J.D. POWER
ASIA PACIFIC

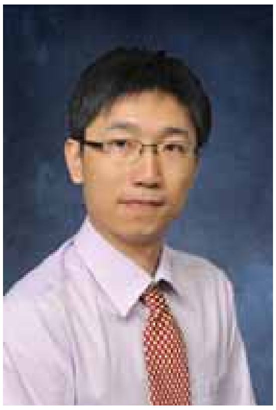
"Che"
Chinese character for car

China Automotive Monthly
Executive Summary

February 2011

The McGraw-Hill Companies

On China



Marvin Zhu
J.D. Power and Associates

Volkswagen: Old Platforms, New Realities

Volkswagen has an enviable position in China's modern automotive history as the first global brand to enter the country, and it did so when most other OEMs considered China a risky market. Soon after setting up its first joint venture in 1985, followed by the second one with FAW in 1991, Volkswagen became the top seller. It still remains an important player in what is now the world's biggest car market, but it has lost a lot of the dominance it once had.

In the late 1970s, China identified the automotive industry as a potential engine of economic growth. Chinese authorities opened investment opportunities to attract global automotive powerhouses. Most of them, including GM, Ford, Toyota, Nissan and PSA, showed little interest as they saw more risks than rewards in doing business in China. It was Volkswagen that took the chance to drive into China.

Older generation Chinese grew up with Santanas and Jettas, and came to think of them as models of typical saloons. That might explain why Chinese tend to prefer sedans to the hatchbacks, wagons, MPVs and SUVs, which became popular only recently. For them, the Volkswagen brand was synonymous with quality excellence and advanced technology. No other brand in China earned as a high customer loyalty as Volkswagen.

The German carmaker occupied more than 90% of the passenger car market in 1990s. Its two joint ventures had the highest capacity, the largest number of dealerships and the widest range of models covering almost every segment, Volkswagen had a monopoly over the Chinese market for some three decades.

Volkswagen found little challenge to its top seller status. In one of his interviews, retired former CEO of the VW Group, Bernd Pischetsrieder, said: "Yes, we have been the number one in China, and we will always be the number one if we want!"

However, competition became more and more fierce and Volkswagen saw its share shrink to 12.7% in 2010, having lost 2% to its rivals in the last three years alone. Facing fiercer competition in the fast growing market, Volkswagen is on the defensive, relying on ageing models and outdated technology. And that does not help Volkswagen maintain its share in the market which is increasingly matured.

The carmaker's product mix shows the underlying cause of the declining market share: ageing products such as Jetta, Santana, Passat and Polo which have been in the market for more than nine years; models developed and redesigned on old platforms (Lavida and New Bora); and models built on new platforms (Golf, Sagitar, Tiguan, Magotan and CC).

The old-platform models which belong to the first two categories contributed the most to Volkswagen domestic sales volume in 2010 - 48% and 29% respectively. The new-platform models added the balance of 23%. Obviously, Volkswagen has been betting on the old models and outdated technologies during the recent years while running such marketing gimmicks as cutting-edge Bluemotion and TSI+DSG technology to be implemented in China.

Their high sales volumes means it makes sense for Volkswagen to keep the ageing models in the market. Many a facelift of Jetta or variant of Santana has been launched in the past 20 years. Yet, these two models still make into the best-sellers list. Volkswagen pioneered the coexistence of multiple-generations (Jetta, Bora and Sagitar) which is a popular strategy in the market today.

Volkswagen has learnt the lesson of how "excess technology" can hamper sales. When the Polo was launched by Shanghai VW in the early 2000s with state-of-the-art product features and manufacturing technologies, sales were sluggish because the higher price. FAW-VW's Magotan had a similar scenario. That was enough to convince the German carmaker that the market does not necessarily want newer platforms or stronger engines but the best fit for local tastes.

Hence VW has focused its product strategy on the utilization of mature platforms. The Lavida and New Bora developed on the modified PQ34 platform proved that there is demand for an old wine in a new bottle.

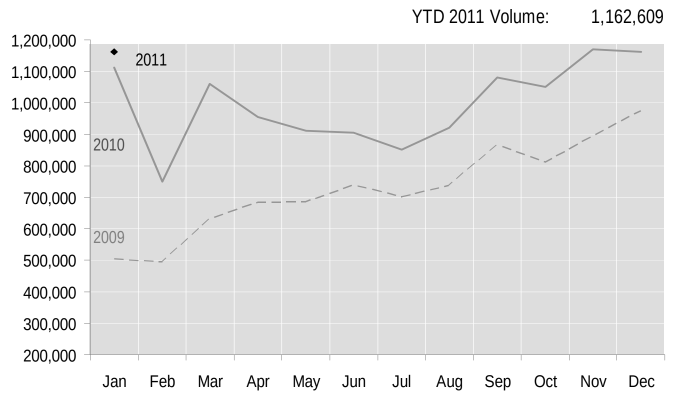
Volkswagen is realistic when it comes to making more sales but that comes at the expense of competitiveness. Longer intervals between two generations and a lower composition of high-tech variants do not help when its rivals are wasting no time in narrowing the generation gap and offering the latest in automotive technology.

