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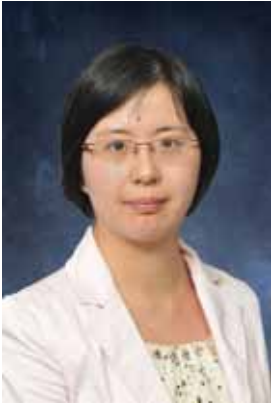


“Che”
Chinese character for car

**China Automotive Monthly
Executive Summary**

June 2011

On China



Super Luxury SUVs Sport Small Engines to Boost Market Share

Jenny Gu
J.D. Power

Super luxury SUVs are seldom associated with energy saving small engines, but rather roaring gas-guzzlers instead. However, changes are afoot thanks to joint efforts by the government, technology innovators and customer initiatives. Super luxury SUVs in China are ushering in the small displacement era.

The super luxury SUV is defined as a luxury branded SUV with an entry price above CNY 1,000,000 (USD 154,000). This segment accounted for about 20% of the luxury SUVs sold in 2008, but shrank to only 10% in 2009 due to the financial crisis and the rise in consumption tax for heavy engines at the end of 2008. Before 2008, all the models in the segment were equipped with engine displacements of 4.0-liters or above, but now only 60% of the sales are expected to come from this range. We believe the percentage will continue to fall in favor of the smaller engines in the future.

Land Rover, Lexus and Mercedes-Benz are the key players in the segment. Of the 16,600 sales in 2010, Land Rover took a 30% share, followed by Mercedes-Benz and Porsche with a 19% and 16% share respectively. However, both Audi and Porsche are expected to gain market share from their competitors this year. The key to their success will be their small displacement variants. Both added 3.0-liter V6 variants at the end of 2010, Audi to its Q7 and Porsche to its Cayenne. The Q7 also added turbo-charged and the Cayenne is a hybrid, which adds to their green credentials.

The substantial increase in the consumption tax rate by the Chinese government for 3.0-liter and above engines is the first and most direct factor to push the evolution. For the 4.0-liter and above vehicles, the tax rate doubled from 20% to 40%. It also rose from 15% to 25% for the engines between 3.0-liters and 4.0-liters (including 4.0-liter). In contrast, a 3.0-liter engine is only has a rate of 12% applied. Demand was therefore largely restrained in 2009 given that OEMs were unable to adjust their product mix in time. It was also difficult for customers to accept the single leap in price.

Stricter limit on CO2 emissions carried out by the European Union (EU) is another factor driving OEMs to adopt smaller engines. The ultimate EU target is to reach an average CO2 emission rate of 120 g/km for all new passenger cars by 2012. Not surprisingly smaller volume manufacturers of higher emissions cars such as

BMW, Mercedes-Benz, Audi and Porsche are a long way away from reaching this target, whilst some volume manufacturers of smaller cars such as Fiat, Renault and Peugeot-Citroen are already quite close to the target. This is why it's more urgent for luxury brands to cut their engine size and adopt new technology.

There is no doubt that advanced power train technologies have enabled OEMs to realize their plans. We find both turbo-charged and hybrid technologies widely used among super luxury SUVs in their 2011 models. The BMW X6, VW Toureg and Porsche Cayenne all added hybrid variants; Land Rover chose the cleaner diesel engine, while Audi leveraged its 3.0-liter turbo charged engine to output more power, replacing its 4.2-liter V8 engine. Each OEM displays its technical prowess through its fuel efficient programs, including BMW's Efficient Dynamics, Mercedes-Benz' Blue Efficiency and Volkswagen's Blue Motion. We expect the percentage of turbo-charged and hybrid engines to continue increasing in the luxury SUV segment in the coming years.

Environmentally friendly vehicles are more acceptable to customers who care about social responsibility and environmental protection. Price and lower fuel consumption are two other considerations, but not the most important. Thanks to the lower consumption tax rate for small engines, the hybrid variant is not more expensive than the variant with a larger engine. The lower power could be a concern but it is not a key factor for most customers. This could also support the long-term development of small displacement engines.

Looking forward, we believe the super luxury SUV market will continue expanding at a double-digit rate over the next four years, supported by the substantial growth of rich people and their increasingly diversified requirements. However, its share among the luxury SUVs will decrease as we believe the whole luxury SUV segment will mainly be driven by the entry level models, thanks to the rapidly rising middle class. Meanwhile, government action will continue to push the market to be more eco-friendly and efficient vehicles through taxes or penalties. OEMs will have to continue to develop new technologies in order to meet the requirements and while customers are willing to embrace change, they will be looking for fringe benefits.

