

Market Report



Chinese Automotive Market: Passenger Cars, Components and Aftermarket

2010 - 2012

February 2010

Globis GmbH

Möllendorffstr. 52, 10367 Berlin, Germany

T.: +49 (0)30 4005 4914

F.: +49 (0)30 4005 4928

www.globis-consulting.com

Table of Contents

TABLE OF CONTENTS	2
LIST OF FIGURES	5
LIST OF TABLES	6
1. SUMMARY	7
1. COUNTRY BASICS	10
1.1. Economic Development	11
1.2. Regional Economic Development	15
1.3. Trade Agreements	18
2. CHINESE PASSENGER CAR MARKET	19
2.1. Chinese Car Parc	19
2.1.1. Structure of Car Parc by Age	21
2.1.2. Structure of Car Parc by Brands and Models	23
2.1.3. Car Parc in Regional Markets	24
2.2. Passenger Car Sales and Imports	27
2.2.1. Size of Market	27
2.2.2. Market Characteristics New Cars Market	30
2.2.3. Sales Drivers for New Cars	38
2.2.3.1. Economic Growth and Income Levels	38
2.2.3.2. Import regulations and tariffs	39
2.2.3.3. Used Car Imports	39
2.2.3.4. Government Regulations and Changing Regulatory Environment	41
2.2.3.5. Car Financing	44

2.2.3.6.	Dealership Networks / Distribution Systems	45
2.2.3.7.	Consumer preferences	50
3.	CHINESE AUTOMOTIVE INDUSTRY	54
3.1.	Major Chinese Automotive Companies.....	56
3.1.1.	Beijing Automotive Industry Holding (BAIC)	58
3.1.2.	Brilliance	59
3.1.3.	BYD Auto	60
3.1.4.	Chana	61
3.1.5.	Changhe	63
3.1.6.	Chery	63
3.1.7.	Dongfeng Motor (DFM)	66
3.1.8.	First Automotive Works (FAW)	67
3.1.9.	Guangzhou Automobile Industry Group (GAIG)	69
3.1.10.	Geely	71
3.1.11.	Great Wall	72
3.1.12.	Harbin Automobile Industry Group Company (Hafei)	73
3.1.13.	Jianghuai Automobile Company (JAC)	75
3.1.14.	Lifan	75
3.1.15.	Nanqi.....	76
3.1.16.	Shanghai Automotive Industry Corporation Group (SAIC)	77
3.1.17.	Zoyte / Jiangnan Automobile.....	78
3.2.	Suppliers.....	79
3.3.	Car Production and Components Market.....	85
3.3.1.	Car Production and Exports	85
3.3.2.	Components Market	87
3.4.	Chinese Aftermarket.....	89
3.4.1.	Market Segments Aftermarket (OE, IAM, Fakes).....	89
3.4.2.	Market Size Aftermarket.....	90
3.4.3.	Distribution System for Spare Parts.....	93
3.4.3.1.	Parts Importers and Distributors	95
3.4.3.2.	Service Stations	96

3.4.3.3.	Other Supply Channels	97
4.	OPPORTUNITIES AND RISKS	98
5.	APPENDICES	101
5.1.	Chinese Provinces	101
5.2.	Major Chinese Cities	103
5.3.	Overview over Chinese Car Models	105
6.	ABBREVIATIONS	119

List of Figures

Figure 1: Map of China's Provinces and Population Density, 2008	11
Figure 2: GDP Growth Rates, 2005-2012	12
Figure 3: GDP per Capita at Constant Prices, in USD, 2007-2012	13
Figure 4: Development of Average Monthly Wages, in USD, 2000-2007	14
Figure 5: Map of GDP-Distribution per Capita in Chinese Provinces, 2007	17
Figure 6: Development of Passenger Car Parc, in Mio. Units, 2005-2012	20
Figure 7: Passenger Car Penetration in Selected Asian Countries, in Cars / 1.000, 2009.....	21
Figure 8: Structure of Chinese Car Parc by Age, 2009.....	22
Figure 9: Sale of New Cars in China, in Mio., 2002-2012.....	27
Figure 10: Imports of New Cars, in 1.000 units, 2003-2009	28
Figure 11: Relative Sales and Import Structure of Car Market, 2000-2012.....	29
Figure 12: New Car Sales by Segment, 2009.....	36
Figure 13: New Car Sales by Typ of Buyer, 2005-2009.....	37
Figure 14: Volume of Second-Hand Car Market, in 1.000 Units, 2000-2009	40
Figure 15: Share of Loan Financing for New Car Purchase, 2002-2007	45
Figure 16: Credibility of Key Information Sources for Car Purchase in China, 2007	53
Figure 17: Export of Passenger Cars, in 1.0000 units, 2004-2009	86
Figure 18: Development of Production Volume, in Mio. Units, 2006-2012	87
Figure 19: Development of Components Market, in Bn. EUR, 2006-2012	88
Figure 20: Share of OE-, IAM-, Fake-, Used-Parts for Routine Service, 2008	89
Figure 21: Size and Development of Aftermarket, bn. USD, 2008-2012	92
Figure 22: Development of Aftermarket for Important Spare Parts, bn. USD, 2008-2012.....	93
Figure 23: Main Distribution Channels for Spare Part Distribution to Car Holders, 2008	94
Figure 24: Shares of Spare Parts Sales Channels for Non-OE in China, 2008.....	95

List of Tables

Table 2: GDP per Capita of China's Provinces, 2007	16
Table 3: Chinese Technical Inspection Regulations	22
Table 4: Most Popular Models by Top Brands in Chinese Car Parc, 2009	24
Table 5: Regional Car Parcs by Number of Vehicle and Car Penetration, 2009	26
Table 6: Top Selling Foreign Invested Car Makers, in 1.000 units, 2008-2009	31
Table 7: Top Selling Chinese Car Brands, in 1.000 units, 2008-2009	33
Table 8: Top Selling Minivans, in 1.000 units, 2008-2009	34
Table 9: Top Selling Models By Segments, 2008-2009	35
Table 10: Number of Car Dealership in Chinese Regions, 2007	47
Table 11: Dealership Networks of Major OEMs in China, 2008/2009	49
Table 12: Multi-brand Dealerships with National Award, 2007	50
Table 13: Sales of Top 10 Automotive Groups in China, in 1.000, 2007-2009	57
Table 14: Major Chinese Automotive Parts and Components Manufacturers	85
Table 15: Large Service Stations Chains in China, 2009	96
Table 16: Chinese Provinces by Inhabitants and Population Density	102
Table 17: Major Chinese Cities (in their Administrative Boundaries), 2008	104

1. Summary

China in 2009 has surpassed the U.S. as the largest car market worldwide. Given tremendous further growth potential, China is one of most attractive automotive markets in the world. While with a GDP per capita of 3.600 USD the average Chinese is not rich, on the one hand the share of people being able to afford a car is growing continuously. On the other hand, car prices do reflect the income situation of the average Chinese and for a few thousand USD one can buy a good quality new car.

China's automotive industry is still young – as are most automotive industries in Asia. China, however, adopted a different approach when planning its car market. It essentially prohibits the import of used cars and before WTO entry, tariffs on new car imports were close to 100%. Through these measures, China ensured the development of its local automotive industry. Through restrictive company laws it forced foreign car makers in minority joint ventures with local, state-owned companies and thereby ensured a know-how transfer necessary for long term development of an own industry. Also today, with China being member of the WTO, most cars sold are manufactured locally.

The car market is characterized through a variety of companies manufacturing cars as well as a very diverse parts making industry. China tries to consolidate the industry, which already resulted in some mergers and take-overs. Today, setting up a new car making business is strictly regulated. Manufacturers who already have a licence are therefore protected against new competition from within China.

China's car market has been growing at rates of around 35% over the last years. 2009 again marks a record year. The main drivers were government incentives. Some sources also state, that the government itself was buying up cars in order to stimulate the industry – this rumor has not been confirmed so far. While we believe in further growth of the Chinese market, growth rates will be far more moderate. For 2010, China already announced the continuation of most incentives introduced in 2009.

The market is still dominated through foreign brands manufactured in co-operation with Chinese joint venture partners. VW is the market leader in the passenger car segment. In recent years, purely Chinese companies have gained ground. Chery, BYD and Geely are the most prominent purely Chinese car making companies. In 2009, the BYD F3 was China's best selling car. Warren Buffet is invested in BYD. In addition, the Chinese joint venture partners of the foreign OEM are introducing their own models under their own brand names. SAIC, for example, acquired the rights and equipment necessary to build the Rover 75, now called Roewe. In general, there is great dynamics in the Chinese market: In 2008, JAC, a commercial vehicle manufacturer, announced its entry in the passenger car market. In the same year, Dongfeng, China's number three car maker, announced its plans to offer its own branded cars. In 2009, Sichuan Tengzhong Heavy Industry Machinery Co., a no-name in the automotive industry, bought GM's Hummer brand. Also in 2009, BAIC was intensively bidding for Saab (although unsuccessful) and Geely recently reached an agreement with Ford to take over Volvo. Also in 2009, Fiat announced a joint venture with GAIG, trying to re-enter the market after its unsuccessful attempts earlier on. End of 2009, French PSA-group announced a joint venture with Chana.

One of the major challenges for OEMs in China is its distribution structure for new cars. Almost all brands are trying to expand their dealer networks. They also often need to exchange dealers in order to increase the quality of its network. There are not many multi-brand-dealers in China.

Chinese consumers have a different taste as compared to European or North American consumers. (Conservative) Car design is important in order to be successful. Financing of cars is not the usually way of buying a car. Most Chinese save money and then pay in cash.

In line with the size of the car parc, which is slightly below 50 mio. passenger cars, the aftermarket is attractive. However, most cars are added only recently. The car parc is still young and the market for second hand cars is developing rather slow. Nevertheless, aftermarket businesses like independent service chains will be one of the most attractive segments in the automotive market for the next

years. In addition, car cosmetics is big in China and provides good opportunities for market entrants.

Distribution for spare parts is a difficult business in a large country like China. There is no dominating or even larger independent player in a market for distribution of spare parts. Due to regionally focused automotive clusters, China has to be seen as several markets. Distribution in these regions is easier to organize, but one needs new partners in very region.

In total, the car market, supplier market as well as the aftermarket are both highly attractive because of the huge market potential of over 1 bn. Chinese consumers. For companies with global ambitions, China is a must.

The major risk in China is the government's policy with respect to the automotive industry, the unreliable legal system and potential social unrest, driven by a strong distortion of wealth or by environmental problems. In addition, after flooding the market with cheap credits in 2009 to support the economy, inflation is a major challenge for 2010. There are already signs of a hyperinflation, with inflation rates increasing from October 2009 to December 2009 by 2,4 percentage points.

To prepare this market report, we used primary and secondary research methods: expert interviews and consumer surveys – in particular for the market of automotive parts, which is not covered yet by any substantial statistical data – and standard analysis of secondary information available on the topic. Based on our experience and developed competencies we have built proprietary market models to forecast future market development. The report was compiled in the period from September 2009 to January 2010 and hence includes statistical data until December 2009, if available.

Globis is a Germany-based consulting company with broad international coverage regarding strategy development, especially entry strategies into new markets.

1. Country Basics

Population (mio.)	1.321
Area (in 1.000 sq. km.)	9.640
Territorial arrangement	33 Provinces
Population density (inhabitants / sq. km.)	137
Life expectancy at birth (years)	73
Birth rate	approx. 1,2

Table 1: Main Country Facts

The People's Republic of China in many aspects is the dominant country in Asia. Its territory of approx. 9.650.000 sq km is almost three times the size of that of India, the second largest Asian country (not counting Russia as Asian country). Its population exceeds 1,3 bln, making it the largest country in the world in terms of population. India, which has the second largest population worldwide, is at 1,15 bln people.

Chinese population density of 137 inhabitants / sq. km. is below other Asian countries. This is mainly due to the Western provinces of China, with a large territory but a small number of inhabitants. In Eastern provinces, a density of over 400 is common.

The largest administrative city area is Chongqing with over 32 mio. people, followed by Shanghai with about 19 mio. people (see Appendix 5.2). The largest metropolitan area is around Shanghai, the Yangtze River Delta, with about 90 mio. people, followed by the Pearl River Delta (including Hong Kong, Macau) with around 50 mio. people.

Although China has adopted the one-child-policy, China's population is still growing at a rate of around 0,8% annually. Whereas this massive population provides for strong opportunities, it is also a real danger for China's and potentially the world's future. With China getting richer, all Chinese want their share of it – and this comes with all side effects like environmental problems and stronger competition for global resources.

The PRC is divided into several administrative layers: province, prefecture, county, township, and village. China's 33 provinces are divided into 22 "real" prov-

inces, five autonomous regions (among them Tibet), four municipalities (the largest cities Beijing, Shanghai, Chongqing, Tianjin), and two special administrative regions (Hong Kong, Macau) – for details on provinces see Appendix, chapter 5.1. One should not forget, that the PRC is claiming Taiwan as its own territory. At the prefecture level, China is divided into 333 regional units and there are more than 2.000 counties in China.

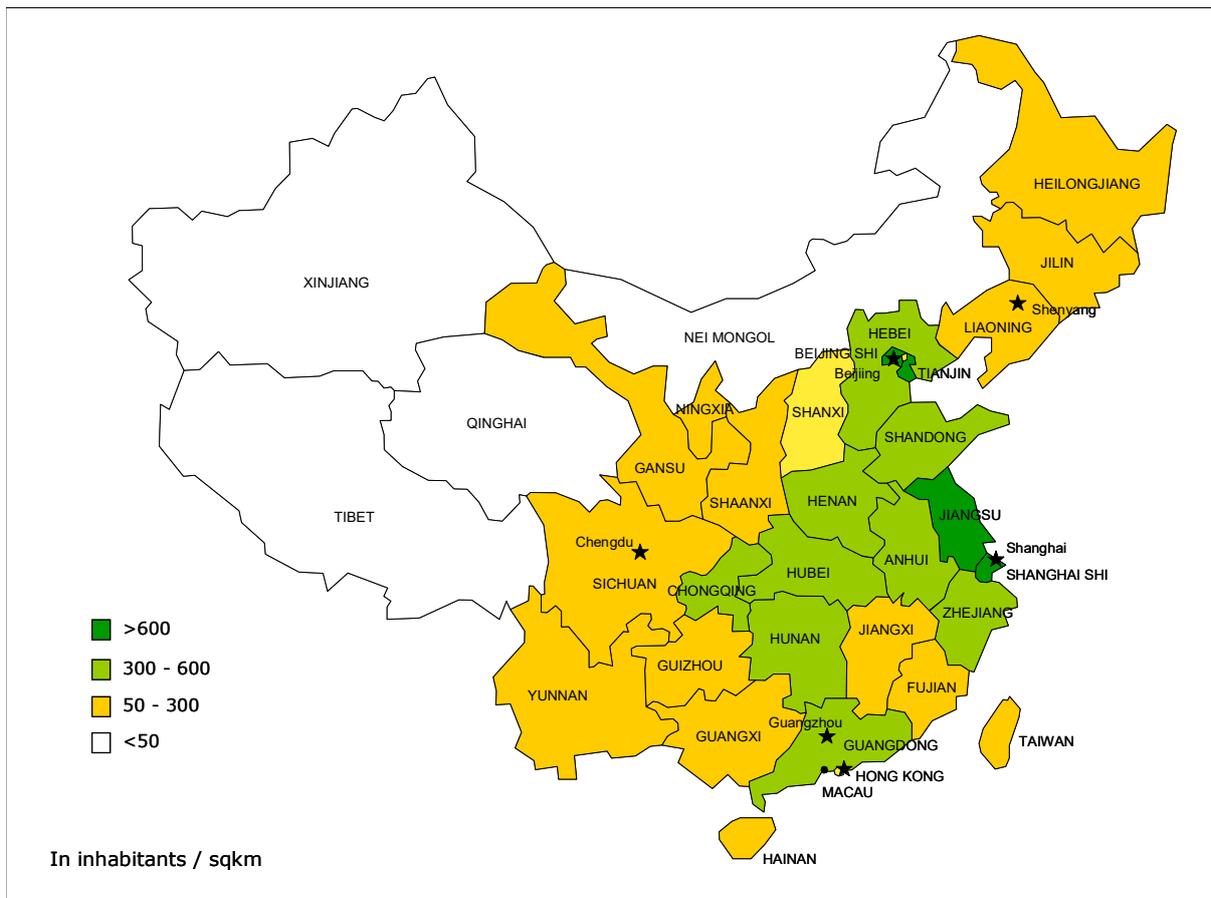


Figure 1: Map of China's Provinces and Population Density, 2008

1.1. Economic Development

China is growing rapidly and continues to grow despite the latest worldwide recession. From 2005 to 2008, China's GDP growth rate was at 11%. In South East Asia, China is leading the growth, followed by Vietnam. In 2009 and 2010, a slow down is expected (see Figure 2), but by far no recession as in many other coun-

tries. Beyond 2010, a recovery is expected, but depending on the recovery of the world economy in general.

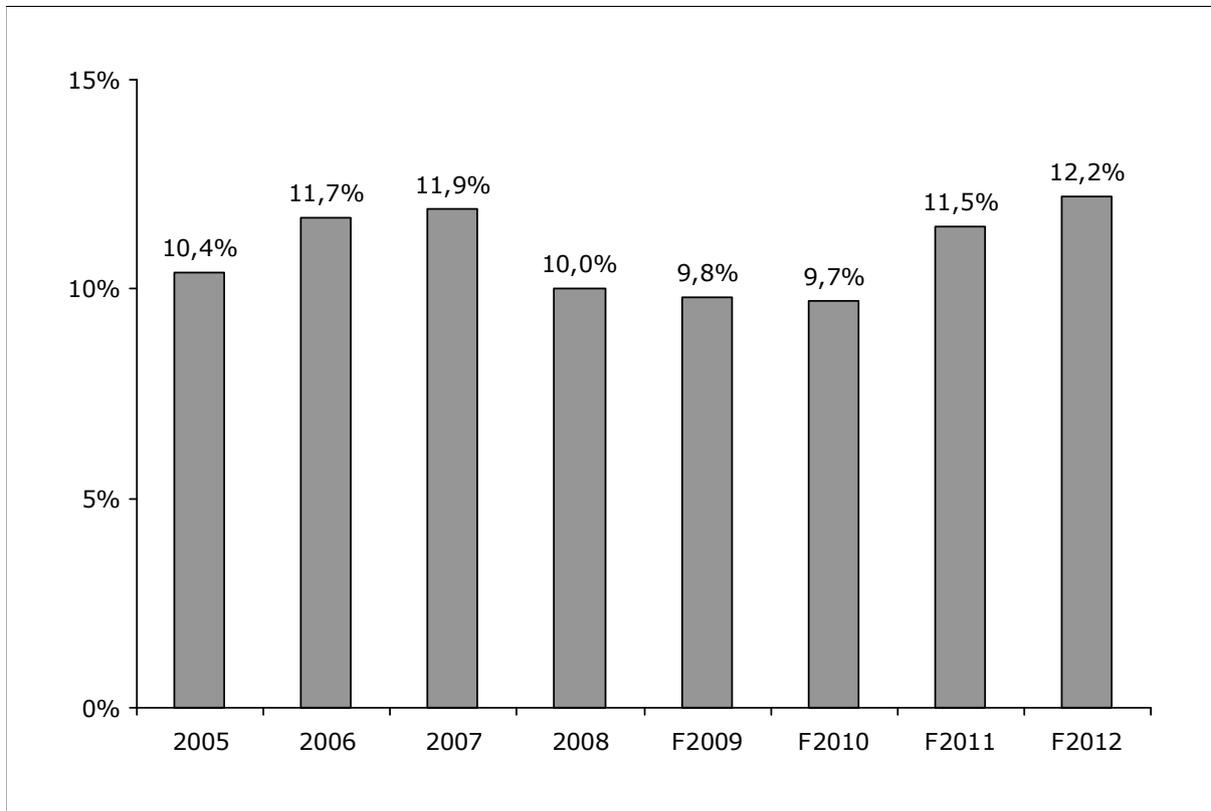


Figure 2: GDP Growth Rates, 2005-2012

Source: ADB, IMF

In accordance with this growth, GDP per capita is also constantly rising. On average, GDP per capita in China is still very low. However, at the East Coast, the numbers are substantially higher.

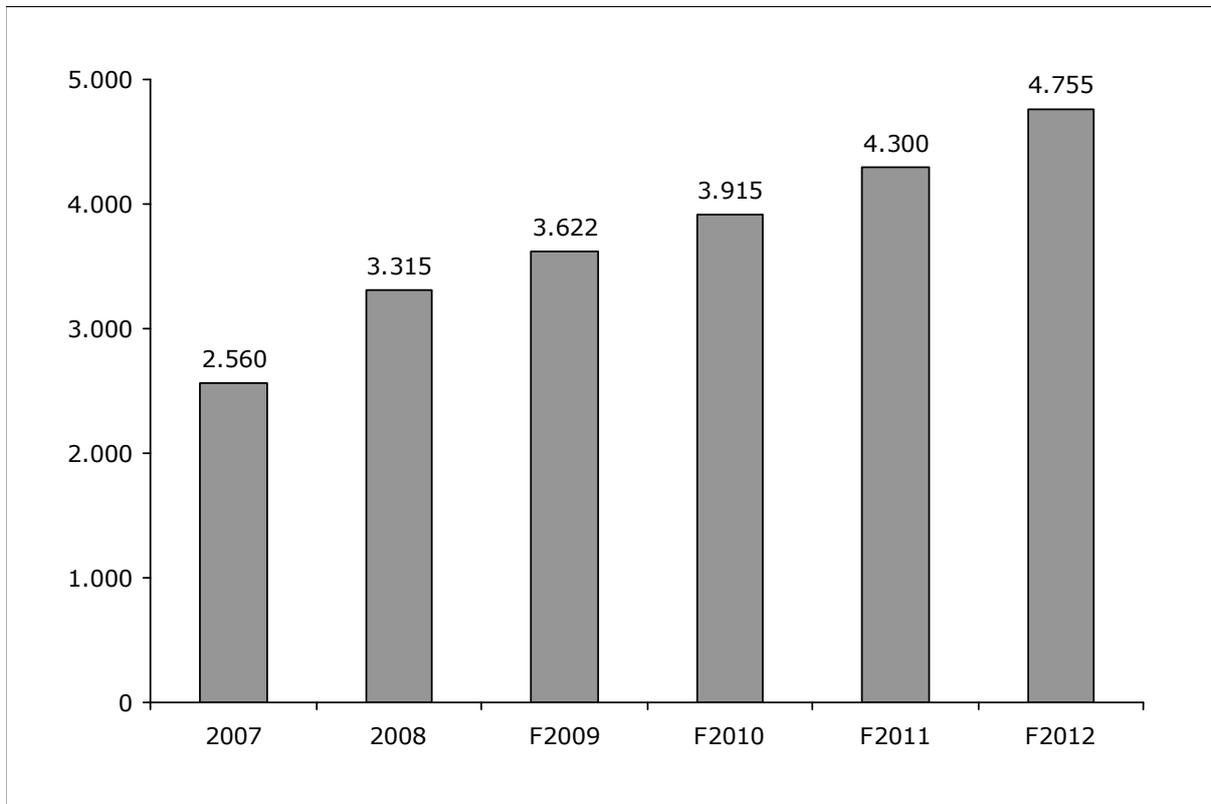


Figure 3: GDP per Capita at Constant Prices, in USD, 2007-2012

Source: IMF

China’s wage structure still makes it an attractive outsourcing location. With below 400 USD per month (see Figure 4, at 0,146 Yuan per USD), however, it is becoming more and more competition from other Asian countries. In Vietnam, for example, average annual income is below 600 USD.

Jobs requiring higher education are paid substantially better and in larger cities a well educated “average” person easily earns over 1.000 USD per month. The distribution of wealth is strongly uneven in China – corresponding to the initial opening policy of Chinese leaders, saying “let some people get rich before the others”.

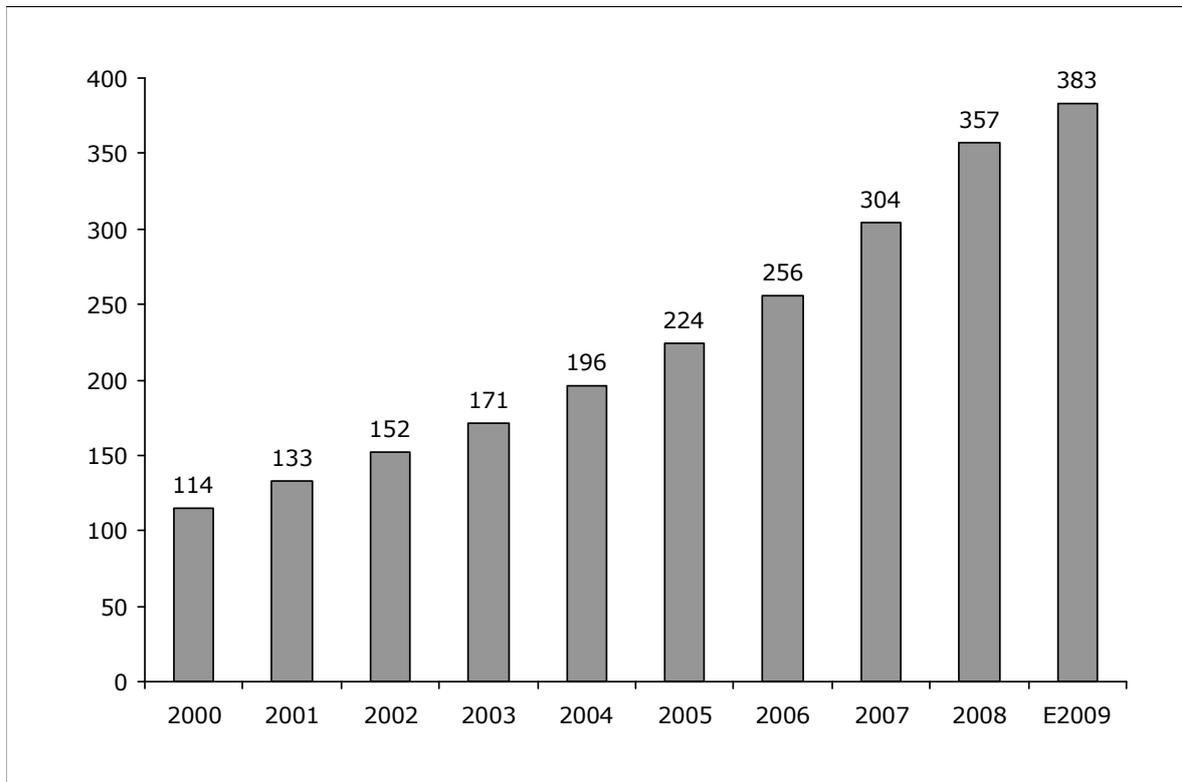


Figure 4: Development of Average Monthly Wages, in USD, 2000-2009

Source: Laborista, Statistical Yearbook, Globis Estimate

Inflation is somewhat of a problem in China, although it is not showing the strong inflation rates of other Asian countries. In 2007 inflation was around 5% and in 2008 it was at around 6%, with substantially lower rates in the last month of 2008. In 2009, there were a number of months with deflation of up to almost -2%, bringing the average rate close to 0%. End of 2009, inflation made a big jump to 1,9% in December 2009. Because the Chinese government flooded the market in 2009 with cheap credits, there is plenty of money available which is feared to lead to a hyperinflation in 2010. The Chinese government already implemented measures to reduce handouts of credits but it is uncertain whether this is enough to prevent higher inflation rates. Inflation therefore is a major risk for the short-term outlook in China.

In total, China is one of the most attractive economies in the world. The vast population provides for a vast market potential, although this might be difficult to realize. Constant growth of around 10% are almost nowhere to be found and the Chinese economy is relatively stable compared to Russia for example, since it is

not solely generated through resources. However, this is also one of China's problems: Its dependency of external resources to grow its economy.

1.2. Regional Economic Development

China's economic strength is varying strongly relating to geography. In general, the more West a province is, the poorer it is. The strategic location of the Eastern provinces along the coastline has been a key factor of economy development, especially for an economy which is an exporting nation and also needs to import large amounts of raw material.

Province	Population (in mio.)	GDP per capita in USD, ca. 2007
Shanghai	18,5	10.252
Beijing	15,8	8.494
Tianjin	11,5	7.712
Zhejiang	47,2	5.436
Jiangsu	75,5	4.833
Guangdong	113	4.818
Shandong	91,8	4.060
Fujian	35,1	3.778
Liaoning	42,2	3.661
Inner Mongolia	23,8	3.661
Hebei	68,1	2.929
Jilin	27,1	2.835
Hubei	60,2	2.343

Province	Population (in mio.)	GDP per capita in USD, ca. 2007
Heilongjiang	38,2	2.113
Sichuan	87,3	1.894
Shanxi	33,4	1.804
Henan	98,7	1.646
Hainan	8,2	1.608
Chongqing	32,5	1.608
Hunan	67	1.518
Qinghai	5,4	1.471
Shaanxi	37,1	1.442
Anhui	64,6	1.406
Jiangxi	42,8	1.382
Guangxi	48,9	1.316
Ningxia	5,9	1.316
Xinjiang	19,6	1.316
Tibet	2,7	1.316
Yunnan	44,2	1.147
Gansu	26,2	1.075
Guizhou	39	726

Table 2: GDP per Capita of China's Provinces, 2007

Source: Various, Globis

The leading provinces are the two best known cities in mainland China (without Hong Kong and Macau), Shanghai and Beijing. They are followed by mainly Eastern coastal provinces.