GM, for example, launched the new Buick Regal, Lacrosse, Excelle XT/GT and Chevrolet Cruze on the latest global platforms with state-of-the-art engines. Hyundai and Kia both introduced a number of contemporary models in China as they did in other markets. Even PSA, often criticized for not bringing in new offers to China, added the latest C5 and 508 to the local product mix. No wonder they keep eating into Volkswagen's share.

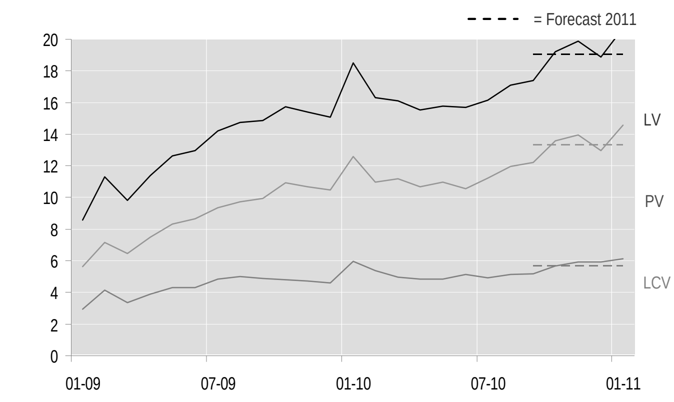
Unfortunately, it appears that VW is not going to change its unviable strategy. It launched more facelifts at the end of 2010, and is planning to revamp both the Jetta and Santana in the coming years. There is also a new local brand to be built at the plant to be constructed in Guangdong Province. Assuming this new brand brings in high sales volumes, Volkswagen will be further encouraged to continue focusing on the old platforms and ageing models.

	JAN	YTD
Light Vehicle (LV) Demand	16%	16%
Passenger Vehicle (PV) Demand	21%	21%
Light Commercial Vehicle (LCV) Demand	5%	5%

Monthly PV Sales



Monthly LV Sales SAAR (millions)



Cautious Full-Year Outlook Despite Bullish Sales in January

Car sales in China started off 2011 on a healthy note, with light vehicle sales in January climbing 16% over the same month last year to 1.8 million units. The growth was driven by passenger vehicles (PVs), which grew 21% to 1.3 million units, while light commercial vehicles (LCVs) reported total sales of 504,000 units, an increase of 5% year on year.

On a seasonally adjusted annualized rate (SAAR) basis, January sales reached yet another record high of 20.7 million units per year, up 9.8% from a relatively weak December. A jump in the SAAR was somewhat expected, as OEMs reportedly "hid" many December sales and registered them as January sales in order to make achieving their Q1 2011 sales targets easier.

The strong market opening signals a prosperous year for most Chinese businesses, including carmakers. Sales volumes in January crossed 20% for most OEMs, from small cars to high-end luxury models. Shanghai GM reported a record sales growth 43% while Shanghai VW boasted a 73% increase in sales.

Exciting as they appear, those sales figures do not necessarily lead us to expect a bright outlook for the year as we take note of the two underlying reasons for the upbeat reports in January. First, most OEMs, having met their targets last year, probably shifted part of the sales growth from last December to January. It is not unusual for Chinese car businesses to do so as it helps them meet the new target. Secondly, OEMs usually deliver more vehicles to dealers in January in the run up to the Chinese New Year in February, with the logistics and production schedules being wrapped up around December 25. Hence, part of the sales in February gets registered in January. The combined sales in January and February therefore may be a much better indicator for the full-year outlook.

On the other hand, for some carmakers, sales in January were far from being bullish. Sales records for BYD, for example, remained in the red in January after the decline that started last August. The carmaker saw its sales double in 2009 but lost its market share last year. BYD's sales are under pressure as its new product plan for 2011 is not as aggressive as before. It is initiating a price war, announcing price cuts starting from CNY 4,000 to 15,000 for F0, F3, F3R, G3, F6 and 14 variants.

Most of those models have been in the market for more than three years, and the price cuts make sense on big volume sales. Moreover, it is good choice financially for BYD, which is expecting to boost sales through price reductions once the second plant in Xi'an comes on stream in 2011.

