

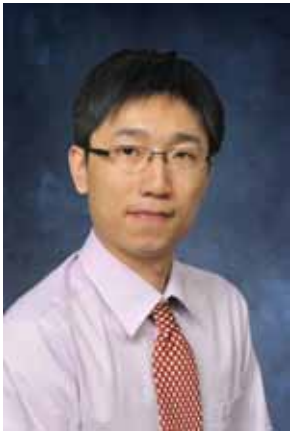
J.D. POWER
ASIA PACIFIC



“Che”
Chinese character for car

**China Automotive Monthly
Executive Summary**

April 2011



Marvin Zhu
J.D. Power Asia Pacific

General Motors: Time to Shift into Top Gear

Three decades after Volkswagen started selling cars in China, the German carmaker remains at the top, despite its competitors now numbering over 100. The race for market share has become increasingly fierce, but its only real rival to date has been General Motors.

By the time GM set up its first joint venture in Shanghai in 1997, Volkswagen had already been in the market for nearly two decades and controlled almost 60% of the total car sales in China. Obviously, the US carmaker badly underestimated the potential early on and missed opportunities to reap the benefits of what would soon become the hottest market for almost every global automaker.

GM, then the world's biggest carmaker, may have been a late comer but it still managed to catch the first wave of strong growth. Thanks to a successful product and marketing strategy, GM's market share rose rapidly in the first six years and approached 11% by the end of 2005.

GM would have been able to overtake VW, the perennial market leader, if it had not been for its ageing model range, including the Regal, Sail and Excelle. Those models, the biggest contributors to GM's early success, soon began to lose market share. The Epica, Aveo and Spark – models based on Daewoo products – found little interest in the market due to their mediocre appearance and poor fuel efficiency.

Sales of GM cars remained sluggish between 2006 and 2008, when the second wave of rapid growth hit China. The US carmaker underperformed both VW and the Japanese carmakers, which were growing their market share fast. By the end of 2008, GM saw its share slide to 8.4%.

In 2009, GM decided to aggressively try to recapture its lost share. It launched a series of new models with global platforms and popular European designs, and they all recorded big sales. Those models included the new Regal, Excelle XT/GT and Cruze. The New Sail developed by Shanghai GM's own R&D center has become one of the best-selling small cars in China. GM's strategy has paid off and it now commands a 9.4% share of the market.

For GM, China has become the most important market since it emerged as the world largest market in 2010. GM's sales through its three joint ventures in China totaled 2.35 million units. GM's strong performance in China not only helped the company recover from bankruptcy, but also gave a boost to its stock last year.

Realizing that China is the most critical market, GM is bringing in all the latest models and state-of-the-art technologies. With the addition of the redesigned Aveo, GL8, Captiva and the new Malibu, GM will soon have a full product line-up.

On the alternative energy vehicle front, GM is planning to introduce the Volt, although the electric-powered Sail is expected to roll out first. Given the local government support and affordable price, the E-Sail is expected to attract growing demand in the coming years.

One advantage GM has over its competitors is its exports, which are steadily growing. The carmaker is shipping more than 10,000 New Sails to South America, and is planning to export other models in the coming years. GM's strong brand and sales network worldwide will be an advantage for Shanghai GM, which is becoming increasingly recognized as a globally competitive carmaker.

However, GM has not been performing well in the luxury segment. While Buick has been successfully established as a high-end brand and Chevrolet is well-recognized among the middle class buyers, sales of the luxury Cadillac brand have been sluggish since its launch in 2004. The problem is that Cadillac looks too American to the affluent Chinese. Its large engines attract higher taxes, resulting in a dearer price tag. If it had not been for the steady sales of the new SRX SUV, Cadillac could have incurred a big loss in 2010.

GM has not yet addressed the problem, nor has it started a new strategy to strengthen its position further. If it goes on like this, GM will find it difficult to close in on VW and Toyota which are way ahead in the luxury segment.

GM also needs to raise its output in China. Its joint ventures - Shanghai GM (SGM) and SAIC-GM-Wuling (SGMW) - have already reached their capacity. SGM and SGMW produced 1.04 million and 1.25 million units respectively last year, 40% higher than the designated annual output. GM's joint ventures are therefore set to face capacity constraints unless their new facilities come on stream soon.

Nevertheless, we expect the Detroit Company, having by and large been on the right track to date, to shift into top gear and make the most out of its strong position in the world's fastest growing market.

