

# ASIAN AUTOMOTIVE NEWSLETTER

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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

**Aisin AW Co** and **Fujitsu Ten**, both **Toyota Group** suppliers, have announced plans to set up a JV in Beijing with local software firm **Golden Software Co**, a subsidiary of **China DaTong Industry Co**, to develop and market car navigation products in China. The JV will start with US\$4m of working capital. Golden Software Co will own 55% of the equity. Aisin AW, Fujitsu Ten and trading company, **Yamada Corp**, will each hold a 13.1% stake. Fujitsu Ten's Chinese subsidiary will own 5.7%. Aisin AW and Fujitsu Ten will design and develop products in Japan, loading them with map software developed in China and marketing them to China-based vehicle manufacturers. The target is to build annual sales up to 60,000 units by 2006. (August 6, 2002)

**Araco Corp**, a seat manufacturer with close ties to **Toyota Motor Corp** has set up a JV to make automotive seat covers in Ningbo, China, along with **Toyota Tsusho Corp** and other parties. Production will begin in spring 2003 at a US\$8m factory. The turnover target for FY2006/07 is ¥5bn (US\$42m) by which time it hopes to equip half a million cars each year. Araco's mid-term goal is to increase global market share from 5% to 10%. (August 6, 2002)

**Autoliv** will establish its sixth JV in China with **Maw Hung Industrial Corporation**. The JV, **Autoliv (Changchun) Maw Hung Vehicle Safety Systems Co**, will manufacture seat belts, airbags, and other safety products. Swedish Autoliv will own 59% and Maw Hung 41%. This JV will acquire **Changchun Engley**, formerly know as **Harbin Engley**, at the beginning of next year to increase its safety product offerings. (September 11, 2002)

**Daido Metal** and **Taiho Kogyo** will separately increase production of automotive bearings in China, initially targeting Japanese automakers with local assembly operations. Daido Metal, based in Nagoya, Japan, is in the process of establishing a wholly owned subsidiary in Suzhou, Jiangsu Province, to produce forged precision bearings for use in engine pistons. Taiho Kogyo is in the final stages of selecting a site for its plant and will decide later whether to establish a JV or a wholly owned subsidiary. (August 25, 2002)

**First Engineering**, the Singaporean manufacturer of precision molds and plastic components, has spent just over US\$1.8m to lift its stake in a Chinese supplier from 51% to 65%. The Chinese JV in Guangzhou, is a sub-supplier to **Delphi**. In a statement to the Singapore stock exchange, First Engineering said the investment would strengthen its foothold in the southern part of China. (September 30, 2002)

**Ford Motor Co** announced that it would likely procure US\$1bn worth of automotive parts from suppliers based in China by mid-2003. It is currently undergoing a major restructuring and is boosting its presence in China to cut costs. (September 17, 2002)

**GMAC**, a wholly owned subsidiary of **General Motors**, has emerged as the strongest of all applicants to gain the first license to enter China's car finance market. It would be the first foreign company to launch a Sino-foreign JV auto financial service company. GMAC has signed a letter of intent with the **Shanghai Car Financial Service Company** for launching a JV and they are waiting for China to implement rules on the management of auto financial service companies. (August 22, 2002)

**Mazda** will launch its new midsize *Atenza* in China, farming out assembly to **First Auto Works Group Corp's** Changchun factory. The Chinese government has authorized **FAW Car Co** to start production in March 2003 using assembly sets supplied by Mazda. The sales volume is expected to reach 15,000 units in 2003. Mazda already assembles its *Premacy* and 323 (*Familia*) at **FAW Hainan Motor Co (FHC)** in Hainan, China. (August

5, 2002)

**Nissan Diesel** has confirmed a desire to strengthen ties with **Dongfeng Motor** as part of a new business plan to reduce interest-bearing debt 40% to ¥240bn (US\$2bn) by March 2006. Advance information suggested the plan would target a 30% reduction. Yen-denominated interest-bearing debts are estimated at ¥400bn (US\$3.7bn). The new strategy will see Nissan Diesel diverting resources away from the domestic truck market and putting more effort into emerging markets where there is greater growth potential. The new plan targets an operating profit margin of 5.5% in the year to March 2006, compared with 3.1% in 2001/02. Last year the company's group net profit rose to ¥610m (US\$5m) but suffered an 8.1% fall in group turnover to ¥371bn (US\$3bn). (September 23, 2002)

