

General Development Of China's Autoparts Industry

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Structure of My Presentation

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2. The Development of transnational auto parts companies in China
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The Present situation of China's auto parts industry

1. Overall industrial scale ranks high in the world.

As China's auto industry expands fast, the industrial scale of China's auto parts industry also rapidly grows.

China's auto production and sales in 2009 become No.1 in the world.

The industry employed a total of 1.59 million workers in 2007, making up 60.7% of the workforce of the whole auto industry. The figure rose further to 1.75 million workers by November 2008.

Scale and growth of China's auto parts industry during 2005-2007 period

RMB 100 million/%

year	gross output value	Growth rate	Added Value	Growth rate	Total assets	Growth rate	Sales Revenue	Growth rate	Proportion to the total output value of the auto industry	Proportion to the value added of the auto industry
2005	4160		1100	24.2	9347	18	4431	25	35.5	42.1
2006	5501	32.2	1396	26.9	5245	28	5584	26	36.0	39.5
2007	7637	38.8	2042	46.2	6455	23	7486	34	38.3	42.7

Source: "research on China's auto parts industry" released by State information center in 2009

2. Suppliers with foreign ownership are relatively stronger than the rest.

In 2007, there were 5,787 Chinese suppliers, representing 77% of the total; 1,318 foreign-owned suppliers, constituting 17% of all; 474 suppliers from Hongkong, Macau and Taiwan, taking up a proportion of 6%.

Private enterprises make up 49%, State-Owned enterprises make up 8%, Mixed-Venture enterprises make up 20%.

Among the suppliers with foreign capital background, Foreign-Owned ones make up 55%, with Sino-foreign joint ventures constituting 45%.

Comparison among auto parts companies of different corporate structures and economic benefit levels thereof (%)

Company types and numbers		Proportion of gross industrial output value	Proportion of sales revenue	Profit margin	Capital gain yield
Foreign-Owned	17	41	42	8.7	10.6
State-Owned	8	8	8	3.8	3.8
Mixed-Venture	20	24	23	6.0	6.9
private	49	21	20	6.4	8.8
Entities from Hongkong, Macau and Taiwan	6	6	7	6.8	6.8

Source: "research on China's auto parts industry" released by State information center in 2009

3. There have formed six main auto parts production regions and some export bases around China.

Six main regions for auto parts production have formed around China, roughly corresponding to the geographical distribution of Chinese car-making facilities, namely, Beijing-Tianjin-Hebei region, North-East region, Sichuan-Chongqing region, Hunan-Hubei region, Yangtze-river-delta region and pearl-river-delta region.

The auto production of these six regions constitutes 72% of the total output of China's auto industry, with the auto parts output value taking up an impressive share of 81.2% of the whole pie. 79.9% of China's auto parts companies are located in these regions, the employees of which make up 79.1% of the total workforce employed in the industry nationwide.

Geographical distribution of auto parts production for 2007

Proportion (%) Vs Total	Beijing-Tianjin-Hebei region	North Eastern China Region	Sichuan -Chongqing region	Hunan -Hubei region	Yangtze River Delta region	Pearl Rive Delta region
Auto output	16.7	13.5	8.8	8.8	14.4	9.9
Auto parts output value	10.8	9.0	5.7	6.4	37.2	12.1
Suppliers number	8.6	7.8	7.4	9.1	38.4	8.6
employees	8.7	8.9	8.9	8.8	32.6	11.2



Source: “research on China’s auto parts industry” released by State information center in 2009 (Note: Data for North-East region here excludes that of Heilongjiang)

4. Most of the Chinese suppliers lie near the lower end of the supply chain, thus finding it hard to achieve appropriate economic scale.

At present, 90% of the market share and production capacity of domestically-funded suppliers are concentrated in the manufacturing of low-end auto parts products.

