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FOURIN, INC. Sakuragaoka 292, Chikusa Ward, Nagoya City, Aichi, JAPAN 464-0025  
 Tel: +81-52-789-1101 (Sales & Marketing Department) +81-52-789-1187 (Editorial Department)  
 Email: [pr@fourin.com](mailto:pr@fourin.com) (Sales & Marketing Department) [fc@fourin.com](mailto:fc@fourin.com) (Editorial Department)

# China Automotive Industry 2011 Yearbook - Automotive Parts -

Moving from Growth to Maturity Stage in China, Electrification, Lightweighting as well as Cost Competitiveness Needed for Auto Parts Makers

■Size: A4, 259 pages+CD ■Publication Date: June 29, 2011 ■Price: 120,000 JPY (free shipping but VAT for Japan orders)

**Invaluable Intelligence and Data to Support Any Automotive Business in China**

- ◆ Identifies the direction of the Chinese automotive industry based on analysis of growth strategies of China's central and local governments
- ◆ Analyzes parts procurement strategies and in-house parts production systems of 16 local and foreign automakers
- ◆ Clarifies trends of new technology development, procurement strategy and business relationships of 40 major Chinese parts makers
- ◆ Outlines business conditions of ten leading Chinese companies in the vehicle electrification sector
- ◆ Explores business trends of 48 foreign automotive parts manufacturers in China

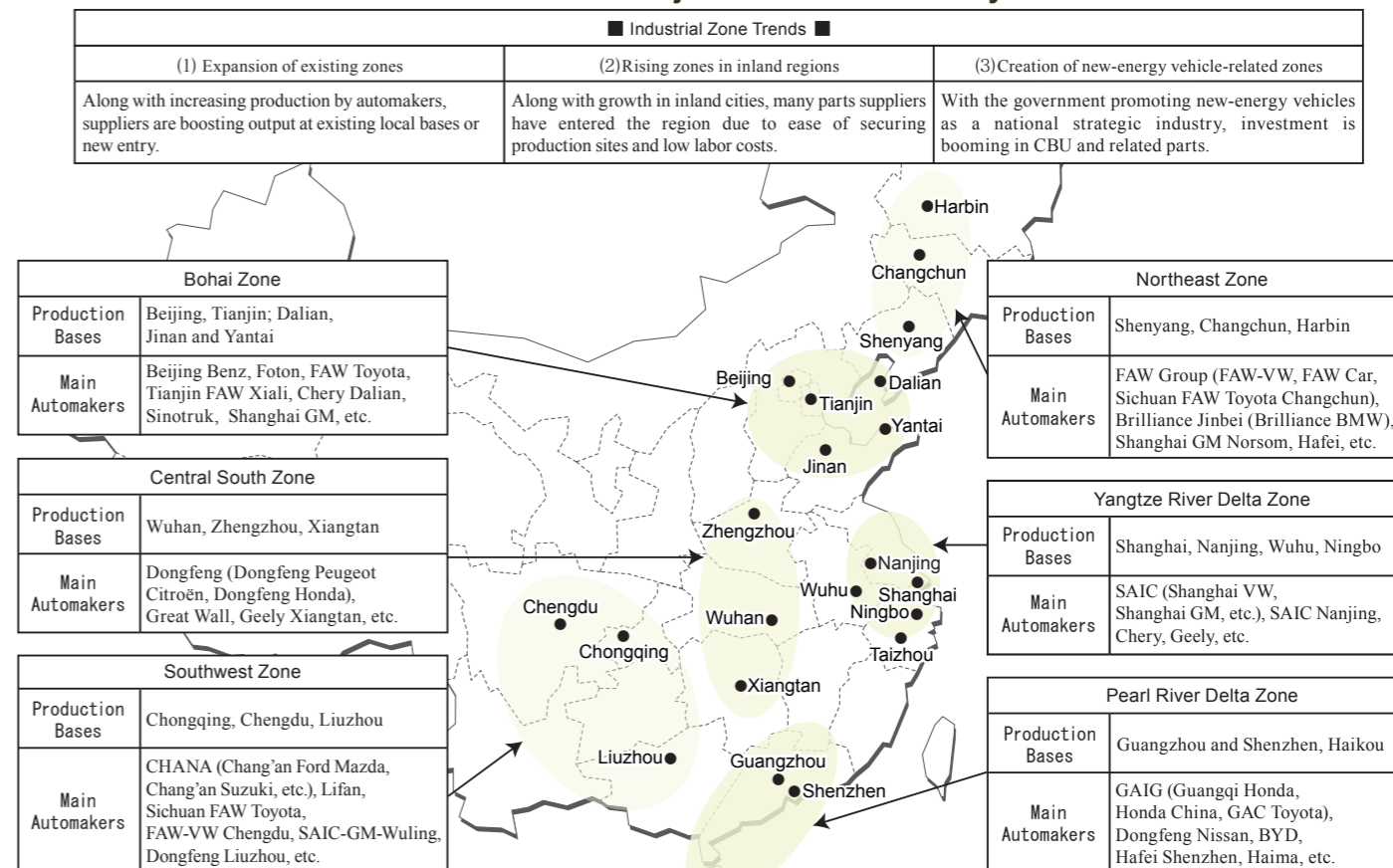
In 2010, the Chinese automotive market is expected to be close to the world's highest recorded vehicle sales of 17.8 million units achieved by the United States and become the auto powerhouse of the world both in name and reality in 2011. Comparing with China's production volume of 2.35 million units in 2001 when China became a member of the WTO, the Chinese automotive industry achieved astounding growth with unprecedented rapidity, recording seven-fold expansion in less than 10 years. Needless to say, the auto parts industry has also achieved explosive growth. In China, while the amount of foreign investment allowed in joint venture projects of complete vehicle manufacturers is limited to 50%, there is no restriction on the joint venture projects of