In a breakthrough move, **Nissan Motor Co** will spend US\$1bn to buy a 50% stake in China's **Dongfeng Motor Corp** resulting in a 50-50 JV with estimated production of 550,000 cars, trucks, and buses by 2006 and 900,000 by 2010. Nissan plans to invest an additional US\$250m over the next four years. Not included in the deal are the JVs that Dongfeng has already established with **PSA Peugeot Citroen Group** and **Honda**. (September 19, 2002)

Japanese supplier **NSK** will establish a holding company and a parts manufacturing subsidiary in China aiming to triple turnover generated by its China operations to ¥60bn (US\$508m) by 2005. Both entities will be wholly owned. The holding company, which is expected to have a capital base of US\$30m, will be in Shanghai. It will oversee all production and sales functions in the China market. The manufacturing subsidiary will be located in Guangdong Province. Investments in this unit are expected to amount to ¥2bn (US\$16.3m). Production is slated to begin in April 2004. (August 25, 2002)

Japanese bearing manufacturer **NTN Corp** will establish a JV in China to manufacture universal joints with Taiwanese automaker **Yue Loong Motor Co**, **Nissan's** assembly partner. The JV will be established in October with the intention of selling

to Japanese, European and US automakers operating in China. The annual sales target is 600,000 joints by 2005 and turnover of ¥3.5bn (US\$29m). Capitalized at nearly US\$10m, the new unit will be based in Guangzhou. NTN will own 60% and Yue Loong 40%. The plant should start production next June. About US\$14m will be invested into the factory over the next three years to upgrade facilities and increase output to 50,000 joints per month from an initial 20,000. (August 9, 2002)

**Peugeot-Citroen and Dongfeng Motors** plan to inject Euro140m (US\$137m) into their JV Wuhan factory in Hubei, China, to expand production. The factory has an annual capacity of 150,000 units but last year produced only 50,000 (a mix of *Citroen Picasso* and the *Fukang*, a three-box version of the old *ZX*). Chinese premier Zhu Rongji is expected to sign an agreement on behalf of the Chinese authorities to expand the JV when he visits France September 26, 2002. (September 25, 2002)

**Renault** will spend W120bn (US\$98m) annually through 2005 in Korean affiliate **Renault Samsung Motors** to reinforce its affiliate's competitiveness against other Korean automakers. Renault Samsung Motors will be developed as the Renault group's Asian market base, assuming the regional role of sales, research, and development. The additional capital will help introduce two more models to the currently available **Nissan Maxima**-based *SM5* and the new *Bluebird*-based *SM3*. (September 19, 2002)

Japanese supplier **Stanley Electric** will set up an automotive lighting factory in Guangzhou, China, with production beginning next May. The plant would produce headlights, rear lights and other lighting equipment initially for **Honda**, a co-investor. The manufacturing and marketing subsidiary will be capitalized at ¥1.9bn (US\$16m). Stanley will put up 60% of the total, leaving 30% to be funded by **Guangzhou Automobile Group Co** and 10% by Honda. The cost of land, factory construction and installation is estimated at ¥1.8bn (US\$15m). (September 4, 2002)

Japanese supplier **Tokico** will establish a brake

parts plant in southern China. It expects to have a firm plan and location in place by October 2002. A production subsidiary to manage the plant could be set up as early as the spring of 2003 with production getting underway in 2H 2004. The facility itself is to begin mass production in autumn of 2004. (August 6, 2002)

**Toyota** and China's **FAW Group Corporation (FAW)** will collaborate in China anticipating production of 300,000-400,000 vehicles per year by 2010. FAW and Toyota will put three types of vehicle into production: medium/large-class luxury sedans, minivehicles and medium/large-class luxury SUVs. The *T1* will be assembled in Tianjin, to launch October 8, 2002 with 60% local content and priced RMB130,000-RMB170,000 (US\$15,720-US\$20,555). This will be followed by a **Daihatsu** minivehicle – also built in Tianjin – to launch in mid-2003 with a production ceiling of 100,000 units. A plant in Changchun will build an SUV – almost certainly the *Landcruiser*, from mid-2003 and a second plant in Tianjin will manufacture the *Crown* and/or *Camry* at the rate for 30,000 units per year from mid-2005. (August 30, 2002)

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## INDIA

**Delphi** is tripling the size of its offices and test laboratories, in accordance with the second phase of its Technical Center expansion in India. Staffing will increase to more than 350 engineers. Located in the Bangalore International Tech Park, the facility develops embedded software in many of Delphi's product lines, including common-rail diesel engine management systems and advanced mobile multimedia systems. R&D work is also directed towards petrol engines, steering systems and braking control systems. (September 17, 2002)

To submit stories to future editions of this newsletter, please contact Terrence Giang in New York on 212.265.5300 or tgiang@bdallc.com.

