Chinese Business Guide

（Auto Volume）

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CONTENTS

Introductory Remarks

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The Chinese automobile industry has a long history of more than 50 years. It has undergone great changes in its opening-up enlargement and industrial structure adjustments 20 years since China's reform and opening-up. China begins to transform from a big manufacturing country to a powerful industrial country. The volume of the automobile industry in *Chinese Business Guide* compiled by China Council for the Promotion of International Trade introduces the development and economic situation of the Chinese automobile industry and the international development vein in a comprehensive way, analyzes the developmental environment and gives a detailed description of the recent development tend and the market competition. It also gives readers a full view of the achievements and perspective of the "going global" strategy. Armed with a general situation of China' s major automobile groups, readers could know the industrial situation of special cars, automobile components and motorcycles. Large numbers of figures and reference materials make the volume a very helpful reference book for people who would like to know Chinese automobile industry, thus it could greatly promote communication between the international automobile industry and the Chinese automobile industry. This volume is also helpful for carrying out the "going global" strategy and the enterprises of the international automobile industry to understand the Chinese automobile industry.

The Chinese automobile industry has undergone three major changes over the past years.

First, the industry has undergone rapid development in production capacity, which is the most significant character of the Chinese automobile industry in the new century. China has ranked from the top eight to the top three in the world automobile industry and second for its domestic consumption of new automobiles. The investment of more than 23 million yuan, equaling to the total investment of the past twenty years of the Sixth Five-Year Plan, Seventh Five-Year Plan, Eighth Five-Year Plan and Ninth Five-Year Plan and including foreign investment and investment from sino-foreign joint ventures, is the key support for that great progress during the five years of

the Tenth Five-Year Plan. The output during the Tenth Five-Year Plan is 24 million cars, approximately the total output of the past twenty years. In 1989, the total output was 220,000 cars, of which the output of the car was 4,000 and one million cars in 1992. In 2000 , the Tenth Five-Year Plan put forward in clear-cut terms of encouraging families to have their own cars and restated that the automobile industry as the pillar industry for sustainable development of the national economy and the structure adjustment. From then on, the Chinese automobile industry has marked a new epoch in development, almost an increase by one million cars per year. The output in 2005 and 2006 was 5.7 million cars and 7.2 million cars and it is expected to make a breakthrough of 10 million cars in 2008.

Second, for China's strictly abiding by WTO rules, the licence and quota restriction is eliminated finally. The customs level of the automobile products has dropped to 10% for components and 25% for complete vehicle. The Chinese automobile industry has not only withstood the severe tests but also become an exciting industry and made great contributions to the world automobile industry development. The total import and export has reached to more than US$ 2 million, of which the export has increased by a wide margin. By the end of the second half year of 2006, the export of complete vehicle and components has reached to US$ 2.8 million.

Third, implementing the first automobile industry policy in 1994 and the second one in 2004 has made the Chinese automobile industry fully deserve the name of pillar industry, a goal achieved five years ahead of time. As a technology-intensive and capital-intensive industry, it has made great contributions to the economy development and other industries. In 2005, the total output value had reached to 1.2 trillion yuan and the tax payment was over 20 billion yuan. 1.8 million people were directly involved in this industry, and 18 million were employed in the industries relating to the automobile industry chain. Both the number of employees and their qualities had been enhanced. In 2006, one ordinary welder was rewarded for the second prize of the National Award for Science & Technology, becoming the first man who won a national award.

The Central Government has clearly put forward that in 2020 China will build a Well-Off Society in an All-Round Way and keep a sustainable increase of the national economy. In order to meet such demands, the automobile industry still need develop even more rapidly. It is predicted that in 2020 the production capacity will reach to 20 million cars, and that China may become the biggest country in the world for localization automobile industry. The Central Government has clearly put forward that China must build a resource-saving and environment-friendly society. One of the very important tasks for the automobile industry is to save energy, for the development of this industry needs a great amount of energy, steels of high quality and lots of other new materials. As for the environmental protection, though China is making every effort to bring the exhaust emission regulations into correspondence with the European regulations, they still drop behind the European standards. If the restriction on carbon dioxide emission were carried out, the automobile

industry would shoulder on heavier burdens. It is incumbent for the industry on undertaking responsibilities of energy saving and carbon dioxide emission reduction.

China is now sparing no efforts to build a harmonious society. The automobile industry is one of the important tools for stimulating consumption, improving the consumption structure and stimulating economic growth. The calculation of the Consumer Price Index and the consumption ratio has already included the automobile consumption. The automobile industry will make great contributions to the building of the new socialist countryside.

Challenges exist alongside with opportunities. Although the Chinese automobile industry has its own characters, it cannot develop without communication with the world automobile industry. As an important part of the world automobile industry, the Chinese automobile industry will make great contributions to development of both China economy and the world economy.

20 April 2007

Comments on the development of China's automobile industry

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China's automobile industry is one of pillar industries in the China's economy and can embody the China's industrialization level, economic strengths and innovative capabilities.

Over the past 30 years, China's automobile industry has played a very important role in the China's economic development. In 2006, China became the third largest automobile manufacturing country and the second largest market of new automobiles. In 2006, the amount of automobiles in service reached 38 million. In the whole automobile industry of China, there were 161 complete vehicle manufacturers, 4,600 manufacturers of automotive parts above designated size and 2.24 million employees in 2006. Up to 2008, more than 30 larger automobile manufacturers' production capacity will have reached 13 million automobiles and the total production capacity of all Chinese automobile enterprises 15 million automobiles. With the rapid development of Chinese economy, the needs of industrial investments and residents' consumption for automobiles will further increase. The growth of investments, consumption and export of automobile industry and industries concerned has become a key element of driving force to propel the development of China's economy.

Meanwhile, the automobile is changing Chinese people's lifestyle. China has carried out the policy of reform and opening up for 30 years and many ordinary citizens have purchased their own automobiles. The automobile manufacturers continue to launch new models of automobiles to meet consumers' demands, which strongly stimulates the growth of consumption for automobiles. The amount of private automobiles in service remains high-speed growth so the connection between people's life and automobiles becomes closer and closer. However, the automobile also brings about some impacts on the energy, environmental protection, traffic jam, sustainable economic development, which will influence the construction of the harmonious and energy-saving society. Hence, the development of China's automobile industry indirectly influences the energy, environment, transport and safety.

The China's automobile industry has become the industry introducing the most MNCs. While

those MNCs enter China, they also bring their competition on the international markets into the Chinese market. There are not only some complete vehicle enterprises co-funded by global automobile manufacturers and Chinese investors but also many solely foreign-funded enterprises or joint ventures of foreign automotive parts. The cooperation between Chinese and foreign automobile enterprises is continually strengthened in the design and R&D of automobiles. Otherwise, the cooperation in the publicity, exhibition and cultural events is also improving and some cooperative activities are carried out between Chinese and foreign manufacturers in technology, management, trade and talents' exchanges. In 2006, the trade surplus of export and import of automobiles and automotive parts reached $22b. Therefore, Chinese automobiles have been really ushered into the international markets and the China's automobile industry has become an international industry. With Shanghai Automotive Industry Corporation purchasing Ssang Yong Motor Company, Nanjing Automobile Corporation purchasing Rover of Britain, and Geely and Great Wall Motors establishing their overseas factories, more and more Chinese automobile enterprises begin to seek the development opportunities out of China. Hence, the China's automobile industry has basically had the foundations and development frameworks to establish the global strategy.

The automobile industry is a fundamental industry and can reflect the economic independence and comprehensive national power of a country. The improvement of independent innovative capabilities of China's automobile industry has great strategic significance to accelerate the industrialization of China and promote the international competitiveness of China's industry. Since China's entry into the WTO, its automobile industry has achieved great accomplishments in independent innovation. In 2006, the market share of passenger cars with Chinese brands increased from 5% five years ago to nearly 30%. The independent innovation significantly propels the rapid development of China's automobile industry and some typical enterprises accomplish greater achievements. The independent innovation is carried out based on the Chinese own brands of automobiles. However, most Chinese brands are small in size, have no advanced technology and lack the international competitiveness. If China's automobile industry doesn't have independent brands, it only plays a minor role in the international markets and even has to rely on other foreign manufacturers. If the automobile manufacturers have not a famous brand, they will lose markets. Hence, when an automobile manufacturer wants to become the leading enterprise or strong competitor on the Chinese market, it must develop its own brand.

The development of automobile industry is closely related to the innovative capabilities of automotive parts. China has a weak technical foundation and needs a lot of investments in the production of automotive parts. The investments in the production of automotive parts only accounted for 23.0%, 27.8% and 27.3% of the investments in the manufacturing of complete vehicles during the 7^{th}, 8^{th} and 9^{th} Five-Year Plan periods. Additionally, the industrial structure of

automotive parts is irrational and the weak innovative capabilities seriously impair the production of automotive parts. Especially, the MNCs have controlled the purchase of advanced and high value-added automotive parts for a long term. Chinese automobile manufacturers have to buy the parts with core technologies from other countries and meanwhile, the import prices are much higher than the prices on the international markets.

Currently, the development of China's automobile industry has to face some pressures from environmental protection, urban construction and transport safety. The independent development of safe, environmentally friendly and energy-saving products must be based on the control of all development technologies. China's policies also give supports to the industrialization of electric vehicles and hybrid cars. If China wants to become a real automobile power, it has to take measures to overcome various difficulties and strengthen the innovative capabilities of automobile industry.

In recent years, the yields of China's automobile industry considerably increased, the large enterprises' concentration ratio rose to some extent and the competitiveness of exported products improved.

When China entered the WTO in 2001, the yield and sales amount of automobiles were 2.3344m and 2.3637m. After then, the yield and sales amount increase by 1m automobiles every year. In 2002, the yield reached 3.2612m automobiles, up 38.49% year on year, and the sales amount 3.2418m automobiles, up 36.65%. China's automobile industry achieved the goal of the 10th Five-Year Plan three years in advance. In 2003, the yield was 4.444m automobiles, up 37.7% year on year, and the sales amount 4.3908m automobiles, up 35.2%. After the high-speed growth in two consecutive years, China's automobile industry stepped into a smooth development period. In 2005, the yield and sales amount were 5.0705m and 5.0711m automobiles, up 14.11% and 15.5% year on year. In 2006, China automobile industry experienced the rapid development once again after the growth of 12-15% two years in a row. The yield and sales amount reached 7.28m and 7.22m automobiles, up 27% and 25% year on year. The yield and sales amount of passenger cars were 5.23m and 5.18m, up 33% and 30% year on year. Meanwhile, the yield and sales amount of commercial vehicles were 2.05m and 2.04m, up 15% and 14% year on year.

Chinese large automobile manufacturers take lion's share on the Chinese market. Since 2002, Shanghai Automotive Industry Corporation (SAIC), China First Auto Works (FAW) and Dongfeng Motor Corporation (DFM) have been holding 50% of market shares while 15 large corporations controlling 90% of market shares on the Chinese market. With the rapid increase of the yield of Chinese automobiles, the large corporations dominate more and more market shares but SAIC, FAW and DFM are losing their market shares. In 2006, the important automobile enterprises played a more important role in the industry. The sales amount of each of top 10 largest enterprises

was more than 200,000 automobiles. The total sales amount of top 10 largest enterprises reached 6.0520m automobiles that accounted for 83.8% of the total sales amount of automobile industry. The sales amount of top five enterprises, including SAIC, FAW, DFM, Chana Company (Chana) and Beijing Automobile Works (BAW), was far higher than other enterprises. With the increase of investments in the R&D, Chery, Hafei Automobile Group, Brilliance Auto and Geely are increasing their market shares. The sales amounts of above four enterprises were 302,500, 266,800, 210,200 and 204,400 automobiles, up 59.91%, 4.22%, 71.40% and 35.06% year on year, and ranked from seventh to tenth on the sales tally.

After China's entry into the WTO, the automobile industry began to rapidly develop. The yield of automobiles increased from more than 2m in 2001 to over 7.2m in 2006. Current, China has become the third largest automobile manufacturing state. The proportion of Chinese automobile yield in the world rose from 3.6% in 2000 to more than 10.5% in 2006. China's automobile industry is making greater and greater contributions to the world. In 2006, the export amount of Chinese automobiles reached 342,400 automobiles, up nearly 100% compared with the previous year. And the export volume was $3.135b, up 98% year on year. The export amount of sedans reached 92,500 with an increase of 197%. In 2006, the trade surplus of export and import of automobiles and automotive parts reached $2.2b so Chinese automobiles had some competitiveness on the international markets. The complete vehicles of China were mainly exported to the low-end markets, including Russian and Iranian markets, while the automotive parts were sold to Europe, the USA, Japan and other countries. According to statistics, the export volume of automobile industry was $2.145b in 2000 and $3.135b in 2006. The export of sedans increased by 197.2% and that of trucks 61.1%, which meant Chinese automobiles were entering the international markets. In 2006, the export amount of sedans was 93,300, up 200%, that of trucks 155,500, up 61.08% and that of buses 27,200, up 120%.

After steadily grabbing the Chinese market, the Chinese brands began to pursue the international markets. In October 2001, Chery received the first order from Syria and at the end of 2001, it also established the cooperative relations with SKT of Iran. In 2002, it obtained the production and sales license from the Iranian Government. Otherwise, Geely, Great Wall Motors, BYD, LandWind and other companies also brought their products to the international markets. Among bus manufacturers, Yutong, King Long and other enterprises began to export their products and gradually established their distribution networks and service bases in other countries. In 2006, the automobile manufacturers with independent intellectual property rights further strengthened their own competitiveness. Their export accounted for 73.2% of the total in the automobile industry and the export volumes of Great Wall Motors and Chery exceeded $100m. The Chinese sedan brands' export amount represented nearly 60% of the total export amount of sedans. The largest exporters of Chinese sedan brands included Chery, Geely, Xiali, Brilliance, Great Wall, Hafei and FAW.

Therefore, the Chinese brands played an important role in the export of automobiles in China. However, those brands didn't have high recognition and reputation in the world so the China's automobile industry need have the world well-known Chinese brands and the core manufacturing technologies to compete with the international famous corporations.

Currently, the competitiveness of Chinese automobiles lies in the segmentation of products and markets. Through the segmentation of products, China developed its own brands of economical sedans, heavy trucks and buses and got some market competitiveness. Through the segmentation of international markets, the Chinese automobile manufacturers found their development space in the markets of underdeveloped areas and developed countries during the manufacturing transformation of those countries.

Due to the serious implementation of national compulsory standards, the safe, environmental and energy-saving technologies of Chinese automobiles have been continually enhanced.

The safety, environmental protection and energy saving are the main problems facing China's automobile industry in development and also the development trends of China's automobile industry.

China established the effective policies to improve the safety of automobiles and promote the active and passive safety requirements. Through the increase of amount of automotive parts receiving the compulsory examinations, the active safety technologies are enhanced. In 2006, nine automotive parts, including auto lamps, retro reflector for auto vehicles, auto brake hoses, auto rearview mirrors, auto horns, auto gasoline tanks, door locks and hinges, interior decoration and seats and pillows, had to receive the compulsory examinations. In the same year, China also promulgated nine compulsory standards. Although the auto safety testing standards in China are lower than Europe, the testing and quality standards of China will soon be in line with the international standards so the safety of Chinese automobiles will be further upgraded.

In the side of environmental protection, China established vehicle emission standards with reference to the European standards. In 2003, the State 2 emission standards were promulgated. Even though the promulgation was seven or ten year later than Europe and the USA, some cities had implemented the Chinese relevant standards in advance. In 2008, Beijing will implement the State 4 standards earlier than other cities. Under the environmental requirements, all automobiles made in China have to meet the requirements on emission control, noise control and electromagnetic compatibility standards and the engine emission control technologies have been adopted in most automobiles. China has enacted the relevant national standards based on the European standards. Many leading automobile manufacturers are sparing no effort to develop the "environmentally friendly autos" with low pollution and low energy consumption. The Chinese auto policies also support the development of new-energy automobiles and the industrialization of

electric vehicles and hybrid cars. During the 10th Five-Year Plan period, China has invested 880m yuan into the R&D of electric vehicles.

On the side of energy saving, China focuses on the improvement of automobiles and the R&D of environmentally friendly automobiles. The weight of automobile body accounts for 30% of the total automobile. When the automobiles run without loads, 70% of oil consumption is due to the weight of automobile body. Therefore, to lighten the automobile body can significantly reduce the oil consumption. If the weight of automobile decreases by 10%, the fuel efficiency increases by 15%. The Chinese Government requires the oil consumption of new passenger cars decreases by 15% in 2010 compared with 2003. To achieve this index, the weight of new cars must be reduced. However, the technologies to lighten the automobiles include many technical, economic, safe and environmental factors. China is eager to strengthen the market competitiveness and innovative capabilities of Chinese brands by lightening the automobiles but the governments, enterprises and scientific research institutions have to consolidate the cooperation in the sides of investments and technologies. Otherwise, China positively invests funds and talents to boost the R&D of environmentally friendly automobiles, such s electric vehicles, hybrid cars and fuel cell vehicles. In 2001, the Ministry of Science and Technology listed the technologies of electric vehicles into 863 Program of the 10th Five-Year Plan. In recent years, China has taken great progresses in the design, driving system and battery management system of electric vehicles, especially the development of lithium-ion battery and fuel cell. However, the high cost and poor supportive facilities of electric vehicles impact the promotion so the Chinese Government should take the proper protective measures and consumption incentive policies to accelerate the industrialization of electric vehicles.

The great international automobile corporations continue to increase their investments in China for higher profits. Chinese local automobile enterprises expand their own scales and strengthen themselves through the cooperation with foreign counterparts and the assets reorganization.

From 1980s to mid 1990s, the MNCs began to make tentative investments in China's automobile industry. In the late 1980s, China established its strategic guidelines of the development of sedans and then, carried out cooperation with Peugeot of France and some US auto companies. In the early 1990s, after China issued the Policies on Automobile Industry, the more and more MNCs began to enter the Chinese market. After 1993, the MNCs began establishing their factories in China to produce the complete vehicles. In 2001, Chana cooperated with Ford to establish Changan Ford Automobile Corporation and in 2002, BAW with Hyundai Motor Company to establish Beijing Hyundai. In 2002, Honda began to set up its "Guangzhou export base". In 2002, after FAW reorganized Tianjin Automobile Company, FAW cooperated with Toyota to establish FAW Toyota Motor and then Tianjin FAW Toyota Motor. In 2002, DFM and Nissan cooperated to set up Dongfeng Motor Company Limited, the largest joint venture in China at that time. In 2002,

SAIC joined the GM Daewoo project. In 2003, Brilliance Auto signed the joint venture agreement with BMW. In 2003, Wuhan Wantong Automobile Company Limited was merged by DFM to establish Dongfeng Honda Automobile Co, Ltd. In September 2003, BAW signed strategic cooperative agreement with DaimlerChrysler to establish Beijing Benz-DaimlerChrysler Automotive Co, Ltd. In 2004, Guangzhou Automobile Group cooperated with Toyota to establish a joint venture. In 2006, there were 44 new joint ventures and joint venture projects, among which there were 30 new joint ventures. Besides the complete vehicles, foreign investors were turning their focuses on the automotive parts.

MNCs have obtained large profits from Chinese automobile market, the largest emerging market in the world. According to the latest statistics, in 2007, the sales amount of Ford's brands (including Ford, Lincoln, Volvo, Jaguar and Land Rover, except Mazda) reached 216,324 automobiles, up 30% year on year. The sales amount of domestic and imported passenger cars and commercial vehicles with the brand of Ford was 195,840, up 27%. BMW's sales amount increased by 41.9% and to 51,588 automobiles on the Chinese market in 2007. In overseas markets, Toyota's total sales amount reached 7.1m automobiles in 2007, while on the Chinese market, the sales amounts of FAW Toyota Motor and Guangzhou Toyota were 280,000 and 170,000 automobiles. In 2007, GM sold out 1,031,974 automobiles on the Chinese market, up 18.5% year on year and became the first MNC of which the sales amount exceeded 1m automobiles. The domestic sales amount of Shanghai GM was 479,427 automobiles, up 16.9% year on year. The sales amounts of Guangzhou Honda and Dongfeng Honda were 295,000 and 130,000 automobiles. The sales amounts of Dongfeng Nissan and Zhengzhou Nissan were 272,000 and 40,000 automobiles in 2007. The sales amounts of Beijing Hyundai and Dongfeng Yueda Kia approximated 300,000 automobiles. The sales amount of Dongfeng Peugeot Citroen Automobile Company (including Dongfeng Peugeot and Dongfeng Citroen) was 201,300 automobiles. The sales amount of Benz was 30,630 automobiles in China (including Hong Kong and Macao). In 2007, the sales amounts of Shanghai Volkswagen, FAW Volkswagen and imported products from Volkswagen were 910,491 automobiles, up 28% year on year. The foreign brands, such as GM and Volkswagen, held 75% of market shares in 2007 and would grab more market shares in 2007.

70% of global top 100 vendors of automotive parts have conducted business in China. The number of foreign manufacturers of automotive parts is more than 1,200. All automobile MNCs have established joint ventures in China so the manufacturers of automotive parts that provided parts for those MNCs entered the Chinese market one after another. There are nearly 500 joint ventures, stock holding enterprises and solely foreign-funded companies of automotive parts in China. As the international automobile manufacturers have serious requirements on the quality certification system, the supportive system of products and the technical threshold, the multinational corporations of automotive parts become the vendors of the international automobile

manufacturers due to the advanced management, sophisticated technologies and high quality of products. Especially, the foreign-funded enterprises of automotive parts have great advantages in the high value-added automotive parts.

The competition of international automobile magnates on the Chinese automobile market boosts the development of China's automobile industry in sides of technology, management, marketing and service. Therefore, the Chinese consumers will obtain benefits from the competition finally. In the global competitive environment, Chinese automobile enterprises insist on the independent development and international cooperation to develop the passenger cars and commercial vehicles. Through the in-depth strategic cooperation with global famous automobile corporations, many joint ventures are established to utilize the global resources, improve the technical innovation, boost the establishment of Chinese brands and propel the common development of joint venture brands and Chinese brands. While continually enhancing the production and R&D bases in China, many Chinese enterprises have began to purchase the mature overseas enterprises to further promote their technological and management levels. Some enterprises' core competitiveness and operating capabilities have been raised so the enterprises have some competitive edges on the international markets.

Among all automobiles with some international competitiveness, the Chinese heavy truck has its own advantages. The Chinese brands of heavy truck hold 95% of market shares in China. Chinese heavy truck manufacturers have mastered the core technologies of production of heavy trucks. The engine emission has met the State II standards and the mass production of engines that conform to the mass State III standards has been achieved.

To enlarge and strengthen the Chinese automobile enterprises, the mergers and acquisitions frequently happen in China's automobile industry. In June 2002, FAW reorganized Tianjin Automobile Company, which strengthened FAW's strength in the economical cars. In September 2002, FAW together with Nissan established an overall joint venture, which was the first complete joint venture in the industry. In October 2002, BAW cooperated with Hyundai to establish Beijing Hyundai which meant Beijing began to produce sedans for the first time. Meanwhile, the private capital was introduced into the automobile industry. From late 2003 to 2004, many funds from refrigerator, washing machine, air conditioning, mobile phone, battery, chemical, tobacco and even brewing industries were invested into the automobile industry. AUX Group contributed 50m yuan to purchase Shenyang Shuangma Automobile and then declared to invest 8b yuan to establish automotive industry park with the annual production capacity of 450,000 automobiles in Ningbo. Midea invested 300m yuan to purchase Hunan Sanxiang Bus Group. Bird cooperated with Nanjing Automobile Corporation. According to Amoi's electronic notification, Amoi planed to invest 175m yuan to cooperate with Nanjing Automobile Corporation to establish a joint venture. Geely planed to establish an economical sedan base with the annual production capacity of

300,000 automobiles. Hunan Torch cooperated with Shaanxi Automobile Group to reorganize Shaanxi Truck and Chongqing Hongyan Motor Co, Ltd. Zonda Group controlled the stocks of Yancheng Zhongwei Passenger Bus Co, Ltd, Beijing Yanjing and Shanghai Guanghui and joined the operation of Lishan Moto by purchasing stocks. SG Automotive Group was integrated with Huanghai Bus and Lifan Group successfully gained the production license of sedans. Many private funds were ushered into the automobile industry. Although most funds were invested in the production of trucks, buses and off-road vehicles, the investment pattern of automobile industry began to experience great changes. The private capital, state-owned capital and foreign capital become three pillars of China's automobile industry.

In 2006, thanks to the sound development of China's economy, the operation of key automobile enterprises (groups) kept the good development tendency. According to the economic indicators of key automobile enterprises (groups), the profitability of enterprises was significantly improved and the comprehensive indexes of industrial and economic benefits were far higher than the previous year.

In 2006, the yield and sales amount of automobiles rapidly surged. The industrial value added of automobile industry reached 156.1b yuan, up 30.53% year on year. That growth was 13.93 percentage points higher than the growth of industrial value added of enterprises above designated size. The value added increased by 36.515b yuan that rose by 38.94% compared with the growth volume of the previous year. The completed gross industrial output value was 689.662b yuan and increased by 166.124b yuan or 31.73% that was 31.08 percentage points higher than the previous year. The completed total sales value was 676.558b yuan and increased by 160.545b yuan and 31.11% that was 27.51 percentage points higher than the previous year. In 2006, the key corporations (groups) of automobile industry gained the incomes from main businesses of 764.868b yuan, up 31.87%. Among 14 key corporations (groups), 13 achieved the higher growth rates than the previous year. In 2006, the incomes from main businesses of FAW, SAIC and DFM represented 28.46%, 19.95% and 18.14% of the total income from main businesses of the automobile industry.

Chinese automobile enterprises are seeking opportunities to grab their international markets and the establishment of their overseas subsidiaries can embody the development and expansion of them.

Some Chinese automobile enterprises, especially large enterprises and groups, have got some reputation in the international markets. These enterprises are not content with the development on the Chinese market. They are taking opportunities to enter the international markets. The establishment of overseas factories (or technology centers) can embody the development of enterprises. For example DFM, Great Wall Motors, Jianghuai Automobile Co, Ltd (JAC) and

Chery have some advantages in the Chinese markets of commercial vehicles, SUVs, pickup trucks and sedans and their scales, production capacities and market shares are as same as the large enterprises. Hence, the establishment of their overseas factories (or technology centers) can embody their strengths.

In 2000, China Wanxiang cooperated with LSB of the USA to purchase the brand, technical patents and special equipment of Scheele at the price of $420,000. Subsequently, Wanxiang acquired Universal Automotive Industries Inc (UAI) in 2001 and Rockford Powertrain, the largest tire 1 supplier of wing u-joints & propeller shafts in the world, in 2003. In 2005, Wanxiang purchased PS, a US steering linkage manufacturer, and became the tire 1 supplier of Ford, GM and Chrysler. After these mergers and acquisitions, Wanxiang controlled 18 companies in eight countries, including the USA, the UK, Germany, Canada and Australia, so its reputation on the overseas markets got further improved. In 2002, SAIC invested about $59.70m together with GM and Suzuki Japan to purchase Daewoo International Cooperation. After the purchase, SAIC held 10% shares of Daewoo. This was the first time for Chinese automobile enterprises to participate in the reorganization of international automobile industry. In January 2005, SAIC paid KRW590b to purchase 48.92% shares of SsangYong and became the largest shareholder of the fourth largest automobile enterprise of Korea. This purchase was the first time for Chinese automobile enterprises to merge the foreign automobile enterprise. Chery established the first overseas CKD factory in the way of technical cooperation in Iran. In addition, Chery also established an assembly factory in Novosibirsk of Korea to assemble Tiggo. In November 2006, Chery and IKCO jointly invested $200m to establish the enterprise to produce Chery S21. In 2005, Geely cooperated with IGC of Malaysia to establish the factory. Great Wall Motors set up a base with the annual production capacity of 50,000 SUV and pickup trucks. In 2005, SAIC and Nanjing Automobile Corporation purchased the technologies and assets of the bankrupt Rover of the UK. SAIC bought some patents of Rover 25 and 27 while Nanjing Automobile Corporation successfully acquired all assets of MGR and PTL. In 2006, the Chinese automobile enterprises established six overseas factories that increased by two compared with the same period in the previous year. These overseas factories included the factories to produce the complete vehicles and the technology centers. The establishment of overseas factories is aimed at expanding the international markets. In 2006, DFM established a joint venture of CKD (complete knocked down) in Ukraine to produce the “Dongfeng” serial light commercial vehicles.

Many Chinese automobiles are designed for special functions. Foreign investors make more investments in the automotive parts and China’s motorcycle industry plays a leading role in the world.

In recent years, China’s preferential policies on the automobile industry have boosted the rapid and sound development of Chinese special purpose vehicles. The special purpose vehicle sector

achieved the unprecedented development over the past several years. Currently, the annual production capacity of special purpose vehicles has reached 1m and about 550,000 special purpose vehicles are produced every year. With the continuous optimization of corporate structure, many enterprises have possessed the abilities to enter the international competition. The varieties, grades, technique and R&D of special purpose vehicles have been considerably enhanced. The yield of special purpose vehicles was 350,000 in 2004, 500,000 in 2005 and 600,000 in 2006. The number of special purpose vehicle enterprises was 628 and there were 4,910 varieties of special purpose vehicles in 2006, of which there were 1,520 varieties of vans, 830 varieties of special type vehicles and 676 varieties of tankers. The proportion of the yield of special purpose vehicles to the yield of cargo carriers increased from 25% to 40%. Therefore, the special purpose vehicles play a more and more important role in the cargo carriers. Over 60% of Chinese special purpose vehicle enterprises have the all-round R&D systems. The design technologies of products significantly improved in the 10th Five-Year Plan period. More than 50% of enterprises have adopted the CAD technology and optimized design technologies and even some enterprises use the 3-D technology to conduct the module simulation design.

However, the Chinese market of special purpose vehicles slowly develops and the segmentation of market is not appropriate. Currently, the proportion of special purpose vehicles to the ordinary cargo carriers is around 40% that is far smaller than 65% of developed countries. Most products have the similar functions so they can't meet users' individual requirements. There is a large gap between Chinese enterprises' technique management, requirement and implementation and foreign enterprises'. Hence, on either Chinese market or international markets, the Chinese special purpose vehicle enterprises have a great development space. The demands for heavy, high-power and multi-shaft special purpose vehicles as well as vans, semi-trailers and urban supportive service vehicles will remarkably increase.

Since 2001, the automotive parts made in China have basically met the requirements of the high-speed development of automobile manufacturing and social maintenance services. Chinese enterprises of automotive parts have the abilities to develop and produce the parts and components of commercial vehicles and low and medium-grade passenger cars. Otherwise, the Chinese markets of automotive parts have owned the abilities to import and absorb the automotive parts and components of high and medium-grade passenger cars. The combinations and reorganizations of enterprises of automotive parts frequently take place with the rapid development of socialized and specialized production. In the 10th Five-Year Plan period, the sales income of complete vehicle enterprises increased by 28.75% annually while the sales income of enterprises of automotive parts rose by 36.82% that was higher than the average level of industry. The industry groups of automotive parts rapidly developed based on the complete vehicle enterprises. Currently, there are several groups, including Northeast China (surrounding FAW), Beijing, Tianjin and Tangshan

(surrounding BAW and Tianjin Xiali), Hubei (surrounding DFM), Southwest China (surrounding Chana), Yangtze River Delta (surrounding SAIC, Nanjing Automobile Corporation, Chery and JAC) and Pearl River Delta (surrounding Guangzhou Automobile Group and Southeast Motor).

Currently, the amount of automobiles in service has reached 34m in the China and is expected to exceed 60m in 2010. The large after-sales service market needs the products of enterprises of automotive parts. The enterprises of automotive parts include state-owned, private and foreign-funded ones. The state-owned enterprises were established on the former supportive systems. Currently, these state-owned enterprises are trying to break through the original supportive ranges and gain the new development space. As the private enterprises didn't have the direct supportive relations with the complete vehicle enterprises in the past, a majority of them are tier 2 or 3 suppliers or conduct business on the retail or international markets. Most foreign-funded enterprises of automotive parts are controlled by the strong international suppliers of automotive parts, possess the advanced technologies, have the supportive relations with multinational complete vehicle manufacturers and own the strong competitive edges. With the entry of multinational automobile enterprises, many overseas suppliers of automotive parts swarmed into the Chinese market to establish joint ventures or solely foreign-funded enterprises. All these MNCs have large size, strong technical power and abundant operational experience. Hence, the production capabilities and technological levels of Chinese automotive parts get significantly improved. The international famous enterprises of automotive parts have established their joint ventures or solely foreign-funded enterprises in China, including Bosch, ZR, Delphi, TRW, Dana Corp, Denso, Aisin Seiki, Fujitsu, Alpine Electronics Inc and Valeo. These enterprises are engaged in numerous varieties of automotive electrical appliances, electronic systems, audio systems, chassis and components of automotive body.

In 2006, the export of Chinese automotive parts and goods concerned with automobiles kept the rapid development momentums in the previous year. The accumulative export volume of automotive parts, accessories and bodies reached $11.519b, up 35.04% year on year. However, the export advantages of Chinese automotive parts are based on the low prices of low-end products so the exported products risk the anti-dumping lawsuits. Since the USA levied the 1-20% anti-dumping tariff on the Chinese exported automotive parts in 1997, there have been around 10 anti-dumpling lawsuits involving the China's automobile industry. The export of Chinese automobiles and automotive parts is encountering the higher and higher tariff walls. Most Chinese enterprises of automotive parts lack the independent R&D capabilities. A majority of enterprises invested about 1.4% of sales income in the R&D and that percentage is far lower than 5% of MNCs. The insufficient R&D investments directly incurred the outdated R&D facilities and the shortage of talents. Thus, the R&D capabilities are weak and the competitive new products can't be developed in time. Since the Chinese brands are not widely recognized by the society, China

doesn't have the famous-brand products. The weak R&D capabilities and competitiveness of Chinese brands seriously restrained the development and international competitiveness of Chinese automotive parts.

The relevant Chinese organizations set the targets of rapid, sound and sustainable development of China's automotive part industry in the 11th Five-Year Plan period. Up to 2010, the relatively stable, large and specialized supportive systems of automotive parts will have been established with an aim at the Chinese market and the international market, supported the automobile industry to become the pillar industry in the national economy and laid a foundation to make China become the world production base of automotive base.