Light Vehicle (LV) Demand

MAR

5%

YTD

9%

Passenger Vehicle (PV) Demand

10%

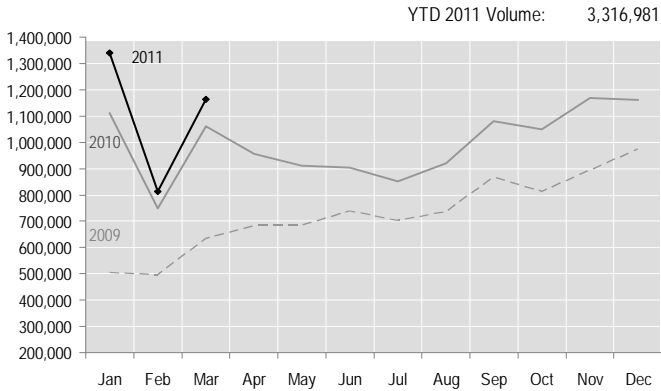
14%

Light Commercial Vehicle (LCV) Demand

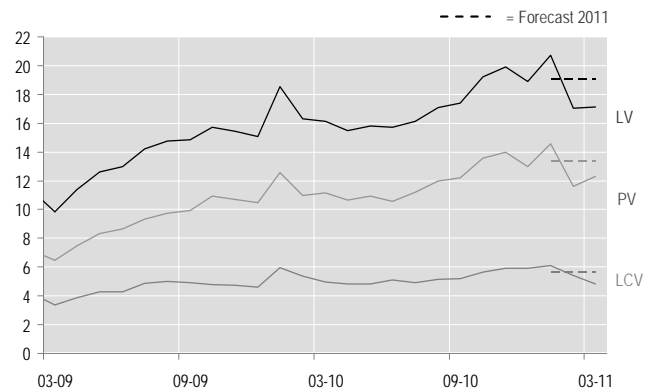
-4%

0%

Monthly PV Sales



Monthly LV Sales SAAR (millions)



Car Sales in China: Uncertainty looms after weaker-than-expected March

March is an important month for cars sales in China. It normally accounts for the highest monthly sales in the first quarter of the year and it is the month whose sales performance indicates the full year's sales potential. However, it is different this year.

Demand for light vehicles in March totaled 1.7 million units, up 5% year-on-year. Passenger vehicle (PV) sales rose 10% to 1.2 million units compared to March last year, bringing the total first quarter growth to 14%. However, the light commercial vehicle (LCVs) segment reported negative growth - the first time in the past two years since the financial crisis. LCV sales decreased 4% to 550,000 units in March, thus, offsetting the growth in the previous two months and leading to a flat Q1 performance. As expected, the "hidden" sales in January, which were brought forward from last year, made January sales the highest in the quarter.

On a seasonally adjusted annualized rate (SAAR), March sales were 17.1 million units per year, which is lower than expected. The PV SAAR in March was 12.3 million, 5.8% higher than the previous month, but 7% lower than the five-month average selling rate. The LCV SAAR, by contrast, was 4.8 million units, 10.6% lower than February, the lowest since last June.

Despite the Q1 sales, we still think the market drivers remain positive. The near-term economic outlook remains strong, with GDP growth projected to reach 9.8% this year (with an upside risk). Consumer spending remains robust. While deposit rates have been on the rise, real deposit rates remain negative due to high inflation. This is encouraging consumers to invest in properties and buy consumer goods rather than turn to saving.

However, the rising fuel price and recent output cut caused by the Japanese earthquake increases the uncertainty and the downward risk of the market.

The Chinese government has raised the fuel price twice this year.

The price for 93# gasoline is now CNY7.85 per liter (\$1.2), up by 17% compared to last June. It is possible that the price could be raised again this year, pushing it above CNY8 per liter. In conjunction with the rising parking fees, registration fees and vehicle and vessel taxes, the cost of using a vehicle is set to increase considerably and thus short-term demand could be affected. In the long-term, if the fuel price continues rising at the same rate, the boundary line of CNY10 per liter could easily be reached in early 2013, which will have considerable impact on car demand.

The impact of Japanese earthquake on the Chinese auto market has started to show, just one month after the disaster struck. The Japanese OEMs in China have now felt the impact and we expect non-Japanese OEMs to also be affected, although to a lesser extent.