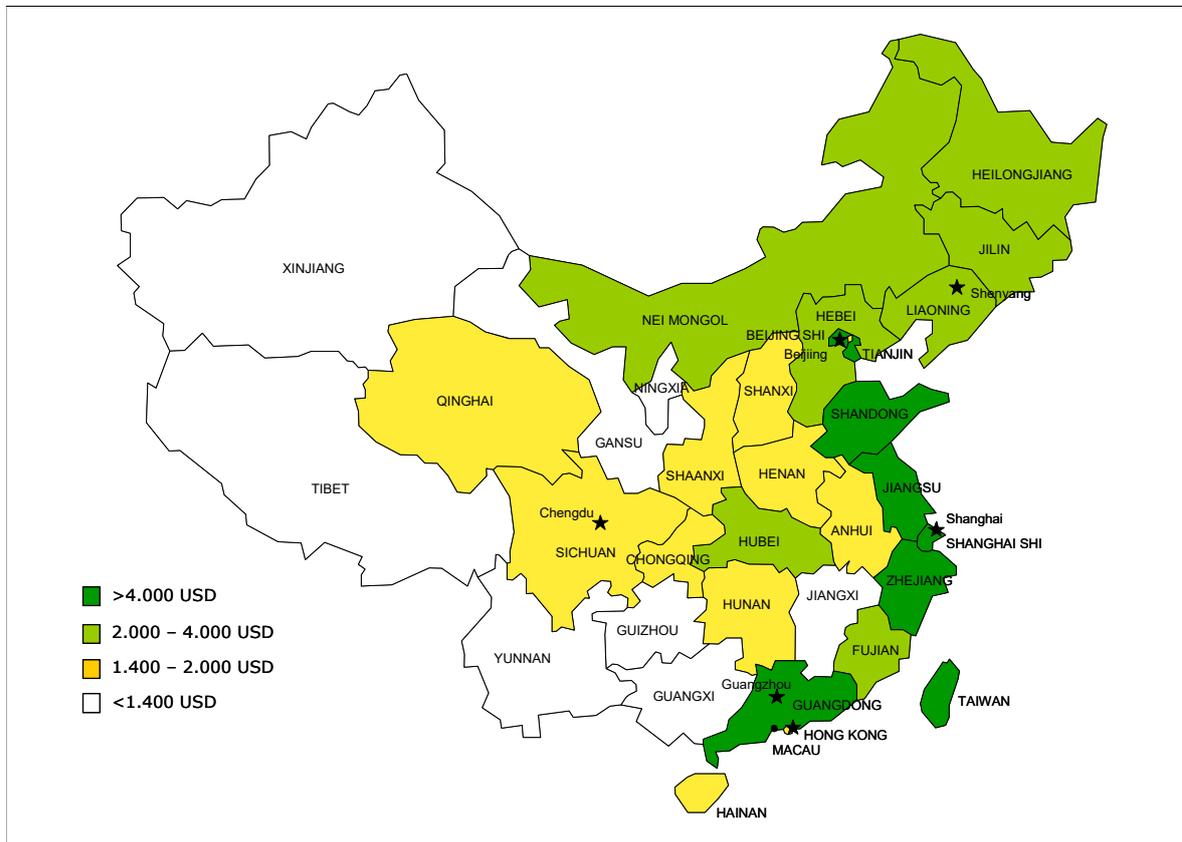


Figure 5: Map of GDP-Distribution per Capita in Chinese Provinces, 2007

Source: Globis

The Chinese government is well aware of the problems this situation might bring. Having a majority of people not participating in prosperity could set the grounds for social unrest. It already leads to massive population inflow to the Eastern provinces and eventually will result into slum building and corresponding problems. There are certain programs designed to level out the uneven development, but their success has not been high so far.

1.3. Trade Agreements

Since 2001, China is a full member of the WTO. Its accession was characterized through lengthy negotiations with the U.S., the E.U. and finally also Mexico. Notwithstanding detailed agreements, China sometimes still acts very protective. Various WTO-court cases represent this fact, also in the automotive sector.

With China's entry to the WTO, China had to lift certain import bans and quotas and had to lower its tariff scheme. Coming from around 70% to 80% in 2001, China's tariffs today are much lower. Current tariffs relevant under the WTO-regime for the automotive sector are:

- 10% on parts
- 25% on CKD kits und CBU.

China is not member to the ASEAN, with is build up by 10 full members: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam, Laos, Myanmar and Cambodia. These countries try to establish a thrid Asian force, next to India and China.

2. Chinese Passenger Car Market

Any research on the Chinese car market is influenced by the data available on the market. In China, there are basically three sources of data on the car market:

- CAAM: Chinese Association of Automotive Manufacturers
- CPCA: Chinese Passenger Car Association
- Traffic police.

Data from CAAM are somewhat official data, but represent wholesale numbers. Also, imports of new cars are not covered. CPCA is said to publish retail numbers, but the source is somewhat unclear. The only body which should have retail numbers is the traffic police. Data from the traffic police is officially not available, but is said to be sold at substantial prices.

For research purposes, one has to analyse all data available and, together with a sound market knowledge, needs to draw own conclusions in some cases. We followed this approach for compiling this report.

2.1. Chinese Car Parc

The passenger car parc in China is growing at a pace unknown even from most other developing countries. At the current speed, the car parc doubles every 5 years. The total number of passenger cars, which was around 2 mio. in 1990, today is at 46 mio. cars (see Figure 6). Since 2005 the car parc grew at a rate of about 20,7% annually. We estimate further growth towards 2012 at almost the same pace of 19% annually. In 2012, there will be almost 75 mio. passenger cars in total in the Chinese car fleet.

The Chinese car parc is mainly made up by foreign cars. Although China had an automotive industry dating back to 1930 and its first passenger cars produced in 1958, there was no competitive Chinese brand on the market when China opened itself to the West in the 80's. It is only since the beginning of this century,

that Chinese brands are developing. Today, they gain momentum and are already threatening established OEMs.

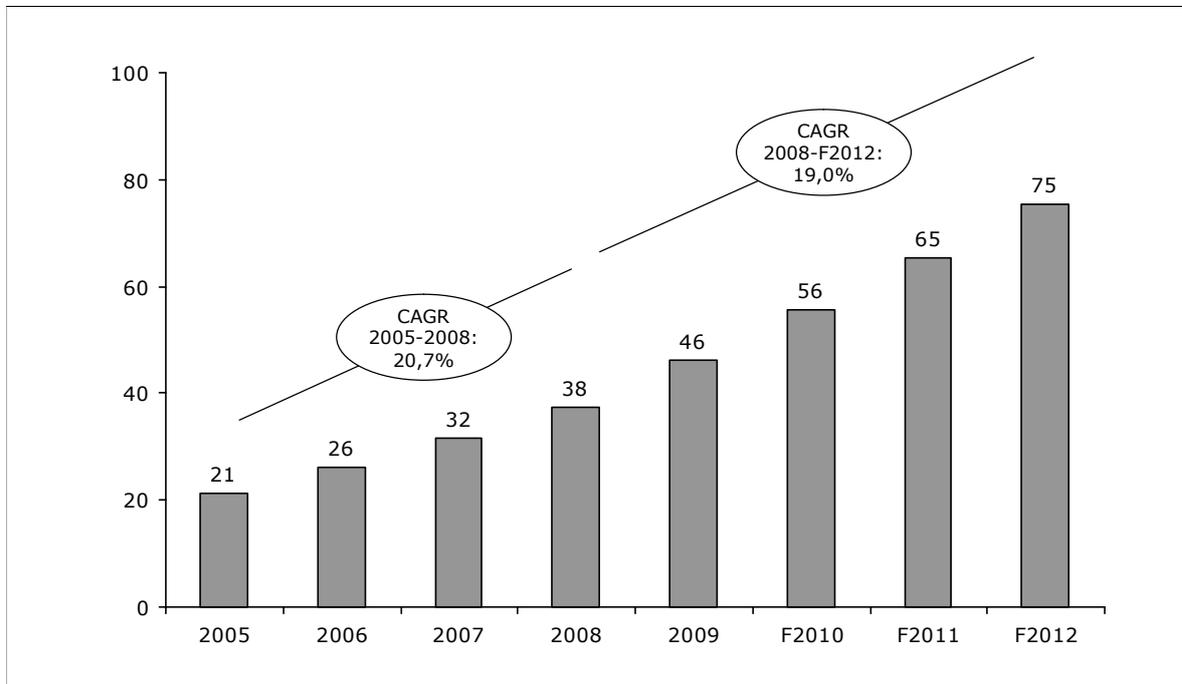


Figure 6: Development of Passenger Car Parc, in Mio. Units, 2005-2012

Source: CAAM, Globis Analysis

Growth rates of the park are strongly influenced by the low car penetration in China. However, China is not at the lower end among Asian economies. India, for example, has only half its penetration and Vietnam, which passenger car parc was also growing at around 20% annually before the world economic crisis, has a penetration of around one-tenth of that of China. Even though growth rates of the car parc will reduce eventually, there is tremendous potential in the Chinese car market. With a penetration of 35 per 1.000 inhabitants, just reaching Russian standards at slightly below 200 would mean the incredible number of 300 mio. additional passenger cars in China. To compare, the world passenger car parc is around 675 mio. cars. Industrial countries have a penetration of about 500 cars / 1.000.

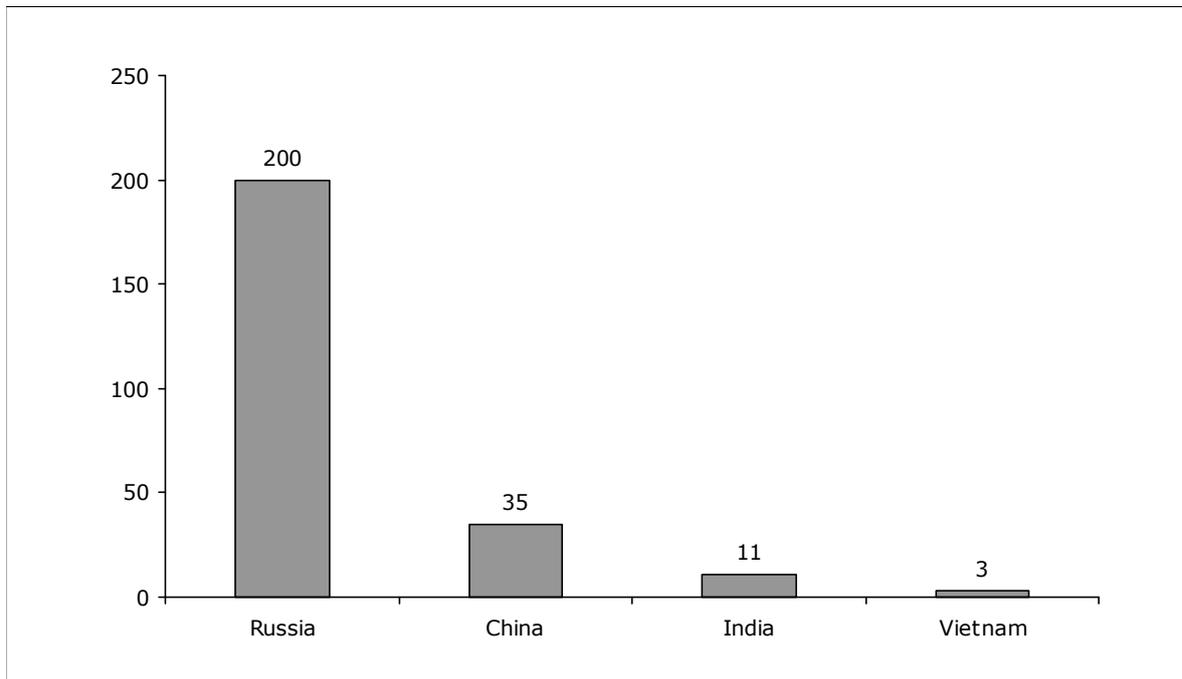


Figure 7: Passenger Car Penetration in Selected Asian Countries, in Cars / 1.000, 2009

Source: Globis

2.1.1. Structure of Car Parc by Age

With a very young automotive industry, the Chinese car parc is also relatively young and has been build up over the last years. Almost 50% of the car parc is younger than 4 years. Only about 10% of the car parc has an age over 10 years, with only 4% of cars being 15 years and older (see Figure 8).

With growing sales, this age structure will remain for a while but in a few years will be drawn to a more older park due to simple mathematics. Since used car imports are forbidden in China (effectively one would need a licence but they are not granted) there is no distortion through imports of older cars.

In China there are rules for the technical inspection for transport vehicles, which stipulate for cars to be checked yearly for used cars (see Table 3 for details). The check comprises basic function tests of for example the braking, lighting and steering system. The enforcement of these rules is relatively strong, measured by Chinese law enforcement standards.

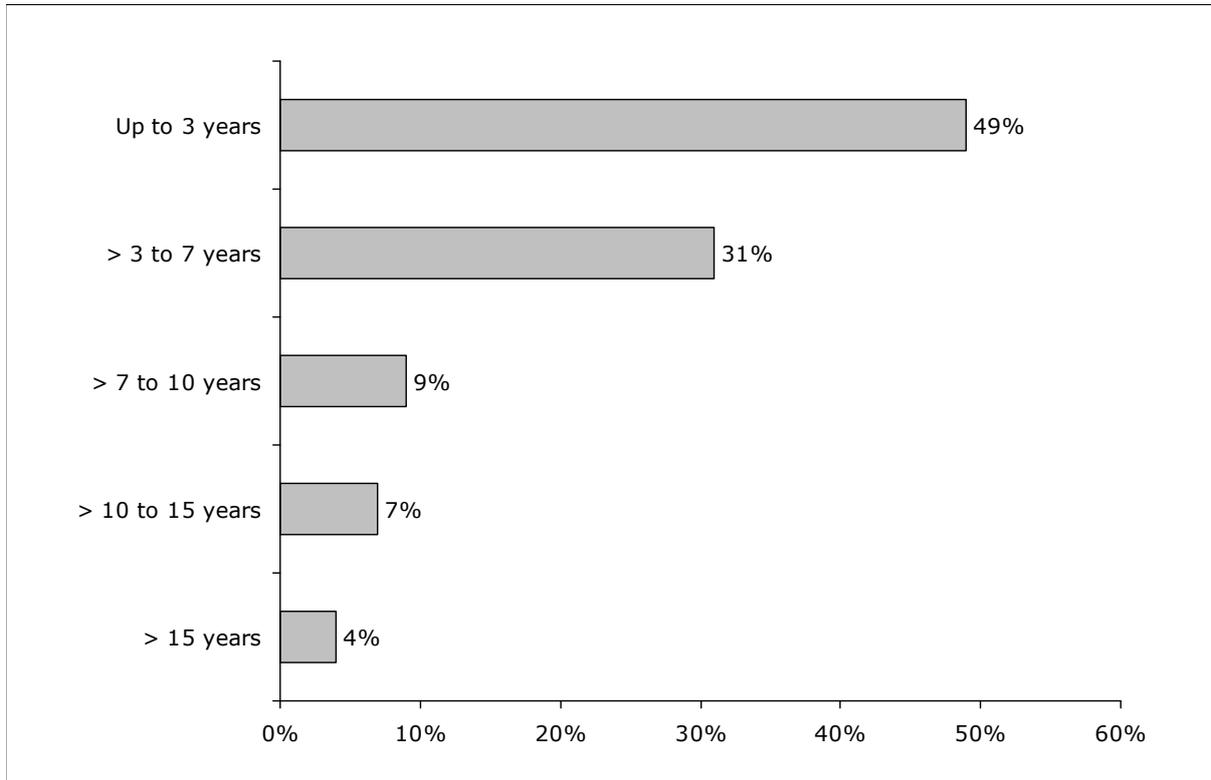


Figure 8: Structure of Chinese Car Parc by Age, 2009

Source: Globis Analysis

While these rules prove more or less effective in other countries to get very old cars from the roads and out of the park, in China the car parc is just too young. The rules do not have any effect on a potential rejuvenation of the park.

Age of Car	Check every ...
Up to 6 years	2 years
6 to 15 years	Year
Over 15 years	6 month

Table 3: Chinese Technical Inspection Regulations

Source: Globis

2.1.2. Structure of Car Parc by Brands and Models

China has a longstanding history of car production with passenger car production starting in 1958. China's first locally produced models were the Red Flag ("Hongqi") and the Phoenix. The Hongqi was the official protocol car of China but had trouble competing against more modern brands. In 2007, about 3.000 units of a successor model were sold by FAW, which manufactures the Hongqi.

With the opening to the West, Western car brands became dominant in the market and eventually in the car parc. Especially VW and GM hold prominent positions due to early market entries. Japanese brands, due to the troublesome history of both nations, initially were not the preferred partners of Chinese companies. Japanese companies penetrated the market through licence manufacturing of Chinese car makers (like Suzuki, Daihatsu, Subaru) but not through direct investments. Foreign car makers were not allowed to establish wholly foreign owned enterprises (WFOE) in China but had to co-operate with local car makers through joint ventures.

Especially with China's entry into the WTO, it was a general expectation that Chinese brands will not survive. Through WTO, China had to lift its import quotas which were allocated between parts and CBUs on a flexible basis – an excellent means of controlling car imports – and had to lower its tariffs from 75% down to 30%. Common expectation was a flooding of the market with foreign imports. However, Chinese brands like Chery and Geely flourished since they managed to improve quality and accumulated technical know-how to build state-of-the-art-cars at very competitive prices. They concentrated on a segment not served by foreign OEMs are now among the top ten players in China in terms of sales numbers of passenger cars. With this success, to Chinese government reversed its policy towards supporting the build-up of joint ventures with foreign OEMs but is now encouraging the development of pure Chinese brands. Most joint venture partners of foreign OEMs now have accumulated sufficient knowledge and are offering their own cars under newly created brandnames. Especially in the small car as well as the low-cost segment they are very successful.

This development is only partly reflected in the car parc, since it is only taking place over the last 6 years. Hence, the share of pure Chinese companies in the car parc is still below 20%, but will increase in the future.

The single most numerous models in the Chinese car parc are GM's Shanghai Wuling minivan and VW models Santana and Jetta. Most other foreign brands were changing their models too frequently to get visibility in the car parc, so that two Chinese models are among the top models in parc: FAW Xiali and the Chery QQ (see Table 4).

Brand	Most popular models
VW	Santana, Jetta
GM	Sunshine (a small van, manufactured through Shanghai Wuling), Buick Regal, Excelle
Toyota	Corolla
FAW	Xiali
Chery	QQ

Table 4: *Most Popular Models by Top Brands in Chinese Car Parc, 2009*

Source: Globis

2.1.3. Car Parc in Regional Markets

China consists of 31 regions. The Eastern regions with coastal access are more wealthy in general. Car distribution in China closely follows this wealth distribution.

Beijing, the capital, is leading in terms of car penetration, which reaches about 240 cars per 1.000 inhabitants. Tianjin and Shanghai, both harbour cities and independent administrative units, follow with 98 and 81 cars per 1.000 inhabitants, respectively. Again, other coastal regions like Zhejiang and Guangdong follow.

It terms of the size of the car parc, Guangdong province is leading with about 5,4 mio. cars. The region is located close to Hong Kong and has received large

investments from there. Jiangsu, Shandong and Beijing have a car parc close to 4 mio. cars each (see Table 5).

Region	Inhabitants, in mio.	Passenger Cars, in 1.000	Cars / 1.000 people
Beijing	16	3.774	239
Tianjin	11	1.055	98
Hebei	69	2.488	36
Shanxi	34	1.516	45
Inner Mongolia	24	955	40
Liaoning	43	1.870	44
Jilin	27	821	30
Heilongjiang	38	1.032	27
Shanghai	18	1.467	81
Jiangsu	76	4.006	53
Zhejiang	50	3.873	78
Anhui	61	907	15
Fujian	36	1.158	33
Jiangxi	43	630	15
Shandong	93	4.015	43
Henan	94	2.057	22
Hubei	57	1.037	18

Region	Inhabitants, in mio.	Passenger Cars, in 1.000	Cars / 1.000 people
Hunan	63	966	15
Guangdong	93	5.406	58
Guangxi	47	743	16
Hainan	8	215	26
Chongqing	28	592	21
Sichuan	82	1.830	22
Guizhou	38	535	14
Yunnan	45	1.212	27
Tibet	3	93	33
Shanxi	37	882	24
Gansu	26	337	13
Qinghai	5	127	23
Ningxia	6	163	27
Xinjiang	21	551	27
Total China	1.314	46.315	35

Table 5: Regional Car Parcs by Number of Vehicle and Car Penetration, 2009

Source: CAAM, Globis Analysis

The regional distribution will not change in the near future, since the current economical strongholds will not change in the near future. Rural areas, although often with a very high population density, will still need time to develop as an automotive market.

2.2. Passenger Car Sales and Imports

2.2.1. Size of Market

The Chinese car market, defined as new cars sold, has experienced strong growth over the last years. Coming from about 700.000 passenger cars sold in 2000 it today has a volume of over 10 mio. cars (see Figure 9). China's WTO entry did accelerate the growth, leading to increases of over 1 mio. units annually for the following years.

2009 marks a huge jump in the car market which is mainly due to government incentives. These incentives are set to continue in 2010. However, we estimate a more moderate growth for the years towards 2012, of around 7,7%. Growth rates of over 30% can hardly be achieved at a volume of over 10 mio. units p.a.

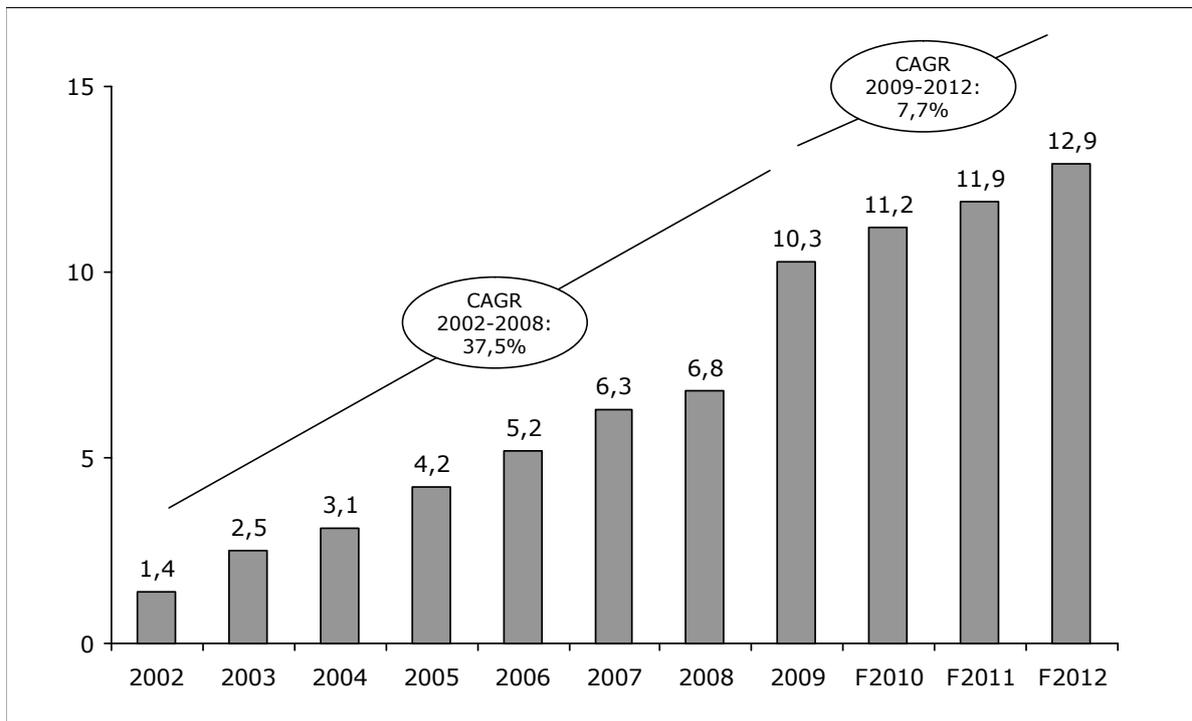


Figure 9: Sale of New Cars in China, in Mio., 2002-2012

Source: CAAM, CPCA, Globis

China does not have imports of used cars. The import of used cars is subject to a licencing scheme and no licence for large scale operations has been granted so

far. The Chinese government has no interest in large numbers of imports of used cars from abroad. This would jeopardize one of the main industries in China and limited to grow potential for new cars. In addition, the environmental problems already present would be strongly increased if older cars with less environmentally friendly engines would be imported. And also, the Chinese government – sometimes – is trying to cool down the economy and the corresponding growth of the car parc, since traffic conditions are hazardous and the need for oil would be even stronger and could lead to supply shortages.

Most sales of new cars are coming from locally produced foreign cars. Imports of new cars still do not play a major role in the market. In 2009, only about 380.000 new cars were imported into China, a decline from 2008’s record of 410.000 new imported cars.

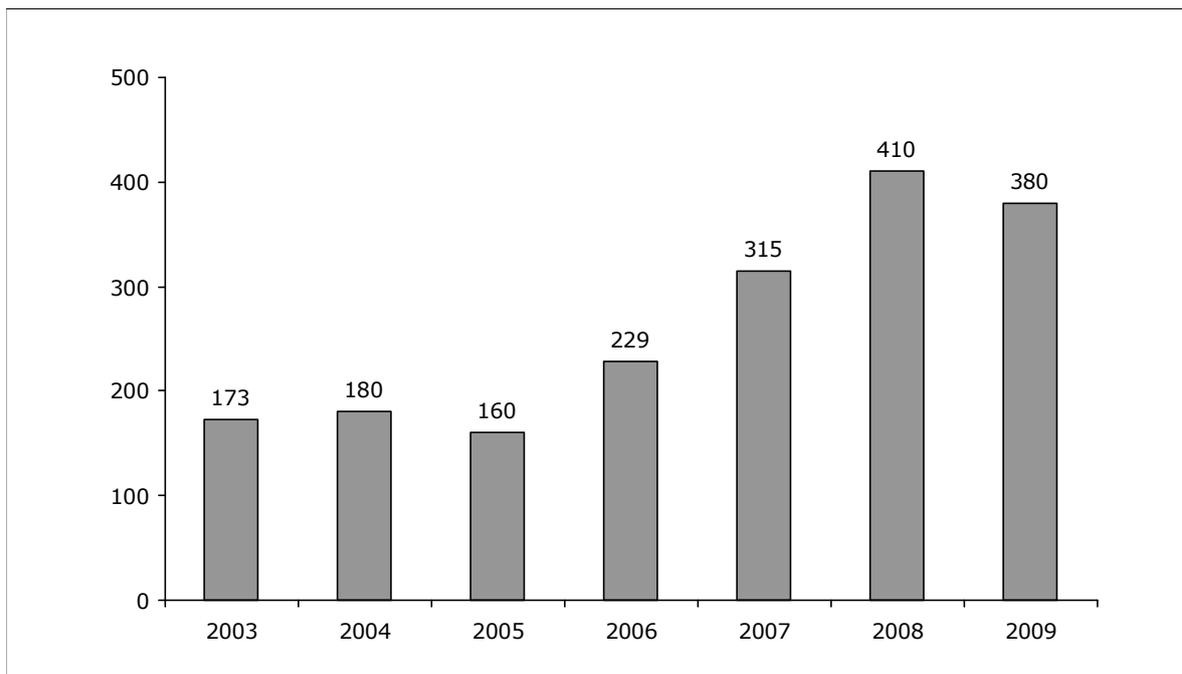


Figure 10: Imports of New Cars, in 1.000 units, 2003-2009

Source: CTCAL, CAAM, Globis Analysis

Nevertheless, the success of purely Chinese brands (either brands build by pure Chinese car makers or by joint venture partners under their own brand name) is obvious. From a share of 2% of new additions to the park in 2000, they have increase to a market share of 25% (see Figure 11). We expect a further increase of

this market share but not as strongly as it happened in the past. The growth of Chinese brands is mainly associated to low-cost cars in the small car segment. Foreign OEMs simply were not active in this segment but recent developments worldwide have focussed their attention to this market segment. Almost all major OEMs are about to or already have developed competitive low-cost cars which would compete with the Chinese models. A good example is the Wuling Sunshine, build by GMs joint venture with SAIC and Wuling: The Wuling is a minivan, priced at about 4.000 USD and instantly was the most numerous model sold in China. While the Chinese brands are moving upwards and increasingly offer cars of all sizes, the playing field is leveling out with all OEMs active in all market segments. Since there is no real brand loyalty of Chinese consumers today – neither to a local nor to a foreign brand – none of the OEMs has a particular advantage.

