 11, 2004

Ssangyong Motor Co.'s creditors selected China's **SAIC** as the preferred bidder to buy South Korea's fourth-largest car maker, main creditor Chohung Bank said. In December, creditors named Chinese chemical firm **China National Bluestar Corp.** as a preferred bidder and signed a nonbinding MoU. The deal, however, fell through in March over differences in price and questions about whether Bluestar had obtained the necessary approval from the Chinese government for its investment plan. Jul. 23, 2004

THAILAND

Siam Aisin, **Aisin Seiki's** subsidiary, has opened its new plant in Thailand to meet growing demand in Southeast Asia. Siam Aisin engages in machining and assembling brake, engine and body parts and delivers them to the Thai factories of **Hino**, **Isuzu**, **Mitsubishi**, and **Toyota**. The chief impetus behind the new factory is Toyota world car 'IMV' project. Siam Aisin has built a 14,000 square meters factory, about the same size as its existing plant, on a newly acquired 40,000 square meters

plot. Along with the construction of the new plant, Siam Aisin restructured its manufacturing facilities; the new plant deals with engine and body parts, while the existing plant is now concentrating on brake parts. Sales are expected to reach Bht5.5bn (US\$132.6m) in 2005, up from Bht2.7bn (US\$64.9m) last year. Aug. 22, 2004

Federal-Mogul is investing US\$5m in its JV, **Federal-Mogul Friction Products (Thailand) Ltd.**, to expand output of brake pads to 12 million pieces a year, aiming to generate annual export earnings of nearly US\$11m. The operation is expected to export Bht440m (US\$10.6m) worth of product annually. The factory is located in the Rajana Industrial Parts, Ayutthaya (Zone 2). Aug. 22, 2004

Sona Koyo Steering Systems Ltd. has decided to set up a buying office in Thailand. The company is also mulling the possibility of sourcing smaller components from Thai companies if they prove to be cost-effective as well as exporting its products from India to primarily Japanese companies based in Thailand. Aug. 12, 2004

Toyodabo Filtration System (Thailand) is investing nearly Bht400m (US\$9.6m) to expand production of oil filters to 14.4 million pieces a year. The business, which is 40% owned by Japanese tier-one supplier **Denso** and 60% by **Toyota Boshoku**, is expected to achieve export turnover of Bht513m (US\$12.4m) per year. Aug. 22, 2004

Charles Maynard, Managing Director

Sora Ahn, Associate

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.

New York

Andrew Huntley
Business Development Asia LLC
The Economist Building, Suite 1105
111 West 57th Street
New York, NY 10019
Tel: (212) 265-5300
Fax: (212) 265-4300

Seoul

Hans Kim
Business Development Asia
Byuk San Building, 20th Floor
Dong Ja Dong 12
Yong San Gu, Seoul, Korea
Tel: (82) 2-727-4222
Fax: (82) 2-727-4224

London

Euan Rellie
Business Development Asia Ltd
10 Crown Place
London EC2A 4FT
United Kingdom
Tel: (44) 20-7655-3127
Fax: (44) 20-7655-8901

Shanghai

Jeffrey Wang
Business Development Asia
Shanghai Centre, Suite 504B
1376 Nanjing Road West
Shanghai, China, 200040
Tel: (86) 21-6279-8390
Fax: (86) 21-6279-8906

Tokyo

Charles Maynard
Business Development Asia
#5F, Crane Toranomon Building
3-20-5 Toranomon
Minato-ku, Tokyo 105-0001 Japan
Tel: (81) 3-3433-5803
Fax: (81) 3-3433-5269

Hong Kong

Paul DiGiacomo
Business Development Asia (HK) Ltd
503A, Tower 1
Admiralty Center
18 Harcourt Rd
Tel: (852) 2537-9565
Fax: (852) 2537-4406

bda@bdallc.com

www.bdallc.com