

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

# ASIAN AUTOMOTIVE NEWSLETTER

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

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## CHINA

**Alpine Electronics**, the Japanese car audio specialist, will expand production in China by increasing output at two subsidiaries in Liaoning Province. Alpine will invest a total of ¥3bn (US\$24m) in the two units by March 2004. China's share of total Alpine production will rise from 25% to 40% by 2004. Overall, Alpine's ratio of offshore production will increase from 70% to 90%. (May 29, 2002)

**Auto Parts Holdings Sdn Bhd**, a wholly-owned subsidiary of Malaysian automotive component manufacturer **APM Automotive Holdings Berhad**, has formed a JV with **Hefei WinKing Asset Co Ltd (HWAC)** of China to manufacture and distribute automotive seats, interior parts and metal components in China. The new JV, **Anhui Winking Auto Parts Manufacturing Co Ltd**, will be 60% held by APM with the remaining 40% held by HWAC. The JV will be created with an authorized capital of US\$5m and an initial paid-up capital of US\$3m. Based in Hefei, China, Anhui Winking will begin supplying seats by Q4 2002 to **Jianghuai Automotive Group**, an associate of HWAC. Annual production capacity is 20,000 seat sets. (April 16, 2002)

**Delphi Corporation** of the US is reorganizing its **Packard Electric** divisional activities in China by consolidating three Delphi entities into a single JV. **Delphi Packard Electric Systems Co**, headquartered in Shanghai, is now the single entity throughout China for the division, consolidating all the manufacturing, engineering and administrative activities of **Delphi Packard Electric Shanghai**, **Delphi Packard Electric Baicheng** and **Delphi Packard Electric Guangzhou**. **San Lian**, formerly the 40% equity partner in Delphi Packard Electric Shanghai, now holds 20% of Delphi Packard Electric Systems Co. (April 15, 2002)

## INTRODUCTION

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

BDA is a corporate finance advisory firm which assists multinational clients to identify and execute 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.

We look forward to talking to you in the future. I am directly contactable via [cmaynard@bdallc.com](mailto:cmaynard@bdallc.com).

Charles Maynard  
Managing Director

**F-Tech** of Japan, an affiliate of **Honda Motor Co**, will begin production of suspension components and other parts in China in 2003. F-Tech holds a 73% stake in a new JV located in Guangdong Province, with the remainder of the equity held by local interests and Japanese trading company **Nichimen Corp**. The factory will be constructed with an initial investment of US\$16m and will mainly supply Honda. F-Tech expects the JV will generate US\$28m of sales by 2005. (May 22, 2002)

**Honda Lock Mfg Co**, an affiliate of **Honda Motor Co**, will build factories in China and Indonesia with a total investment of ¥6bn (US\$44m) in an effort to grow a lower cost production base in Asia. Honda Lock has taken a 65% stake in its China JV and will construct a 6,650 sqm facility. In Indonesia, the JV in which Honda Lock holds a 90% stake will build a 3,500 sqm factory in the suburbs of Jakarta. (May 20, 2002)

**Hyundai Motor** has created a US\$1bn JV with **Beijing Automotive Industry Holding Co (BAIC)** to establish a plant to produce 500,000 units per year by 2010. The new 50/50 JV, called **Beijing Hyundai Motor Co**, will have an initial output of 100,000 units starting with the *Sonata* mid-size sedan, the *Avante XD* compact and other Chinese market-oriented models as well as models developed by the JV will follow. Qualified parts suppliers will accompany Hyundai in its Chinese project, while an independent auto technology research center will be set up to support Beijing Hyundai. (May 1, 2002)

