

J.D. POWER
ASIA PACIFIC

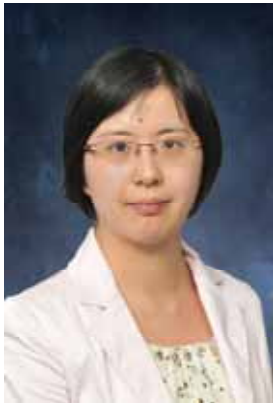


“Che”
Chinese character for car

**China Automotive Monthly
Executive Summary**

Sep 2011

Perspective



The long and the short of luxury cars in China

Jenny Gu
J.D. Power

Long wheelbase luxury cars are common place in China. Audi established this segment in 2005 with the introduction of the long-wheel base A6. Proving popular, its competitors soon followed and now China is the only market in the world where long versions of the BMW 3 Series, Mercedes-Benz E-class and S80L are available.

Until recently, the extended luxury cars were the most popular. But as the market has grown, car buyers' tastes and preferences have begun to diversify. Increasingly buyers are beginning to favour standard wheelbase vehicles. This trend has been spotted by BMW, which is now providing both stretched and standard wheelbase versions of its cars. We think this is both a bold and astute move.

The powertrain and trim levels between the two wheel base versions is largely the same. Typically, however, the long version will exhibit slightly better top speed and acceleration while the standard version will have slightly better handling.

One difference them though is the price. With the standard wheelbase versions being imported they cost more than the locally produced long-wheelbase ones. Take the BMW 535 for instance. The imported standard version 535i is 7% more expensive than the locally built 535Li. Similarly, the price of the recently introduced 523i, also an imported version, is nearly 10% higher than that of the locally-built 523.

The price difference comes primarily from the added freight and customs duties. The reason consumers are willing to pay extra is also in part due to the perception that imported vehicles are of better quality than those built in China. In the first half of this year, the number of imported 535i cars sold was twice that of the China-made 535Li.

In the top five provincial or city markets, namely, Zhejiang, Guangdong, Jiangsu, Beijing and Shanghai, long wheelbase versions of luxury cars remain dominant. But standard

versions are more popular in the tier two and three provinces. According to the classification of prefecture-level cities from State Information Center, in tier three or below cities, only 42% of the luxury sales are made up of the long wheel base variants. Customers in Yunnan, Inner Mongolia, Anhui and Heilongjiang provinces prefer the imported standard version. In the first half of this year, sales of standard version were 50% higher than that of long version in these four provinces.

Overall, those who do not trust the quality of locally built cars and are looking for a better driving experience are opting for the imported standard versions. The geographical distribution and gender for this group is different from those for the long wheelbase cars.

BMW currently uses a mix of imported and localized models to meet the demand for both standard and long version vehicles in the market. This strategy is being used in marketing the BMW 535 and 523. Next year, BMW will start producing both long and standard versions of new generation 3 Series locally, targeting these different buyers.

Mercedes-Benz is following in BMW's footsteps, announcing that it will import the standard version of the E260 in the fourth quarter and sell it together with the locally produced long version.

We believe that as long as they are priced right, the long and standard versions will not cannibalize each other in the market. Rather, they will help stimulate sales overall. Demand for both versions should grow as the luxury car market grows and the buyers become increasingly diverse. In addition to the space and comfort valued by the older generation, there is demand among the newer generation for power, design and handling.

Light Vehicle (LV) Demand

AUG

6%

YTD

5%

Passenger Vehicle (PV) Demand

10%

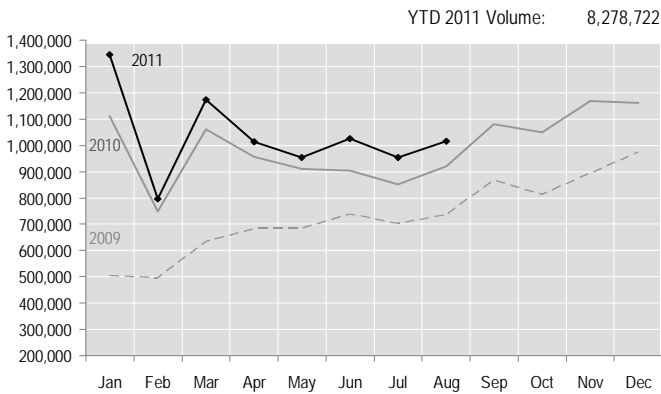
11%

Light Commercial Vehicle (LCV) Demand

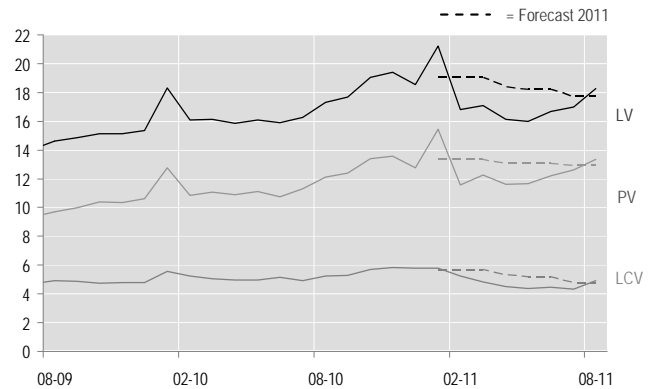
-6%

-6%

Monthly PV Sales



Monthly LV Sales SAAR (millions)



Weak Demand Puts Pressure On Car Prices

Light vehicle sales continued to grow in August, up 6% year-on-year. Following the pattern in the previous months, Passenger Vehicles (PVs) grew positively while the Light Commercial Vehicles (LCVs) saw a negative growth.