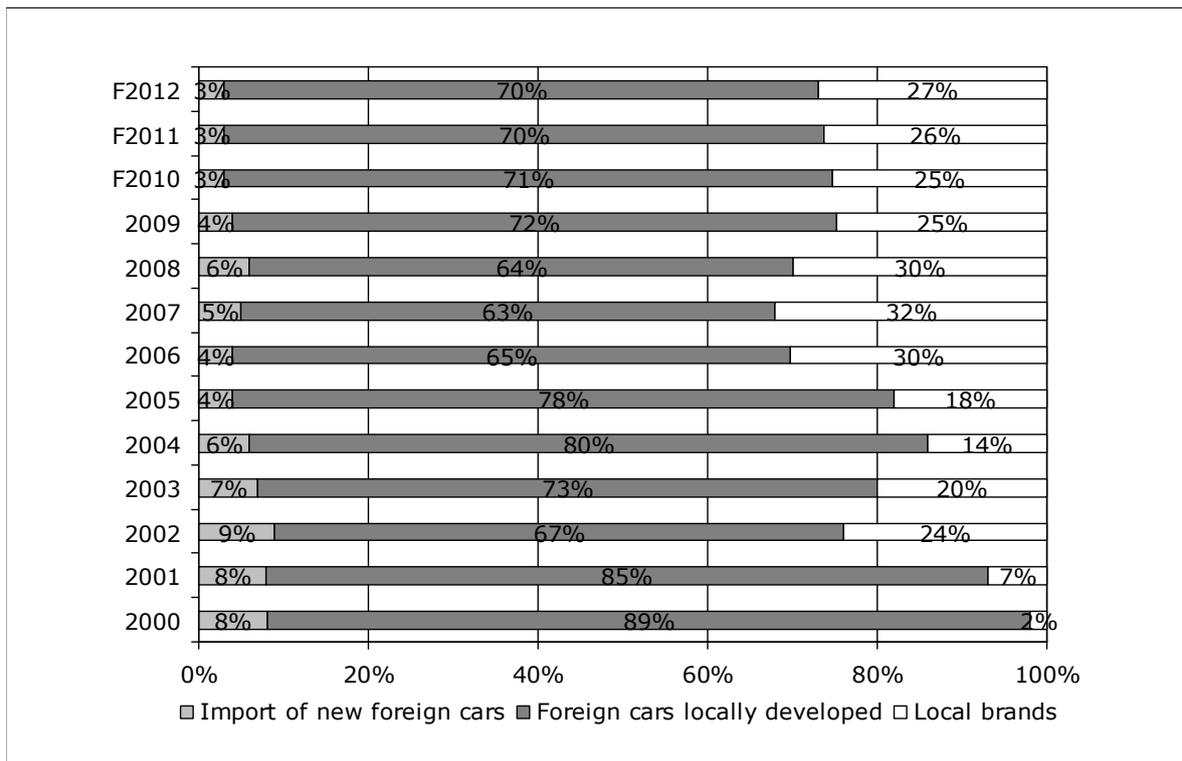


Figure 11: Relative Sales and Import Structure of Car Market, 2000-2012

Source: Globis Analysis

The import of new foreign cars into China will remain at a low level of around 3% to 5%. Most car makers in China still have strong overcapacity and almost all

major OEMs are present in China already manufacturing their main models, with only few exceptions. Mainly luxury car models are imported.

2.2.2. Market Characteristics New Cars Market

The automotive market in China is complex, with numerous players manufacturing cars. Today there are about 130 manufacturers of cars active in China. However, some of them are only producing very small numbers. Nevertheless, the market is complex. Officially available sales figures deviate from each other, depending on the source and partly on the coverage of the respective manufacturer at all. In recent years, also fostered through the Chinese government, the industry is consolidating and smaller companies are encouraged to merge with larger ones.

GM is the leading manufacturer in China, through its joint venture with SAIC and Wuling. Wuling is a three party joint venture with also SAIC involved – a requirement of the Chinese government to reduce the complexity of automobile groups in China. Through its Wuling joint venture, it manufactures the Wuling Sunshine, the best selling car model in China with almost 1 mio. units sold in 2009. The Sunshine is a minivan which costs around 5.000 USD and is very fuel efficient.

The second best selling car maker in China is Shanghai VW, followed by FAW VW. While FAW VW is manufacturing the Jetta, Shanghai VW is manufacturing the Santana, both very good selling models. Taken the two joint ventures of VW together, they dominate the passenger car market – if minivans are not counted. Otherwise, it is GM leading the Chinese market.

Toyota with its joint ventures with FAW and Guangzhou did not make good progress in 2009. Toyota is the foreign OEM with the largest volume of imports of new cars into China. Hyundai's joint venture with Beijing was selling more cars in 2009 than Toyota's two joint venture. Nissan's China joint venture is following very closely. Table 6 shows the ranking for foreign invested car makers in China.

Almost all major car brands are represented in China already. The international brand with the biggest problems currently is Fiat. Fiat was engaged in a joint

venture with Nanqi (Nanjing Automobile) but it sold its stake in this unsuccessful venture along with the SAIC – Nanqi merger end of 2007. End of 2009 Fiat announced a new joint venture with GAIG.

Ranking	Brand	Sales 2009 in 1.000 units	Sales 2008 in 1.000 units	Growth 08-09
1	Shanghai GM	728	459	59%
2	Shanghai VW	721	490	47%
3	Faw VW	691	498	39%
4	Beijing Hyundai	570	295	94%
5	Dongfeng Nissan	511	351	46%
6	Dongfeng Peugeot Citroen	460	181	154%
7	Guangzhou Honda	366	306	19%
8	FAW Toyota	335	366	-9%
9	Dongfeng Yueda (Kia)	240	142	69%
10	Chang'an Ford	231	156	48%
11	Dongfeng Honda	211	164	28%
12	Guangzhou Toyota	201	172	17%
13	Chang'an Suzuki	150	124	21%
14	FAW Mazda	107	84	27%
15	Chang'an Mazda	73	44	67%

Table 6: Top Selling Foreign Invested Car Makers, in 1.000 units, 2008-2009

Source: CPCA, CAAM, Company Information, Globis Analysis

Chinese brands were increasing their market share steadily over the last years. This growth was driven by small low-cost cars. Recently, however, Chinese con-

sumers are moving upwards and turning away again from Chinese car makers, so that their market share stagnates. Originally this market was driven by companies that were acting stand-alone, like Geely and Chery. However, recent growth was also coming from Chinese joint venture partners of foreign OEMs, which were beginning to develop their own brands – in line with Chinese government’s policy to develop own car brands. While FAW is engaged in developing its own brands over the last years, SAIC started in 2007. In 2004 it took over SsangYong of South Korea but did not establish this brand in China so far. It also bought manufacturing rights of the Rover75, which is currently releasing under the name Roewe. Through its merger with Nanqi end of 2007, it could use Nanqi’s own brand Soyat and Nanqi’s take over brand MG in the Chinese market. Dongfeng, the third largest automotive conglomerate, started its own brand Fenshen in 2008.

The market leader among purely Chinese brands is Chery. Its growth was driven mainly by the QQ, its mini-car. Chery recently good strong competition through BYD, which managed substantial growth from 2008 to 2009. BYD has very ambitious targets. It is investing heavily in electric cars (as one of the largest battery makers in the world) and also expands overseas. Geely was outperformed by BYD and now ranks third. FAW with its three divisions (Xiali, Hainan, Car) is selling more than Chery in total. Each company individually, however, is not among the top three purely Chinese car makers. Table 7 shows the details.

Ranking	Brand	Sales 2009 in 1.000 units	Sales 2008 in 1.000 units	Growth 08-09
1	Chery	500	356	40%
2	BYD	448	171	162%
3	Geely	325	222	47%
4	Great Wall	224	127	76%
5	Faw Tianjing Xiali	208	177	18%
6	Faw Car	199	119	67%

Ranking	Brand	Sales 2009 in 1.000 units	Sales 2008 in 1.000 units	Growth 08-09
7	JAC	120	60	100%
8	Brilliance	119	91	30%
9	Faw Hainan	105	96	9%
10	Chana	99	48	107%
11	MG / Roewe (SAIC)	90	59	53%
12	Zotye	65	53	22%
13	Lifan	60	40	50%
14	Hafei	55	44	26%

Table 7: Top Selling Chinese Car Brands, in 1.000 units, 2008-2009

Source: CPCA, CAAM, Company Information, Globis Analysis

Sales of minivans are not included in the above numbers. GM with its partner Wuling is leading the list, driven by the sales of its low-cost Sunshine. In 2009, the minivan segment was boosted by government subsidies. Chana is the second largest minivan and minibus maker, through its models Star and CM8. Hafei is the third best selling brand, followed by Dongfeng. Other brands sell far less than 100.000 units. Table 8 shows the details. Sales numbers of the top-selling minivan-models are partly much higher than of the top-selling sedans. Many buyers of minivans use the van both for business as well as private purposes. They are typically owners of small businesses.

	Brand	2009	2008	Growth 2009 / 2008
1	Shanghai GM Wuling	916	651	41%

	Brand	2009	2008	Growth 2009 / 2008
2	Chana	545	288	89%
3	Hafei	158	108	47%
4	Dongfeng	148	74	99%

Table 8: Top Selling Minivans, in 1.000 units, 2008-2009

Source: Morgan Stanley, Company Information, Globis

In 2009, the top-selling model in China was the BYD F3, a Chinese model of a young automaker. The segment of compact cars is the strongest in China in general and therefore the number two in this segment, the Buick Excelle, is also the number in China overall. In this segment, Hyundai Yuedong (239.449), VW Jetta (224.857) and Hyundai Elantra (171.600) are following.

In the segment of mini-cars, the best-selling cars are purely Chinese: the QQ from Chery and the Xiali from FAW Xiali. The mid-size segment is led by Japanese car makers (Honda and Toyota). In the full-size segment, Audi A6-L is the clear leader. The SUV-Segment is dominated by Chinese brands, although Honda's CRV is the best-selling model. The MPV-segment is dominated by foreign brands on the first four ranks, but then Chinese models are following. Table 9 gives the details.

Compared to earlier years, VW lost its leading positions it had in the compact car segment (through Jetta) and the mid-size segment (through Santana). Both models are driven through fleet purchases from Taxi companies. 2009 sales, however, was mainly driven by private buyers because of government incentives.

Segment	Rank	Brand	Model	2009	2008	Growth
Small Cars	1	Chery	QQ	168.554	133.350	26%
	2	FAW	Xiali	147.547	120.969	22%
Compact	1	BYD	F3	291.000	136.782	113%

Segment	Rank	Brand	Model	2009	2008	Growth
Cars	2	GM	Buick Excelle	241.100	175.417	37%
Mid-size	1	Honda	Accord	175.361	170.517	3%
	2	Guangzhou Toyota	Camry	156.200	153.532	2%
Full-size	1	Audi	A6-L	104.217	85.424	22%
MPV	1	Hyundai	Refine	46.102	36.304	27%
	2	Shanghai GM	Buick GL8	40.029	36.252	10%
SUV	1	Honda	CRV	101.000	80.607	25%
	2	Great Wall	Hover CUV	71.645	56.669	26%

Table 9: Top Selling Models By Segments, 2008-2009

Source: CPCA, Company Information, Globis Analysis

The overall trend will be more models by purely Chinese car makers throughout all segments and in general more models specifically designed to the Chinese market.

The minivan-segment is dominated by the Wuling Sunshine, with sales beyond 500.000. This segment was also strongly influenced through government incentives. In 2009, it made up about one-fifth of the passenger car market (one has to note, that this segment sometimes is included in commercial car segment). The market is clearly dominated by sales of compact cars (see Figure 12 for details).

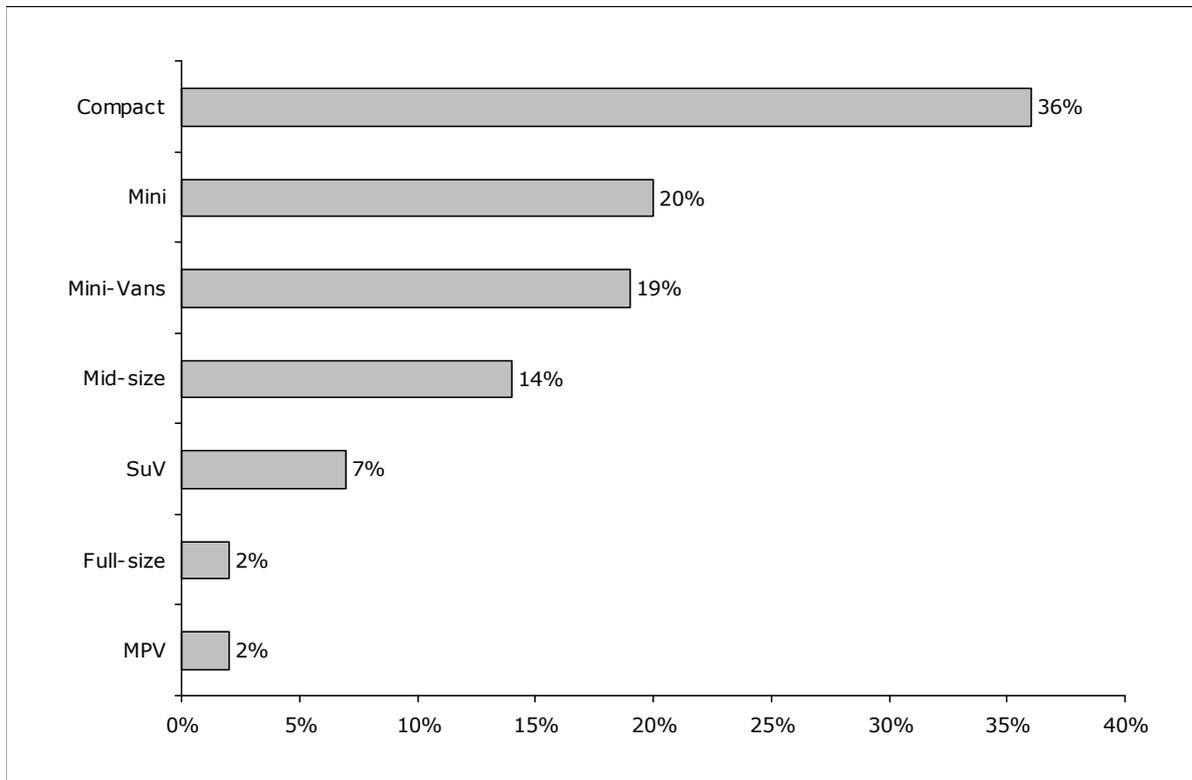


Figure 12: New Car Sales by Segment, 2009

Source: Globis Analysis

The market for new passenger cars in China is increasingly driven by private buyers (see Figure 13). While in the past government or administration buyers made up a major share of the market, this share down to less than 10%. Today it is the private sector where the demand is coming. Among these buyers, corporate buyers only hold a small percentage, since company cars, service business or large scale sales networks are not yet common in China. Cars bought by the extensive network of state-owned enterprises are counted as purchases of the government.

In 2009, there were rumors that the Chinese government is buying cars and stockpile them, since fuel consumption remained stable while the car parc was increasing heavily. These rumors have not been clarified yet, but it is unlikely, that this buying behaviour would sustain.

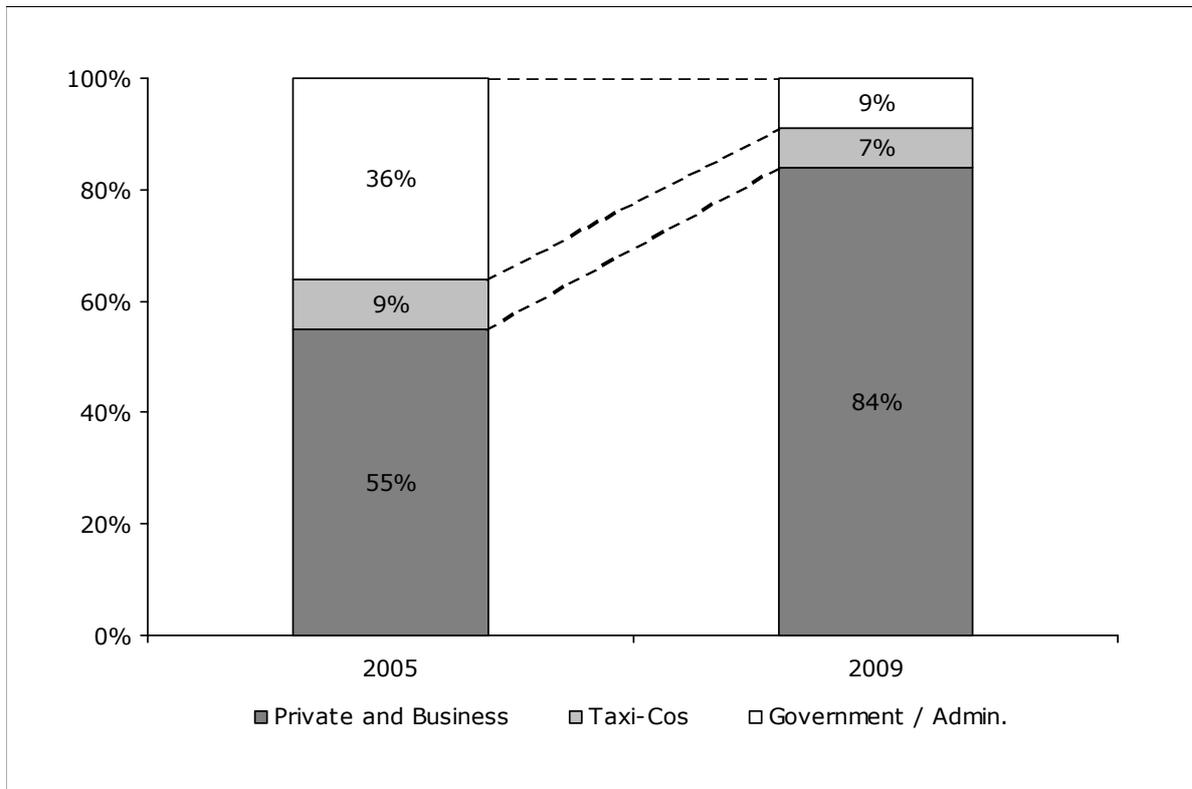


Figure 13: New Car Sales by Typ of Buyer, 2005-2009

Source: Various, Globis Analysis

Diesel does not play any role in China's passenger car market. In 2006, 1,3% of all newly registered passenger cars were running on diesel. This share has not increased dramatically since then. There is, however, some effort of the Chinese government to promote diesel because it is seen as more environmentally friendly and diesel engines in general are more efficient.

China, however, faces various problems not present in other markets:

- First and foremost, there is not enough supply of diesel. Oil refiners are not willing to increase production, since the diesel price is capped at a low level through the Chinese government.
- In the past, the quality of diesel in China was not very good. It is widely seen as damaging engines and hence the trust level of this technology is limited.

Nevertheless, starting from 2007's Chinese motorshows all major manufacturers display cars with diesel engines. The case for diesel in China is not over, but a take off of the market is not to be expected very soon.

2.2.3. Sales Drivers for New Cars

In China, the new car market is growing rapidly. Although a slow down of the growth is expected, it will still achieve growth rates far beyond those of saturated markets like in Western Europe or North America. There are several factors influencing this rapid market development:

- Economic growth and income levels
- Import regulations and tariffs
- Government regulations and changing regulatory environment
- Used car market
- Development of credit system and car loans
- Expansion of dealership and service networks
- Consumer behavior.

2.2.3.1. Economic Growth and Income Levels

In the long term, China's economic development is the major driver of the Chinese new car market. Short term, other factors related to the economy are more important. In China, the stock market development as well as the development of property prices is very important also for the car market. These developments are linked to the overall economy but sometimes are dominated by massive speculations.

The economic well-being of Chinese is increasing year-by-year. With the economy growing around 10% over the last years, the share of people who are able to afford a new car increases steadily. Especially in a country with so many first time buyers this is very important. Recently, economic well-being is also happening in the Western provinces not located at the coastline.

Popular cars like the Wuling Sunshine are selling for about 4.000 EUR. With an average income of close to 300 EUR per month, these cars become an option for many Chinese.

The economic development will certainly provide a positive impact on the new car market for the next decades. With a car penetration of 2,5%, there is plenty of room for a growing market.

2.2.3.2. Import regulations and tariffs

A major regulation which affects the Chinese car market is the prohibition of the import of used cars into China. There simply is no other supply possibility than new cars – or the few used cars available in the young car market China.

The import of new cars into China is costly, with 25% customs duty levied on the import value. This 25% rate can be bypassed to some extent when the car is shipped in parts and declared as parts import, which is taxed at a rate of 10%. However, the Chinese customs is eager to prohibit such behaviour, even though an official attempt to implement a local content rule was ruled down by the WTO. In general, it is not to be expected, that the tariff on new cars will have a substantial effect on the new car market or the Chinese automotive industry. China is such a big market, that a presence through only imports is a strategy for any car maker with global ambitions.

2.2.3.3. Used Car Imports

The import of used cars is not allowed in China. From this end, there comes currently no threat for the new car market.

Also, there is no large second-hand car market in China so far. In 2009, the volume of the market reached about 3,6 mio. units. With a limited second-hand car market, it is mainly new cars people are buying. It is also not a well-known behaviour of Chinese to buy second-hand articles. If they buy used cars, about 33% are up to an age of 3 years. Less than 10% are older than 10 years.

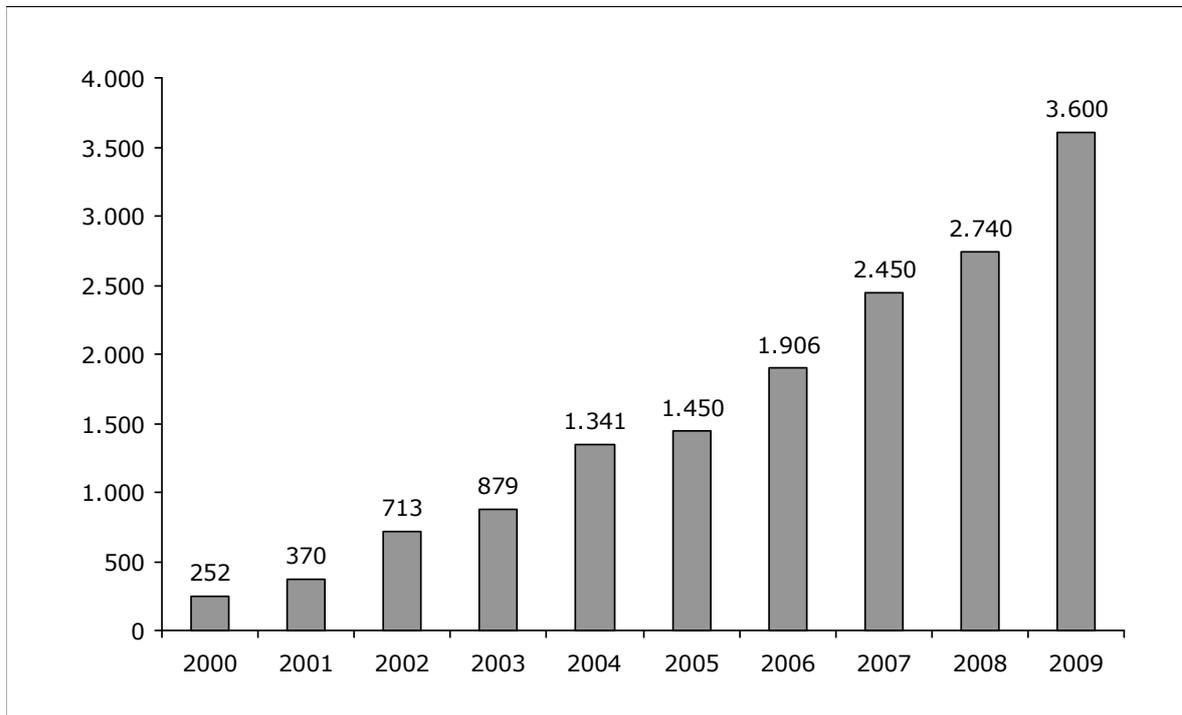


Figure 14: Volume of Second-Hand Car Market, in 1.000 Units, 2000-2009

Source: Various Sources

The Chinese government regulated the second-hand car market in 2005:

1. It allowed all entities to engage in second-hand car trading. Earlier on, used cars had to be sold in dedicated used-car centers. The new rules helped developing the market, since new car dealer can also engage in the trade of used cars. This makes concepts like trade-ins much easier, which are of growing importance in the Chinese market.
2. It also tries to ensure the professionalism of the segment, through inspections by local governments before granting a used car trading licence, standard invoices and proper information about the condition of the car.

The regulations helped to develop the market, but it is still small. Today in China, about 20% of total car market (new and used cars) are used cars. In the U.S. or in Europe, this ratio is reversed, with about 20% to 30% being new cars. Knowing that there simply are not many old cars in China (used cars can not be imported into China), this ratio is understandable. It is also very likely, that China follows

the trend in the U.S. and Europe, once there are more used cars available. This naturally will have an impact on the new car market.

Foreign car makers support the trend. They are entering the used car markets with their own offerings. Mercedes-Benz, for example, introduced StarElite, a pre-owned program. Mercedes certifies the used cars and sells them with free-of-charge routine service. Mercedes plans to quickly expand to 30 used-car dealerships in China. Nissan is another example of an OEM entering the used car market.

2.2.3.4. Government Regulations and Changing Regulatory Environment

China's economic policy still is a mix of a centrally planned economy and a market economy. Depending on how the market economy develops, China's government intervenes with more or less dramatic measures. In general, the idea to control the entire country from Beijing is still very present – although history tells us, that local government often do act as independent bodies.

China only recently (in 2006) lifted a car ban of smaller cars on streets in main cities such as Beijing. Originally imposed as a purely communist measure end of last decade, China only wanted larger, more beautiful cars on its roads in its main cities. Environmental problems have brought policy makers to change their attitude. All cars, including smaller ones, are now allowed to drive around in Chinese larger cities. In the countryside, no such regulations did apply. The lift of this ban did have an impact on the Chinese car maker, which were targeting this segment. Today, this effect is not present any more.

Nowadays, bans are being upheld again, but for motorcycles. Many Chinese cities ban motorcycles from their streets, forcing their owners to upgrade to small cars.

China nowadays uses more advanced regulations to control fuel efficiency and emissions. In 2004 it adopted fuel efficiency standards which came into effect in June 2005. Most car manufacturers were able to comply with these standards without any major problems. It is reported, that no U.S. made car would pass

these standards. However, there is second phase, scheduled for September 2008. These new standards are much tougher than the initial ones and when the standards were adopted, most of the fleet of car makers engaged in China could not comply with the standards. These standards were one of the most severe in the world, when introduced in 2008. There are no real lessons learned about enforcement, because most cars did comply to the standards of phase I.

In 2000, China started to adopt the Euro-norm emission standards. In 2000 it introduced the Euro I standards and in 2007 it imposed Euro III standards. It is planned, to impose Euro IV standards in 2010. However, the standards are not sufficient to reduce environmental problems. One can expect further quite drastic measures from the Chinese government. Before and during the Olympics, for example, the Chinese enacted a driving ban for cars based on licence-plate numbers – thus keeping of the road half of its cars. This ban is valid only in Beijing, in Shanghai weather conditions are more favorable.

In line with growing environmental care but also as a measure to stimulate the car market, end of 2008 the Chinese government reduces purchase taxes on new cars with engines up to 1,6 litre. Along with the cancellation of the road maintenance fee, applicable to all car owners, this effect proved to stimulate the market.

An important factor for the car industry car gasoline and diesel prices. China has adopted a system of price controls over oil prices, including even aviation kerosene. China always tries to offer gasoline at below a normal market price. It increased the price only twice, in November 2007 and end of June 2008, by about 30% in total. End of 2008 it introduced a fuel tax but at the same time reduced the official prices for fuel. Through this policy, the two major players in the Chinese oil market, China National Petroleum Corporation (CNPC) and China Petroleum and Chemical Corporation (Sinopec) are effectively losing money, but are state-owned by majority. They also dominate China's about 90.000 fuel stations. The low increase even throughout a period of rapidly increasing oil prices is in line with the government trying to reduce inflation. Also, through government regulation, public transportation including taxis did not become more expensive. Yet there is

another more important reason for China to keep prices low: it wants to avoid potential unrest which happened in other countries like India and Malaysia, when gas prices were increased. Already, the price increase end of June 2008 came as a surprise to many analysts. Effectively, in 2007 China was paying subsidies of about 30 bn. USD to its gas and diesel consuming businesses and citizens, according to China International Capital Corporation.

Apart from these above mentioned regulations, China is also using its tax regime to influence the car market. In 2006, it remodeled its excise tax regime to increase the burden for higher volume engines. While for the old tax bracket "more than 2,2 litres" a tax of 8% applied, the tax now goes up to 20% for cars with engines with more than 4 litres. Tariffs are not a major issue for the new car market, since only about 5% of the market volume is imported cars.