China's yield of motorcycles has continued to rank first in the world for a long term. Four motorcycle manufacturing bases of Chongqing, Guangdong, Jiangsu and Zhejiang, and Shandong and Henan have been established and cover 99% of motorcycle manufacturers. China's yield of motorcycles increased from 17.7672m in2005 to 21.4435m in 2006 and by 3.6763m, up 20.69% year on year. The main motorcycle enterprises include Grand River Group, Loncin Holdings, Jianshe Industry Group, China Jialing Group, Lifan Group, Qianjiang Motorcycle Company, Zongshen Industrial Group, Luobei Motorcycle and others. The yield and sales amount of Jianshe, Jialing, Luobei and Qingqi, affiliated to China South Industries Group Corporation, were 4.7979m and 4.8154m and accounted for 22.37% and 22.64% of the total in the motorcycle industry.

The development of China's motorcycle industry is mainly driven by the increase of purchasing power of rural consumers and the export growth. In the future, the Chinese Government will still strive to expand the demands in China. With the rise of farmers' incomes, great efforts will be made to raise the demands for motorcycles on the rural market. Currently, on the Chinese rural market, there are mainly light trucks, mini trucks, low-speed vehicles and motorcycles. Except motorcycles, the purchases of other products belong to the investments in production materials. The motorcycle, as a transportation tool, can embody the improvement of living standards so the motorcycle has great advantages and development potentials in the rural areas of China.

The expansion of export is an effective way for Chinese motorcycle enterprises to seek after the development opportunities in the transitional phase. The Chinese motorcycle enterprises, represented by private motorcycle enterprises of Chongqing, are gradually promoting their own export capabilities in the ways of direct trade or establishment of overseas factories in the market of Southeast Asia. When they competed with the famous brands of Japan, Italy and Taiwan, they established their overseas marketing capabilities step by step. On March 1, 2006, five ministries and commissions under the State Council, including the Ministry of Commerce and the National Development and Reform Commission, jointly promulgated the Notice on the Establishment of Export Order of Motorcycle Export to carry out the export qualification management on the

motorcycle enterprises engaged in the export business. The overseas strategies of Chinese motorcycle enterprises will further improve under the supportive policies of the Chinese Government. After China's entry into the WTO, the export of China's motorcycle industry significantly developed. In 2006, 6.4035m motorcycles were exported to other countries with an increase of 40.6% and accounted for 30% of total sales amount.

In the future, the development of motorcycle industry has to face some challenges, including rise of exhaust emission standard, occurrence of electric bicycles, limit on motorcycle licenses due to the increase of traffic pressure, increases of production costs and diversified international trade barriers and overseas operating risks.

Concluding remarks

In future, China's automobile industry will be a pillar industry in China's economy. Supported by the Chinese Government's preferential policies, China's automobile industry will further develop, boost the independent innovation and be fully integrated into the international automobile industry. With the improvement of Chinese economic and consumption environments, the large Chinese automobile market will continue to drive the development of world automobile industry and China's automobile industry will retain the sound and rapid development.

1 The developmental itinerary & economic position

1.1 The development history of Chinese auto industry

1.1.1 The early stage of the industry's development

China First Automobile Works (abbreviated as FAW) unveiled its grand opening ceremony in Changchun, Jilin Province on July 15, 1953. The event laid a foundation for the Chinese auto industry. From the first FAW "Jiefang" truck rolling off the production line on July 14, 1955 to 1957, China witnessed the first wave of "auto fad" although the annual auto output then was only 7,900 units. A total of 233 types of automobile were produced in 27 provinces and cities. Most of them failed to survive and only few varieties and backbone enterprises finally survived. Nanjing Automobile Fittings Factory (renamed as Nanjing Automobile Corporation later) produced NJ130 Yuejin auto on a trial basis in March 1958, and later it became a major production base for light vehicles in China. The light off-road auto BJ212 produced in Beijing became popular after 1966 and Beijing later turned out to be a major base for off-road auto manufacturing. At the same time, Shanghai was finally decided to be the production base for domestic medium-grade car and Jinan Automobile Factory developed the earliest heavy-duty truck in China. The total output of Chinese autos reached 22,600 units in 1960 and hit 50,000 units in 1966.

China witnessed a second round of "auto fad" in 1970s. Many auto projects were launched in various areas and the output doubled in 10 years. As a result, each province in China except for Tibet, Ningxia and Inner Mongolia (Ningxia and Inner Mongolia also manufactured autos later) began to produce automobiles. However, these factories just copied the then existing types of auto and their autos were of low quality. There are 56 auto factories in China in 1980 with an annual output of merely 222,000 sets, 3,000 autos for each factory on average.

China imported more than 350,000 autos, of which 100,000 were sedan cars, in 1983. Later the government began to control the imports of auto, further widening the gap between supply and demand. Under such circumstances, the third round of "auto fad" appeared in China. There were 114 enterprises for complete auto manufacturing with an output of merely 440,000 units in 1985. As the debate has made it clear that individual purchase of sedan is a proper way of consumption in 1984, the Chinese government named three sedan production sites: Shanghai, FAW Group and Dongfeng Automobile Co.,Ltd. (abbreviated as DFAC) after studies. Beijing Automobile Works (BAW) formed a joint venture, Beijing Jeep Corporation, with an American auto company in May

1983. In addition, Tianjin and Guangzhou also started to manufacture sedans with foreign investors in the form of joint ventures or cooperation. Shanghai Volkswagen officially opened its business in September 1985, and the so-called “Three-giant three-small” setup finally came into being. From then on, the development of Chinese auto industry began to be on the right track.

China’s auto industry has been enjoying explosive growth since 1990s. The annual output exceeded 1 million in 1992. The State Council officially announced the “Industrial Policy on the Development of Automotive Industry” in 1994. It helped set the position of the industry as a pillar industry. It also marked that Chinese auto industry had entered a new stage, namely, the stage of quick development under the guidance of reform and opening-up policy. The "Suggestion of the Central Committee of the Communist Party on Formulating the 10th Five-Year Plan in National Economy and Social Development" examined and passed on the Fifth Plenary Session of the Fifteenth Central Committee which closed on October 11, 2000 has made it clear: encourage private family to buy sedans and vigorously develop public traffic. It is for the first time that China lists the issue of auto consumption and private auto purchases into the national development plan. At the time, family-use sedans of Sail, Xiali2000, Antelope, Century Car, Zhonghua and Plow were produced in succession. On average, one new car model was introduced into the market every four days. Driven by the positive policy, the annual output of Chinese autos exceeded 2 million units in 2000.

The Chinese government continued transforming government functions actively in 2001, and abolished the strict government pricing policies that were popular in planned economy and officially let go of the prices of the domestic-made sedans, so the manufacturers or operators could determine the prices in line with the market demands. The measures improved the competitive advantage and stimulated the consumption of the domestic-made sedans. It can be regarded as an important step for China to enter the international market and meet challenges from globalization once it became a member of the WTO. With China’s accession to the WTO on December 11, 2001, China’s auto industry turned over a brand new leaf.

Table 1-1 The annual output of Chinese autos from 1955 to 2006

Year	Total	Breakdown		
		Truck	Passenger car	Sedan
1955	61	61		--
1956	1654	261		--
1957	7904	6228		--
1958	16000	12865		57
1959	19601	13613		101
1960	22574	17148		98

1961	3589	2746		5
1962	9740	7797		11
1963	20579	16738		11
1964	28062	20755		100
1965	40542	26538		133
1966	55861	34199		302
1967	20381	10696		144
1968	25100	11976		279
1969	53100	30416		163
1970	87166	47101		196
1971	111022	58068		562
1972	108227	60493		661
1972	108227	60493	—	661
1973	116193	64383	—	1130
1974	104771	56948	—	1508
1975	139800	77606	—	1819
1976	135200	74539	—	2611
1977	125400	75920	—	2330
1978	149062	96103	—	2640
1979	185700	119501	—	4152
1980	222288	135532	—	5418
1981	175645	108261	—	3428
1982	196304	121789	—	4030
1983	239886	137100	6211	6046
1984	316367	179846	6990	6010
1985	443377	263934	11897	5207
1986	372753	218863	20461	20865
1987	472538	299356	20461	20865
1988	646951	364000	50922	36798
1989	586935	342835	47639	28820
1990	509242	269098	47639	28820
1991	708820	361310	42756	81055
1992	1061721	460274	84551	162725
1993	1296778	623184	142774	229697
1994	1353368	613152	193006	250333
1995	1452697	571751	247430	325461

1996	1474905	537673	267236	391099
1997	1582628	465098	317948	487695
1998	1629182	573766	431947	507861
1999	1831596	581990	418272	566105
2000	2068186	668831	671831	607455
2001	2341528	803076	834927	703525
2002	3253655	1092546	1068347	1092762
2003	4443522	1228181	1177476	2037865
2004	5196230	1677416	1248394	2261442
2005	6153335	1911095	1280044	2958395
2006	7279726	1985551	1442714	3869494

Data from: National Bureau of Statistics of China

1.1.2 The industry's development since China's accession to the WTO

China's auto industry has been flourishing since the country's formal accession to the WTO. The nation and the relevant administrative departments successively issued and implemented a series of policies, regulations, standards and criterion in the auto field. The Chinese auto industry has made rapid progress in terms of management, regulations, production and marketing, product development, market expansion, joint venture and cooperation between domestic and foreign auto enterprises and organizational structure adjustments. These policies and regulations can be mainly classified into the following groups including industry policy, product management, trade service, consumption and usage, etc.

1.1.2.1 China's industrial policies and product management

China has issued and implemented "Policies on Development of the Automotive Industry" since 1994, and the industry has been gaining ground with China's accession to the WTO. To adapt to the new development situation of the national and international auto industry after China's accession to the WTO, facilitate to adjust and upgrade auto industry structure, and comprehensively improve its international competitiveness, and satisfy the increasing demands of the customers on auto products as well as promote the healthy development of auto industry, National Development and Reform Commission (NDRC) issued the modified "Policy on Development of Automotive Industry" on May 21, 2004. The new policy abolished the rules being against the WTO rules or China's commitments made while entering into the WTO. These rules included limits on trade balance, provisions on proportion of domestic-made products; it also greatly reduced administrative procedures for examination and approval，and emphasized in

leading the industry by regulations and technical standards. It put forwards brand strategy and encouraged to develop products with independent intellectual property rights; it called for domestic auto groups to develop into bigger and stronger ones, and led the M&A and regrouping of the existing enterprises; it required auto enterprises to emphasize on brand marketing and service system; it steered and encouraged enterprises to develop energy-effective and environmental-friendly autos and new fuel cars; it put forward instructive suggestions on creating a better consumption environment. The new policy dedicated a number of pages to bringing forth multiple instructive measures and policies on encouraging auto consumption.

The new policy gave a direction for auto industry development, worked out new objectives and new tasks for it. It also emphasized product development, independent intellectual property rights and industrial structure adjustments. With the implementation of the policy, Chinese auto industry will become the pillar of the national economy by 2010.

China had issued a series of laws and regulations since 2001 to enhance the management of auto products. These rules gave detailed descriptions on new product management procedures in the manufacturing industry ranging from inspection, declaration, approval and launch of new auto products to vehicle transportation and external logos of the auto products, setting up an institutional restriction to auto products from production and consumption. These policies included: “Notification on the Issues concerning Reform on Vehicle Manufacturing Enterprises and Product Catalogue Management” issued by the National Economy and Trade Commission on May 22, 2001; “Notification on Issues concerning further Strengthening Vehicle Announcement Management and Registration” co-issued by the National Economy and Trade Commission as well as the Ministry of Public Security of the PRC on October 18, 2002; the new “Administration of Vehicle Identification Numbers Procedures (Trial Implementation) ” implemented from December 1, 2004. “Notification on Strengthening Vehicle Overload Management” issued by General Office of the State Council on June 1, 2005; “Measures for the Administration of External Marks of Automobile Products” issued by NDRC on November 3, 2005 which further strengthening the directive role of the “Auto Industry Development Policy”, enhancing the awareness of the manufacturing enterprises on brand and quality, and protecting the legal interests of consumers’.

In line with the relevant WTO agreement and international norms, China carries out practices of unified catalogue, unified standard, technical regulations and conformity assessment procedures, unified marks and charge standards to some compulsory certification products. Certification and Accreditation Administration of the PRC is authorized by the State Council to manage and organize compulsory product certification system. China starts to implement “Regulation for Compulsory Product Certification”, “Regulation for Compulsory Product Certification Marks”, and “Notification on Issues concerning Compulsory Product Certification”, etc. since May 1, 2005.

Four types of vehicles and their safety accessories out of 132 types are listed in the catalogue of the first batch of products implementing compulsory product certification.

Environmental protection and energy saving are gradually becoming influential factors to the development of China's auto industry. The State Environmental Protection Administration of China, the National Economy and Trade Commission, the Ministry of Public Security of the PRC, and State Administration for Industry & Commerce co-issued "Notification on Limiting and Stopping to Produce Carburetor Sedan and Five-seat Passenger Car" on May 31, 2001. The National Economy and Trade Commission, the Ministry of Finance, State Administration of Taxation, and the State Environmental Protection Administration of China co-issued "Regulations for Reducing Consumption Tax of Low Emission Car, and Implementing Consistent Examination and Approval between Product Inspection and Production" on August 15, 2001. The State Environmental Protection Administration of China issued "Notification on Implementing the National Phase II Discharge Standard of Vehicles" on August 27, 2003. All of the above regulations or notifications indicated that China had stressed on auto environmental protection during the 10th Five-Year Plan period. China Association of Automobile Manufacturers put forward the first compulsory standard of "Fuel Consumption Limits of Passenger Car (GBl9578—2004)" to limit auto fuel consumption in October 2004. The national standard, which was implemented in two stages, adopted overall quality instead of engine displacement to specify the fuel consumption. As for the newly developed autos, the implementation date for Stage I was July 1, 2006 and the implementation date for Stage II is January 1, 2009.

The General Office of the State Council delivered the "Circular on Encouraging Development of Energy-Saving Vehicles with Small Displacement Engines" issued by the six departments and general bureaus including NDRC in December 2005. The Circular confirmed that the safety, power and outward appearance of energy-saving autos with small displacement engines have been improved and the autos have advantages of less fuel consumption and emission, smaller size, less occupying areas, etc. However, there are still short of relevant supporting policies to develop energy-saving autos with small displacement engines in China, and some areas even set some limitations on the production of energy-saving autos with small displacement engine. So it is necessary for the administrative departments to work out relevant policies to lead and encourage consumers to purchase and use these autos of low fuel consumption, low pollution, small displacement, new energy and power; it is necessary to work out and improve tax policies which encourage consumptions on the energy-saving autos with small displacement engines; it is necessary to quicken market reform on the price of petroleum products, gradually establish price mechanism which reflects supply & demand and the high degree of scarcity of resources so as to instruct consumers to save fuels; it is necessary to issue economic standard on fuels and establish energy efficiency label system; it is necessary to grant preferential parking fee to energy-saving

autos with small displacement engine; different regions should actively work out measures and create a sound consumption environment for energy-saving and environmental-friendly autos with small displacement engines according to their situations.

State Administration of Taxation issued “Circular on Adjusting and Improving Consumption Tax Policy”, and modified “Measures for the Administration of Vehicle Purchase Tax Collection” which adjusted the taxation rate of the vehicle purchase to further encourage autos with small displacement engine. That is, the taxation rate of the passenger cars between 1.0 ～1.5L was reduced by 2%, and the taxation rates of cars above 2.0～2.5L (including), 2.5～3.0L (including), 3.0～4.0L (including), 4.0L (including) were increased by 1%, 4%, 7%, and 12% respectively.

1.1.2.2 Trade-relevant policies & the consumption environment

More than five million autos were sold in 2004. Although China has become a big market for auto consumption, the constuction of Chinese system of auto sales and related services still lags behind, hindering the healthy development of the auto industry. Therefore, it can hardly protect the legitimate interests of consumers. In the same time, it is urgent for China to formulate auto trade policies conforming to China’s actual condition and WTO regulations to perfect the industry’s managerial regulations and related institutional systems, enhance and improve auto-trading management, regulate the industry’s marketing order, facilitate modern modes of auto-trading methods and guide the healthy development of the whole trade. In 2005, the Chinese government decreed “Measures on Administration & Sales of Automobile Brands” and the “State Administrative Regulations on Auto Trading” successively. The two decrees not only played a positive role in regulating auto brand transactions, establishing a unified, open, competitive and orderly auto market and protecting the consumer’s legitimate interests, but also created legal conditions for China to honor its commitment of opening wider its domestic car market to the outside world as a precondition for its accession into the WTO.

Totaling 49 articles in eight chapters, the “the State Administrative Regulations on Auto Trading” have provisions concerning autos as maketable goods, circulation of second-hand cars and auto accessories, auto liquidation and recycling, foreign trade of autos, covering the whole process from a car’s sales to its liquidation, and putting forward a systematic framework on the developmental direction, occupational targets, business norms and managerial system of the Chinese auto industry.

In its effort to standardize the exports and imports of cars, China has also decreed some administrative measures. The Ministry of Commerce of PRC issued “Detailed Rules for Implementation of Automatic Import Licenses Issued for Auto-related Products” to supervise the imports of car accessories, maintain and regulate the normal order in the domestic auto market. In

addition, under the joint sponsorship of the State General Customs, NDRC, Ministry of Finance, Ministry of Commerce, "The Concerete Measures for the Administration of Imports of the Automobile's Elements, Parts & Components Capable of Being Assembled into Complete Units of Vehicles" and " Rules & Regulations to Check & Verify the Imports of Automobile Components and Parts Capable of Being Assembled into Complete Units of Vehicles" were issued to enhance management on imports of auto accessories , preventing illegal assembly and tariff evasion in the form of smuggling complete vehicles by breaking up them into parts and components in favor of the healthy development of China's auto industry. The Ministry of Commerce also issued "A Notice on Quickening the Growth Mode of China's Exports of Mechanical & Electrical ProductsDuring the National 11th Five-year Plan (2006-2010) " and " A Decision on Approval of the 160 Enterprises Headed by China Wanxiang Corporate Group as National Bases Specializing in Exports of Autos and Their Accessories " as well as other documents now in deliberation such as "The Suggestions on Promotion of a Sustained & Sound Exports of China-making Autos and Their Parts", "Notification on Regulating the Current Order in Auto Exports", "Administrative Measures for Regular Check-up of the Performance of National Bases Set for Exports of Autos and Parts", "Interim Provisions on Punishing the Malpractice of Exports at Reduced Prices ", etc. In short, the issuance of the above mandatory documents was to regulate marketing order in exports of the auto products from the very origin, support well-behaved enterprises, and get rid of the blind and vicious competition while in the same time, various kinds of support were granted to the auto industry in the aspects of transportation, finance, credit, etc. In this way, it was expected the enactment of rules and regulations would further help China's auto industry to make its way into into the outside world and sharpened its international competitiveness, encouraged the independent exports of their own brand products and realized fair trade on the international arena.

Merchandise licensing is adopted as the core content of auto brands put on sale in line with the "Concrete Measures for Enforcement of the Administration of Auto Brand Sales", that is, operators can deal in the car of a certain brand so long as they acquire the relevant authorization from the supplier, and abide by the above rules as well as obtain the business licensing.

China Insurance Supervision & Regulatory Commission issued the "Notification on Reforming the Current System for Management of Premium Rates in Vehicular Insurance" and "Notification on Furtherance of the Managerial Work in Vehicular Insurance" on August 15, 2002 and December 21, 2002 respectively. China Banking Supervision & Regulatory Commission (CBRC) issued "Provisionl Measures for the Administration of Automobilefinancing Companies" on October 3, 2003. The People's Bank of China and CBRC co-issued "Mandatory Measures for the Management of Auto-related Loans" on August 16, 2004. The issuance of the above governmental decrees regulates a dealer's practice in auto insurance, financing and loan-raising behaviors, and creates a sound environment for auto consumption.

On January 4, 2001, the Ministry of Public Security of PRC issued “Concrete Procedures for Registration of Motorized Vehicles in the People's Republic of China”. The General Office of the State Council issued “Notification on Checking the Malpractice of Arbitrary Charges to Passing-by Vehicles and Illegal Establishment of Checkpoints on Highways” in 2002. In addition, under the auspieces of the nine ministries and departments under the State Council including Ministry of Commerce, NDRC, and MPS “A Notice on the Special Campaign to Rectify Automarketing Misconduct” was decreed on December 11, 2003. The General Administration of Quality Supervision, Inspection and Quarantine of the PRC and NDRC co-issued “Stipulations on the Administration of Recalls of Defective Auto Accessoriesl” on March 12, 2004. The national authorities has decreed relevant rules and regulations for various issues ranging from a car’s purchase, license procurement, and operation to problems cropping out from its parts or components, thus improving the auto-consuming environment.

On June 1, 2005, the Ministry of Labor and Social Security issued “A Notice on Strengthening the Certificxation of ProfessionalQualification for Surveyors Working on Out-moded Vehicles” .The Ministry of Commerce, MPS, State Administration of Taxation, and State Administration for Industry & Commerce co-issued “Administrative Measures for the Circulation of Second-hand Automobiles” on August 31, 2005. The above regulations were in favor of strengthening managements on the second-hand vehicle’s circulation, regulating the business behaviors of the trade , protecting legitimate interests of both parties involved in the business, hence promoting the healthy development of the occupation..

The State Council issued “Administrrative Measures for the Recall of Scrap Autos l” on June 16, 2001. Ministry of Finance and the State of Economy and Trade Commission issued “Interim Regulations for the Administration of Funds Subsidizing on the Scraping Vehicles Renewal” on December 20, 2002. The two regulations facilitated to the abolishment and renewal of scrap autos.

With the improvement of the consumer’s environment, the competition on auto prices , especially that of the sedan’s has become more and more intensive since 2002, and almost all types and models of autos are exposed to the competition. Although there was no “price war” in 2001, the auto prices began to go down. Because of the increased auto varieties, surplus manufacturing capacities and intensive competition, enterprises had to increase or keep their market shares by reducing the prices. Manufacturers had to expand their marketable shares mainly by reducing prices due to the increasingly intensive competition, and the profits gained from domestic vehicles in complete units which were multiplying those of the international average from the period in 2002 and in2003. The “price wars” between auto-makers ere still not over till 2005 although, generally speaking, the decreasing margin of the auto prices went down less than the corresponding figure registered in 2004. Price reduction has gradually become a frequently-used means for the competition among sedan manufacturers and by and by, the consumers have learnt

how to act as a rational consumer inthe flurry of continuous reduction of auto prices.

1.1.2.3 Foreign investments & the regouping of enterprises

China has greatly increased its national output volume both in the auto's production and consumption since its accession to the WTO. The national quantity of auto consumption had increased from 2.731 million units in 2001 to 5.92 million units in 2005, and its national share in the auto market worldwide also arose from 4.3% in 2001 to 8.7% in 2005. In 2005, the increment of Chinese auto market accounted for 23.2% of the total increased amount achieved by the global market becoming an indispensable part in the global market as a result of its increasingly elevated status. In the global depression of the auto industry on the whole, the Chinese market's upsurge had become the central piece for businesses conducted by multinational companies. All multinational companies included in "6+4" classification have had made their way into into Chinese market and completed their strategic deployments in China.

During the 10th Five-Year Plan (2001-2005), several major groups including FAW, DFAC, SAIC, BAW, Chang'an Auto, GAIG and SINOTRUK got involved in joint ventures and their scope of cooperation with foreign enterprises saw a high tide. Their cooperative initiatives in the technical aspects had witnessed a sustained and steady momentum, covering various fields such as complete vehicular units, supplies of parts & components, auto exports, service to offer financial grants, auto rentals, auto-related logistics, etc. Technical cooperation multiplied, including the co-establishment of R&D center, introduction of advanced technologies, and in praticular, the capacities of independent development were built up and further enhancedy by introducing joint ventures, financing pools and cooperative consortia. Furthermore, co-production projects of auto parts involved in a lot of enterprises was so numerous that they dwarfed the initiatives to jointly manufacture complete units of marketable vehicles, ranging from engines, braking systems, steering devices to tiny electronic elements for the auto's assemblage. The spree of financing cooperation between domestic and international firms and the regrouping flurry among domestic car-makers had made rapid progress during the 10th Five-Year Plan period (2001-2005). According to incomplete statistics, about 170 joint ventures had been inaugurated from 2001 to 2005 and nearly 200 domestic enterprises had completed their regrouping or financing reshuffle. Most of the major corporate groups in Chinese auto industry preferred to join handswith famous car-making giants abroad. The cooperative consortium between car-making ventures abroad and the three domestic car-manufacturing groups, i.e., FAW, DFAC and SAIC had been formed, featuring a business confluence composed of the Japanese, American and EU vintage brands. Meanwhile, FAW had signed with Toyota to build TFTM and Changchun FAW Fengyue Co. Ltd. in succession. Dongfeng had signed with Nissan and Honda to build Dongfeng Motor Company Limited, Dongfeng Nissan Passenger Vehicles Company and WDHC. SAIC, GM and Liuzhou Wuling

Motors Co. Ltd. contracted to join hands with. BAW had signed a protocol with the ROK's Hyundai to build Beijing Hyundai Motor Company. Huachen Auto had concluded an agreement with Germany BMW to build Huachen BMW. Chang'an Group co-funded Chang'an Ford Automobile Co. Ltd. with Ford Motor Company. Thus, Chinese auto industry has so far opened a new horizon in the new perspective: the three giant groups of car-makers are in possession of a lot ofbusiness partners and almost all large multinational enterprises in the world today have got their own footholds in China.

The regrouping spreeamong domestic car makers becomes more and more frequent and intensified with the influx of foreign investments, and this trend is conducive to enterprises to draw on the strong points of others to make up for their own weak points, share resources, make up deficiencies of individual enterprise in terms of finance, technology renewal and buildup of manufacturing capacities, so that the advantages of each enterprise can bring into full play. The regrouping cases initiated by giant enterprises included those between FAW and Tianqi Meiya Auto, the establishment ofHAIMA by FAW, the M&A of Zhengzhou Nissan by Dongfeng, the rebuilding of China Automobile General Company by SAIC. In the process of promoting auto consumption, banks, insurance companies, logistics, steel manufacturing enterprises and auto service companies are all got involved in the auto-manufacturing industry, thus forming the whole occupation's cooperative drive in an industry chain, updating the trade's capacity of offering service to consumers, and expanding the serving coverage of the products. In the high tide of auto investments, many external capitals were swarming into the auto industry, including "Yunnan Media Auto Integration Program" by Media Company in 2003, the regrouping oproject of Jinan Auto Accessory Works initiated by the sharehold-controlling firm of Lenovo in June 2005.

1.1.2.4 Production, sales & marketing changes

In 2001, China continued to carry out the policy to "diversify domestic demands, encourage consumption and promoteexports" and the annualgrowth rate of the auto industry exceeded that of GDP. Most of enterprises worked out production plan based on their blueprints of sales, and the marketing situatinwas stable on the whole without great ups and downs.

In the first year of China's accession to WTO in 2002, domestic sedan market developed quickly and domestic sedans swept the board in their competition with their exported adversaries. The production and sales of heavy-duty trucks broke a new record because of the increased demands resulting from the State's enhanced investments into the national infrastructure plus the reconstruction spree of hydropower and electricity-generating facilities, mining equipment, oil fields, highways and railroads, etc. The market for light trucks kept on expanding. Medium-sized truck and mini-trucks decreased in terms of the sales volume with year in and year out, while large, medium-sized and monotype passenger vehicles all increased in the anmual volume of their sales

compared with their counterparts registered in the past years, but all of them are exposed to a spell of more intensive competition.

With the enhanced enforcement of the national policy to “further diversify and expand domestic demands, and encourage domestic consumption” in 2003, the consumption environment was improved, and the marketing demands at home saw an upsurge. A large amount of investments were attracted to the manufacture ofcomplete units of motorized vehicles, thus the production scope was quickly expanded. As a result, the annual volumes of both output and sales exceeded 30%.

The output and sales of domestic autos still kept a soaring momentum although the industry’s growth rate evidently slowed down in 2004 because of the step-by-step release of domestic consumption potentialities after a spell of rapid growth in 2002~2003 as well as the resultant influences exerted by the State-decreed policies and related environments. All of the above tendensies suggested that Chinese auto industry began to enter the sound track of normal development.

China’ national economy realized rapid growth through well-conceived adjustment in the last year of the 10th Five-Year Plan (2005) under the guidance of the sound and stable macroscopic policies. The output and sales both exceeded 5.7 million units in annual volume, and auto industry itself had become one of industrial pillars for Chinese national economy. Chinese auto market in 2005 was characterized by an overall trend of stability. Yet,, its occupational profits and profit-making rates both became decimating due to intensified competition, higher prices of raw materials and a sustained dropin the prices of whole units of autos.

The auto industry once more experienced a comparatively rapid growth in 2005 after two year’s stable growth. The output and sales both exceeded 7.2 million units. i.e. reaching 7.28 million units and 7.22 million units, registering an annual increase up to 27% and 25% over the same figures in the previous yearrespectively. Wherein, the output and sales of passenger cars chalked up at 5.23 million units and 5.18 million units, accounting for 33% and 30% in increase; the output and sales of commercial-use vehicles achieved 2.05 million units and 2.04 million units, a yearly increase by 15% and 14% respectively. The auto industry’s operation was characterized by a dramatic increase in demands for passenger cars in 2006, while the basic models of passenger cars (sedan cars) made the dominant contribution to the business feat and brands with auto IPRs stood out in the spotlight. The demands for trucks developed in a stable stance, of which monotype and light trucks still have the lion’s share, the incomplete units of heavy-duty trucks (the chassis of a heavy-duty truck) with its capacity up to 14-26 tons popped out in the market. The pace-setting enterprises enhanced theirbusiness mettle in a steady and sustained way while gulping down comparatively larger market shares.

1.1.2.5 Independent innovation of the auto industry

Chinese auto industry has started introducing advanced expertise from abroad for manufacturing complete units of motorized vehicles since 1980s and embarked on a road of sound development by obtaining the knowhow at the expense of marketing shares in which joint ventures and cooperative consortia become the major channels to introduce foreign technologies, meanwhile joint ventures play an important role in fostering elites, initiation of technical training programs & overflow as well as the deployment of the systems to manufacture parts and components across the land. By means of introducing advanced knowhow, Chinese auto industry has learned a lot of advanced experiences for car-making management from the West, as well as Western business modes and up-to-date expertise. However, multinational enterprises monopolize the technologies to some extent in the operation ofthe joint ventures, so that the lack of sufficient R&D capacity will be the largest barrier, trap and snag to be surmounted by Chinese car makers, plaguing the ongoing drive of independent innovation in the Chinese auto industry.

The independent innovation in Chinese auto industry has been starting since 1956, and the national authorities, local governments, enterprises and research institutes have got involved in the drive by putting in vast resources and manpower. Up to date, Chinese trucks and large passenger cars have been technologically on a par or catching up with the internationally advanced level, while a large majority of enterprises own their own IPRs and are in possession of strong innovation capacities. In the fields of the sedan's design and manufacture have been improved by means of introducing advanced technologies accomplished by the world today. Viewed from the groundwork of the current trend of technological innovation worldwide, China has already mastered the technical basis to build an auto industry headed by its own independently developed brands. The core of the independent innovation is to form the R&D system to develop its own products and the buildup of technological innovation capacities in the hands of the enterprises themselves. Chinese auto industry gradually builds upits independent core competence in virtue of the national policy of independent innovation while grabbing the opportunity of the technical exodus occurring t in global auto industry. In the recent years, multiple enterprises including Chery, Geely, Chang'an, Huachen, Hafei and Changhe, Great Wall, and Jianghuai have made encouraging achievements. According to the statistics by CAAM, the sales of passenger cars with independent brands account for 41% of national output volume of the passenger cars, including 25.6% of them beingthe sedan cars. Exports of complete vehicular units become an eye-catching point in the industry. Chery signed to build a CKD factory with Iran'sSKT Company in October 2003. The exports of the FAW autos with independent brands in batch achieved 10,336 units in 2004. Cuba placed an order to purchase 1,000 sedans with Chery in a single stroke in May 2005. Geely became the first Chinese company that got access to the Frankfurt Auto Show in September 2005. Geely and Great Wall took part in North American Auto Show for the first time in January

2006. Hafei and Malaysia NAZA signed a contract for technology transfer in April 2006 and started to assembly Lubao autos from 2007. A total of 500 passenger cars of Jinlong Haigejing brand was exported to Qatarl for the first time and became a special brand of cars for Asian Games held in Doha in December 2006. About 500 Hafo CUV were exported to Italy for the first time in September 2006. Huachen signed a five-year contract with European HSO, leading to the conclusion of an order to export 158,000 Zhonghua sedans in November 2006.

At present, leading enterprises have enlisted in the circles of independent innovation and creation of newbrands, indicating an upgrade of independent innovation capacities y in Chinese firms. A new feat of independent development achieved by SAIC presented its independent brand SAIC Roewe (for medium and superior sedans). FAW took Bestturn as the new starting point in its expedition to new brand development. BYD developed F3e electricity-powered sedan featuring a zero emission, pollution-free and noiseless operation, covering a mileage more than 300 km in length once charged and less than 12W power consumption in a 100km ride.

Joint ventures developed new models based on their former design capacities. SAIC made fully use of the GM global developing flow incomplete vehicular units and completed localized re-design of BUICK Lacrosse. In another development, the Shanghai Volkswagen actively introduced Passat Lingyu and the concept car of NEEZA, which showed its capacity of original design, thus realized its process of transformation from a “manufacturer” into an “independent innovator”.

1.1.2.6 Chinese auto’s statistics and classification

Chinese auto industry begins to carry out new statistics and classification in order to attain its status on a par with the international standards after China’saccession to the WTO.

The new auto statistics is established in reference to the two national standards of GB/T3730.1-2001 and GB/T15089-2001 as well as in line with the developing situation of Chinese auto industry. The classification is basically consistent with international practices, that is, in two categories: the passenger cars and commercial-use vehicles. Because there are no internationally unified standards for auto subdivisions for the time being,, the subdivisions of passenger cars and commercial-use vehicles are introduced in line with Chinese characteristics. The details of the move are listed as follows:

The passenger car is exclusively designed to carry passengersin addition to their luggage and/or temporary articles with no more than nine seats, including the seat for the driver. A;lso, the passenger car is allowed to haul a trailer.