PV sales increased 10% to 1.02 million units as LCVs posted a 6% decline on 339,000 units. However, the seasonal adjusted annual rate (SAAR) for both PV and CV rebounded from last month. In August, the SAAR for PV was 13.3 million units, up 6% from July whereas LCV edged up 14% to 4.9 million units.

The rising SAAR in the month indicates the market is better than expected for both the PV and LCV sectors, but there are different reasons for both. The Japanese OEMs registered an increase in wholesale sales following the full recovery of their production output, contributing to the PV sales growth. Toyota sold a record-high 85,000 units to dealers in August, up 38% year-on-year, while Corolla once again ranked second among the top ten best selling models.

In the LCV market, growth was driven by sales of SAIC-GM-Wuling mini buses, which were offered at discounts. The Wuling mini bus grew 13% and accounted for nearly 30% of total LCV sales, helping the segment avoid a steep decline.

Despite the positive growth seen in August, we still expect demand to be moderate in the following months of the year. Demand for luxury vehicles has begun to slow since July, signaling demand for high-end vehicles is weakening. Some luxury car models have shown negative growth from the start of the second half of 2011. We have learnt that inventory levels for certain luxury cars are quite high, pressuring dealers to cut prices and sacrifice their profit margins. This weakening demand in

the luxury market may well signal slowing demand in the overall market.

There is another factor overshadowing the outlook for vehicle sales. The government is tightening its policy on fuel efficient vehicles starting October. There will be only 22 models that will be eligible for the 3,000 yuan subsidy, compared to 121 models currently. We could expect a sudden rise in sales before the end of September, when the old policy expires. However, customers might delay their purchase until after October to wait for the new models to become eligible for the subsidy. They may even delay their purchase until next year unless the OEMs provide incentives.