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## INDONESIA

**Daihatsu Motor Co Ltd** will manufacture the nation's cheapest minivan starting in 2003, at a local JV, **PT Astra Daihatsu Motor**, according to the Nihon Keizai Shimbun newspaper. Initial production is targeted at 40,000 units a year. The vehicle will be based on the *Taruna* (known as the *Terios* in Japan), which is currently made by the JV. The new vehicle will sell for less than Rp100m (US\$12,000), making it the cheapest model in the country. (September 4, 2002)

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## JAPAN

**DaimlerChrysler AG** will buy a 43% stake in **Mitsubishi Fuso Truck & Bus Corp**, a commercial-vehicle spin off of **Mitsubishi Motors Co**, for Euro760m (US\$750m). MMC will spin off Fuso in early 2003 and hold 42% of the new company. Mitsubishi's plant in Kawasaki, Japan, will produce about 10,000 units per year equipped with emission reduction technology provided by DaimlerChrysler. The trucks will use its technology to reduce particulate emissions by 90% and NOX emissions by 50%. By pooling resources in the new company, the partners expect to cut production costs by at least 15%. Other Mitsubishi group companies, including **Mitsubishi Corp**, **Mitsubishi Heavy Industries Ltd**, and **Bank of Tokyo Mitsubishi**, will acquire 15% of the Fuso shares for Euro265m (US\$262m). DaimlerChrysler already owns 37.3% of MMC. (September 20, 2002)

**General Motors** is proposing to cancel its 49% shareholding in **Isuzu**, a Japanese truck and diesel engine maker, and it will pay ¥10bn (US\$80m) for a 12% stake in the recapitalized company. Under the proposal, GM will control Isuzu's offshore diesel engine units in return for an additional investment of ¥50bn (US\$420m). GM will also take a 60% stake in Isuzu's small displacement diesel engine factory in Poland and also lift its stake in **DMAX**, a diesel venture in the United States, to 60% from 40%. Isuzu's financial re-engineering would include a debt-

to-equity swap in which ¥100bn (US\$833m) of debt would convert to preferred equity, new funding from lenders and the rollover of some current debt. The new funding, likely to be in excess of ¥100bn (US\$833m), would help cover costs associated with a plan to shrink the payroll by 3,700 people in 2002/03. (August 15, 2002)

**Mazda** will transfer its assets in subsidiary **Mazda Earth Technologies (MET)** to **Sandvik Tamrock Japan**, a subsidiary of Swedish company **Sandvik Group** on November 1, 2002. Mazda continues to sell non-core assets in order to lower debt. MET produces **Toyo** brand construction equipment. (September 15, 2002)

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## KOREA

**Daewoo Motor Co's** restructuring plan was tentatively approved by a South Korean court, clearing the way for **General Motors Corp** to start a JV to take over Daewoo's major operations by mid-October. Under the plan, Daewoo Motor will repay debts owed to financial company creditors with cash and securities in trust. For suppliers, the repayment will consist of cash and a debt-to-equity swap. **GM Daewoo**, the new JV, will assume 24.8% of Daewoo Motor's debt to these suppliers. To affiliated suppliers, Daewoo Motor will repay with a greater percentage of cash and debt-to-equity. GM Daewoo will assume 21.4% of Daewoo Motor's debt to the affiliated suppliers. Separately, Daewoo Motor will repay 15.4% of its W1.5tr (US\$1.3bn) in collateral-backed debt with cash. Its main creditor Korea Development Bank said earlier that Daewoo's total liabilities are about W19tr (US\$15bn). The restructuring plan also includes splitting its operations into five parts: the new JV GM Daewoo, its Bupyong plant, a truck manufacturing plant in Kunsan, a bus manufacturing plant in Busan, and its overseas operations excluded in GM's acquisition. (September 15, 2002)

**DaimlerChrysler AG** will exercise an option to purchase a 50% share in **Hyundai Motor Co's** commercial vehicle division in a deal valued at Euro400m (US\$395m). The company said it should

be complete by the end of the year. The JV will be part of **Daimler Hyundai Truck Corp** that includes a previous engine JV between the two firms, and will make trucks, buses and components. DaimlerChrysler already owns 10% of Hyundai Motor Co. (September 20, 2002)