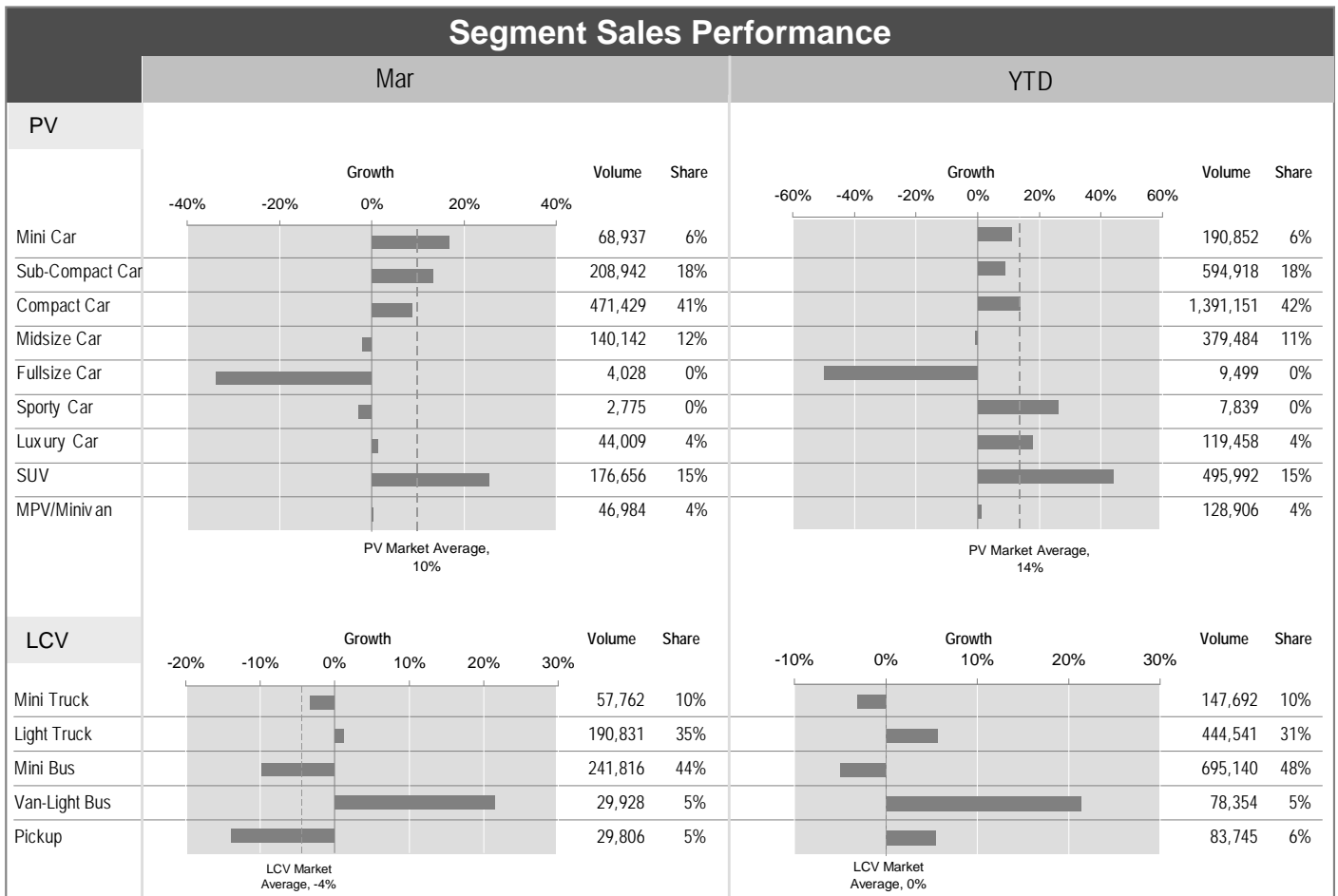
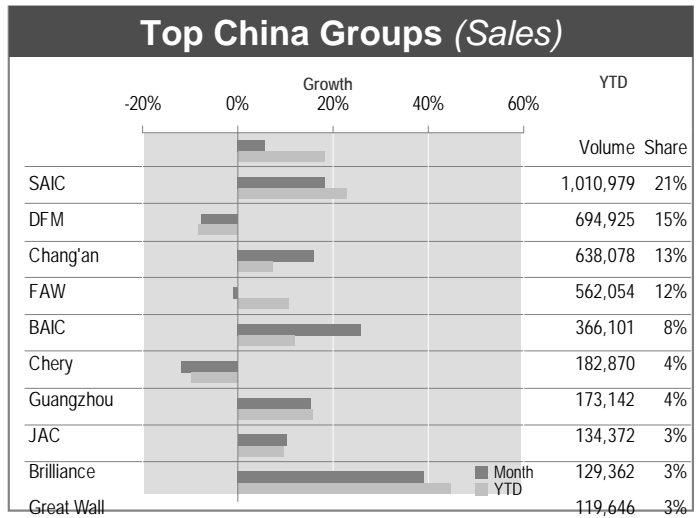
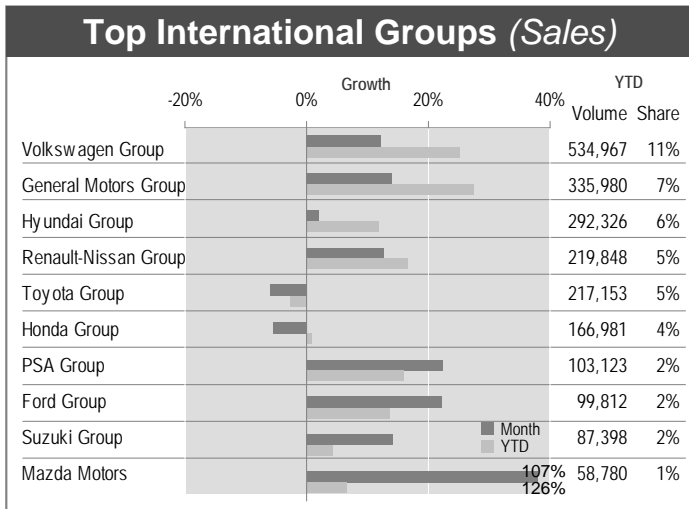
Due to the supply shortage of some components, some Japanese OEMs' plants have rescheduled their production in April and May. About a third of the output could be cut and fewer shifts are needed. Some non-Japanese OEMs are also feeling the impact, though indirectly, as their tier 3 or tier 4 suppliers are victims of the disaster.