BYD's move also reflects growing concerns among OEMs over a cooling market and the cut-throat price war. However, we don't expect all the OEMs will join the price war. For most joint ventures capacity constraint has been a lingering problem in recent years and they are facing the same challenge in 2011. We expect only domestic brands, which gain market share by offering lower prices, will follow BYD.

Despite an upbeat SAAR in January, we keep our forecast unchanged, with sales projected to increase by around 11% to 19.0 million units (13.3 million units of PVs and 5.7 million units of LCVs) this year. The end of the government incentives, rising inflation, higher borrowing costs (as most vehicle sales transactions are still being done by cash) will have a dampening effect on sales this year.

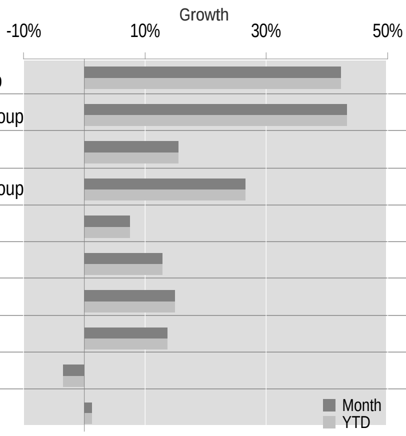
Market Top Lines

	Jan	Growth	YTD	Growth	2011f	Growth
Sales	1,961,880	15%	1,961,880	15%		
PV	1,339,656	21%	1,339,656	21%	13,344,844	12%
LCV	503,929	5%	503,929	5%	5,684,187	8%
M&H CV	118,295	6%	118,295	6%		
Production	1,757,220	10%	1,757,220	10%		
PV	1,144,540	16%	1,144,540	16%	12,342,681	11%
LCV	471,736	-3%	471,736	-3%	5,500,172	4%
M&H CV	140,944	13%	140,944	13%		

Best Selling Models

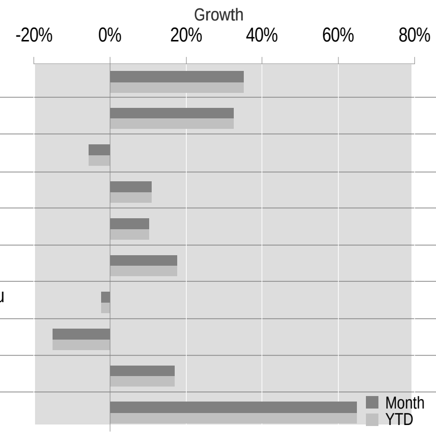
	Jan	Growth	Share	YTD	Growth	Share
PV						
BYD F3	29,755	-16%	2.2%	29,755	-16%	2.2%
Buick Excelle	28,149	37%	2.1%	28,149	37%	2.1%
Volkswagen Jetta	28,140	2%	2.1%	28,140	2%	2.1%
LCV						
Wuling Sunshine	73,302	-24%	14.5%	73,302	-24%	14.5%
Chana Chang'an Mini Bus	52,119	-19%	10.3%	52,119	-19%	10.3%
Rongguang/Xingwang	38,343	807%	7.6%	38,343	807%	7.6%

Top International Groups *(Sales)*



	YTD Volume	Share
Volkswagen Group	223,152	12%
General Motors Group	141,382	8%
Hyundai Group	117,388	6%
Renault-Nissan Group	86,709	5%
Toyota Group	81,906	4%
Honda Group	66,137	4%
PSA Group	42,850	2%
Ford Group	37,967	2%
Suzuki Group	31,466	2%
Mazda Motors	21,032	1%

Top China Groups *(Sales)*

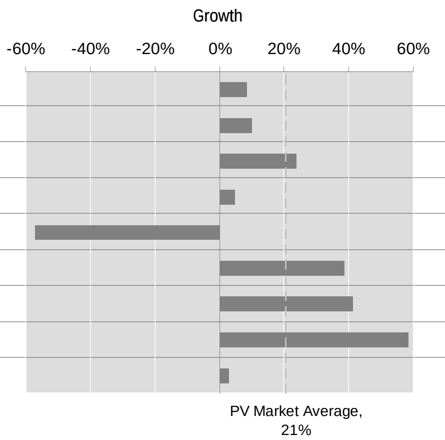


	YTD Volume	Share
SAIC	400,521	22%
DFM	271,167	15%
Chang'an	234,565	13%
FAW	228,525	12%
BAIC	126,380	7%
Chery	86,299	5%
Guangzhou	67,712	4%
BYD	52,054	3%
JAC	51,031	3%
Great Wall	50,708	3%