Light Vehicle (LV) Demand

MAY

-1%

YTD

6%

Passenger Vehicle (PV) Demand

3%

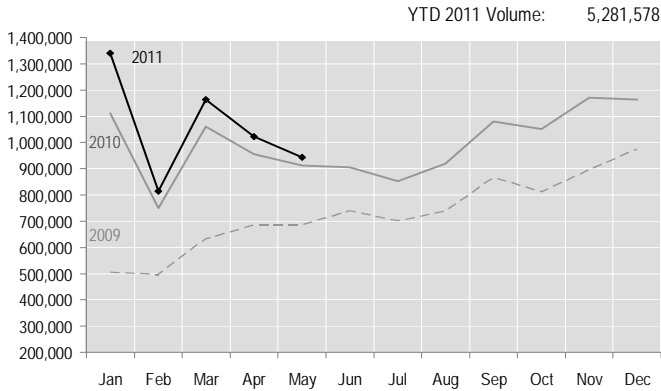
11%

Light Commercial Vehicle (LCV) Demand

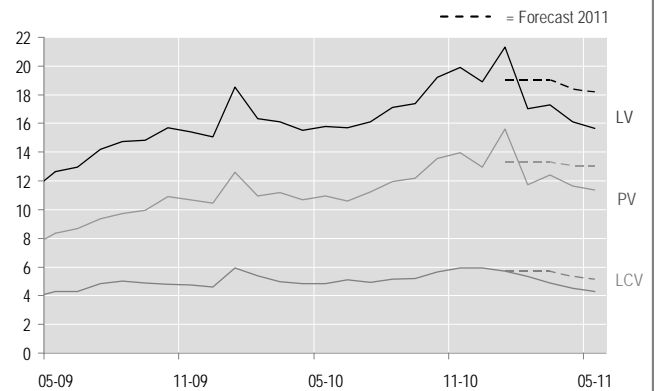
-12%

-4%

Monthly PV Sales



Monthly LV Sales SAAR (millions)



Negative May

Light vehicle (LV) sales in May fell 1.4% year-on-year. The first decline in 27 months looks bad, but the market is not as pessimistic as one might think, as it sees rationale behind the fall.

Passenger Vehicle (PV) sales continued to increase to 943,000 units; a slight growth rate of 3% year-on-year. However, sales of Light Commercial Vehicles (LCVs) continued their downward trend in May to 380,000 units, down 12%, which drove down LVs overall.

On a seasonally adjusted annualized rate (SAAR), May sales were 15.6 million units, the lowest level since last January. The SAAR rate for PV in May was 11.4 million, 2.5% lower than the previous month, or 4.8% lower than the average level of 2010. The LCV rate was 4.3 million units, showing a continuous slide.

Output loss from the Japanese OEMs due to the disruption of component imports is a major reason for sluggish PV sales. Though we had expected a loss, the volume is larger than predicted. Toyota was most severely impacted with a 59% decline in sales in May. Its output in the month was only 22,000 units, one third of the average monthly output in 2010. Similarly, Honda sales were 39% down year-on-year, with output reduced by 47%.

The weakness in demand for mini buses is the major reason for the continuous decline of LCV sales. When demand was at its strongest, we had expected it to be drawing some volume from the future and it appears we are entering that period now. Also, some provinces

have now banned mini buses from being used as school or tour buses. This has further contributed to the shrinking LCV demand. The Chang'an Group has suffered a lot in this segment evolution, with its mini bus sales decreasing by 26% in the first five months for its Chana, Hafei and Changhe brands.