If output in Japan recovers in May, almost all the volume lost is expected to be recovered in 2011. But if it doesn't recover by June, we think the full year output will decline. As a result, there will be a supply shortage that will reduce sales in turn.

Taking these factors into account, we think the downside risk has increased a lot, but the solid impact from Japan earthquake has not been fully shown up, which will have more impact on the quarterly output but less for annual one. Therefore, we keep our forecast unchanged right now. Demand for PV will be 13.3 million units, up by 12% year-on-year and LCV sales will be 5.7 million units, up by 7.7%.

Market Top Lines						
	Mar	Growth	YTD	Growth	2011f	Growth
Sales	1,886,966	5%	5,160,759	9%		
PV	1,163,902	10%	3,318,099	14%	13,345,380	12%
LCV	550,143	-4%	1,449,472	0%	5,684,057	8%
M&H CV	172,921	6%	393,188	6%		
Production	1,827,125	5%	4,886,112	7%		
PV	1,148,095	9%	3,113,421	12%	12,602,742	10%
LCV	518,454	-2%	1,368,749	-2%	5,683,420	7%
M&H CV	160,576	4%	403,942	4%		

Best Selling Models						
	Mar	Growth	Share	YTD	Growth	Share
PV						
Volkswagen Jetta	21,419	26%	1.8%	63,033	15%	1.9%
Volkswagen Lavida	22,265	0%	1.9%	62,605	7%	1.9%
Buick Excelle	19,242	1%	1.7%	61,195	13%	1.8%
LCV						
Wuling Sunshine	72,759	1%	13.2%	203,414	-20%	14.0%
Chana Mini Bus	41,908	-37%	7.6%	134,288	-30%	9.3%
Rongguang/Xingwang	38,059	1%	6.9%	106,402	134%	7.3%



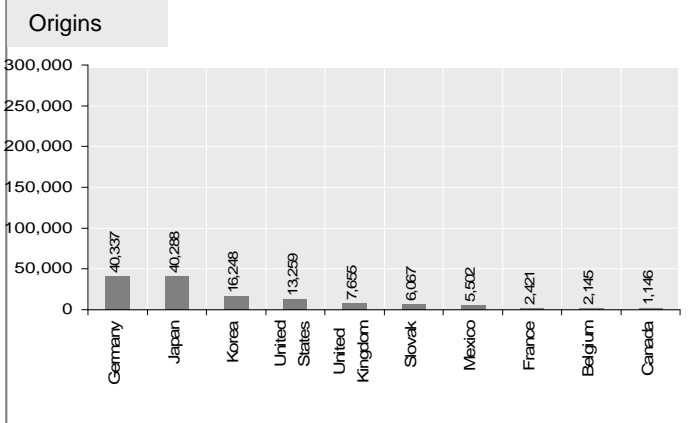
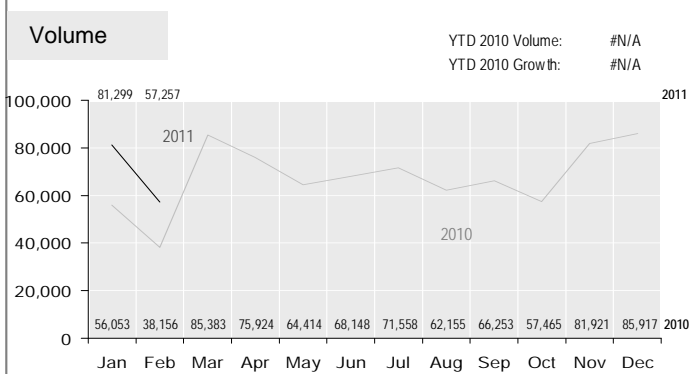
Top Brands (Sales)