According to relevant data, the market share of the top one hundred domestic suppliers makes up 50% of that of the whole industry

Production scale for a selection of auto parts products in 2007

Auto parts	Number of producers	Maximum output	Minimum output
Manual transmissions assemblies	33	798,600	12,000
Steering assemblies	35	1 million	63,000
Air cleaners	35	63 million	150,000
Pistons	22	24.1 million	200,000
Rear axle assy	45	920,000	9,000



Source: “China automotive industry yearbook2008”

The Development of transnational auto parts companies in China

1. General situation

In 2007, among the 7,580 medium-to-large suppliers there were 1,318 ones with foreign capital background, constituting 17% of the total, with foreign-controlled companies making up 66%, state-controlled companies taking up a dismal share of 9%, collective companies constituting 4% and private companies representing 20%.

Statistical data released by China Association of Automobile Manufacturers, those suppliers with foreign capital background enjoy the highest economic benefit, with the foreign-controlled enterprises realizing a sales profit margin of 8.2%, much higher than the ones attained by domestic private suppliers and state-owned companies, which are respectively 6.8% and 5.9%.

Among the top one hundred suppliers in 2007, there are 17 wholly foreign-owned ones.

In 2008, the raging financial crisis didn't deter transnational auto parts from investing in China, China market remains the world's best region for investment.

2.Foreign investment in China's auto parts sector

In 2007, the total output value and sales revenue of those foreign-funded auto parts enterprises which constitute 17% of the total number of auto parts companies in China represented 41% and 42% of those of the whole auto parts industry of China.

The profitability of domestically-funded companies is also far lower than that of auto parts joint ventures and wholly foreign-owned companies.

According to statistic data, from January to October of 2008, foreign-controlled auto parts companies, with each of them generating an output value of RMB 0.31 billion.

As a dismal contrast, those some 10,000 Chinese private auto parts companies only realized a meager output value of RMB30 million all put together. The gap is obvious.

By the end of 2007, auto parts transnationals have invested a total of RMB30 billion in China.

The internationalization process of China's auto parts industry

1. The total exports volume of auto parts grow steadily

China's auto parts exports of the figure sits so very inconsistently with China as one of the world's auto producers, its auto parts exports are only half of those of the US, Japan and Germany.

Since 2006 China's auto parts exports have made up 10% of the global auto parts exports, making auto parts products one kind of export products that hold the greatest growth potential.

Auto parts exports during 2005-2007 of world's major countries

country	2005	2006	2007	Annual growth rate
China	156	216	295	37.5
US	551	589	620	6.1
Germany	404	440	467	7.5
Japan	508	540	567	5.6
South Korea	66	80	99	22.5
Brazil	75	88	91	10.2
India	25	29	36	20.0