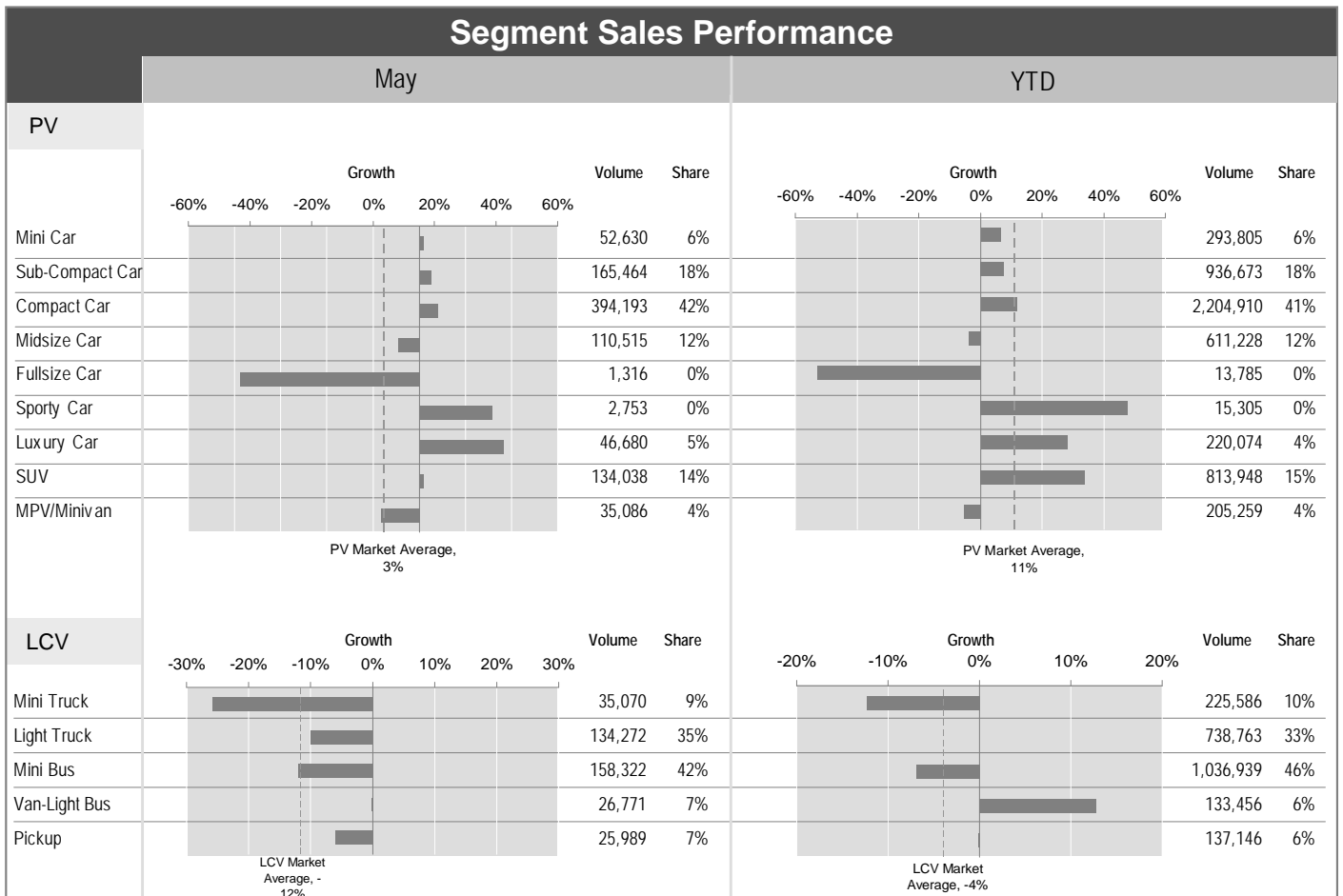
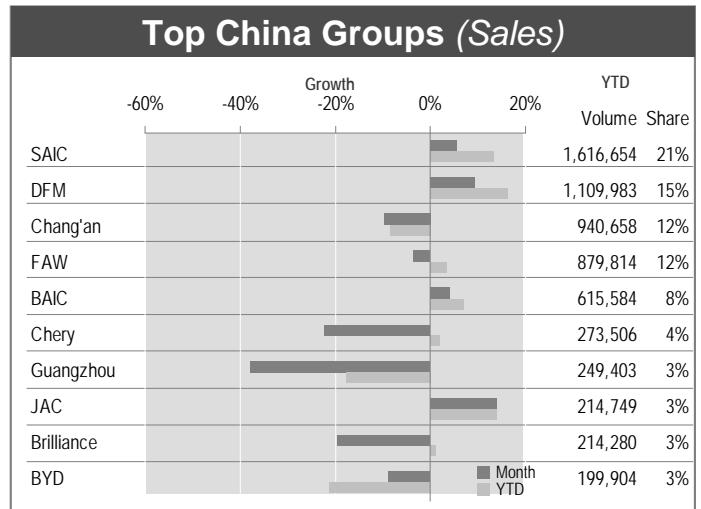
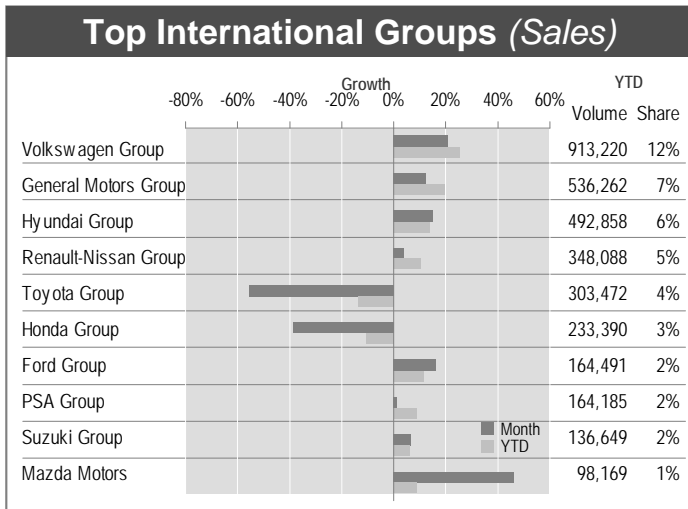
We have therefore changed our outlook for the LCV market this month. Our forecast for LCV has been cut by 120,000 units, changing the annual growth rate from a flat 0.4% to a negative 1.9% compared to last month. We've also heard that major mini bus manufacturers are cutting their annual sales target aggressively.

Other factors supporting a downward revision are the high inflation, rising fuel prices, and further monetary tightening. Companies will be more reluctant to buy a light truck or bus given the tightening monetary policy and accelerating inflation.