With the slow-down of the economy, China – as other countries as well – did support its automotive industry through various measures: A reduction of the purchase tax from 10% to 5% for cars with engines up to 1,6 litre was the starting point. In addition, trade-in-incentives were introduced especially in the country side and for SUVs, MPVs and mini-vans. End of 2009 the Chinese government decided to extend these measures until end of 2010. However, purchase tax was increased to 7,5% but trade-in-incentives were increased three-fold. It is very likely, that these measures will ensure further growth in the new car market.

The regulations above did all have some impact on the Chinese car market, either from the side of the manufacturers or directly through the consumers. Further enactments are unclear but the Chinese government is in a problematic situation: on the one hand it wants to reduce economic growth and environmental problems, on the other hand inflation is already high and it does not want to increase cost for consumers. As always in China, if the problems are getting too big, the Chinese government will react with drastic measures. It is rather likely that the market is influenced in a negative way and growth rates of the last years will not be likely for the next years in the Chinese car market.

2.2.3.5. Car Financing

In many other countries, car financing has a strong impact on the new car market. To a limited extent, this is also valid for China. However, it is Chinese mentality not to trust banks too much. Rather, one has its money in a safe place. The concept of inflation and interest rates is, although growing rapidly, not yet well-known, especially in the countryside. Most cars are simply paid for in cash and even if it would be easy to finance a car, Chinese would not readily do that.

On the supply side, the market has developed quickly. While the largest foreign invested car makers in China all have their own financing arm now, just recently Guangzhou (GAIG) and Chery, through a joint venture with a local bank, entered the market as the first purely Chinese car makers. However, only Chery is a major player in the passenger car market.

On the demand side, customers in China are still unwilling to finance through loans, while leasing is no issue yet. Reported shares of car financing in the new car market fluctuate between 3% and 20% (see Figure 15). Exact data is not available, however, values above 10% are not supported through dealership interviews. While the market certainly has experienced some growth over the last years, its overall size is still small.

After the car financing business grew rapidly between 2001 and 2003, the Chinese government needed to issue new rules governing the sector. By then the sector had accumulated 13,7 bn. USD in bad debt and about 80% was carried by state-owned commercial banks.

These new rules, effective 2004, required banks to follow a common practice when handing out car loans, so as to distinguish private from business buyers and from car dealers, establish a credit scoring system, and imposed a maximum share of the load to cover (80% case of a private buyer). In 2008, these rules were amended, partly relaxing the preconditions to set-up a car financing business, partly making it more difficult.

Loan financing in China is still subject to more practical problems. There is no real credit history of many Chinese. Most of them have not even a bank account. It

is often impossible to check the creditworthiness of car buyers and the hand out of loans is more guesswork.

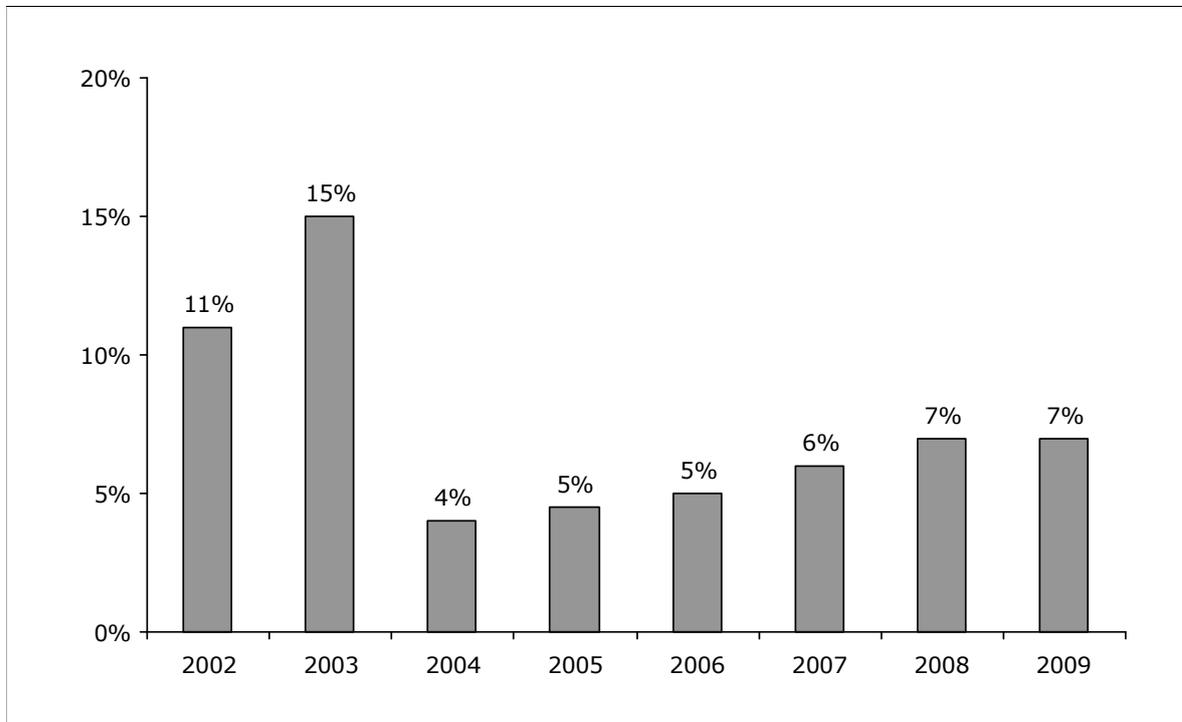


Figure 15: Share of Loan Financing for New Car Purchase, 2002-2007

Source: Various

With the new car market growing less strong, OEMs are looking for financing arrangements to curb their sales. Toyota in mid 2008 released a flexible scheme for car buyers to buy and give back the cash within a year, if interest rates can not be afforded any more. It remains to be seen, whether this will have an effect on Toyota's performance. In general, car financing arrangement are a long-term driver of the market, not a short-term driver.

2.2.3.6. Dealership Networks / Distribution Systems

The Chinese car market is young and heavily growing. It provides chances for all kinds of businesses – and in China, where there is an opportunity there are many people willing to take the risk even without really knowing, what they are doing. One segment of the automotive market, that was and still is characterized through lots of smaller entrepreneurs is the car dealing and car service business.

Today, official sources estimate 30.000 car dealers in China with 40% of it being second level dealers purchasing from first level dealers. While the yellow-pages show only half of this number, it is still a massive amount (Table 10 shows the regional distribution).

Region	No. of Dealerships	No. of Cars (in. 1.000)	Population (in Mio.)
Beijing	590	2.637	16
Tianjing	346	769	11
Hebei	506	1.788	69
Shanxi	191	1.026	34
Neimenggu	202	637	24
Liaoning	402	1.303	43
Jilin	228	622	27
Heilongjiang	516	772	38
Shanghai	564	1.045	18
Jiangsu	1.507	2.464	76
Zhejiang	1.631	2.383	50
Anhui	458	644	61
Fujian	721	755	36
Jiangxi	419	425	43
Shandong	1.698	2.659	93
Henan	399	1.459	94
Hubei	655	769	57
Hunan	249	715	63

Region	No. of Dealerships	No. of Cars (in. 1.000)	Population (in Mio.)
Guangdong	1.571	3.703	93
Guangxi	177	541	47
Hainan	104	152	8
Chongqing	377	398	28
Sichuan	246	1.355	82
Guizhou	72	385	38
Yunnan	246	884	45
Tibet	26	67	3
Shanxi	489	658	37
Gansu	106	261	26
Qinghai	53	96	5
Ningxia	384	115	6
Xinjiang	377	437	21
Total China	15.510	31.922	1.314

Table 10: Number of Car Dealership in Chinese Regions, 2007

Source: Yellow Pages China, Globis

Once a market is getting sufficient attention, the Chinese government finally steps in to take regulatory measures to ensure some kind of professionalism. So it was also with the car dealing business. In 2005, the Chinese government issued measures dealing with the sale of cars. The main provision is, that any car dealing business must be granted an authorization from a car manufacturer or its general distributor. Effectively, this wipes out all grey car dealers of any brand. It gives the power of their sales network back into the hands of the OEMs and paves the way for more professional car dealers and service stations.

In fact, establishing a good quality car dealer and car service network is one of the main tasks all almost all OEMs active in China. OEMs are beginning to see the next phase of competition in the Chinese car market: Although most car buyers in China are still first time buyers, the fraction of second-time buyer which have an experience to build their decision upon, is increasing. Car dealer and car service quality is a major key to success for customer retention.

Another goal of all OEMs active in China is simply to increasing its reach in China so as to cover the whole country. VW, which has a very long presence in China, is the market leader with about 1.000 dealers across its Chinese activities. It has to be noted, that different joint ventures maintain different sales networks. However, VW currently tries to set up own dealership networks for each of their brands, like Skoda, VW and Audi. Honda also has a large network in China across its various activities. It currently has 560 dealers in China selling its cars (see Table 11 for an overview). SAIC GM currently has around 400 dealers, mainly selling its Buick models. GM Wuling also has a larger sales network, which is mainly active in the countryside. Since GM Wuling is catering to a different kind of customer – small entrepreneurs in the countryside – it is using innovative approaches by doing some kind of roadshows in smaller villages, with the whole village attending a movie-presentation in the central market square.

Almost all brands announcing sales targets of their networks. Especially regional penetration to cover tier 2 and tier 3 cities is one of the major tasks. For example, Dongfeng Nissan wants to grow to 470, Audi to 320 and Mercedes Benz to 150 by 2010. For most brands it is not the problem to find businesses willing to act as a dealer. Rather, the limiting fact is to find good quality partners.

Brand	No. of Authorized Dealerships	Brand	No. of Authorized Dealerships
SAIC GM / Buick	400	Beijing Hyundai	357
VW (SAIC / FAW)	1.000	FAW Xiali	273
Audi	149	Chery	335

Brand	No. of Authorized Dealerships	Brand	No. of Authorized Dealerships
Skoda	140	Geely	300
FAW Toyota	260	Great Wall	367
Guangzhou Toyota	120	Brilliance Jinbei	340
Lexus	12	Mercedes Benz	100
Dongfeng Nissan	310	BMW	90
Chana Ford	200	Volvo	46
Honda	560		

Table 11: Dealership Networks of Major OEMs in China, 2008/2009

Source: Globis

Most of the dealerships are organized according to the 3s or 4s (sales, service, spares, systems) system and offer full service. OEMs are trying to develop their sales and service network to deliver a broad spectrum.

There are some multi-brand dealers which are dealing with a variety of brands. For each brand, multi-brand-dealers have an own showroom and separate service facilities.

Table 12 shows five of the ten auto dealer groups awarded the annual title “National Top 10 Auto Dealers”. These are larger though independent groups which provide outstanding service.

Company	Represented Brands	No. of Locations
Zhejiang Yuantong Mechanical & Electrical Equipment (Group)	GM, Toyota, Volvo, FAW VW, Shanghai VW, Shanghai GM, Dongfeng Nissan, Beijing Hyundai	66

Company	Represented Brands	No. of Locations
Shanghai Dongchang Auto (Group)	Shanghai GM Buick, Shanghai Volkswagen, Shanghai Roewe, FAW Toyota, Guangzhou Toyota, Beijing Hyundai, FAW Audi, Dongfeng Nissan, Guangzhou Honda, ChangAn Ford, Shanghai GM Chevrolet and Toyota Lexus	21
Anhui Yaxia Industry	VW, Toyota, Honda, GM, Hyundai, Ford	20
Chengdu Sanhe (Group)	Nissan (imports), Rolls-Royce, Audi, Volvo, SangYong, FAW Toyota, Guangzhou Toyota, Guangzhou Honda, Dongfeng Nissan	13
Huaxing North Automobile Trade	FAW VW, FAW Audi, Tianjing-Faw, Shanghai VW, Tianjing Toyota, Dongfeng Peugeot Citroen, Beijing Hyundai, Beijing Jeep, and import brands	4

Table 12: Multi-brand Dealerships with National Award, 2007

Source: Globis

In general, however, car dealers in China are smaller businesses which are family owned.

Apart from dealerships, the American blueprint of car mega malls is becoming a new definition in China. China is building car cities, initiated by private investors, where everything around cars – including entertainment – is offered. For example, the Zhengzhou International Car City, is stretching over a location of 3 mio. sqm. and has room for about 10.000 shops.

2.2.3.7. Consumer preferences

Today's Chinese car consumer is characterized through some facts which are rather special:

1. In China, the car market is build up by a very large share of first time car buyers. Current estimates are at 70% to 80% of all car purchases which

are made by people who never bought a car before. This alone has a tremendous impact on the car buying process.

2. In general, Chinese consumers – especially educated ones – are very brand conscious if they can afford it. Understatement is a behaviour not known in China. If you got it, you show it. And often, if you do not got it, you try to show something at least.
3. With a history of many thousand years of civilization Chinese have developed their own taste, which very often is not comparable to standards of countries, where the major OEM are coming from.

These characteristics have an impact on the brand choice, car size and car design:

Chinese consumers have not yet build a strong brand consciousness. Especially with so many first time buyers, there is no experience with any brand. Brand loyalty, if it is useful to be measured in such a young market, is said to be at 10% as compared to 80% in Europe or North America. Chinese consumers consider three brands on average before buying a car, while in Europe or North America they consider only two brands. In addition, the set of brands considered is not fixed. While this is true, Chinese are currently developing a better brand understanding driven by massive brand building efforts of major OEMs and the increasing overall attention that cars are getting in China. While Chinese pureplays had no chance to develop a strong brand yet, they have drawn a lot of attention on car brands and models in China. With a more educated market through advertisement and especially through experience, brands will be as important in China as they are in other markets today.

Of course, also as in other markets, there will be a consumer segment which is not brand conscious but has a different set of purchase criteria. This can be seen from an interesting trend to be observed in China: while in 2007 / 2008 it was expected that purely Chinese brands like Chery and Geely will dominate the low-end segment of small and mini-cars and this segment was supposed to grow, market data did not support this. The segment was not growing and Chinese OEMs can

not build their growth strategy purely on this segment. The main wisdom is, that Chinese consumers are beginning to move up and rather buy larger, more expensive cars of foreign OEMs. The government incentives introduced in 2009, especially the incentives for cars with engines below 1,6 litre, also did not lead to strong growth in the mini-car segment, but rather in the compact car segment – with the exception of the BYD F3, the top cars again are from foreign brands. On the other hand, a very low-end car, the Wuling Sunshine (made by a joint venture between SAIC, Wuling and GM), introduced less than 2 years ago, is a tremendous success and China's best selling model which is not coming from a very established brand (at least most people are not purely associating the Wuling Sunshine with GM). While part of the success can be attributed to a smart sales strategy, the offering is very convincing: a minivan for transporting more than in a small sedan at a price of around 4.000 EUR. If cars offer a real benefit to consumers, Chinese will buy them, no matter of its brand.

As mentioned just before, the size of a car is important in China and is becoming even more important. It was widely believed, that Chinese OEMs could build their growth upon the mini- and small car segment. Market data do not support this, at least with subject to the small- and mini-car segment – Chinese consumers in general are moving up. This has a strong impact of the competitive environment in China. Chinese OEMs also need to move up and need to design larger, reliable cars. Most of them are now offering SUVs and lower medium models, which need to gain their standing in the market. Chinese consumers rather save on the engine size than on the size of the car. This trend is to continue and will make the market tighter for all players involved.

Design of cars in China needs to follow local customs. Just taking over designs from overseas is not necessarily successful. It is the same with the North America and Western Europe – there are just different tastes.

Chinese taste is what some people would describe as “tacky”. Even smaller cars need to have chrome as in the luxury segment. Certain upper class looking car lights as well as special rims are also very much appreciated by Chinese consumers. Several OEMs are just about to learn these differences and design their

cars for China accordingly. Audi, for example, very early offered a longer version of its A6, because it recognized, that customers were using chauffeurs and needed more legroom. The A6L now is the best selling luxury car in China. Chinese are in some way also very traditional. They prefer more the normal notchback instead of more aerodynamic models.

The buying process in China is also different from other automotive market. In China, the family is a centre of ones life. One of Confucius' main messages was to adhere to one's role as a family member (son, daughter etc.). Through this situation, advice from family (and to a much lesser extent from friends) is crucial in the buying process. About 41% of Chinese see the family as very credible information source when buying a car (see Figure 16). Autoshow are also seen as very credible (27%) and the internet is seen as very credible (23%). Especially the knowledge about the internet as a credible information sources is important: companies engaging in China need to take strong care of their internet presence.

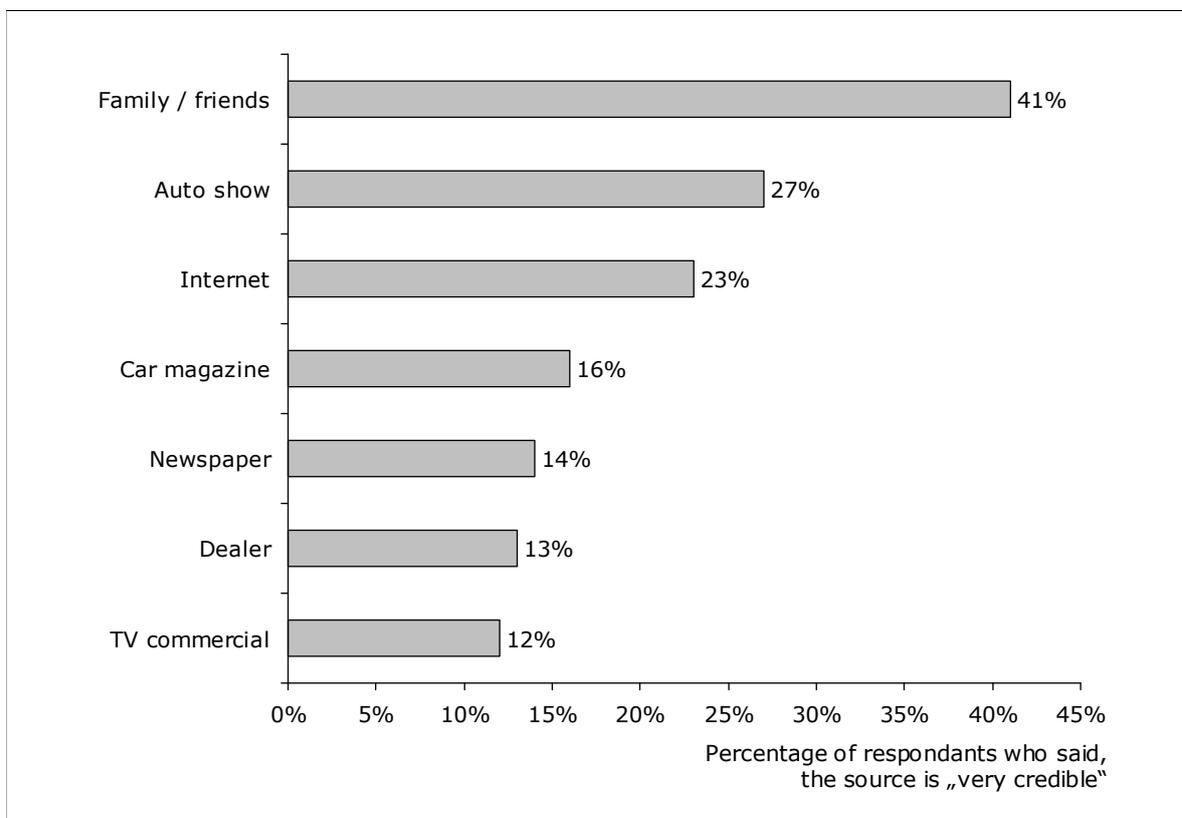


Figure 16: Credibility of Key Information Sources for Car Purchase in China, 2007

Source: KPMG, TNS

3. Chinese Automotive Industry

The Chinese automotive industry dates back to around 1930, when the Chinese government was implementing a program to manufacture commercial vehicles. Russia and Japan helped to build up the industry. The companies formed were manufacturing basically the entire vehicle and initially there did not form a supplier industry. China's first passenger car was manufactured in 1958, the Hongqi or Red Flag.

Since the beginning of the 80's, China opened up to the West. The Chinese policy was to establish joint ventures with foreign OEMs. The first of such joint ventures was the Beijing-Jeep joint venture, followed by SAIC-VW. While these companies more or less had a monopoly for several years, in the 90's the Chinese government wanted to expand the automotive industry and encouraged further joint ventures. Today, almost all major OEM have a joint venture based presence in China. Wholly foreign owned enterprises manufacturing cars are still not allowed and – normally – the most foreign OEM can achieve is a 50-50 joint venture. The only exception as of today is Honda Motor China, in which Honda holds 65% on the grounds, that all cars build are exported. Strong localization rules earlier on (to achieve 80% local content after years three of operation) were waived in 2006.

Today, there are still over 100 companies active in China manufacturing cars (passenger cars, busses, trucks). A major reason for this large number was the Chinese industrial policy to build numerous local players so as to be less vulnerable when attacked from abroad – a fear that build through experience over the last centuries. Later on, and also a traditional feature of Chinese politics, local government protected their industry and did oppose planning efforts on a national level through the central government. For the same reasons, the supplier industry is highly fragmented.

The Chinese government today wants to consolidate the industry and wants to see three to five major automotive groups. Recent efforts of various players to takeover or merge with competitors are the outcome. But it is not only policy forc-

ing players to act. The market is just too large for some players. They have a hard time reaching and maintaining national presence and keeping their quality under control. Mergers and acquisitions still make sense (instead of letting competitors go bankrupt) since all companies active have some valuable assets like technology, brand or dealer or service networks.

In addition, there is a tremendous overcapacity in the market and companies were continuing to add capacity – including new players which entered the market. To cool down the overheated market, the Chinese government issued new rules for automotive projects end of 2006. These rules stipulate, that a car maker needs to have 80% of its capacity used up (and cars in stock sold) before new manufacturing projects are approved. In case earlier production projects were not approved, the car maker must have sold over 100.000 units of sedans (or 50.000 SUV/MPV) in order to get further project approved. Given the independence of local governments in China, the rules might not prove as effective as one would expect. However, it will limit the growth of the capacity to some extent.

In recent years, the older policy of forming joint ventures and using foreign know-how to build cars was replaced by the wish to form own automotive champions. Developing one's own technology and establishing purely Chinese brands is the prime target today. All car manufacturers are working on this goal. Joint venture partners do not look forward to SAIC or Dongfeng (FAW has its own brands since several years) developing their own cars, of course with an indirect technology transfer of their foreign joint venture partners. Officially, all foreign OEMs like Volkswagen support the plans of their Chinese partners. However, the moves of the Chinese car makers are certainly watched closely. Finally, there will be some kind of competitive situation which will not be resolved easily. Latest at the end of the joint venture term, which normally is 30 years, the real intentions of the Chinese partners will surface.

When China joined the WTO in 2001, there was a general expectation, that the Chinese car industry would suffer heavily, with massive imports of new cars flooding into China. It was estimated, that local pure plays like Chery and Geely would suffer the most. However, this did not happen. Firstly, many models were already

manufactured in China and it did not appear as a wise strategy to reduce local manufacturing and rely on imports. Secondly, there were no dealer or service networks exclusively owned by foreign OEMs to sell and service massive amounts of imported cars. Thirdly, the market was growing through smaller low-cost vehicles which foreign OEMs did not offer.

Today, Chinese pureplays have partly gained strong positions in the market. Chery and Geely rank among the top-ten car makers in China, Great-Wall leads the SUV segment. However, the future role of this car makers – and also the own brands of foreign OEM partners – is not clear. While it was assumed, that the mini- and small-car segment would grow, Chinese consumers are moving up (but simply buy smaller engines). Brand is becoming increasingly important. Chinese OEM are not ideally positioned in this situation, mostly focussing on the mini- and small-car segment and with brands established only recently. In the light of this development, Chinese OEMs are quickly expanding their model range to be present in more segments in the Chinese market. In addition, all Chinese OEM are targeting overseas tier-2 markets, like Iran, Syria, South Africa and Russia. Mexico seems to be a new top destination for Mexican car makers. In these markets they sell their long established models, SUVs, minivans or A-class-cars. Selling in more regulated markets failed because of still persisting major quality problems – especially with regard to safety. It remains to be seen, whether Chinese OEM will be successful with this two-fold strategy.

3.1. Major Chinese Automotive Companies

Measured by the sales volume of passenger cars through majority owned subsidiaries and 50/50-joint ventures, SAIC is the leading automotive group in China, followed by FAW and Dongfeng. Chana (Chang'an) grew strongly, also due to the takeover of Hafei and Changhe and is now ranking forth in terms of passenger cars. Table 13 shows the details. The numbers include minivans.

Automotive Group	2009	2008	2007
SAIC	2.425	1.599	1.414
FAW	1.758	1.422	1.145
Dongfeng (DFM)	1.688	1.060	703
Chana	1.370	739	609
Beijing (BAIC / BAW)	1.132	780	350
Guangzhou (GAIG)	542	530	463
Chery	436	356	321
BYD	388	171	100
Geely	325	221	220
Brilliance	316	200	220

Table 13: Sales of Top 10 Automotive Groups in China, in 1.000, 2007-2009

Source: Compan Information, CPCA, Globis Analysis & Estimates

Chery is ranking seventh. If single corporations are counted, Chery is ranking fourth. Chinese companies follow several strategic options, mostly all of them at once:

1. Establishment of their own brand
2. Further penetration of the Chinese market through a comprehensive model range
3. Exporting / selling overseas in “B”- and “C”-locations (South Africa and other parts of Africa, Ukraine, Russia, Mexico and parts of South America)
4. Exporting / selling overseas in “A”-locations.

So far, no Chinese brand has been able to implement strategy 4, the penetration of major automotive markets in Western Europe or North America. However, it is only a matter of time.

While the market is set to consolidate with a broad variety of brands and many smaller players, there are still numerous companies which recently entered the market. Prominent examples are JAC, a commercial vehicle maker, Lifan, a motorcycle maker, and Zoyte, an import- and export company. All of them just recently started making passenger cars. New government regulations requiring a certain history in car making will limit the appearance of new players but enforcement will certainly not be 100%. Local government are still keen in playing a major role in the automotive industry and might not want to support regulations issued by the central government.

The central government currently is trying to consolidate the industry to a handful major car makers in China. It is actively pushing companies into take-overs oder mergers. The government is seeing the “Big 4” companies, which are SAIC, FAW, Dongfeng and Changan, and the “Small 4”, being BAIC, Guangzhou, Chery and China HDT (a truck maker). While the Big 4 will be allowed to make national transactions, the Small 4 will only be allowed to pursue regional acquisitions.

Private companies like Geely, Great Wall, BYD, Lifan etc. will have to look for their own survival, while state-owned carmakers such as Brilliance, Hafei, Jianghuai and Changhe are preferred potentially take-over targets.

Nevertheless, Chinese companies are still entering the car market. For example, China's Sichuan Tengzhong Heavy Industrial Machinery is selling GM's Hummer division. This is yet another case, in which a Chinese company with no experience in car making enters the industry.

3.1.1. Beijing Automotive Industry Holding (BAIC)

BAIC has a longstanding history in China. Established in 1958 and named Beijing Auto Works, it released various prototypes. Among them was the Jinggang-

shan, of which about 150 units were manufactured. It later on successfully manufactured jeeps and became a major supplier of the Chinese military.

BAIC is the major shareholder of Beiqi Foton (about 34%), Chinese leading commercial vehicle maker. In addition, BAIC has various car manufacturing activities:

Beijing-Hyundai, a joint venture established in 2002. the joint venture is one of the market leaders in the Chinese passenger car market.

Beijing-Benz, joint venture established in 1983. Before Chryslers takeover of American Motors, the joint venture was called Beijing-Jeep and manufactured mainly the Jeep Cherokee. The joint venture was the first car making joint venture in China after its opening end of the 70's.

Currently, in July 2008, Daimler is establishing a joint venture with Beiqi Foton and through the share of BAIC in Beiqi Foton, it is also increasing its ties with BAIC.

Beginning of 2009, BAIC was bidding on Opel, the German subsidiary of GM. Also, BAIC was said to be interest in Lifan as well as Saab, also a subsidiary of GM. It was not successful with its bid for both companies. So far, BAIC has no own passenger car brand. Both acquisition targets would bring BAIC into a better overall position in the Chinese market.

3.1.2. Brilliance

Brilliance is one of the smaller Chinese car makers but has a leading role in the minibus and minivan market with its brands "Jinbei" und "Ganse". Although relatively small, it was the first Chinese company that was listed on a foreign stock exchange in New York already in 1992. Today, however, the board is considering a delisting, due to low trading volume and high cost of the listing.

Brilliance is active through two companies:

- Its holding Shenyang Brilliance Jinbei Automobile Co., Ltd., which is manufacturing all commercial and light vehicles under the brands of Zhonghua

(with famous models Junjie and Zunchi, also called BS6 and BS4) and its minivans and buses under the brand Jinbei (with famous models Hiace, a licence from Toyota).

- Its Joint Venture with German BMW, where it is producing series 3 and 5 models for the Chinese market. The joint venture currently has a capacity of 20.000 units.

In total, Brilliance is producing commercial vehicles, vans and passenger cars / sedans.