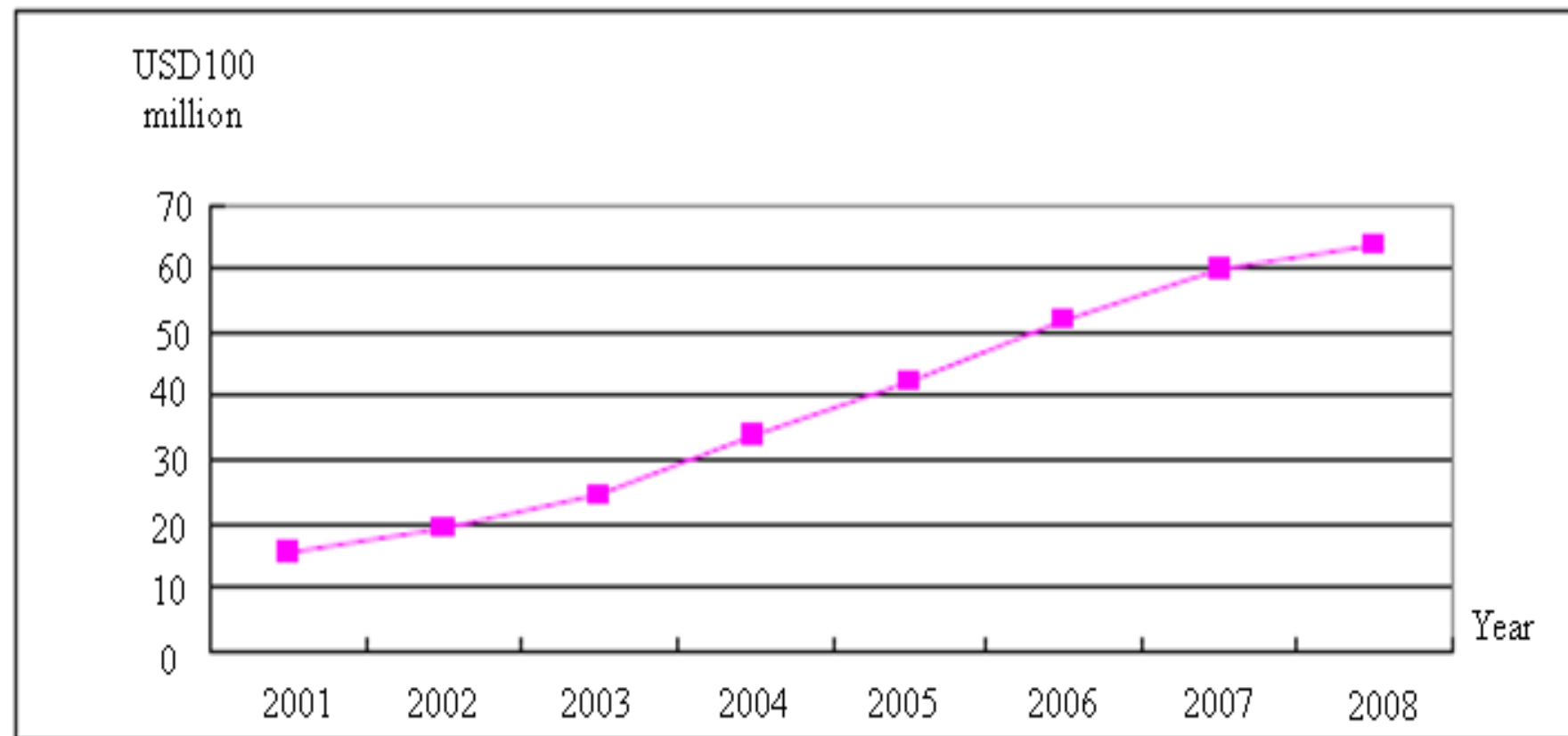
Source: data from “*Investigation into China Auto Parts Industry*” (2009), State Information Center

2.The exports are mainly targeted at developed countries, and most of the exports companies are joint ventures.

The exports covers OEM and after-sale service markets. Companies with foreign capital background prevail in the exports of auto parts, but the products of domestically-funded companies find it hard to enter international OEM market.