However, we are still confident in the PV market for the second half of 2011 and maintain our forecast of 13 million units. From the registration data, we notice that retail demand remains robust, so the deceleration in the wholesale figures from the OEMs could be partly due to a reduction in inventory. In addition, the recovery of operations at some Japanese OEMs, like Nissan and Mazda, is faster than we expected. It remains possible for their lost volume to be made up through the remainder of the year. We therefore expect the second half of 2011 to account for about 52% of the annual total.

| Market Top Lines | | | | | | |
|-------------------|-----------|--------|-----------|--------|------------|--------|
| | May | Growth | YTD | Growth | 2011f | Growth |
| Sales | 1,441,372 | -3% | 8,247,061 | 5% | | |
| PV | 942,675 | 3% | 5,314,987 | 11% | 13,051,835 | 9% |
| LCV | 380,424 | -12% | 2,271,890 | -4% | 5,179,678 | -2% |
| M&H CV | 118,273 | -18% | 660,184 | -2% | | |
| Production | 1,348,808 | -5% | 7,768,636 | 3% | | |
| PV | 872,813 | 2% | 4,938,312 | 8% | 12,300,734 | 8% |
| LCV | 372,866 | -12% | 2,190,666 | -5% | 5,179,268 | -3% |
| M&H CV | 103,129 | -25% | 639,658 | -5% | | |

| Best Selling Models | | | | | | |
|---------------------|--------|--------|-------|---------|--------|-------|
| | May | Growth | Share | YTD | Growth | Share |
| PV | | | | | | |
| Volkswagen Lavida | 22,602 | 14% | 2.4% | 108,646 | 11% | 2.0% |
| Volkswagen Jetta | 17,603 | 2% | 1.9% | 99,409 | 8% | 1.9% |
| Buick Excele | 19,398 | 7% | 2.1% | 98,531 | 8% | 1.9% |
| LCV | | | | | | |
| Wuling Sunshine | 56,203 | -10% | 14.8% | 318,866 | -16% | 14.0% |
| Foton Forland | 33,292 | -3% | 8.8% | 182,570 | -1% | 8.0% |
| Chana Mini Bus | 20,277 | -30% | 5.3% | 182,147 | -28% | 8.0% |



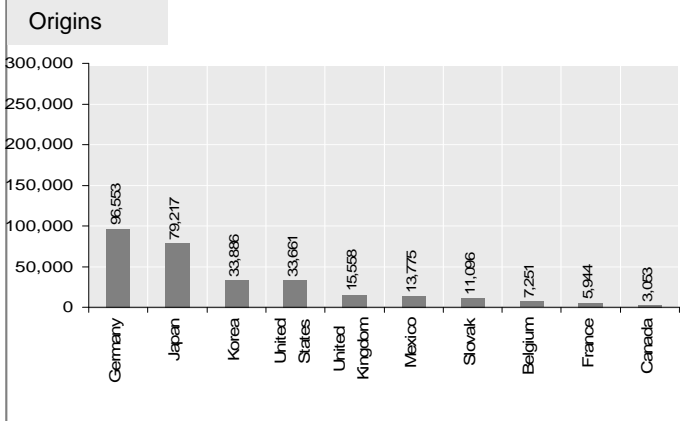
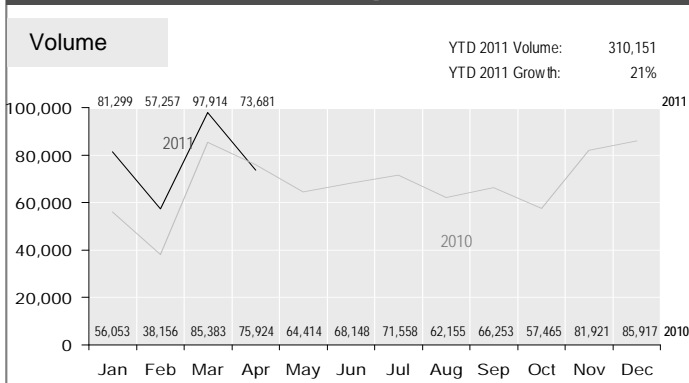
Top Brands (Sales)

| | # | Brand | May | Growth | YTD | Growth | YTD Share |
|--------------------------|----|------------|---------|--------|-----------|--------|-----------|
| Passenger Vehicle | 1 | Volkswagen | 136,338 | 16% | 707,524 | 26% | 13.3% |
| | 2 | Hyundai | 64,168 | 9% | 323,344 | 12% | 6.1% |
| | 3 | Nissan | 58,817 | 9% | 313,149 | 13% | 5.9% |
| | 4 | Toyota | 23,282 | -58% | 281,389 | -15% | 5.3% |
| | 5 | Buick | 52,034 | 13% | 270,470 | 24% | 5.1% |
| | 6 | Chevrolet | 46,033 | 10% | 254,850 | 14% | 4.8% |
| | 7 | Chery | 35,804 | -10% | 234,018 | 12% | 4.4% |
| | 8 | Honda | 24,413 | -39% | 231,389 | -11% | 4.4% |
| | 9 | BYD | 41,051 | -9% | 199,904 | -21% | 3.8% |
| | 10 | Kia | 32,942 | 29% | 169,514 | 18% | 3.2% |
| | 11 | Great Wall | 27,969 | 22% | 146,971 | 44% | 2.8% |
| | 12 | Ford | 28,238 | 18% | 139,459 | 10% | 2.6% |
| | 13 | Suzuki | 24,128 | 7% | 136,649 | 6% | 2.6% |
| | 14 | FAW | 24,579 | 7% | 134,904 | 14% | 2.5% |
| | 15 | JAC | 16,420 | 20% | 107,611 | 16% | 2.0% |
| | 16 | Chana | 15,091 | 26% | 104,313 | 32% | 2.0% |
| | 17 | Audi | 24,680 | 53% | 101,042 | 15% | 1.9% |
| | 18 | Mazda | 23,151 | 46% | 98,169 | 9% | 1.8% |
| | 19 | Skoda | 18,436 | 25% | 96,842 | 35% | 1.8% |
| | 20 | Citroen | 17,371 | 2% | 96,148 | 3% | 1.8% |
| Passenger Vehicle Total | | | 942,675 | 3% | 5,314,987 | 11% | 71.2% |
| Commercial Vehicle | 1 | Wuling | 90,361 | -11% | 527,304 | -3% | 23.2% |
| | 2 | Chana | 41,443 | -30% | 334,369 | -23% | 14.7% |
| | 3 | Dongfeng | 51,894 | 21% | 282,244 | 30% | 12.4% |
| | 4 | Foton | 44,222 | -8% | 250,180 | -3% | 11.0% |
| | 5 | Jinbei | 23,987 | -19% | 114,240 | 8% | 5.0% |
| | 6 | JAC | 20,908 | 9% | 107,138 | 12% | 4.7% |
| | 7 | FAW | 8,097 | -25% | 64,641 | -21% | 2.8% |
| | 8 | Hafei | 6,265 | -54% | 64,034 | -34% | 2.8% |
| | 9 | JMC | 10,948 | -1% | 60,770 | 19% | 2.7% |
| | 10 | Great Wall | 9,512 | 29% | 48,146 | 21% | 2.1% |
| Commercial Vehicle Total | | | 380,424 | -12% | 2,271,890 | -4% | 28.8% |