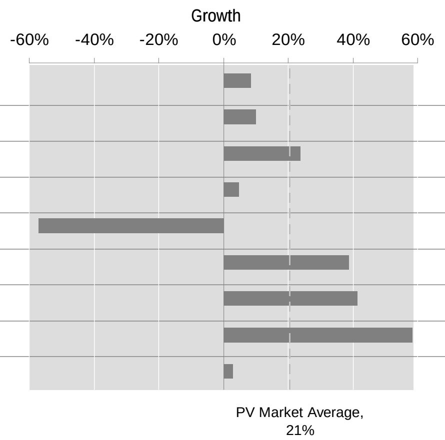
Segment Sales Performance

PV

Jan



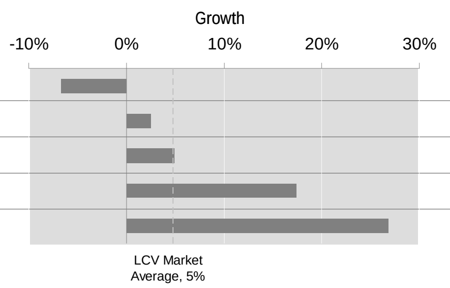
YTD



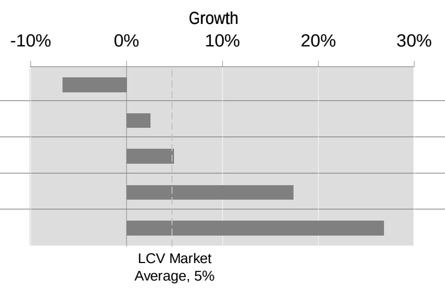
	Jan Volume	Jan Share	YTD Volume	YTD Share
Mini Car	72,792	5%	72,792	5%
Sub-Compact Car	236,211	18%	236,211	18%
Compact Car	587,194	44%	587,194	44%
Midsize Car	152,408	11%	152,408	11%
Fullsize Car	3,201	0%	3,201	0%
Sporty Car	3,050	0%	3,050	0%
Luxury Car	47,268	4%	47,268	4%
SUV	187,476	14%	187,476	14%
MPV/Minivan	50,056	4%	50,056	4%

LCV

Jan



YTD



	Jan Volume	Jan Share	YTD Volume	YTD Share
Mini Truck	49,736	10%	49,736	10%
Light Truck	136,269	27%	136,269	27%
Mini Bus	256,699	51%	256,699	51%
Van-Light Bus	29,539	6%	29,539	6%
Pickup	31,686	6%	31,686	6%

Top Brands *(Sales)*

	#	Brand	Jan	Growth	YTD	Growth	YTD Share
Passenger Vehicle	1	Volkswagen	174,047	44%	174,047	44%	13.0%
	2	Nissan	77,352	27%	77,352	27%	5.8%
	3	Toyota	76,791	7%	76,791	7%	5.7%
	4	Hyundai	76,178	16%	76,178	16%	5.7%
	5	Chery	73,465	27%	73,465	27%	5.5%
	6	Buick	70,363	49%	70,363	49%	5.3%
	7	Chevrolet	68,830	38%	68,830	38%	5.1%
	8	Honda	65,706	13%	65,706	13%	4.9%
	9	BYD	52,054	-15%	52,054	-15%	3.9%
	10	Kia	41,210	15%	41,210	15%	3.1%
	11	FAW	39,365	20%	39,365	20%	2.9%
	12	Great Wall	39,326	66%	39,326	66%	2.9%
	13	Ford	31,978	9%	31,978	9%	2.4%
	14	Suzuki	31,466	-3%	31,466	-3%	2.3%
	15	JAC	30,047	21%	30,047	21%	2.2%
	16	Chana	25,430	15%	25,430	15%	1.9%
	17	Skoda	25,315	44%	25,315	44%	1.9%
	18	Geely	25,274	-15%	25,274	-15%	1.9%
	19	Citroen	24,449	-3%	24,449	-3%	1.8%
	20	Audi	22,366	33%	22,366	33%	1.7%
	Passenger Vehicle Total		1,339,656	21%	1,339,656	21%	72.7%
Commercial Vehicle	1	Wuling	124,512	10%	124,512	10%	24.7%
	2	Chana	90,605	-11%	90,605	-11%	18.0%
	3	Dongfeng	62,202	77%	62,202	77%	12.3%
	4	Foton	42,679	-1%	42,679	-1%	8.5%
	5	JAC	20,984	12%	20,984	12%	4.2%
	6	Jinbei	19,709	0%	19,709	0%	3.9%
	7	Hafei	14,441	-28%	14,441	-28%	2.9%
	8	JMC	14,418	36%	14,418	36%	2.9%
	9	Great Wall	11,382	61%	11,382	61%	2.3%
	10	FAW	10,718	-47%	10,718	-47%	2.1%
	Commercial Vehicle Total		503,929	5%	503,929	5%	27.3%