automotive components. Consequently, the development of the Chinese parts industry was carried out by foreign companies and joint venture companies between Chinese and foreign suppliers, while Chinese suppliers became lagging behind in technology and R&D. However, recently, as seen in the acquisitions of Delphi Corporation's brake and chassis business and GM's Nexteer steering components unit by Chinese enterprises, there are an increasing number of Chinese suppliers that intend to fill the technological gap through takeover of foreign parts makers backed by the governmental supports. Furthermore, with an aim to make up for delay in technology accumulation in the auto parts industry, the Chinese government has been activating

implementation of industrial policies to support and encourage development of technology and products in new technology areas such as electric vehicles and related parts.

It is firmly believed that this survey on the up-to-the-minute trends of the Chinese auto parts industry which clarifies the Chinese government's industrial policies for 2015 as well as deep analysis on parts procurement strategies and business trends of Chinese and foreign auto parts makers will serve as an invaluable source of information for those conducting business related to China's automotive industry, and contribute to further business expansion.

**China: Outline of Six Major Automotive Industry Zones**



(Compiled by FOURIN using various media sources)

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Chapter 1

1. Automotive Parts Industry: Expanding Scale Ahead of 2020, Potential Increases for 'China Standard'

On the back of China's automobile production scaling to global number one from 2009, the local automotive parts industry has also been riding high. Production sales revenues of 570 billion CNY in 2009 (total of 2,514 companies, according to CAIARC)—a 9.7-fold expansion over the past ten years. In China, with a population in excess of 1.3 billion and continued economic growth, annual vehicle demand expanded to 18 million units in 2010, with 2011 set to see volume increase to 21 million units or more. With demand through to 2020 forecast to rise to 35 million units, FOURIN's research projects annual vehicle production capacity could balloon to around 45 million units over the same time.

Subsequently, China's automotive parts industry is faced with meeting annual capacity of some 40 million units and the medium term inability to meet the quantitative scale expansion will surely lead to a swift loss in presence.