**Lear Corporation** of the US and **Xindi**, a subsidiary of **Yuejin Motor Group Corporation**, have created a JV in Nanjing to supply seat systems and wire harnesses for future vehicles to be manufactured in China by **Fiat**, **Iveco** and Yuejin. Yuejin is Fiat Group's production partner in China. The JV, **Nanjing Lear Xindi Automotive Interiors System Co ("Lear Xindi")** is Lear's sixth and largest JV in China and is expected to generate initial sales of US\$40m. Lear's existing business in China covers all of its product segments: seat systems, door panels, carpeting and headliners, and electrical distribution. Sales attributable to the six JVs are expected to exceed US\$150m by 2003. In 2001, Lear won a major contract from **Ford-Changan** to supply seats, interior trim and wire harnesses for

the Ford *Ikon*, which is due to be launched in China in 2003. **Lear Changan** in Chongqing, a JV between **Lear China** and local manufacturer **Changan Group**, will supply the seats and interior trim. **Lear - DCAC** in Wuhan, a JV between Lear and **Dongfeng Citroen Automobile Co Ltd (DCAC)**, will supply the wire harnesses. Lear first established operations in China in 1994 through its Lear-DCAC JV. In 1996 it set up **Jiangling Lear Interior System Co** followed in 1997 by **Lear Automotive Interior Trim Co** and **Songjiang Lear Automotive Carpet & Acoustics Co**, both located in Shanghai. **Lear Changan Automotive Interiors Trim Co** was established in 1998. (April 10, 2002)

**Nissan** has increased its stake in its nine-year old JV, **Zhengzhou Nissan Automobile Co** of China, from 5% to 30%. The JV builds *Datsun* brand pickups and a 3-ton truck developed by Nissan's local partner **Dongfeng Automobile Group**. This move strengthens Nissan's presence in the Chinese commercial vehicle market and Nissan expects to increase annual output of pickup trucks to 8,000 units in 2002 from 6,300 units in 2001. Nissan will also form a passenger car production JV with Dongfeng's subsidiary in Guangzhou, **Fengshen Automotive Co**. The four models considered for local production include the *March*, *Sunny* and *Cefiro* passenger cars and MPV. Fengshen expects production to begin in Q2 2003 with an initial volume of 100,000 units, increasing to 150,000 by 2006. Nissan will use updated Fengshen factories in Guangzhou, Guangdong Province, and Xiangfan, Hubei Province. Currently, Nissan's passenger car presence is confined to licensed production of the *Bluebird* sedan by Fengshen. 18,000 *Bluebirds* were produced in 2001 which the JV partners intend to increase to 40,000 units in 2002. (April 5, 2002)

**NOK Corp** of Japan will shift some production of rubber vibration isolators from Japan to China in an effort to lower costs. NOK has established a wholly owned manufacturing subsidiary in Wuxi, Jiangsu Province, to open a ¥1.7bn (US\$13m) factory - its fourth automotive facility in China - which will start production of torsional dampers Q2 2003. The sales target is ¥500m (US\$4m) within the first year, which will represent 5% of NOK's total revenue for the product. (April 7, 2002)

US steel products major **Timken** and **NSK** of Japan

have established a JV that will operate a new plant near Shanghai, China, to manufacture tapered roller bearings. Construction of the plant is to begin Q4 2002, and production is scheduled to start early in 2004. The 50/50 JV, **Timken-NSK Bearings (Suzhou) Co**, will specialize in single-row tapered bearings that are used in medium- to high-volume applications mostly used in automotive and industrial applications. High-cost production facilities in the UK and Japan will close in light of expansion in China. The JV will supply Timken and NSK with bearings made to each company's specifications and will be marketed independently under their respective brands. (April 9, 2002)

**Sichuan Toyota Motor Co**, a subsidiary of **Toyota Motor Corp**, based in Chengdu, China, intends to manufacture SUVs by 2004. The subsidiary began manufacturing small *Coaster* buses in 2000 but only produced 2,000 units in 2001 even though it has an annual capacity of 10,000 vehicles. (May 20, 2002)