Brilliance came to “popularity” through its attempted market entry into Germany, where it was to sell its Zhonghua models under the name Brilliance BS4 (for the Junjie) and BS6 (for the Zunchi). The cars scored the worst result in years, only achieving 1 out of 5 possible stars. The pictures of the test went around the world which meant a PR disaster for the company. However, after remodeling its cars and achieving better crashtest results, Brilliance is again attempting to enter the German market, this time about the end of 2008. However, with this history, it will be a bumpy road ahead.

In 2002, the majority owner of Brilliance, Yang Rong, was accused of committing “economic crimes” and had to flee from China to the USA. In the years 2005 and 2006, Brilliance had trouble with its performing due to increasingly strict regulations for car manufacturers and buyers, but has overcome these difficulties and is expanding again.

Recently, in June 2009, Brilliance is said to be taken over by FAW, at least on a step-by-step approach. This would be in line with the Chinese governments target to reduce the complexity of the Chinese automotive market. However, so far, no steps have been taken in this direction.

3.1.3. BYD Auto

BYD Auto is another purely Chinese manufacturer of cars, located in Shenzhen, in Guangdong province. BYD Auto is part of BYD, a mobile energy provider and IT as well as electronic parts manufacturer of international dimensions.

BYD car manufacturing operations are located in Xi'an, with a capacity of 200.000 cars and Shenzhen, with about 300.000 cars capacity. However, this capacity is not yet utilized, with sales of around 100.000 cars in China.

BYD came to "popularity" due to its one-to-one remodeling of famous car models like the Mercedes CLK (BYD's F8) and the Yaris (BYD's F1 – recently changed to F0 and sometimes called "Flyer").

BYD also has international ambitions. In the U.S. it plans to sell hybrid cars by 2010. In Europe, it wants to sell in the Netherlands, the Czech Republic, Slovakia, Slovenia and Hungary. With Autobinck of the Netherlands, a distributor has already been appointed.

In Russia, already 1.500 Flyers (complying with Euro2 standards) have been sold and crash tests of the F3 were successfully made in the beginning of 2008. BYD is planning, through its Russian distributor IRITO, to assemble Flyers in Russia. IRITO is said to invest 40 mio. USD to build an operation with a capacity of 25.000 cars. The assembling operation has not yet been approved.

End of 2008 Warren Buffet's investment company took a stake of 10% in BYD. BYD just recently released a hybrid car study and apparently is trying to combine the strength of its mother company with its auto making experience.

BYD is about to pass Chery as the leader in the segment of purely Chinese car makers.

3.1.4. Chana

Chana, also called "Chang'an", is a major car manufacturer in China with a longstanding history. In 1957 it started its automotive ambitions and produced the "Yangtze River", a jeep. While it was the leading minibus and minivan maker in China for years, it has recently been surpassed by GM Wuling with its Sunshine.

Chana has four main bases of operation in car making:

- A joint venture with Ford and Mazda, with is very successful and which is currently expanding

- A joint venture with Suzuki, which is somewhat stagnating currently. Its main product is the Alto and the Lingyang
- Its own passenger car brand “Chana”. However, most models are manufactured under a licence a Mazda or Suzuki.
- Its traditional basis of manufacturing minibuses and minivan under the brand name “Chana” (models are “Star” and “CM8”).

Chana has strong international ambitions in various world regions, especially building on its minivan models and its small car, the Chana Benni, which are not manufactured under any licence and hence are free for export. Chana is a role model for an Chinese car maker’s internationalization strategy. Chana wants to develop the domestic market and the international markets both at the same time, while still expanding their technical capabilities and designing and manufacturing own new models.

Chana, as well, starts in markets not yet saturated, like South Africa, Russia, Syria and the Philippines but also keeps an eye on Europe and the U.S. – as most Chinese manufacturers are doing. It also went a step further. In 2007 it reached agreement with Pars Industrial Development Foundation (PIDF) from Iran for licensing its technology for the Chana Benni. PIDF will invest heavily in order to provide a manufacturing capacity of 50.000 units initially. If successful, capacity shall be expanded to 250.000. The manufacturing base will not be solely for the Iranian market, which is slightly over 1 mio. cars (inkl. Trucks) annually.

End of 2009, Chana announced a take-over of Hafei and Changhe, the two subsidiaries of aviation company AVIC. Earlier on, it was expected that Dongfeng would be the acquirer. Chana already announced to keep the two brands alive. Chana itself has no major car brand but so far was mainly active a car making partner of Ford and Suzuki. Through this deal, Chana now is the fourth largest Chinese car maker.

Also end of 2009, Chana announced a new joint venture plan together with French PSA.

3.1.5. Changhe

Changhe is a smaller Chinese car maker, which is a subsidiary of Changhe Aircraft Industries Corporation. It started operations in 2004.

Changhe main business is a joint venture with Suzuki, manufacturing locally adapted Suzuki models. These vehicles are sold in China but also in Mexico (under the brand Viribus) and Venezuela. Changhe also manufactures its own model Ideal of which it sold around 10.000 units in 2007. Changhe was never really successful in the Chinese car market.

Mid 2008, Changhe announced its drawback from the automotive market. Driven by its mother company, Changhe will turn into an aviation company. This move comes as a consequence of the Chinese governments will to form a national aircraft manufacturing champion for the production of larger airplanes. Also, the Chinese Governments always wanted to consolidate the Chinese automotive market, leaving just three or four Chinese national champions in the car making business.

This move was related to a potential acquisition of Hafei by Dongfeng, which was announced in 2008. Hafei is sold because its mother company is the second aircraft maker which should be part of the larger aircraft manufacturing company. Potentially, Changhe will also be integrated into Dongfeng's operations. In 2009, the deal with Dongfeng did not make any progress. Finally, Chana, was successful in taking over both Hafei and Changhe and plans to keep the two brands alive.

3.1.6. Chery

Chery today is China's largest independent car maker. Chery was established in 1997 by the government of Wuhu in Anhui province with the target to speed up the economic development of the region, which did not receive substantial investments at that time. Chery started manufacturing cars in 1999.

Initially, the company was illegal under Chinese laws – but this is just another case where the interests of local governments in China precede national law. However, with this illegal status, it could not sell cars in all of China. Through a

20% investment of SAIC, however, Chery managed to get a national distribution licence. SAIC sold back this stake with tension between its partner GM and Chery, especially over an IP-rights infringement case. So far, Chery is still independent, without the investment of any foreign OEM. Over the last years, Chery developed engineering and design capabilities to manufacture high quality cars.

Chery started its production with a licence of SEAT Toledo, which it called Chery Windcloud. Later on it tried to purchase manufacturing rights of part of Daewoo's models, when the Daewoo group broke down. However, Chery did not succeed but nevertheless started the production of a Daewoo Matiz (Chery QQ) and a Daewoo Magnus (Chery Easter) copy. GM, which bought this rights from Daewoo, sued Chery over this infringement, but finally did drop the case under pressure from the Chinese government and given the low chances that a Chinese court would rule against a Chinese company over IP-rights infringement. However, especially with respect to overseas market, the case is not over.

Chery went on to develop further models and engines, supported by European design and engineering service providers. Today, Chery is producing 10 models covering almost the full range of car segments. Chery today has an annual capacity of 400.000 units, which it is planning to expand to 700.000 over the next few years.

Chery was the first Chinese car maker who started exporting its products. Initially, it exported to Syria. Quickly, Chery was also assembling abroad:

- Chery first send CDK kits to Iran to get their QQ model assembled at Modiran Vehicle Manufacturing Company (MVM). MVM was already assembling the Daewoo Matiz but GM could not deliver CDK kits to Iran due to sanctions of the U.S. government. So Chery, which had a similar car (on the basis of its IP infringement) delivered the kits.
- Under almost equal circumstances, Chery models are produced in Egypt today
- In Indonesia, Chery models are produced by PT Indomobil Sukses International, Indonesia's second largest automotive company

- Chery models are also produced in Russia by Avtotor and in Ukraine by ZAZ
- Chery models are also produced in Uruguay through a joint venture with Argentine Grupo Socma, an industrial conglomerate and sold in Argentina, Uruguay and other South American countries
- Chery in the beginning of 2008 signed a deal with Alado Corp Sdn Bhd of Malaysia to assemble and distribute some of its models in Malaysia and ASEAN markets. Later on, it will export from Malaysia to other right-hand driving destinations. The capacity set aside for the production will be 10.000 units initially.

Chery is now the number four in terms of sales of passenger cars in China. With this success, further co-operations and a hunger for further growth formed:

- In 2007, Chery formed an agreement with Chrysler (by then: DaimlerChrysler) to co-manufacture a small car for export. Initially, however, it is more a distribution agreement with Chrysler renaming Chery cars (initially a modified version of the Chery QQ) and selling them under their Dodge brand in the U.S., so as to serve the small car market in the U.S. more quickly and with less capital spending. However, the introduction to the U.S. market is not expected before 2009. Once in the U.S., Chrysler will also begin to sell the car in Mexico.
- In addition, with an indirect co-operation with the Proton Automobile through its joint venture with Alado, Chery is said to plan to support the sale of Protons in China.
- Since mid of 2008, Chery is said to have interest in Volvo, which its wants to buy from struggling Ford. However, these plans are not made official yet.
- Also in mid 2008, Chery and Chrysler announced a joint venture to export cars to Latin America and Eastern Europe and later on also to North America and Western Europe.

3.1.7. Dongfeng Motor (DFM)

DFM, previously called Second Automobile Works, currently is China's third largest automotive company in terms of passenger car sales. DFM was established in 1969. Dongfeng Motor is state-owned but its major automotive assets are listed on the stock exchange. The listed Dongfeng Motor Group is the largest Chinese automotive company with a listing.

Dongfeng started out as a truck maker (and currently is number two after Beiqi Foton) and only since the beginning of this century is engaging in the manufacturing of passenger cars. Dongfeng teamed up with Japanese and Korean players and formed joint ventures. Later on, a joint venture with PSA was formed.

Dongfeng is engaged in various activities to manufacture cars:

- Dongfeng Yueda-Kia, a three party joint venture, in which Dongfeng holds 25% and Kia holds 50%. This joint-venture is not part of the listed Dongfeng Motor Group.
- Dongfeng Peugeot Citroen, a 50/50-joint venture with PSA
- Dongfeng Nissan Diesel, a 50/50-joint venture with Nissan Diesel, mainly manufacturing trucks
- Dongfeng Motor Corporation, a 50/50-joint venture with Nissan
- Dongfeng Honda, a 50/50-joint venture with Honda
- Dongfeng Liuzhou, a subsidiary making medium and light-trucks. Dongfeng Liuzhou since lately also manufactures Dongfeng passenger cars (MPV) under Dongfeng's own brand "Joyear" or "Jing Yi"
- Dongfeng Yuan, a joint venture with Chongqing Yuan Group to manufacture mini-buses.

Dongfeng does not have an established own brand name like FAW and did not acquire foreign brands like SAIC. Dongfeng only recently started its own brand, "Joyear" or "Jing Yi", through its subsidiary Liuzhou.

Dongfeng is destined to be one of the few larger automotive companies the Chinese government wants to see midterm. In line with this development, Dongfeng is trying to expand through acquisitions within China and also through further joint venture partnerships:

- Dongfeng is currently, mid 2008, in talks with Volvo to establish another truck-making joint venture
- Dongfeng was also trying to take over Hafei and Changhe, currently owned by AVIC I which wants to concentrate on its aviation business. Hafei would have been the ideal partner, expanding Dongfeng position in the minivan segment. In addition, Hafei owns a more or less established brand name in China, which Dongfeng could use for its own expansion. However, end of 2009, Chana was announced as the successful acquirer of Hafei and Changhe. Dongfeng recently announced its own brand cars and plans to sell 60.000 units in 2010.

Due to its missing own passenger car brand, Dongfeng is not active in exporting passenger cars – while its commercial vehicles and Yuan and Liuzhou mini-vans are exported to several destinations overseas already.

3.1.8. First Automotive Works (FAW)

FAW currently is China's no.2 passenger car maker. FAW started in 1953 making trucks. In 1958 it also ventured into passenger cars and made the Hongqi (red flag), China's luxury sedan with which all important officials were driving around in China.

Over the years, various other Chinese car making enterprises were integrated into FAW, some by direction of the Communist Party others more through market forces: in 1987, Jilin Light Truck was merged into FAW, end of the 90's, Hainan Auto Works was taken over and in 2002, Tianjin Automobile Industry (Group) Corporation was also merged into FAW. Currently, FAW is said to have talks with Zhongxing, a manufacturer of pick-ups and SUVs, which sold about 36.000 units last year including 10.000 through exports.

A new area for FAW started with co-operation with overseas OEM. In 1988, China bought machining equipment and design plans from Chrysler and in 1991, it created China's first overseas OEM joint venture with Volkswagen. This joint venture is manufacturing the Jetta, while the Santana is manufactured by SAIC-VW. Through technology transfer, FAW quickly gained knowledge in car making although it took some years for FAW to finally create its own new brand.

Later on, other joint ventures with Toyota and Mazda followed and FAW also established own companies and brands. Today FAW owns a rather confusing brand portfolio of passenger cars:

- Through its subsidiary Tianjin FAW Xiali it offers cars under the brand Xiali, manufactured on the basis of Toyota models. FAW Xiali also offered cars under the Huali brand, based on Daihatsu models. This brand, however, is not manufactured any more.
- Through its subsidiary FAW Haima, sometimes also called FAW Hainan, cars under the Hainan brand are offered. The cars are badge engineering from Mazda cars. Haima stands for a blend of "Hainan" and "Mazda".
- FAW is currently also pushing its Besturn brands (sometimes called Benteng) which is based on Ford and Mazda models.
- FAW is also active in developing and promoting the Hongqi, which is currently experiencing a revival with a variety of new, attractive models.
- In addition, FAW has its minivan brand Jilin and its major truck brand Jiefang

Three of FAWs wholly owned subsidiaries are listed: FAW Car, Tianjin FAW Xiali Automobile and FAW Sihuan Automotive (FAW's parts making unit).

FAW currently has further expansion plans in China and overseas:

- Mid 2008, FAW Haima announced the establishment of a third plant, increasing its production capacity from 150.000 to 300.000.

- FAW Toyota in May 2008 announced a plan to increase production in its Tianjin plant by about 70.000 units to 150.000 – and its total capacity to 470.000 units.

FAW is also active overseas:

- FAW has assembling operations (with partners) in South Africa, Tanzania, Pakistan, Ukraine, Vietnam and Colombia, but currently it is only concentrating on trucks
- FAW is already selling actively in overseas markets. In Russia, for example, it is selling through exclusive distributor East-European Trading Alliance (BETA). As in the case of other Chinese companies, FAW was not allowed by the Russian government to set-up a plant in China (while Korean brands including SAIC-controlled SsangYong were allowed to do so).
- Tianjin Xiali is manufacturing the Miles ZX40, an electric car, for US company Miles Electric Vehicles
- End of 2007, FAW announced a plan to build a factory in Mexico, together with Grupo Salinas, an electronics company. They are planning to sell the cars countrywide through Salina's Elektra stores. However, the plan has not been officially approved by the Chinese government. The plant would give FAW the additional option to sell to the U.S. under the preferential NAFTA regime – if its cars would be allowed to sell in the USA.
- In case FAW is succeeding in a takeover of Zhongxing, it would also benefit from Zhongxing's manufacturing arrangement with Avtotor in Russia.

Mid of 2009, FAW was said to be in talks to take over Brilliance. So far, no steps have been taken and it is unclear, whether there is continued interest of FAW in Brilliance.

3.1.9. Guangzhou Automobile Industry Group (GAIG)

GAIG, sometimes also called "Guangzhou", has a long history dating back to 1948. It was not until 1978 that car manufacturing was taken up – starting in the

bus segment. With its Denway buses, Guangzhou has a good position in the Chinese bus market.

GIAG is listed on the Hong Kong stock exchange through its subsidiary Denway Motors. GAIG is also planning a listing in Shanghai in the third quarter of 2008.

GAIG started its passenger car making business as early as 1985, through a joint venture with Peugeot. These operations were unsuccessful and in 1998 GAIG started its more successful passenger car making joint venture with Honda. The joint venture currently has two manufacturing sites, one in Guangzhou's Huangpu district and one in Zengcheng city.

Its other major joint ventures are

- Guangzhou Isuzu, a bus making joint venture established in 2000
- Guangzhou Hino, a truck making joint venture established 2007. Production start is mid 2009. Another joint venture with Hyundai for truck making, discussed earlier on, was not implemented.
- Guangzhou Toyota, a engine- (and now also car-)making joint venture established in 2004.

The major asset of GAIG are its busses. So far, it does not have its own passenger car brand and only one passenger car making joint venture partner. With Hino, it is entering the truck market only in 2009. With the Chinese government wanting to consolidate the industry, GAIG needs to grow or will eventually be taken over. In the light of this prospect, GAIG has acquired a stake in Hunan Changfeng. Changfeng is a leading SUV-maker in China and partly listed on the stock exchange in Shanghai.

In June 2009, GAIG announced a joint venture with Fiat. Fiat is rushing to re-enter the Chinese market, where it has no real presence as the only major Western car brand.

3.1.10. Geely

Geely is the second largest Chinese car maker. It is listed on the Hong Kong Stock Exchange but a majority stake is still with its founder and chairman, Li Shufu. Geely came from the motorcycle business when it eventually turned to make cars in 1998.

Geely initially manufactured cars on the basis of a Daihatsu licence of the Charade. This car was called the Haoqing and is still on sale today. While in recent years the Haoqing was driving the overall sales volume of Geely, today other models are more prominent. Since 2006, the Free Cruiser is the flagship car of Geely, selling about 80.000 units in 2007. Together with the Geely Kingkong and the Meiri they form the basis of Geely's success. Geely also has a second line of brands under the name Maple, which is especially designed for women drivers.

Geely today has a manufacturing capacity of 340.000 units p.a. with plants in Shanghai, Ningbo, Linhai and Liuqiao. The last three are located in Zhejiang province, with Shanghai lying to its north border. It is currently planning three new facilities in China with a total annual capacity of 165.000 units.

With local business becoming more competitive, Geely, like many other Chinese brands, started to conquer foreign markets. Geely is already present through assembling operations in the following markets:

- Indonesia, with assembling operations through PT IGC International and PT Gaya Motor – Indonesia largest automotive player. It plans to use Indonesia as a hub for the ASEAN countries
- Russia, with assembling operations through Inkom-Avto. Geely is selecting various distributors for its models in Russia and hence is jeopardizing its success
- Ukraine, with assembling operations through KrASZ
- Just mid of 2008, Geely announced plans to open a plant in Mexico to manufacture vehicles for the U.S. and Latin America.

End of 2009, Geely almost reached an agreement with Ford to buy Volvo. The purchase price is said to amount to 1,4 bn. EUR. While Geely is known for its smaller cars, Volvo would close a gap in the product line of Geely in the Chinese market. For overseas expansion, Volvo also provides a good starting ground for Geely.

3.1.11. Great Wall

Great Wall is the leading SUV and pick-up manufacturer in China. It is listed on the Hong Kong Stock Exchange and currently is seeking a listing also at the Shanghai Stock Exchange.

Great Wall is in the pick-up business since 1996, when it released the Great Wall Deer which it is still selling today. Its flagship car today is the Hover, an SUV, of which it sold around 50.000 units in 2007. The cars are assembled by pieces of older foreign technology and hence are relatively competitive in price.

Current production capacity of Great Wall is at 300.000 units, with plans to expand to 400.000 units.

Great Wall, as many Chinese pure plays, has strong ambitions overseas. Great Wall was the first Chinese manufacturer who managed to sell cars large scale into Europe. In 2006, it shipped 30.000 Hovers to Italy for sale. Its small car model Peri, however, was banned from Italy since there is an IP-rights infringement case with Fiat: the Peri is looking like the Panda. Fiat is also suing Great Wall in other countries of Europe and China for these alleged infringement, but there is no ruling on the case yet. Great Wall also shipped larger quantities of the Hover to Cuba. In South Africa, for example, Great Wall has close to 30 dealers and is challenging established OEMs. It has assembling operations abroad in various destinations:

- Since 2007, Great Wall cars are assembled in the Ukraine through KrASZ
- In Iran, Diar is manufacturing Great Wall under a licence
- Great Wall also was about to open an assembling operation near Moscow. However, the plans were stopped, when the Russian government decided against new automobile plants in Russia through foreign investor in Sep-

tember 2007. However, Great Wall keeps exporting to Russia with good sales of its Deer and Hover models.

Great Wall, like Chery, is eventually teaming up with foreign OEMs to develop better cars in a shorter period of time. Great Wall just recently established a co-operation with Chrysler, which is looking for partners to reduce cost developing its trucks and SUVs. In addition, Chrysler does not have a small SUV-type car as the Hover of Great Wall. Chrysler already has a deal with Chery to manufacture small cars Chrysler will be selling in the U.S.

3.1.12. Harbin Automobile Industry Group Company (Hafei)

Hafei is a smaller purely Chinese manufacturer of cars, but one of the main players in the minivan segment in China. It is a subsidiary of the Harbin Aircraft Manufacturing Corporation (AVIC I), which is a state controlled aircraft manufacturing company.

Hafei is using a different strategy to acquire technical know-how for car building. While most other Chinese car maker are teaming up with foreign OEMs on the basis of joint venture, Hafei is co-operating with Italian Pininfarina to design and engineer its cars and thus remains independent in terms of ownership of its automobile business. Hafei is also licencing models of Daewoo and Mitsubishi. The "Saima", for example, is based on Mitsubishi's Dingo. However, the relevance of these licenced models is declining. Today, its main model is the Zhongyi, a minivan, and the corresponding pick-up version, the Ruiyi. Also strong is the Lobo or Lubao.

Lately, interest in Hafei is strongly increasing. Although Hafei is only a smaller player in the Chinese and world markets, PSA Peugeot-Citroen wants to set-up a joint venture with Hafei to co-develop minicars and minivans, which are strongly growing segments in China and the rest of the world. Hafei has a solid track record in these segments and over the past years has developed its own engineering capacities and know-how.

In addition, Dongfeng Motors in 2008 announced its plan to take over a majority stake in Hafei, with the management of AVIC I wanting to concentrate on its core business, the aviation industry. Dongfeng's interest is based on the different model scope of both companies. Furthermore, Dongfeng – as the only Chinese manufacturer – has not yet managed to release an own brand and Hafei could fill this gap. The situation was complicated by the Chinese government's intention to merge its two aircraft manufacturing companies (AVIC I and AVIC II) to join forces for the development of a larger Chinese aircraft. It was unclear what the management of this new corporation would think of the disposal of its automotive business. However, today the situation seems more or less resolved, since Jiangxi Changhe Automobile Co., another Chinese car maker controlled by AVIC II, has announced to pull-out of the automotive business. It seems clear, that whatever a potential merger of the two aircraft companies is bringing, they want to pull-out of the automotive business.

Furthermore, PSA is already engaged in a joint venture with Dongfeng Motors. With Dongfeng interested in Hafei's Automotive business the creation of a new joint venture between PSA and Hafei seems complicated. Before the official announcement of AVIC II to pull-out of the automotive business, it was reported that the Chinese government wanted a 3-party joint venture between PSA (40%), Hafei (40%) and Dongfeng (20%). Through the involvement of Dongfeng, it did not want to further complicate the structure of the automotive industry. With Dongfeng potentially taking over Hafei, however, the joint venture structure might look different in the end. However, since 2009 there is no new information on the issue and it could be that the transaction will not take place.

In addition, in 2009 the mother company of Hafei, which is also owning Changhe, is considering to merge the two units to form an auto company potentially more attractive to other, larger Chinese players.

Hafei also has strong international ambitions in various world regions:

- In South Africa it is selling its cars since 2005 under the names Hafei Lobo and Hafei Loda (for the original Hafei Ruiyi, the mini-pick-up-truck on the basis of the Zhongyi)

- In Chile it is selling its main three models, the Loda, the Zhongyi and the Ruiyi since end of 2007 – targeting the very hot minibus / minivan market in Chile
- In Brazil and Uruguay, Hafei is selling its minivans under the brand name Effa Motors
- In Peru, Hafei is presented since the end of 2007

3.1.13. Jianghuai Automobile Company (JAC)

JAC is one of the leading commercial vehicle makers in China. In 2007 it decided to venture into passenger cars, assuming that these vehicles are more profitable than trucks.

In 2007 it sold a C-class car and reached sales numbers of almost 8.000 – through currently about 60 dealers in China. Earlier this year it showed an A-class car at the Beijing Auto Show and said, B-class cars will follow.

JAC is a good example for new players in the passenger car segment, which will likely continue to surface in the future. Once decided, Chinese companies quickly develop new products and start selling them through a quickly build up dealer network.

3.1.14. Lifan

Lifan is one of the larger motorcycles manufacturers in China, exporting in many regions of the world. It also has established a manufacturing site for its motorcycle business in Vietnam. Lifan is still privately owned.

Lifan eventually ventured into the car making business, also without joint venture partners. Its only model Lifan520 is quite successful in China with over 30.000 units sold in 2007.

Lifan is now using its already established manufacturing and sales network for motorcycles to sell its cars abroad. So it is using its Vietnamese plant also for car production and was planning to invest into another factory, but stopped these

plans due to worsening inflation rates in Vietnam. In Russia, Lifan is co-operating with Automir, a large dealer company, to assemble and sell Lifan520 in Russia. Initially, a production capacity of 25.000 units is planned. Currently, Lifan is also setting up a manufacturing joint venture in Egypt. In Turkey, it is planning to manufacture motorcycles at first.

Lifan is currently said to be a takeover-target of BAIC.

3.1.15. Nanqi

Nanqi, with full name Nanjing Automobile (Group) Corporation, is another player in the Chinese automotive market. It has a longstanding history of the production of light vehicles – vans – since 1958.

Nanqi was engaged in two joint ventures:

- With Fiat to manufacture passenger cars (Fiat sold its stakes along with the SAIC – Nanqi merger)
- With Iveco to manufacture trucks.

In addition, Nanqi has set-up its own brand, Soyat, which models are produced under a licence from SEAT and Isuzu (SUVs and pick-ups).

The most remarkable fact is Nanqi's takeover of MG's assets in 2005. Through this purchase, Nanqi was hoping to gain engineering and design know-how to act more independently. Also, it hoped to faster penetrate foreign market through the MG factory in Longbridge, UK. Ford, however, did buy the rights for the brand "Rover" (after purchasing the operations of "Land Rover"), so that Nanqi can not call its cars Rover. In addition, SAIC, also from China, purchased intellectual property rights for the Rover 75. With this situation, there was a chance that two Rover 75 like models were driving around in China.

However, SAIC and Nanqi announced a long awaited merger end of 2007. At the same time, Fiat sold its stake in its loss-making joint venture with Nanqi to SAIC, but keeps being engaged through its IVECO joint venture. This move is in line with a consolidation target of the Chinese government, which wants to merge

smaller players with larger ones to create three to four national champions that will be able to compete internationally.

Just recently, SAIC-VW announced to take over the remaining assets of the former Nanqi-Fiat joint venture.

3.1.16. Shanghai Automotive Industry Corporation Group (SAIC)

SAIC Group with its listed subsidiary Shanghai Automotive is one of the top three car makers in China. It currently leads in passenger car sales, mainly due to the tremendous success of the Wuling Sunshine, a minivan and currently sales leader in China.

SAIC was established in 1990, with a strong impetus of the Chinese government to boost the economy. SAIC does not have the longstanding tradition of car making like FAW.

SAIC's main car activities are managed through various subsidiaries:

- Shanghai GM, which was a 50/50 joint venture with GM. End of 2009 GM agreed to take a minority position, in order to secure the support of the Chinese government in other things. Shanghai GM manufactures various Chevrolet and Buick models. End of 2009 it announced to enter the Indian market.
- Shanghai Volkswagen, a 50/50 joint venture with Volkswagen. Shanghai Volkswagen manufactures the Santana.
- SAIC-GM-Wuling, a joint venture between SAIC (50,1%), GM China (34%) and Wuling Automotive (15,9%). SAIC-GM-Wuling is specializing in minivans and currently sells the market leader in China, the Wuling Sunshine. SAIC-GM-Wuling's manufacturing (and pricing) strategy is interesting: they manufacture on older assembly lines with few steps supported by automation – based on manufacturing locations in Western China which guarantee low cost of labour. For a Wuling sunshine, about 100 USD are spent on labour cost. The car can be bought for about 3.500 USD and is affordable for a greater share of the population. SAIC-GM-Wuling's marketing

approach is also interested: they sell mainly in the countryside with road-show like presentations on public places.

- Shanghai GM Dongyue, a joint venture between Shanghai GM (50%), GM China (25%) and SAIC (25%). Shanghai GM Dongyue manufactures smaller Buick models.
- In addition, SAIC has operations with Volvo and Iveco to manufacture buses and trucks. SAIC also manufactures motorcycles.