The passenger car can be subdivided into its basic models, MPV, SUV, and cross-country

passenger car in accordance with the current developing characteristics of the industry.

● The basic models of the passenger car: They are equavalent to the sedan car in the old standards according to the definition, but it is different from the sedan in its statistical coverage because some non-sedan auto varieties in the old standards including GL8, Odyssey, and Cherokee are excluded from this category, while the “quasi-sedan” formerly belonging to the light passenger car is enlisted in basic models of the passenger car which have less influences on analyzing the marketdeveloping tendency because of their insignificant annuall amounts in both production and sales.

● MPV: Just like SUV, it is a new industrial term introduced in recent years, referring to a new kind of the multi-purpose motorized vehicle. It incorporates the functions of the sedan, travel car and van with adjustable seats (via some methods of multiple combination) and revolving frontal seats (in a circular scope up to 180). With the rapid development of Chinese auto industry, multiple-functionalenterprises manufacture this kind of passenger cars, such as the GL8 manufactured by Shanghai GM, Fengxing by DFAC Liuzhou, Ruifeng by Jianghuai, etc. In fact, similar products by some enterprises are enlisted in MPV in the real statistics-formulating practices. MPV are enlisted partially in sedan and partially in light passenger car in line with the old standards.

● SUV: With its full English name as a sport utility vehicle, the SUV originates from America and is capable of carrying both passengers and cargo with a four-wheel-driving system and a variety of running milages. In recent years, Chinese light off-road vehicle and SUV refit based on PICK UP develops quickly, but their driving methods are not always in the universal mode of the four-wheel driving system. While analyzing the marketing situation, the industry leaders often put these varieties into the same subdivision, the same is true of the current drive of classification reform that is, all of the above varieties are put under the category of SUV. Hence, the Chinese classification of SUV has a larger scope than its overseas counterparts. At the same time, SUV is subdivided into ones driven by a four-wheel system and ones by a two-wheel systemto in imitation of the developing conditions of the Chinese auto industry conveniently. The subdivision mainly includes the folowiing models available in today’s car marketplaces: Changfeng Leopard, Beijing Jeep Cherokee, Great Wall Saifu and Zhengzhou Nissan Pathfinder. All expectations for Cherokee in the old standards are now enlisted in the category oflight passenger cars.

● The cross-country passenger car: it refers to all excluded from the above three categories including the monotype passenger car in the old system for car classification as well as currently marketable auto varieties which cannot fall into the above-listed three categories.

The above four auto categoriesare further divided in terms of the car’s door, exhaust emission, and gearbox.

Commercial-use vehicles are generally designed to carry both people and cargo and can haul a trailer (exclusive of the passenger car). Similarly, they can be divided into the passenger car, truck, semitrailer tractor, incomplete passenger car and incomplete truck.

◎ The passenger car: it is a kind of commercial-use vehicles designed to carry passengers and their luggage with no more than nine seats (including the seat for the driver).

◎ We divide passenger cars in terms of the car's body length, purposes and consumed fuel. Because the car's body length is calculated in the metric unit, the statistic norms can be more detailed; meanwhile the old classifying standards of large, medium-sized and light passenger cars can be obtained in this way. Listing various utility passenger cars can facilitate analytic studies on the market's segments.

◎ The truck: it is a commercial-use vehicle designed to carry goods. It can haul a trailer (optionally). The truck can be divided in line with its overall quality, purposes and the driving fuel's types.

◎ The semitrailer tractor: it is a kind of commercial-use vehicles to haul semitrailers equipped with special devices. After China's accession to the WTO, transportation capacities for exports become greater, thus providing opportunities for the rise of semitrailer tractors in Chinese auto industry. In recent years, the car model developed in a burgeoning tempo.. In the norms of the old standards for car classification, the semitrailer tractor is enlisted in the category of the truck instead of being listed independently, while in the new scheme of the classification, it is listed independently as a new congregation. As for the semitrailer tractor, the norm ofnet loaded on which the categorization is based refers to that of the semitrailer tractor while running together with the maximum stationary load laden vertically as well as that of the maximum designed load of the tractor itself (if there is one).

◎ The incomplete passenger car: referring to a passenger car categorized in terms of the length of its chassis.

◎ The incomplete truck: referring to a passenger cars categorized in terms of the total masses it carries.

1.2 The industry's status and influence on the national economy

1.2.1 The auto industry is one of the pillar endeavors of the national economy

Auto industry is one of the manufactruing sectors of vital importance for a developed country in today's world. The world's largest economies are all gigantic auto makers. To some extent, the developing level of the auto industry is a key hallmark to measure the industrialized level, economic prowess and national buildup and capability of technical innovation of a country. Although unexceptionally, all developed countries have shifted their development prioritiess to tertiary industry, electronic informatics and new spin-off and hi-tech industries, they still pay a great attention to the auto industry because of its unique and unmatched status of strategic importance in the national economy.

China's national effort to update the status of its auto industry is proceeding in a process of gradual deepening and phased promotion. The 7th Five-Year Plan in the 1980s suggested developing auto industry as a pillar industry in order to meet theurgenttraffic t demands, which claimed the auto industry to be a "pillar industry" for the first time in the history of the Poele's Republic. The 8th Five-Year Plan (1991-1995) stressed that the automanufacturing industry plays a key role in the whole national economy in addition to meeting the requirements of the domestic network of transportation. The 9th Five-Year Plan (2996-2000) further elevated auto-manufacturing industry to a new height by putting forward revitalizing the machine-building and electronic industries, petrochemical refinery, auto manufacture and building industry, and called for developing auto manufacture into a pillar industry as soon as possible, which sped up the occupationalgrowth, structural renewal and technical updating of all economic sectors throughout the country. The 10th Five-Year Plan (2001-2005) proposed to encourage every household of the populace to purchase sedans, and developed key parts and components of autos and farming machineries in an all-round way, thus greatly reinventing the national economy's composition and updating its independent innovation capacity.

Boasting its long industrial chain and almost all-embracing relevance in the context of the national economy, Chinese auto industry can greatly galvanize the developmental momentum of both the upper-stream and down-stream industries. In recent years, Chinese auto industry developed so stunningly that China became the world's third biggest auto producer and the second largest car-trading market in 2006. In fact, China has become of a giant pace-setter for auto production and consumption. In 2006, Chinese auto output volume reached 38 million units in number. There were 161 firms specializing in turning out complete units of various vehicular models and 4600

parts manufacturing and supplying enterprises above the designated sizes which hired 2.24 million employees in the payroll.. About 30 giant complexes of complete auto-making factories can produce 13 million finished vehicular units till 2008, and the total output capacity will achieve 15 million vehicles. So the Chinese auto industry is to beworthy of its epithet as a key industrial mainstay for China's national economy.

The auto industry will show its mettle as a pillar industry in the ongoing 11th Fiveyear Plan period (2006-2010). According to the forecast released by State Development Research Center under the State Council, Chinese economy will keep the momentum of soaring development and the growth rate of the GDP will be about 8% during the nexdtfive –years. Calculated at the constant pricing level, Chinese GDP will reach US$2.4 trillion by 2010. The growth speed will be slowing down from 2010 to 2020 averaging 7% in annual growth rate. By 2010, the added value of the whole auto industry will be certain to take up for more than 2%~2.5%. Viewed from the perspective of gross produce of theauto industry, it would be more apparent that it deserves the honorable title of being the economic maintay for the whole country. In 2020, it has planned to make the nation once again readjusting the national rates for its investment and consumption properly, i.e. to uplift the former but reduce the latter. It is anticipated that the investment rate will drop below the ceiling of 35%, wherein the non-governmental investment rate accounts for about 30%, and the consumption rate will go up to 60%, while the common people's consumption rate take up for about 50% by 2020. Generally speaking, the auto consumption is a critical factor to drive up the growth of consumption rate.

1.2.2 The auto industry is a powerhouse to promote economic growth in China.

Chinese industries of real estate, auto and communications have been developing all in high speeds since the dawning the new century, so as to drive the development of investment-oriented industries including steel makingnd hardware establishments, and basic industries including power generation, coal, and harbor construction, finally giving rise to a rapid developing upsurge for the national economy. Dhina's auto production and sales kept a national rate of high growth in 2006 and the consumption spree would be more overwhelming with the growth of the consumer's purchase power. S&P shows that Chinese auto market is anticipated to keep a sustained growth rate up to somewhere between 10% and15% before 2010, while some domestic research institute's forecast is even much more optimistic (up to 50%). The auto industry will still be an important stimulator for the industry's growth momentum. According to the Development Research Center under the State Council, the auto industry, real estate development and infrastructure reconstruction are three leading industries for China's booming economy at the current stage. It

has predicted that the three are on the rise in a long run, and capable of continuously playing an active and constructive role in promoting the development of their upper- and lower-stream industries.

Driven by the rapid growth of the auto industry in China today, a high-profile industrial branches team up into an "auto family," including manufacturers of synthesized materials, tire, relevant steel products "mainly thin steel plates and strips for putting them into complete units of motorized vihicles" and the machine tool factoriesinthe machineg-building industry (especially the plants for manufacturing numerical control & automated machine tools). No matter reviewed from what an aspect, such as the actual relationships between the input and output or the relevance among the contributors of the industrial growth .the above-listed industries have formed an inseparable affinity of co-existence with the auto industry. In addition, the unflagging momentum of the annual auto output volume drives the development of gasoline and lubricant industries as well as relevant auto-oriented services. According to relevant studies conducted by the Development Research Center under the State Council, the size of the above industrial group as an independent entity in the business world is roughly 2.5 ~ 3 times as large as the auto industry itself. Supposed the industrial group kept up its average growth rate in the past two years, and the input and output rates among the relevant industries and auto industry itself remain keeping unchanged, then the size of the "auto family" industry group will account for about 7%-8.5% of the total outut value of the national economy, contributing 12% to the total contribution to the development of the national economy each year. When the economy growth rate achieves 7%, it can make more than 1% contribution to the GDP.

1.2.3 The auto industry's development is an important part for China's construction of a harmonious society

The auto industry is not only an industrial section of high relevance among modern industries, noted for its lucrative size-oriented benefits, intensively invested funds and high technology, but also a highly environmental-sensitive endeavor among all industrial sections in the world today. With the soaring growth of Chinese economy as well as the constant improvement of average income, Chinese auto industry is entering an era of fast development. The auto output volume per year exceeded 3 million units (3.2512 million to be exact) with total revenue of its sales up to 671.346 billion Yuan in 2002. The production even achieved 444.37 million units in 2003. At present, China has outshone French and become the fourth largest automanufacturing country in the world, surely exerting more influences on China's economic dimension and its environment.

During the nearly 30 years since in the introduction of the Reform and Opening-up drive in this

country, the urban citizens' consumption enjoys the following major trend: both the consumption level and structure are constantly improved and upgraded, and the computer, air conditioner, DVD player and auto appear in ordinary Chinese households and become the favorites for each Chinese family; the consumption structure sees an enduring spell of upgradation, the populace's consumingrates of physical materials including foods and the endurables undergo a constant drop, the varieties, quantity and percentage of tertiary service consumption including educationm entertainment and cultural amenities, communications and health & care keep rising; the consumers'requirement has transformed from a "survival-minded style" to the "emjoyment- and leisure-oriented style". In fact, pursuing quality and spiritual consumption has become a fashionable tendency. With the fast development, continuously upgraded industrial structure as well as the appearance of new auto models in line with consumers' consumption style, Chinese auto industry greatly stimulates the appetite of the customers' for top -grade and de-luxe auto products. The everinflating quantity of private limousines becomes a physical mark of liaison between the people and cars. Issues resulting from the soaring auto consumption including energy, environmental protection, traffic jam, sustainable development of the national economy are all closely linked to the construction of a harmonious and conservation-oriented society. At present, the conflict between auto development and energy, environment, traffic and personal safety becomes more and more serious in China. Auto product accounts for a large percentage in energy consumption and air pollution because it consumes about 85% of domestic-made gas and about 23% of the national diesel output every year. With the increased number of private cars, traffic jam is more and more trouble-making annoyance for urban residents. Although China only possesses 1.9% of the auto output worldwide, the death toll from car accidents accounts for about 15% of the world total. In addition, due to the unbalanced layout of the economic developmentnationwide, there are two auto markets (i.e., the rural and urban markets), resulting in the diversity and complexity of marketing demands. While constructing a harmonious society, people cannot separate their cars from the social life, it goes without saying, as one inseparable part of the harmonious society, and the development of the auto industry has a direct influence on the harmony of the whole society.

1.2.4 The auto industry is an indispensable precursor for the Chinese economy to make its way into the world's economy

China not only has its own enterprises co-founded by global auto manufacturers and domestic enterprises to turn out complete units of autos, but foreign-invested or jointed manufacuteres of auto parts. The cooperation between Chinese and foreign companies is always enhanced in auto design and technological renewal. The same story is seen in various secondary activities such as

those in publicity,, exhibition and cultural aspect. In addition, the cooperation between Chinese and foreign companies deepens in technology, management, trade, personnel and data exchanges. China has the largest number of multinational enterprises operationalin its auto industry, and the latter brings their market competition into Chinese market in the process when making their way into China.

Auto products have become one of a staple item in Chinese exports. The exportation of Chinese autos expands so quickly as toturn its long-term deficits into black in its foreign trade on autos. The imports and exports of Chinese autos and their parts gained $2.2 billion in black for the year of 2006. The fact suggests that Chinese auto industry has really finished its expedition into the international market and become a veritable stalk-holder on the international arena in this aspect.

At present, the operation of Chinese auto industry is not only limited in Chinese market, and many domestic enterprises begin to expand their businesses wroldwide. The events of firm mergers such as SAIC acquired South Korean Ssangyong, Nanjing Automobile Corporation acquired UK Rover, Geely and the Great Wall inaugurated its overseas branches suggest that Chinese auto enterprises have gone overseas and basically have the prewess and preconditions for developing business a framework of strategic significance worldwide..

The annual output volume of China's domestic autos has tripled within five years, and China has ranked the third (from its former 8th status) in the global rating list of the auto industry. Its natiolnal revenue gained from the car exports sees a growth rateof15% each year, and itstotal value from auto imports amounted to $18 billion in 2005. In the current context of the capital market, there are more than 800 joint ventures co-founded by domestic auto enterprises and theirforeign peersorparts manufacturersand amassed a total of accumulated investmentsl up to about $96 billion, accounting for about 50% of the total national capitals in the auto industry. In the coming years, the percentage will go up quickly with the inauguration of more joint ventures and business consortia in the industry.

1.2.5 The auto industry is a trail-blazer in Chinese strategy for making independent innovations.

The drafters of China's 11th Five-Year Plan (2006-2010) call for reinventing the three modes to build up independent innovation capacities i.e., those for making independent innovations ability, integrated innovations and re-innovations whenany new technologies have been introduced, stressingon the updated capabilities of making integrated innovations re-innovations on newly introducedexpertise. Nowadays the emphasis of the integrated innovation is focused on heavy and chemical industries, while the auto industry's integrated innovation capacity is the key, because

the auto industry is an industrial pillar of a strategic significa, and a hallmark to measure a country's economic independence and all-round national mettle. Being exposed to the domestic and overseas marketplaces, the auto industry plays a leading role for China's seizure of the historical opportunity to quicken the national programs for ndustrialization and modernization. Therefore, enhancingthe national buildup of independent innovation capacities of the auto industry has a critical significance in accelerating Chinese industrialization as well as in sharpening China's international competitiveness.

The basic strategy of the independent innovation from Chinese autos is "deeprooted on low-end products, while focusing on the medium–end ones and giving up the high-end ones for the time being". "Being deep-rooted on low-end products" means to develop the low-profiled brands of cars at the very beginning and then go upstream.

The strategy of emphasizing the development of low-profiled cars (medium- and low-end cars) as a breakthrough is mainly based on the three advantages to be derived from this approach: (1) the targeted potential clientele of such cars is the largest in the auto market, meanwhile their prices accords with average level of the per capita income in China today; (2) it abides by the objective laws of the business development, that is generally from easily achieved steps to more difficult steps; (3) multinational enterprises have given up the market of medium- and low-end cars for a considerably long time, the popular car produced by many American and European enterprises belongs to the medium-end ones. So it creates profitable opportunities for low-profile cars.

After China's WTO accession, initiation of independent innovations has been stipulated as a national policy, and Chinese capacities of independent innovation in auto field has also made outstanding progress. The marketing share of passenger cars with independent brand rose from less than 5% to near 30% in 2006. With independent innovations, there comes a ntional stance ofrapid growth in the whole auto industry, and some pace-setting enterprises even achieved remarkable successes in this regard. The Chery launched three concept car prototypes of FULWIN Ⅱ COUPE, TIGGO 5 (SUV), and A3 with two carriages, two new environmental-friendly car models—V5 equipped with a 1.9L/ACTECO diesel engine and mixed-power vehicle A51SG equipped with a 1.3L/ACTECO 1.3L dynamo. QQ outshines the other low-emission vehicles in terms of annual volume of sales with the maximal records up to over 100,000 units for years in a row. Huachen has several varieties from its original model of Zhonghua, to improved Brillance BS6 then to Junjie with several emission choices of 1.6 L, 1.8L and 2.0L respectively. With the 1.6 L Junjie as its flagship product, Junjie achieved a great marketing success, realizing the objective of "three highs" (the independent innovative feats featuring a high starting point, an independent brand noted for its high quality, and a spanning development with high objectives). Hafei by Commission of Science, Technology and Industry for Chinese Aviation and Changhe has headed for a substantial step by expanding from monotype cars

to sedan and low-profiled sedan and medium-end sedan models. The debut of new limousine models such as Great Wall Florida, GWPERI, COOLBEAR and Hafo marks the realization of a "triple jump" in the new product development of the company (from PICKUP and SUV to CUV, then to sedans). Jianghuai has presented its concept car Vision and testing car SRV Rein, and Refine commercial-use vehicle III, etc. Chang'an launched CM8 in 2004, and presented Lufeng-Fashion in 2005 and introduced CV6 in September 2006, and the move symbolized its developing strategy of "a stess placed on on new sedan models". Meanwhile Chang'an will present the current CV6, and the ongoing CV7 (in the economic style), CV8 (a medium-end sedan) MPV CV9 and CV11 during the 11th Five-Year Plan. BYD developed the F3e electric sedan characterized in zero emission in a pollution-free and noise-proof operation as well as a mileage up to more than 300 km once charged and less than 12W power consumption in a 100km ride. At the same time, the F3e was equipped with a mounted charger that could charge the engine with a normal plug, thus making full preparations for the F3e commercialization.

Large auto groups have large-sized developing plan for independent brands with higher starting points. With Roewe (750) as the prototype of its independent brands, SAIC has made a new step in independent innovation and will form five platforms to develop Medium and high-end, medium-end, RV, Close types and monotypes totaling some 30 varieties, and realize an output capacity of 250,000 complete units in independent brands and 300,000 units of the vehicular engines. Bestturn is a new starting point for FAW to develop its own independent brands, and Weizhi is a developmental milestone for Tianjin FAW while Red Flag HQ3 heads for high-end and luxury official cars.

For the sake of market competition, more and more joint ventures take part in the process of knowhow localization, independent R&D, even developing local brands independent from the parental or share-holding companies. SAIC PATAC made full use of GM global expertise for the process to develop complete vehicular units globally, and localized and assimiloized the expertise of Buick LaCrosse. In the flurry of technical renewal, Shanghai Volkswagen declared its renewed capacity of independent design and its transformation from the status of a "copying manufacturer" to an "independent R&D precursor" by improving Passat Lingyu and, concept car NEEZA. In some new models as brainchildren churned out by some joint ventures including Dongfeng Citroën C-Triomphe contained some elements of absorption and re-innovation and have gained some IPRs.

Independent auto brands act as a carrier for independent innovation, but most of Chinese independent brands are small-sized, short of international competitiveness and notorious for their low technological contents, even more, some big enterprises gave up their original brands while concluding cooperative protocolswith foreign enterprises. The car-making industry'sindependent development by no means implies the mere localization of foreign products or brands. In other

words, localized operation is a strategy or necessary process to avoid economic and cultural conflicts under the current context of globalization or internationalization instead of adillemaof single-handed development. If there are no independent brands, Chinese auto industry will be only in a self-isolated state blindly groping at a “lower layer”, even forced to attach itself under the aegis of others in the international competition. Since any auto products will lose their marketing foothold without a well-received brand by the clientele, it is necessary to carry out a sound strategy of brand preference and developing independent brands to become a pace-setter or brawny competitor in the Chinese auto market.

Chinese auto industry is still poor in its buikldup of the independent innovation-making capacities because of ineffective industrial policies and insufficient supports. In addition, only 1% or even less of the sales revenues is invested into the industry’s R&D undertakings, while the latter’s figure is somewhere between 3% and5% in overseas auto enterprises. Taking GM as an example, it invests as high as $5~6 billion to develop new products every year, while the total funding input for Chinese auto industry to develop new products is only 2 billion yuan in total. So Chinese auto industry is not at the same starting point in the business tournament with its adversaries from America, Japan and South Korean in both investment percentage and gross volume of the R&D investments.

The Auto industry goes hand in hand with the innovative buildup for auto parts. With a poor technological instrastructure and seriously inadequate input of investments, Chinese auto parts manufacturing generally lags behind the existing industrial basis for making the complete vehicular units. For example, the ratio between investments allocated to the two sides was only 23.0%、27.8% and 27.3% respectively during the periods of the 7^{th} , 8^{th} and 9^{th} Five-Year Plan. In addition, Chinese industry of auuto parts has its innate disadvantages of irrational structure and seriously poor R&D capacity hindering its healthy development. What iseven worse, the multinational enterprises always monopolize or undermine the industry’s purchasing rights of auto parts high in technological contents and added values, key components or core parts are always purchased by it at exorbitant prices far higher than those available on the international market.

China can only be a real and powerful auto giant by taking measures to override barriers and speed up independent innovation capacities in its auto industry.

2 The internationalization of Chinese auto industry

2.1 The current conditions of the world auto industry

2.1.1 A newly rising marketing trend drive the globeto demand for more autos

The demandin some traditional car markets in North America, West Europe and Japan slided into a slowdown in recent years, while newly rising marketplaces such as those in AsiaPacific rim and Central & Eastern European countries see a tendensy of rapid development in auto sales, facilitating a high tide of multi-dimensional competition spells in the global auto industry. In 2006, the global auto sales saw an increase up to 30% (reaching 62.8 million units) and the demands still keep rising. American and Japanese markets somehow dropped and the Western Europe market increased by a small margin. The strong growth momentums in Chinese, Indian, Russian and Brazil marketplaces still acted as major stimulators to the burgeoning growth of the world auto market. According to the related statistics, 64% of the outgrowth shares registerened from 2000 to 2005 in global auto demands are from the above four countries.

Chinese auto market scored an increase by 40%, totaling 4.1 million units and ranking third in the global rating list onauto sales (exceeding Germany's which sold out 3.4 million units in the year), and it is predicted to still keep rising in 2007. Small and medium-sized sedan cars accounted for 2/3 of the total sales in 2006 across the land. The marketing shares of foreign brands including GM and Volkswagen reached as high as 75%. At the same time, independent brands like Geely and Chery which focus on small and medium-sized sedans achieved an annual growth rate of 50% and 80% of the buyers in China who bought their cars for the first time, it is anticipated that the annual growth rate in the sales nationwide will be above 15% before 2010.

The growth rate in auto sales had increased by 20% in India in 2006. Because only 1% of Indians own their own cars, the annual sales volume is anticipated to arrive at 2 million units before 2010. Maruti Udyog, the largest Indian local auto manufacturer, for example, makes up 50% of the marketing shares in India. GM, Suzuki and Hyundai plan to invest more than $5 billion into India while the latter's auto industry plans to quadruple its auto sales in the coming ten years.

The auto-trading market in Russia had developed quickly in recent years, and so far it had sold 2 million units in 2006. In addition, the anticipated growth rate per year will still be about 20% in the coming years, and the complete vehicular units on sale will reach about 3.5 million in number

by 2010, so that it has a huge marketing potential. A total of 317,500 commercial-use vehicles had been sold out in Russia in 2006, increased by 24.8% over 2005.

Brazil and Mexico were the largest marketplaces in Latin America, while Peru became the most rapidly growing one. The annual sales in Peru registered an increase by 41% in 2006 and still kept a double-digit growth rate in 2007.

The sales in West Europe marketplaces had dropped by 0.6% with an annual sales volume of 14.777 million units, an increase pf only 0.7% over 2005. The auto consumption in this region was still in depression if compared to the 2.7% growth rate scored by the whole euro area. German market was still the largest one in the EU (West Europe? Germany is not in Western Europe – the polisher.) with a national volume of annual sales up to 3.466 million units in 2006, increased by 3.7% over 2005. The British economy grew in a slow tempo and its annual sales were 2.354 million units, decreased by 4.1% over 2005. A total of 2 million units had been sold in the French market in 2006, decreased by 3.3% over 2005. The Italian market had an eye-catching performance with its annual sales up to 2.356 million units for 2006, increased by 4% over the previous year.

Table 2-1 The annual volume of auto sales in major Europe countries

TheCountry's name	Sales in 2006 (in units)	Sales in 2005	Growth rate
Austria	306,833	306794	0.0%
Belgium	532,520	480088	10.9%
Denmark	156,367	148805	5.1%
Finland	145,700	148161	－1.7%
France	2,000,662	2069281	－3.3%
Germany	3,466,145	3342123	3.7%
Greece	267,295	269728	－0.9%
Ireland	178,962	172619	3.7%
Italy	2,355,871	2265631	4.0%
Luxemburg	50,785	48151	5.5%
Holland	483,506	464854	4.0%
Norway	109,164	109907	－0.7%
Portugal	194,695	206488	－5.7%
Spain	1,634,762	1649140	－0.9%
Sweden	282,632	27430	1
Switzerland	257,790	258327	－0.2%
U.K.	2,345,064	2455918	－4.1%
Total number	14,777,752	14670316	0.7%

Data from: OICA-drafted the “Report on World Auto Industrial Development”

2.1.2 World auto production maintains a robust growth momentum

According to the statistics by OICA, there are 26 major auto manufacturing countries all over the world with a total business turnout valued at of 1.9 triillion euros and taxation up to 430 billion euros in 2005, more than 8 million employees (accounting for 5% of the total employment in the world manufacturing industry), involving more than 50 million employees in all kinds of industries relevant to the auto. The globally total investments to the auto industry reach 85 billion euros in 2005.

The world auto production has been maintaining a robust growth momentum in recent years, turning out 69.2579 million units in 2006, an increaseof 4.2% over 2005 while the annual output volume for sedans was 49.9828 million units, an increase of 6.7% over 2005; that for light commercial-use vehicles was 15.4845 million units, a decrease of3.9% over 2005; that for passenger cars reached 0.51million units, an increaseof 11.3%, of which 195,000 units were domestic-made, and 110,000 were made by South Korea; that for heavy-duty trucks reached 3.2791 million units, an increaseof 7.5% over 2005, including 0.7 million units domestic-made, 700,000 units made by Japan, 460,000 units made by America,280,000 units made by India and 210,000 units made by Germany. The above five countries turned out 72% of the total car output volume worldwide.

Table 2-2 The world auto output volume in 2005 and 2006

Unit: 10,000

Year	2006	2005	Increase over 2005
Autos	69.2579	66.4824	4.2%
Sedans	49.9828	46.8629	6.7%
Light commercial-use vehicles	15.4845	16.1099	-3.9%
Passenger cars	0.5115	0.4594	11.3%
Heavy-duty trucks	3.2791	3.0502	7.5%

Data from: OICA’s Report on the World auto industrial development

The major auto manufacturing countries in the world include Japan, the US , China, Germany, the ROK, French, etc. In 2006, Japan manufactured 11.48 million units and ranked the first. With the highest growth rate up to 26%, China exceeded Germany and ranked third in 2006. The top ten car producers manufactured 52.77 million units in total, accounting for 76% of the total auto output volume all over the world.

Table 2-3 The World Top Ten auto-manufacturing countries and their production records in the three years from 2004 to 2006:

Unit: 10,000

2006			2005			2004		
R	Country	Production	Rank	Country	Production	Rank	Country	Production
1	Japan	11.48	1	US	11.98	1	US	11.99
2	US	11.26	2	Japan	10.80	2	Japan	10.51
3	China	7.19	3	Germany	5.76	3	Germany	5.57
4	Germany	5.82	4	China	5.71	4	China	5.07
5	ROK	3.84	5	ROK	3.70	5	France	3.67
6	France	3.17	6	France	3.5	6	ROK	3.47
7	Spain	2.78	7	Spain	2.75	7	Sapin	3.01
8	Canada	2.57	8	Canada	2.69	8	Canada	2.71
9	Brazil	2.53	9	Brazil	2.53	9	Brazil	2.21
10	Mexico	2.05	10	UK	1.80	10	UK	1.86

Data from: OICA's Report on theorld Auto Industrial Development

Japan was the only developed country whose auto output volume had increased in 2006 and exceeded that of the US again to be 11.48 million units, increased by 6.3% over 2005 (its output volume had been 10.8 million units in 2005). Japanese auto manufacturers produced 22.45 million in total units last year if the output outside the country was also covered. Japan had invariably been the biggest auto maker from 1980 to 1993, but dropped to No.2 since 1994. Newsletters issued by eight major Japanese auto manufacturers on 24 indicated that they turned out 10.52 million units outside Japan in the fiscal year of 2006, an increase of 3% over 2005, exceeding 10 million units in the successive two years. Japanese auto brands with low fuel consumption are very popular all over the world, Toyota, Honda, Suzuki, and Daihatsu hit a new historic high, and the latter three break a new historical record in overseas sales. In the fiscal year of 2006, Toyota, Honda, Mitsubishi, Mazda, Nissan, Daihatsu, Suzuki and Fuji Heavy Industries produced 10.98 million units in Japan, 6% over the fiscal year of 2005. The other seven enterprises all achieved their ownenjoyed increments in domestic production except for Nissan. In the perspective of their exports, the eight exported 5.92 million units in total, increased by 16% over the last fiscal year. The other six enterprises all exceeded over last fiscal year in business in addition to Nissan and Fuji Heavy Industries.

American giants of GM and Ford dropped considerably in their performance because of the marketing slump, the two's domestic production volume decreased to 11.26 million units in 2006, a decrease of by 5.7% over 2005(a lingering drop for four years in a row). The US dropped to No.2 for the first time since 1994. Because of the soaring petroleum prices, the branches of the three American auto giants GM, Ford, and Daimler Chrysler claimed that they were trying to

develop more energy-efficient autos in order to adapt themselves to the high pricing situation. Although Ford F series Pick Up ranked first with its annual volume of sales up to 796,000 units in the worldwide rating list of Top 10 popular autos in 2006, but its annual sales dropped by 11.7% over last year, Silveroda Pickup produced by Chevrolet ranked two with a decrease of 9.9% over last year totaling 0.636 million units while Camry (scoring an annual sales volume of 0.448 million units) and Corolla (with an annual sales volume of 0.387 million units) by Toyota Company ranked third and fourth> Meanwhile Camry was the only sedan brand in the worldwide rating list of Top 3, and led other sedan brands highlightingits popularity in the US as the country on four wheels.

China ranked the third in the world with the annual output volume up to 7.19 million units (outshining Germany's 5.82 million units), registering a record increase of 25.9% over 2005 (i.e., 5.71 million units in 2005). Shanghai GM ranked first in the domestic rating list, totaling 406,000 units, Shanghai Volkswagen ranked second with 350,000 units, FAW Volkswagen ranked third with 345,000 units and Chery ranked fourth with 302,000 units in 2006.

The auto production of South Korea ranked fifth in the world with 3.94 million units in 2006, an increaseof 4.3% over 2005. France lagged far behind South Korea and ranked sixth with 3.17 million units, a decrease of 10.7% over 2005.

VDA recently announced in Frankfurt that German auto exports had reached 3.9 million units in quantity with a total sales value up to 170 billion euros (accounting for 17% of the country's total export revenues) in 2006, an increase of 8% over 2005, attaininga new historical record in the fourth successive years. Also, according to VDA, 20% of the German autos were exported to the US market, and 60% of them were exported to West Europe in 2006. Germany gained profits up to 100 billion euros from the auto's foreign trade including imports & exports in 2006.

India turned out 2.0198 million autos in 2006, an increase of 23.3% over 2005. In the fiscal year from 2005 to 2006, India's annual income from its auto industry reached $45 billion, when gaining $4.5 billion in the exports revenues and hiring 250,000 employees. The rapid growth of the national economy and consumption in India attract more foreign investments to it. Hyundai, Ford and Mitsubishi have already built manufacturing factories there several years before. Renault, Volkswagen, GM, Honda, Fiat plan to invest more in India. The "Auto Developing Program (2006~2016) (draft)" worked out by the Indian government in September 2006 showed that India would be dedicated itself to be a global center specializing in auto manufacture in the coming 10 years. According to the Program, India will be one of design and manufacturing giants of autos and their accessories in Asia with total industrial output volume (auto) up to $145 billion by 2016. In order to achieve these objectives, India needs to allocate an additional sum of $35~40 billion, mostly to be poured in from foreign investments to expand its production capacity. While both the domestic demands and overseas market being in steady inflation, Indian government will give a preferential treatment on taxation and financial policies to promote the development of its auto

industry. In addition, Indian government will strengthen the construction of its infrastructure including more highroads, railways, ports, energy generation and communication facilities, thus clear the way for an occupational blast-off of its auto industry.

2.1.3 The competitive pattern of today world'sauto industry is in change.

The world top 50 auto manufacturers turned out yielded 68.34 million units in total in 2006, including 51.95 million units of sedans, 13.188 million units of light commercial-use vehicles, 2.85 million units of heavy-duty trucks, and 0.349 million units of passenger cars. GM continued to be the world biggest auto-manufacturing group with an annual output volume up to 8.92 million units. Toyota still led Ford in production and was anticipated to exceed GM and became the biggest manufacturer in the world in 2007.