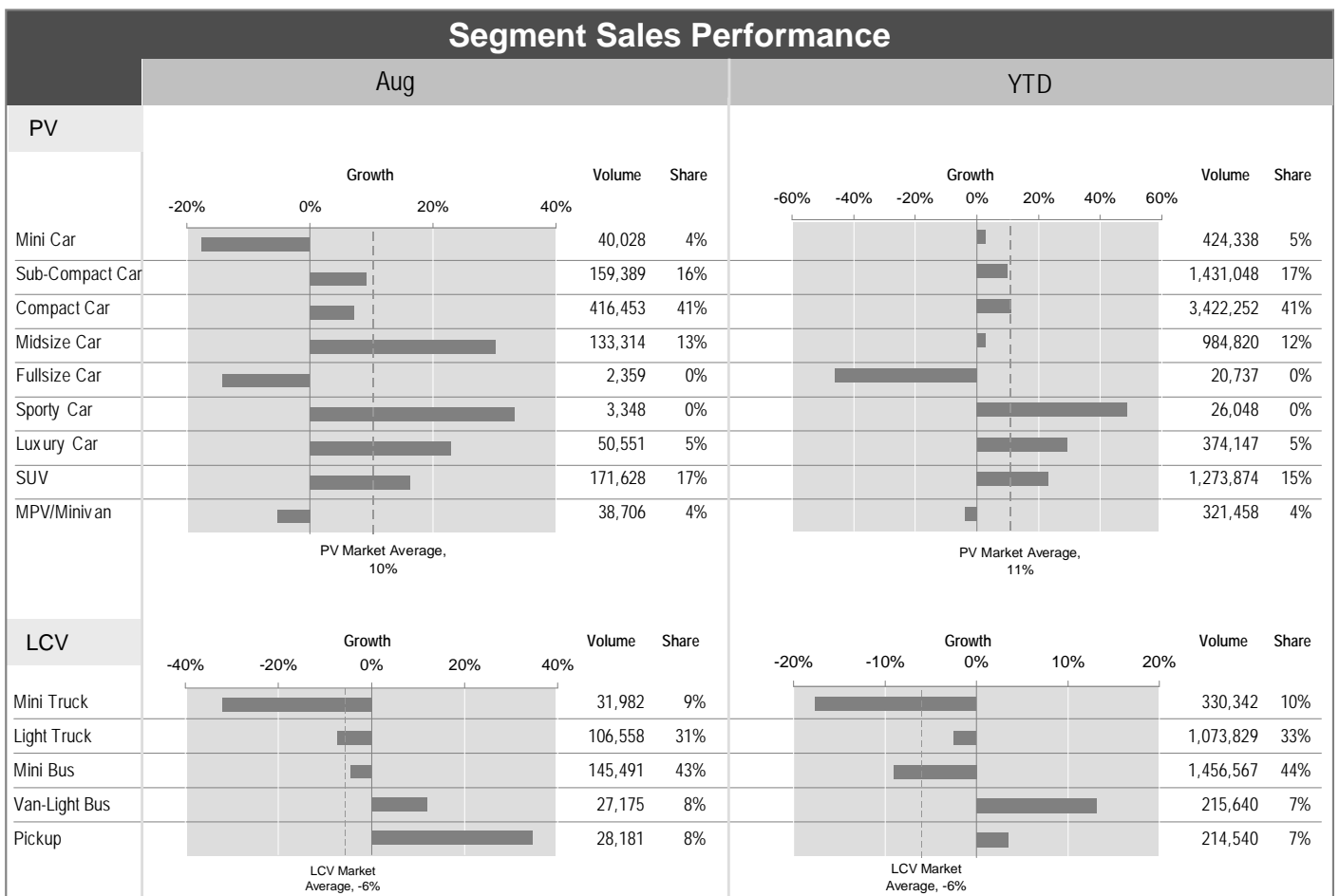
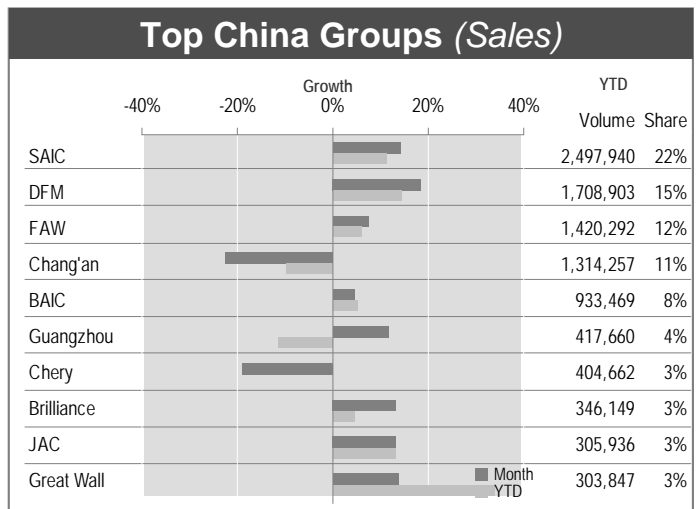
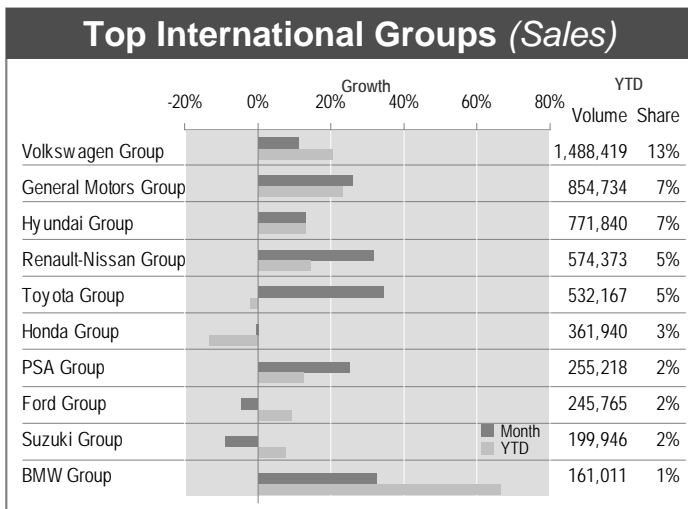
We could therefore expect more price cuts in the coming months of the year. The market situation is quite different this year from 2010, when demand dynamics were more influenced by model availability, with OEMs struggling to achieve the necessary output for popular vehicles. However, this year output has been much higher than the wholesale sales for several months, making OEMs reduce prices to meet their annual sales targets.

Given these factors, we have a cautious outlook for 2011. The forecast remains unchanged from last month, with total sales being revised down to 17.7 million units, up 3% from 2010.

We still expect an 11% growth in 2012 when sales should begin to take off in the second half. Growth is expected to come from solid demand in tier 2 and tier 3 cities, capacity expansion, easing monetary and fiscal policy and possible new investment programs after the change in government leadership due in 2012. We have also taken into account such negative factors as hiking oil prices, credit rates, the deteriorating global economy and traffic restrictions in some areas of China.