SAIC was also growing through various takeovers and mergers, for example:

- End of 2004 SAIC took over a stake of almost 50% at SsangYong, a leading SUV manufacturer. The main goal was technology transfer. Subsequently it increased its share to now more than 50%, to ease the transfer of technology through better management control. In addition, SAIC is planning to use SsangYong dealers in Europe to sell its Roewe models. In 2011, SAIC and SsangYong are planning a production joint venture in China.
- End of 2007 SAIC merged with Nanqi. Since Nanqi is much smaller than SAIC it is rather a takeover. SAIC's main interest in Nanqi is Nanqi's ownership of MG. A few years earlier, Nanqi won the battle to buy most of the remaining assets of MG. SAIC was also trying to buy the major piece but ended up "only" buying the manufacturing rights for the Rovers 25 and 75, which it is currently selling under the name of "Roewe".

To increase its overseas presence, SAIC is looking out for further takeover opportunities. It is also said to be in talks with German Karmann, a contract car manufacturer, to manufacture its Roewe models and organize sales in Germany.

3.1.17. Zoyte / Jiangnan Automobile

Jiangnan Automobile Co., Ltd (not to be confused with Zhangjiagang Jiangnan Automobile Manufacture Co., Ltd., a bus maker) of Hunan is manufacturer of China's cheapest car, the Jiangnan Alto, which is priced at below 2.500 €. Although this price is very competitive, sales never really pick up and in 2007 about 6.000 units were sold.

Jiangnan Auto was a subsidiary of Jiangnan Machinery (Group) Co., Ltd, a military enterprise. To expand its operations, it took over another automobile producer, Tongtian, who was also producing Suzuki models under a licence. However, Jiangnan Auto never succeeded in the market and remained a smaller player, with sales volumes below 10.000 units p.a.. In 2007, Zoyte Group, an im- and export company, took over a 70% majority stake and merged its own operations into that of Jiangnan Auto. Zoyte's automotive ambitions started in 2005, when it was taking over Chengdu Xindadi Automobile Co., an SUV and farm truck maker.

Zoyte has sold over 11.000 units of its own model, the Zoyte2008 (a small SUV), in its first year after release in 2006. The Zoyte2008 is one of the best selling SUV-models in China. In 2007, it sold about 30.000 units in China, with 10.000 exported that year.

Zoyte is strongly focused on international markets like Middle East, North Africa, East Union, the Caribbeans and Middle America. However, the intensity of these engagements are not confirmed either.

To further expand its model range, which is currently composed of the Zoyte2008 (small SUV) and the Jiangnan Alto (small, low-cost car), Zoyte is planning to manufacture discontinued Fiat cars. Zoyte already bought the assembly tooling line and IP rights for the Lancia Lybra and is expected to acquire the same assets for the Multipla van. In total, it is planning to manufacture 11 outdated Fiat models. It is also engaged in manufacturing electric cars.

3.2. Suppliers

As is the case with car manufacturers, the components market is highly fragmented. Today, there are about 6.000 parts and component making companies in China and each year, several hundred new companies surface. Of these companies, about 1.700 are larger manufacturers providing a higher value added. About 1.200 companies have foreign money invested and their total market share is said to exceed 50%. In accordance with the regionally dispersed OEMs, suppliers also

tend to have a regional focus. Larger suppliers, however, are forced to have production facilities in all major automotive regions.

The Chinese automotive parts and component market is characterized through the following trends:

- Larger suppliers manufacturing more complex parts or components are mostly foreign invested companies. Simpler parts are more often made by Chinese pureplays.
- Imports of parts play an important role in some segments. Imports are mainly focussing on engines and parts and components thereof, as well as body accessoires and transmission parts. With China's WTO entry, the customs duty on foreign parts is now at 10%.
- China will not be able to protect its automotive industry through local content rules. In 2006, China enacted a 60% local content regulation. For cars which did not match the 60% local content share, imported parts were to be taxed at the rate of CKD kits (25% instead of 10% for parts). This regulation was appealed successfully before the WTO and also China's appeal of the ruling was not successful. Now, all imported parts are taxed at a rate of 10%, while CKD kits are taxed at a rate of 25%.
- The cost of labour is still low and will continue to do so. Unions do not have a strong impact and often labour-supply companies are used which gives the parts maker more flexibility and keeps wages low. The worker working under these terms are often called "migrant workers" – they often earn only up to 20% of a salary of a regular worker. In addition, there is a ready supply of technically skilled workers.
- In 2000, China's automotive suppliers started to export part of their production. Today, about 50% of the output is exported. The prime products exported are tires, wheels, appliances and instruments. China is heavily competing with Mexico in this regard. Today, Mexico still is the export leader concerning automotive parts. While for most Chinese exporters the respective aftermarkets (not the OEMs) – which are less demanding – are the

prime target, it is also not solely Chinese companies looking for customers abroad. Foreign automotive companies incl. OEMs are starting to source actively from China, knowing that the quality has improved heavily over the last years.

- In line with car makers like SAIC, Chinese suppliers are also trying to establish an overseas presence. Wanxiang, for example, China's leading supplier group, is already active in the U.S. where it has a majority stake in Neapco Drivelines. Today, Wanxiang has six operative plants in North America.
- First companies are starting to export their technology, as was the case with Shaanxi Hande Axle which exported its axle technology to India to AMW Motor.

Table 14 lists major Chinese automotive parts and components manufacturers. The largest supplier groups are

1. Wanxiang Group Co., Ltd.
2. Weichai Power Co., Ltd.
3. Yuchai Machinery Group Co., Ltd.

Company	City / Province	Major Products
Anhui Ankai Futian Shuguang Axle Co., Ltd.	Hefei / Anhui	Axle bridges and parts
Beijing Corpco Technology Development Co., Ltd.	Peking	Air suspensions
Beiqi Foton Huanbao Motor Co., Ltd.	Peking	Engines
Changchun Lantian Airproof Technology Exploit Co., Ltd.	Changchun / Jilin	Oil proof and airproof products
Changchun Tire Co., Ltd.	Changchun / Jilin	Radial Tires
Changye Hydraulic Pressure Co., Ltd	Changye	Braking pumps, wheel pumps

Market Report 2010-2012: Chinese Passenger Car Market

Company	City / Province	Major Products
Changzhou Industrial Technical Glass Factory	Changzhou / Jiangshu	Various glasses
Changzhou Longcheng Precision Forging Co., Ltd.	Longcheng Changzhou / Jiangshu	Forged gears
Chendu Zhengheng Automobile Parts Co., Ltd.	Chendu / Sichuan	Cylinder blocks and other cast iron parts
China FAW Group Corporation Harbin Gearbox Manufactory	Harbin / Heilongjiang	Gearboxes, drive axle shaft gears
China VIE Group Co., Ltd.	Zhuji / Zhejiang	Braking systems, clutch controlling systems, assistant steering systems
Chongqing CAFF Automotive Braking & Steering Systems Co., Ltd.	Chongqing / Sichuan	Air brake systems, steerings and suspensions, hydraulic brake systems
Chongqing Chaoli Hi-Tech Co., Ltd.	Chongqing / Sichuan	Heat exchange systems, electronic control systems
Chongqing Haitong Machinery Manufacture Group	Chongqing / Sichuan	Gear rings, bevel wheel, oil pumps, air pumps, water pumps, thermostats, flywheel
Chongqing Hongyan Changli Autospring Co., Ltd.	Chongqing Hongyan / Sichuan	Stabilizer bars, road springs, suspensions
Chongqing Qingshan Industry Co., Ltd.	Chongqing Qingshan / Sichuan	Transmission systems
Chongqing Xiyuan Camshaft Co., Ltd.	Chongqing / Sichuan	Camshaft
Chongqing ZhongYi Shock Absorber Factory	Chongqing / Sichuan	Dampers
Coagent Electronic S&T Co. Ltd.	Foshan / Guangdong	Audio car systems

Market Report 2010-2012: Chinese Passenger Car Market

Company	City / Province	Major Products
CSG TRW Chassis Systems Co., Ltd.	Bishan Chongqing / Sichuan	Disc brake series, drum brake series, brake pumps, brake drums
CYPR	Yangzhou / Jiangsu	Piston rings
Deutz-FAW Dalian Diesel Engine Co., Ltd.	Dalian / Liaoning	Diesel engines
Dongfeng Chaoyang Diesel Engine Co., Ltd.	Chaoyang / Liaoning	Diesel engines
Dongfeng Cummins Engine Co., Ltd.	Panxiang / Hubei	Engines
DUC Seals International (China) Ltd.	Chongqing / Sichuan	Seals for power steering systems, shock absorbers, gearboxes, axles, cooling pumps, a/c compressors
FAW Jiefang Automotive Co., Ltd.	Wuxi / Zhejiang	Diesel engines
Fujian Guanlean Automotive Parts Industry Co., Ltd.	Fuqing / Fujian	Various braking parts
Harbin Dongan Auto-engine Co.,Ltd	Harbin / Heilongjiang	Engines and transmissions
Henan Xixia Intake & Exhaust Manifold Co., Ltd.	Xixia / Henan	Automotive intake and exhaust manifolds
Hubei Sitom Co., Ltd.	Wuhan / Hubei	Forward shafts, front and back axle bridges, clutches, gas engine intake nad exhaust valves
Jiangsu Songlin Automobile Parts Co., Ltd.	Songlin / Jiangsu	Flywheel, cranks, connecting rods
Liaoning Shuguang Automotive Co.	Dandong / Liaoning	Axle bridges, suspension products, half shaft series, gear series

Company	City / Province	Major Products
Liyuan Group	Cangzhou / Hebei	Cylinder sleeves, piston mechanisms, distributor blocks, exhaust manifolds, induction manifold, valve switches
Nanjing Huade Spark Plug Co., Ltd	Nanjing / Zhejiang	Spark plugs
Nanjing Xinxing Auto Rubber Factory	Nanjing / Zhejiang	Auto brake hoses, air conditioning parts, brake hoses, oil seals, rubber parts
Nanping MSUN Auto Parts Co., Ltd	Nanping / Fujian	Piston rings, cylinder sleeve, piston pin, pistons
Qijiang Gear Transmission Co., Ltd. (QJGT)	Qijiang Chongqing / Zhejiang	Transmissions series, bevel gear series
Qingte Group Co., Ltd.	Tsingtao / Shandong	Drive axles, casting parts and other auto parts
Shaanxi Fast Auto Drive Group Co., Ltd.	Xi'an / Shanxi	Various transmission series, gears and gear forgings, other auto accessories
Shandong Meichen Auto Parts Co., Ltd.	Zhucheng / Shandong	Hoses, dampers, molded parts, thrusting rods
Shanxi Forging Plant	Yicheng / Shanxi	Front axles, cranks, connecting rods, lambda sensors, gears, springs
Shenzhen Hangsheng Electronics Co., Ltd.	Shenzhen	Automotive entertainment systems, navigation systems, intelligent traffic and theft-guarding systems
Shenzhen Terca Technology Co., Ltd .	Shenzhen	Retarder
Tianrun Crankshaft Co., Ltd.	Wendeng / Shandong	Steel bent axle series, iron bent axle series
Tuopu Group	Ningbo / Zhejiang	Vibration control systems, suspensions, moldings

Company	City / Province	Major Products
Wangxiang	Hangzhou / Zhejiang	Joints & bearings
Weichai Power Co., Ltd.	Weifang / Shandong	Diesel engines
Weifang Hengan Radiator Group	Weifang / Shandong	Radiators
Xinyi Auto Parts Co., Ltd.	Dongying / Shandong	Brake blocks, brake trays
Yangzhou Diesel Engine Co., Ltd.	Yangzhou / Zhejiang	Diesel engines
Yinlun Co., Ltd.	Tiantai / Zhejiang	Oil cooler series
Yuchai Group Co., Ltd.	Yulin / Guangxi	Diesel engines, lubricants
Yunnan Xiyi Industrial Co., Ltd.	Kunming / Yunan	Connecting bar series, tool parts

Table 14: Major Chinese Automotive Parts and Components Manufacturers

Source: Various

3.3. Car Production and Components Market

3.3.1. Car Production and Exports

In the past, the Chinese automotive market was heavily protected. Since the beginning of the new millenium, China gradually opened up its market. While tariffs on CBUs were at 70% to 80% in 2001, they were reduced to 30% in 2005 and 25% in 2006, in accordance with WTO commitments. In addition, in 2005, China revoked its practice of licencing car imports and also removed quotas on CBUs and parts.

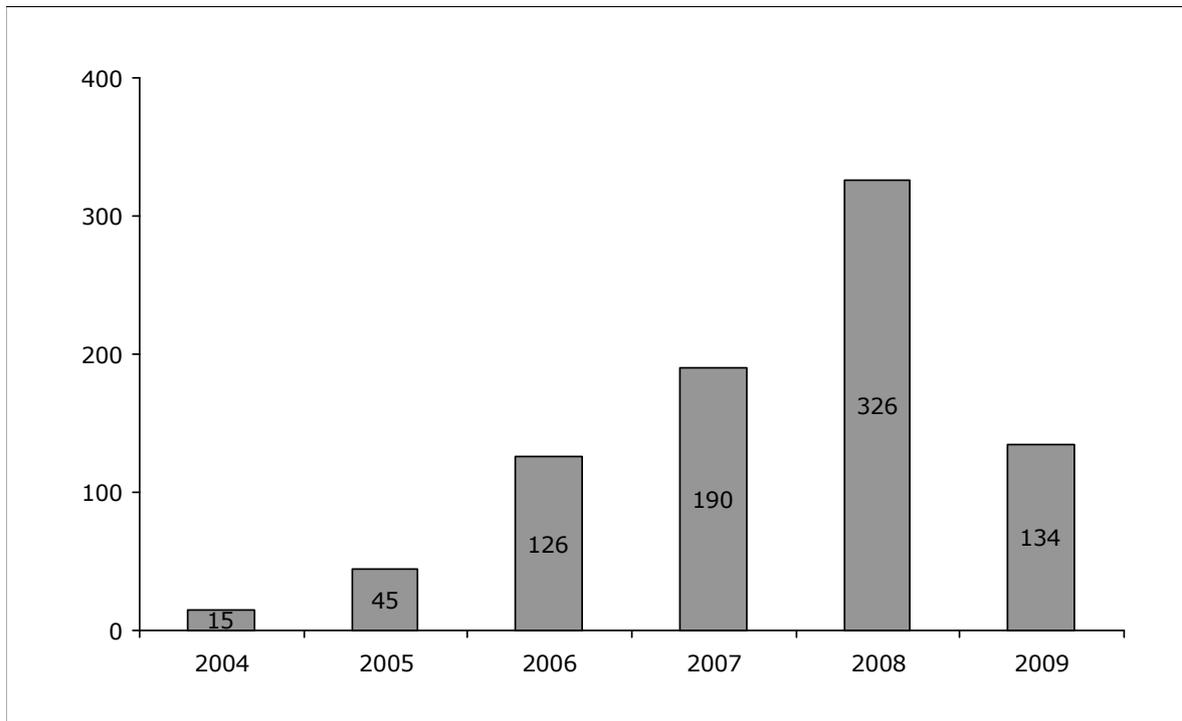


Figure 17: Export of Passenger Cars, in 1.0000 units, 2004-2009

Source: Various, including General Administration of Customs, CAAM, Globis Analysis

With the WTO entry of China, it was a common bet that the Chinese automotive industry would suffer. However, this did not happen. Most OEMs were already present in China and did not own exclusive sales channels to sell new imported models. Mini and small cars were favored by Chinese consumers – and only offered through local Chinese brands. Imports of new cars still do not play a major role in the Chinese automotive market. The vast majority of cars sold in China are manufactured in China. It is rather exports which additionally increase production volume of Chinese car makers. Exports grew heavily over the last years until 2008, but are still at a low level. Coming from 78.000 total units in 2004 (thereof 15.000 passenger cars), exports of passenger cars reached 326.000 in 2008 with Chery being the largest single contributor. Due to the world economic crisis in 2009, exports declined heavily to 134.000 units (see Figure 17 for details). In addition, Chinese OEMs are expanding their production capacity outside China, so that the Chinese car population outside China will increase more heavily.

With imports of new cars increasing steadily and exports declining or growing on a moderate level, production volume of passenger cars will slightly lag behind

sales numbers in the next years. Already in 2009, production volume exceeded 10 mio. passenger cars (see Figure 18 for details). In addition 3,4 mio. commercial vehicles were manufactured.

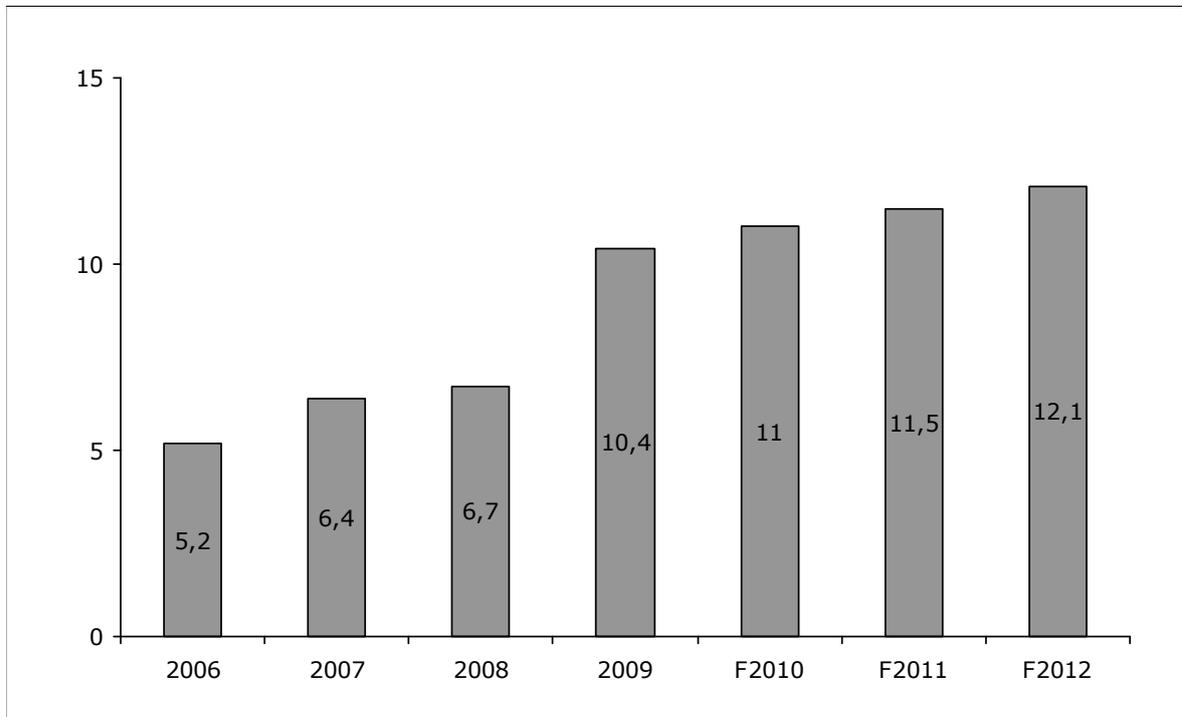


Figure 18: Development of Production Volume, in Mio. Units, 2006-2012

Source: Various, CAAM, Globis Analysis

With 10 mio. units, China is the number one car making country in the world. In 2007, it already overtook Japan and was ranking second. In 2009, also due to the severe crisis, it has outperformed the U.S..

3.3.2. Components Market

The local content of the Chinese car making industry is relatively high. The import of new cars is increasing but is still at a moderate level. In 2009 about 380.000 new cars were imported into China. Import is mainly practiced for larger models with a traditionally low sales volume. Tariffs on new car imports are at 25%, the import of used cars is prohibited.

To circumvent the 25%-tariff new cars or main components are delivered as “parts”. This is the main reason for the latest move of the Chinese authorities to

increase tariffs on imported parts which make up more than a certain amount of a car's content. The new tariff was successfully appealed at the WTO and China now has to abolish the new regulations.

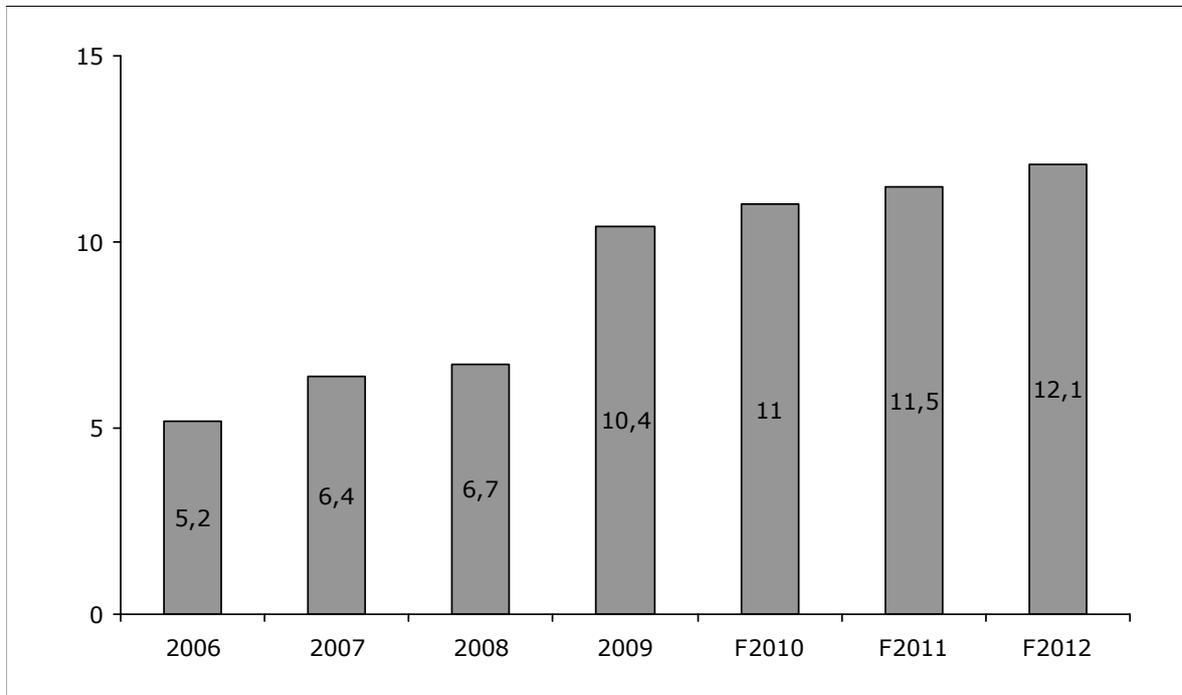


Figure 19: Development of Components Market, in Bn. EUR, 2006-2012

Source: Globis Analysis

The components market for passenger cars grows in line with the growth of the new car market. In 2009, the volume of components sourced externally was 10,4 bn EUR (see Figure 19). Of course, part of this market is captive, as OEMs tend to co-operate with suppliers on a worldwide basis.

In addition, the Chinese government tries to increase the share of local content in cars manufactured in China. For many suppliers it will be crucial to establish a presence in China to fully participate in the huge market.

3.4. Chinese Aftermarket

3.4.1. Market Segments Aftermarket (OE, IAM, Fakes)

China is more associated with IP-rights infringement and counterfeiting than any other nation worldwide. China is the main sources for most of faked products worldwide. Of course, inside China the problem is tremendous.

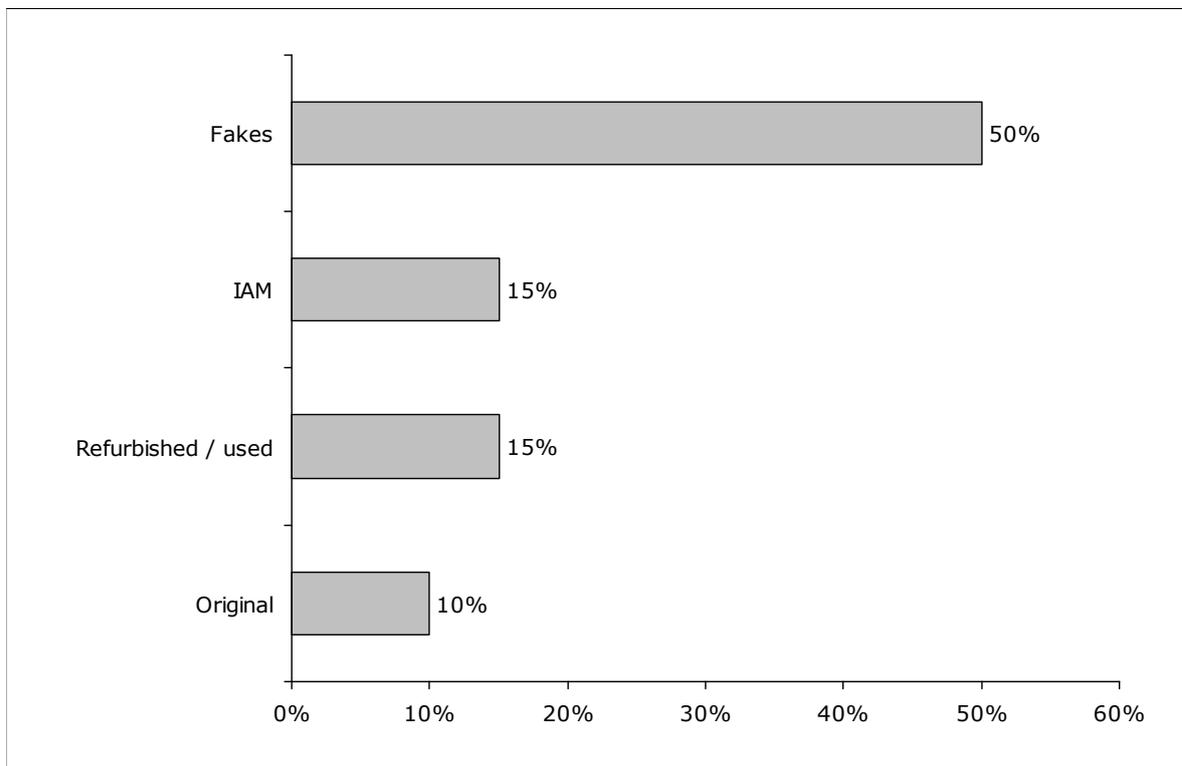


Figure 20: Share of OE-, IAM-, Fake-, Used-Parts for Routine Service, 2008

Source: Globis Expert Survey

According to cautious estimates, Chinese mostly use faked parts for routine service and minor repairs after end of guarantee, to about 50% (see Figure 20). In Russia, for example, official estimates of fake-rates for Russian brands is at 80%. This is why some experts even expect levels of the usage of faked parts of 90%.

Original parts are used to an extent of about 10%. Stronger segments are those of IAM-parts and also of used and refurbished parts, because of their price.

This segmentation is to be expected from a developing country. It will still take a long time to shift market segments more towards more developed automotive aftermarkets. Nevertheless, the number of people using original service is increasing, and along with a better dealer network of OEMs, the usage of original parts is increasing.

3.4.2. Market Size Aftermarket

The spare parts market is mainly determined by the major characteristics of the car parc, e.g. its size as well as age, brand and model distribution. Of course, the personal income situation in respective households is also decisive. Apart from these generic derivatives for the market, there are country-specific factors which influence the parts market:

- Availability and usage of OE, IAM and faked parts
- Quality of cars, spare parts, fuel and lubricants used
- Regulations, like mandatory routine inspection
- Service center system and servicing habits
- External conditions like road conditions, climate, driving habits

The usage of OE, IAM, faked or used parts affects directly the value of the market. Indirectly, the quality of the respective part leads to either a faster wear out and a sooner need for replacement or vice versa. Faked parts as well as IAM parts are sold at substantial discounts to the original price. The price for used and refurbished parts strongly depends on the actual quality of part. The share of respective parts segments are given in chapter 3.4.1. The market segmentation in China shows strong deviations from other automotive markets. The level of faked products is exceptionally high and so is the use of used or refurbished parts. This affects the market value through lower prices on average. This effect is only partly made up by the faster wear-out of faked or used parts.

The quality of cars, parts, fuel and lubricants today is still worse than in more developed automotive markets. Although Chinese OEMs have improved their quality, crash tests when entering foreign markets are a good evidence of the infe-

rior quality of Chinese cars so far. This affects the parts market through a more frequent need for parts.

Normally, the availability of spare parts for whatever model is sufficient, with the normal exception of parts for outdated models or even brands. Within larger cities there is no problem with the availability of parts. There are some shortages for owners in smaller cities or the countryside. Countrywide the supply system is currently forming but it is already at a reasonably good standard. Still, especially in the countryside, workarounds as well as the usage of lower quality parts are more widespread.

The routine-inspection-system in China provides for cars to be checked regularly, at least once every two years. These regulations lead to some market expansion since regular inspection force car owners to act sooner if parts have to be replaced.

According to official numbers, there are about 60.000 car service centers with credible service capabilities in China (other numbers state up to 300.000 service facilities in total). Given these numbers, in general there is no problem in getting car service. The service quality in the countryside is of course lower than in major cities. This situation has only a small impact on the aftermarket since in the countryside car penetration is very limited.