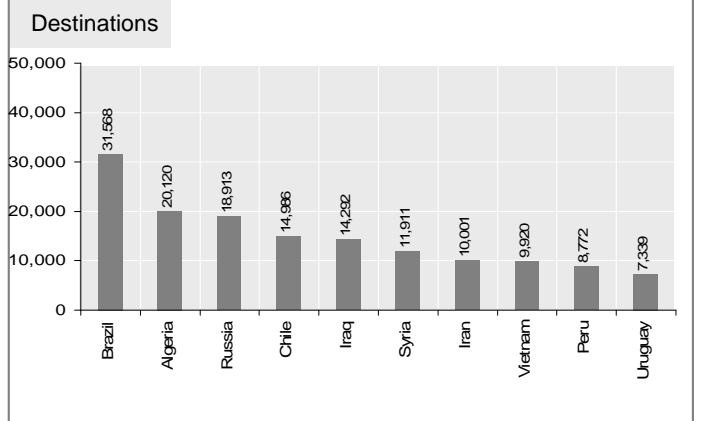
Top Manufacturers (Production)

| | # | Brand | May | Growth | YTD | Growth | YTD Share |
|--------------------------|----|-------------------------|---------|--------|-----------|--------|-----------|
| Passenger Vehicle | 1 | Shanghai VW | 88,163 | 18% | 484,212 | 34% | 9.8% |
| | 2 | Shanghai General Motors | 87,848 | 5% | 475,943 | 15% | 9.6% |
| | 3 | FAW VW | 79,995 | 17% | 363,316 | 13% | 7.4% |
| | 4 | Beijing Hyundai | 65,017 | 19% | 306,721 | 14% | 6.2% |
| | 5 | Chery | 41,723 | -8% | 267,196 | 4% | 5.4% |
| | 6 | Dongfeng Nissan | 52,503 | 3% | 235,829 | -9% | 4.8% |
| | 7 | BYD | 40,651 | -14% | 197,837 | -25% | 4.0% |
| | 8 | Geely Group | 32,423 | 7% | 183,754 | 6% | 3.7% |
| | 9 | Changan Ford Mazda | 35,990 | 31% | 183,225 | 11% | 3.7% |
| | 10 | FAW Toyota | 10,372 | -65% | 169,881 | -19% | 3.4% |
| | 11 | Dongfeng Peugeot | 31,829 | 1% | 164,244 | 4% | 3.3% |
| | 12 | Dongfeng Yueda Kia | 31,185 | 30% | 155,207 | 15% | 3.1% |
| | 13 | Great Wall Motor | 28,372 | 23% | 147,672 | 41% | 3.0% |
| | 14 | GAC Honda | 8,382 | -50% | 128,803 | -15% | 2.6% |
| | 15 | TAIC FAW Xiali | 20,004 | 8% | 124,366 | 13% | 2.5% |
| | 16 | FAW Car | 18,487 | -16% | 120,597 | 12% | 2.4% |
| | 17 | Jianghuai Automotiv e | 15,787 | 14% | 109,426 | 16% | 2.2% |
| | 18 | Chang'an Automobile | 14,261 | 55% | 107,214 | 38% | 2.2% |
| | 19 | Dongfeng Honda | 12,847 | -31% | 104,279 | 0% | 2.1% |
| | 20 | Chongqing Changan | 19,768 | 2% | 98,161 | 12% | 2.0% |
| Passenger Vehicle Total | | | 872,813 | 2% | 4,938,312 | 8% | 70.1% |
| Commercial Vehicle | 1 | SAIC-GM-Wuling | 95,160 | -6% | 503,453 | 1% | 23.0% |
| | 2 | Chang'an Automobile | 43,004 | -26% | 320,117 | -26% | 14.6% |
| | 3 | Beiqi Foton | 36,896 | -21% | 222,922 | -14% | 10.2% |
| | 4 | DFAC | 32,943 | 19% | 166,078 | 10% | 7.6% |
| | 5 | Dongfeng Yu'an | 18,831 | 19% | 124,060 | 70% | 5.7% |
| | 6 | Brilliance Jinbei | 23,973 | -20% | 111,800 | 8% | 5.1% |
| | 7 | Jianghuai Automotiv e | 14,843 | -2% | 95,229 | 8% | 4.3% |
| | 8 | Jiangling Motors | 15,204 | -5% | 79,123 | 18% | 3.6% |
| | 9 | Hafei Motor | 5,722 | -47% | 65,382 | -34% | 3.0% |
| | 10 | Nanjing Iv eco | 6,527 | -34% | 50,509 | 4% | 2.3% |
| Commercial Vehicle Total | | | 372,866 | -12% | 2,190,666 | -5% | 29.9% |