Market Top Lines						
	Aug	Growth	YTD	Growth	2011f	Growth
Sales	1,438,440	4%	12,417,094	5%		
PV	1,015,776	10%	8,278,722	11%	12,916,927	8%
LCV	339,387	-6%	3,290,918	-6%	4,791,721	-9%
M&H CV	83,277	-16%	847,454	-6%		
Production	1,381,153	8%	11,756,964	3%		
PV	965,680	15%	7,784,694	10%	12,074,797	6%
LCV	338,485	-1%	3,172,187	-7%	4,791,712	-10%
M&H CV	76,988	-21%	800,083	-10%		

Best Selling Models						
	Aug	Growth	Share	YTD	Growth	Share
PV						
Buick Excele	23,700	17%	2.3%	163,503	15%	2.0%
Volkswagen Lavida	17,293	-15%	1.7%	152,510	-3%	1.8%
Volkswagen Jetta	13,839	-35%	1.4%	145,388	-5%	1.8%
LCV						
Wuling Sunshine	59,395	8%	17.5%	474,441	-14%	14.4%
Foton Forland	28,075	-5%	8.3%	266,349	-5%	8.1%
Rongguang/Xingwang	31,068	28%	9.2%	248,169	38%	7.5%



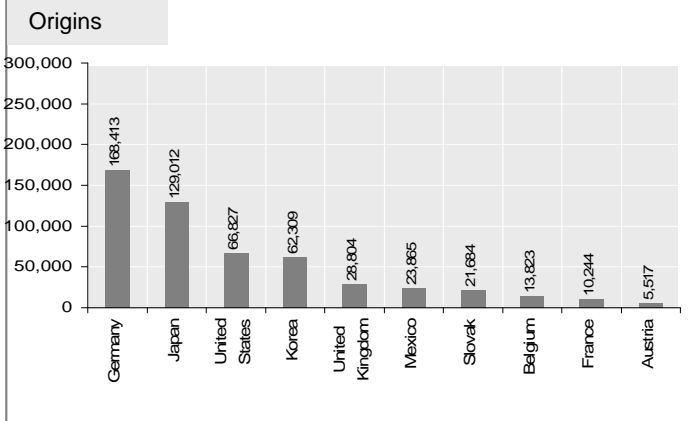
Top Brands (Sales)

	#	Brand	Aug	Growth	YTD	Growth	YTD Share
Passenger Vehicle	1	Volkswagen	146,128	7%	1,133,254	19%	13.7%
	2	Nissan	66,471	32%	523,835	18%	6.3%
	3	Toyota	84,959	38%	503,821	-1%	6.1%
	4	Hyundai	65,349	2%	498,344	8%	6.0%
	5	Buick	55,971	22%	430,835	25%	5.2%
	6	Chevrolet	50,086	30%	405,451	20%	4.9%
	7	Honda	48,129	-1%	358,931	-13%	4.3%
	8	Chery	40,398	-11%	349,363	11%	4.2%
	9	BYD	28,449	-8%	288,364	-18%	3.5%
	10	Kia	37,005	38%	273,496	24%	3.3%
	11	Great Wall	23,917	1%	223,030	38%	2.7%
	12	Ford	20,532	-6%	207,432	8%	2.5%
	13	Suzuki	19,456	-9%	199,946	8%	2.4%
	14	Audi	31,878	39%	190,340	25%	2.3%
	15	FAW	16,450	-22%	183,567	0%	2.2%
	16	JAC	16,444	26%	155,404	20%	1.9%
	17	Skoda	18,319	6%	149,802	24%	1.8%
	18	BMW	18,670	31%	149,561	65%	1.8%
	19	Mazda	13,262	-30%	146,867	0%	1.8%
	20	Citroen	17,120	13%	145,955	7%	1.8%
Passenger Vehicle Total			1,015,776	10%	8,278,722	11%	75.0%
Commercial Vehicle	1	Wuling	97,986	8%	781,990	-4%	23.8%
	2	Chana	24,133	-46%	441,198	-26%	13.4%
	3	Dongfeng	34,344	-19%	388,466	12%	11.8%
	4	Foton	38,896	-2%	365,451	-5%	11.1%
	5	Jinbei	22,694	21%	184,160	7%	5.6%
	6	JAC	13,989	1%	150,532	7%	4.6%
	7	Hafei	5,638	-20%	88,753	-29%	2.7%
	8	JMC	8,959	-17%	88,579	9%	2.7%
	9	FAW	9,225	-20%	88,070	-24%	2.7%
	10	Great Wall	12,011	53%	80,817	24%	2.5%
Commercial Vehicle Total			339,387	-6%	3,290,918	-6%	25.0%