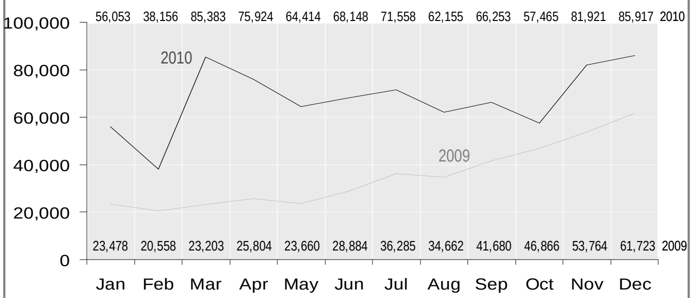
Top Manufacturers *(Production)*

	#	Brand	Jan	Growth	YTD	Growth	YTD Share
Passenger Vehicle	1	Shanghai General	105,356	17%	105,356	17%	9.2%
	2	FAW VW	87,614	27%	87,614	27%	7.7%
	3	Shanghai VW	82,761	75%	82,761	75%	7.2%
	4	Chery	80,220	15%	80,220	15%	7.0%
	5	Beijing Hyundai	67,716	24%	67,716	24%	5.9%
	6	Dongfeng Nissan	56,550	3%	56,550	3%	4.9%
	7	BYD	52,389	-16%	52,389	-16%	4.6%
	8	FAW Toyota	49,143	5%	49,143	5%	4.3%
	9	Geely Group	45,545	6%	45,545	6%	4.0%
	10	Changan Ford Mazda	40,967	14%	40,967	14%	3.6%
	11	Dongfeng Peugeot	38,557	6%	38,557	6%	3.4%
	12	Great Wall Motor	37,328	57%	37,328	57%	3.3%
	13	GAC Honda	36,613	0%	36,613	0%	3.2%
	14	Dongfeng Yueda Kia	35,442	1%	35,442	1%	3.1%
	15	Jianghuai Automotive	31,197	33%	31,197	33%	2.7%
	16	FAW Car	30,134	36%	30,134	36%	2.6%
	17	TAIC FAW Xiali	27,600	15%	27,600	15%	2.4%
	18	Dongfeng Honda	24,520	13%	24,520	13%	2.1%
	19	Chongqing Changan	23,068	30%	23,068	30%	2.0%
	20	Chang'an Automobile	22,344	9%	22,344	9%	2.0%
	Passenger Vehicle Total		1,144,540	16%	1,144,540	16%	#REF!
Commercial Vehicle	1	SAIC-GM-Wuling	106,256	1%	106,256	1%	22.5%
	2	Chang'an Automobile	84,131	-17%	84,131	-17%	17.8%
	3	Beiqi Foton	51,390	-7%	51,390	-7%	10.9%
	4	DFAC	34,429	31%	34,429	31%	7.3%
	5	Dongfeng Yu'an	32,179	200%	32,179	200%	6.8%
	6	Brilliance Jinbei	20,002	4%	20,002	4%	4.2%
	7	Hafei Motor	15,682	-38%	15,682	-38%	3.3%
	8	Jiangling Motors	14,592	36%	14,592	36%	3.1%
	9	Nanjing Iveco	11,208	9%	11,208	9%	2.4%
	10	FAW-GM Light Duty	10,550	-13%	10,550	-13%	2.2%
	Commercial Vehicle Total		471,736	-3%	471,736	-3%	#REF!