Table 2-4 Output quantities recorded by the world major auto enterprises in 2006

Unit: 10,000

Rank	GROUP	Total	CARs	LCVs	HCVs	Heavy buses
1	GM	8.926	5.708	3.157	0.044	0.017
2	Toyota	8.036	6.8	1.049	123,000	0.064
3	FORD	6.268	3.801	2.386	81,000	0
4	VOLKSWAGEN	5.685	5.43	0.22	0.029	0.006
5	Honda	3.67	3.55	0.12		
6	PSA	3.357	2,961	0.395		
7	Nissan	3.223	2.513	0.57	0.135	0.006
8	Chrysler	2.545	0.71	1.834		
9	RENAULT	2.492	2.086	0.407		
10	Hyundai	2.463	2.231	1,000	0.145	0.085
11	FIAT	2.318	1.754	451,000	89,000	0.024
12	Suzuki	2.297	2.004	293,000		
13	DAIMLERCHRYSLER	2.045	1.275	0.378	0.34	0.051
14	Mazda	1.396	1.170	0.224	0.003	
15	Kia	1.381	1.182	0.197		0.002
16	B.M.W.	1.367	1.367			
17	Mitsubishi	1.313	1.009	0.296	0.008	
18	Daihatsu	1.085	0.906	0.167	0.012	
19	AVTOVAZ	0.766	0.766			
20	Fuji	0.587	0.508	0.08		

21	Tata	0.561	0.19	0.196	0.174	
22	Isuzu	0.524		0.052	0.468	0.03
23	CHANA	0.523	0.447	0.076		
24	FAW	0.479	0.394	0.046	0.04	
25	BEIJING	0.374	0.298	0.076	0	
26	DONGFENG	0.352	0.258	0.067	0.027	
27	CHERY	0.307	0.307			
28	HARBIN	0.265	0.265			
29	GAZ	0.244	0.052	0.166	0.027	
30	VOLVO	0.221	0	0.011	0.02	0.01
31	GEELY	0.207	0.207			
32	BRILLIANCE	0.19	0.19			
33	Paccar	0.18			0.18	
34	SAIC	0.178	0.178			
35	ANHUI	0.175	0.63	0.093	0.019	
36	Navistar	0.155	0		0.136	0.019
37	CHANGHE	0.137	0.137			
38	Mahindra & Mahindra	0.136	0.136			
39	Hino	0.101		0.005	0.091,000	0.004
40	PORSCHE	0.099	0.099			
41	M.A.N.	0.088			0.081	0.007
42	GREATWALL	0.085	0.04	0.046		
43	PROTON	0.079	0.078	0.001		
44	NANJING	0.074	0.029	0.044	0.00.1	
45	SCANIA	0.067		0	0.061	0.00.6
46	UAZ	0.064	0.029	0.035		
47	BYD	0.060	0.060			
48	CHINANATIONAL	0.06			0.06	
49	FUJIAN	0.049	0.049			
50	KAMAZ	0.048	0.005		0.043	

Data from: OICA's Report on the World Auto IndustrialDevelopment

Auto industries in developed countries constantly transfer themselves to newly rising marketplaces because of the increasing oil prices and high labor costs in their own countries. As a result, auto industries in developing countries and regions develop quickly and the traditional "6+3 pattern" in the auto industry (the figure of 6 refers to GM, Ford, Daimler Chrysler, Toyota, Volkswagen,

Renault and Nissanwhile that of 3 refers to comparatively independent Honda, Peugeot-Citroen and BMW) has undergone great changes. Especially, the three American giants in the world auto market which used to make profits mainly from sports and monotype trucks have lost lots of money because of the high oil prices resulting in the reluctance of most consumers to purchase SUV and monotype trucks with big horsepower and high fuel consumption. The GM-Fiat-Suzuki-Fuji Heavy Industries-ISUZU Group led by GM has sold out its stocks of Fiat, Suzuki as well as the still profitable GMAC. Ford-Mazda-Volvo Sedan Group led by Ford has sold out its attached Aston Martin and its parts company; the Daimler-Chrysler-Mitsubishi Group has ostracized Chrysler and sold out Mitsubishi auto stocks.

Nowadays the three Japanese auto giants have not only yielded auto products in America for decades, but started to build up an R&D design and engineering institute. South Korea Hyundai, KIA and Germany BMW and Benz all build their own manufacturing factories in America. Foreign auto enterprises flood in American market and fuse themselves into its auto industry, while American auto enterprises also take active steps to expand outside, thus facilitating the internationalization of their auto industry. Generally speaking, the world auto industry is in the process of reconstruction. As an outcome of intensive competition and surplus production capacities, auto enterprises are trying to make profits based on the size-oriented economy through reconstruction. It is a shortcut for auto manufacturers including GM and Ford to walk out the dilemma by creating larger R&D platforms and business consortia through cooperation and making sufficient use of R&D expenses as well as reducing costs. At present, even formerly well-behavored enterprises are facing the further expanded market. Great changes will take place in the future pattern of the auto industrial world.

2.1.4 Energy-efficient and environmental-friendly technology becomes the major developing trend for world auto technologies.

Energy and environment has been becoming the two decisive elements to the development of the world's auto industry, energy-efficient autos develop quickly and vehicles consuming new energy sources including hybrid power, fuel-cell batteries, advanced brands of diesel, methanol and alcohol have been developing with soaringspeeds. All governments and major auto manufacturers come to a concensus by unanimously agreeing new clean and environmentally friendly technologies as a new commanding point in the future competition in the whole trade. From now on, global energy-efficient and environmental-friendly auto technologies will take on a multi-dimensional development, becoming a new horizon for complementing various technologies with one other, unbalanced development in different stages, association between strong enterprises

and governmental support. At present, China has invested about 2~3 billion RMB into electricity=powered motors (including investments by enterprises themselves), while Daimler Chrysler invests as high as 0.5 billion euros in the field each year, and GM has and still continues to invest several billion dollars into the R&D of hydrogen-based fuels. In addition, Japan has gained precious lessons from its near 10 years commercialization of the hybridpowered system for sedans, and America is good at theoretical studies. Even if there has been such a large amount of investments, the industrialization of the pollution-free vehicular engine still develops slowly in Occidental countries.

Auto groups and related countries adopt a different approach for developing new technology routes in search of new energy forms, such as using advanced kinds of diesel, alcohol, electric power, hybrid power sources, fuel cells and batteries, biomass energy to substitute hydrocarbon-based fuels in the form of petroleum products to cope with the shortage of petroleum and its derivatives, meanwhile to contribute more to the current drive of environmental protection. These technology routes are closely linkedwith one another instead of being absolutely conflicting with others, such as the hybrid power technology in which gas and electric power, or diesel and electric power are arranged to join hands in providing dynamic forces, the technical integration of hybridized powering modes and fuel batteries. From the perspective of technological maturity, advanced diesel technology is comparatively more mature and is suitable for further and more tests as anew applicable approach in scale production, while the expertise on a hybridized powering system is still at its initial stage of industrialization, and fuel cells and batteries, a pure electricity-driving system still can’t enter their substantial stage of industrialization. A hybridized powering system is anticipated to enter the scale-up commercial stage. However, if an array of fuel batteries and hydrogen storage system can make their research breakthroughs by lowering their operational costs for a long run, a new type of car-driving system will become the most competitive way for the tomorrow of the auto industry.

These technologies are mainly promoted by all government-hosted initiatives Governments of many auto-manufacturing countries including America, EU countries and Japan render strong supports to energy-efficient and environmental-friendly auto brands through a variety of channels mainly to solve problems andissues cropping out from insufficient financial input

The American clean and energy-efficient auto development places its emphasis on the auto brands powered by fuel batteries, and the car-driving mode of hydrogen + fuel batteries seems to be the final solution to pollution-free and energy-efficient autos. Yet, , the autos of this kind will not be applied to the commercial world on a large scale until 2020 because of the current high prices of fuel batteries and technical snags in storage and transportof the hydrogen liquid as the fuel according to the practical practice now popularin international auto circles. In recent years, however, the US begins to shift its research focus on developing autos driven by the hybrid power

mode or advanced diesel products, and this has become the biggest market for the modeworldwide. Advanced diesel fuels also develop quickly, scoring an increase of 56% in global sales in the past three years. It is anticipated that hybrid power mode and advanced diesel fuels will maintain their rapid development tempo before the large-scale commercialization of fuel batteries has been avaiable so that they become a marketable favorite for car-makers all over the world.

The EU countries have laid emphasis on advanced diesel fuels when developing energy-efficient and environmental-friendly autos in the past 15 years, leading to business successes. It not only makes technical breakthroughs resulting in the dramaticreduction of air pollutants caused by diesel-driven autos, but in the expansion of their marketing shares because of the lower prices of the autos driven by advanced diesel products than other brands of energy-efficient and environmental-friendly autos. Almost all new commercial-use vehicles purchased by EU countries were diesel-driven autos in 2004, and 50% of the new sedans purchased were powered by diesel fuels. The EU has determined to further improve the manufacturing technology of diesel-driven autos so as to make it accord with more strict emission standards. On the other hand, it will actively develop other brandsof energy-efficient and environmental-friendly autos.

Japan has made more outstanding achievements in the industrialization of autos by a hybrid powering system. In particular, Japan’s Toyota and Honda take thelead in the development of hybrid power autos as well as their expedition to the international market. In spite of its poor marketing performance today, the expertise for manufacturing the hybrid power auto is comparatively mature when driven by the traditional fuel, and the further maturity of the technology as well as the scale-up profits gained from the expansion of marketing shares will gradually reduce the costs spent for developing this kind of autos, so the hybrid powering system is predicted to enjoy a promising potential in the future developmet.

2.2 The international conditions for occupational competitionthe Chinese auto industry has to face

China’s auto industry has seen a soaring development since its accession to the WTO. With an annual output volume going up from 2 million units to 7.2 million units during the period from 2001 to 2006, China has become the third biggest auto manufacturing country all over the world, and its percentage of auto ouput amount had increased from 3.6% in 2001 to above 10.5% in 2006. Engine production accounted for more than 45% of the world total. Chinese auto industry has been making more and more contributions to world auto industry. Private consumption has become the mainstream in the domestic auto consumption and China now becomes the second

most voluminous marketplace in terms of the new cars being sold out. After China's accession to the WTO, its domestic auto industry quickly expands both in size and in the abosolute quantity of exports. In 2006, China exported 342,400 autos with a national revenue gained from the exports up to $3.135 billion, scoring an increase of 98% over the previous year, including 92,500 units are sedans, an increase of 97%. The foreign currencies netted from the foreign trade of cars and their accessories up to $2.2 billion in black indicate that Chinese autos has really entered into the international marketand armed by a certain competitiveness in the world auto market.

Table 2-5 Exports of Chinese autos (including complete sets of spare parts)

Unit: 10,000

Year	2002	2003	2004	2005	2006
Exports	2	4.8	7.8	17.2	34.24

Data from Statistics released by China Customs

Generally speaking, there is still a large gap between Chinese auto manufacturers and their advanced competitors on the international arena. The core issue lies in the lack of internationally well-known independently developed brands, manufacturing expertise and enterprises, which can compete and confront with globally famous car-making giants on the same technical level.

Nowadays the competitiveness of the China-made autos lies in the segmentation of its products and market segmentation. China develops economic sedans, heavy-duty trucks and passenger cars in independent brands and has gained certain competitive competence in the market through product segmentation. China has gained a developing room from less developed regions and transfer of manufacturing knowhow from developed countries in spite of its inefficiency technologicallyand meager quality through the world's marketing segmentation.

There are hundreds of foreign manufacturing factories operational in China's Yangtze River Delta as a result of the on-going economic globalization and transference of international manufacturing industry to developing countries since the 1990s because of the latter's low labor cost. China has more apparent advantages in this aspect, such as Honda has built a sedanexporting base in China. From the perspective of costing structure of theworld's complete vehicular units, labor cost only accounts for 7%-10%. Auto enterprises of the developed countries suffer a lot from the deteriorating situation of continuous profiting losses because of the higher growth rate of labor cost than that of the increase in wages and salaries. For example, the three American auto giants have sustained losses in tyheir business turnout in recent years. China's cheap labor cost ensures Chinese auto manufacturing industry to be highly competitive on the international arena. Combining low manpower cost with foreign knowhow and constant technological renewal, China has gradually built up a sound R&D capacity as well as a group of gigantic firms specializing in

the manufacture of complete vehicular units and their accessories with some mettle of international competitiveness.

With a boomingdevelopment in varioussocio-economic aspects, labor price tends to soar up. Labor productivity is a critical determinant factor for Chinese auto industry to buid up itsinternational competitiveness. According to the report by McKinsey, China's overall labor productivity at the most efficient domestic sedan-making enterprise is only 52% of the average figure of its counterpartat scored by American sedan firms. The same figure sampled from 13 biggest sedan enterprises in China is only 21% in average while the occupational figure of the whole Chinese manufacturing industry is averaged at only 7% of that of its American counterpart. Therefore, domestic auto enterprises should be encouraged to do their best to improve their management, reduce materials consumption, strictly control product cost, and make efforts in updatingtheirlabor productivity. With the accelerated tempo ofon-goingChinese industrialization, Chinese labor productivity is expected to improve in a steady and sustained way. An employee of Shanghai Volkswagen in average could only produce 22 autos each year in 1999, while the number increased to 31.6 in 2003 (reaching the internationally advanced level). The fact indicates that so long as Chinese enterprises adjust their industrial structure and enhance management, they can improve labor productivity effectively.

Chinese economy is undergoing a process of adjustment and upgrading in its industrial structure. With the appearance of overstock of products resulting from their structures, relevant manufacturing industries quickly shift their operation to deepened manufacturing fields, and provide products with higher technological contents and deepening the manufacturing degrees instead of consuming more raw materials and turning out products with lower manufacturing degrees. The drive to upgrade Chinese industrial structure will be lasting for quite a long time in coming years. In fact, the size and national capacity of deep-dgree manufacture at some Chinese manufacturing industries dwarf those in some else in the developing countries. China is able to take a more advantageous position in the system of labor division in the auto industry worldwide than other newly rising countries. The objective of putting more local efforts into auto products can be achieved even in line with the pricing signal, thus driving the all-round development of other industries. China has the manufacturing equipment of making material-intensive parts with a certain capacity for exports and further developing potentials, and can become a globally leading manufacturing base for similar products so long as the current developing momentum may be sustained as usual.

In the ups nad downs of the global competing environment, Chinese auto enterprises are to firmly adhere to guideline " in search of independent development plus foreign cooperation", develop passenger cars and commercial-use vehicles together, enhance strategic cooperation with globally famous auto-makers, establish a series of joints ventures, integrate global resources, make more

technological innovations, promote the establishment of independent and popular brands and form the pattern of joint development of auto brands including both jointly establishedand self-developed ones. In the process to constantly improving the operation of their production and R&D bases, many enterprises carry out M&A to overseas companies noted for their matired expertise, further fill their gaps with internationally advanced technology and managerial modes, thus ameliorating their core competence buildup and international businesses. In this way, it is expecterd to enable themto gain certain cutting edges in their competitive competence in the international market. Among 33 autoandparts enterprises rated in the World Fortune Top 500 issued by American journal "Fortune" in 2007, FAW and SAIC ranked 385th and 402th respectively (jumping up over 85 and 73 ranks respectively). Although the listing upgrade had certain connection with the RMB appreciation, it was quitely a rare case for Chinese car manufacturers to achieve such a big-margin rise. The net profit-making rate of SAIC and FAW saw an increase of 4.98% and 3.74% respectively. SAIC succeeded in making its way into the listing of the World Fortune Top 500 with a business revenue topping $18.01 billion (according to the 2006 consolidated statement) for the third time.

Chery has begun to export economic sedans since 2001 and later purchased overseas assembly lines, gaining agood reputation and popularity for its successful overseas development through its own 8-year effort of car exports. At present, the Chery auto has been exported to over 50 countries and areas, and more than 100 integral inits of the Qiyun brand have been exported to Singapore, Indonesia, etc. per month by means of CKD. Chery has built seven factories in Russia, Ukraine, Egypt, Indonesia, and Uruguay, thus achieving manufacturing localization and sharpening its international competitiveness. Chery plans to build 14 overseas factories by 2010 in a bid to realize a bigger presense in overseas production and radically relieve some tightened states in foreign marketplaces. Chery has so far signed or is about to sign contracts on joint production with Chrysler, Fiat, Quantum and IKCO to further enhance the business consortia with the top-ranking enterprises in the world today, obtain more experience to elbow its way into the well-developed marketplaces in developed countries, expand the prowess of Chery's core technology, elevate its brands' value, popularity and reputation, and improve its competitive competence in the international market.

The heavy-duty truck is prevailing over other Chinese auto products because of its international competitiveness. Chinese heavy-duty truckmanufacturing industry boasts core technologies from the making of complete vehicles and assembly with its marketing shares as high as more than 95% in the form of independent brands, while its engine's emission accords with the norms decreed in the National Standards II, and nowadays, the trucks with engine emission according with the National Standards III are yielded in batches. FAW J6, Dongfeng Kinland and Sinotruk HOWO mark the highest-level products in the stardom of Chinese heavy-duty truck brands with complete

IPR as a resultof independent innovation, and their technological levels have approached internationally advanced level. HOWO has become a main taskforce in the exports of Chinese heavy-duty trucks.

Chinese car parts industry is popular amid foreign purchasers and is supported by national policies with good prospects in the international market. There are mainly 15 varieties of auto parts exported abroad: auto-use air conditioners, vehicular lighting and signal devices, electronic devices and meters, accessories and parts, brake and its parts, transmission assembly, drive axle assembly, non-drive axle and its parts, wheels and their parts, suspension shock absorbers, clutches and their components and parts, steering systems and their parts, air compressors and unlisted parts in various specifications. The Top 5 commodities in the exporting list are: unlisted parts, auto-use electronic devices and meters, suspension shock absorbers, wheels and their accessories. The total revenue of the above-listed five items reached about $12 billion, accounting for 76% of the total value earned from the exports in 2006.

All multinational auto enterprises have built joint ventures with Chinese auto-makers, so do the corresponding parts-manufacturers. Multinational giants specializing in auto parts including D-FULL, Visteon, Bosch and DENSO have built nearly 500 spin-off enterprises in China in the form of joint ventures, share-holding companies and solely-funded proprietorships. Because international auto manufacturers work out strict systems for quality certification, rigorously matching connectionand comparatively high technology thresholds, ternational auto parts enterprises worldwide with advanced management & technology have to follow suite, and high quality products are their preference, and their operation is more profitable and advantageous in making auto parts of higher added value and higher technological contents. Domestic enterprises in this field mainly depend on domestic companies to supply matching accessories for commercial-use vehicles, while mainly have to depend on joint ventures or solely foreign-owned enterprises to supply matching accessories for sedans, especially for medium and high-grade sedans, although some sedan brands have achieved as high as 80% of the rate of the home-made parts, while in some cases, the rate surpasses the ceiling of 90%. In the fields of the auto's electronic and motorized parts, foreign enterprises take up the lion's share up to 95%. Local parts enterprises have been striving to seize the chances to provide matching parts for joint ventures so as to improve their technological strength, bridging their technical gaps with first-class parts suppliers in the international arena like Delphi, Bosch, Dentsu, etc., thus gradually improve their ability to promote their independent development and systematic supply. Local parts enterprises also gain another chance to further cooperate with the world's first-class suppliers and provide support for them. According to experts, Chinese auto parts enterprises can turn out some minor or secondary parts with comparatively advanced technology and highly competitiveedges, so it is possible for them to be the suppliers to furnish second or third-level matching parts if it is so

difficult for them to be the first-class suppliers to provide car accessories for making complete vehicularunits..

With the overall improvement of Chinese auto industry a rapid development is seen in the technical renewal and manufacturing process in China's car parts industry. In recent years, national revenues have greatly increased by exporting car parts in many countries, for example, the annual gains by selling car accessories exceeded $50 million in Russia, India, Sudan, and the revenues went beyond $10 million in Brazil, Sweden, Ukraine, Argentina, Jordan, etc. each with a big margin in its profit-increasing rate. All of the above countries, however, were plagued by the highest frequencies of tradingdisputes resulting from the bargains on auto parts.

In 2001, the US, Canada and some countries started to launch anti-dumping investigations on auto windshields imported from China. The Canadian SPI company appealed to launch an anti-dumping investigation of the auto-use oil tank produced by Chinese mainland and Taiwan in 2003. Peru, India and Turkey launched a joint anti-dumping investigation on Chinese tire in 2004. The situation tends to be more and more serious in recent years. According to the Ministry of Commerce, there were more than 10 anti-dumping appeals to Chinese auto parts including rain brush, brake disc, brake drum, windshield, etc. by the end of 2006. The anti-dumping appeals to Chinese tire industry are among the most frequent ones.

Egypt passed No.2002/293 Minister Order to impose an additional 67%~195% levy of anti-dumping tax according to CIF on Chinese passenger cars and light truck tires on May 29, 2002. International Trade Policy Council under the Egyptian Ministry of Commerce and Industry wrote to The Economic and Commercial Counselor's Office attached to the PRC Embassy in the Arab Republic of Egypt and claimed Egypt had finished the official procedeur of anti-dumping re-examination on passenger cars or light truck tires imported from or originally made in China and decided to continue to levy the anti-dumping tax on relevant products for five years in a row through a Ministerial Order issued by the Egyptian Ministry of Commerce and Industry in May 2007. American Ministry of Commerce carried out an administrative re-examination to the brake drum and brake disc originally made in China and put on record to re-examine new exporters with a duration from April 1, 2004 to March 31, 2005 on May 27, 2005, and had given the final judgment of abolishing administrative re-examination of some enterprises and new exporters on November 14, 2006. The year of 2006 witnessed more frequent anti-dumping issues imposed on China-made auto parts. Brazilian Association of Auto Parts Manufacturers requested its government to take "special protective measures" against car parts like batteries and auto bearings imported from China in May and July. Egyptian government accepted the application of its local enterprises and carried out a new turn of re-examination of the sedans and light truck tires imported from China in August 2006. Indian AntiDumping ＆ Allied Duties announced to levy new taxes to Chinese auto parts and valorized the minimum CIF. American Department of

Commerce announced to start an anti-dumping re-examination on new exporters of the Chinese brake disc on November 30, 2006. In addition, State Administration of Taxation issued its Bulletin No.38 at the beginning of July in response to the "Import Measures for Auto Parts Capable of Forming A Complete Vehicle's Characteristics" (abbreviated as the Measures) proceeded by American, EU, Japan and Canada in March, 2006. The bulletin announces that the percentage defining the standardized importing prices relating to a complete vehicle's characteristics and the criteria to differentiate A-type from B-type key elements relating to the auto's general assembly (system) is remitted to July 1, 2008 from the original July 1, 2006 as being jointly discussed and determined by State Administration of Taxation, NDRC, Ministry of Finance and Ministry of Commerce, etc. However, America and Europe still resort to the WTO-decreed experts group frame for the issue of "imports of auto parts capable of forming a complete vehicle characteristics".

With the burgeoning developments of independent innovations made by Chinese enterprises come more and more IPR disputes in the process of learning and copying foreign technologies and relevant processes. Japanese Toyota brought an accusation against Zhejiang Geely and its sales agents for trademark violation and unfair competition in August 2003, and was finally rejected by the court. Toyota lodged a complaint against Shuanghuan Auto in the pretext that the latter offended the design patent of CR-V outlook and its front & back bumpers and finally failed (Shuanghuan recovered) in November 2003. GM brought an accusation against Chery for latter's imitation of its technology in December and became reconciled at last. Nissan proceeded against Great Wall for IPR violation in November 2005. MG Rover's Dutch branch bankruptcy liquidator said that they still owned several MG trademarks in the European Continent in December 2006. NAC thought that it had obtained ownership of all brands before the bankruptcy of MG Rover after acquiring Rover and all of the brand ownerships would be finally transferred to NAC. The legal department of Fiat was evaluating the similarities between GreatWall GWPERI monotype sedan and Fiat Panda in their door framelines and roof arc and was considering resorting to an appeal in December 2006. However, Great Wall argued that the Spirit sedan was developed by Great Wall and it had the independent intellectual properties.

3 The developing environment of Chinese auto industry

3.1 An analytic exposition of the policy environment

After China's accession to the WTO, the national authorities and relevant departments have issued and implemented a series of policies, statutes, regulations, standards and technical norms & specifications in relevance to the auto, in succession. Therefore, the five years after China's WTO accession saw Chinese auto industry's entrance into the track oflegalized administration undergoing a drive of the industry's structural readjustment and upgradation, so as to comprehensively sharpen its international competitiveness and promote the whole trade's healthy development.

The macro-management policies related to auto industry enacted recently may listed as follows:

"The National Policies Concerning Auto Industry Development in China" ratified by the State Council, enacted and enforced by NDRC on May 21, 2004, leading to the abolishment of the former "Policies on Development of Automotive Industry" which was issued in 1994;

"The Outlined Scheme for the Occupational Development of the Chinese Auto Industry During the 11th Five-year Plan (Draft) " stressesthe industry's science-orienteddevelopment, an all-round upgrade of the industry's capacity of independent innovation, and its gradual transformation from a big endeavor to a full-fledged one;

The State-enacted policies for the management of auto-relatedproducts may be listed as follows:

"A Notice on the Issues to Improve the Performance of Vehiclemanufacturing Enterprises and Management of Their Product Bulletins " enacted by NDRC to enhance administrative measures to manage the car-making firms and their product bulletins, to perfect the administrative procedures on the the vehicle manufacturing enterprises and their product declaration, thus make the conventional practice to enforce the statute on "Vehicle Manufacturing Enterprises and Product Bulletins" more regularized and and science-oriented;

"Administrative Measures for the Vehicle Identification Numbers (in Trial Implementation)" decreed by NDRC and started its enforcement from December 1, 2004, leading to the abolishment of the "Rules for Management of the Vehicle Identification Numbers (VINs) " issued in 1999;

"Administrative Measures for the External Marks Attached to Automobile Products" decreed by the NDRC facilitate the enforcement of "National Policies Concerning the Auto Industry

Development in China", encourage the car-making firms to enhance their awareness on both product quality and independent brands, and consciously protect legal interests of the consumers.

The PRC-decreed policies on compulsory product certification are listed as follows:

"Administrative Provisions on Compulsory Product Certification" (SIQSAQ), "Administrative Provisions on the Marks Used in Compulsory Product Certification" (jointly enacted by the China National Supervisory Commission for Certification and Accreditation, CCC, etc. to improve and address issues of the procedure of compulsory product certification in defense of the national, socialand public interests;

" The Prescribed Quantities of FuelConsuming Limits for Passenger Cars (GBl9578—2004)" (put forward by China Association of Automobile Manufacturers) being the first Chinese compulsory standards to itemize the controlled quotas for auto fuel consumption;

The State-enacted statutes for defining an auto's duties on environmental protection are listed as follows:

"A Circular on Encouraging the Development of Energy-Saving & Green Vehicles with Small Emission Engines" (The Opinions aired by the six governmental departments, commissions and general bureaus relayed by the General Office of the State Council) asserts that the energy-saving and environmental-friendly autos with small-emission engines have been improved dramatically in their safety, dynamic characteristics, external appearance, etc. and are noted for their noticeable advantages such as less fuel consumption and zero emission, compactdimensions, less space needed for their presence on the parking lot, etc., so that administrative statutes have been enacted to to encourage development of such tiny autosas an antidote to some local statutes featuring the "mandatory limitation on vehicles with small exhaust emissions " in some places;

The Chinese Norms on A Motorized Vihicle's Exhaust Discharge by Making Reference to the Related Euro III & Euro IV Standards (decreed by the State Administration of Environmental Protection is designedto address the vehicular discharge of the tail exhaust and will be carried out in phased enforcement;

The PRC-enacted policies for auto-related taxation are as follows:

"Adminstrative Measures for Collection of the the Vehicle Purchase Tax " (decreed by the SAT);

"A Circular on Readjustion and Perfectionof the Consumption Tax-related Statutes"(jointly enacted by the SAT and Ministry of Finance) prescribed that the taxation-levying rate of the passenger cars with their cylinder's displacement volume lies somewhere between 1.0 ～1.5L is reduced by 2%, and the same figures stipulated for cars above 2.0～2.5L (including), 2.5～3.0L (including), 3.0～4.0L (including) or above 4.0L(including) are increased by 1%, 4%, 7%, and

12% respectively, thus encouraging consumption of autos with small displacement engines instead of those with big displacement ones.

The PRC-enacted statutes for automarketing & trading management are listed as follows:

The Ministerial Statute on AutoTrading Transactions (issued by the Ministry of Commerce) prescribes the term of "autotrading activities" to be defined as any business behavior involving auto sales, second-hand auto circulation, bargains on auto accessories, the auto's liquidation and recycling, foreign trade of autos, etc.

Administrative Measures on the Sales and Management of Automobile Brands (decreed by the Ministry of Commerce) aims at establishing a unified, open, competitive and orderly auto-trading market, regulating all business behaviors on the auto brand sales, protecting the clientele's legitimate interests', and promoting the healthy development of Chinese auto-trading market. The State Administration for Industry & Commerce has published several name lists of enterprises qualified to carry out the trading activities of auto brands including more than 17,000 enterprises.

"Administrative Measures for the Circulation of Second-hand Automobiles" (jointly decreed by the Ministry of Commerce, Ministry of Public Security, State Administration for Industry & Commerce and SAT) and "Administrative Norms for Trading Activities on Second-hand Automobiles " officially loosen the operational constraints in the bargains on second-hand automobiles, break down the former monopolized pattern, introduce a new competitive mechanism and diversify operating entities. In line with the two decrees, all qualified auto brand dealers can apply for the businesses providing they are in compliance with the laws while, foreign investors are allowed to have a hand in the trading market and establish business entities to runthe business Meanwhile second-hand auto owners can sell out their autos to buyers without the involvement of go-betweens dealing companies, auctioneers or agencies.

The State-decreed statutes concerning the auto's credits and insurance policies:

"Administrative Measures for theAuto-related Loans"(jointly enacted by the People's Bank of China and CBRC) are introduced to regulate the management of auto-related loans, keep away the money-lending dangers in this aspect and promote the healthy development of all auto-involving acts to lend money and related businesses; "The Statute on Administrative Rules on the Management of AutoFinancing Companies" and "Detailed Rules for the Implementation of the Measures for the Administration of AutoFinancing Companies "(enacted by the CBRC) coming up together with the nationwide debut and follow-up development of autofinancing service in a bid to regulate non-bank entities among the financial institutes which are engaged in offering autofinancing service.

"A Notice on the Administration of the Pledges and Insurance Businesses Concerining Loans for

Automobile Consumption" (decreed by the CIRC) which lists someproblems and issues on the definition of the insurance liability, thedesign of relevant provisions & terms, and operation and management in the trade as being exposed from the risk extension in the autoloan businesses. As a matter of fact, the auto loan-related business had been temporarily suspended for the timebeing in a bid to keep away and mitigate the potential risk as well as promote the healthy development of the whole trade of auto loan businesses and the auto consumption market.

"The Byelaws on the Mandatory Insurance for Identification of Vehicle Traffic Accident Responsibilities ” (in the capacity of a State Council-issed Decree) which ensures victims ofvehicle traffic accidents to obtain compensations in line with law, and hence promote the traffic safety;

The PRC-issed laws & statutes concerning policies for the market of the auto’s after-sale service and its management are listed as follows:

Stipulated Provisions on the Administration of the Recall of Defective Automobiles (enacted by the AQSIQ) leads to enhancement of the management on the recall of defective automobiles, so as to avoid potentialrisks to befall users as well as strengthen the personal and property safety probably resulting from defective autos and maintain public security, interests and economic order in social life. Since the decree’s implementation from March 2004, 31 foreign and domestic manufacturing enterprises have carried out 71 recalls involving 666,304 autos.

“The Ministerial Provisions on the Administration of Vehicular Maintenance & Repair” (enacted by the PRC Ministry of Communications), “An Actionplan for Rectifying the Domestic Market for the Auto’s Maintenance & Repair ” (enacted by the PRC Ministry of Communications) which puts in order all business activities regardingthe motorized car’s maintenance & repair, sustaining the market’s ordered performance, protecting the lawful interests of all parties involved, such as the the vehicle’s operational safety, environmental protection, power saving and promotion of the whole occupation’s healthy development;

The State-decreed statutes on the policies on the administration of the foreign trade on autoss are listed as follows:

The import tariff rates of Chinese autos and auto parts was reduced to 25% and 10% on July 2006 respectively. “TheDetailed Rules for Implementation of Issuance of the Automatic Import License for Auto Products” (decreed by the Ministry of Commerce) introduce a legal guarantee for effectively monitoring and supervising the businesses on imported auto products, maintaining and regulating the normal order of the domestic auto’s market.

“The Administrative Measures for the Imports of Automobile Components and Parts with FeaturesCapable of Assembling Themselves into Complete VehicularUnits” co-issued by China

Customs, NDRC, Ministry of Finance and Ministry of Commerce in addition to "Check-up Rules for Definition of Imported Automobile Components and Parts with Features Capable of Assembling Themselves into Complete VehicularUnits" enhances management on imported auto parts , preventing the malpractice of illegal assembly or evasion of duties levied on imported complete units of vehicles by breaking up the whole unit into parts, thus facilitating the healthy development of the auto industry.

"Suggestions on A Rapid Change of the Existing Growth Mode on the Exported Mechanical and Electrical Products during the 11th Five-Year Plan" (issed by the Ministry of Commerce) and "A Decision on Confirming 160 Enterprises Headed by China Wanxiang as National Bases for Exporting Autos and Their Parts " (jointly issued by the Ministry of Commerce and NDRC). At the nameplate-conferring meeting of the enterprises designated asnational bases for exp;orting autos and auto parts held in Beijing, the participants discussed the drafts of three documents, i.e., "Suggestions on Promoting A Sound & Sustained Development of the Exports of China's Autos and Related Parts", "A Notice on Rectification of the Current Marketing Order of Auto Exports" and "Administratrive Measures forCheck-up & Appraisal of the Performanceof National Bases for Exporting Autos and Their Parts" co-issued by the Ministry of Commerce and NDRC. The three's enforcement play a critical role in regulating auto exporting order, and promoting the healthy development of business circles of Chinese dealers to export autos and auto parts.

The PRC statutes on policies on administration of the utilization and operation of motorized vehicles are listed as follows:

"The PRC Law on the Transport on Roads and Traffic Safety" (adopted & enacted by the National People's Congress), "Regulations on the Implementation of Law on the Transport on Roads and Traffic Safety" (decreed by the State Council), and "A Notice on Further Strengthening the Control on Overrunning and Overloaded Vehicles" (decreed by the State Council), all of these legal documents enhances the ordered management on operational utilization of motorized vehiclesacross the land.