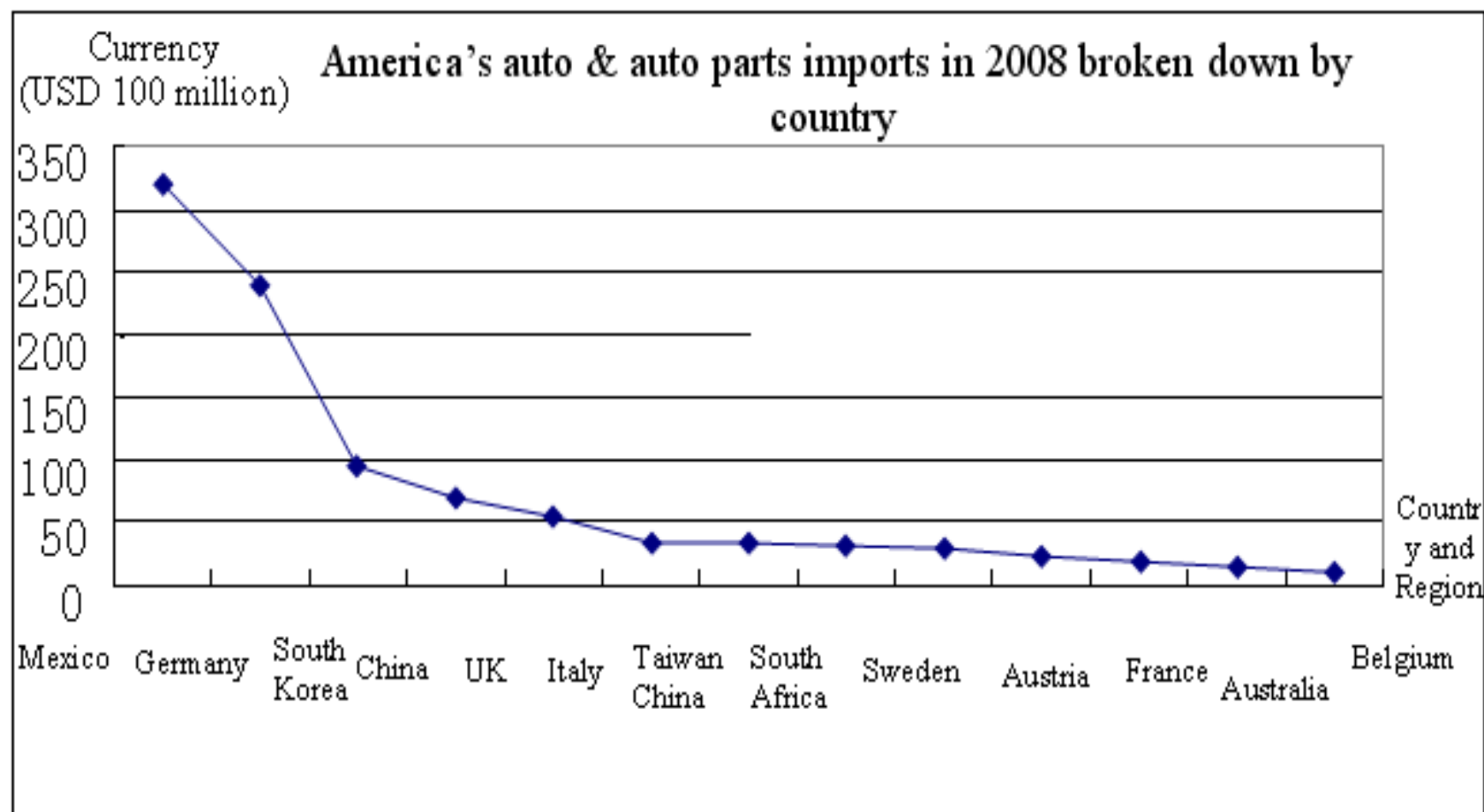
In 2007, those auto parts products that entered the markets of developed countries were all from auto parts companies with foreign capital background. 64.5% of the products that entered American market were from auto parts companies with foreign capital background. For Japanese market that ratio was even higher, reaching 91%

Value of China's auto parts exports to America during 2001-2008 period



Source: Machinery & Electric Products Export Guidance <http://mep128.mofcom.gov.cn>

America's auto & auto parts imports in 2008 broken down by country



Source: Machinery & Electric Products Export Guidance

Of the suppliers for the five major auto assemblies parts, 40% will consider making inroads into international first-tier supply markets in the next five years, another 40% are poised to enter their products into international second-tier or third-tier supply markets. Around 25% of the companies target their products at after-sale market.

The Overview of Automotive Aftermarket in China

1. Development Stages

The automotive aftermarket in China is divided into four development stages:

1st stage is the initial period of automotive aftermarket from 1990 to 1996. Service object: mostly officer's cars.

2nd stage is the development period of automotive aftermarket from 1997 to 2006. Service object: mainly officer's cars and 15% private cars.