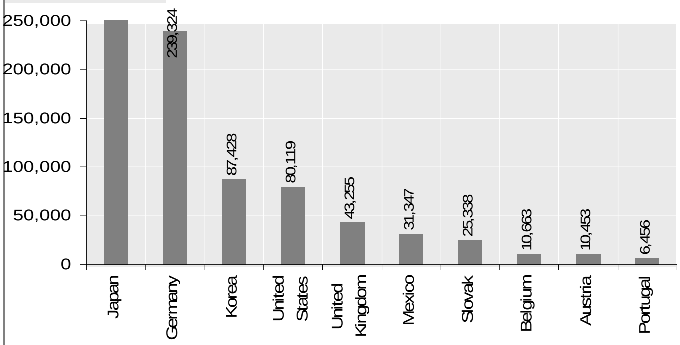
Total Imports

Volume

YTD 2010 Volume: 813,347
YTD 2010 Growth: 93%



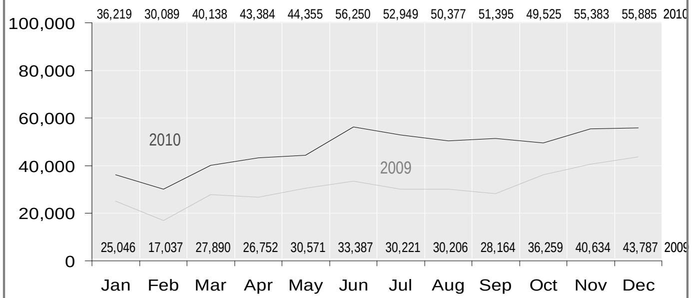
Origins



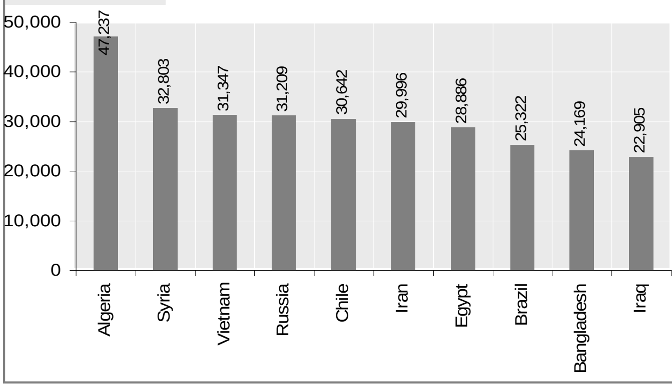
Total Exports

Volume

YTD 2010 Volume: 565,949
YTD 2010 Growth: 53%



Destinations

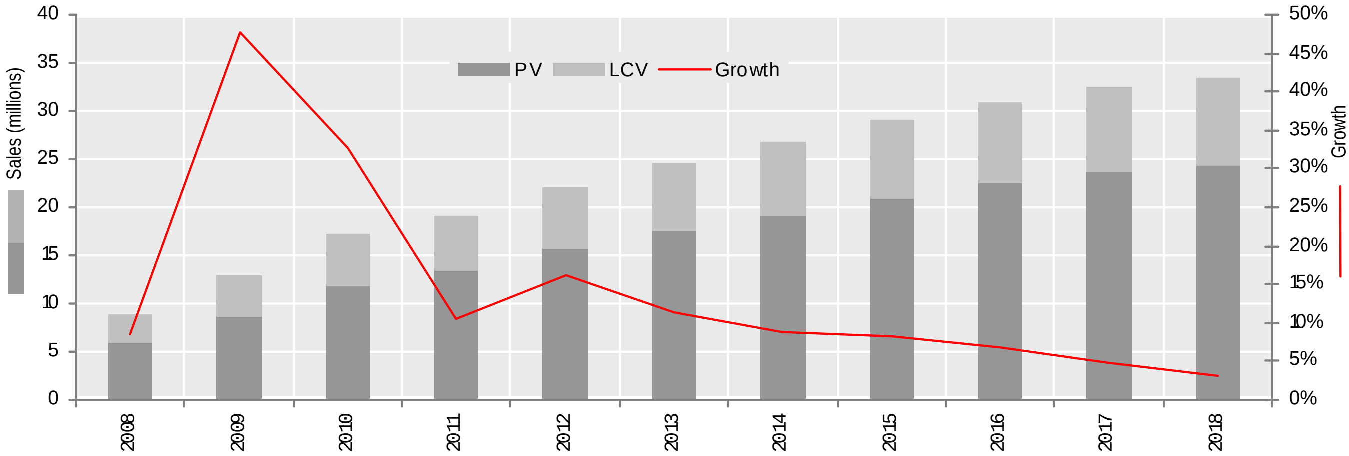


Executive Summary

China Outlook

China Light Vehicle Sales Outlook

- Expiration of most stimulus measures will moderately affect 2011 sales. However, strong momentum will continue and double-digit growth is still expected.
- The imminent increase of ship and vehicle tax will impact mainly on the large displacement vehicles in the short term but have limited impact on the overall market. Volume control in some cities such as Beijing, Guangzhou and Chongqing will slightly impact on the demand.