The State-decreed policies dictated in statutesfor auto product scraps and their recycling are listed as follows:

"The Stattute on the Technologies Concerning Recycling & Reusability of Auto Products " (jointly decreed by the NDRC, Ministry of Science and Technology and State Environmental Protection Administration), "Stipulations on the Funding Scope and Rating Standards for Subsidying the Scrapping and Renewal of Old or Dysfunctional Vehicles" (co-issued by the Ministry of Finance and Ministry of Commerce) which enhance the control and management on the recycling and scrapping of discarded autos, being conducive to the maintenance of the traffic order nationwide, personal safety and property safety and environmental protection.

"Regulations on Compulsory Standards for the Scrapping of Incompetent Vehicles (A draft for discussion)" (issued by the Ministry of Commerce) present a new policy to cope with the practice of "an unlimited service life set for non-profitable operation of small-capacity and monotype passenger cars" which obviously accords with the real situation of the current grown-up market of private cars.

The two years of 2005 and 2006 witnessed the legislative peak to issue relevant auto-related policies. The issuance and implementation of relevant statutes concerning the policies about autos or policies for soliciting comments had a very important influence on the auto production and circulation as well as on the consumers throughout the country.

The directives on policies of macro-guidance in 2006 are listed as follows:

"Suggestions on Encouraging the Development of Energy-efficient and Green Autos Equipped with Small Displacement Engines" publicized at the beginning of 2006;

A policy on curbing the over-heated spell of investments in the industry's excessive expansion of production capacitiesissed on March 12, 2006;

"Suggestions on A Rapid Change in the Growth Mode of the Exported Mechanical and Electrical Products during the 11th Five-Year Plan" issued on May 27, 2006;

"A Decision on Strengthening Our EnergysSaving Work" drafted and issued on August 6, 2006;

"A Circular on Tentative Ideas to Carry out Structural Adjustment of the Automobile Industry" (hereinafter to be called as A Circular for short) issued by NDRC on December 26, 2006 which was designed to deal with how to quicken the ongoing drive of structural adjustment of the auto industry when the latter was being plagued by an occupational glut of production capacities;

"A Notice on Rectifying the Current Marketing Order of Automobile Exports" co-issued by the Ministry of Commerce, NDRC, China Customs, AQSIQ, and CAA; The exportlicensing procedure for complete units of motorized vehicules decreed by the Ministry of Commerce was added to the original framework of examination and quarantine in the exporting formalities. It specifically prescribes that customs shall clear the exports of vehicular products in complete units by examining exportlicensesing o procedure preset for complete units of vehicles signed by the institution authorized to issue exporting licensesunder the Ministry of Commerce as well as the "export manifest" signed and issued by the administrative agencies in charge of checkup, examination and quarantine. To regulate the exporting behaviors ensure the precondition to own the qualification for the long-term exporting aptitude. In order to enhance an enterprise's self-discipline, the punishment terms are prescribed a clear-cut terms. In line with the policy, anyone involved with any of the following acts will be disqualified to deal with the business to export complete units of motorized vehicles for the next year: providing false qualification

certificates; those with IPR-violating products verified by relevant administrative departments; forgery of authorization certificates issed bymanufacturing enterprises; dealers in exporting products neitherself-produced nor unauthorized; those involved in serious quality scandals or exerting significant negative impacts on the occupational reputation of Chinese auto exports abroad; those involved in other misconduct in the violation of the Notice;s provisions and other unhonest behaviors.

The statutes on financing & tax-levying policies decreed in 2006 are as listed follows:

"Administrative Measures for the Collection of the VehiclePurchasing Tax" enacted and enforced since January 1, 2006;

Readjustment of the tax rates for auto consumption enacted and enforced sinceApril 1;

A Circular on the Readjustment of Tariff Rates for Imported Automobiles & Related Commodities and Implementation of Preferential Duty Rates in Line with the Related International Agreements" enforced since July 1, 2006;

The move to readjust the tariff rates set forautoconsumption has exerted a substantialinfluence on the structural adjustment of auto-related products. Opn March 23, 2006, the Ministry of Finance and State Administration of Taxation announced the two's decision to readjust the auto consumption taxation's levying items, rates and relevant policies since April 1, 2006. The consumption tax rates levied on vehicles and motorcycles have been readjusted and the sub-items of the car consumption tax involviing sedans, off-road and small-sized passenger cars are canceled while the sub-items categorized for passenger cars, light and medium-sized commercial passenger cars are added. The applicable tax rates are listedas follows:

Table 3-1 Excise tax rate adjustment of automobile and motorcycle

Item	Sub-item	Tax rate
Passenger cars	The cylinder capacity less than 1.5L(including 1.5 L)	3%
	The cylinder capacity between 1.5L and 2.0 L(including 2.0L)	5%
	The cylinder capacity between 2.0L and 2.5 L(including 2.5L)	9%
	The cylinder capacity between 2.5L and 3.0 L(including 3.0L)	12%
	The cylinder capacity between 3.0L and 4.0 L(including 4.0L)	15%
	The cylinder capacity above 4.0 L	20%
light and medium-sized commercial passenger cars		5%
Motorcycles	The cylinder capacity lower than 250ml(including 250ml.)	3%

	The cylinder capacity above 250ml.	10%

The above data cited from related governmental documents

Technical policies in 2006 are mainly as follows:

·State Emission Standards Grade Ⅲ;

·The issued comprehensive fuel indeces;

·The two collision safety-related standards of "Occupant Protection in A Side Collision" and "Safety Standards for the Fueling System in A Back Collision" implemented since July 1, 2006;

·Policies about Auto Product Recovery and Usage Technology issued on February 6, 2006;

· "Detailed Implementation of the State-issued Energy-efficient and Environmental-friendly Auto Certificates---Light Auto Products" issued on July 21, 2006;

·Technical Requirements and Testing Methods for the Passenger Car's Braking Systems issued by the Brake Technical Sub-committee of the NASTC on April 12, 2006;

·The state compulsory standards on "Items and Methods for Automobile Safety Technical Tests" (Draft) issued on September 6;

·Regulations on Compulsory Standards for the Scrapping of Vehicles (Draft) issued on September 29, 2006;

Main policies for auto consumption in 2006 are listed as follows:

· "Norms for Second-hand Car Trading" issued on March 24 in line with "Measures for the Administration of the Circulation of Second-hand Cars";

· "Regulations on Compulsory Traffic Accident Liability Insurance for Vehicles" implemented since July 1, 2006;

· "Suggestions on Economic Policies Concerning Priorities to be Given to Urban Public Traffic Development" co-issued by Ministry of Construction, NDRC, Ministry of Commerce, and Ministry of Labor and Social Security which has a significant influence on passenger car industry. The top priority to be given to urban public traffic development ensures the public traffic preference economically. With the increment of government investments into public traffic system as well as the establishment of specific allowances and the compensation mechanism, the financial problems in the urban public traffic system will be radically solved, thus stimulate the further development of the public bus market, and make the public bus market prospering as a development support for China's passenger car industry in the future 3~5 years.

Te Key operational policies enacted in 2006 are listed as follows:

·Measures for the Administration of External Marks attached to Automobile Products" implemented since February 1, 2006. The decree facilitates joint auto ventures to tag well external marks on the products in line with the regulations and enhances the localization of the brands;

·The nameplat-conferring meeting for national bases to export autos and parts held on August 17, 2006;

· "Notification for Rectifyingthe Marketing Order in Exporting Car Products" was officially implemented since March 1, 2006 and was co-issued by the five departments and bureaus including Ministry of Commerce and NDRC. It expandsthe export qualification management to car exporting enterprises, and disqualifies those complete-unit manufacturers and car-exporting enterprises which were not eligible. The measure sets more limitations on car-making industry and played a positive role on effectively managing and regulating the exporting order of the motor industry.

The "Tentative Ideas on Structural Adjustment of the Automobile Industry" issued by NDRC on December 26, 2006 exert a far-reaching influence on the pattern of the Chinese auto industry in the coming 5~10 years. The above regulations indicate that the structural adjustment of the auto industry have to lay emphasis on the structural optimization and upgrading of auto manufacturing enterprises themselves, promote the development and production of energy-efficient, green and new-power-driven autos, pay attention to independent product development, promote independent innovations, reshape the product structure and develop independent brands. The content calling for " supporting enterprises which have higher rates of production capacity utilization and whose products are always in short supply on the market, and impose a strictly control of the newly-added production capacities of enterprises which have lower rates of production capacity utilization and whose products are not well-received on the market " in the "Ideas" works out limitats on the expansion of the current auto enterprises. The current auto enterprises establish their branches in some areas only if their sales in the previous year reach more than 80% of the authorized production capacities. For those without authorizing or registered by the national autothorities, their sales in the previous year should be no less than the following targets: 100,000 sedans, 50,000 SUVs, 50,000 MPVs, and 80,000 other kinds of passenger cars, 10,000 heavy trucks, 50,000 medium-sized trucks, 100, 000 light trucks, 100,000 monotype trucks, 5000 large and medium-sized passenger cars and 50,000 light passenger cars. However, there is an exception. i.e. an auto manufacturer which acquires another complete vehicle manufacturing enterprise and reconstructs the acquired enterprises as their branches will be spared from the relevant limitations on the establishment of branches stipulated in the "Ideas". In line with the regulations, there are about 10 enterprises with more than 100,000 sedans in annual sales, including FAW Volkswagen, Shanghai Volkswagen, Shanghai GM, Beijing Hyundai, Honda, FAW Toyota, etc.

3.2 An analytic exposition of the industry's economic environment s

Chinese economy slowed down to its point of the lowest growth rate of 7.6% in 1999 after it had culminated itself to its growth peak of 14.2% in 1992. The national economy has sustained a burgeoning growth rate above 9% since 2002. To be specific, the growth rates were 10%, 10.1% and 10.4% in 2003, 2004, and 2005 respectively. The GDP reached a new peak of 20,940.7 trillion yuan in 2006, an increaseof 10.7%. With the rapid growth speed of the national economy, the price-rising tempo began to tumble and the consumer's pricing level rose by 1.5%, a decreaseof 0.3% over the previous year.

After three consecutive years of rapid growth, Chinese economy began to show hints of over-heating at the beginning of 2006. In order to promote the national economy to develop steadily and evenly but maintaining a high speed, the Party and the government jointly issued a series of macro-control policies and measures of stressing an "insistence on bringing two key links into control: the land and the credit as well as the threshold for the marketing entrance" in allusion to the situation. At the same time, the Party and the government issued "A Circular Decreed by the State Council on Intensifying the Land Control" in allusion to the excessive investments in fixed assets and real estate, moved up the base interest rates of deposits and loans at financial institutes twice and the deposit reserve fund rate three times, adjusted export tax refunds as well as import & export rates of some products in line with the extortionate trade surplus, canceled the agricultural tax, a practice lasting for 2,600 years in Chinese history, and increased subsidies to farmers in a bid to benefit the "agriculture, rural areas and farmers" noted for their poor infrastructure, and enhanced structural adjustment to industries of high energy consumption, high pollution and production capacity surplus, etc. These policies not only slow down the economic tempo, prevent its development from a tilt toward going too far to overheating, but avoid great ups and downs of the national economy. The growth rate of the national economy had increased by 10.4% in the first quarter, 11.5% in the second quarter, 10.6% in the third quarter, and 10.4% in the last quarter in 2006. In short, the national economy has smoothly dropped back to the realm of rapid growth.

The growth rate of the world economy in 2006 had increased by 3.8%, only next to 4.0% of the 2004 sincer the World War II. The rapid growth of the world economy not only provides large marketing room for Chinese economy, but opportunities and conditions for making sufficiently use of international resources and capital. The world market had provided $969.1 billion marketing room for Chinese economy, wherein American economy yielded $203.5 billion with a growth rate of 3.3%, The same figure for the EU economy was $182 billion with a growth rate of 2.8%, and Japan economy: $91.6 billion with a growth rate of 2.2% in 2006. Chinese imports had

grown by 20%, taking in direct foreign investments up to $69.5 billion powerfully supporting the economic development in 2006. The steady optimistic trend of the world economy creates more room for the robust promotion of the internalization of Chinese auto industry.

The country's overall fixed assets investment had increased by 24%, the total volume of retail sales of consumer products by 13.7% and exports growth by 23.8% in 2006. The above factors have driven thel national economy to a rapid growth . The rapid development of total volume of retail sales of consumer products results from the clinetele's income increase, reduced expenditure expectation and the formation of consumers' hot spots. The rate of average discretionary income of urban citizens had increased by 10.4%, quickened by 0.8% over the previous year, the net income of countryside populace actually increased by 7.4%, higher than 1.2% over 2006. In addition, the standards for enterprises retirement pensions in an enterprise is greatly increased and the coverage of social security is enlarged, the tuition fees in some rural schools have been reduced or canceled, pilot programs for a new type of rural cooperative medical system are widened, thus lowering the expenditure expectation of the citizens.

The statistics on 2005 highway and waterway transportation industry issued by the Ministry of Communications revealed that the total mileage of the national highway network had reached 1.9305 million kilometers by the end of 2005. The transport infrastrucutre construction had made outstanding achievements, and the traffic safety had been greatly improved, and better achieved in the fulfillment of major tasks set by the 10th Five-Year Plan, thus laying a solid foundation for the highway development in the 11th Five-Year Plan. On the other hand, highway construction made a historical breakthrough. In the 10th Five-Year Plan, highways up to 24,700 kilometers in total length had been constructed, 1.5 times of the counterpart completed in the 7th Five-Year Plan, the 8th Five-Year Plan, and the 9th Five-Year Plan combined. The newly-completed highways in 2005 had reached 6,717 kilometers. Rail traffic mileage in Henan, Guangdong, Inner Mongolia, Jiangsu, Hebei, Zhejiang, Shanxi and Gansu each exceeded more than 300 kilometers respectively in 2005. In line with the requirement set by the Ministry of Communications, all towns and administrative counties with highways should have cross-country buses. The communication rate in the comparatively developed towns and administrative counties in the east and middle areas of China is better to reach 100%. During the 11th Five-Year Plan period, the national arteries in State-owned highway network (five vertical and seven horizontal ones) will be completed, the national network of expressways (seven radiate, nine vertical and eighteen horizontal oness) will be gradually implemented with a total mileage of 85,000 kilometers, newly-completed highways in rural areas will be 0.81 million kilometers in length. The high-speed passenger and cargo transportation network will be basically formed, capable of enabling a traveler to tour and reach the destination in the same day within 400~500 kilometers, and can arrive the destination in a day within 800~1000 kilometers. The improvement of the highway‘s distribution and the constant increase of

highway mileage play a decisive role in improving the consumption environment of the auto industry.

Under the favorable macro-economic environment, the overall inverstment into fixed assets and consumers' booming consumption drive and quicken the development of the Chinese auto industry. The demands on various auto products have been elevated to a new stage. While Chinese auto industry integrating itself into the world auto industry, it also enters a new developmental stage based on its independent innovation.

3.3 Social environmental analysis

"Statistical Communiqué of the People's Republic of China on the 2006 National Economic and Social Development" recently issued by the State Statistical Bureau revealed that the total number of civil motor vehicles had reached 49.85 million units (including 13.99 million tri-wheel cars and low-speed cargo trucks) by the end of 2006, increased by 15.2% compared with that by the end of 2005. Wherein private cars reached 29.25 million units, increased by 23.7%, civil sedans reached 15.45 million units, increased by 27.2%, of which private sedans reached 11.49 million units, increased by 33.5%. With more and more consumers purchase their own cars, the number of various autos owned by individuals reached 29.25 million units for the first time. In average, 100 urban families possessed 3.37 autos in 2005 according to the State Statistical Bureau and the proportion was still elevated in 2006. The rapid development of Chinese auto industry is mainly motivated by the rise in the consumption capacity. To be specific, firstly, some citizens afford to purchase autos because of the growth of GDP per capita. Secondly, the government has adjusted consumption policies in order to boost the domestic demands and the formerly untappedauto consumption potentials are turned into actual purchasing power. Thirdly, after China's accession to the WTO, the Chinese have changed their expectations, and gradually released their purchasing ability with money in hand. Fourthly, the mentality of "keeping up with the Jones" held by the Chinese fuels auto consumption fad in some cities. Autos have more and more significant influences on Chinese society in terms of industries, transportation, and life span. The influence from the public consumption has far exceeded that from the auto industry itself. The auto is not only a thruster to economic growth, but changes people's concepts about distance and time after its accession to common families on a large scale. So do the production and travel modes, choice of living conditions , urban and countryside life style, amusement & entertainment as well as business-making mode in the process. As a result, it further influences the employment structure, social relationship, communication manners, living tempo, knowledge structure, culture and conventions, thus resulting in the formation of Chinese "auto culture".

Table 3-2 Chinese auto ownerships and the number of driversin the period from 1998 to 2005

Year	Total	Auto ownership (in unit)					Drivers （person）
		General-use trucks		Special purpose trucks	Passenger cars		
		Total	large-sized		Total	large-sized	
1998	13,193,034	6,093,101	2,989,218	185,842	6,548,324	520,875	29,740,612
1999	14,529,413	6,557,436	3,130,373	212,092	7,402,307	570,097	33,611,247
2000	16,089,101	6,975,882	3,237,517	187,319	8,537,333	604,636	37,465,123
2001	18,020,408	7,409,781	3,293,677	242,615	9,939,595	692,491	44,626,768
2002	20,531,677	81,22,171	-	-	12,023,679	754,844	48,270,803
2003	23,829,254	85,35,066	-	-	14,788,082	757,612	53,680,656
2004	26,937,137	-	-	-	17,359,055	780,558	71,016,414
2005	31,596,629	-	-	-	21,324,553	821,324	80,177,560

Data from: statistics of Ministry of Communications of PRC

Note: the statistical coverage has changed since 2002 as its was incomparable to the previous year. i.e. The category set for general trucks is changed from two entries (large and small & medium-sized) to four entries (large, medium-sized, light and monotype).

The construction of a harmonious society is an important content in the 11th Five-Year Plan. With the rapid development of national economy and the improvement of people's living level, the number of purchased autos keeps rising. Being used in more and more areas, autos becomea great convenience to the public in daily lifeand economic life, but also cause issues concerning safety, power supplies, environmental pollution, traffic jams and independent development, etc.

In terms of energy consumption: Chinese autos consume the lion's share of domestic hydrocarbon fuels. China's fuel consumption for autos in quantity increased from 70 million tons in 2003 to 81.2 million tons (about 594 million barrels), accounting for 1/3 of the total domestic petroleum consumption in 2004. Since the auto popularization rate in China was far lower than that of the international level, the fuel consumption rate for autos was also lower than that of the foreign level. Fuel consumption for autos in China accounted for 85% of the Chinese output volume of gasoline resources, 20% of the Chinese diesel resources in 2004. In a long run, auto fuel consumption will keep on rising. Being violently impacted by the soaring international oil prices, the prices of domestic finished oil products mainly depended on imports are inevitably on the rise, which injuring the interests of both the manufacturers and consumers. According to an estimate, the annual production of Chinese autos will achieve 20 million units, the number of autos in operation across the land will exceed 130 million units and 260 million tons petroleum will be consumed by

2020.

In terms of environmental protection: the emission-caused pollution is very serious. Although the emission has been restricted by h the National Standards III,, an equivalent to the Euro Standards III, there are still headaches of serious emission in some areas. Together with the skyrocketing oil prices, the development of autos with new types of energy forms is inevitable.

In terms of safety: auto safety is an important factor to construct a harmonious society. The biggest hope of human beings is not only gaining more freedom of time and space, but the freedom to live and survive. There are more than 100,000 people dying from traffic accidents according to the official statistics since 2000. Traffic accidents only occurred in the last year caused the economic losses up toabout 300 million yuan. , the death rate per 10,000 people reaches as high as 0.1%, much higher than that of 0.02% and 0.03% in Europe and America respectively. The performance of auto drivers, road management and equipment, public safety consciousness, education of traffic safety regulations are all closely related to the tragedy of high death rate, while the driver's performance accounts for about 10% of the toll. There are many disputes on the provisions enlistedin the Road Traffic Safety Law enacted in 2006, in particular to the Article 76 of the Law. The Committee for Internal and Judicial Affairs under the National People's Congress suggests the laws be improved on thebasis of the implanted experiences from the enforcement of relevant regulations and listing it in the legislative agenda of the National People's Congress. The implementation of compulsory transportation insurance caused the ups and downs in demands in July 2006, the transactions of passenger cars fell into the bottom in quantity in July and August, plunging deeper than that in previous years.

In terms of auto-using costs: the soaring increase of oil prices and insufficient parking lots result in the rapid increase in fuel consumption fees and parking fees for private-owned cars. The rapid increase of international oil prices exerts great pressure on consumers in terms of consumption expenditure and discourges their purchasing desires. At the same time, the quick growth in the expenses to own a car and put in use of it results in the increased pressure of low-end consumers to support their cars. Their seriously injured purchasing desires finally result in the fact that the sales of low-price passenger cars far lag behind that of the overall trading level in the market.

The government has guided the auto consumption to develop in a energy-efficient and green way through preferential treatment in taxation since 2000. "Auto Industry Development Policy" reveals that the nation steers and encourages the development of energy-efficient and pollution-free autos with small displacement engines. The stipulations of auto consumption tax in line with the principle of "a lower tax for cars with low emission, a higher tax levied oncars with higher emission" passes a signal to the market: the State encourages the production of autos with small displacement engines. The structural adjustment of demands and supplies in the auto market can

be finished by working on market expectations. The General Action Plan for Energy Conservation and Pollutant Discharge issued by the State Council indicates that China will establish and perfect tax policies of encouraging energy efficiency and less emission, and issue fuel taxes at a proper time and discuss to levy the environment tax. The above policies show the fact that China has quickened its step in the supplies of clean energy sources.

The government will lay emphasis on energy efficiency, less emission and curbing of the air pollution to protect China's environment and save power consumption.

It is necessary to develop an urban system of public traffic network featuring energy-saving, cleanness and high efficiency, curbair pollution and achieve goals of energy saving and lower the amount of emission. The government has taken a series of measures and achieved a lot in order to improve the air quality since the beginning of the 1980s. The implementation of Phase I and Phase II vehicle emission standards actually improved the national environment. The nitrogen oxides and other pollutants discharged by autos reduced remarkably from 2000 to 2004. The emission amount per auto has decreased by about 70~87% from the former zero standards to implementing the international standards. The nation plans to exercise the Phase IV Standards by 2010, and the emission per auto will be reduced more than 90% with a dramatic effect.

To develop an urban system of public traffic featuring cleanness and high efficiency is one of the paramount measures to reduce emission and save power consumption. The operational costs of urban underground and public buses only account for 1/5~1/10 of self-driving expenditure. So the development of a public traffic system can greatly reduce energy consumption and emission of pollutants. The government should enhance the construction of innovative and basic facilities, and provide a clean, high-efficient and comfortable traffic environment for the public.

The NDRC has stipulated and implemented auto fuel consumption standards and regular announcement to the public, publicizing the parameters for 409 auto varieties, and this is the first time when the Chinese government to declare auto fuel consumption data to the public. The act means that consumers can obtain more reliable, objective, precise and valuable auto consumption data from the national authorities from now on. Supported by the rational selection of consumers and guided by the marketing trends for auto consumption, the issues concerning energy-saving and lower emission will be handled rationally and the structure of the auto products will be optimized.

3.4 An analysis of the technical environment

Auto-related knowhowis a comprehensive technology integrated with various techniques. Auto development technology is closely related to auto manufacturing expertise. Without advanced auto

manufacturing technology and improvement of the overall national level of industrial technologies, it would be hard to advance tje development of car-making technology. Without powerful development capability as a backing constantly providing various new products, there will not be a marketing share to match it. However, acting as a hallmark to represent the comprehensive capacity owned byan enterprise, even that of the national comprehensive strength, Chinese auto development level still has a long way to goin comparison with that of developed countries.

To update developmental expertise can ensure the substantial development of the auto industry. At present, Chinese auto industry is facing great pressure from environmental protection, urban construction, traffic safety, while the operational safety, environmental protection and energy efficiency of the self-developed products should be based on the comprehensive renewal of the developmental expertise. The industrializations of electric vehicles and mixed-power autos are also have policy support in China. China had carried out a plan for their development during the 11th Five-Year Plan, and invested 880 million yuan to develop electric vehicles, of which, FAW and Dongfeng witnessed the greatest achievements. Chery and Chang'an electric vehicles are expected to achieve industrialization. The " Action Plan for Sustainable Development in China" by NDRC reveals that Chinese auto industry should take a road of sustainable development, and safety, environmental protection and energy-saving are major issues for the Chinese auto's sustainable development as well as the major orientation of Chinese auto technology development.

(1) Safety issue. Auto users have two kinds of demands in safety: active safety and passive safety. Active safety technologies includes its braking, suspension, steering systems, automatic speed control , widened vision for the driver's view and facilitating the driver's devices to control and display, etc. Passive safety includes the design of integrated passenger compartment and energy absorption devices, the equipment of the modernized safety belt and safety gas bag, etc. The improvement of auto safety technology and the wide usage of life-saving devices render the maximal protection to drivers, thus greatly reduce casualties and damages from traffic accidents in recent years in China. Farthest reducing casualties from traffic accidents is an urgent technological issue for vehicle engineers in relevant research fields. Scientific institutes, colleges and universities as well as enterprises should invest more in it and actively motivate the development and implementation of active technologies including ABS, TCS and ESP, and passive technologies including the introduction of modern safety gas bags, renovated safety belts, etc.

(2) Issues arising from environmental protection. The establishment and implementation of strict auto emission standards can ensure the sustainable development of the auto industry. China has worked out relevant national standards based on European standards. Multiple advanced auto enterprises have been dedicating themselves to developing "green autos" of low pollution and less energy consumption which satisfy the requirements of environmental protection and resourcesrecycling opereation in each process of the car's whole life cycle including production,

usage, dismounting, re-usage, etc. For example, hundreds of new materials are used a car, including heavy metals, organic compounds, plastics, etc. Scrap autos will result in environment pollution if disposed improperly. Therefore, enhancing control on scrap auto pollution becomes one of a new subject for auto environmental protection. Chinese "green autos" have large gap with those of developed countries in terms of scientific level, production scale, and marketing system. As a result, it is necessary for the nation to comprehensively support the scientific research, production and commercialization of "green autos" in the aspects of information, professional training, taxation, credit and so on, thus turning out products with high quality and low cost, achieving scale-derived benefits and accomplishing industrialization. At the same time, relevant departments should enhance the work to draft plans, form special consortiato tackle key problems, and take an integrated approach of scientific research, lab experiments, production and promotion, so as to improve the designing and manufacturing level of Chinese "green autos", quicken the tempo towards industrialization.

(3) Energy-saving issues. The development of auto energy-saving technologies needs more investments and encounters more difficulties. The government, enterprises and scientific institutes should enhance cooperation, quicken self- development capacities, introduce and implement various new and high-tech energy-saving technologies, such as improving the combustion efficiency of engines, reducing wind-caused and rolling resistance, adopting light weight technology, and actively promote the R&D of energy-efficient and environmental-friendly autos including purely electricity-driven vehicles, mixed power autos and fuel battery-powered autos. The Ministry of Science and Technology had listed the expertise to develop electric vehicles a top priority in the National 863 Plan in the 10th Five-Year Plan in 2001, which started an R&D fever of electric vehicles. In recent years, China has made rapid progress in the design of the complete vehicle , its driving system, battery management, especially the development of highperformance arrays of power batteries including the Lithium-ion cells, fuel cells, etc. as vital elements for driving the electric vehicles. But the high cost and insufficient matching equipment hinder the popularization of electric vehicles. The nation should take proper preferential measures to encourage the consumption so as to quicken its process of industrialization. In addition, light weight technology is also an effective measure to promote energy-saving and environmental protection. According to the calculation, if an auto's weight decreases by 10%, its fuel combustion efficiency will increase by 15% correspondingly. The auto's light weight technology includes optimal design of auto's integral structure and the usage of lightweight materials. In terms of structural design, front-wheel drive, high-rigidity structure and super-light suspension structure will be adopted to reduce weight and the method of finite elements and optimal design are adopted to analyze structure and optimize it, thus lightening whole unit's body framework, engine and transmission system. In terms of materials, light materials like Al-based, Mg-based alloys, high strengthening steels, plastics, ceramics and complex or composite materials are adopted to reduce

auto weight.

4 The general development momentum in Chinese auto industry

4.1 The sound development seen in recent five years

After achieving the preset targets of national volumes in output and sales up to2 million autos in 2000, Chinese auto industry had fulfilled the requirements set for it during the 10th Five-Year Plan period. As a result, Chinese auto industry still keeps rising rapidly in the successive five years. According to statistics from China Association of Automobile Manufacturers, the output and sales of Chinese autos amounted to 2.3344 million units and 2.3637 million units respectively in 2001 (the year of China's accession to WTO). Hence, both the output and sales of Chinese autos increased 1 million units each year without a lull. The output and sales amounted to 3.2512 million units and 3.2418 million units, increased by 38.49% and 36.65% over the previous year respectively, and achieved the goals stipulated by the 10th Five-Year Plan three years in advance in 2002. In 2003, the national output and sales amounted to 4.444 million units and 4.3908 million units, increased by 36.7% and 35.2% over the previous respectively. After the two successive years of "blowout", Chinese auto industry begins to see a period of stable development, leading to both the national output and sales amounting to 5.0705 million units and 5.0711 million units, increased by 14.11% and 15.5% over the previous year respectively.

Table 4-1 Major indicators of Chinese auto industry 2001-2005

Major indicator	2001	2002	2003	2004	2005
Auto output（in unit of 10,000）	234	325	444	507	570
Sedan output（in unit of 10,000）	70	109	203	231	276
Added value of auto industry (in unit of 1 million yuan)	1055	1585	2153	2573	2785
Sales revenue (in unit of 1 million yuan)	4253	5947	8144	9134	11895
Total tax (in unit of 1 million yuan)	502	752	1033	1064	1122
Total profit (in unit of 1 million yuan)	204	373	556	575	526
Export revenue (in unit of $1 million)	27	33	80	127	197
Total fixed assets investment (in unit of 1 milllion yuan)	194	283	498	641	700

Data from: Annuals of Chinese Auto Industry

The five backbone auto groups of FAW, Dongfeng, SAIC, Chang'an and BAW always occupy about 60% of the marketing shares in the aspects f sales. FAW put forward a goal to achieve its annual volumes of output and sales up to 0.65~0.8 million units gaining 80 billion yuan in annual sales revenue and 3 billion yuan in net profit by the end of the 10th Five-Year Plan at the endin of 2001. By the end of 2002, the goal had been partially or nearly achieved. In addition, FAW sold out more than 1 million units in 2004, of which 50% were those of it self-developed independent brands, and exported 10,000 autos of its self-developed brands. SAIC planned to grow its own the annual production capacity to 0.7 million units by the end of the 10th Five-Year Plan with sales revenues of 160 billion yuan and had achieved that in advance in 2003. At the same time, SAIC was successively enlisted in Fortune Top 500 Firms with its sales revenues of $11.7 billion in 2003. Together with its rapidly increased production output and sales as well as other constantly developing auto groups, Chinese auto industry has ranked third or fourth (from formerly eighth in 2001) and is enlisted in the rank of the world auto production and sales giants.

The ambitious programs in the 10th Five-Year Plan involve the construction of nation-scale technological development centers to turn out autos, auto parts, motors, infrastructure construction and reconstruction of experimental facilities for national authentication and testing mechanism, reconstruction of economic sedans, manufacture and reconstruction of vehicular engines for auto use, ABS devices, safety gas bags, emission purifying systems, automatic gear boxes and some other key auto parts. Owing to the development of these programs, Chinese auto industry is effectively promoted technologically. Viewed from a microscopic angle, safety technologies such as ABS, safety gas bags, automatic gear boxes, pullingcontrol systems and sideslip preventive systems which can only be seen in the high-end luxurious sedans five years ago, now are even available in economic sedans.

In the wake of the more and more detailed and comprehensive compulsory standards issued by the nation, Chinese autos have been greatly improved in the aspects of safety, environmental protection and energy-saving. In terms of environmental protection and energyefficiency, the program to develop electric vehicles was an important part for the "National 863 Plan" in the 10th Five-Year Plan. China has made rapid progress in mixed power autos, pure electric vehicles and fuel battery autos. A batch of FAW- and Dongfeng-msnufactured mixed power autos have been put into operation signifying the beginning of the industrialization of green autos at the concluding stage of the 10th Five-Year Plan.

In its effort to formulate emission-related and environmental protection standards, China has been trying to keep up with the advanced level ever achieved by the international community. At present, China stipulates vehicular emission standards in line with their European counterparts.

China's National Phase II Emission Standards waere issued and implemented in 2003. Although its enforcement lags behind 7 to 10 years compared with that in European and American countries, some cities have already introduced the Western standards ratified by the State in advance. For example, Beijing started implementing National Standards Phase I,II and III in 1999, 2002, and on December 30 this year respectively, ahead of other cities for about two years. Beijing is expected to take the lead in implementing National Standard Phase IV in 2008. In line with the environmental protection standards, all autos produced by China now should abide by the norms set for controlling the emission and noise as well as electromagnetic compatibility while the technology of curbing the engine's emission should be adopted at large. At present, many industrial standards and compulsory norms prescribed byof the Chinese auto industry are on a par with international ones, thus creating new horizons for the industry to take part in international competition.