Along with building up volume levels, since 2009, Chinese companies have been leading proactive measures to integrate their own and external business resources aimed at acquiring technology and business routes, in order to capture strategic technology—the key to future growth. The previous train of thought believed that cultivation of suppliers within the Chinese automotive parts lagged behind leading names in developed countries, and would never rise

Year	Production Capacity (10,000 units)	Operating Rate (%)
2000	1.0	70
2001	1.2	75
2002	1.5	80
2003	2.0	85
2004	2.5	90
2005	3.0	95
2006	4.0	100
2007	5.0	100
2008	6.0	100
2009	7.0	100
2010	8.0	100
2011	9.0	100
2012	10.0	100
2013	11.0	100
2014	12.0	100
2015	13.0	100
2016	14.0	100
2017	15.0	100
2018	16.0	100
2019	17.0	100
2020	18.0	100

(First page of report)

Chapter 2

1. SAIC Group: Restructures Parts Subsidiaries; Looks to Lift Product Competitiveness by Strengthening Ties with GM

SAIC Group has been increasing capital fund raising for its parts divisions via its core parts subsidiary Huayu Automotive, which listed on the stock exchange in March 2009. At the same time, the group has also been accelerating development and commercialization of technology to reduce fuel consumption, such as dual clutch transmissions, vehicle electrification and lightweighting. Moreover, through ties with GM to develop powertrains for small passenger cars, it is looking to lift competitiveness of core parts for the overseas market, which the group is hoping will lead to its own expansion overseas.

As well as Roewe, MG and Wuling, a new passenger car brand Euiqun was recently born, with construction of a supplier park in the Lianhuo Hest Industrial Park commencing for parts to meet the new SAIC-GM-Wuling brand. The first stage of the project sees 19 passenger car and engine suppliers from both China and overseas setting up in the park, with plans for a greater number to enter in the coming years. As the Liaojin brand makes use of GM technology, a great deal of parts are supplied from Shanghai GM and its suppliers, with expectations for economies of scale to drive for parts procurement of the entire group.

In regards to parts for electric vehicles, Shanghai Jienseng Automotive Technology Co., Ltd. was set up in January 2009 to take charge of in-house development of hybrid and electric vehicle powertrains. At the end of the same year, a lithium-ion battery company was set up jointly with A123 Systems which received support from the US government, through which efforts are underway to acquire electric vehicle parts manufacturing and shift toward in-house manufacturing.

SAIC Group Procurement Trends (Mid-2009-Jan. 2011)

Item	Trend
Comprehensive	By 2015, aims to strengthen the group's domestic parts procurement situation, lifting the scale to 150 billion CNY (including joint bases)
Parts Export	Feb. 2010: Begins construction of a supplier park in Liaochao Hest Industrial Park to manufacture parts for SAIC-GM-Wuling's Bionix passenger car brand.
Parts Business Reorganization	The industrial park to manufacture parts supply and logistics support for SAIC-GM-Wuling's passenger car project.
Joint Rechargeable Battery Production	Production of core parts for SAIC-GM-Wuling passenger cars, such as engine, and distribution of complete vehicles and parts. Initially plans for EV Chinese and foreign passenger car and engine parts suppliers to set up in the park, with further subsequent entry (According to SAIC-GM-Wuling General Manager Shen Yang)
Electric Vehicle Technology Development	As of Jan. 2011: Reporting parts from China to supply global production of the SR6 in the UK, which is planned to go into regular production in H1 2011.

(First page of report)

Chapter 3

14. Huayu Automotive: Absorbs SAIC Group Parts Divisions Other Than Powertrains; Looks to Improve Business Efficiency

(Huayu Automotive Systems Co., Ltd. (hereinafter referred to as Huayu Automotive) is a publicly-listed general supplier, which was formed in March 2009 after SAIC Group made Shanghai Dashi Industrial (Group) a subsidiary through a share swap and took control of its 23 subsidiary parts makers. While Huayu Automotive looks to promote optimization of management by integrating operations, the majority of its subsidiary bases are joint companies dependent on foreign-sourced technology, thus it is also pointed out that listing on the stock exchange is the only way for parts supplier to raise funds.

Huayu Automotive's business spans three fields: interior and exterior parts, functional parts, and heat treated parts. In October 2010, a brake system parts sales company was set up with Continental (Huayu Automotive) shareholding: 51 percent, while the following December, a tractor motor production base was established in conjunction with Guizhou Aviation Industry (Huayu Automotive shareholding 40 percent). Moreover, the company is working to expand business scope, as seen by announcement of plans to incorporate SAIC Group's Shanghai Shengdegen Foundry, Shanghai Sachi Powertrain Components Systems (joint venture with ZF Sachs AG) and Shanghai Xingfa Motorcycle as subsidiaries. Furthermore, in 2010, Huayu Automotive stepped up efforts to boost sales, forming a strategic tie-up with Jianghai Automotive, and setting up a new base to supply interior parts to SAIC-GM-Wuling.