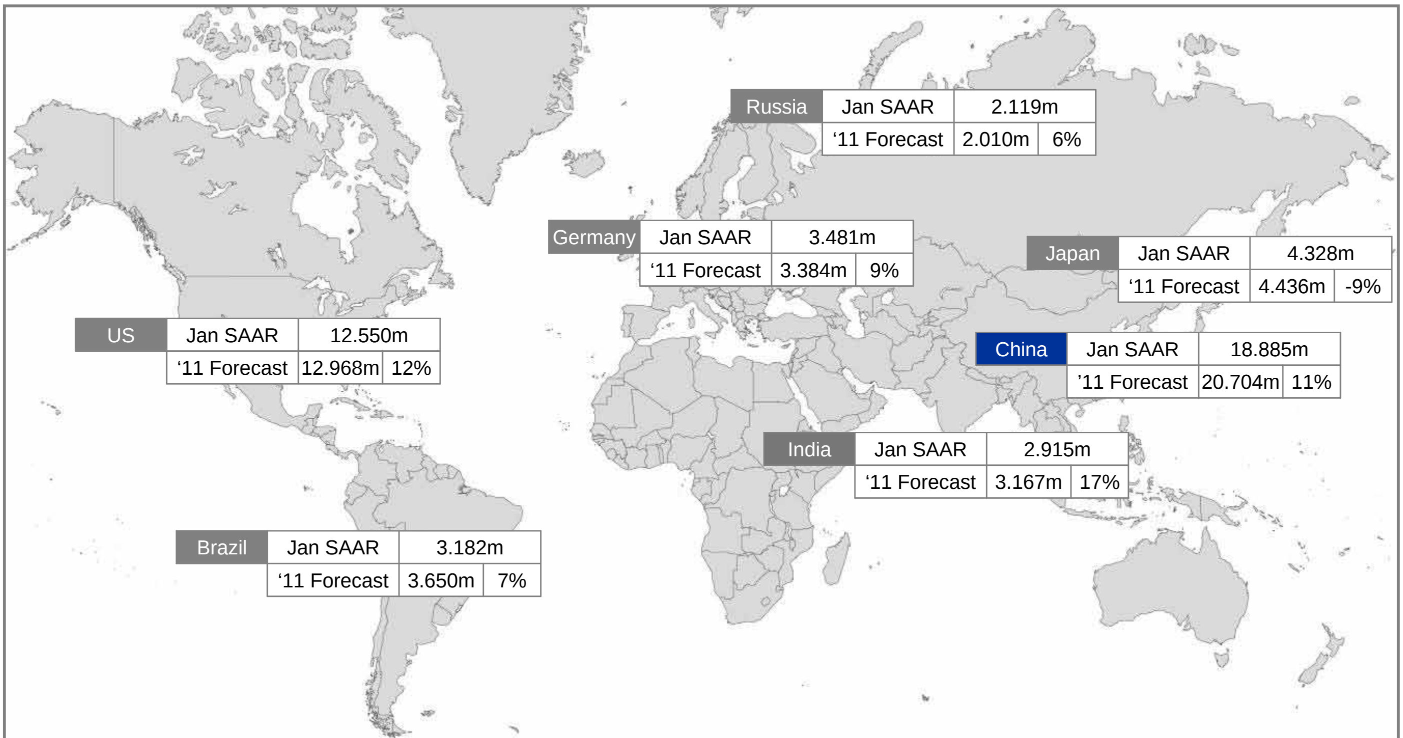
Factors Driving Market Outlook

		2010	2011	Beyond 2011
Economy	GDP Growth (% chg.)	10.3%	8.7%	Slightly moderate, quitting the stimulus policies gradually
	Private Consumption (% chg.)	18.4%	17.0%	Growing smoothly. 2010 retail sales totaled CNY 15.4 trillion
	Unemployment (%)	4.6%	4.6%	Remain stable, demand for labor started to increase from the start of 2011
	CPI (% chg.)	3.3%	4.5%	Inflation accelerated in 2010 and exceeded the 3% target. Jan 2011 +4.9%
	Short-Term Interest Rates	5.6%	5.8%	Rose again in December by 25 BP. Expected to continue rising in 2011
	Exports	31.3%	35%	Export rebounded a lot in 2011. Jan 2011 export totaled at USD 150.7 trillion
	Investment	Neutral	Neutral	Fixed asset investment remained heated. 2010 totaled CNY 27.8 trillion, up 23.8%
	Asset values (stock, property)	Neutral	Neutral	Housing prices rise slowly. Staggering stock market.
	Population (bn)	1.4	1.4	Approaching 1.4 bn by 2015
Consumer	Car Buying Pop. (affordability)	Positive	Positive	Vehicle prices continue coming down and income levels increase
	Acquisition, Operating Cost	Neutral	Negative	Fuel price going up, rising ship and vehicle tax adds operating cost
	New Product Enthusiasm	Positive	Positive	Enthusiasm for both Chinese and foreign brands
	Buyer Confidence	Positive	Neutral	The demand is more rational without the incentives
	Government Spending	Neutral	Neutral	Spending rise on fuel-efficient and alternative-energy vehicles
Policy	Encourage Finance	Positive	Positive	Potential for government to support vehicle finance
	Infrastructure	Positive	Neutral	Increasing investment in charging stations for electric vehicles
	Tax	Neutral	Negative	Rising ship and vehicle tax may negatively impact sales
	Emissions	Neutral	Neutral	Vehicles with better fuel-efficiency are in favor