There are many constructive cases in the auto industry since 2002. FAW re-organized Tianqi in June 2002, which enhanced the strength of its economic autos; Dongfeng and Nissan were financially combined in September 2002, opening a new way to co-investment in a comprehensive manner in the auto industry; BAW cooperated with South Korean Hyundai to form Beijing Hyundai Auto Company in October 2002, so as to turn off the pageof the car-making history that Beijing had been unable to produce sedans. At the same time, civilian capitals emerged as a new force and directly entered into the auto industry. Capitals from industries like fridges, washing machines, air conditioners, cell phones, cells & batteries, petrochemicals, tobacco, even brewery made their way into the auto industry in force from the latter half of 2003 to 2004, involving lots of civilian enterprises. AUX purchased Shenyang Shuangma with 50 million yuan, elbowing its way into the auto industry, and then it announced to invest another sum of 8 billion yuan to build an auto industrial park with an annual capacity up to 0.45 million units; Media Group officially merged Hunan Sanxiang Bus Group with an initial investment of 0.3 billion yuan; Bird joined hands with NAC; AMOI announced to inaugurate joint ventures with NAC with 0.175 billion yuan at its own disposal; Geely planned to establish a base for turning out 300,000 economic sedans; Hunan Torch rallied Shaanxi Automobile Group Co. Ltd. to establish Shaanxi SINOTRUK and regrouped Red Flag Hongyan; Honda Group controlled the majority of the stocks owned by Yancheng Zhongwei Passenger Bus Co. Ltd.，Beijing CAMC Yanjing Auto Co. Ltd., Shanghai Guanghui Auto Co. Ltd. and dealt with Xi`an Lishan Automobile Factory by holding the latter's certain portion of stocks in a row. SG Automobile acquired Huanghai Bus; Lifan successfully obtained its sedanmanufacturing license…Although most civilian capitals scrampbled to put themselves in manufacture of commercial-use vehicles including trucks, passenger cars, and off-roads, it already hinted that the traditional pattern of auto production monopolized by the State has been undergoing some changes. Chinese auto industry enters into a new area when diversified economic sectors develop jointly and compete with one another. Civilian capitals together with

national capitals and foreign investments will become the major three backbones which control the future of Chinese auto industry.

China spares no efforts in enhancingits international competitiveness of its auto products since its accession to WTO. China exported complete vehicles and auto parts in various specifications to more than 170 countries and regions of the world in 2005. Although Chinese auto products are mainly exported to some developing countries like those in Asia, Middle East, Africa, and Central and South Americas, its developing potential can not be neglected.

With the constant improvement of the overall strength in the major auto enterprises at home, especially the sedan manufacturers , the technically added values of their products saw a trend of gradual rise, thus result in the dramatic improvement of the capacities to export vehicles in complete units based in the context of rapid growth achieved in previous years. Complete vehicles and auto parts are major items exported abroad. According to statistics released by China Taxation on foreign trades, the exporting amount of Chinese autos for the first time exceeded that of the imports over 7,000 units from January to October this year. The statistics showed that China exported 135,000 autos in total during the first 10 months, increased by 133.6% over the previous year, and imported 128,000 autos during the corresponding period, decreased by 11.6% over the previous year. The total revenues by exporting Chinese autos reached $2.145 billion in 2000, while the same figure numbered $14.438 billion in the first three quarters this year, an increaseof nearly 7 times.

While Chinese national brands have found their footholds in domestic market, they begin to go abroad. Chery received the first order from Syria in October 2001, established cooperative lisaison with Iran SKT at the end of the same year, and obtained production and sales licenses from Iranian government at the end of 2002, markingits first step to open up factories overseas. In addition, Geely, Great Wall, BYD, and Lufeng went abroad in succession. Yutong and Jinlong, etc. have scored massive exports of passenger cars, and gradually established their networks fpr post-sales service and spares-supplying bases abroad.

4.2 Annual Increases Achievedin 2006

4.2.1 The increases of output and sales

Chinese auto industry witnessed a new round of rapid growth once again in 2006 after scoring a growth rate betweem 12% and ~15% in the two successive years. Its volume in the output or sales both exceeded the ceiling of 7.2 million units, specifically 7.28 million units and 7.22 million units, increased by 27% and 25% over the previous year respectively (12.56% and 13.54% respectively

in 2005). The auto industry was characterized by demands of dramatic increase for passenger cars in 2006, wherein basic passenger cars (sedan) made the largest contribution in the business fad, and the industry's output and sales of passenger cars arrived at 5.23 million units and 5.18 million units, increased by 33% and 30% over the previous year; the same figures for commercial-use vehicles achieved 2.05 million units and 2.04 million units, increased by 15% and 14% over the previous year respectively. The demands for trucks grew in a steady and sustained way. The domestic market for passenger cars gets rid of depression, and medium-size and light passenger has better marketing performance than those last year.

The most outstanding changes in the market of passenger cars in 2006 was the emergence of independent brands with a burgeoning developing momentum. It ranked first and owned more than 26% of market shares among joint ventured brands, wherein Chery and Geely sold out 0.3052 million units and 0.2047 million units respectively. More and more internationally famous joint ventures like Camry started to manufacture cars in China with a strong developing momentum. The market witnessed a more intensive competition in its medium and high-end parts. With the constant increase of using cost and guided by the domestic policies, autos with small displacement engines also developed quickly in 2006.

The output and sales of commercial-use vehicles achieved 2.05 million units and 2.04 million units, increased by 15% and 14% over the previous year still ranking first among all over the world in 2006. Meanwhile independent brands continuously guided the commercial vehicle's marketing trend and its market share exceeded 96%. Truck market enjoyed balanced supplies and demands with a sales volume up to 1.3172 million units, increased by 13.29% over the previous year. Passenger cars industry didn't go out from the depression, but it enjoyed balanced supplies and demands, especially large passenger cars which always had a good marketing performance.

Table 4-2 2005-2006 Chinese auto output

Unit: 10,000

Type		2005	2006
Total in auto industry		571.77	727.97
Commercial-use vehicles	Total	177.70	204.66
	Truck	116.24	131.80
	Semitrailer tractor	5.65	9.10
	Incomplete truck	29.10	34.39
	Passenger	17.68	19.53
	Incomplete passenger car	9.02	9.83
Passenger cars	Total	393.07	523.31
	MPV	15.51	19.47

	SUV	19.53	23.81
	Cross passenger car	81.26	93.08
	Basic passenger cars	277.88	386.95
Agricultural machinery		189.98	210.36
Motor		1776.72	2144.35
Auto engine		471.07	627.09
Motor engine		1895.30	2187.10

Data from: “Monthly Report of Auto Production and Sales” by China Association of Automobile Manufacturers

According to statistics of China Association of Automobile Manufacturers, the concentration degree of Chinese auto market is comparatively high. The production concentration degree of SAIC, FAW and Dongfeng combined is as high as about 50% since 2002 and the figure turns to 90% when taking 15 major auto groups into calculation. With the rapid growth of Chinese auto production, the market concentration degree of large enterprises gradually increases, while the market shares of the three giants gradually are in decline. With the regrouping of key enterprises in auto industry in 2006, the Top 10 Firms sold more than 0.2 million units respectively and their total sales reached 6.052 million units, accounting for 83.87% in total in the auto industry. SAIC, FAW, Dongfeng, Chang’an and BAW ranked the first fifth in sales among Top 10 Firms outshining other enterprises. Chery, Hafei, Huachen and Geely enhanced the competitiveness of their independent brands with the increasing R&D investments, and increased their market shares. The above four enterprises ranked from seventh to the tenth in terms of sales sold 0.3025 million units, 0.2668 million units, 0.2102 million units, and 0.2044 million units in 2006, increased by 59.91%, 4.22%, 71.40% and 35.06% respectively.

Table 4-3 The rating of annual sales volumes of the industry’s backbone enterprises in recent three years

Ratingr	2006		2005		2004	
	Name	Sales	Enterprise name	Sales	Enterprise name	Sales
First	SAIC	1224,008	FAW	983,140	FAW	1,007,471
Second	FAW	1,165,702	SAIC	917,513	SAIC	848,542
Third	Dongfeng	932,344	Dongfeng	729,033	Chang’an	579,520
Fourth	Chang’an	708,737	Chang’an	631,142	BAW	530,993
Fifth	BAW	685,062	BAW	597,258	Dongfeng	523,309
Sixth	GAIG	352,281	GAIG	237,150	GAIG	209,551
Seventh	Chery	302,478	Hafei	230,051	Hafei	205,115
Eighth	Hafei	268,835	Chery	189,158	Jianghuai	130,795

Ninth	Huachen	210,214	Jianghuai	154,340	Changhe	104,568
Tenth	Geely	204,431	Geely	151,366	Huachen	100,072

Data from: “Monthly Report of Auto Production and Sales” byChina Association of Automobile Manufacturer

The Top five groups of SAIC, FAW, Dongfeng, Chang’an and BAW accounted for 65% of the total sales volume of the entire auto industry, wherein the sales of passenger cars occupied 70% and the sales of commercial-use vehicles occupied 54%. The above five enterprises sold 1.224 million units, 1.1657 million units, 0.9323 million units, 0.7087 million units, 0.6851 million units in 2006, increased by 33.40%、18.57%、27.89%、12.29% and 14.70% respectively. The total sales of the above five enterprises amounted to 4.7158 million units, accounting for 65.34% of the total sales, of which, 3.6196 million passenger cars were sold out, accounting for 69.93% of the total passenger cars’ sales, and 1.0962 million commercial-use vehicles were sold, accounting for 53.74% of the total commercial-use vehicles’ sales in 2006.

Table 4-4 The market shares of major auto products produced by the five auto Giants in 2006

Major type			Unit	FAW	SAIC	Dongfeng	Chang’an	BAW
Total			Unit	1165,702	1224,008	932,344	708,737	685,062
Proportion in industry			%	16.15	16.96	12.92	9.82	9.49
Of the total	Passenger car		Unit	946,193	1163,684	656,647	530,632	322,532
	Proportion in industry		%	18.28	22.48	12.69	10.25	6.23
	Of the total	Sedan	Unit	872,772	748,707	550,265	251,732	269,531
		Proportion in industry	%	22.79	19.55	14.37	6.57	7.04
		SUV	Unit	9,086	0	33,293	13,062	44,829
		Proportion in industry	%	3.82	0	13.98	5.49	18.83
		MPV	Unit	19,283	46,540	26,288	14,918	0
		Proportion in industry	%	10.09	24.36	13.76	7.81	0
		Cross passenger car	Unit	45,052	368,437	46,801	250,920	8,172
		Proportion in industry	%	4.91	40.14	5.1	27.34	0.89

	Commercial-use vehicles		Unit	219,509	60,324	275,697	178,105	362,530
	Proportion in industry		%	10.76	2.96	13.51	8.73	17.77
	Of the total	Passenger car	Unit	4,866	6,655	4,876	26,239	16,207
		Proportion in industry	%	2.55	3.48	2.55	13.74	8.48
		Truck	Unit	105,071	38,177	98,401	150,540	312,925
		Proportion in industry	%	7.98	2.9	7.47	11.43	23.76
		Semitrailer tractor	Unit	24583	1311	12892	0	11340
		Proportion in industry	%	26.53	1.41	13.91	0	12.24
		Incomplete passenger car	Unit	7,625	0	34,850	0	0
		Proportion in industry	%	7.79	0	35.6	0	0
		Incomplete truck	Unit	77,364	14,181	124,678	1,326	22,058
		Proportion in industry	%	22.67	4.16	36.54	0.39	6.46

Data from: “Monthly Report of Auto Production and Sales” by China Association of Automobile Manufacturer

As the first year of the 11th Five-Year Plan, 2006 witnessed the further effects of the national macro-control. Under the guidance of the national macroeconomic policies, Chinese auto industry kept up a rapid development momentum and enjoyed a good start. According to economic indicator reports of 6395 enterprises above the stipulated sizes in China, all major economic indicators proceeded in a rapid growth rate, and obviously higher than that of the previous year, and the general benefits of the whole industry were in a dramatic rise in 2006.

4.2.2 Increased output value

The enterprises above the stipulated sizes in the national auto industry had accomplished

added-values totaling up to 37.9102 million yuan in 2006, increased by 34.52% over the previous year which is 17.92% higher than the increased margin of the whole country's industrial growth speed in average (16.60%) amounting to 9.7291 billion yuan; the industry's accumulated total of industrial output values amounted to 1555.616 billion yuan, increased by 29.20% which was 20.60% higher than the increased margin scored by the corresponding period of the previous year totaling 351.617 billion yuan; the accumulated total of the industry's sales value amounted to 1521.516 billion yuan, increased by 2.47% which was 17.70% higher than the increased margin scored in the corresponding period of the previous year totaling 327.924 billion yuan in the increased value.

The growth stance was in a fast track on the whole if in view ofthe basic situation in terms of the industrial added value, total industrial revenue and the revenue of total industrial sales for each month scored by enterprises above the stipulated sizes in the national auto industry in 2006. Wherein: the industrial added value increased so quickly, and its accumulated growth tended to fluctuate between 25.83%~41.18% in the first half of the year, and between 27.35%~37.80% in the second half of the year. Anyway, its monthly accumulated growth rate always exceeded the averaged level achieved by the national industrial enterprises above the stipulated sizes in the whole year.

The revenues of the production and sales scored by auto enterprises above the stipulated sizes totaled 97.81% in 2006, decreased by 1.33% over the previous year. Viewed from the ups and downs in the monthly rates of the accumulated revenues of the production and sales saw minor fluctuations between 97.08%~97.81% with an unclogged connetion between the industry's links of output and and sales.

With the recovery of the auto market in 2006, the production value of new products greatly increased if compared to that in the previous year. The production value of new products scored by the enterprises above the stipulated sizes in China went on with a rapid growth speed with an accumulated production value of 550.742 billion yuan which included an increase of 145.534 billion yuan, accounting for 35.92%higher than the growth rate (41.76% higher than the increased margin) over the previous year.

The growth rate of the production value of new auto products always maintained a negative growth stance in 2005, and suffered from rapid decrease in the first half of the year, and a slow-down which was seen also in the mire of the depression. The growth rate of the production value of new auto products enjoyed a comparatively high start, increased by 33.66% over the same months in the previous year-year in January and February; the growth rate dropped if compared to that in January and February or from March to September, but it was still high, and even the growth rate in May (may be the lowest point) exceeded 28%; the growth rate increased in January ~ February and October ~ December to different extents, culminating to to 35.92% in November, greatly higher than that in the previous year.

The production value of new auto products created by the enterprises above the stipulated sizes in 2006 accounted for 35.4% of the total industrial value, 1.75% higher than what scored by the previous year. The monthly proportions of the production value of new auto products in total industrial value saw a trend of stable fluctuation between 33.42%~35.98%.

The delivery value of the auto industry's exports in 2006 kept up a momentum of rapid growth. The accumulated export delivery value by the enterprises above the stipulated sizes amounted to 131.368 billion yuan with the increased value up to 37.226 billion yuan, increased by 39.57% over the previous year in 2006.

The growth rate of the export delivery value remained above 47% in the first half of the year, including those in January and February which ranked first and reached 50.03% ; those from March to May steadily dropped; that in June increased with a minor margin (equals to that in May); except for the drop of 3.18% in August and those in September and October equaling the figure reigistered in last year's same period, the other months in the second half of the year dropped slightly. Generally speaking, the growth rate of the exports' delivery value was constantly above 39% in 2006.

4.2.3 Flourishing sales

The auto market flourished in a selling spree in 2006. With the increase of demands, major business revenues increased quickly. Major business revenues accomplished by enterprises above the stipulated sizes in 2006 sawa rapid growth (apparently higher than that of the previous year). The buildup of accumulated major business revenues amounted to 1529.017 billion yuan with an increased value of 332.326 billion yuan, an increased margin of 17.12% over the previous year in 2006.

In review of the growth rate of major business revenues accomplished by enterprises above the stipulated sizes in 2006, the growth rate in the first quarter was the highest (reaching 34.26% over the previous year) influenced by the lower stance of the previous year; the growth rate slowly dropped from April to August with the increase in the monthly buildup of the previous year; the growth rate fluctuated between 27.77%~29.08%. The growth rate of major business revenues in 2006 saw a changing tendency of being " high at first and then low". Although there were slight drops in the growth rate, it still exceeded than those scored by the previous year.

Viewed from situational details of major business revenues accomplished by enterprises above the stipulated sizes in 2006, the business revenues of small industries grew rapidly with the growth rate up to more than 20% (obviously higher than those of the previous year). So, the major business revenues accomplished by auto parts manufacturers ranked first with revenues totaling 460.628 billion yuan with added revenues up to 114.288 billion yuan, increased by 33% (14.33% higher than previous year), and made the contribution up to 34.39% to the total revenues of auto

industry. Auto manufacturing industry also achieved high growth rate in major business revenues, the accumulated major business revenues reached 755.246 billion yuan with added revenues of 159.873 billion yuan, increased by 26.85% over the previous year (17.96 higher the increased margin scored by the previous) and made a contribution of 48.11% to the total revenues of the auto industry; the major business revenues accomplished by modified vehicle manufacturers, auto engine manufacturers and motor manufacturers achieved a total of revenues up to 103.309 billion yuan, 73.495 billion yuan, 136.339 billion yuan, increased by 24.26%, 22.83% and 21.72% over the previous year (24.54%, 25.59% and 7.95% higher than the corresponding increased margins scored by the previous yearr) respectively.

4.2.4 Increased payoffs

The profits and taxes achieved by the enterprises above the stipulated sizes kept a stance of high-speed growth with remarkable increased payoffs in 2006. The total profits accomplished by enterprises above the stipulated sizes reached 76.773 billion yuan including with an increase of 24.206 billion yuan, 46.03% higher than the same figure of the previous year (or 70.36% higher than the increased margin of the previous year) in 2006. The total profits and taxes accomplished reached 151.183 billion yuan with an increase up to38.692 billion yuan, 34.40% high than that over the previous year (or 42.21% higher than the increased margin of the previous year). Wherein, major business taxes and surtaxes amounted to 30.445 billion yuan with an increase up to 8.215 billion yuan, 36.96% higher than that of the previous year; the value-added taxes amounted to 43.945 billion yuan with an increaseup to 6.270 billion yuan, 16.64% higher than that of the previous year.

The growth rates of profits and taxes of enterprises above the stipulated sizes in Chinese auto industry in 2006 set out from an optimistic start and then kept a comparatively high-speed growth in spite of the tendency of being " high at first and then low" (a drop in growth rate). The growth rate in January and February was the highest (reaching 129.81% and 75.16% respectively) influenced by the lower buildup of the previous year; the growth rate of profits and taxes both greatly dropped in March with the increased monthly bases of the previous year, decreased by 47.11% and 17.93% respectively if compared to those in January and February; the growth rate of the profits started to rise and up to 88.65%, 5.95% higher than that in March, while the total quantity of the profits still dropped. On the increased monthly buildup in the previous years from May to November, the growth rate of profits and taxes all suffered a drop. The total profits in December slightly increased by 46.03% in growth rate, 1.59% higher than that in November, while the profits and taxes still slightly dropped by 34.40%, 0.21% lower than that in November.

The profits and taxes accomplished by enterprises above the stipulated sizes in Chinese auto industry in 2006 boasteda rapid growth, thus resulting in the certain elevated indicators such as

those concerning the industrial payoff capacity, operational capacity, developing potential, etc. in comparison to the previous year, all indicators except for asset liability ratio as well as production and sales rate were higher.

The auto industry in 2006 had made great progress in making up deficits, and its enterprises running in the red decreased both in numbers and in the total volume of losses. By the end of 2006, there were 6395 enterprises above the stipulated sizes in Chinese auto industry, 1018 of which ran in the red, a decrease of 7.79% over the previous year (involving 86 enterprises in number). Wherein, 215 enterprises running in the red are State-owned or State holding, a decreaseof 9.28% (involving 22 enterprises in number). At the same time, the total losses of enterprises above the stipulated sizes in Chinese auto industry amounted to 8.689 billion yuan, a decrease of 1.003 billion yuan, accounting for 10.35% over the previous year. Wherein, the losses of State-owned or Stateholding enterprises amounted to 4.134 billion yuan, a decrease of 1.628 billion yuan, accounting for 28.25% over the previous year.

The reasons why enterprises above the stipulated sizes in Chinese auto industry enjoyed rapid growth in both profits and taxes in 2006 are listed as follows:

First, a series of new policies issued by the national departments and bureaus like NDRC had been implemented successively since 2006. For example, “Suggestions on Encouraging the Development of Energy-Saving and Environmental-friendly Vehicles with Small Displacement Engines” issued by departments including NDRC, etc.; Ministry of Finance and State Administration of Taxation co-issued a notice to enact favorable policies like new consumption tax standards since April, which sent a specific signal to the market about the adjustment of auto industrial structure, limitationsd on the consumption of autos with large displacement engines, and encouragement of the development of autos with small displacement, thus brought benefits to relevant enterprises.

Secondly, enterprises actively faced the serious market changes, enhanced the management and timely adjusted their product structure, thus leading to higher payoffs and rapid growth in both production and sales;

Thirdly, last year was really the hardest for auto production and business in the recent three years and all economic indicators were at their lowest points. So based on the lower buildup in the previous year, all indicators in 2006 could enjoya higher growth;

Fourthly, the dramatic relief in the supplies of coal, power and oil ensured the booming production of enterprises in 2006.

The lastbut not least, the increase of major business revenues were 0.14% higher than its expenditure, while the operational cost of major businesses was 2.07% higher than their revenues.

Vewed from some of the situation’s details of major business revenues accomplished by enterprises above the stipulated sizes in 2006, the business revenues scored by small firms grew rapidly with growth spped more than 20%. Wherein: the major business revenues accomplished

by auto engines manufacturers ranked first, totaling 6.257 billion yuan in total revenues and 2.228 billion yuan in added revenues, increased by 55.30% over the previous year (91.98% higher than the increased margin of the previous year). Auto manufacturers and auto parts manufacturers also achieved 34.218 billion yuan and 29.514 billion yuan in total profits with 11.054 billion yuan and 9.359 billion yuan in added revenues, an increaseof 47.72% and 46.43% over the previous year (82.57% and 57.56% higher than the increased margin of the previous year) respectively. The profits accomplished by motor manufacturers and modified vehicle manufacturiers reached 4.340 billion yuan, and 2.464 billion yuan in addition to 1.143 billion yuan and 0.423 billion yuan in increased revenues, increased by 35.74% and 20.71% respectively (10.87% and 33.28% higher than the increased margin of the previous year) respectively.

4.2.5 Key enterprises

In the wake of the healthy development of the national macroeconomy in 2006, key auto enterprises (groups) embarked in a sound growth track with flourishing performance in both production and sales. According to their related report in 2006, the major economic indicators enjoyed a trend of rapid growth and their payoff capacities were greatly raised, meanwhile the overall indicators of their economic benefits were dramatically higher than those in the previous year.

In 2006, the auto industry got rid of the depression derived from 2005, and saw a trend of rapid growth in both production and sales. So did the key auto enterprises (groups). The nnual buildup of the industry's added values reached 156.1 billion yuan with an increase up to 36.515 billion yuan, accounting for 30.53% over the previous (or 38.94% higher than the increased margin of the previous year), which was 13.93% higher than that scored by the enterprises above the stipulated sizes; the accumulated total industrial output value reached 689.662 billion yuan with an increase up to 166.124 billion yuan, accounting for 31.73% over the previous year (or 31.08% higher the increased margin of the previous year); the total industrial sales revenues reached 676.558 billion yuan with an increase up to 160.545 billion yuan, accounting for 31.11% over the previous year (or 27.51% higher than the increased margin of the previous year).

The major business revenues of key auto enterprises (groups) in 2006 remained keeping a rapid growth over the previous year, and the accumulated major business revenues amounted to 764.868 billion yuan, an increase of 31.87% over the previous year. Thirteen of the fourteen key auto enterprises (groups) saw a business boom, and most of them enjoyed a double-digit growth. Jinbei Auto, Guangzhou Auto Group and SINOTRUK Group ranked the highest in terms of major business revenues among all key auto enterprises (groups) scoring 83.72%, 52.92% and 52.63% respectively in annual growth rate. FAW, Chang'an Group and SAIC also enjoyed a rapid growth in major business revenues, chalking up 42.29%, 39.27% and 36.84% respectively in annual

increase rate. Jiangxi Changhe Motors Co. Ltd., Beijing Company, NAC, Hafei, Dongfeng, Jianghuai and Qingling achieved 29.73%, 20.47%, 15.52%, 14.26%, 11.60%, 11.38% and 5.72% respectively in annual growth rate. However, the major business revenues of Southeast decreased by 18.26% over the previous year. FAW, SAIC, and Dongfeng still dominated the market. The proportion of major business revenues of the above three groups accounted for 28.46%, 19.95% and 18.14% of those key enterprises respectively. The marketing shares of FAW and SAIC increased by 2.09%, 0.73% respectively and the marketing share of Dongfeng decreased by 3.29% over the previous year. The marketing shares of Guangzhou Group, Beijing Company and Chang'an Company had seen an increaseup to 8.96%, 7.68 and 6.20% respectively, accounting for 1.23% and 0.33% (Guangzhou Group and Chang'an Company) and decreased by 0.72% (Beijing Company) over the previous year. The marketing shares of SINOTRUK and Jinbei Company were 2.87% and 1.60%, an increaseof 0.39% and 0.45% over the previous year respectively. The marketing shares of Jianghuai, Hafei, NAC, Changhe, Qingling and Southeast saw a decrease of 1.78%, 1.41%, 1.30%, 0.58%, 0.55% and 0.52%, all accounting for somewhere between 0.01% and0.33% respectively.

Influenced bya series of micro-tuned policies in 2006, key auto enterprises (groups) achieved rapid growth in profits and taxes, leading to higher payoffs higher than those scored by the previous year. The accumulated profits of key auto enterprises (groups) reached 35.415 billion yuan, an increase amount ofup to 12.306 billion yuan, accounting for 53.25% over the previous year (or 93.14% higher than the increased margin of the previous year); the accumulated profits and taxes amounted to 81.9 billion yuan with an increased amount of 23.319 billion yuan, accounting for 39.81% over the previous year (or 53.20% higher than the increased margin of the previous year). Wherein the taxes and surtaxes reached 23.385 billion yuan with an increased amount of 7.668 billion yuan, accounting for 48.97% over the previous year; the added-value taxes reached 23.1 billion yuan with an increased amount of 3.346 billion yuan, accounting for16.94% over the previous year; eight of the fourteen key auto enterprises remained keeping up a rapid growth in profits, of which the highest growth rate exceeded 200%, while a comparatively low growth rate also exceeded 30%. Wherein, the growth rates of Chang'an, SINOTRUK and SAIC all ranked in the first echelon with their profit growth rates up to 245.72%, 93.20% and 70.38% respectively. The profit growth rates of Beijing Company, Qingling Company, Dongfeng, SAIC and Guangzhou Group were 64.53%, 61.45%, 44.48%, 33.44% and 30.24%； The profit growth rates of Jianghuai Group and Hafei Group saw a decrease of 11.52% and 63.42% respectively over the previous year. After having made great progress in making up deficits since April, NAC kept the tendency of slight payoffs. Southeast was no longer running in the red since December through hard work, and its profits decreased by 14.41% over the previous year. Jinbei and Changhe still ran in the red, while the former decreased in losses and the latter increased in losses.

4.3 Forecast

It is expected that the Chinese economy will remain keeping a rapid development from 2007 to 2010. The auto market is in the rising stage of consumption, and more and more autos will be purchased and consumed. With the booming development of the national economy as well as the persistent improvement in both personal income and consumption level of the populace, the consumption demands for products over 100,000 yuan like autos and houses are to be gradually intensified. However, the popularization rate of Chinese autos is still low, so that the developing room for autos is promising and massive. As a result, there will be a high demands for various autos from 2007 to a long time in coming years thereafter. Learning lessons from developed countries as well as based on the current situation of China, the prospsects for the Chinese auto industry will be undoubtedly optimistic. Just entering the growing-up stage, Chinese auto industry will be feasted by one or two decades of rapid development at least in the context of a noticeable drop in its growth rate if comparedwith its latest developments scored in recent years. It is anticipated that the annual growth rate of the sedan production and sales will be about 20% in the coming 10 years.

The three domestic auto groups put forwards their scheduled agendas for independent innovations showing their determination on such endeavors. They strove to develop independent brands with the current advantages of technologies and talents, doing their best to achieve the industrialization and commercialization of sedans of their independent brands, quickly promote the international competitiveness, and introduce sustainable development in their performance. In terms of time, these manufacturers had initiated their scheduled programs for independent innovation ranging from 2 to 3 years.

The opportunities Chinese auto industry is to face far outstripped its surplus production capacities. In spite of worries about the latter, foreign investors will still want to invest in China because of the market unmatched capacity and marketing potentials in Chinese auto industry, so auto parts made in China are expected to enjoy rapid growth in exports.

The statutes on new auto industrial policies issued by China after 2005 specifically stress guiding and encouraging the nationwide development of electric autos, supporting the development of mixed power and fuel battery autos. Then a series of technical standards and norms for them were decreed. The nation’s increasing attention to cleaning autos can be sensed from these policies. At present, there are more than 100 gas-powered autos which have been widely used in 19 cities and areas; pure electric autos and mixed power autos developed by China have already started its model running. And the prototypes of fuel battery autos have been developed. From the perspective of energy-saving and environmental protection, the development of cleaning autos is the uninvitable tendency of Chinese auto industry.

The heavy-duty truck still houses great growth potentials in a long run for this country. The larger

the economic amount needed, the higher centralized degree seen in its production, and the greater demands surging for more mass transportmeans. China has entered an era of heavy industry and hence, the national economy will continue to grow rapidly for about the next 20 years and the production and sales have to dominate the market in a long run.

In line with the current conditions of Chinese auto industry and the external environment to be confronted by the major auto varieties and their development conditions, supposed that Chinese auto industry will not suffer from any significant changes in its external environment in 2006 and in 2007, in reference to the forecast made by China Association of Automobile Manufacturers about production of 6.3 million passenger cars, 4.8 million sedans and 2.2 million commercial-use vehicles in 2007, the Machinery Industry's Prosperity Monitoring Center calculates initially the growth rate of major auto varieties as well as the growth rates of commercial-use vehicles, passenger cars and the whole auto industry in 2007 through comprehensive research and analysis. The total output will achieve 8.5 million units in the Chinese auto market in 2007, including 2.2 million commercial-use vehicles and 4.8 million units passenger cars. Please refer to Table 4-5 for more details.

Table 4-5 2007-2008 auto output forecasts

Unit: 10,000

	2006		2007（E）		2008（E）	
	Growth rate	Output	Growth rate	Output	Growth rate	Output
Autos	27.32%	727.97	20%	882	16%	1021
Commercial-use vehicles	15.25%	204.66	10%	226	10%	248
Passenger cars	32.76%	523.31	25%	656	18%	773
Agricultural machines	10.73%	210.36	10%	231	10%	254
Motorcycles	20.69%	2144.35	10%	2358	10%	2594
Auto engines	33.12%	627.09	30%	815	30%	1060
Motorcycle engines	15.4%	2187.10	15%	2515	15%	2892

Forecasts from: The Machinery Industry-affiliated Prosperity Monitoring Center

5 The competition analysis and development forecasts in the Chinese market of passenger cars

5.1 The current situation in the Chinese market of passenger cars

Since the explosive development in 2002, the Chinese passenger car market has seen the two stages of the "take-offs" (from 2002 to 2003) and adjusted growth (from 2005 to 2006). The "take-offs" in the passenger car market should be calculated from 2002 which resulted from the intensive demands for private cars and as a comprehensive presentation of various consumption potentials accumulated from many years' high-speed growth of Chinese economy. Especially, the explosive growth of MPV and SUV showed the vitality of new trends, the SUV and MPV outshone the overall industry in terms of growth rate from 2002 to 2005.

Sedans sales accounted for 45.0% of the total auto sales in 2003, and the number was 45.9% in 2004. With the adoption of new statistical methods, the passenger cars accounted for 69% of the total volume of the autos sold out by the industry, exceeding commercial-use vehicles in sales volume for the first time in 2005 accounting for71.9% in increasein 2006.

The production output and sales of Chinese passenger cars in 2005 reached 3.9307 million units and 3.9711 million units, increased by 19.73% and 21.40% respectively (5% higher than that in 2004, but much lower than that of 80% in 2003). Wherein, the growth rate of MPV ranked first, increased by 40% over the previous year in 2005, the basic brands of passenger cars which occupied 50% market shares of the passenger cars increased by nearly 25%, while the growth of SUV slowed down, and its growth rate of output and sales also exceeded 15% over the previous year. The sales of domestic passenger cars reached a new height of 5.1759 million units in 2006, increased by 30% over the previous year (9% higher than that of 21% in 2005), which went beyond most of people's expectations. Among all passenger cars sold in 2006, 3.8289 million were sedans , increased by 36.89% over the previous year, 191,100 were MPVs , increased by 22.62% over the previous year, and 238,100 were SUVs , increased by 21.23% over the previous year.

Table 5-1 Growth rate of various passenger cars

Type	2002	2003	2004	2005	2006	Average annual growth rate

Total sales of passenger cars(in 10,000 units)	202.93	303.44	343.42	408.71	524.90	
Annual growth rate of passenger cars	56%	50%	13%	19%	28%	32%
Sedan's growth rate	68%	65%	12%	22%	35%	39%
MPV's growth rate	297%	49%	38%	24%	23%	66%
SUV's growth rate	59%	113%	7%	40%	21%	44%
Cross-country passenger cars growth rate	29%	10%	14%	5	10%	13%

Data from: China Association of Automobile Manufacturers

5.1.1 The Sedan market's analysis in 2006

Sedans with independent brands saw a growth trend by deep accumulation in market shares in 2006. According to statistics, 982,800 domestic sedans with independent brands were sold, accounting for 25.67% of the total sedan sales (4.13% higher than that of 21.54% in 2004). Among them, Chery and Qiyun had made the most outstanding performance with sales of 132,000 units and 101,300 units respectively (ranked 6th and 9th respectively). CK－1under Chery and F3 under BYD also made excellent performance by selling out 71,000 units and 51,000 units in 2006, becoming strong competitors among the similar brands. At the same time, Junjie under Zhonghua also made good performance with sales of 35,800 units for its high performance and price ratio and also enjoyed a superb developing momentum since its accession to the market in March 2006. Among the sedan manufacturers, Shanghai GM, Shanghai Volkswagen and FAW Volkswagen headed the list with sales of 365,400 units, 341,200 units and 340,600 units respectively, increased by 22.37%, 43.18% and 39.16% in contrast to those in the previous year. The total sales of the above three enterprises amounted to 1.0472 million units, accounting for 27.35% of the total sedan sales. In addition, the sales growth rates of Chery, Geely, Hafei, Huachen Jinbei and BYD were all outstanding, and the growth rates of Huachen Jinbei and BYD even increased as high as 530% and 440%. So their market performance stood out.