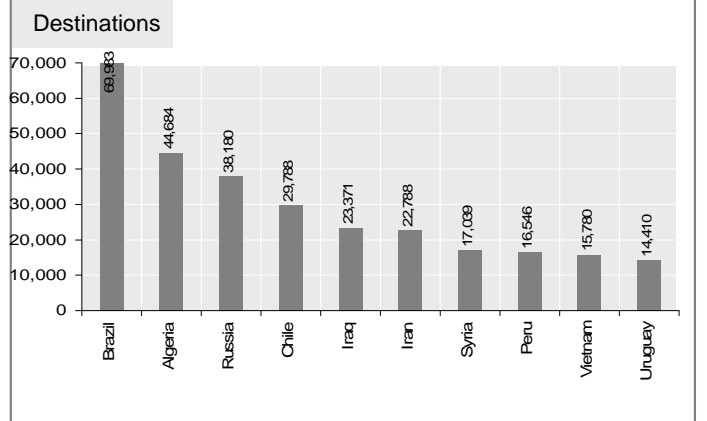
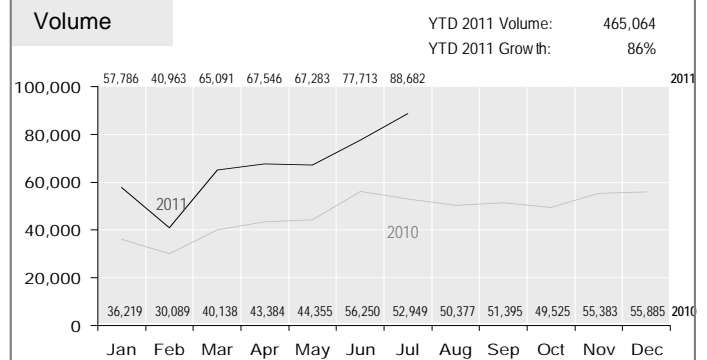
Top Manufacturers (Production)

	#	Brand	Aug	Growth	YTD	Growth	YTD Share
Passenger Vehicle	1	Shanghai General Motors	104,334	34%	789,402	24%	10.1%
	2	Shanghai VW	101,588	6%	758,553	18%	9.7%
	3	FAW VW	96,429	13%	644,252	17%	8.3%
	4	Beijing Hyundai	60,733	-4%	482,472	10%	6.2%
	5	Dongfeng Nissan	55,370	30%	417,315	-3%	5.4%
	6	Chery	50,365	-6%	403,919	2%	5.2%
	7	FAW Toyota	52,329	37%	310,986	-1%	4.0%
	8	BYD	31,241	27%	291,343	-19%	3.7%
	9	Changan Ford Mazda	23,682	-16%	274,055	7%	3.5%
	10	Geely Group	27,281	6%	267,922	5%	3.4%
	11	Dongfeng Yueada Kia	36,919	56%	257,554	25%	3.3%
	12	Dongfeng Peugeot	28,714	34%	253,089	10%	3.3%
	13	Great Wall Motor	23,230	19%	222,282	36%	2.9%
	14	GAC Honda	32,587	20%	219,472	-10%	2.8%
	15	TAIC FAW Xiali	16,695	19%	177,626	15%	2.3%
	16	FAW Car	14,419	-37%	171,740	-3%	2.2%
	17	GAC Toyota	29,491	39%	164,096	-6%	2.1%
	18	Jianghuai Automotiv e	14,761	7%	156,584	20%	2.0%
	19	Dongfeng Honda	20,900	16%	155,079	-10%	2.0%
	20	Chongqing Changan	8,568	-48%	142,558	15%	1.8%
Passenger Vehicle Total			965,680	15%	7,784,694	10%	74.0%
Commercial Vehicle	1	SAIC-GM-Wuling	100,284	33%	740,140	-4%	23.3%
	2	Chang'an Automobile	29,499	-31%	434,447	-26%	13.7%
	3	Beiqi Foton	39,139	-2%	326,099	-12%	10.3%
	4	DFAC	20,627	-18%	240,244	3%	7.6%
	5	Brilliance Jinbei	22,310	15%	179,478	7%	5.7%
	6	Dongfeng Yu'an	11,746	-27%	156,236	26%	4.9%
	7	Jianghuai Automotiv e	15,426	5%	135,588	0%	4.3%
	8	Jiangling Motors	12,261	-8%	119,759	9%	3.8%
	9	Hafei Motor	2,870	-63%	87,095	-29%	2.7%
	10	Great Wall Motor	11,243	29%	80,370	23%	2.5%
Commercial Vehicle Total			338,485	-1%	3,172,187	-7%	26.0%