	#	Brand	Mar	Growth	YTD	Growth	YTD Share
Passenger Vehicle	1	Volkswagen	145,770	16%	421,354	29%	12.7%
	2	Toyota	77,308	-3%	203,735	-3%	6.1%
	3	Nissan	74,150	18%	196,835	19%	5.9%
	4	Hyundai	63,380	-4%	191,072	12%	5.8%
	5	Honda	58,621	-5%	165,675	1%	5.0%
	6	Buick	55,200	16%	165,627	35%	5.0%
	7	Chevrolet	52,596	13%	164,292	20%	5.0%
	8	Chery	52,835	36%	156,410	21%	4.7%
	9	BYD	40,027	-41%	118,602	-27%	3.6%
	10	Kia	34,311	16%	101,254	12%	3.1%
	11	Great Wall	29,011	70%	90,710	54%	2.7%
	12	FAW	31,113	43%	88,269	23%	2.7%
	13	Suzuki	30,512	14%	87,398	4%	2.6%
	14	Ford	33,289	20%	84,398	10%	2.5%
	15	Chana	29,443	70%	76,467	36%	2.3%
	16	JAC	25,699	14%	71,816	17%	2.2%
	17	Geely	19,659	-16%	60,757	-16%	1.8%
	18	Citroen	19,067	10%	59,555	3%	1.8%
	19	Skoda	16,766	9%	58,946	32%	1.8%
	20	Mazda	26,631	38%	58,780	7%	1.8%
Passenger Vehicle Total			1,163,902	10%	3,318,099	14%	67.9%
Commercial Vehicle	1	Wuling	119,522	-2%	339,533	1%	23.4%
	2	Chana	80,518	-28%	240,531	-21%	16.6%
	3	Dongfeng	64,687	20%	174,252	42%	12.0%
	4	Foton	67,312	-5%	149,079	3%	10.3%
	5	Jinbei	26,098	32%	64,537	19%	4.5%
	6	JAC	24,761	17%	62,556	14%	4.3%
	7	Hafei	20,041	-41%	43,658	-37%	3.0%
	8	FAW	19,457	-11%	42,521	-24%	2.9%
	9	JMC	14,851	26%	38,175	33%	2.6%
	10	Great Wall	9,587	-11%	28,936	22%	2.0%
Commercial Vehicle Total			550,143	-4%	1,449,472	0%	32.1%

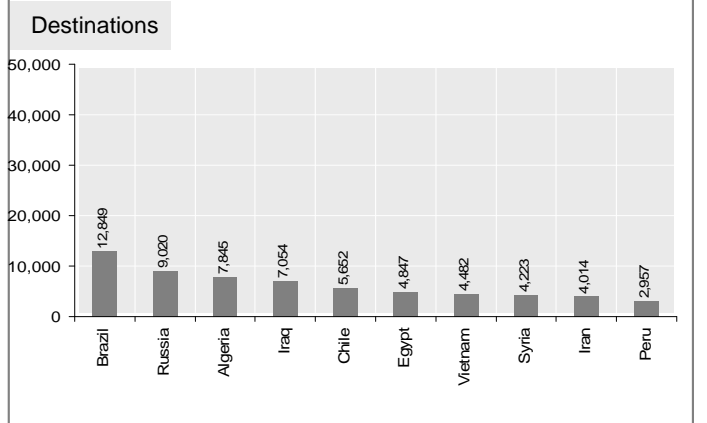
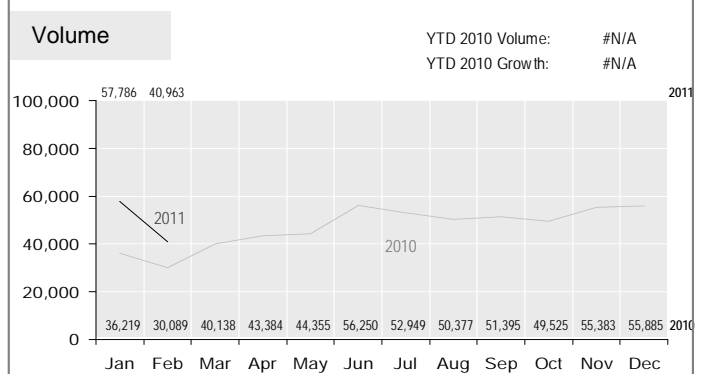
Top Manufacturers (Production)