China's infrastructure has been improved heavily over the last years. The length of its highway network doubled from 2002 and will again double in 2020. Coastal areas in the East mainly have a good infrastructure. In the West, the country's roads are getting worse and many roads are not yet paved. Also, there is a heavy lack of parking space, exposing cars to the changing weather conditions and exposing them to higher risks of accidents. In total, this situation affects the aftermarket. Spare parts and services are needed more frequently.

Climate is an important factor. China covers several climate zones including deserts, subtropical and tropical regions. In the East, where the majority of cars is used, it is very humid, hence leading to faster deterioration of parts and a somewhat higher need for replacement than is the case in more moderate climates.

Given all influencing factors, the Chinese passenger car aftermarket has a size of about 6 bn. USD (incl. tyres, excl. all lubricants). It will almost double until 2012 to reach 10 bn. USD (see Figure 21). The main drivers are the growth of the park as well as an increase in the number of older cars. Most cars in China are relatively young and hence do not need many spare parts.

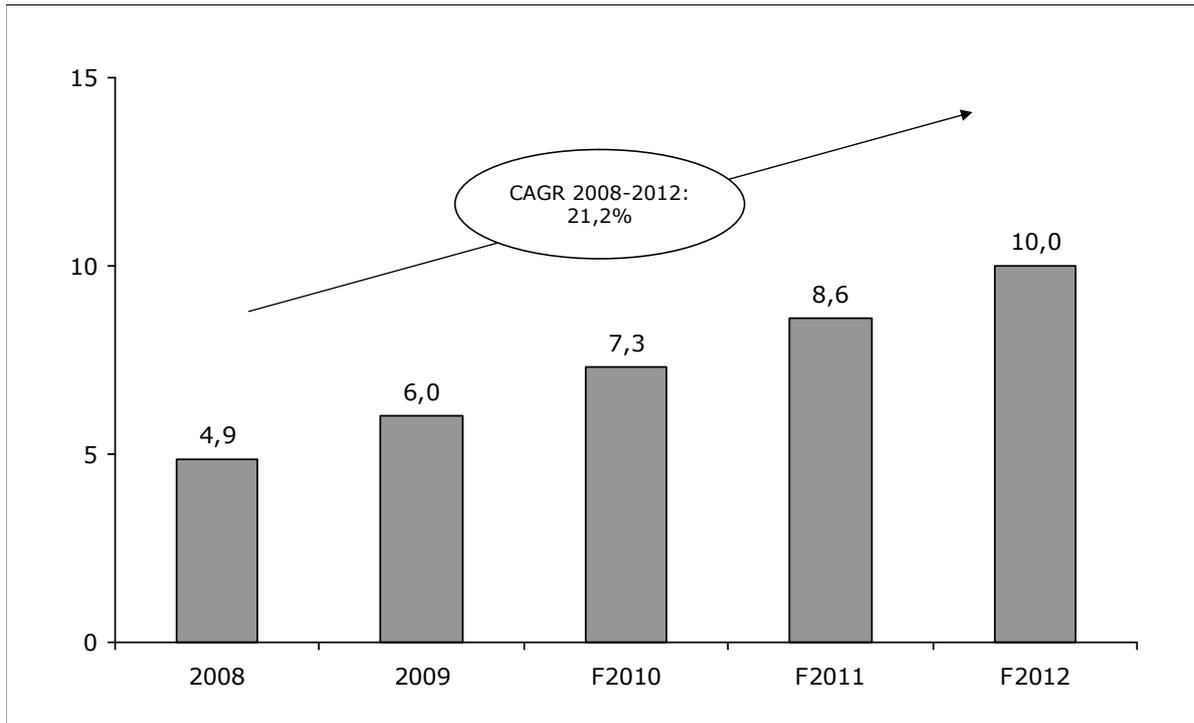


Figure 21: Size and Development of Aftermarket, bn. USD, 2008-2012

Source: Globis

As in many other countries, the top markets are, in order of size, tyres, brake shoes and batteries (see Figure 22 for details). Tyres make up about 30% of total market volume.

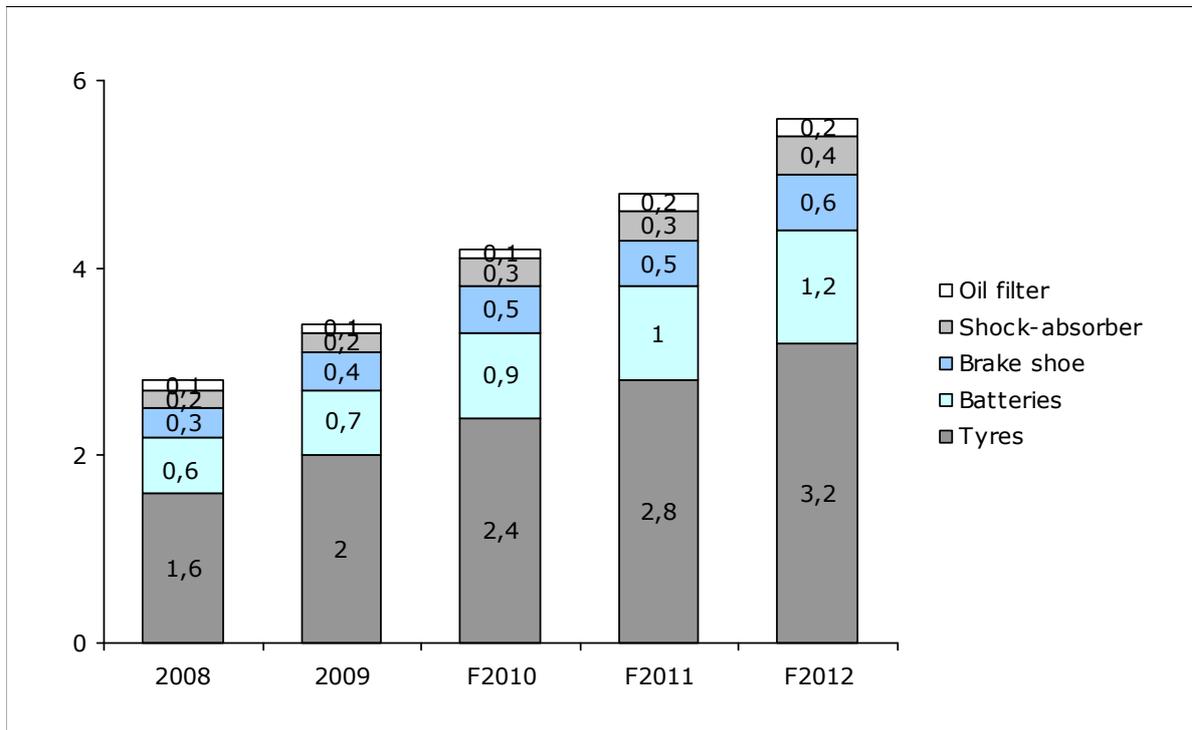


Figure 22: Development of Aftermarket for Important Spare Parts, bn. USD, 2008-2012

Source: Globis

3.4.3. Distribution System for Spare Parts

Car spare part distribution in China is a problem, especially for smaller suppliers. Larger suppliers or OEMs have their own warehousing system in place. For others, there is only a limited ready-to-use infrastructure: Companies specializing in spare part distribution are still limited. There is no large player who is covering the market at once. Chinese companies so far have specialized in manufacturing and it is often manufacturing companies who also serve as distribution companies. Therefore, to establish a China-wide distribution system for spare parts is a burdensome business. Of course, a focus on the Eastern provinces is an easy-to-understand strategy: In the East the majority of cars is registered. Figure 23 gives an overview of the main distribution channels.

Often, for foreign manufacturers, an entry strategy is to use trading companies registered in Hong Kong, who have the experience with the Chinese market as

well as Chinese customs. While this is a good starting point, it is not useful for a long-term strategy.

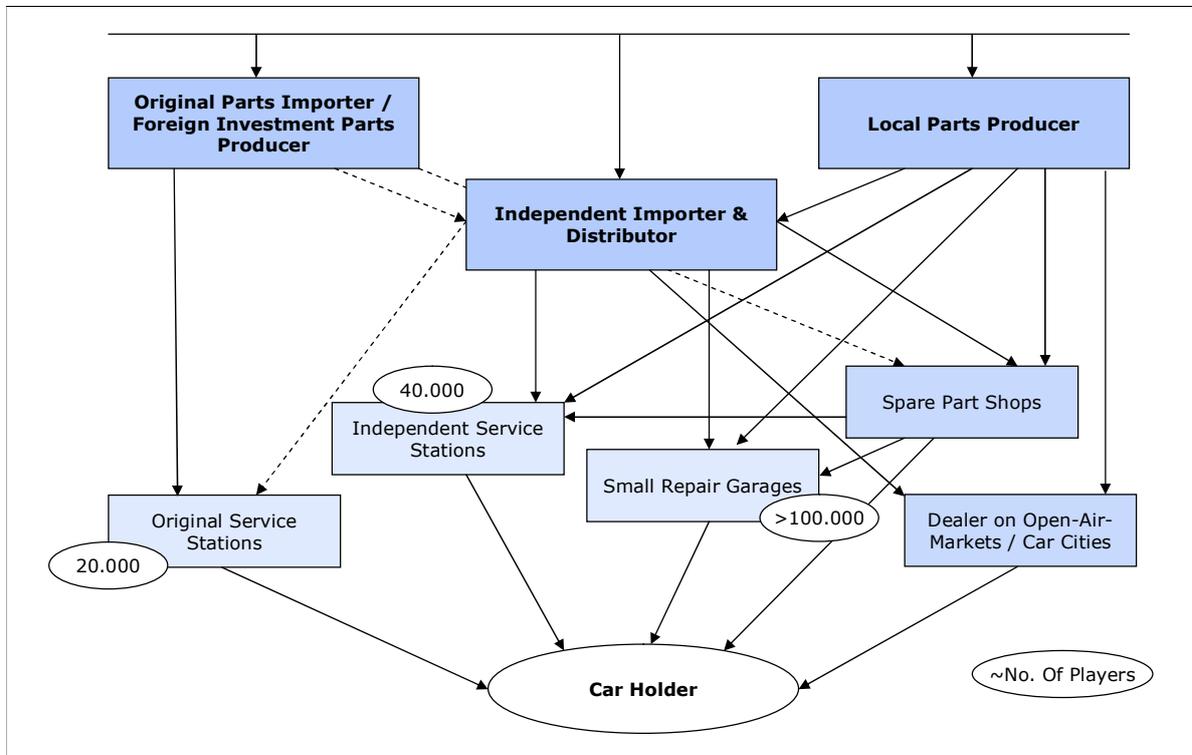


Figure 23: Main Distribution Channels for Spare Part Distribution to Car Holders, 2008

Source: Globis

Most of Chinese car owners buy their parts together with service (about 60%, see Figure 24). They mostly are not aware of the parts being used but at least in the case of original service centers they expect original parts being used. The other car owners buy parts themselves, at least in the case of easy to replace parts. These are mostly the owners of older cars. Frequently, however, they use a garage to have these parts built in. In China, most cars are relatively young. Car owners – many of them first-time owners – are still careful with servicing their car. They do not frequently repair their car themselves.

If parts are bought through the owner, the main supply source are parts shops, followed by open-air-markets which are still strong in China. Another form of distribution are car cities. Car cities are vast commercial compounds, in which part shops, servicing facilities, original car dealers and car-centered entertainment companies are located. In and around Shanghai, for example, there are more than

10 auto accessory markets, including the Shanghai International Auto Accessories Trade Center. These vast agglomerations of companies active in the car aftermarket makes it somewhat easier for suppliers to acquire at least some distribution channels in China.

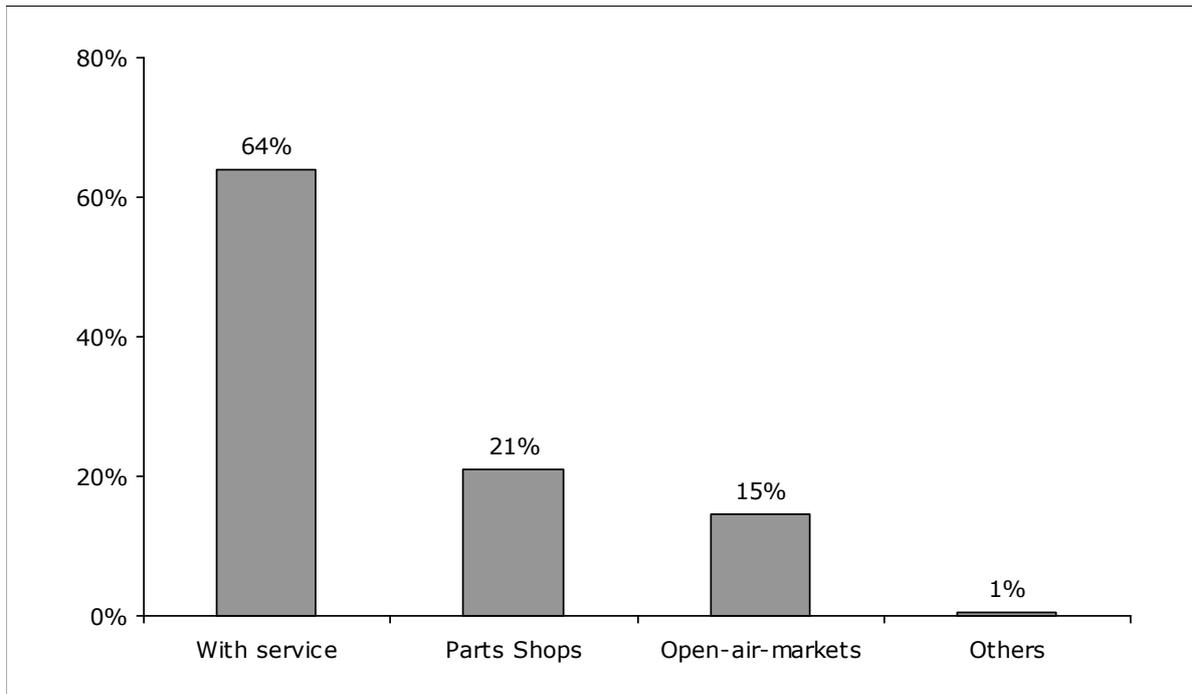


Figure 24: Shares of Spare Parts Sales Channels for Non-OE in China, 2008

Source: Globis Expert Surveys

3.4.3.1. Parts Importers and Distributors

Different to more developed automotive markets, there is almost no independent parts importer and distributor operating in China with a nationwide coverage. Car part logistics is a hassle, if one has not the power to establish its own logistic system as for example Bosch has done in China.

Chinese service stations often buy from local parts shops or from local manufacturers. Also, most Chinese parts manufacturers are present through their own sales force in other regions in China.

This situation is a real problem for foreign parts manufacturers interest in the Chinese aftermarket. Setting up distribution in China is burdensome and one

needs professional help familiar with the situation – often a different one for each region.

3.4.3.2. Service Stations

In China there is a vast amount of service stations. Some sources count up to 300.000 independent stations, which seems heavily exaggerated. We still estimate 100.000 smaller, quick service stations and 40.000 independent larger service full service stations.

The market is of great interest for foreign service station systems and these are expanding quickly. Parts and logistics mostly has to be provided by the initiator of the system itself, since there is no independent car parts logistics structure which could be used. Table 15 contains a not comprehensive list of large independent service chains in China

Service Station Chains	Number of Outlets
AC Delco	130
Autobacks Shanghai	35
Autolife	70
Bay Yuan	1.000
Bosch	430
Jiffy Lube	Started recently
OTL	31
Sinopec	150
Tyre Plus	300
Zhongche	130

Table 15: Large Service Stations Chains in China, 2009

Source: Company Sources, amz, Globis

Unique to China is the existence of numerous car cosmetic companies, which specialize in interior accessories as well as exterior cosmetics.

The number of service stations will likely be stable while there will be an exchange of smaller back-yard businesses for more professional car service businesses. Existing service chains will expand and new chain will surface quickly.

Since the market is growing – mostly through new cars – the demand for professional service will grow as well. The competitive environment will therefore be relaxed in the future and provides strong opportunities.

3.4.3.3. Other Supply Channels

Other supply channel are open air markets as well as car towns. The latter ones are very popular in China and are important when analyzing the Chinese aftermarket. Car towns are vast compounds with all kinds of car services offered by numerous smaller and larger businesses. Some car town are said to host about 10.000 car related businesses, from new car dealers to quick repair shops.

In Shanghai, for example, there are over 10 of these car towns including the Shanghai International Auto Accessories Trade Center in West Shanghai and Chunshen Auto Parts Market downtown. The latest addition is the Sino Auto Accessories Town.

4. Opportunities and Risks

In 2009, China surpassed the U.S. as the world's leading car market in terms of sale of new cars as well as in terms of car and car parts production. The pure size makes China a highly attractive market. Even though growth rates of the past years can not be maintained in the future, China's new car market will grow further. At a car penetration of below 30 cars / 1.000, the potential is tremendous for the next decades.

Almost all OEMs are already present in China but not all are dealing very successfully. Fiat, for example, has major difficulties to gain ground in China. The main task for all OEMs is to design the right products suitable to Chinese customers, to penetrate the vast country and still keep reasonable control over their sales channels and to provide good service capabilities as well as to control their spare parts flow (and to prevent falsification). Even though car penetration is still very low, the market is getting more demanding and customer expectations are increasing rapidly.

A longterm issue for foreign OEMs is to develop plans when their Chinese partner matures and turns away from the joint venture, focussing on developing their own brands and products. The good news is, that Chinese consumers, after a short break, increasingly value the quality of cars made with foreign participation and are also becoming more brand conscious. Building a strong brand, therefore, is an excellent strategy to counter future difficulties. But also a manufacturing strategy needs to be developed. In the meantime, investments in design and sales and service capabilities is the key to success.

Along with the new car market, the car parc is increasing and hence the need for spare parts and service. The aftermarket, certainly, provides the largest opportunities. In this vast country, chain building has only begun. Official numbers state some 350.000 service centers in China – a figure grossly overstated. However, there is a large unofficial segment and there is ample room for professional service along with an increasing professionalism of the market. Top players like Bosch

currently have about 500 outlets but plan to have 1.500 outlets in 5 years from now. Also specialist segments as tyre centers, quick repair service centers or car cosmetics will show strong growth in the future and provide strong opportunities. The same holds true for spare parts shops. Again, the major difficulty is to reach and handle regional coverage while keeping up the quality necessary to acquire good reputation.

For foreign parts maker, China is a huge challenge. Since there is no independent professional nationwide distributor, one has to tackle region by region through a vast number of sales facilitators. Establishing and managing this network will be the key to success.

Manufacturing spare parts as well as sourcing spare parts is also attractive. With labor costs at a fraction of costs in Western Europe or the U.S., there is great value gained. The major problem is to find the right partners. Quality standards from advanced automotive nations are slowly gaining hold in China but can not be fully trusted. Local quality management or supervision of suppliers is a must to prevent rework or worse. For example, it is still not an unusual practice to bribe local quality controllers of a competitor to make them deliver insufficient quality. To a greater extent, the danger comes from an insufficient understanding why quality is so important.

Apart from economic risks, there are also other major risks involved in the Chinese car market:

- Environmental issues are the most unresolved problems that the automotive industry will be confronted with over the next years. Already today China has overtaken the U.S. in terms of carbon dioxide output and environmental problems are clearly visible everywhere. In the future, there could be some governmental initiatives to reduce the growth of the car parc like the introduction of rigid environmental standards.
- Fuel, parking space and road networks are other risk factors. During 2008 there were already situations when not enough fuel was availa-

ble and had to be rationed. In larger cities, parking space is not available and one has to proof an own space in order to buy a car. Road networks are expanding fast but not fast enough to keep pace.

- Although China is becoming more and more part of the international community, it still is rigidly protecting its national industry. The future of most foreign OEM is still uncertain. Wholly-foreign-owned car manufacturing facilities are not allowed yet and the future of joint ventures with local players like FAW or SAIC is uncertain, especially with own ambitions of the Chineses players. The Chinese government might impose rules not favorable (or restrain from imposing rules favorable) for foreign OEMs and hence giving purely Chinese players a competitive advantage.
- The administrative and legal structure of China poses another major risk. While there are central government imposed rules, they are not necessarily applied on a regional level. Regional governments often follow their own strategy – frequently deviating from central rules. A reliable legal system as known from most industrialized countries does not exist. Judges are not independent.

Nevertheless, no international player can afford not to investigate opportunities in China and potentially try to participate in this vast market.

5. Appendices

5.1. Chinese Provinces

Province	Population (in mio.)	Population (inhabitants / sq. Km.)
Macau	0,5	17.300
Hong Kong	7	6.400
Shanghai	18,5	2.600
Tianjin	11,5	980
Beijing	15,8	941
Jiangsu	75,5	736
Henan	98,7	591
Shandong	91,8	586
Guangdong	113	467
Zhejiang	47,2	464
Anhui	64,6	463
Chongqing	32,5	382
Hebei	68,1	363
Hubei	60,2	324
Hunan	67	316
Liaoning	42,2	289

Province	Population (in millions)	Population (inhabitants / sq. Km.)
Fujian	35,1	289
Jiangxi	42,8	257
Hainan	8,2	241
Guizhou	39	222
Shanxi	33,4	213
Guangxi	48,9	207
Shaanxi	37,1	180
Sichuan	87,3	180
Jilin	27,1	145
Yunnan	44,2	112
Ningxia	5,9	89
Heilongjiang	38,2	83
Gansu	26,2	58
Inner Mongolia	23,8	20
Xinjiang	19,6	12
Qinghai	5,4	7
Tibet	2,7	2

Table 16: Chinese Provinces by Inhabitants and Population Density

Sources: National Bureau of Statistics of China, Globis

5.2. Major Chinese Cities

Rank	City	Population Administrative Area (in Mio.)
1	Chongqing	32,3
2	Shanghai	19
3	Beijing	17,5
4	Guangzhou	15
5	Shenzhen	13,3
6	Tianjin	12
7	Chengdu	11,3
8	Xi'an	10,5
9	Harbin	9,9
10	Xuzhou	9,8
11	Shijiazhuang	9,6
12	Wuhan	9
13	Kunming	8,9
14	Dongguan	8,3
15	Hangzhou	8
16	Qingdao	8
17	Shantou	7,7
18	Nanjing	7,5

19	Shenyang	7,5
20	Zhengzhou	7,5

Table 17: Major Chinese Cities (in their Administrative Boundaries), 2008

Sources: National Bureau of Statistics of China, Globis

5.3. Overview over Chinese Car Models

The website chinesecars.net gives an up-to-date overview of car models of Chinese origin and demonstrates the complexity of keeping track of the huge Chinese market.

Following is a list of models manufactured in 2008:

- BAOLONG TBL 6508 PEGASUS, made in Guangzhou, Guangdong
- FAW HONGTA CA 6500CE FREEWIND, made in Guangzhou, Guangdong
- BEIJING AUTO BJ 2023, BJ 2024 ZHANGQI, made in Beijing
- BEIJING AUTO BJ 2025, BJ 6430, BJ 6440 REACH, made in Beijing
- BEIJING AUTO BJ 2032, BJ 6470 LUBA, made in Beijing
- BEIJING AUTO BJ 2031, BJ 6520 WRESTLER, made in Beijing
- BEIJING AUTO BJ 1021, BJ 2031 LULING, made in Beijing
- BEIJING AUTO BJ 2025CB, BJ 6430WBB BJ2500, made in Beijing
- BEIJING AUTO BJ 2022, BJ 2036 WARRIOR, made in Beijing
- BEIJING AUTO BJ 5021, BJ 5022 QIJIAN, made in Beijing
- BEIJING BENZ BJ 7181, BJ7301 C-CLASS, made in Beijing
- BEIJING BENZ BJ 7180, BJ 7300, BJ 7350 E-CLASS, made in Beijing
- BEIJING BENZ BJ 7200, BJ7240, BJ 7280 BURUI, made in Beijing
- BEIJING BENZ BJ 7270, BJ 7350, BJ 7570 300C, made in Beijing
- BEIJING HYUNDAI BH 7140, BH 7161 ACCENT, made in Beijing
- BEIJING HYUNDAI BH 7200 SONATA, made in Beijing
- BEIJING HYUNDAI BH 7160, BH 7180 ELANTRA, made in Beijing
- BEIJING HYUNDAI BH 7164, BH 7182 ELANTRA HDC, made in Beijing
- BEIJING HYUNDAI BH 7202, BH 7240, BH 7330 SONATA NF, made in Beijing
- BEIJING HYUNDAI BH 6430, BH 6431 TUCSON, made in Beijing
- BEIQI FUTIAN BJ 6488M SURF, made in Beijing
- BEIQI FUTIAN BJ 6468M16 SAGA, made in Beijing

- BEIQI FUTIAN BJ 1027 OLLIN, made in Beijing
- BEIQI FUTIAN MP-X P240G, made in Beijing
- BRILLIANCE-BMW BMW 7200, BMW 7250 3-series, made in Shenyang, Liaoning
- BRILLIANCE-BMW BMW 7251L, BMW 7301L 5-series, made in Shenyang, Liaoning
- BRILLIANCE JINBEI SY 6470, SY 6520 GRANSE, made in Shenyang, Liaoning
- BRILLIANCE JINBEI SY 6480 BADA0, made in Mianyang, Sichuan
- BRILLIANCE JINBEI SY 6490 CHAOBA, made in Mianyang, Sichuan
- BRILLIANCE JINBEI SY 1023 JINDIAN, made in Mianyang, Sichuan
- BRILLIANCE JINBEI SY 1025 YUANZHONG, SY 1026 LEILONG, made in Mianyang, Sichuan
- BRILLIANCE ZHONGHUA SY 7181, SY 7201, SY 7241 GRANDEUR made in Shenyang, Liaoning
- BRILLIANCE ZHONGHUA SY 7162, SY 7182, SY 7202 SPLENDOR, made in Shenyang, Liaoning
- BRILLIANCE ZHONGHUA SPLENDOR WAGON, made in Shenyang, Liaoning
- BRILLIANCE ZHONGHUA SPLENDOR FRV, made in Shenyang, Liaoning
- BRILLIANCE ZHONGHUA SY 7180 KUBAO, made in Shenyang, Liaoning
- BYD QCJ 7100 F1, made in Shenzhen, Guangdong
- BYD OCJ 7150, QCJ 7180 F3, made in Shenzhen, Guangdong
- BYD QCJ 7151 F3R, made in Shenzhen, Guangdong
- BYD QCJ 7200, QCJ 7240 F6, made in Shenzhen, Guangdong
- BYD QCJ 7200X F8CC, made in Shenzhen, Guangdong
- CHANG'AN SC 6350 STAR, made in Chongqing
- CHANG'AN SC 6360 XINGYUN, made in Chongqing
- CHANG'AN SC 6370 SNOW TIGER, made in Chongqing
- CHANG'AN SC 6393, SC 6395 STARLIGHT, made in Chongqing
- CHANG'AN SC 6371 CHANASTAR, made in Chongqing
- CHANG'AN SC 6382 STAR II CM5, made in Chongqing
- CHANG'AN SC 6380, SC 6381 SHARING CM8, made in Chongqing

- CHANG'AN SC 6408 STAR S460, made in Chongqing
- CHANG'AN SC 7133 CV6 BENBEN, made in Chongqing
- CHANG'AN SC 7163, SC 7200 Z-SHINE CV8, made in Chongqing
- CHANG'AN SC 6442 CV11 JIEXUN, made in Chongqing
- CHANG'AN-SUZUKI SC 7081 ALTO, made in Chongqing
- CHANG'AN-SUZUKI SC 7130 LINGYANG, made in Chongqing
- CHANG'AN-SUZUKI SC 7131, SC 7132, SC 7161 SWIFT, made in Chongqing
- CHANG'AN-SUZUKI SC 7161, SC 7165 SX4, made in Chongqing
- CHANG'AN-FORD NEW FIESTA, made in Nanjing, Jiangsu
- CHANG'AN-FORD CAF 7180, CAF 7201 FOCUS, made in Chongqing
- CHANG'AN-FORD CAF 7203, CAF 7230 MONDEO, made in Chongqing
- CHANG'AN-FORD CAF 6480 S-MAX, made in Chongqing
- CHANG'AN-MAZDA CAF 7131, CAF 7151 made in Nanjing, Jiangsu
- CHANG'AN-MAZDA CAF 7202 MAZDA 3, made in Chongqing
- CHANG'AN-VOLVO S40, made in Chongqing
- CHANGCHENG (GREAT WALL) CC 6450, CC 6460, CC 6470 SAFE, made in Baoding, Hebei
- CHANGCHENG (GREAT WALL) CC 6481 PEGASUS, made in Baoding, Hebei
- CHANGCHENG (GREAT WALL) CC 6500S, CC 6510, CC 6511 SING, made in Baoding, Hebei
- CHANGCHENG (GREAT WALL) CC 6460K HOVER, made in Baoding, Hebei
- CHANGCHENG (GREAT WALL) CC 6672 HOVER PI, made in Baotou, Hebei
- CHANGCHENG (GREAT WALL) CC 1031PS41 WINGLE, made in Baotou, Hebei
- CHANGFENG LIEBAO CJY 6470, CFA 6470, CFA 2030, made in Yongzhou, Hunan
- CHANGFENG LIEBAO CFA 6472, CFA 6473 QIBING, made in Yongzhou, Hunan
- CHANGFENG LIEBAO CFA 6400 FEITENG CS5, made in Yongzhou, Hunan
- CHANGFENG LIEBAO CFA 2032, CFA 6501 CS6, made in Yongzhou, Hunan
- CHANGFENG LIEBAO CS7 LEOPARD, made in Yongzhou, Hunan
- CHANGFENG MITSUBISHI CFA 2031 PAJERO V73- V77, made in Yongzhou, Hunan