Total Imports



Total Exports

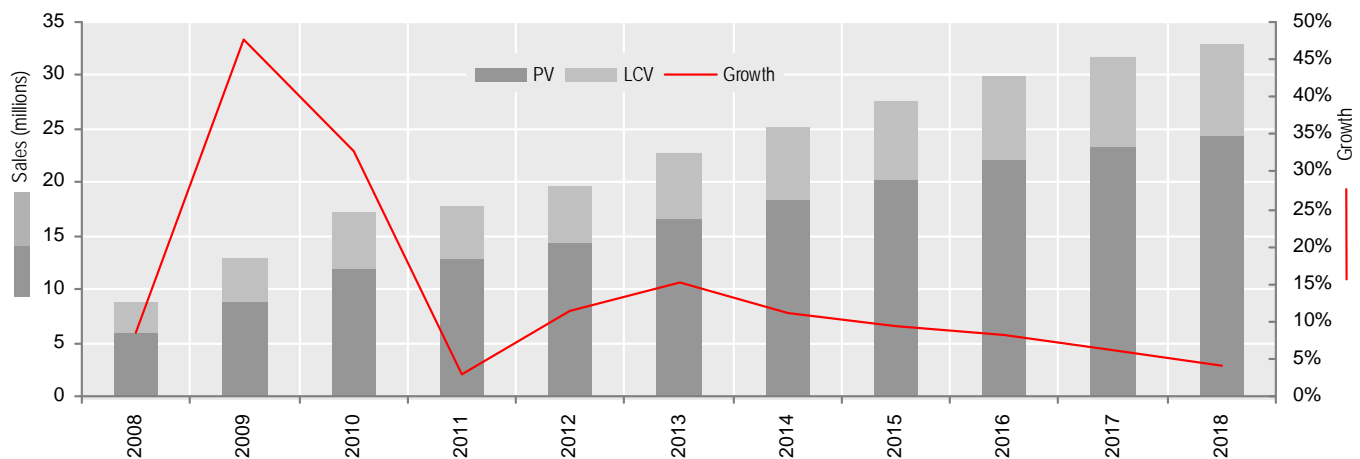


Jan and Feb import and export information will be released together in next month

China Outlook

China Light Vehicle Sales Outlook

- We forecast a 9% growth of passenger vehicle demand and a 5% 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.
- Affected by the rising interest rate, sales of trucks which highly rely on financing slow down



Factors Driving Market Outlook

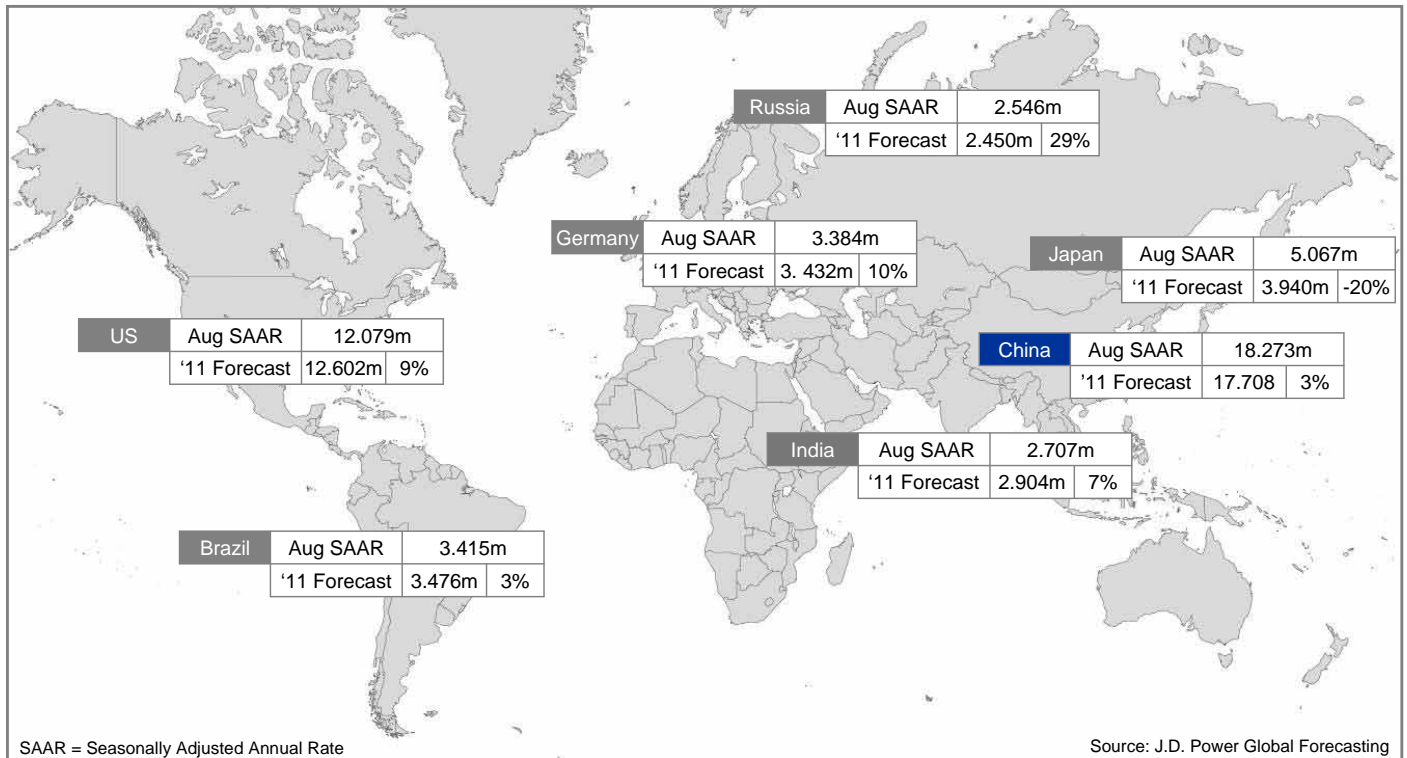
		2010	2011	Beyond 2011
Economy	GDP Growth (% chg.)	10.3%	8.8%	Q2 growth moderate to 9.5%, H1 +9.6%
	Private Consumption (% chg.)	18.4%	17.0%	Growing smoothly. 2011 YTD August CNY 11.5 trillion, up 16.9% year on year
	Unemployment (%)	4.6%	4.6%	Remain stable, demand for labor started to increase from the start of 2011
	CPI (% chg.)	3.3%	4.5%	Inflation is expected to moderate in H2. August +6.2%
	Short-Term Interest Rates	5.6%	5.8%	Rose again in July 2011 by 25 BP. Expected to continue rising in H2 2011
	Exports	31.3%	35%	Export rebounded a lot in 2011. August export totaled USD 173 billion, +24.5%
	Investment	Neutral	Neutral	Fixed asset investment remained heated. August CNY 2.8 trillion, +33%
	Asset values (stock, property)	Neutral	Neutral	Stock market falls due to tighten measures and rising risks in oversea countries.
	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. Cut official cars.
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

