

# ASIAN AUTOMOTIVE NEWSLETTER

Issue 35, February 2003

A bimonthly 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, 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  
Managing Director

## CHINA

**Australian Magnesium Corporation (AMC)** will work with Hong Kong trading company **Lee Kee**, which trades in zinc, aluminum, copper, tin, nickel, stainless steel and magnesium in China, to focus on China's magnesium die-casting industry. Lee Kee will help identify die-casters with which AMC can build technical and commercial relationships, provide sales support through its warehousing and distribution facilities, and develop a magnesium alloy scrap recycling service. AMC will supply high quality die casting alloys, opening up its worldwide network and offering specialist technical advice to Lee Kee and its Chinese partners. December 12, 2002.

**Avis**, Europe's biggest rental agency, has set up a major car rental operation in China in partnership with **Shanghai Automotive Industry Corp.**, China's biggest automaker. **Anji Car Rental & Leasing Co.**, a 50-50 JV, will begin operations in Shanghai next month. The initial investment is US\$22m, and is expected to rise to US\$66m by which time the venture would operate 5,000 cars out of 70 locations. Avis has been negotiating the deal for nearly four years. December 18, 2002.

Chinese battery manufacturer, **BYD Co.**, is to take a controlling 77% stake in state-owned carmaker **Xian Zhen Chuan Automobile** for RMB269.5m (US\$32.6m). Xian Zhen Chuan, which produces cars under the *Flyer* marque, posted a net profit of RMB726,000 (US\$87,700) in 2002 on sales of RMB621.8m (US\$75m). BYD has not been involved in the automotive business until now. Its main products are rechargeable Lithium-ion batteries, Nickel-Cadmium batteries and Nickel-

Metal hydride batteries in which the company is respectively ranked fourth, second and third worldwide. The acquisition is part of BYD's plan to develop and manufacture rechargeable batteries for electric vehicles. January 22, 2003.

**Changchun FAW Sihuan Automobile Co.** will invest US\$5.9m for a 49% stake in a plastic auto parts manufacturing venture with the **Tong Yang Industrial Group** of Singapore. Tong Yang will put in US\$6.1m for a 51% stake. The JV will manufacture plastic bumpers and other parts. Full production will get underway in 2005. December 19, 2002.

**China Motor Co.**, Taiwan's largest automaker, has received approval from Beijing to build cars in the mainland. China Motor will start making **Mitsubishi** 2003 *Lancer* passenger cars as early as the first quarter at **Southeast Motor Co.**, a joint venture with the government of Fujian province. The Chinese plant will make 30,000 *Lancers* next year, according to a CMC spokesman. December 3, 2002.

**DCS Group**, the publicly listed UK-based IT solutions company, said its DCS Automotive unit and **Sime Darby Motor Group (HK)**, will start a JV to provide IT solutions to an expanding auto market in Asia, particularly in China. The first priority for **DCS AsiaPac** is to launch *AutacWin*, a dealer management system, into China. Phase two will see roll-out in Southeast Asia. Based in Hong Kong, DCS AsiaPac had an initial paid-up capital base of around HK\$7.5m (US\$962,000). DCS Group and Sime Darby Motor Group (HK) will hold equal shares of 40% equity interest with the balance of 20% held by private investors and the venture's management team. Rather than contribute cash in return for its stake, DCS will give the new company exclusive right to license and use its software across the Asia Pacific region. Sime Darby and the private investors will contribute cash, management and employees. December 23, 2002.

**Delphi** has taken a 1.98% stake in Japanese supplier **Ashimori Industry Co.**, becoming its fourth-largest shareholder in the process. Delphi has purchased 1.2 million shares in Ashimori Industry for an estimated ¥200m (US\$1.6m). Ashimori Industry will spend about the same amount to acquire new Delphi shares. In October 2000,

Delphi and Osaka-based Ashimori announced a JV for the production of seatbelts. In Michigan, mainly shipping to GM. Five months later they signed a deal to pursue an airbag business worldwide. December 2, 2002.