**Toyota** affiliate, **Aichi Steel Corp**, will produce forged vehicle parts in China in partnership with local firm **Shanghai Automotive Industry Group**. Production is scheduled to begin in 2004 and will be the firm's first foray into the China market. The JV will manufacture a variety of forged parts, including crankshafts, using upgraded facilities belonging to Shanghai Automotive. Shanghai Automotive already collaborates in car assembly with **Volkswagen AG (VW)** and **General Motors (GM)**, while Toyota has affiliations with rival Chinese group **Tianjin Automotive**. Aichi hopes to supply steel products to both GM and VW, as well as Toyota's plant in Tianjin and some of the firm's other factories around Asia. About 20 Toyota-affiliated auto parts makers are already operating in Tianjin, either through JVs with local partners or independently. Toyota's auto production in Tianjin, however, stands at only 30,000 units a year compared with VW's 230,000 units in 2001. (April 1, 2002)

**Toyota Motor Corp** will procure steel sheet from Chinese steel maker **Shanghai Baoshan Iron & Steel** for locally produced passenger cars. This is the first time a Japanese automaker in China has used large amounts of local steel. (April 9, 2002)

**Toyota Motor Corp** will produce a local version of the *Platz* subcompact with **Tianjin Automotive**

**Industry Corp**. Production is scheduled for Q3 2002. Toyota expects to build 30,000 units by 2006. (April 9, 2002)

**Unisia Jecs Corp** of Japan, an affiliate of automaker **Nissan**, will establish a ¥2bn (US\$15m) production unit in Guangzhou, China to serve as a global production hub for a number of engine parts. The Guangzhou facility is scheduled for operation in January 2004 with an initial production mix of water pumps and valve parts. Once the China plant is operational, Unisia Jecs will shut down a parts factory in Atsugi, Japan, shifting some of its output to other domestic plants and to China. This move is part of an overall plan to follow Nissan in its efforts to control costs and manufacture in China. (April 1, 2002)

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## INDIA

**General Motors (GM)** is considering building the *Chevrolet Metro* small car and *Cavalier* family car in India at a plant in Halol, Gujarat in an effort to price vehicles competitively by taking advantage of local production. GM will also introduce some Isuzu models, starting with the Isuzu *Panther AUV* in 2003. The *Panther*, currently built by Isuzu in Indonesia, will be priced in the the Rs500,000 to Rs800,000 (US\$10,235 to US\$16,375) bracket to compete against the Toyota *Qualis*. (April 2, 2002)

The **India Government** has initiated a plan to gradually reduce its stake in national automaker **Maruti Udyog** as part of a national privatization program. The government has decreased its investment so that long-time JV partner, the **General Motors**-affiliated Japanese automaker, **Suzuki Motor Co**, now has a controlling stake of 54% in Maruti, up from 50%. The government sold its stake in the rights issue for US\$81m and plans to gain a total of US\$495m by 2004 when Maruti is scheduled for an initial public offering. At that time, the government's stake will fall to 25%. The acquisition increases Suzuki's revenues by 13% and its local market value by one-sixth. In exchange for the increased stake, Suzuki has designated India as a global small car production base. (May 16, 2002) **Toyota Motor Corp** will manufacture automatic

transmissions in India by 2004 to supply a local JV and other assembly plants in South East Asia, in addition to its previously announced US\$400m medium-term investment program for India. The projected investment is US\$15m to US\$22m and the factory will be built adjacent to Toyota's Kirloskar's assembly plant on the outskirts of Bangalore. First-year output would be at least 50,000 transmissions. The move will prompt more Toyota group suppliers to set up shop in India and encourage those already on the ground, such as **Toyoda Gosei** and **Toyota Iron Works**, to expand their operations further. (April 9, 2002)

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## JAPAN

**Central Glass Co** of Japan and French multinational **Saint-Gobain** will form a JV to produce automotive glass to supply leading Japanese vehicle manufacturers. The JV will be established by Q2 2003 and will allow for the sharing of some R&D resources, some manufacturing facilities and an integrated marketing and sales operation for Japanese automakers. Central Glass operates autoglass plants in Japan, Taiwan, Thailand, and the US but has no presence in Europe. The French firm produces autoglass in Latin America, Thailand, Korea and Europe but has no plants in Japan or the US. Central Glass' 2001 automotive sales were ¥33bn (US\$252m) while Saint-Gobain derives US\$4bn from the sector. Together the companies account for one-fifth of the global autoglass market. (April 22, 2002)