Data Source: Various Sources

Global Perspective

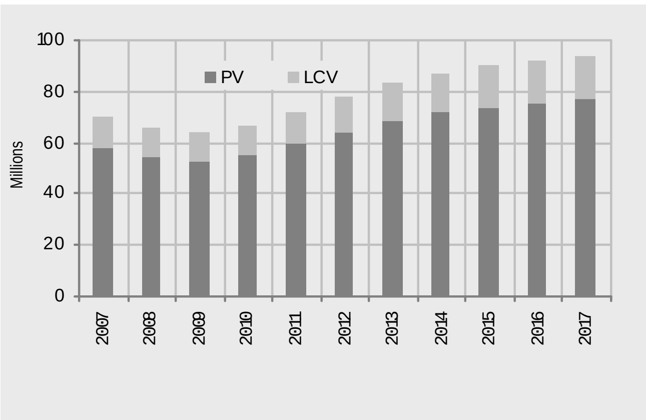
2011 Light Vehicle Sales Growth



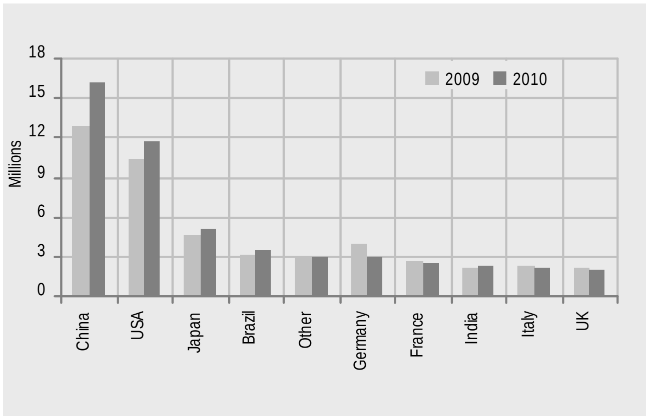
SAAR = Seasonally Adjusted Annual Rate

Source: J.D. Power Global Forecasting

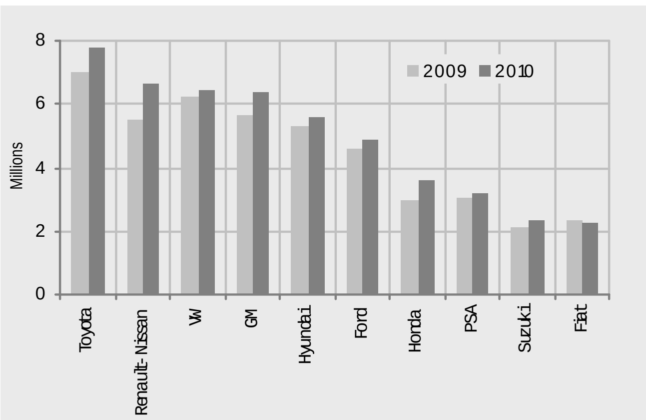
Global LV Sales Outlook



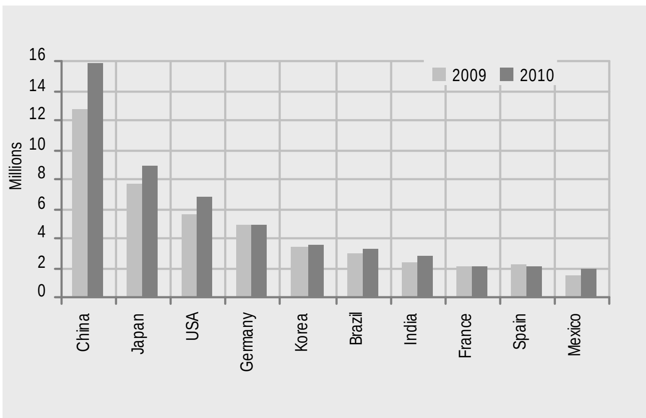
Global Top 10 Countries – LV Sales



Global Top 10 Auto Groups – LV Production



Global Top 10 Countries – LV Production



Understand the Territory

Strategic Advisory Group

Reports	Focus	Delivery
China Automotive Monthly; Market Trends	• By model report on monthly sales and production • JDPA perspective on trends and outlook - by brand	• PDF, Excel • Monthly
China Automotive Monthly; Market Assessment	• By model report on the impact that changes in the business environment will have on sales and production. • Detailed manufacturer profile and by-model outlook	• PDF, Excel • Monthly
Asia Pacific Forecast	• By model report on the impact that changes in business environment will have on sales and production. • Ten countries in Asia Pacific	• Hard copy • PDF • Quarterly
Global Forecast	• By model report on the impact that changes in business environment will have on sales and production. • 60 countries covered	• Hard copy • PDF • Quarterly

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