	#	Brand	Mar	Growth	YTD	Growth	YTD Share
Passenger Vehicle	1	Shanghai VW	102,419	18%	296,360	38%	9.5%
	2	Shanghai General Motors	102,960	16%	290,593	22%	9.3%
	3	FAW VW	82,636	14%	200,293	10%	6.4%
	4	Beijing Hyundai	62,119	-1%	179,535	15%	5.8%
	5	Chery	56,437	0%	176,205	9%	5.7%
	6	Dongfeng Nissan	60,719	1%	152,182	1%	4.9%
	7	FAW Toyota	50,301	-5%	130,659	-6%	4.2%
	8	BYD	40,420	-41%	117,086	-31%	3.8%
	9	Geely Group	39,785	10%	116,676	6%	3.7%
	10	Changan Ford Mazda	45,428	15%	112,005	8%	3.6%
	11	Dongfeng Peugeot	38,898	20%	105,620	12%	3.4%
	12	GAC Honda	40,837	5%	102,046	0%	3.3%
	13	Dongfeng Yueda Kia	32,495	21%	91,168	5%	2.9%
	14	Great Wall Motor	30,807	63%	90,753	52%	2.9%
	15	FAW Car	29,061	27%	80,386	28%	2.6%
	16	Chang'an Automobile	30,119	44%	76,698	34%	2.5%
	17	TAIC FAW Xiali	30,175	14%	75,285	7%	2.4%
	18	Jianghuai Automotiv e	26,671	15%	73,069	20%	2.3%
	19	Dongfeng Honda	28,940	19%	71,801	17%	2.3%
	20	GAC Toyota	23,262	-12%	61,122	-9%	2.0%
Passenger Vehicle Total			1,148,095	9%	3,113,421	12%	68.9%
Commercial Vehicle	1	SAIC-GM-Wuling	112,107	5%	302,397	3%	22.1%
	2	Chang'an Automobile	78,858	-27%	213,226	-28%	15.6%
	3	Beiqi Foton	57,858	-4%	145,028	-7%	10.6%
	4	DFAC	38,821	4%	95,185	11%	7.0%
	5	Dongfeng Yu'an	26,183	68%	82,143	103%	6.0%
	6	Brilliance Jinbei	23,895	17%	62,893	21%	4.6%
	7	Jianghuai Automotiv e	23,427	14%	59,184	10%	4.3%
	8	Hafei Motor	18,280	-33%	48,224	-34%	3.5%
	9	Jiangling Motors	19,140	40%	46,393	29%	3.4%
	10	Nanjing Iv eco	14,905	35%	33,813	22%	2.5%
Commercial Vehicle Total			518,454	-2%	1,368,749	-2%	31.1%

Total Imports



Total Exports

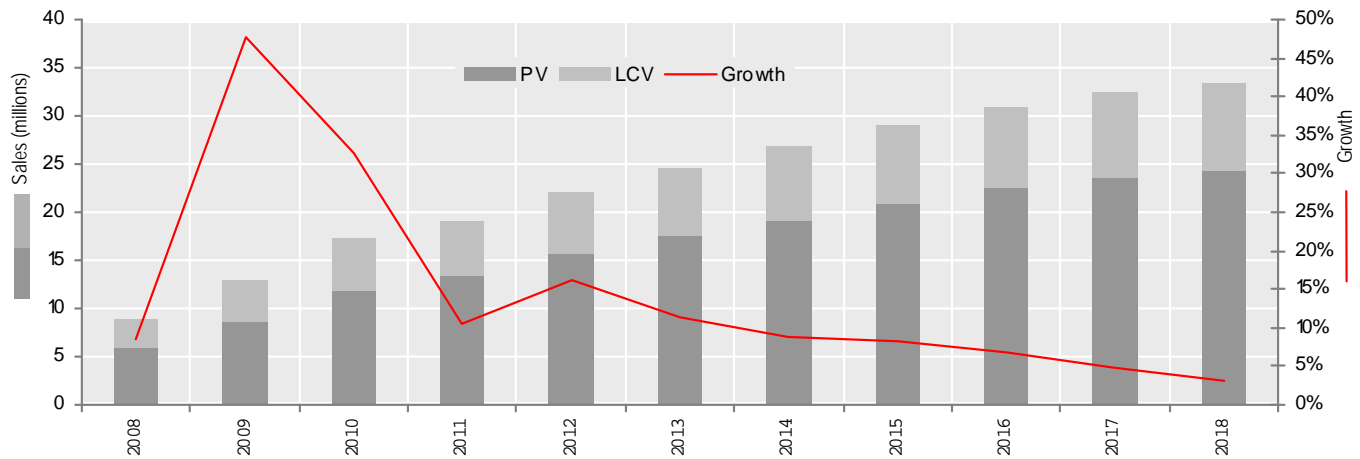


Jan and Feb import and export information will be released together in next month