**Hitachi** will make affiliate supplier **Unisia Jecs Corp** a wholly owned subsidiary in October 2002 through an equity swap. Currently, **Nissan Motor**, Hitachi and **Robert Bosch** have respective equity stakes of 25%, 17% and 10%. Both Bosch and Nissan will sell their stakes to Hitachi in order to concentrate on their core businesses. Unisia will delist from the Tokyo Stock Exchange's first section on September 25 and change its name to **Hitachi-Unisia Automotive**. Unisia is a leading drivetrain components and engine control systems manufacturer. Hitachi wants to leverage Unisia's capabilities with its own semiconductor technology to offer advanced electronic components for the next-

generation of passenger cars. Hitachi, after the Unisia transaction, will have an automotive turnover of ¥700bn (US\$5bn), making it the third largest auto supplier in Japan after **Denso Corp** and Bosch. Hitachi has automotive sales of ¥500bn from batteries, navigation systems and powertrain systems for electric and hybrid vehicles. (April 19, 2002)

**Mitsubishi Materials Corp** has created an agreement with **Sinterstahl**, a German manufacturer of sintered parts for use in vehicle engines and other products. The terms include a mutual supply on an OEM basis and joint development and production. Mitsubishi Materials has factories in Japan, Malaysia and the US while Sinterstahl's operations are confined to Europe. Mitsubishi Materials, the leading nonferrous metal smelter in Japan, expects turnover from sintered parts to increase 19% to ¥32bn (US\$257m) by 2005. (May 29, 2002)

**NEC Corp** and **Fuji Heavy Industries**, both of Japan, have established **NEC Lamilion Energy** to develop high-performance batteries for hybrid cars by 2006. The JV aims to develop by 2005 a family of low-cost lithium ion batteries ready for mass production and sale to automakers in Japan and abroad. NEC will have majority ownership in this 51/49 JV capitalized at ¥490m (US\$4m). NEC provides expertise in laminate manganese lithium ion cells while Fuji Heavy contributes voltage control technology for automotive battery packs. The aim is to develop lithium ion batteries that cost about the same as the currently used nickel-hydrogen batteries but with superior voltage and durability. (May 14, 2002)

**Toyota Group** commercial vehicle manufacturer **Hino Motors** will form a JV with French automaker **PSA Peugeot Citroen** to produce small buses. Peugeot will import into Japan 100 *Boxer* light commercial vehicle chassis and low-emission diesel engines each year. Hino will then put on the bodies and market the vehicles as 20-seat buses to supply the growing demand from taxi companies and local government authorities. (April 21, 2002)

**Toyota Motor Corp** will supply **BMW** with diesel engines for the German firm's *Mini* in 2003. The agreement provides for the supply of between 10,000-20,000 engines each year. Engines will be

shipped from Japan to the *Mini* production center in the UK in the first phase until Toyota's diesel engine factory in northern France begins production of the *Mini*. The plant currently makes the *Yaris (Vitz)* small car. (May 13, 2002)

**Toyota Tyre & Rubber Co**, Japan's fourth largest tire manufacturer, has ended a relationship with German tire major **Continental**. The two firms have exchanged technology for a decade but Continental recently signed an alliance with Toyota Tyre's domestic rival, **Yokohama Rubber**. In addition to the Yokohama alliance, Continental also has an agreement with Japan's number one tire maker **Bridgestone** to develop run-flat tires and also has JVs with brake supplier **Nisshimbo** and suspension specialist **Kayaba Industries**. (April 3, 2002)

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## KOREA

**General Motors (GM)** of the US, **Daewoo Motor Co** of Korea and the **Korea Development Bank** acting on behalf of the **Daewoo Motor Creditors Committee**, have signed definitive agreements for the establishment of a new automotive company. GM will invest US\$251m for a 42% stake in the new unnamed entity, but will continue to use the Daewoo brand name in Korea. Daewoo creditors will hold a 33% stake while certain of GM's business partners will share the remaining 25% equity interest. The assets to be contributed to the new company include a total of nine overseas subsidiaries and three manufacturing plants. (May 1, 2002)