Huayu Automotive: Consolidated Financial Summary (2008, YTD Sep. 2009/2010)

Item	2008	YTD Sep. 2009	YTD Sep. 2010	YOY Growth (%)
Sales Revenue	24,067.9	15,788.1	14,332.1	-79.5%
Operating Income	2,003.9	3,641.1	3,638.0	82.2%
Operating Income Ratio	(8.3%)	(23.1%)	(25.7%)	(+1.6%)
Profit After Tax	2,544.8	3,572.3	3,252.0	(-21.8%)
Total Assets	23,727.6	25,678.7	24,482.0	23.7%

Huayu Automotive: Financial Summary by Product (2009, YTD Jan. 2010)

Product	2009	2010	YOY Growth (%)
Interior/Exterior	18,043.3	16,499.0	(-8.6%)
Functional Parts	15,853.1	13,209.2	(-16.8%)
Heat Treated Parts	4,972.0	3,489.8	(-30.0%)
Other	4,262.1	3,482.6	(-18.3%)
Total	33,130.4	36,680.6	(+10.7%)

Huayu Automotive: Organization Diagram of Main Subsidiary Bases (As of Jan. 2011)

(First page of report)

Chapter 4

1. China Tex Mechanical & Electrical: Specializes in Switched Reluctance Drives; Annual Production Capacity Boosted to 5,000 Sets

China Tex Mechanical & Electrical Engineering Ltd. (hereinafter referred to as China Tex Mechanical & Electrical) is a maker of electrical systems, which develops and manufactures Switched Reluctance Drives (SRD) and braking systems. In 2010, a new plant was brought on stream, lifting annual production capacity for automotive-use SRD systems increased from 2,000 sets to 5,000 sets, and motor stepping up towards to also supply companies other than its existing customers of Dongfeng Motor and Kinglong United.

China Tex Mechanical & Electrical's predecessor China Textile IJM Research Institute, which was set up in 1953 as China's first state-owned textile machinery research facility, took part in the State 863 Plan in the field of electric vehicles, developing a strong HEV-use 50/100kW motor and mild HEV-use 35/60kW motor. In Oct. 2008, set up a joint development center with Tianjin University of Technology.

Has received ISO9001 and ISO14001 (2008) certification.

China Tex Mechanical & Electrical: Business Trends (Since 2009)

Category	Details
Business	Head of 2010: With operation of a new plant, annual production capacity for automotive-use SRD systems increased from 2,000 sets to 5,000 sets.
Employees	New base building area, including SRD center, covers total production capacity 5,000 sets.
Production	Aug/2009: Set up with SRD production line.
Expansion	Aug/2009: Announced that net asset value increased 15-fold since set up in 2004, while sales revenue expanded 4-fold (Specific figures not supplied).
Think	Philips: Dongfeng hybrid buses fitted with China Tex SRD systems in service during the 2008 Beijing Olympics. Fuel efficiency improvement of 21%.
Industry	As of Jan. 2010, had trained 90 hybrid buses over five years in total in conjunction with Dongfeng Motor total annual level of 30 million km. Fuel efficiency improvement of 21%.
Others	Patent with rechargeable batteries from Tianjin University of Technology.

China Tex Mechanical & Electrical: Fitted Vehicles with Production Approval (As of Dec. 2010)

Model Code	Engine Supplier	Production (1000)	Powertrain Supplier	Model Code	Engine Supplier	Production (1000)	Powertrain Supplier
DM10100001	Yanmar	4,200	China Tex	DM10100001	Yanmar	4,200	China Tex
DM10100002	Yanmar	4,200	China Tex	DM10100002	Yanmar	4,200	China Tex
DM10100003	Yanmar	4,200	China Tex	DM10100003	Yanmar	4,200	China Tex
DM10100004	Yanmar	4,200	China Tex	DM10100004	Yanmar	4,200	China Tex

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