China Outlook

China Light Vehicle Sales Outlook

- Downside risk increases with the parts shortage due to the natural disaster in Japan. We have not changed our topline forecast for the full year 2011 because the impact is not clear.
- However, we have cut the production volume in Q2 by 0.5 million units. If the production of the Japanese part suppliers recovers, the volume is expected to be remedied in Q3 and Q4. If they fail to recover in time, we will consider to revise downward the full year forecast in June.



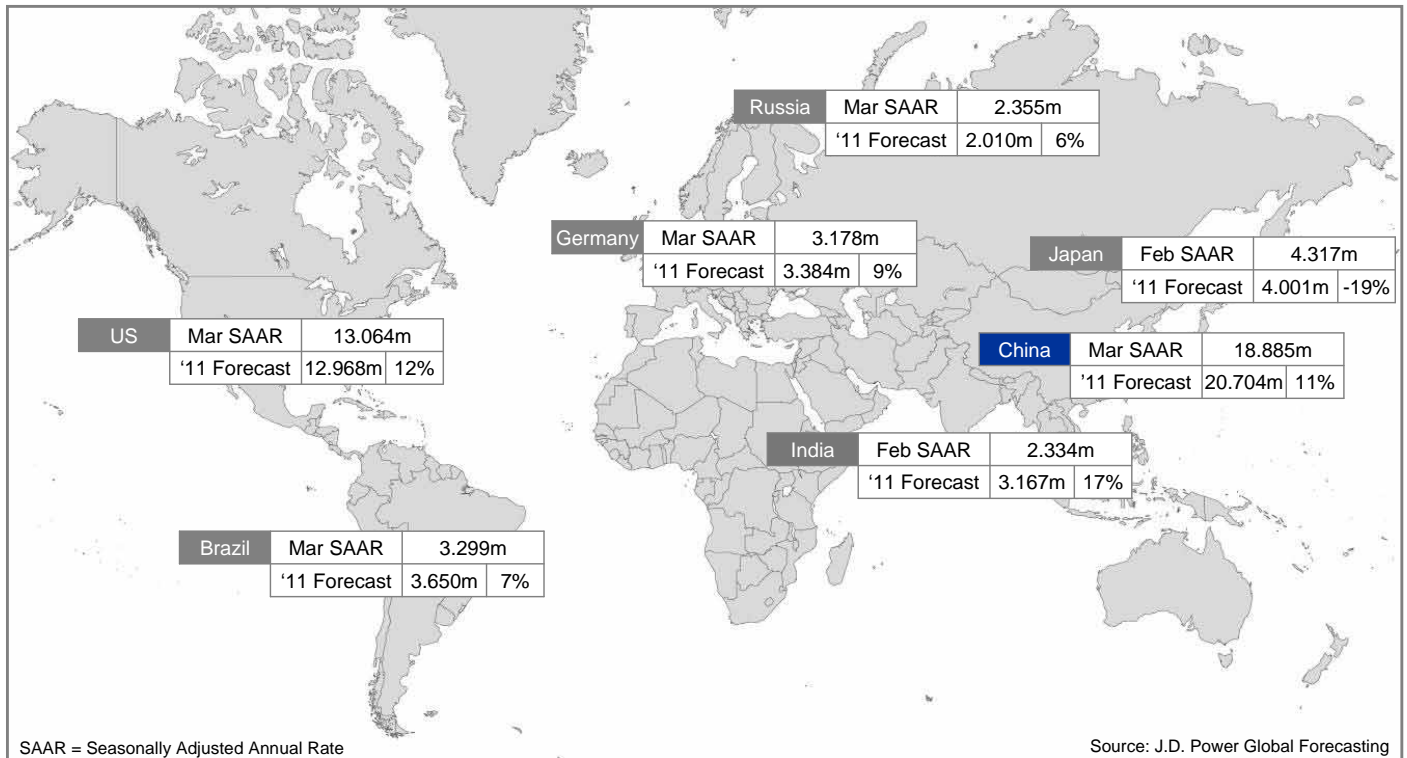
Factors Driving Market Outlook

		2010	2011	Beyond 2011
Economy	GDP Growth (% chg.)	10.3%	9.8%	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. Q1 +5.0%
	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. March 2011 export totaled USD 112.1 billion
	Investment	Neutral	Neutral	Fixed asset investment remained heated. Q1 2011 total at CNY 3.95 trillion, up 25%
	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