Total Imports



Total Exports

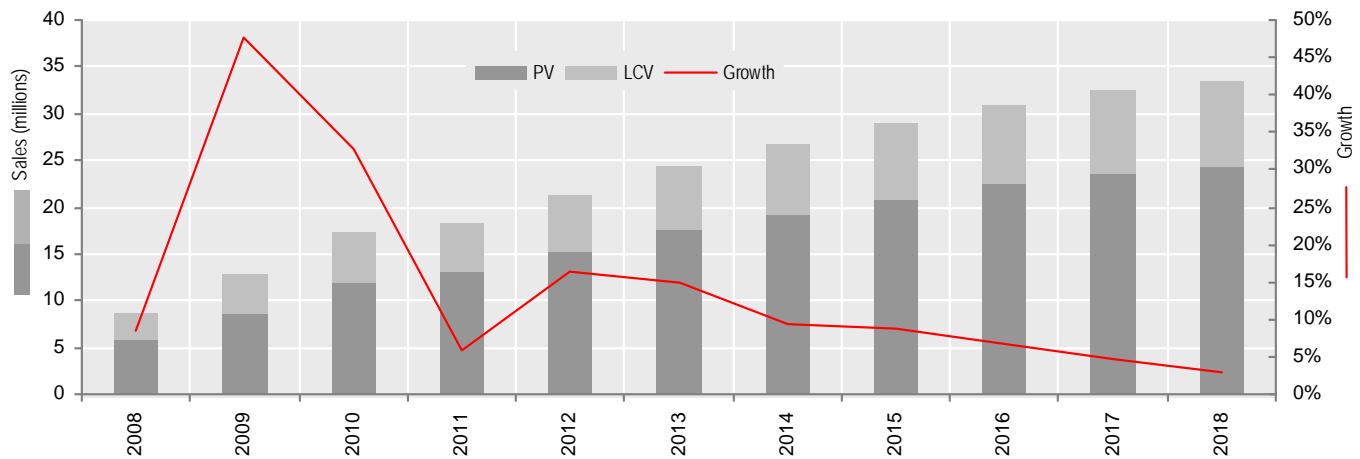


Jan and Feb import and export information will be released together in next month

China Outlook

China Light Vehicle Sales Outlook

- We forecast a 9% growth of passenger vehicle demand and a 2% drop of light commercial vehicle sales in 2011.
- High inventory is one of the key reasons for the sluggish sales of mini bus in 2011.