5.1.2 The MPV market analysis in 2006

The marketing demands for MPV still kept a stble growth in 2006. According to statistics, 191,100

units were sold, increased by 22.62% over the previous year in 2006. Of all MPV varieties, the series with cylinder capacity ranging from 2.5L（excluding）to 3.0 L (including) enjoyed the highest growth, the series with cylinder capacity ranging from 1.6 L （excluding）to 2.0 L (including) as well as from 2.0 L （excluding）to 2.5 L (including) remained keeping a comparatively high growth. The sales of the three MPV varieties mentioned above were 50,300 units, 45,000 units and 77,800 units in 2006, increased by 60.61%, 24.07% and 15.06% over the previous year; in contrast to the high growth of the previous year, the growth of series with cylinder capacity ranging from 1.0 L （excluding）to1.6 L (including) slowed down with sales of 17,300 units, increased by 6.95% over the previous year.

Of all major MPV brands, Buick GL8, Odyssey, Ruifeng, Fengxing and Premacy ranked the first five with sales of 38,000 units, 35,800 units, 34,400 units, 18,800 units, and 14,400 units respectively. In contrast to the previous year, demands for all brands except for Premacy increased, of which, Buick GL8 and Odyssey headed the list, accounting for of 44.76% and 29.89% respectively. The sales of the above five brands amounted to 0.1414 million units, accounting for 73.99% of the total MPV sales.

5.1.3 The SUV marketing analysis in 2006

Influenced by the increased levy of consumption taxes in 2006, SUV market grew quickly in the first quarter, and reached the peak in March, and the demands gradually shrank since April, and the growth rate even tended to drop from June to September, and the demands slightly recovered in the last quarter. Generally speaking, SUV demands in 2006 still kept growing steadily. According to statistics, 0.2381 million SUV were sold in 2006, increased by 21.23% over the previous year. Wherein 0.1072 million SUVs with the four-wheel drive and 0.1309 million SUVs with two-wheel drive were sold, increased by 10.31% and 31.93% respectively over the previous year;

Of all major SUV brands, Hafo, Tucson, TIGGO, Honda CRV and Leopard ranked the first five with sales of 29,000 units, 28,200 units, 28,100 units, 25,500 units, and 24,700 units respectively. In contrast to the previous year, the growth rate of Honda CRV and Leopard slight dropped, while those of Hafo, Tucson, and TIGGO increased explosively. The sales of the five brands mentioned above reached 0.1355 million units, accounting for 56.91% of the total SUV sales in 2006. On the contrary, the other SUV brands suffered from bad sales. The demands for high-end products including Terios, and Land Cruiser under FAW Toyota and Outlander and Pajero under Beijing Benz began to shrink obviously. In addition, the leading SUV enterprises like Zhengzhou Nissan, and Binzhou Gonow dropped in their sales in 2006.

5.1.4 Cross-country passenger cars marketing analysis in 2006

0.9179 million cross passenger cars were sold in 2006, increased by 10.40% over the previous year. The overall demands for them grew steadily, but its developing tendency were obviously in fluctuation. The sales in the first quarter were in good conditions, and slightly dropped in the second quarter because of the decreased market demands, and started to gradually rise after July, and rapidly grew in the fourth quarter, but didn't exceed that in the first quarter in spite of increased market demands.

Among all leading manufacturing enterprises of cross passenger cars, SAIC GM Wuling kept rapid growth and headed the list with the sales of 0.3684 million units in 2006, increased by 39.12%. Chang'an and Hafei, which ranked second and third, dropping in sales, but were still leaders in the industry. Their sales in 2006 were 0.2235 million units and 0.1375 million units, decreased by 3.43% and 11.28% respectively. The total sales of the above three companies amounted to 0.7294 million units, accounting for 79.46% of the total sales of cross passenger cars.

5.2 Competition analysis of the Chinese passenger cars market

The most popular autos in 2005 and 2006 included medium sedans such as Accord, Field, and economic sedans including QQ, Chery, Xiali, Geely and private sedans about 100,000 yuan in each unit's price including the new generation of private sedans like Elantra, Excelle, and Fit as well as the "evergreen tree" in the automarketing businneses including Jetta, Santana, etc. The ranking changes reflected the gradual improvement in consumption level of Chinese clientele. The lowered concentration degree of the Top 10 was due to the increase of new auto varieties.

Table 5-2 2005-2006 Top 10 auto brands in sales

Unit: 10,000

Rank	2006		2005	
	Type	Sales	Type	Sales
1	Jetta	17.68	Xiali	17.97
2	Excelle	17.65	Elantra	17.66
3	Elantra	16.97	Santana	15.11
4	Santana	16.29	Excelle	15.09
5	Xiali	16.19	Jetta	14.22
6	QQ	13.20	QQ	11.60
7	Accord	12.32	Accord	10.40

8	Lingyu	10.81	Fit	8.92
9	Qiyun	10.13	Geely	7.56
10	Corolla	8.01	Qiyun	6.80
Total	139.25		126.33	
Proportion of total sedan sales	36.37%		45.32%	

Data from: China Association of Automobile Manufacturers

Shanghai GM, FAW Volkswagen and Shanghai Volkswagen still ranked the first three in the sedan manufacturing industry. Some joint ventures like Hyundai, Toyota, Honda, Shenlong and Nissan were also atop the list. Chery, Geely and Xiali representing Chinese local independent brands were also enlisted in the tops. Chery has greatly increased in its sales and has become a great challenge to other joint ventures with explosive developing momentum, while FAW Xiali had dropped from Top 10 in 2006.

2006 still witnessed the increased number of passenger car manufacturers. The newly-entered enterprises to passenger car market all located themselves in sedan market, such as Lifan, and Guangzhou Honda which directly entered into the sedan market. The emergence of Lifan reflects the national support to civilian enterprises, which will facilitate the comprehensive competition of independent brands and multi-mode development. Because of great pressure, Jilin Tongtian Automobile Co. Ltd. and Shanghai Wanfeng Auto retreated from themarket of complete vehicles , and basically transferred their ownership rights to other enterprises. In addition, many SUV manufacturing enterprises suffered from a serious decline in sales. Enterprises which retreated from the market were mainly SUV enterprises because of the heavy pressure of economic SUV.

Chery and Chang'an Ford enjoyed the highest development among passenger cars enterprises in 2006. Chery performed excellent in exports. With intensive low-end product lines and new promotion in technologies, Chery was worthy of success with its pricing advantages. The success of Chang'an Ford resulted from the rapid accumulation of new products, and it was among the most competitive products all over the world. Focus distinguished in European market laid the most powerful basis for Ford. The introduction and accumulation of the product in global market certainly promoted the sales.

Producing new auto types is a way for passenger cars to expand in 2006. Many sedan enterprises started to enter into the market of MPV, SUV, and monotype passenger cars. In return, many MPV manufacturers began to set foot in sedan market. More and more passenger car enterprises dealt with multiple varieties, especially varieties with independent brands, such as Benben introduced by Chang'an to sedan market, Fashion launched by Jiangling to MPV market, V5 launched by Chery to MPV market, and Rein introduced by Jianghuai to SUV market. So did the joint ventures,such as Civic launched by Dongfeng Honda to the sedan market, Geniss launched by

Dongfeng Nissan to MPV market, Benz and Chrysler by Beijing Benz to sedan market.

Extending product lines is another form for the expansion of passenger cars. Low-end manufacturers wanted to move upwards, and high-end manufacturers started to extend to low-end market. The extension of product lines of enterprises effectively enlarged demands and achieved a lot. Shanghai GM was the most successful enterprises in expanding product lines with multiple brands operation, and by timely and sufficiently seizing various segments, segmenting market with brand strength, thus encouraged more sales. The three generations of Jetta of FAW Volkswagen also achieved product line expansion and became successful examples with the most popular old products. Small autos by Shenlong also extended well, and Triumph made certain breakthrough in its expansion to high-end market. In addition, Accent of Hyundai achieved sales growth by extending itself to low-end market.

The dominating position of new auto types in the market of middle and high-end passenger cars in 2006 was very clear. Audi sedans led the high-end market with a solid market status and its characteristics of constant improvement were always imitated by various luxurious brands. The new pattern dominated by Camry in the middle and high-end market reflected the integration of production force and price. Middle-end products shared the similar features with low and medium autos in length, wheelbase, displacement, etc. The new products in middle-end market outshone, such as the worldly famous Corilla and the later Focus (more successful). Jetta, old types like Qiyun and Xiali still dominated the low and medium auto market, and the new products hadn't obtained the absolute advantages which suggested that the comprehensive competitiveness of new products in prices was still not sufficient and the situation would certainly be changed.

The pricing competition was still intensive in 2006, and the dealer's prices in low and medium market kept downwards. The directive prices by manufacturers were no more referential, and the trade prices of all manufacturers to dealers greatly lowered. The growth in production and revenues for manufacturers in 2006 mainly resulted from the rapid drops in their costs, the realization of size benefits, and the increase of unit autos for the transformation of sales structures to high-end market. Those which achieved growth were mainly auto types with high profits, thus stimulate the total profits. Because of the inconspicuous price war in 2006, people thought that the prices were stable, while the price competitions were actually and constantly intensified. The price crisis will be more obvious and the price war will become apparent. However, the prices may be adjusted with the appearance of new products, and the higher directive prices will return to be rational again.

Chinese independent brands have been enjoyed an excellent developing momentum. Chery, Tianjin FAW, and Geely became leaders among them. The sales of Tianjin FAW, Chery, and Geely amounted to 104,500 units, 91,200 units and 71,600 units in 2003, 130,500 units, 79600 units and 80800 units in 2004, 192,900 units, 185,600 units and 149,800 units in 2005 and 196,800 units, 302,500 units and 204,300 units in 2006.

Sedans with independent brands made new sales breakthroughs in 2006, especially brands each priced about 100,000 yuan. BYD F3 made an obvious breakthrough and consumers expressed their recognition to independent brands each priced at about 80,000 yuan. The low pricing image of Junjie at the beginning of 2006 made a new breakthrough and independent brands each priced at about 100,000 yuan achieved a lot. The reduction in a unit's price of Family in October 2006 made great contribution to its sales, confirming the breakthrough of independent brands in A-grade auto market. Chery Tiggo in SUV market also made a breakthrough, and once ranked third in sales in SUV market based on its pricing advantages. Anyway, F3 and Junjie could not be accepted by consumers no matter how low their prices were without good quality as a precondition. The product differentiation is also a key to success. Independent brands were noted for their advantages in figures, prices, and outlooks, which satisfied the demands of low and medium-end consumers.

According to the statistics released by China Association of Automobile Manufacturers, there were 982,800 sedans with independent brands were sold in 2006, accounting for 25.67% of the total domestic-made sedans sold out in domestic market, being 4.13% higher than its counterpart (21.54%) in 2004. The Top 8 of passenger car enterprises in 2006 were Chery (302,500 units), Geely (0.204,300 units), Tianjin FAW (196,800 units), FAW Hainan (65,800 units), Hafei (64,500 units), Huachen (63,000 units), BYD (60,100 units) and Changhe (52,400 units).

Chery, Geely and Tianjin FAW formed the first layer, FAW Hainan, Hafei, Huachen, BYD and Hainan Changhe with annual sales between 50,000 units and 100,000 units formed the second layer，and the left were grouped into the third layer. Enterprises in the second and the third layers enjoyed powerful growth stamina with offensive advantages which we could sense from the eight enterprises with the highest growth records in sales in 2006: BYD enjoyed an increase by 438.14%, Huachen by 172.05%, Hafei by 62.94%, Chery by 59.91%, Chery by 36.34%, Changhe by 11.39%, FAW Hainan by 6.86% and Tianjin FAW by 3.58% over the previous year.

The Top 8 sedan makers in sales with independent brands in 2006 were: Chery QQ (132,000 units), Chery Qiyun (101,300 units), Xiali 7101U (93,000 units), Geely Leading (71,000 units), FAW Hainan Family (65,800 units), BYD F3 (51,000 units), Geely Meiri Youliou (59,100 units), Hafei Lobo (47,100 units). There will be three layers if classified by sales volume: above 1,000,000 units, between 50000 units and 1,000,000 units, and below 50,000 units. Chery QQ belonged to the first layer, the other sixes can be grouped into the second layer，and the left brands were classified into the third layer. The Top 8 in growth rates in 2006 were: Huachen Zhonghua 2.0 L, increased by 227.36%, Geely Leading by 168.99%, Chery QQ 1.1L by 88.17%, Changhe Suzuki Wagon 1.4L by 85.78%, Chery Qiyun by 73.13%, Hafei Lobo 1.0L by 73.11%, Tianjin FAW Xiali 7131U by 63.84%, and Chery Cross by 61.38%.

5.3 The developmental trends forecast for Chinese passenger cars

The national economy will still develop quickly, which is enough to support the rapid development of passenger car makers. However, policies to deal with issues arising from the surplus capacities of auto production under the economic conditions under the Chinese macro control policies will be issued l affect the development of the passenger car market. Policies exert more and more influences on the market since 2006. Financial and tax policies, technical standards, industrial control policies will have directly impacts on the passenger car market. Many passenger car enterprises have to face the elevated standards on displacement, comprehensive fuel consumption indicators, resultingin the more pressures imposed on joint ventures of senior autos than independent brands in 2007. Independent brands need further breakthroughs in growth. Junjie and F3 achieved much growth by its breakthrough and expansion to the common sedan market in 2006, while their new products can hardly make new ways into it in 2007. SAIC Roewe and NAC MG aim at expanding to medium and high-end market. It is reasonable to believe that A-class sedans with independent brands can made excellent achievements in their future performance, but they can't make any great breakthrough in its sales in medium and high-end market and marketing pattern was still being at its trial stage in 2007.

The populous capacity of the domestic market and huge system for car parts help China to be a powerful auto exporter. The exports and overseas bases construction of domestic enterprises will make further development, thus certainly increasing the export growth in 2007. A total of 126,300 passenger cars were exported in 2006, and the number will be more eye-attracting in 2007. The qejustment of exporting orders and the rise in currency exchange rates will not have great influences on exports, and nor major enterprises will be influenced by them.

The plans of production and sales for this year have been worked out by most major sedan enterprises. All of them are so self-confident and optimistic about their sales propsects for this year, so most of them have established production and sales objectives full of challenges.

Table 5-3 2007 production and sales objectives for certain enterprises

Unit: 10,000

Name	Preset objectives	Over the previous year	Plan for new types
Dongfeng Peugeot	10	25%	Peugeot 407 , Two-box Peugeot 307
Dongfeng Citroen	15		New Elysee, New Picasso
Chery	39.3	28%	A1, A3, Mixed power auto
Tianjin FAW	22	30%	Weizhi
Beijing Hyundai	31	8%	Two-box Elantra

FAW Toyota	26	16.6%	Corolla (new corolla), New Vios
Chang'an Ford	15		
Shanghai GM	48	20%	
Shanghai Volkswagen	42	20%	Skoda Octavia
Guangzhou Toyota	15		
Geely	29.6	48%	Langfeng, Geely, Haoqing and Meiri
Dongfeng Nissan	30		Note
Guangzhou Honda	31	25%	07 Odyssey 07 Accord

Data fromthe information disclosed by Machinery Industry's Information Center

In review of the development tendencies in Chinese market for passenger cars in 2005 and 2006, the Chinese passenger cars will keep developing with growth pace of 25% in 2007. Hence, the output volume of basic passenger cars will reach 5 million units, increased by 30%, and the MPV and the SUV will reach 240,000 units and 270,000 units respectively. It is anticipated that the passenger car market will still keep growing, but the growth rate will drop down. The total production output will achieve 7.7 million units, increased by 18% generally. Among them, the basic passenger cars will reach 6 million units, increased by 20%.

Table 5-4 2007-2008 production output forecast of Chinese passenger cars

Unit: 10,000

	2006		2007（E）		2008（E）	
	Growth rate	Production output	Growth rate	Production output	Growth rate	Production output
Total	32.76%	523.31	25%	656	18%	773
MPV	25.53%	19.47	25%	24	25%	30
SUV	21.91%	23.81	15%	27	15%	31
Cross passenger cars	14.55%	93.08	10%	102	10%	112
Basic passenger cars	39.25%	386.95	30%	503	20%	600

Data from: Machinery Industry Prosperity Monitoring Center

6 An Analysis and Forecast of Chinese Market of Commercial-use vehicles

6.1 Status quo of the Chinese Market of Commercial-use vehicles

Statistics released by China Association of Automobile Manufacturers (CAAM) showed that the average annual growth of Chinese commercial vehicle sales from 2001 to 2005 was 11.4 percent, Chinese commercial vehicle sales rose 14 percent in 2006, and vehicle production volume and sales respectively reached 2.05 million and 2.04 million, showing that China is still the largest commercial vehicle manufacturer in the world.

According to statistics made by China Association of Automobile Manufacturers, vehicle sales of five groups, i.e. Shanghai Automotive Industry Corporation (SAIC), FAW, Dongfeng Motor Co., Ltd, ChangAn Group and Beiqi Motor Co., Ltd in 2006, were still significantly higher than those of other enterprises, with sales volume of 1.0962 million, accounting for 53.74 percent of the total commercial vehicle sales.

Chinese bus & coach products are basically made with all of advanced bus & coach manufacturing technologies in the world. Although Volvo, Neoplan, Isuzu and other joint venture brands have occupied the higher-end market, their sales are relatively small and their market influence is limited to the high-grade bus & coach market. Domestic bus & coach producer used to improve their products competitiveness by introducing technologies, while the large and medium-sized buses and coaches and luxury buses and coaches with their own brands have occupied the dominant position in the market, and their products and technologies have been fully comparable to the world class ones.

6.1.1 Status of Bus & Coach Market

Production and sales of buses and coaches were in relatively sluggish state in 2004, with production volume of 273,800 and sales of 274,200, decreased by 7.95 percent and 7.16 percent compared with that in the last year, resulting from bus & coach industries, especially minibuses industry, being significantly affected by national macroeconomic regulation and control policies since 2004, and the sharp decline of the demand for minibuses in the market. Influenced by higher prices of production materials and rising oil prices, buses and coaches were still produced and sold in a low speed in 2005, with production volume of 274,600 and sales of 276,900, an increase of 0.25 percent and 0.89 percent compared with that in the last year. In 2006, bus & coach industries continued to maintain a favorable operating trend, with production volume of 301,800 and sales of 297,600, an increase of 8.64 percent and 6.29 percent compared with that in the last year.

Table 6-1 Sales of buses & coaches from 2004 to 2006

Unit: 10,000

	2004		2005		2006	
	Sales	Increase Degree	Sales	Increase Degree	Sales	Increase Degree
Buses & Coaches	27.42	-7.16 percent	27.69	0.89 percent	29.76	6.29 percent
Large Buses & Coaches	3.01	10.61 percent	3.90	30 percent	4.38	2.80 percent
Medium Buses & Coaches	6.02	5.02 percent	5.54	-7.86 percent	6.58	15.69 percent
Light Buses and Coaches	18.39	-12.77 percent	18.24	-0.95 percent	18.80	2.80 percent

Source: China Association of Automobile Manufacturers

Relatively good results were made in the large and medium-sized buses and coaches market in 2004, with accumulated production volume of 30,000 and sales of 30,100, an increase of 8.74 percent and 10.61 percent compared with that in the last year, because the pace of rehabilitation and upgrading of products were sped up by large and medium-sized bus & coach enterprises led by Zhengzhou YUTONG Coach Manufacturing Co. Ltd, Kinglong United Automotive Industry (Suzhou) Co., Ltd and others, and marketing methods and means were closer to the market needs. Demand situation of large buses and coaches has been good in 2005, with production volume of 38,900 and sales of 39,000, both increased by almost 30 percent, due to continuously improved domestic city traffic conditions, policies about security and environmental protection, and accelerated pace of product innovation made by buses and coaches operators.

The market of medium-sized buses and coaches was larger in 2004, with the production volume of 59,500 and marketing volume of 60,200, an increase of 3.74 percent and 5.02 percent compared with that in the last year. However, the market demands of medium-sized buses and coaches significantly declined in 2005, with production volume of 55,900 and sales of 55,400, decreased by 6.06 percent and 7.86 percent compared with that in the last year. Medium-sized buses and coaches were sold 65,800 in 2006, an increase of 15.69 percent compared with that in the last year, making the biggest contribution to the industry growth in 2006, with production contribution degree of 39.34 percent and sales contribution degree of 50.67 percent compared with that in 2005.

Light buses and coaches were developed very slowly in 2004, with total production volume of 184,200 and sales of 183,900, decreased by 13.28 percent and 12.77 percent compared with that in the last year, and the respective decrease degrees being 5.33 percentage points and 5.61 percentage points higher than that in the last year. Still being the most competitive field of the bus & coach industries, light buses and coaches also tended to decline in production and sales but the decrease degree became much slower than that in the last year, with production volume of 179,800 and sales of 182,400, decreased by 2.48 percent and 0.95 percent compared with that in the last year

and respective decline degree of 10.8 percentage points and 11.8 percentage points lower than that in the same period of the last year.

Various rising demands for buses and coaches in different regions of China, with main sales regions in East Chinese and central-south regions, high shares in north China and northeast China and continuously increasing needs in other areas, which promotes the development of Chinese bus & coach industry. The sales flow of buses and coaches in various regions since 2004 have showed that East China and central-south regions of China shared most of the bus & coach market despite of decreasing sales volume, with sales of 10 thousand, nearly accounting for 59.46 percent of the total in 2004. In addition, North China and northeast areas in China shared higher market of buses and coaches, with sales of 68,800 in 2004, nearly accounting for 27.34 percent of the total. In East China, central-south regions in China and North China, the top three of sales in 2005, 185,000 buses and coaches were sold, accounting for 74.65 percent of the total. Comparatively speaking, the steady sales growth was maintained in western areas and northeast areas in China. Compared with that in the last year, the sales in southwest regions were 20,100 vehicles, an increase of 12.27 percent, the sales in northwest regions were 16,700 vehicles, an increase of 8.73 percent, and the sales in northeast regions were 26,000, an increase of 8.04 percent. With evidently decreasing demands for buses in East China despite of being the first in the sales in 2006, 79,800 vehicles were sold, decreased by 12.08 percent compared with that in the last year; the sales reached 45,500 in North China with a slight increase in demand, an increase of 2.64 percent compared with that in the last year; the decrease degree of sales in central-south regions was smaller than that in the last year, and the sales reached 44,200. By comparison, sales in northeast, southwest and northwest regions in China continued to maintain a steady growth.

With the development of Chinese bus & coach industry in the past few years, its market was been stable, backbone enterprises of the industry continued to play a main role in market growth in 2006, and the industry concentration was also improved. The top ten enterprises in sales in 2006 are the following (from the first to the 10th): Shenyang Jinbei Automotive Co., Ltd, Jiangling Motors Co., Ltd, Zhengzhou YUTONG Coach Manufacturing Co. Ltd., Nanjing Iveco Automobile Co., Ltd, Xiamen Golden Dragon Van Co., Ltd Dongnan (Fujian) Automobile Industry Co., Ltd, Beiqi Foton Motor Co., Ltd, Kinglong United Automotive Industry (Suzhou) Co., Ltd, Sichuan FAW Toyota Motor Co., Ltd., and Shenyang Polarsun Automobile Co., Ltd. Their corresponding sales are as the following: 53,300 vehicles, 22,700 vehicles, 20,300 vehicles, 20,100 vehicles, 17,700 vehicles, 16,300 vehicles, 15,200 vehicles, 13,300 vehicles, 10,700 vehicles and 10,000 vehicles, which are amounted to 199,600 for sales by the ten enterprises, accounting for 67 percent of the total, which changed a little if compared to 72 percent in 2004.

Due to gradually speeding road construction, more flourish tourism market as well as accelerated urbanization since 2004, demands for buses and coaches have rapidly grown in the urban market, long-distance transportation and tourism. Demands for tourist buses, urban coaches and

long-distance buses grew steadily in 2005 and slowed down next year. In 2006, urban coaches were demanded decreasingly with sales of 63,500, decreased 14.37 percent compared with that in 2005; long-distance buses were demanded stably, with sales of 55,700, an increase of 2.06 percent compared with that in 2005; but needs for tourist buses significantly slowed down, with sales of 18,300.

In recent years, Chinese bus & coach industry has adopted global sourcing, using advanced foreign assembly to match buses, which has break a shortcut to introduce foreign technologies with low cost and has been adopted by most manufacturers. The characteristics of being high-quality and low-cost have formed advantages for exporting China-made buses and coaches. Being able to compete with world-class buses producers, such as Benz, Cayman and others, Haige buses produced by Kinglong United Automotive Industry (Suzhou) Co., Ltd in 2006 were exported and made 81.63 million US dollars in the whole year with a growth rate as high as 500 percent, which made Haige a dazzling star in international bus brands. However, the overall exports of Chinese buses & coaches only account for 2 percent of the world trade volume, so the exports of buses & coaches have just started and its room to grow will be tremendous.

6.1.2 Status of Truck Market

Chinese automobile industry started from manufacturing trucks. From 1997 to 2004, the annual average growth rate of domestic commercial-use vehicles exceeded 10 percent, and the annual average growth rate of heavy-duty trucks was more than 30 percent. Before 1997, medium-sized trucks were main parts of China's truck market, but since the beginning of 2000, heavy-duty trucks were identified as the main force to increase commercial-use vehicles sales. In 2002, sales of heavy-duty trucks were more than sales of medium trucks for the first time, and 370,000 heavy-duty trucks were sold in Chinese market in 2004, an increase of 45 percent compared with that in 2003. In recent years, the development of Chinese passenger vehicles have been faster than that of commercial-use vehicles, but heavy-duty trucks still supported the rapid growth of Chinese truck market, with the particularly clearer tendency to develop heavy and light trucks in the truck markets. In 2006, specialized development of trucks continued to speed up. The vehicles exported from factories in the whole year only accounted for 18 percent of the heavy automobile market, reduced by 10 percent compared to that in 2005, indicating that most of heavy vehicles in the form of automobile chassis were specialized and modified in vehicles modification enterprises.

In 2004, production volume and sales volume of trucks, including non-complete vehicles, were 1,514,700 and 1,525,900, respectively increasing by 23.21 percent and 25.97 percent compared with the same period in the last year, with increase degrees of 13.17 percentage points and 15.62 percentage points higher than that in last year. Heavy trucks, medium trucks, light trucks, and mini-trucks showed relatively high growth rates, the growth speed of heavy trucks, medium trucks

and mini-trucks respectively reached 44.98 percent, 28.79 percent and 24.96 percent. Except for higher growth of light trucks in the last year, year-on-year rise of heavy trucks sales was less than 5 percent, and year-on-year rise of medium-sized and mini-trucks sales were negative growth.

The increase trend of trucks significantly slowed down in 2005. Being the main force to stabilize the development of the truck industry, the overall production and sales of light trucks and mini-trucks still maintained a certain growth. Due to national macroeconomic regulation and control policies, rising prices of raw materials, loading limited, dealing with over-loading, and in particular the new enforcing GB from April 1, 2005, sales of heavy-duty trucks grew negatively for the first time in the past eight years. Production and sales of trucks in 2005 were 1,162,400 and 1,163,400, an increase of 4.26 percent and 3.79 percent compared with that in the same period of last year. Industry-led enterprises still maintained stronger vitality and market share rates continued to maintain a relatively high level. Dongfeng Motor Co., Ltd, Beiqi Foton Motor Co., Ltd and FAW were the top three of sales among heavy-duty trucks manufacturers; FAW and Dongfeng Motor Co., Ltd were in the top two of sales in the medium-sized trucks industry; Beiqi Foton Motor Co., Ltd shared the majority of the light trucks market, accounting for 36.4 percent of the total sales of light trucks; and ChangAn Group continue to maintain the first place in minibuses production enterprises, with the sales of 71,200, an increase of 15.81 percent compared with that in the same period of last year.

In 2006, overall production and sales of Chinese trucks were increasing and tended to be stable. Light trucks and mini-trucks still accounted for the largest proportion of the total trucks, and non-complete 14 to 26-ton heavy-duty trucks with excellent sales become attractive in the market. Production and sales of trucks, including non-complete vehicles and tractor-semitrailers, were 1,752,900 and 1,664,300 in 2006, an increase of 9.86 percent and 9.73 percent compared with that in the same period of last year.

Production and sales of complete heavy-duty trucks in 2006 were 52,800 and 55,100 respectively, with year-on-year decrease of 12.91 percent and 15.34 percent. In view of the market performance, complete heavy-duty trucks in 2006 totally declined. Nothing but large-tonnage trucks whose total qualities are larger than 26 tons and less than or equal to 32 tons were favored by the market, and both low-tonnage and super-large-tonnage heavy-duty trucks were disfavored. Sales volume of trucks whose total qualities are larger than 14 tons and less than or equal to 19 tons were 12,400, with year-on-year decrease of 3.08 percent, sales volume of trucks whose total qualities are larger than 26 tons and less than or equal to 32 tons were 15,600, with year-on-year increase of 19.56 percent, and sales volume of trucks whose total qualities are larger than 32 tons were 611, with year-on-year decrease of 85.25 percent.

Production and sales of complete medium-sized trucks in 2006 were 134,900 and 137,200, respectively, with year-on-year increase of 7.42 percent and 14.41 percent. In view of the market performance, sales of complete medium-sized trucks were improved in 2006. Sales of trucks

whose total qualities are larger than 6 tons and less than or equal to 8 tons and trucks whose total qualities are larger than 10 tons and less than or equal to 12 grew faster, respectively reaching 55,500 and 45,600, with respective year-on-year growth of 40.96 percent and 26.09 percent. Sales of trucks whose total qualities are larger than 8 tons and less than or equal to 10 tons and trucks whose total qualities are larger than 12 tons and less than or equal to 14 declined to a certain, respectively reaching 32,100 and 3,955, with year-on-year decrease of 9.71 percent and 50.24 percent.

Production and sales of complete light trucks in 2006 were 853,000 and 854,500, with respective year-on-year increase of 13.55 percent and 13.27 percent, accounting for 64.87 percent of total sales of trucks. Sales increase degree of 3.5-ton or weightier light trucks among main models of light trucks were still quite noticeable. Sales of trucks whose total qualities were larger than 3.5 tons and less than or equal to 4.5 tons were 277,900, an increase of 12.35 percent compared with that in the same period of last year. Sales of trucks whose total qualities were larger than 4.5 tons and less than or equal to 6 tons were 89,600, an increase of 57.55 percent compared with that in the same period of last year. Trucks whose qualities were larger than 1.8 tons and less than or equal to 3.5 tons less increased relatively but still shared the largest proportion, with sales of 487,000 in 2006 and year-on-year increase of 8.23 percent, accounting for 56.99 percent of the total light truck sales and 3.97 percent of the total truck sales.

Sales of complete mini-trucks also kept a relatively rapid growth, with production volume of 277,400 and sales of 270,400 in 2006 and respective year-on-year increase of 23.64 percent and 21.12 percent.

Increase degrees of non-complete heavy-duty trucks and light trucks were significantly obvious in 2006. Total production volume and sales of non-complete heavy-duty trucks were 159,800 and 159,600, with respective year-on-year increase of 46.37 percent and 40.11 percent. Total production volume and sales of non-complete medium trucks were 66,900 and 64,600, with respective year-on-year decrease of 6.92 percent and 13.16 percent. Both total production volume and sales of non-complete light trucks were 96,400, with respective year-on-year decrease of 2.56 percent and 2.85 percent. Total production volume and sales of non-complete mini-trucks were 20,800 and 20,600, with respective year-on-year increase of 92 percent and 104.21 percent.

Compared to that in 2005, backbone enterprises trucks in 2006 continued to account for the largest proportion of trucks (including non-complete vehicles and tractor-semitrailers) manufacturers, and segment markets were enhanced to concentrate.

The former six manufacturers of heavy-duty trucks market were Dongfeng Motor Co., Ltd, FAW Group, China National Heavy Duty Truck Group Co., Shaanxi Automobile Group, Beiqi Foton Motor Co., Ltd, and Chongqing Hongyan Automobile Co., Ltd. Sales of Dongfeng Motor Co., Ltd in 2006 were 67,600, still occupying the largest share of heavy-duty truck market, but its market share rate declined from 30.5 percent in 2005 to 22 percent, and lost the largest market share

among heavy trucks enterprises. The reasons why market shares of Dongfeng Motor Co., Ltd declined were that its renewal products of "Dongfeng Tianlong" were not recognized by the market and old products were weak to develop new markets. Annual sales of FAW were 65,299, an increase of 16.7 percent over the same period of last year, which accounted for 21.2 percent of heavy vehicle market and slightly declined compared to 23.8 percent in 2005. Being benefited from hot sales of renewal product of "HOWO", China National Heavy Duty Truck Group Co., sold 60,173 heavy trucks in 2006, an increase of 37.1 percent over the same period in 2005, and its market share reached 19.6 percent. "HOWO" are series of renewal products created with introduced Volvo trucks technologies by China National Heavy Duty Truck Group Co., and their sales were nearly 30,000 in 2006, laying the foundation for the breakthrough of 60,000 in sales. Meanwhile, successful promotion of "HOWO" products helped China National Heavy Duty Truck Group Co., shake off the dependence on Steyr products which were seriously homogenized at that time and take a dominant position in the differentiation of technologies and products.

Medium-sized truck market developed steadily in 2006, and market shares of main manufacturing enterprises changed a little. Two large patterns of medium-sized truck market were not changed, but market shares further dispersed than that in 2005. Annual sales of medium-sized trucks by Dongfeng Motor Co., Ltd achieved 60,762, decreased by 6.8 percent compared with that in 2005, and its market share was 30.1 percent, lower than the market share of 33.6 percent in 2005. Annual sales of medium-sized trucks by FAW achieved 56,896, decreased by 5.5 percent compared with that in 2005, and its market share was 28.2 percent, slowing down nearly three percentage points.

In 2006, there were more than 40 domestic enterprises producing light trucks, among which the top twelve enterprises in sales shared 91 percent of the total market and the remaining more than 30 enterprises only occupied 9 percent of the total market share. Market shares of major light trucks manufacturing enterprises changed a little. Annual sales of light trucks by Beiqi Foton Motor Co., Ltd were 287,811, exclusively sharing 30.3 percent of light truck market. Sales of light trucks by Dongfeng Motor Co., Ltd were 104,025, sharing 10.9 percent of the market. Market shares of Qingling Motors Co., Ltd producing traditional high-end light trucks and being the eleventh in the light truck market were further reduced to 3.1 percent due to simple products.