- CHANGFENG KYLIN CFA 6420, CFA 6422, made in Yongzhou, Hunan
- CHANGFENG YANGZI YZK 6481 FINE, made in Chuzhou, Anhui
- CHANGFENG YANGZI YZK 1021 FINE, made in Chuzhou, Anhui
- CHANGFENG YANGZI YZK 6461 FLYING, made in Chuzhou, Anhui
- CHANGFENG YANGZI YZK 1021 FLYING/ KYLIN, made in Chuzhou, Anhui
- CHANGHE CH 6353 JUNMA, made in Jingdezhen, Jiangxi
- CHANGHE CH 6370 DOLPHIN, made in Hefei, Anhui
- CHANGHE CH 6390 FRIEND, made in Hefei, Anhui
- CHANGHE CH 7101, CH 7111 IDEAL, made in Hefei, Anhui
- CHANGHE CH 7101B, CH7111B, CH7121B, CH7131B, CH7141 IDEAL II, made in Hefei, Anhui
- CHANGHE-SUZUKI CH 7140 BEIDOUXING, made in Jingdezhen, Jiangxi
- CHANGHE-SUZUKI CH 7160, CH 7161 LIANA, made in Jingdezhen, Jiangxi
- CHANGHE-SUZUKI CH 6391 LANDY, made in Jingdezhen, Jiangxi
- DADI BDD 6490 CITY CRUISER, made in Baoding, Hebei
- DADI BDD 1021, BDD 1022, made in Baoding, Hebei
- DADI BDD 6491 SHUTTLE, made in Baoding, Hebei
- DADI BDD 6492E CITY LEADING, made in Baoding, Hebei
- DADI BDD 6470, BDD 6493 YABAO, made in Baoding, Hebei
- DADI RX 6471 MUSSO, made in Chengdu, Sichuan
- DADI RX 6480, RX 6481 MOTIVITY, made in Chengdu, Sichuan
- DONGFENG ELECTRIC EQ 7160EV, made in Wuhan, Hubei
- DONGFENG ELECTRIC EQ 7200HEV, made in Wuhan, Hubei
- DONGFENG FENGXING LZ 6460, LZ 6470, LZ 6500, LZ 6510, made in Liuzhou, Guangxi
- DONGFENG FENGXING B11 JINGYI, made in Liuzhou, Guangxi
- DONGFENG EQ 6470, EQ 6481 TUYI, made in Xiangfan, Hubei
- DONGFENG EQ 1021H, made in Xiangfan, Hubei
- DONGFENG XINXING EQ 7101, EQ 7130 LITTLE PRINCE, made in Rongcheng, Shandong

- DONGFENG XINXING EQ 7240BP D120, Made in Rongcheng, Shandong
- DONGFENG YU'AN EQ 6380 WELL-OFF, made in Chongqing
- DONGFENG-CITROEN DC 7140, DC 7160 FUKANG, made in Wuhan, Hubei
- DONGFENG-CITROEN DC 7143, DC 7163 ELYSEE, made in Wuhan, Hubei
- DONGFENG-CITROEN DC 7148/ DC 7168 C2, made in Wuhan, Hubei
- DONGFENG-CITROEN DC 7162, DC 7200 PICASSO, made in Wuhan, Hubei
- DONGFENG-CITROEN DC 7201 XSARA, made in Wuhan, Hubei
- DONGFENG-CITROEN DC 7205 C-TRIOMPHE, made in Wuhan, Hubei
- DONGFENG-PEUGEOT DC 7146, DC 7166 206 XS, made in Wuhan, Hubei
- DONGFENG-PEUGEOT DC 7164, DC 7204 307 SEDAN, made in Wuhan, Hubei
- DONGFENG HONDA DHW 6461, DHW 6462, DHW 6463, DHW 6464 CR-V, made in Wuhan, Hubei
- DONGFENG HONDA DHW 7180 CIVIC, made in Wuhan, Hubei
- DONGFENG-NISSAN DFL 7160, DFL 7161 TIIDA, made in Guangzhou, Guangdong
- DONGFENG-NISSAN DFL 7162 SILPHY L11K, made in Xiangfan, Hubei
- DONGFENG-NISSAN EQ 7200, EQ 7230, EQ 7350 TEANA, made in Xiangfan, Hubei
- DONGFENG-NISSAN LIVINA, made in Guangzhou, Guangdong
- DONGFENG-NISSAN DFL 7180 GENISS, made in Guangzhou, Guangdong
- DONGFENG YUEDA-KIA YQZ 7131, YQZ 7161 QIANLIMA, made in Yancheng, Jiangsu
- DONGFENG YUEDA-KIA YQZ 7163 RIO, made in Yancheng, Jiangsu
- DONGFENG YUEDA-KIA YQZ 6490, YQZ 6491 CARNIVAL, made in Yancheng, Jiangsu
- DONGFENG YUEDA-KIA YQZ 7180, YQZ 7200 OPTIMA, made in Yancheng, Jiangsu
- DONGFENG YUEDA-KIA YQZ 7162, YQZ 7181 CERATO, made in Yancheng, Jiangsu
- DONGNAN DN 6432Y, DN 6465 FREECA, made in Fuzhou, Fujian
- DONGNAN DN 6484 SPACE WAGON, made in Fuzhou, Fujian
- DONGNAN DN 7160 LIONCEL, made in Fuzhou, Fujian
- DONGNAN DN 6402, DN 6403 VERYCA, made in Fuzhou, Fujian
- DONGNAN MITSUBISHI LANCER DN 7161, made in Fuzhou, Fujian
- DONGNAN MITSUBISHI GALANT DN 7243, made in Fuzhou, Fujian

- FAW SICHUAN SCT 6490 PRADO, made in Chengdu, Sichuan
- FAW SICHUAN FENGYUE CA 6510 LANDCRUISER made in Changchun, Jilin
- FAW SICHUAN FENGYUE CA 7150 TOYOTA PRIUS, made in Changchun, Jilin
- FAW HARBIN CA 1021P6LU2E, made in Haerbin, Heilongjiang
- FAW HARBIN CA 6480 JIEFANG, made in Haerbin, Heilongjiang
- FAW-CAR HONGQI CA 7180 SHIBA, MINGSHI, made in Changchun, Jilin
- FAW-CAR HONGQI CA 7202, CA 7242 CENTURY STAR, made in Changchun, Jilin
- FAW-CAR HONGQI CA 7204, CA 7234 BENTENG, made in Changchun, Jilin
- FAW-CAR HONGQI CA 7460, CA 7460L, made in Changchun, Jilin
- FAW-CAR HONGQI CA 7300, CA 7430 HQ3, made in Changchun, Jilin
- FAW-CAR MAZDA CA 7201, CA 7230 'MAZDA 6', made in Changchun, Jilin
- FAW-CAR MAZDA CA 7233 ^WAGON, made in Changchun, Jilin
- FAW HONGTA CA 7100 XINFU, made in Qujing, Yunnan
- FAW JILIN CA 6350 JIEFANG, made in Jilin, Jilin
- FAW JILIN CA 6360, CA 6361 JIEFANG, made in Jilin, Jilin
- FAW JILIN CA 6371 JIEBAO AV6, made in Jilin, Jilin
- FAW JILIN CA 6410 DAIHATSU XENIA, made in Jilin, Jilin
- FAW-VW FV 7160, FV 7190 JETTA, made in Changchun, Jilin
- FAW-VW FV 7162, FV 7182, FV 7192 BORA, made in Changchun, Jilin
- FAW-VW FV 7164, FV 7184, FV 7204 BORA HS, made in Changchun, Jilin
- FAW-VW FV 7166, FV 7186, FV 7206 SAGITAR, made in Changchun, Jilin
- FAW-VW MAGOTAN, made in Changchun, Jilin
- FAW-VW FV6440, FV 7165, FV 7205 CADDY, made in Changchun, Jilin
- FAW-AUDI FV 7181, FV 7201, FV 7301 A4, made in Changchun, Jilin
- FAW-AUDI FV 7253, FV 7303, FV 7423 A6L, made in Changchun, Jilin
- FLYBO XFD 3000 ZK, made in Jinan, Shandong
- FLYBO XFD 3000 ZK-2, made in Jinan, Shandong
- FLYBO XFD 6000 ZK, made in Jinan, Shandong

- FUDA FURUI, made in Fuzhou, Fujian
- FUDA LUCHENG, made in Fuzhou, Fujian
- FUDA FZ 1030, made in Fuzhou, Fujian
- FUDI NHQ 6482, NHQ 6520 EXPLORER II, made in Nanhai, Guangdong
- FUDI NHQ 6490 EXPLORER III, made in Nanhai, Guangdong
- FUDI NHQ 6470 OVERFLIGHT, made in Nanhai, Guangdong
- FUDI NHQ 1021, NHQ 1027, NHQ 1028, made in Nanhai, Guangdong
- GUANGZHOU-HONDA HG 7201, HG 7202, HG 7240, HG 7301 ACCORD, made in Guangzhou, Guangdong
- GUANGZHOU-HONDA HG 6480 ODYSSEY, made in Guangzhou, Guangdong
- GUANGZHOU-HONDA HG 7132, HG 7133, HG 7152, HG 7153 CITY, made in Guangzhou, Guangdong
- GUANGZHOU-HONDA HG 7132, HG 7152 FIT, made in Guangzhou, Guangdong
- GUANGZHOU-TOYOTA GTM 7200, GTM 7240 CAMRY, made in Guangzhou, Guangdong
- HAFEI HFJ 6370 MINYI, made in Haerbin, Heilongjiang
- HAFEI HFJ 6376 ZHONGYI, made in Haerbin, Heilongjiang
- HAFEI HFJ 6391 NEW MINGYI, made in Haerbin, Heilongjiang
- HAFEI HFJ 6450 SAIMA HF8, made in Haerbin, Heilongjiang
- HAFEI HFJ 6420 HF9 LUZUN, made in Haerbin, Heilongjiang
- HAFEI HF10, made in Haerbin, Heilongjiang
- HAFEI HFJ 7130, HFJ 7160 SAIMA, made in Haerbin, Heilongjiang
- HAFEI HFJ 7100, HFJ 7110 LOBO, made in Haerbin, Heilongjiang
- HAFEI HFJ 7161, HFJ 7181, HFJ 7201 SAIBAO III, made in Haerbin, Heilongjiang
- HAFEI HFJ 7162, HFJ 7182 SAIBAO V, made in Haerbin, Heilongjiang
- HAIMA CA 6430, HMC 6432, HMC 6433 FREEMA, made in Haikou, Hainan
- HAIMA HMC 7163 FAMILY SPORTS, made in Haikou, Hainan
- HAIMA HMC 7161, HMC 7162, HMC 7180 FAMILY 2, made in Haikou, Hainan
- HAIMA HMC 7185 HAIMA 3, made in Haikou, Hainan

- HAIMA H11, made in Haikou, Hainan
- HONDA JAZZ, made in Guangzhou, Guangdong
- HUABEI HC 1020, made in Gaobeidian, Hubei
- HUABEI HC 6490 XINGSHI/CHAOSAI, made in Gaobeidian, Hubei
- HUABEI HC 6460 TENGSHI, made in Gaobeidian, Hubei
- HUANGHAI DD 6471, DD 6490 NAVIGATOR, made in Dandong, Liaoning
- HUANGHAI DD 6480 AURORA, made in Dandong, Liaoning
- HUANGHAI DD 6480 QISHENG, made in Dandong, Liaoning
- HUANGHAI DD 6460 FAST, made in Dandong, Liaoning
- HUANGHAI DD 1020 STEED, made in Dandong, Liaoning
- HUANGHAI DD 1023 XIAOCHAISHEN, made in Dandong, Liaoning
- HUANGHAI DD 1020, DD 1022 PLUTUS, made in Dandong, Liaoning
- HUATAI SHD 6470 TERRACAN, made in Rongcheng, Shandong
- HUATAI SQ 6450, SQ 6451 SANTA FE, made in Rongcheng, Shandong
- HUAXIANG FUQI FQ 6501 SUV, made in Fuzhou, Jiangxi
- HUAXIANG FUQI FQ 6510 CONQUEROR, made in Fuzhou, Jiangxi
- HUAXIANG FUQI FQ 1021, made in Fuzhou, Jiangxi
- HUAYANG BHQ 6361, BHQ 6376, made in Wuhu, Anhui
- HUOYUN HY-B1, made in Zibo, Shandong
- HUOYUN HY-B2, made in Zibo, Shandong
- HUOYUN HY-B22, made in Zibo, Shandong
- INNOVECH MYCAR, made in SAR Xianggang (Hong Kong)
- JIANGHUAI HFC 6470, HFC 6500 RUIFENG II, made in Hefei, Anhui
- JIANGHUAI HFC 6450, HFC 6451 REIN, made in Hefei, Anhui
- JIANGHUAI HFC 7200, HFC 7240 C200/C240, made in Hefei, Anhui
- JIANGLING JX 6477 BAOWEI, made in Nanchang, Jiangxi
- JIANGLING JX 1021 BOOMDAY, made in Nanchang, Jiangxi
- JIANGLING LANDWIND JX 6423, JX 6424, JX 6425, JX 6440 X9, made in Nanchang, Jiangxi

- JIANGLING LANDWIND JX 6472, JX 6476, JX 6478 X6, made in Nanchang, Jiangxi
- JIANGLING LANDWIND JX 6410 CV9 FASHION, made in Nanchang, Jiangxi
- JIANGLING LANDWIND JX 7160L FENGHUA CV7, made in Nanchang, Jiangxi
- JIANGNAN JNJ 7080, JNJ 7110 ALTO, made in Xiangtan, Hunan
- JIANGNAN JNJ 7081, JNJ 7111 FAIRY, made in Xiangtan, Hunan
- JIANGNAN JNJ 7150 SAGA, made in Xiangtan, Hunan
- JIANGNAN JNJ 7180 SCENERY, made in Xiangtan, Hunan
- JI'AO (GONOW) GA 6460/05, made in Taizhou, Zhejiang
- JI'AO (GONOW) GA 6460 COXSWAIN, made in Taizhou, Zhejiang
- JI'AO (GONOW) GA 6470 SAILING, made in Taizhou, Zhejiang
- JI'AO (GONOW) GA 6490, GA 6510 JETSTAR GS50, made in Taizhou, Zhejiang
- JI'AO (GONOW) GA 6461 GX6, made in Taizhou, Zhejiang
- JI'AO (GONOW) GA 1020, made in Taizhou, Zhejiang
- JI'AO (GONOW) SHAANXI SFJ 6370 IMAGE, made in Hanzhong, Shaanxi
- JILI (GEELY) HAOQING HQ 7100, HQ 6360E2 "HQ 203A", made in Ningbo, Zhejiang
- JILI (GEELY) HAOQING JL 7131 "HQ 300A", made in Ningbo, Zhejiang
- JILI (GEELY) HAOQING HQ 7130B1, HQ 7150 "HQ 303S" SRV, made in Ningbo, Zhejiang
- JILI (GEELY) MEIRI JL 7150 "MR 203", made in Ningbo, Zhejiang
- JILI (GEELY) MEIRI MR 7100, MR 7130, MR 7150 ULIOU, made in Ningbo, Zhejiang
- JILI (GEELY) MEIRI MR 7131, MR 7151, MR 7161 CK FREE FLEET, made in Ningbo, Zhejiang
- JILI (GEELY) JL 7152, JL 7162 KINGKONG LG-1, made in Ningbo, Zhejiang
- JILI (GEELY) JL 7180 VISIONB FC, made in Ningbo, Zhejiang
- JILI (GEELY) JL 7135, JL 7155, JL 7185 BEAUTY LEOPARD, made in Ningbo, Zhejiang
- JILI (GEELY) JL 7185 LEADING, made in Ningbo, Zhejiang
- JILI (GEELY) CD CHINA DRAGON, made in Ningbo, Zhejiang
- JINCHENG GDQ 6470, made in Qinghuandao, Hebei
- JINCHENG GDQ 6488, made in Qinghuandao, Hebei
- JINCHENG GDQ 1020A1, made in Qinghuandao, Hebei

- JONWAY FD 6390, FD 6391 UFO, made in Hangzhou, Zhejiang
- LIFAN LF 7130, LF 7160 520, made in Chongqing
- NANJING-CHANG'AN SC 6372 CM6, made in Nanjing, Jiangsu
- NANJING-CHANG'AN SC 6381, SC 6382 CM 7 RAIMONDI, made in Nanjing, Jiangsu
- NANJING-FIAT NJ 7131, NJ 7151 PALIO, made in Nanjing, Jiangsu
- NANJING-FIAT NJ 7133, NJ 7153, NJ 7163 SIENA, made in Nanjing, Jiangsu
- NANJING-FIAT NJ 7132, NJ7152, NJ 7162 PALIO WEEKEND, made in Nanjing, Jiangsu
- NANJING-FIAT PERLA 311, made in Nanjing, Jiangsu
- NANJING-FIAT NJ 6420 DOBLO, made in Nanjing, Jiangsu
- NANQI SOYAT NJ 7150, made in Wuxi, Jiangsu
- NANQI SOYAT NJ 6400, made in Wuxi, Jiangsu
- NANQI NJ 1022PBS2, made in Wuxi, Jiangsu
- NANQI NJ 6471 JUNDA, made in Wuxi, Jiangsu
- NANQI MG 3, made in Nanjing, Jiangsu
- NANQI MG NJ 7180, NJ 7250 MG 7, 7L, made Nanjing, Jiangsu
- NANQI MG TF, made in Nanjing, Jiangsu
- QINGLING QL 1020 T-SERIES 600P, made in Chongqing
- QINGLING QL 6470, QL 6471 RODEO, made in Chongqing
- QIRUI (CHERY) SQR 7130, SQR 7131, SQR 7161, SQR 7162 COWIN, made in Wuhu, Anhui
- QIRUI (CHERY) SQR 7161, SQR 7201 A5, made in Wuhu, Anhui
- QIRUI (CHERY) SQR 7080, SQR 7100, SQR 7110 QQ3, made in Wuhu, Anhui
- QIRUI (CHERY) SQR 7130 QQ6, made in Wuhu, Anhui
- QIRUI (CHERY) A1 (S12), made in Wuhu, Anhui
- QIRUI (CHERY) A3 (M11/M12), made in Wuhu, Anhui
- QIRUI (CHERY) SQR 7201, SQR 7241 EASTAR, made in Wuhu, Anhui
- QIRUI (CHERY) A6 (B21), made in Wuhu, Anhui
- QIRUI (CHERY) SQR 7160, SQR 7180, SQR 7200, SQR 7240 NCV TIGGO T3, made in Wuhu, Anhui

- QIRUI (CHERY) SQR 6470 V5, made in Wuhu, Anhui
- QIRUI (CHERY) SQR 6400 RIICH V2, made in Wuhu, Anhui
- QIRUI (CHERY) SQR 6468 KARRY V3, made in Wuhu, Anhui
- RONGWEI (ROEWE) CSA 7180, CSA 7250 model 750, made in Yizheng, Jiangsu
- SANDI SD 500-2, made in Taixing, Jiangsu
- SANDI SD 650, made in Taixing, Jiangsu
- SHANGHAI-GM CHEVROLET SGM 7165 SAIL, made in Yantai, Shandong
- SHANGHAI-GM CHEVROLET SGM 7166 SAIL S-RV, made in Yantai, Shandong
- SHANGHAI-GM CHEVROLET SGM 7140, SGM 7160 AVEO, made in Yantai, Shandong
- SHANGHAI-GM CHEVROLET SGM 7141, SGM 7161 LOVA, made in Yantai, Shandong
- SHANGHAI-GM CHEVROLET SGM 7201 EPICA, made in Yantai, Shandong
- SHANGHAI-GM BUICK SGM 7161, SGM 7180 EXCELLE, made in Shanghai
- SHANGHAI-GM BUICK SGM 7163 EXCELLE HRV, made in Shanghai
- SHANGHAI-GM BUICK SGM 7200, SGM 7251, SGM 7152, SGM 7302 REGAL, made in Shanghai
- SHANGHAI-GM BUICK SGM 7240, SGM 7305 LACROSSE, made in Shanghai
- SHANGHAI-GM BUICK PARK AVENUE, made in Shanghai
- SHANGHAI-GM BUICK SGM 6515, SGM 6516 GL 8, made in Shenyang, Liaoning
- SHANGHAI-GM BUICK SGM 6512, SGM 6513 GL 8 FIRST LAND, made in Shenyang, Liaoning
- SHANGHAI-GM CADILLAC 7282, SGM 7364, SGM 7460 SLS, made in Shanghai
- SHANGHAI-GM WULING LZW 6360, made in Liuzhou, Guangxi
- SHANGHAI-GM WULING LZW 6381 HONGTU N200, made in Liuzhou, Guangxi
- SHANGHAI-GM WULING LZW 6376 SUNSHINE, made in Liuzhou, Guangxi
- SHANGHAI-GM CHEVROLET LZW 7080, LZW 7100 SPARK, made in Liuzhou, Guangxi
- SHANGHAI HUAPU SMA 7131, SMA 7151 AA HYSHINE, made in Shanghai
- SHANGHAI HUAPU SMA 7150 HISOON 205 AB, made in Shanghai
- SHANGHAI HUAPU SMA 7151, SMA 7180, SMA 7181 MARINDO MA, made in Shanghai
- SHANGHAI HUAPU HAISHANG 305 MA, made in Shanghai

- SHANGHAI HUAPU SMA 7152, SMA 7182 MARINDO MB, made in Shanghai
- SHANGHAI HUAPU TAXI LTI TX4, made in Shanghai
- SHANGHAI-VW SVW 7180, SVW 7181 SANTANA, made in Shanghai
- SHANGHAI-VW SVW 7182 SANTANA 3000, made in Shanghai
- SHANGHAI-VW SVW 7183, SVW 7193, SVW 7203, SVW 7283 PASSAT LINGYU, made in Shanghai
- SHANGHAI-VW SVW 7144, SVW 7164 POLO, made in Shanghai
- SHANGHAI-VW CROSS POLO, made in Shanghai
- SHANGHAI-VW SVW 6440 TOURAN, made in Shanghai
- SHANGHAI-VW SVW 7186, SVW 7206 SKODA OCTAVIA, made in Shanghai
- SHUANGHUAN HX 6300, HX 6301 HONGXING NOBLE S6, made in Shijiazhuang, Hebei
- SHUANGHUAN HBJ 6460 LAIBAO, made in Shijiazhuang, Hebei
- SHUANGHUAN HBJ 6471 SCEO, made in Shijiazhuang, Hebei
- SOAR TIANSHI QJM 5010, QJM 5020, QJM 5022, made in Qingdao, Shandong
- TIANJIN QINGYUAN VELA, made in Tianjin
- TIANJIN QINGYUAN VIZI, made in Tianjin
- TIANJIN QINGYUAN XINFU ZX40, made in Tianjin
- TIANJIN-FAW HUALI CA 7100, CA 7110 JIAXING, made in Tianjin
- TIANJIN-FAW XIALI TJ 7101, TJ 7111, TJ 7131, TJ 7141 A+ JUNYA, made in Tianjin
- TIANJIN-FAW XIALI TJ 7101AU, TJ 7111, TJ 7131 A+ SHENYA, made in Tianjin
- TIANJIN-FAW XIALI TJ 7101, TJ 7111, TJ 7131, TJ 7141 N3, made in Tianjin
- TIANJIN-FAW CA 7156, CA7166 VELA, made in Tianjin
- TIANJIN-FAW CA 7106, CA 7136 VITZ, made in Tianjin
- TIANJIN-FAW CA 7130, CA 7140, CA 7150, CA 7160 WEIZHI C1, made in Tianjin
- TIANJIN TOYOTA TV 7130, TV 7150 VIOS, made in Tianjin
- TIANJIN TOYOTA TV 7180 COROLLA, made in Tianjin
- TIANJIN TOYOTA TV 7250 REIZ, made in Tianjin
- TIANJIN TOYOTA TV 7300 CROWN, made in Tianjin
- TIANMA KZ 6490 FENGCHI, made in Baoding, Hebei

- TIANMA KZ 6485 FENGRUI, made in Baoding, Hebei
- TIANMA KZ 6460 HERO, made in Baoding, Hebei
- TIANMA KZ 6480 JUNCHI, made in Baoding, Hebei
- TIANMA KZ 1020, KZ 1021, made in Baoding, Hebei
- TIANQI MEIYA TM 6500 CHEER, made in Tianjin
- TIANQI MEIYA TM 6480 HEAD WIND, made in Tianjin
- TIANQI MEIYA TM 1020A LUCHENG, made in Tianjin
- XINKAI HXK 6485E CUV, made in Gaobeidian, Hebei
- XINKAI HXK 6490C MPV, made in Gaobeidian, Hebei
- XINKAI HXK 1021 JIAOLONG, made in Gaobeidian, Hebei
- XINKAI HXK 6490 LIANGXING SRV, made in Gaobeidian, Hebei
- XINKAI HXE 2023, HXE 6490 XKSTAR, made in Gaobeidian, Hebei
- YEMA SQJ 6470, made in Chengdu, Sichuan
- YUNQUE GHK 7071 WOW, made in Anshun, Guizhou
- YUNQUE GHK 7180, made in Anshun, Guizhou
- ZHENGZHOU-NISSAN ZN 6491, ZN 6492 made in Zhengzhou, Henan
- ZHENGZHOU-NISSAN ZN 6453 PALADIN, made in Zhengzhou, Henan
- ZHENGZHOU-NISSAN ZN 6470V1K SERENA, made in Zhengzhou, Henan
- ZHONGNENG JIEFANG CA 6460, CA 6480, made in Taizhou, Zhejiang
- ZHONGNENG JIEFANG CA 1021, made in Taizhou, Zhejiang
- ZHONGSHUN (POLARSUN) SZS 6430 MPV-A, made in Shenyang, Liaoning
- ZHONGSHUN (POLARSUN) SZS 6400 MPV-B, made in Shenyang, Liaoning
- ZHONGSHUN (POLARSUN) SZS 6450 MPV, made in Shenyang, Liaoning
- ZHONGSHUN (POLARSUN) SZS 6510 LUX. MPV, made in Shenyang, Liaoning
- ZHONGSHUN (POLARSUN) SZS 1020, made in Shenyang, Liaoning
- ZHONGSHUN (POLARSUN) SZS 6480 SUV, made in Shenyang, Liaoning
- ZHONGSHUN (POLARSUN) SZS 6800 LIMO, made in Shenyang, Liaoning
- ZHONGTAI (ZOTYE) XS 6390, XS 6402 2008, made in Yongkang, Zhejiang

- ZHONGXING BQ 6471, BQ 6472 ADMIRAL, made in Baoding, Hebei
- ZHONGXING BQ 1020 ADMIRAL, made in Baoding, Hebei
- ZHONGXING BQ 6501 LUCKY STAR, made in Baoding, Hebei
- ZHONGXING BQ 6472 CRUISE 2400, made in Baoding, Hebei
- ZHONGXING BQ 6473 LANDMARK, made in Baoding, Hebei
- ZHONGXING GRAND TIGER, made in Baoding, Hebei
- ZONGSHEN TONGBAO WHW 6353, made in Wuhu, Anhui

6. Abbreviations

AFTA	ASEAN Free Trade Agreement
Amz	Auto Motor Zubehör (Zeitschrift)
ASEAN	Association of Southeast Asian Nations
Bn.	Billion
CAGR	Compounded Annual Growth Rate
CAAM	Chinese Association of Automotive Manufacturers
CPCA	Chinese Passenger Car Association
CTCAI	China Trading Center for Automobile Import
E	Estimate
F	Forecast
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistical Office
HCM	Ho Chi Minh
IAM	Independent Aftermarket
JV	Joint Venture
Mio.	Million
MOF	Ministry of Finance
MPV	Multi Purpose Vehicle
No.	Number
OE	Original Equipment
OEM	Original Equipment Manufacturer

SEZ	Special Economic Zone
sq. km.	square kilometer
SUV	Sport Utility Vehicle
USD	US-Dollar
VAT	Value Added Tax
WTO	World Trade Organisation

Globis GmbH

Globis is a market research and consulting company based in Berlin, Germany. We cover mature and developing automotive markets world-wide. Our services include:

- Market intelligence (reports, data, profiles).
- Mystery Shopping (sales and service)
- Vehicle stock audits
- Network development services
- Entry strategies

For questions or further information, please contact us at:

Globis GmbH
Möllendorffstr. 52
10367 Berlin
Germany

T.: +49 (0)30 4005 4914
F.: +49 (0)30 4005 4928

<https://www.globis-consulting.com>
request@globis-consulting.com