Factors Driving Market Outlook

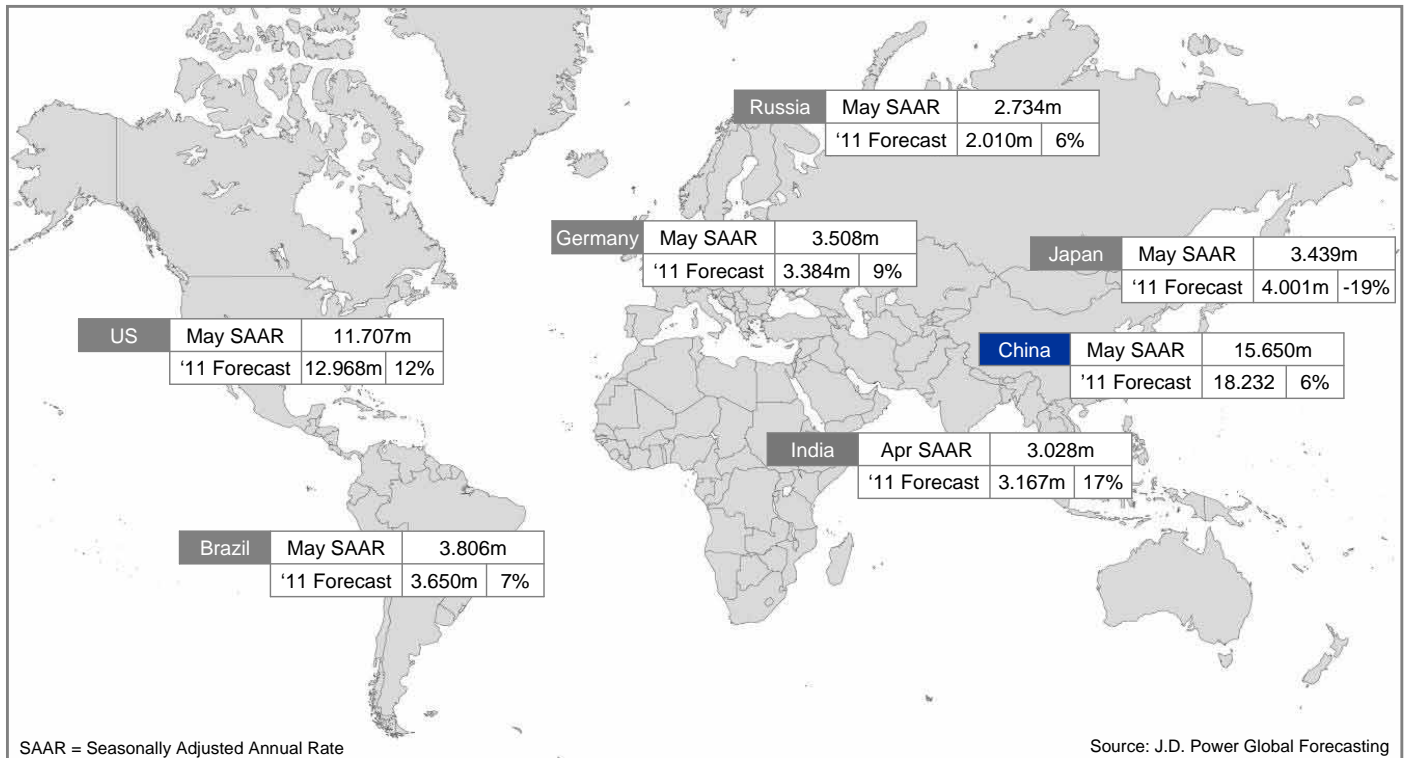
| | | 2010 | 2011 | Beyond 2011 |
|-----------------|---------------------------------|----------|----------|--|
| Economy | GDP Growth (% chg.) | 10.3% | 9.0% | Strong Q1 but expected to be slightly moderate in the remainder, Q1 +11.9% |
| | Private Consumption (% chg.) | 18.4% | 17.0% | Growing smoothly. 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. May +5.5% |
| | Short-Term Interest Rates | 5.6% | 5.8% | Rose again in April 2011 by 25 BP. Expected to continue rising in 2011 |
| | Exports | 31.3% | 35% | Export rebounded a lot in 2011. May export totaled USD 157 billion, +19% |
| | Investment | Neutral | Neutral | Fixed asset investment remained heated. May CNY 2.75 trillion, +34% |
| | 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 to operating cost |
| | New Product Enthusiasm | Positive | Positive | Enthusiasm for both Chinese and foreign brands |
| | Buyer Confidence | Positive | Neutral | 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

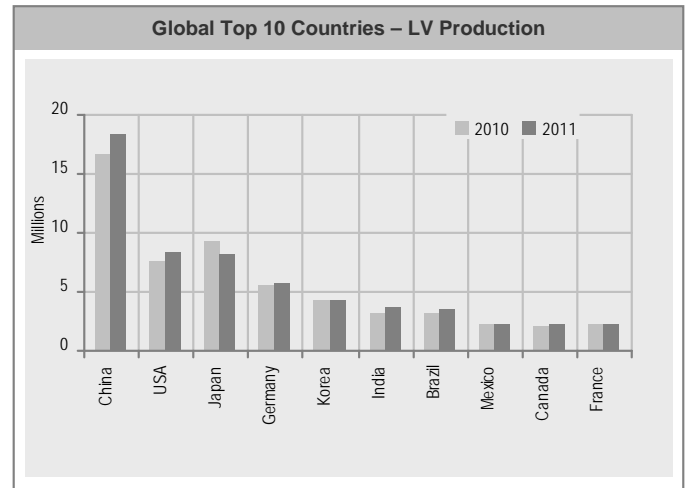
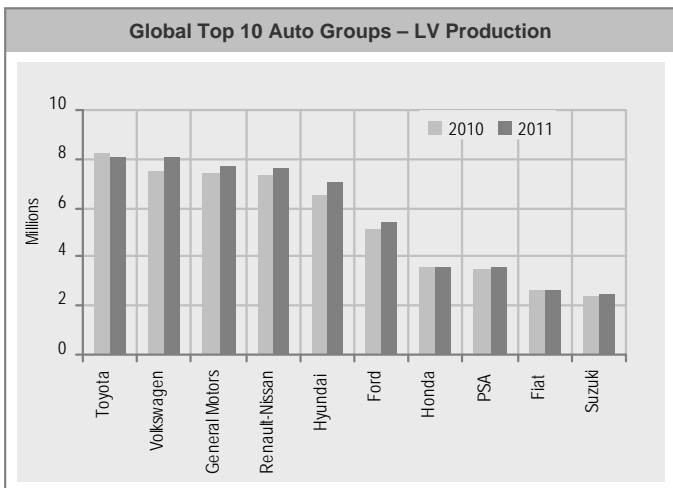
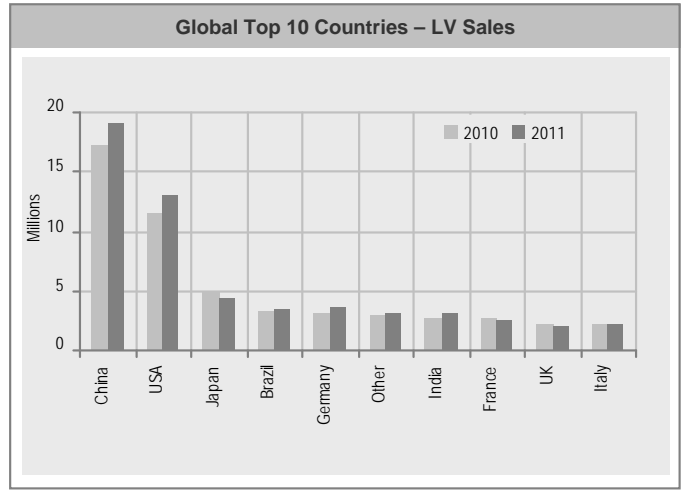
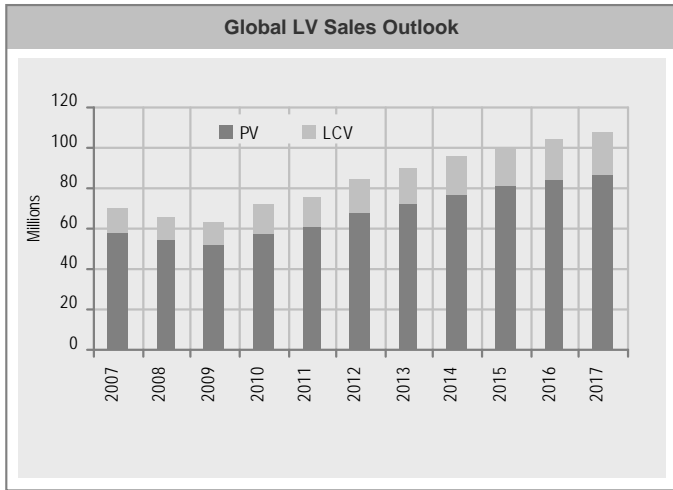
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Global Perspective