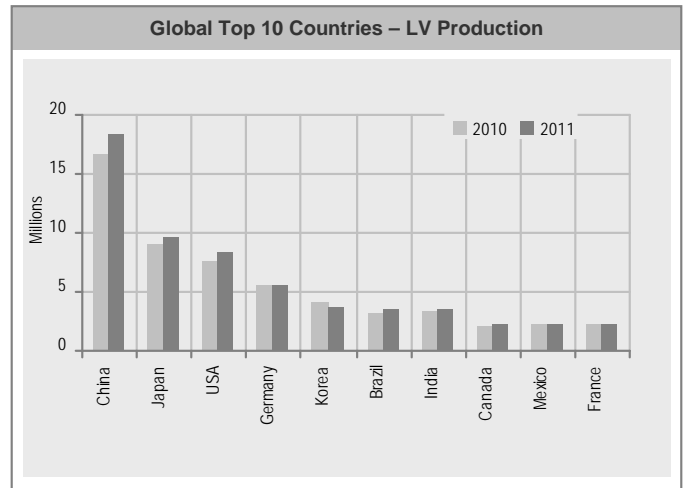
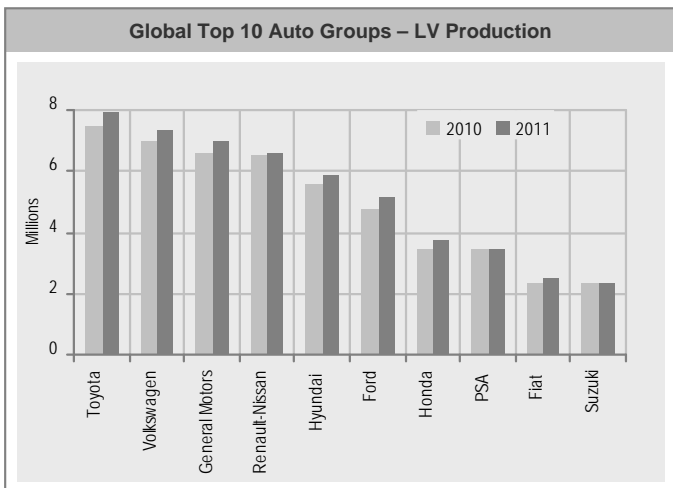
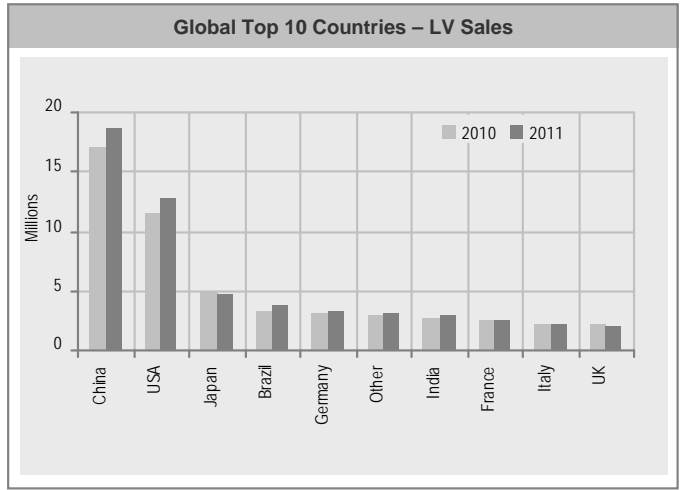
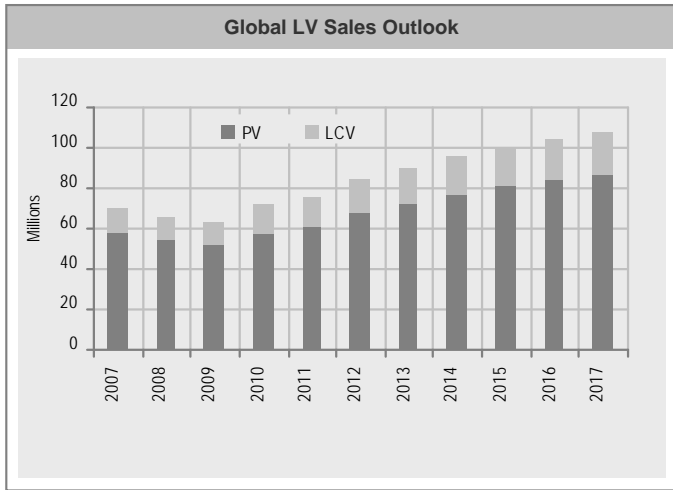
Data Source: Various Sources

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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