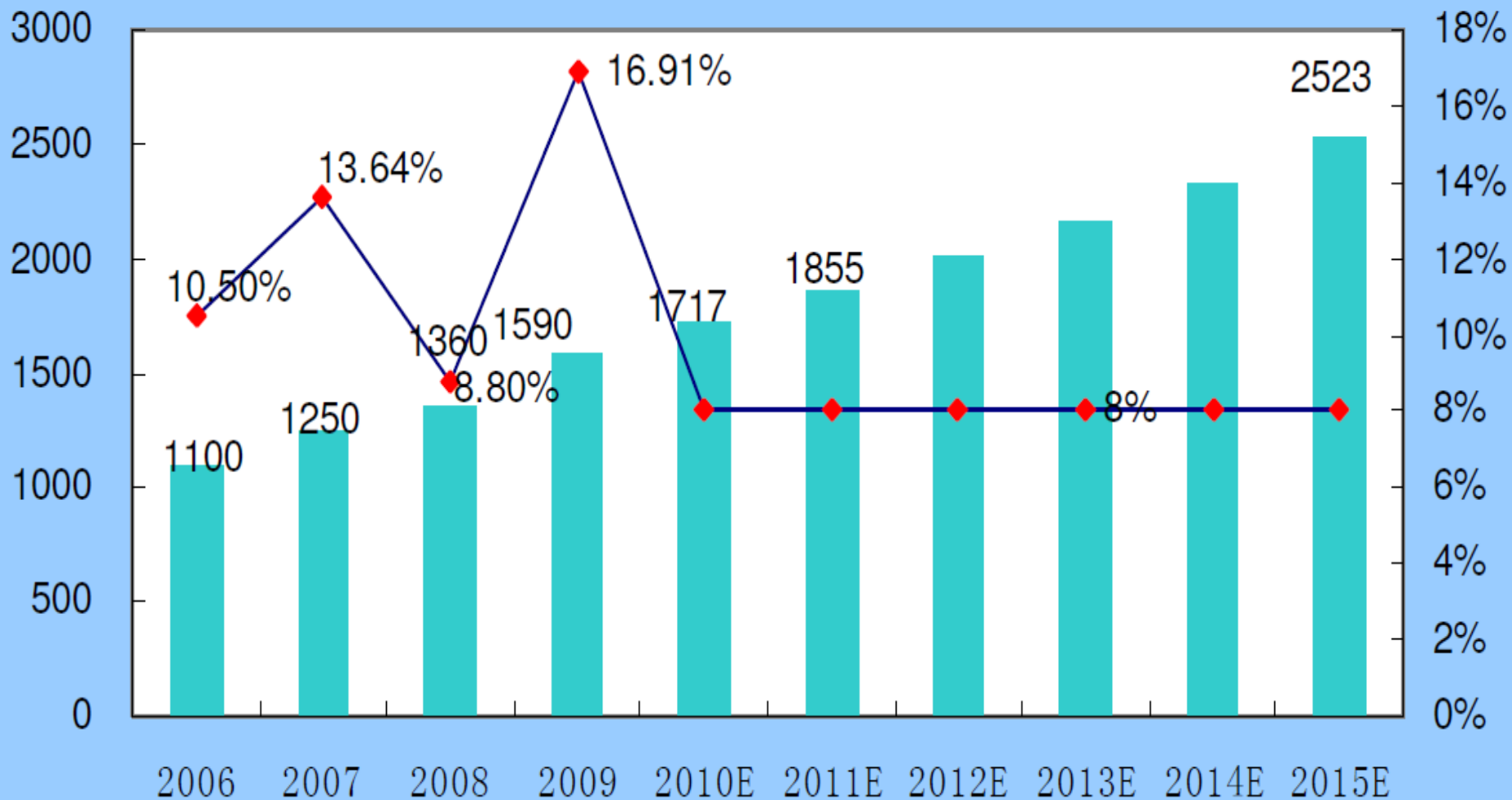
3rd stage is the shuffling period of automotive aftermarket from 2007 to 2010. Service object: 50% private cars and 50% officer's cars.

4th stage is the quick development period of automotive aftermarket after 2011. Service object: mainly private cars. 2-3 leading regional stores in each region and the brand repair and maintenance stores develop along with the 4S stores while the car service chain tycoons step into China.

2. Market Scale and Growth Potential

In 2006, the automotive aftermarket in China was 110 billion Yuan, up 11% over the same period of the previous year. It experienced the growth rate of 14% in 2007, 9% in 2008 and 17% in 2009. It is estimated that its total scale will exceed 190 billion Yuan in 2010, and get close to 300 billion Yuan in 2015.