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## MALAYSIA

**Daihatsu** aims to double annual car production at its JV in Malaysia to 250,000 units by the end of 2007 to meet South East Asian rising demand, according to company sources. The company expects to invest about ¥7bn (US\$54m) next year to expand production facilities at **Perodua Auto Corporation**, in which it now has a majority stake. Major outlays will be on a steel-sheet processing line and better welding equipment. (September 22, 2002)

**DaimlerChrysler AG** announced the incorporation of a JV with **Cycle & Carriage Bintang Bhd**, its longtime distributor, to manage the wholesale distribution of the **Mercedes-Benz** brand of cars, trucks and vans in Malaysia. DaimlerChrysler will hold 51% of the JV, which will take effect from Jan. 1, 2003, once Malaysian regulators have approved the transaction. (September 6, 2002)

Malaysian auto company, **DRB-Oriental-Honda Sdn Bhd**, has been renamed **Honda Malaysia Sdn Bhd** to strengthen its links to the **Honda** brand. The shareholding structure of the company, a JV between **Japan's Honda Motor Co Ltd (HMC)** and Malaysia's **DRB-Hicom Bhd (P.DRB)** and **Oriental Holdings Bhd (P.ORH)**, may change as Honda plans to raise its stake to 51% from 49% while DRB-Hicom's stake is cut to 34%. Oriental's stake would remain at 15%. (September 9, 2002)

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## PHILIPPINES

**Ford Motor Philippines** plans to invest an additional US\$13.5m in its operations to support its newly launched export program of completely built-

up units (CBU). Ford's new sports-utility vehicle (SUV), the *Escape*, will be produced at its local Santa Rosa plant for export to Thailand and Indonesia, as well as for the domestic market under the ASEAN Industrial Cooperation (AICO) scheme. Ford's export targets for FY2002, 2003, 2006 are 6,000; 12,000 and 65,000 units respectively. (September 10, 2002)

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## TAIWAN

**Aeolus Automobile Corp**, in which **Yulon Motors** has a 40% stake and **Dongfeng Motors** 60%, plans to expand car production in China in the wake of **Nissan's** US\$1bn alliance deal with Dongfeng Motor. It plans to produce 150,000 cars by 2004, up from about 40,000 (based on the Nissan *Bluebird*) currently produced. Nissan and Dongfeng say they are looking to achieve annual output of 550,000 vehicles by 2006 and 900,000 with ten years. (September 22, 2002)

The **Southeast Automotive Industry Co**, a JV between the **Fuzhou Automotive Plant** of Fujian **Province Industry Group** and the **China Motors Corporation** of the **Taiwan Yulon Motor Co Ltd**, is seeking approval to produce *Lancer MG* cars in Fujian, China. The auto firm plans to produce to two models of Lancer MG and plans to inject more than US\$80m in the project. (August 16, 2002)

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## THAILAND

**Aisin AI Co**, the subsidiary of **Aisin Seiki**, will purchase all the shares of **Mazda Engineering Co (Thailand)**, currently a wholly owned subsidiary of **Mazda** that specializes in manual transmission. It will become Aisin AI's first wholly owned offshore subsidiary. (September 9, 2002)

**Nifco** has set up its first wholly owned subsidiary outside Japan. **Nifco (Thailand)** will sell precision plastic parts and fasteners to the automotive and electrical industry. The new unit adds to the firm's existing Thai factory, **Union Nifco**, in Bangkok.

(August 26, 2002)

**Toyota Motor Corporation (TMC)** is transferring all of its global pickup production outside of North America to Thailand. Output capacity for pickup trucks at **Toyota Motor Thailand (TMT)** is expected to double to 200,000 units by mid-2004 creating a total of 10,000 jobs at TMT and its local suppliers. Of the total, some 100,000 units - overwhelmingly one-ton pickups - would be exported, at a value of some Bht40bn (US\$923m). Additionally, TMT will manufacture around Bht10bn worth of components for export to other Toyota plants around the world. The expansion centres on pickups, with major export markets including the Middle East and southern Africa. Plans for other models remain fluid. (September 24, 2002)

**Tsubakimoto Chain** of Japan opened its first factory in Thailand after establishing a local subsidiary earlier this year. **Tsubakimoto Automotive (Thailand)** was established earlier this year with paid-up capital of Bht60m (US\$1.4m) as a wholly owned subsidiary. The subsidiary will provide high quality timing drive systems to the local and ASEAN market. (August 26, 2002)

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Charles Maynard, Managing Director

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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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