**General Motors** signed an agreement on December 20 to invest in a RMB900m (US\$109m) auto plant in eastern China. It will be GM's fourth assembly operation in the PRC. GM will take a 25% stake in **Yantai Bodyshop Corp. (YBC)**, Chinese partner **Shanghai Automotive Industry (Group) Corp.** will own 25%, and their 50-50 JV - **Shanghai GM** - will take the remainder. All three shareholders will have representation on its 10-member board of directors, GM said. As expected, GM said it would shift production of its fast-selling subcompact, the Opel *Corsa*-based *Sail*, to YBC, which will soon be renamed. Regular production of the *Sail* is slated to begin in May 2003. YBC has 850 employees at start-up. Shanghai GM has sent approximately 60 staff to work on the project. GM's strategy appears to be to keep higher end models in production at Shanghai GM and shift the production of smaller cars to YBC. YBC, based in the coastal city of Yantai, was set up by the Shandong provincial government in 2001 to assemble cars using technology, engines and components from South Korea's **Daewoo Motors**. The project came to a standstill after Daewoo went bankrupt and was not part of GM's and Shanghai Automotive's joint buyout of Daewoo assets announced in October. December 19, 2002

**Hertz** is moving to set up a JV business with **China National Automotive Anhua Car Rental Company Limited**. Hertz, the global number one which became a **Ford Motor Co.** subsidiary in March 2001, already has eight branches located in Beijing, Shanghai and Guangzhou. December 18, 2002.

**LG Chem** has raised its ABS (acrylonitrile butadiene styrene) production capacity to 800,000 tons by expanding output at its Chinese plant by 150,000 tons. This will make LG Chem the world's third largest producer of ABS, a key ingredient in various types of plastics used in automotive components. The company's China facility, **Ningbo LG Yongxing Chemical** in Ningbo, Zhejiang Province is now the largest of its kind in China, with a capacity of 300,000 tpa. LG Chem expects the Chinese ABS market to grow 8.2% annually until 2005. December 17, 2002.

German auto supplier, **Mann+Hummel**, is to set up a JV in China with a subsidiary of **First Auto Works Group, Changchun FAW Sihuan Automobile Co.** Mann+Hummel and Changchun FAW Sihuan will invest a total of US\$25m in the venture, which will be named **Changchun Mann+Hummel FAW Filter Co.** It will start in May 2003 with an initial paid-in capital of US\$12m. FAW Sihuan said it will invest US\$4.8m in cash and assets for a 40% stake in the car filter manufacturing unit with Mann+Hummel Group supplying US\$7.2m for 60%. December 19, 2002.

**Nippon Steel and Shanghai Baoshan Iron & Steel Co.** will set up a world-scale factory in Shanghai to make high quality steel sheet for vehicle production. Investment in the factory, to start production in 2005, will add up to at least ¥100bn (US\$810m). European steel giant **Arcelor** may join the alliance and take a stake in the venture. December 8, 2002.

**Seiren Co.** of Japan will invest ¥3bn (US\$25m) to build a factory in Suzhou, China to manufacture materials for car interiors. The factory will produce a wide range of textiles, from those used in seat coverings to special materials used in airbags. It is due to open in January 2004. Seiren has already established a new subsidiary in China, capitalized at US\$10m, to run the factory. December 22, 2002.

**Shenyang Jinbei Automotive Co.**, which makes light trucks and *Blazer* SUVs in China with GM, plans to provide US\$134m of technology and assets to a van unit controlled by partner **Brilliance China Automotive Holdings.** Jinbei Automotive will provide the *M1* sedan technology, designed by Italian design and engineering company **Italdesign-Giugiaro**, and other technology to **Shenyang Jinbei Passenger Vehicle Manufacturing Co.** Shenyang Jinbei makes *Hiace* vans under license from **Toyota** and on November 29 unveiled a luxury MPV based on the design. Shenyang Jinbei and Brilliance China want to boost the capital of the van unit to US\$444m from US\$171m. Shenyang Jinbei owns 49% of the venture and China Brilliance (which expects to start a production JV with BMW next year) 51%. December 23, 2002.

**Ssangyong Motor** of South Korea wants to establish a JV vehicle assembly plant in China next year for the production of *Musso* and *Rexton* SUVs. It expects to take a 50% stake in the business in securing an agreement with **Jiangling Motors** early

next year. Ssangyong wants to establish a plant with initial annual capacity of 25,000 units in the first year building up to 50,000 by 2005 either by expansion or double-shifting. December 12, 2002.

**Tokico**, a Japanese supplier, has announced plans to build a factory in Suzhou, China, to manufacture brake parts. Construction on the US\$17m facility will begin this spring aiming for production to begin towards the end of 2004. A local subsidiary will be established in Suzhou this month to run the plant, capitalized at about US\$7.5m. Tokico will own 70% of the business with a Taiwanese brake manufacturer holding the remainder. The subsidiary will target an annual turnover of about US\$8.4m in 2005 and US\$12.5m in 2006. Tokico already has a JV factory in China manufacturing shock absorbers in Changchun. January 9, 2003.