2011 Light Vehicle Sales Growth



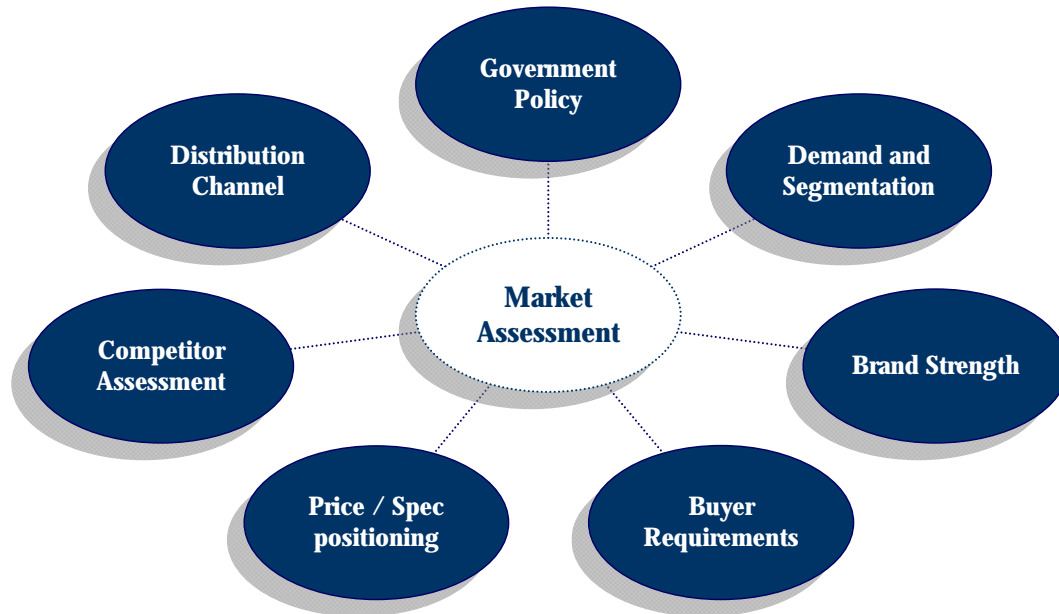
Executive Summary



Understand the Territory



Strategic Advisory Group



| Reports | Focus | Delivery |
|---|---|---|
| China Automotive Monthly; Market Trends | <ul style="list-style-type: none"> • By model report on monthly sales and production • JDPA perspective on trends and outlook - by brand | <ul style="list-style-type: none"> • PDF, Excel • Monthly |
| China Automotive Monthly; Market Assessment | <ul style="list-style-type: none"> • 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 | <ul style="list-style-type: none"> • PDF, Excel • Monthly |
| Asia Pacific Forecast | <ul style="list-style-type: none"> • By model report on the impact that changes in business environment will have on sales and production. • Ten countries in Asia Pacific | <ul style="list-style-type: none"> • Hard copy • PDF • Quarterly |
| Global Forecast | <ul style="list-style-type: none"> • By model report on the impact that changes in business environment will have on sales and production. • 60 countries covered | <ul style="list-style-type: none"> • Hard copy • PDF • Quarterly |

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