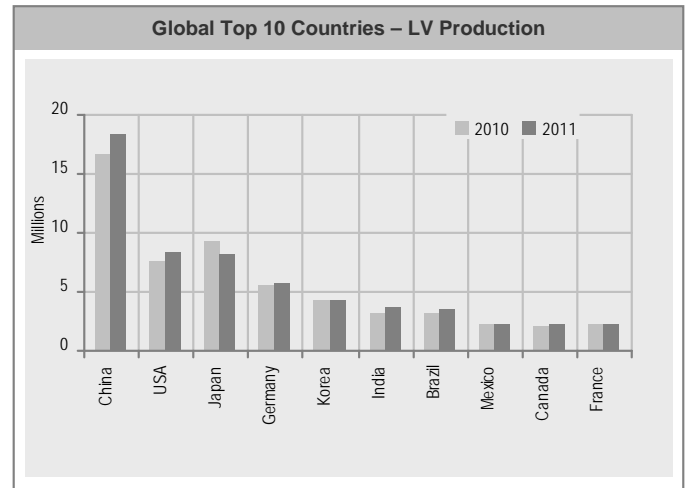
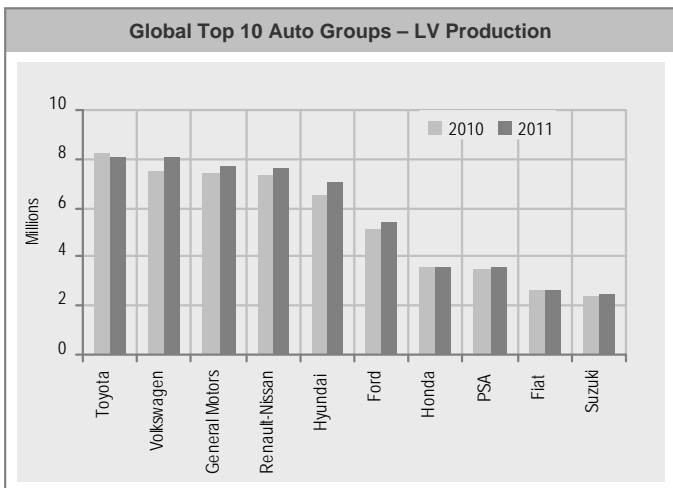
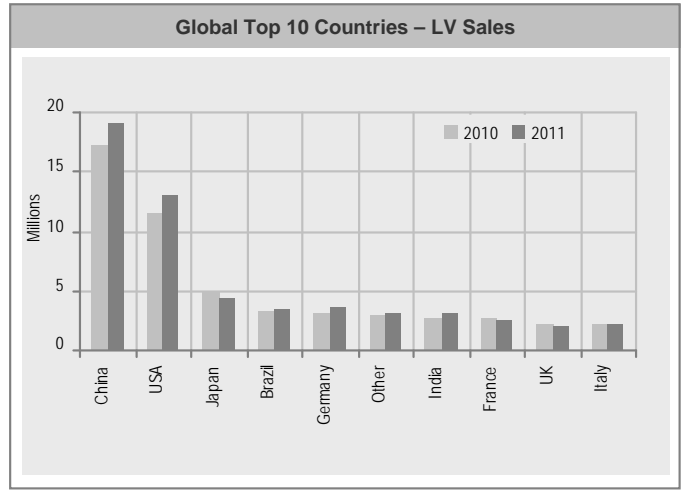
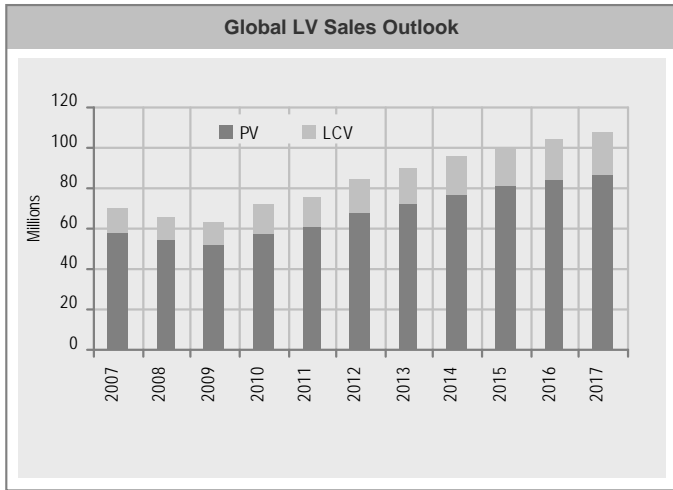
Copyright © 2011 J.D. Power and Associates. The McGraw-Hill Companies, Inc. All Rights Reserved.