Japanese tire maker **Toyo Tire & Rubber Co.** will establish a JV in Shanghai next month with trading house **Mitsubishi Corporation.** Reports say Toyo Tire, which since 1997 has used local agents to sell tires in China, wants to set up its own network to better exploit the rapidly growing auto market. The JV will have an initial capital base of US\$1m with Toyo taking a 60% stake and Mitsubishi the remaining 40%. The sales target is 200,000 tires in 2003/04, and 500,000 in 2004/05 (400,000 passenger cars tires and 100,000 truck tires). December 21, 2002.

**VW** has formally opened a US\$96m gearbox production joint venture in Shanghai. The German group owns 60% of the factory, with its two local partners, **Shanghai Automotive Industry Corp.** and **First Auto Works** each holding 20% percent. The gearboxes will be installed into locally built *VW Bora* and *Polo* cars. January 28, 2003.

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## INDIA

**Hyundai** will make India the sole global source for its *Santra* small car, shifting production from Korea to the subcontinent. The parent company will stop building the *Santra* towards the end of 2003. This strategic decision underlies an expansion plan at Hyundai Motor India that will be funded mainly by Rup14bn (US\$291m) of commercial borrowing and

by Rup3.5bn (US\$73m) from the unit's own resources. Currently, Hyundai India builds *Santrios* for the domestic market and exports to Europe at the rate of about 6,000 units a year. It is now looking at exports to Latin America and expects to be shipping 25,000 *Santrios* to overseas markets by 2004. Hyundai India is also considering an initial public offering (IPO) but will probably hold off until the **Maruti Udyog** IPO, scheduled for March 2003, goes through, in order to gauge the reaction to automotive stocks. December 30, 2002.

India's **Tata Telco** will build a small car for British automaker **MG Rover**. The model, which has not yet been named, will be based on Rover's design and engineering standards. The car will be sold throughout the UK and Europe next year. The *Indica* would continue to be marketed, in parallel, under Tata branding through its own distribution network. December 22, 2002.

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## INDONESIA

**Hino**, a Toyota group truckmaker, will spend about ¥3bn (US\$25m) to step up sales and production in Indonesia, one of its key offshore markets in Asia. Hino will invest around ¥800m (US\$6.82m) to build an assembly plant in Kota Bukit Indah, near Jakarta, with annual output capacity of 3,000 units. **Hino Indonesian Manufacturing** will focus solely on production once a separate sales and marketing company is established in April. This new company will be owned 40% each by Hino and local carmaker **PT Indomobil Sukses International**, and 20% by Japanese trading house **Sumitomo Corporation**. January 22, 2003.

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## JAPAN

**Daiwa Securities SMBC Co.** will invest ¥4bn (US\$33.8m) to take an equity stake of up to 49% in Japanese mold manufacturer **Ogihara Corp.** Last September American investment firm **Ripplewood Holdings LLC** abandoned plans to buy Ogihara because the founding family would not give up its controlling interest. Daiwa Securities SMBC Principal Investments Co. will inject capital by means of a private share placement this month. Ogihara says it will use the money to fund capital investments in Japan and the US. The management board of Ogihara will be bolstered by one full-time and one part-time director from Daiwa Securities as well as several outside planning experts. The strategic goal is to be in a position for a public listing in 2007. January 16, 2003.

**Jatco**, a **Fuji Heavy Industries** supplier, will set up a company to develop and produce continuously variable transmissions (CVTs) for minicars and subcompacts. The new Japan-based business, **Fuji AT**, will be established as a 50-50 JV capitalized at ¥450m (US\$3.8m) and work out of Fuji Heavy's Oizumi plant. Fuji AT will develop CVTs for minicars and subcompacts in the 1,000cc-1,300cc capacity range. From 2005, about 10,000 units of the new compact CVTs will be produced each month. JATCO will market the transmissions. January 16, 2003.

**Mitsubishi Motors** has spun off its truck and bus operation in order to focus on the passenger car business. MMC's parent, **DaimlerChrysler**, will inject some ¥89bn (US\$759m) in March, to control a 43% stake in the new company, named **Mitsubishi Fuso Truck and Bus Corporation**, which has just started operations as an independent entity today. In addition, several companies in the **Mitsubishi group** will pay ¥31bn (US\$263m) for a combined equity stake of 15% in the new company. The deal leaves Mitsubishi Motors with a 42% stake in Mitsubishi Fuso Truck and Bus. January 5, 2003.