**Lear Corporation** of the US acquired a 29% stake in **Hanyil Co**, a Korean publicly-traded supplier of automotive seats. Hanyil currently supplies seats to the Korean automakers **Hyundai Group**, **Kia Motors Corp** and **Ssangyong Motor Co**, employing 200 people at its two factories in Kyungju and

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Ch'onan. The company had 2001 sales of US\$64m. (May 2, 2002)

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## MALAYSIA

**Auto Parts Holdings Sdn Bhd**, a wholly-owned subsidiary of Malaysian automotive component manufacturer **APM Automotive Holdings Berhad**, has formed a JV with **Fuji Seat Co Ltd (Fuji Japan)** to manufacture and supply seats to local carmakers/assemblers. The JV, **Fuji Seats (Malaysia) Sdn Bhd**, is 70% held by APM with the remaining 30% held by Fuji Japan. (April 1, 2002)

**UMN Corporation Sdn Bhd (UMWC)**, a wholly-owned subsidiary of **UMW Holdings Berhad**, and **Specialist Vehicles Limited (SVL)** of the UK, have terminated their JV, **UMW-Dennis Specialist Vehicles Sdn Bhd**, in light of the difficult market conditions. Following the termination of the JV, UMWC will acquire 34% of the equity interest in UMW-Dennis from UK-based **Dennis Group Limited**, the registered holder of SVL's shares in UMW-Dennis. With this transfer, UMW-Dennis will become a wholly-owned subsidiary of UMWC. UMW will continue to provide adequate service, warranty and parts support for vehicles built by UMW-Dennis, through its wholly-owned subsidiaries, **UMW Auto Parts Sdn Bhd** and **UMW Engineering Sdn Bhd**. Created in 1994, the JV manufactured body and chassis for buses and chassis for coaches. Recently, UMW-Dennis had only been involved in providing the necessary parts and service support for the *Dennis* buses sold in Malaysia. (April 1, 2002)

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## PHILIPPINES

The **Tariff and Related Matters (TRM)** technical committee of the Philippines is approving Japanese automaker **Honda's** application for preferential tariffs under the ASEAN Industrial Cooperation (AICO) scheme in order to encourage automotive exports. Honda's local subsidiary, **Honda Cars**

**Philippines (HCP)**, will be involved in cross-shipments with its sister companies in Thailand, Malaysia and Indonesia which will generate US\$45m annually in total trade. The TRM granted 3% to 5% preferential tariff on the importation of parts and components for four Honda car models involved in the project. (April 20, 2002)

and to meet Euro IV emission regulations. Production will be handled for the first 18 months by subsidiary **Denso Thailand** but in 2004 work will be transferred to **Siam Denso Manufacturing (SDM)**, a new subsidiary. Denso is investing Bht3bn (US\$54m) to increase output of common rail system to 250,000 per year. (April 19, 2002)

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## THAILAND

**Denso Corporation** of Japan will start manufacturing components for 1,800-bar common rail diesel engines in Thailand in Q2 2002. Denso, an affiliate of the **Toyota Group**, claims to be the first to develop and mass-produce diesel common rail systems capable of injecting fuel at 1,800 bar

**Kayaba Industry Co** of Japan will increase production capacity for shock absorbers in Thailand by 170% from current levels to four million units in 2004 in reaction to plans by Toyota, Honda and other major auto makers to boost output in Thailand over the next years. The majority of vehicles produced will be shipped to North America. Kayaba's US\$5m factory is under construction and will come online in 2003. Its existing plant, **Siam Kayaba Co**, was established in 1969 and will be retooled to specialize in motorcycle shocks. (April 2, 2002)

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Charles Maynard, Managing Director

Delphine Hou, Analyst

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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. BDA helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul, Shanghai, Taipei and Tokyo. 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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