Global Perspective

2011 Light Vehicle Sales Growth



Executive Summary



Product Watch

New Model



- **Brilliance Auto** launched **Zhonghua H530** compact car at the end of August, with prices ranging from 79,800 to 125,800 yuan. There are nine variants, equipped with 1.6-liter and 1.5T engine. With the longest wheelbase among the segment, the model mainly competes with Emgrand EC7, Aeolus S30 and etc.

- **Dongfeng Nissan** launched the **Murano** SUV early in September. As there is only 3.5-liter engine available, the price is 488,800 yuan. The model is based on the same platform as Teana and will be kit at Xiangfan plant. It will mainly compete with Toyota Land Cruiser Prado, Audi Q5 and BMW X3.



New Model

New Model



- **BYD** started pre-sales of **G6** in September and will officially launch the model at the end of month. The selling point includes its 1.5-liter turbo charged engine developed by BYD itself and the high-tech configurations such as the keyless system. BYD hopes to improve the brand image through G6 and newly launched S6 SUV.

- **Dongfeng PSA** launched a crossover variant of Peugeot 307 at the Chengdu Auto Show in September. Priced at 108,800 yuan, the model has no other major changes on the power train and configurations except the cross-style exterior, which is preferred by young people.



New Variant

New Model

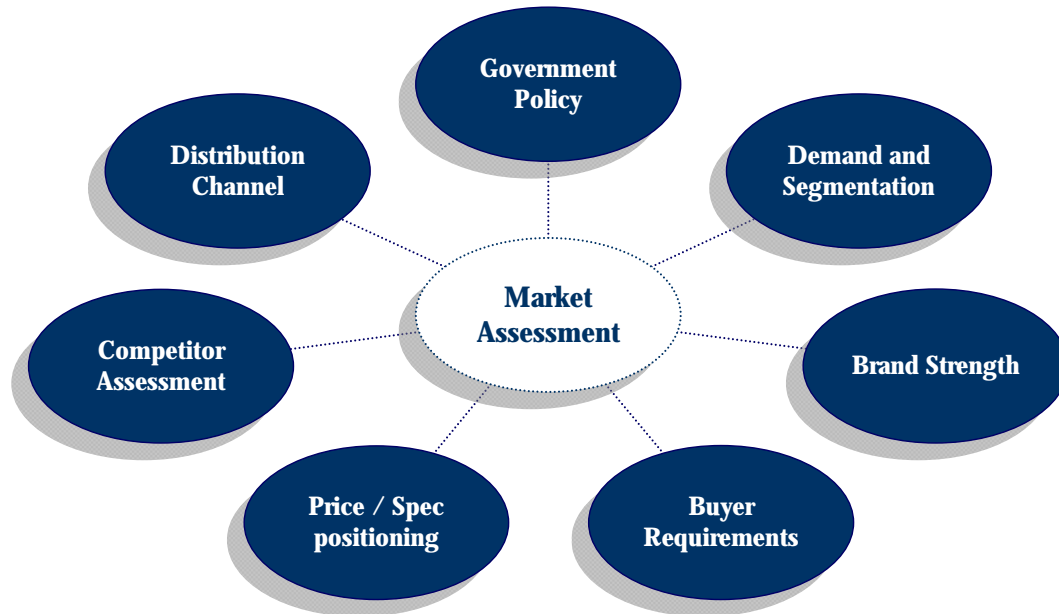


- **Chang'an Mazda** launched the new generation **Mazda 3** with a Chinese name **Xingcheng** in September. The exterior design is similar to the import hatchback variant, but the power train remains the same as the previous generation - 1.6-liter and 2.0-liter. The previous generation will still exist in the market but could be under the company's own brand.

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

Client Services

Jenny Gu
Jenny_gu@jdpa.com

Marvin Zhu
Marvin_zhu@jdpa.com

Suite 1601 Shanghai Kerry Center
1515 Nanjing West Road, Jing An District.
Shanghai, 200040 China
Tel: 86 21 2208 0820, 86 21 2208 0821
Fax: 86 21 2208 0819