**Mitsui Mining & Smelting Co.** plans to make **Ohi Seisakusho**, a **Nissan** affiliated supplier, a wholly owned subsidiary in April 2003 by means of a stock swap. It will control about 20% of the global market for automobile door locks. Ohi Seisakusho manufactures a wider range of components,

including window regulator parts. Owing Oh Seisakusho also gives Mitsui, which currently does most of its business with **Toyota** and **Honda**, an entrée into Nissan. The takeover will enable Nissan to divest another of its affiliated suppliers. December 5, 2002.

**Nissan Motor**, continuing its policy of selling non-core assets to reduce debt, has announced the sale of most its shares in **Fuji Univance** to **IS Precision Machinery** and **Daido Steel**. Fuji Univance specialises in auto parts and transmission components for industrial machinery. It supplies a number of domestic and foreign carmakers, including Nissan. Of Nissan's 31.1% holding, 20.9% is being sold, with 11.6% being purchased by IS Precision and 9.3% by Daido Steel. IS Precision will become the lead shareholder in Fuji Univance, which employs 900 people and turned over ¥41.2bn (US\$351m) in 2002. January 30, 2003.

**Saint-Gobain**, the world's biggest glass manufacturer, will establish a sales venture in Japan this month with **Central Glass Co.**, to step up its marketing to Japanese automakers. The venture, named **Central Saint-Gobain**, aims to post ¥23bn (US\$190m) in sales in the year ending March 2004, according to a press release issued by Central Glass, which is Japan's third largest producer. Saint-Gobain will hold a 35% stake in the venture, while Central Glass will take 65%. December 17, 2002.

**Sumitomo Rubber Industries** will absorb two of its main subsidiaries, **Ohtsu Tire & Rubber Co.** and sporting goods manufacturer **Dunlop Japan**. The combined tire sales of Sumitomo and Ohtsu will make it number two in the Japanese market after **Bridgestone**, overtaking former number two **Yokohama**. The restructuring could be completed by next July, according to sources, who add that the Ohtsu brand will live on. Sumitomo Rubber turned Ohtsu into a subsidiary in November 2000 by increasing its equity holding to just over 50% but while there has been consolidation of back-end functions there has not been full integration. December 26, 2002.

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## KOREA

**GM Daewoo Auto & Technology** has finished work on a US\$100m plant with an annual capacity of 200,000 engines. The factory is located at an existing production complex in Changwon, South Korea. It has already started to build *T4* 1.0-litre engines for the *Matiz* small car and is slated to put 1.2-litre *T4* engines into production in February. December 27, 2002.

**Michelin** is to purchase a 10% stake in one of South Korea's biggest tire producers, **Hankook**, as part of a strategic alliance. The estimated amount of investment for the equity stake is W38bn (US\$33m). The alliance encompasses joint research and development, manufacturing and sales. In addition, Michelin will license its *PAX run-flat* tire technology to the Korean firm. Last November Hyosung Corporation agreed to buy Michelin's tire cord factory in the US on the basis of a seven-year supply deal worth US\$350m. January 28, 2003.

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## MALAYSIA

**Proton City**, the RM4bn (US\$1bn) assembly plant in northern Perak state, Malaysia, will roll out its first car in the third quarter of 2003. Construction recently restarted after a long delay in the wake of the 1998 financial crisis. The plant will be capable of producing 100,000 vehicles per year. The first car will be rolled out some point between June and September. January 20, 2003.

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## PHILIPPINES

Japanese supplier **Yazaki** says its new wire harness plant in the Philippines will start production next month. Output will be exported to Japan, the US and Europe. Through its local unit, **Yazaki Torres Manufacturing**, Yazaki invested US\$6.1m in the facility targeting an annual turnover of more

than PHP1.5bn (US\$27.6m) in the medium-term. The new Yazaki plant employs 2,000 people. Yazaki-Torres is the biggest producer of wiring harnesses in the Philippines. Its local customers are **Columbian Motor Corp, Ford, Honda, Mitsubishi, Nissan and Toyota**. December 29, 2002.

several advanced technologies while Thailand is strong in vehicle assembly. The logic behind the deal is that their respective strengths are complementary and not competitive. If the deal goes through assemblers in Thailand will procure more electronic parts in Singapore. At the same time they will expect controlled technology transfers and for Singaporean manufacturers to buy more sub-components from Thailand for products being shipped to China and other markets. December 13, 2002.

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## THAILAND

**Thailand** and **Singapore** are hammering out an agreement to work more closely in the automotive sector. The deal will be based on technology development, marketing cooperation and trade links. Singapore is strong in electronic parts and

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Charles Maynard, Managing Director

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## ABOUT BDA

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