Auto aftersales service market size and estimation during 2006-2015



Market size (USD100 million) Growth rate

In the mature international markets, around 20% of total profit gained from cars is from the profit of car sales, 20% from the sales of spare parts and 60% from the after-sale services for cars.

In China, 37% is from the sales of spare parts while 12% is from the after-sale services for cars. Most of 4S stores in China have their profit of 60% from the sales of new cars and 20% from the after-sale services.

3. Internationally Well-known Car Service Enterprises Crowd into China

Currently, more than 30 well-known foreign car service enterprises have announced their plans to enter the Chinese market.

Goodyear: Since 2008, it has started selling the products of Du Pont, Shell, Huadingsheng, Delphi and Federal-Mogul in more than 700 retail stores in China. Above 75% of its sales income is contributed by the after-sale services for cars.

Bosch: It has started building its own stores in the “Bosch Professional Maintenance” network in China since 2001. It has owned 150 maintenance stations in China now. By 2013, it will increase the 1500 stores in its professional car maintenance network in China in order to cover the whole country. So far, the “Bosch Professional Maintenance” network has owned more than 300 stores.

After it established the first franchised store in China, Yellow Hat, the largest auto parts and products dealer in Japan, is planning to increase the number of direct stores and franchised stores in China to 500 before 2015.

4. Current Development of Some Sub-industries

Autopart after-sale market

USA has more than 200 million automobiles and the required auto parts in the after-sale market have the value of around 120 billion US dollars per year. If China has 200 million automobiles, the after-sale auto parts market will reach the scale of above 600 million Yuan, so the attraction of the market will be obviously increased.

Automotive Electronics

In 2006, the sales of automotive electronic products totaled 86.76 billion Yuan, up 40% over the same period of the previous year.

In 2006, 800,000 GPS systems were sold in China, with more than 200 brands. In 2008, the GPS market was quadrupled to 3 million units. Moreover, there are around 2 million automobiles with the restructured sound system in China. The whole audio and video installation market has the value of 14 billion Yuan at the annual growth rate of around 20%.

Secondhand Car

In 2009, the domestic used car market continued to register strong dealings, with the total transaction volume reaching 3,338,600, increasing 60,130 units over the last year; the accumulative transaction amount reaching RMB 148.832 billion, up 25.9% YoY.

Maintenance and Care Industry

In 2008, there were 36000 automotive maintenance enterprises in China, of which 80% specialize in repair. There were 3 million employees in the market of 100 billion Yuan.

Auto Financing Policies

The financial services for auto consumption also made headways. By Aug. 2009, there were altogether ten auto financial companies in China, with total assets of RMB 37.8billion. In 2009, the loans for auto consumption accounted for around 10%, up 3% compared to year 2007.

Car rental business

In terms of car rental, the launch of car rental business announced by Mercedes-Benz Auto Finance Ltd. marked auto finance company's entry into car rental business.

Dongfeng-Nissan's Easy-car-rental service has been put to trial in Beijing, Guangzhou, Shenzhen and Dongguan. The car rental business has been expanding to towns from large and medium-sized cities.

5. Problem in China's automotive aftermarket

First, due to the great output of auto manufacturing and its significant contribution to local output, the phenomenon of "valuing car-manufacturing than auto service" is predominant, and in many places, more resources are devoted in auto production, while the auto service industry is ignored and inadequately funded.

Second, insufficient connection between entities involved in auto industrial chain. The development of auto service industry featuring high added value and high technical content, such as auto finance and logistics does not meet the development needs of domestic auto manufacturing.

Third, the vehicle maintenance market is disordered and many black holes exist, such as unlicensed business activity, blown up vehicle troubles, adulterating or using the fake and forged auto fittings, charging customers arbitrarily and uneven technical levels of vehicle maintenance men; these all undermine car owners' interests.

Fourth, high disqualification rate of the body restoration quality review result on vehicles involved in major accident, lack of acceptance standards for completed body restoration and complete quality report standards and incomplete qualifications for enterprises engaged in crashed vehicle maintenance and repair.

Thank You~!