ChangAn Group, SAIC-GM-Wuling and Hafei were the top three in the mini-truck market, and their respective sales in 2006 were 74,100 vehicles, 51,700 vehicles and 29,000 vehicles, with respective year-on-year growth of 4.03 percent, 13.74 percent and 13.75 percent. The sales of mini-trucks by the three companies were 154,800, accounting for 53.18 percent of the total.

6,380 trucks were imported in 2006, an increase of 55.95 percent over the same period in last year. Heavy-duty trucks are the main models of domestic imported trucks and account for 90 percent of domestic imported trucks. The trend of Chinese imported trucks market in recent 10 years was basically the same as that of domestic heavy-duty trucks market. Market shares of Chinese imported heavy-duty trucks were very low (average 2.78 percent in recent 10 years), occupying

the high-end domestic market for heavy vehicles.

Table 6-2 Ratio of imported heavy trucks accounting for the domestic market from 2000 to 2006

Time	2000	2001	2002	2003	2004	2005	2006
Ratio	2.14 percent	1.37 percent	2.23 percent	3.83 percent	2.59 percent	1.73 percent	2 percent

Source: China Association of Automobile Manufacturers

Rising demands in domestic constructions drive consumes of Chinese trucks. As investment products, demands for trucks are closely related to domestic investment in fixed assets. Some studies show that if every one percentage point is increased in GDP, percentage points of trucks demands would be 16 points higher than before, and if every 10 billion yuan is increased in fixed assets investment, 15,000 trucks would be added. Guided by macroeconomic regulation and control policy, China's economy has continued to maintain a rapid development in recent years, and the scale of investment in fixed assets has not decreased significantly, resulting that demands in truck market grow stably. What's more, China's domestic freight volume is increasing, demands for trucks in logistics transport industry will not be reduced, along with rising exports and increasing demands for various types of special-used vehicles, therefore, needs for trucks will not decrease in short time. It is expected that all kinds of special purpose trucks will needed in the following fields in the future: special-used vehicles in construction, sanitation, landscaping, electricity, communications, television, judiciary, security in airports, escorts in financial industry, and in other fields; heavy-duty traction-semi-trailers, vans and semi-trailers which are applied in high-level road transportation; special engineering vehicles and all types of special vehicles in coal, electricity, airports, water conservancy, oil, chemical and other industries.

6.2 Forecast of Chinese Commercial-use vehicles Development

6.2.1 Forecast of Bus & Coach Development

Because monthly sales curves of bus & coach industry in 2006 tended to decrease gradually, the growth rate in 2007 would be lower than that in 2006 and expected growth rates in 2007 would be 8 percent. Main growth factors will be increasing demands for buses and further expanded export shares of passenger cars, meanwhile, there are room for growth of medium-road buses, coaches used in rural areas, super large buses.

There are still large rooms for updating buses and coaches because updating them in big Chinese cities are still far from expected targets, and their grades are improved very slowly. Especially, National Emission Standard Ⅲ will be fully implemented in 2007, which will strongly promote the update of buses and coaches. Bottle-neck problems of buses and coaches development have

been improved by government's policies. *Opinions About Several Economical Policies Relating To Giving Priority To The Development of Urban Public Transport System* was issued by Ministry of Construction, National Development and Reform Commission, Ministry of Finance, Ministry of Labor and Social Security on December 1, 2006. The Government will add investment and establish clear mechanisms of subsidies and compensations, which will fundamentally overcome financial difficulties in urban public transport systems and promote high-speed development of bus & coach market. It is expected that number of buses will account for about 33 percent of the total sales of passenger cars in 2007. According to the development status in 2006, Dandong Huanghai Automotive Co., Ltd, Shanghai Shenwo Industry Co., Ltd and Grand Jinlong were the three enterprises whose annual sales volume was over 2000, and their concentration degrees were respectively 16.48 percent, 13.58 percent and 12.7 percent, which were higher than other enterprises. Dandong Huanghai Automotive Co., Ltd introduced MAN technology in 2006 and will begin to influence the market in 2007; Shanghai Shenwo Industry Co., Ltd benefit from Shanghai market, and has Volvo as technical background; Grand Jinlong has successfully transformed business operation after running-in period in 2006. So the above three enterprises have formed comparative advantages in the field of large buses.

Chinese buses are better known in international market and their visibility and reputation have been speedily improved through exports, international auto shows, large-scale international services and others. Exports became one of hot points of bus market over the past two years. According to statistics made by China Customs, exports volume of Chinese buses was 4.784 in 2004, 6439 in 2005 and 27,200 in 2006, an increase of 1.2 times. There were more than four enterprises whose export volume were over 1000 buses, seven enterprises whose export funds were in excess of billion, which was more than double than that in 2005. Ratios that bus exports volume accounted for total buses sales were gradually increased year by year, 4.41 percent in 2005, 8.17 percent in 2006 and over 10 percent expected in 2007. Based on stable demands for buses in domestic market, foreign markets were gradually opened up. *Notice on Regulating Automobile Export Order* was issued to regulate export order by the government in the end of 2006, and it will influence leading enterprises and make their export environment optimized so that over 30,000 buses are expected to export in 2007.

Under the squeeze of railway transport, passenger transport enterprises have started to focus on middle-distance and short-distance passenger transportation once again. With the extension of highway construction, there will be more and more middle-distance and short-distance passenger transport routes, which promoted demands for medium-sized highway passenger vehicles. It is expected that annual sales of China's medium-sized highways passenger vehicles in 2007 will reach about 45,000. In addition, in China's rural areas a large scale of roads have been constructed and continued to be expanded, which enlarged rural passenger transport market. Investment in rural highway construction during the "10th Five-Years Plan" period was 417.8 billion yuan, three

times than that during the “Ninth Five Years Plan” period. In 2006, passenger transport developed correspondingly in rural areas, with 3,232 rural buses stations, 102,000 vehicle stops, 12,300 new rural passenger vehicles. Mastery rate of town passenger vehicles was 98 percent, and buses access rate in villages was 81 percent. Rural passenger vehicles market has been ready to flourish and will be new huge market to China's bus & coach industry.

In short, it is expected that passenger vehicles will be increased by 8 percent in 2007 and the output will reach 210,000. The growth rate in 2008 will be basically the same as that in 2007 and the output will reach 230,000.

Table 6 -3 Forecast of China's commercial-use vehicles production in 2007 and in 2008

Unit: 10,000

	2006		2007 （E）		2008 （E）	
	Increase degree	Production volume	Increase degree	Production volume	Increase degree	Production volume
Commercial Vehicles	15.25 percent	204.66	10 percent	226	10 percent	248
Buses & Coaches	10.45 percent	19.53	8 percent	21	8 percent	23
Incomplete Buses & Coaches	8.93 percent	9.83	5 percent	10	5 percent	11

Source：Chinese Association of Automobile Manufactures

6.2.2 Forecast of Trucks Development

China's macroeconomic degrees maintained a strong upward momentum in 2007. All kinds of vehicles for construction and highway transport still remained a stable growth, and the government give priorities to support construction of new rural areas, science, education, culture, and health, social security, conservation of natural resources, ecological construction, environmental protecting and developing western regions, as well as fully opening domestic financial industry to the outside world, all of which stimulate truck market. In 2007, China will implement policy of count weight and charge and National Emission Standard Ⅲ, which will stimulate market demand for trucks. Chinese truck market is expected to maintain a higher level of development on the basis of 15.45 percent growth in 2006.

In 2005, annual production and sales volume of domestic heavy-duty truck industry declined 38 percent compared to that in 2004, which was the first negative growth in the past eight years. In the first four months of 2006 of, sales of heavy-duty trucks still slowdown, which made people feel pessimistic to the heavy-duty truck market. Nevertheless, in May 2006, the heavy-duty truck market started to change. Sales of heavy vehicles, such as Shaanxi Auto, Foton, JAC and other brands increased, and hot sale of Dongfeng, China National Heavy Duty Truck, JAC, and Chongqing Hongyan started to appear, which stopped 17-month downward trend of heavy-duty

truck industry. In 2006, annual sales of Shaanxi Auto heavy-duty trucks break through 33,000 vehicles, its growth rate reached 116 percent and the increase degree was the first in heavy-duty truck industry. What's more, Foton, China National Heavy Duty Truck, JAC and others achieved a relatively high growth.

In 2006, the market competition of domestic heavy-duty truck industry was changed revolutionarily, and the hottest points were that upward and downward trends between first-class brands and second-class brands and hot sale of heavy-duty trucks whose load are over 14 tons. Nearly 50 percent of the market in 2006 was shared by Steyr products represented by Shaanxi Auto, China National Heavy Duty Truck, Beiqi Foton, Chongqing Hongyan and others. According to the current market, the heavy truck market shares of FAW and Dongfeng declined year by year, and dropped from about 35 percent in 2003 to about 20 percent in 2006. There were only three heavy truck enterprises, i.e. Dongfeng, FAW and China National Heavy Duty Truck, whose annual sales were more than 60,000 vehicles and market shares were over 20 percent despite of decreasing market shares, and they were still the first-class brand of the heavy truck industry. However, annual sales of second-class brands, such as Shaanxi Auto, Beijing Foton and others, were around 30,000, accounting for more than 10 percent of market share. Judged from the development trend, first-class brands are facing pressure caused by rapid growth of second-class brands.

Heavy-duty trucks: Heavy-duty trucks have been completely finished the period of "adjustment", returned to a stable growth stage from May 2006 and by the end of December 2006 the sales increased by 30.55 percent compared to that in the same period of last year. The trend of heavy-duty trucks in 2007 will be rapid growth supported continually by macroeconomic environment and in particular by the following three aspects. First, fine road conditions are the most important factors to promote continuous growth of Chinese heavy-duty trucks, because high-quality roads are necessary to heavy-duty trucks whether their width, length, load and speed. That is to say, if there were no high-grade roads, heavy-duty trucks would be useless, let alone play the advantages of transport efficiency. Experience from Europe and America shows that the volume of heavy-duty trucks would decrease if expressways in a country or region were not constructed any longer. Second, heavy-duty trucks have higher transport efficiency which make them maintain advantage over other trucks. Fuel consumption of a 40-ton-load heavy-duty truck will be saved 50 percent than that of four 10-ton trucks loading 40 tons, and operating costs of a 40-ton-load heavy-duty truck are only one fourth of that of four trucks, and average speed of 40-ton-load heavy-duty truck can reach 100 km per hour. Therefore, the transfer trend from medium-sized trucks to heavy-duty trucks will continue to last for some time, and new transport vehicles demands mainly will be heavy-duty trucks. Third, supports and incentives of state policies will also promote the growth of heavy-duty trucks for a long time. Heavy-duty trucks can significantly improve transport efficiency and conserve energy, and they are secure, speedy, harmless to highway and civilized for transport. Therefore, transport management and policies have been regulated by the state to encourage heavy-duty trucks, vans and tractors in highway transport. For example, Ministry of Communications has issued charging policy, recommended truck models and other measures.

Medium-sized trucks: In 2006, annual sales of medium-sized trucks slightly increased by 3.86 percent compared to that in the same period of last year. In 2007, the market growth of medium-sized trucks will be enhanced and main reasons are as follows: (1) Construction of new

socialist countryside will pull the growth of market demand for medium-sized trucks and light trucks; (2) With the rapid development of the transport industry, road transport tends to be high-speed, intensive and containerized, meanwhile, it also tends to develop specialized, fast, convenient medium and short distance transport, which create a good development environment for medium-sized trucks; (3) In order to stimulate economic development, the government will make monetary policy further flexible in 2007, and commercial banks and other financial sectors have introduced automobile credit varieties and improved credit systems, which will objectively pull the growth of medium-sized trucks. Cheap and high-quality medium-sized trucks are better than expensive heavy-duty trucks because if medium-sized trucks were bought, loan and cost would be low and costs would be recovered soon; (4)Medium-sized truck industry is one of few fields which has independent development capabilities in current Chinese automobile industry and has significant price advantage and market advantage. Export market of medium-sized trucks is promising. At present, commercial-use vehicles occupy a very high proportion of domestic cars exports, and trucks occupy a greater proportion of commercial vehicle exports. The export vehicles mainly concentrated on medium-sized and light products and most of them are middle and low-end products with low technology; (5) Judged from experience of foreign countries, the proportion occupied by medium-sized trucks in all trucks should be maintained about 10 percent. Therefore, medium-sized truck market in 2007 will increase other than decrease as the overall truck market has started to pick up and the production and sales volume should be higher than before.

Light trucks: Average annual growth rate of light trucks was as high as 30 percent from 2002 to 2004 and from 2005 to now, the growth rate fell to 10 percent to 13 percent, which is expected to be maintained at least in 2007. Stable increase of light trucks was strongly supported by construction of new socialist villages, urban logistics, overseas export and other macroeconomic environment. Most of low-level light truck brands which only meet European I and European Ⅱ Emission Standards in current market have been adversely effected by European Ⅲ Emission Standards enforced to implement by the state in July 2007, the implementation of new consumption tax, continuing high steel and oil prices, as well as national restrictions on individual and private transportation and other reasons. At the same time, light trucks were squeezed by heavy-duty trucks and mini-trucks. Therefore, large increase of light trucks market demand from 2002 to 2004 could never happen again in 2007.

Mini-trucks: Emerging from the doldrums since 2003, mini-trucks market became the biggest highlight in the downturn truck market in the last two years and sales in 2005 and 2006 increased more than 15 percent. With increasingly active trade between urban areas and rural areas, gradually accelerated process of urbanization in rural areas, as well as fully activated construction of new socialist countryside in 2007, mini-trucks has seized the initiative in the competition with light trucks because of technological advances in mini-trucks production. In line with international practice and trends, demand for heavy-duty trucks and mini-trucks in the future will be greater, especially mini-trucks will be the most convenient tool for logistics industry between urban areas and rural areas.

With the increased intensity of macroeconomic regulation and control, fuel, energy, production materials, trade policies will comprehensively influence truck industry and various efforts are likely to cause market volatility. Keeping the trend in 2006, Chinese truck market in 2007 will maintain grow more than 10 percent and the output will reach 1.45 million. The market will be

saturated in 2008, the growth rate will drop to 8 percent and the output will reach 1.57 million. But tractor-semitrailer, incomplete trucks and other vehicles will maintain a rapid growth, and their volume will be increased substantially.

Table 6-4 Truck output from 2006 to 2008

Unit: 10,000

	2006		2007（E）		2008（E）	
	Increase degree	Production volume	Increase degree	Production volume	Increase degree	Production volume
Commercial Vehicles	15.25 percent	204.66	10 percent	226	10 percent	248
Trucks	13.45 percent	131.80	10 percent	145	8 percent	157
Tractor-semitrailers	61.96 percent	9.10	30 percent	11.8	30 percent	15
Incomplete trucks	18.25 percent	34.39	10 percent	38	10 percent	42

Source：Chinese Association of Automobile Manufactures

7 A statistical overview of the instury's data

7.1 The industry's historical data & statistics

7.1.1 The industry's yearly output volumes

Table 7-1: The industry's yearly output volumes of China

Year	Total output	Among					
		Lorry	Ground car	Passenger train	Sedan	Automobile chassis	Others
1955	61	61	0	0	0	0	0
1956	1654	1654	0	0	0	0	0
1957	7904	6228	0	0	0	1676	0
1958	16000	12865	108	0	57	2970	0
1959	19601	13613	562	0	101	5325	0
1960	22574	17148	1182	0	98	4146	0
1961	3589	2746	411	0	5	423	0
1962	9740	7797	569	0	11	1363	0
1963	20579	16738	68	0	11	3762	0
1964	28062	20755	419	0	100	6787	1
1965	40542	26538	2308	—	133	11516	47
1966	55861	34199	7074	—	302	14279	7
1967	20381	10696	3075	—	144	6300	166
1968	25100	11976	5125	—	279	7100	620
1969	53100	30416	11989	—	163	10200	332
1970	87166	47101	19621	—	196	18585	1663
1971	111022	58068	26082	—	562	25548	762
1972	108227	60493	24742	—	661	21609	278
1973	116193	64383	25946	—	1130	23687	1047
1974	104771	56948	26166	—	1508	19111	1038
1975	139800	77606	30791	—	1819	27497	2078
1976	135200	74539	27352	—	2611	28310	2388
1977	125400	75920	21842	—	2330	23540	1768
1978	149062	96103	19382	—	2640	28970	1976
1979	185700	119501	24355	—	4152	34585	3107
1980	222288	135532	28034	—	5418	48321	4983
1981	175645	108261	19536	—	3428	39986	4434
1982	196304	121789	18883	—	4030	42541	9061
1983	239886	137100	22510	6211	6046	62263	5756

1984	316367	179846	21588	6990	6010	85348	17485
1985	443377	236934	25173	11897	5207	1140699	50097
1986	372753	218863	23739	9189	12297	81262	27403
1987	472538	299356	27781	20461	29865	92260	2815
1988	646951	36400	36384	50922	36798	136234	22613
1989	586936	342835	48934	47639	28820	103896	14812
1990	509242	269098	44719	23148	42409	90574	39294
1991	708820	361310	54018	42756	81055	122873	46808
1992	1061721	460274	63373	84551	162725	199162	91636
1993	1296778	623184	59257	142774	229697	171769	70097
1994	1353368	613152	72111	193006	250333	169106	55660
1995	1452697	571751	91766	247430	325461	162713	54481
1996	1474905	537673	77587	267236	391099	167651	33659
1997	1582628	465098	59328	317948	487695	178644	73915
1998	1629026	483419	40901	366553	507861	206325	34639
1999	1834349	681254	37177	473776	566105	229113	76037
2000	2077371	668831	41624	671831	612376	252063	82709
2001	2340209	655062	41260	797861	703521	317946	142505
2002	3262947	810516	43543	1031654	1103258	425601	273976
2003	4443491	1228157		1177469	2037865	381116	
2004	5070452	1514869		1243022	2312561	398351	
2005	5707688	1509893		1430073	2767722	381183	

Note: Data from China Automobile Industry Yearbook

7.1.2 The yearly numbers of the car-making firms, employees & fixed assets in China

Table 7-2: The car-making employees & fixed assets

Year	Car-making firms	Staff (year-end)	Fixed assets (10,000)
1955	69	13189	3794
1956	104	39893	52921
1957	115	43629	55148
1958	217	85821	56705
1959	238	89337	58385
1960	269	95225	62848
1961	290	92854	63677
1962	327	93122	65085
1963	366	98443	66008
1964	417	114485	67690
1965	522	143094	81191
1966	622	165260	94855

1967	678	190708	98393
1968	764	204306	98990
1969	905	227534	107739
1970	1228	311906	130039
1971	1361	379532	150867
1972	1489	371990	176229
1973	1594	378908	203775
1974	1687	381990	227518
1975	1852	401423	259838
1976	1950	416577	297718
1977	2033	431951	319385
1978	2146	724032	425360
1979	2301	844086	493961
1980	2379	908895	535524
1981	2427	904250	550744
1982	2456	942821	576621
1983	2727	1046606	631253
1984	2811	1212424	749822
1985	2904	1407236	961827
1986	2422	1290844	972625
1987	2358	1348267	1140996
1988	2509	1505837	1411709
1989	2596	1570724	1657452
1990	2596	1565332	1799477
1991	2643	1703850	2334053
1992	2555	1848652	3101545
1993	2462	1932575	3547502
1994	2442	1968831	4580792
1995	2479	1952542	6454347
1996	2423	1950627	9193834
1997	2474	1978091	12303256
1998	2426	1962837	14187844
1999	2362	1806815	15560303
2000	2326	1781326	17238541
2001	2401	1505507	17819120
2002	2436	1570540	18996998
2003	2443	1605000	
2004	2536	1693000	
2005	2637	1669000	

Note: Data from China Automobile Industry Yearbook

7.1.3 The yearly numbers of the industry's total output value and added value

Table 7-3: The industry's total output value & added value

Year	The industrial total output value of automobile industry (Current Price in 10,000）	Added value of automobile industry (10,000)
1990	4924941	1205069
1991	7044959	1701013
1992	11910523	2967125
1993	17920016	4029292
1994	21830978	5155557
1995	25308668	5407397
1996	23990941	5761504
1997	26686935	5941486
1998	27873135	6613474
1999	31227177	7489429
2000	36125577	8640610
2001	44331852	10555529
2002	62246394	15847507
2003	83572000	21534000
2004	94632000	21878000
2005	102233000	22099000

Note: Before 1992, the automobile industry's added value is net industrial output of automobile industry. From 1996, there is no 'automobile accessories industry' in the statistics.
Data from China Automobile Industry Yearbook

Calendar year figure of sales revenue, Income before tax, labor capacity

Table 7-4: Sales revenue, Income before tax & labor capacity

Year	Sales revenue (10,000)	Income before tax(10,000)	Labor capacity of Automobile industry (Yuan /person , year)
1990	4419000	426000	7840
1991	7268000	740000	10214
1992	11874000	1332000	16396
1993	18343000	1788000	21058
1994	18535000	1357000	26312
1995	21751000	2268000	27419
1996	23304000	2110000	29654
1997	26350000	2327000	29831
1998	27425000	2260000	33614

1999	31147000	3185000	45623
2000	35604000	4024000	53635
2001	42537000	5021000	69269
2002	59477000	7520000	96342
2003	81441000	10328000	134301
2004	91343000	10636000	130451
2005	101084000	9819000	133549

Note: Data from China Automobile Industry Yearbook

7.1.4 The yearly quantities of the industry's total investments

Table 7-5: The quantities of industry's total investments of automobile industry

Unit: 10,000 yuan

Year	The quantities of industry's total investments of automobile industry	Among:				
		Automobile	Refitted Automobiles	Motorcycles	Vehicle Engine	Accessories
1949 ～ 1952	1150	500	11	0	6	260
1953 ～ 1957	54638	50806	56	0	111	3665
1958	3205	973	57	18	324	1833
1959	4590	1872	151	0	456	2111
1960	6375	2506	492	0	394	2983
1961	2788	800	487	0	121	1380
1962	3348	494	556	16	157	2125
1963	3190	728	596	92	222	1552
1964	6049	2597	693	100	148	2511
1965	9135	3501	1276	108	1281	2969
1966	18122	10055	1355	77	1272	5363
1967	10058	3605	863	26	780	4784
1968	8814	2827	982	14	609	4382
1969	14444	4997	1245	27	1181	6994
1970	50083	28578	1293	132	2061	18019
1971	63456	43985	1423	1	2123	15924
1972	43743	—	—	—	—	—
1973	36784	—	—	—	—	—
1974	37999	—	—	—	—	—

1975	43743	—	—	—	—	—
1976	35648	—	—	—	—	—
1977	31643	—	—	—	—	—
1978	35465	19776	2124	173	1799	11593
1979	38777	—	—	—	—	—
1980	41363	—	—	—	—	—
1981	38137	13118	—	—	—	—
1982	41315	18976	6025	574	1709	14031
1983	55565	—	—	—	—	—
1984	94970	37724	13925	2184	5952	35185
1985	214350	87198	27025	8855	12429	78843
1986	209486	93567	30991	10313	16172	58443
1987	309917	167069	39599	17250	18529	67470
1988	412895	218866	61688	18076	35178	79087
1989	378810	201915	47869	16256	28128	84642
1990	412962	209305	45471	14515	37487	106184
1991	589294	280541	79464	16700	42218	170371
1992	1027520	473915	112126	49072	83262	309145
1993	1642657	725847	193691	102865	164648	455606
1994	1987655	962663	161105	124863	150254	588770
1995	2313418	1200463	152765	249589	130547	580054
1996	1949043	840975	140904	283327	88431	595406
1997	2039577	966241	180429	235942	70065	556900
1998	1961231	1070864	149011	187105	91831	462420
1999	1939887	1131331	116714	108853	143414	439575
2000	1787479	871004	143576	132355	49942	590602
2001	1942774	1210563	133784	86028	31881	480508
2002	2831570	1702659	194716	122155	94700	717340
2003	4986000	3131000	379000	132000	118000	1226000
2004	6413000	4300000	284000	199000	176000	1454000
2005	7342000	3962000	445000	365000	471000	2099000

Note: Data from China Automobile Industry Yearbook

7.1.5 The yearly quantities of the industry's total investments & their proportions in the national total

Table 7-6: The quantites of the industry's total investments & their proportions in the national total

Period	The quantites of the industry's total investments (10,000 yuan)	The proportions in the national total(10,000yuan）	Proportion of automobile industry (%)
1981	38137	9610000	0.4

1982	41315	12304000	0.34
1983	55565	14301000	0.39
1984	94970	18329000	0.52
1985	214350	25432000	0.85
1986	209486	31206000	0.67
1987	309917	37917000	0.82
1988	412895	47538000	0.87
1989	378810	44104000	0.86
1990	412962	45170000	0.91
1991	589294	55945000	1.05
1992	1027520	80801000	1.27
1993	1642657	130723000	1.26
1994	1987655	170421000	1.17
1995	2313418	200193000	1.16
1996	1949043	229740000	0.85
1997	2039577	249411000	0.82
1998	1961231	284575000	0.69
1999	1939887	298547000	0.65
2000	1787479	329177000	0.54
2001	1942774	372135000	0.52
2002	2831570	432016000	0.66
2003	4986000	555666000	0.9
2004	6413000	704774000	0.91
2005	7342000	886043000	0.83

Note: Data from China Automobile Industry Yearbook

7.1.6 The yearly national volumes of imports & exports

Table 7-7 The national voumes of imports & export of automobile in China

Year	The national voumes of imports			The national voumes of exports
	Total	Lorry	Sedan	
1953～1957	56466	41334	4067	0
1958～1962	68157	54475	3048	1317
1963～1965	18549	6198	4266	2695
1966～1970	41200	18601	949	5952
1971～1975	97863	68815	2317	21267
1976～1980	141926	81124	20292	4449
1981	41575	20770	1401	726
1982	16077	7730	1101	238
1983	25156	8445	5806	1892

1984	88743	28047	21651	2919
1985	353992	111492	105775	1659
1986	150052	64570	48276	4179
1987	67182	17554	30536	6129
1988	99233	14201	57433	9159
1989	85554	12587	45000	2676
1990	65430	18395	34063	4431
1991	98454	18578	54009	4108
1992	210087	42005	115641	6375
1993	310099	72935	180717	11116
1994	283060	68269	169995	18648
1995	158115	12037	129176	17747
1996	75863	6256	57942	15112
1997	49039	7077	32019	14868
1998	40216	4491	18016	13627
1999	35192	2685	19953	10095
2000	42703	3085	21620	27136
2001	71398	3138	46632	26073
2002	128195	6692	70329	28645
2003				
2004				
2005				

Note: Data from China Automobile Industry Yearbook

7.2 Statistic figures registered in 2006

7.2.1 The statistical figures on passenger vehicles in 2006

Table 7-8: Aggregated output of passenger vehicles

Model			2006	2005	Rate of growth, %
Total passenger vehicles			5233132	3941767	32.76
Home manufacture	Total home Manufacture		4895520	3522540	38.98
	1: Among	Ground form Passenger vehicle	3549615	2376325	49.37
		Multifunctional Passenger vehicle (MPV)	186209	149931	24.2
		Two-wheeled Sports Utility Vehicle (SUV)	132184	99362	33.03
		Four -wheeled Sports Utility Vehicle (SUV)	96697	84357	14.63

		Chiasma type Passenger vehicles	930815	812565	14.55
	2: Among	1 L＜delivery volume≤1.6 L	866301	943546	-8.19
		1.6 L＜delivery volume≤2.0 L	2396520	1584092	51.29
		2.0 L＜delivery volume≤2.5 L	1017480	554699	83.43
		2.5 L＜delivery volume≤3.0 L	502482	342165	46.85
		3.0 L＜delivery volume≤4.0 L	107422	86114	24.74
		More than 4.0 L	4336	10669	-59.36
		1 L＜delivery volume≤1.6 L	979	1255	-21.99
	3: Among	Manual Transmission	3580594	2814974	27.2
		Automatic Transmission	1248994	662111	88.64
		Other Transmission	65932	45455	45.05
	4: Among	Diesel automobile	45908	44923	2.19
		Gasoline automobile	4849612	3477617	39.45
		Other fuel automobile	0	0	*
CKD	Total CKD		337612	419227	-19.47
	1: Among	Ground form Passenger vehicles	319879	402446	-20.52
		Multifunctional Passenger vehicles (MPV)	8501	5182	64.05
		Two-wheeled Sports Utility Vehicle (SUV)	0	0	*
		Four -wheeled Sports Utility Vehicle (SUV)	9232	11599	-20.41
		Chiasma type Passenger vehicles	0	0	*
	2: Among	Delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	111859	122307	-8.54
		1.6 L＜delivery volume≤2.0 L	94456	159837	-40.9
		2.0 L＜delivery volume≤2.5 L	116920	120351	-2.85
		2.5 L＜delivery volume≤3.0 L	4256	2329	82.74
		3.0 L＜delivery volume≤4.0 L	7315	10352	-29.34
		More than 4.0 L	2806	4051	-30.73
	3: Among	Manual Transmission	39376	84686	-53.5
		Automatic Transmission	250971	284155	-11.68
		Other Transmission	47265	50386	-6.19
	4: Among	Diesel automobile	13	2324	-99.44
		Gasoline automobile	335351	416778	-19.54
		Other fuel automobile	2248	125	1698.4

Note: Data from China Association Of Automobile Manufacturers

Table 7-9 Aggregation of Sales Volume of Passenger vehicles

Model	2005	2006	Rate of growth, %
Total Passenger vehicles	5175961	3980798	30.02

Home manufacture	Total home manufacture		4838438	3560392	35.9
	1: Among	Ground form Passenger vehicles	3509150	2390419	46.8
		Multifunctional Passenger vehicles (MPV)	182358	154036	18.39
		Two-wheeled Sports Utility Vehicle (SUV)	130939	99251	31.93
		Four -wheeled Sports Utility Vehicle (SUV)	98088	85236	15.08
		chiasma type Passenger vehicles	917903	831450	10.4
	2: Among	delivery volume≤1L	867119	966216	-10.26
		1 L＜delivery volume≤1.6 L	2356259	1575757	49.53
		1.6 L＜delivery volume≤2.0 L	1006339	574820	75.07
		2.0 L＜delivery volume≤2.5 L	498804	346599	43.91
		2.5 L＜delivery volume≤3.0 L	102894	85883	19.81
		3.0 L＜delivery volume≤4.0 L	5793	9925	-41.63
		More than 4.0 L	1230	1192	3.19
	3: Among	Manual Transmission	3537103	2860510	23.65
		Automatic Transmission	1235521	660136	87.16
		Other Transmission	65814	39746	65.59
	4: Among	Diesel automobile	43050	44651	-3.59
		Gasoline automobile	4795388	3515741	36.4
		Other fuel automobile	0	0	*
CKD	Total CKD		337523	420406	-19.71
	1: Among	Ground form Passenger vehicles	319712	406694	-21.39
		Multifunctional Passenger vehicles (MPV)	8732	1798	385.65
		Two-wheeled Sports Utility Vehicle (SUV)	0	0	*
		Four -wheeled Sports Utility Vehicle (SUV)	9079	11914	-23.8
		chiasma type Passenger vehicles	0	0	*
	2: Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	116468	116145	0.28
		1.6 L＜delivery volume≤2.0 L	90233	166183	-45.7
		2.0 L＜delivery volume≤2.5 L	116453	119955	-2.92
		2.5 L＜delivery volume≤3.0 L	4421	3570	23.84
		3.0 L＜delivery volume≤4.0 L	7242	10260	-29.42
		More than 4.0 L	2706	4293	-36.97
	3: Among	Manual Transmission	40872	80592	-49.29
		Automatic Transmission	250626	289714	-13.49
		Other Transmission	46025	50100	-8.13
	4:	Diesel automobile	694	1667	-58.37

		Gasoline automobile	334677	418738	-20.07
		Other fuel automobile	2152	1	215100

Note: Data from China Association Of Automobile Manufacturers

Table 7-10 Output aggregation of different models Ground form Passenger vehicles in 2006

			2005	2006	Rate of growth, %
Total of Ground form Passenger vehicles			3869494	2778771	39.25
Home manufacture	Total home manufacture		3549615	2376325	49.37
	Among	delivery volume≤1L	329931	355090	-7.09
		1 L＜delivery volume≤1.6 L	1989313	1354364	46.88
		1.6 L＜delivery volume≤2.0 L	910974	487562	86.84
		2.0 L＜delivery volume≤2.5 L	296160	154750	91.38
		2.5 L＜delivery volume≤3.0 L	21455	21644	-0.87
		3.0 L＜delivery volume≤4.0 L	1154	2236	-48.39
		More than 4.0 L	628	679	-7.51
	Among	Manual Transmission	19906	18256	9.04
		Automatic Transmission	3529709	2358069	49.69
		Other Transmission	0	0	*
CKD	Total CKD		319879	402446	-20.52
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	108419	116753	-7.14
		1.6 L＜delivery volume≤2.0 L	89108	158556	-43.8
		2.0 L＜delivery volume≤2.5 L	116920	120351	-2.85
		2.5 L＜delivery volume≤3.0 L	4256	2329	82.74
		3.0 L＜delivery volume≤4.0 L	1176	4457	-73.61
		More than 4.0 L	0	0	*
	Among	Diesel automobile	0	1043	-100
		Gasoline automobile	317631	401278	-20.85
		Other fuel automobile	2248	125	1698.4

Note: Date from China Association Of Automobile Manufacturers

Table 7-11 Sales Volume statistics of different models Ground form Passenger vehicles in 2006

			2005	2006	Rate of growth, %
Total of Ground form Passenger vehicles			3828862	2797113	36.89
Home manufacture	Total home manufacture		3509150	2390419	46.8
	Among	delivery volume≤1L	328101	353397	-7.16
		1 L＜delivery volume≤1.6 L	1965378	1351375	45.44
		1.6 L＜delivery volume≤2.0 L	903024	505819	78.53

		2.0 L＜delivery volume≤2.5 L	291731	159061	83.41
		2.5 L＜delivery volume≤3.0 L	19066	19203	-0.71
		3.0 L＜delivery volume≤4.0 L	1015	1219	-16.74
		More than 4.0 L	835	345	142.03
	Among	Diesel automobile	17869	17878	-0.05
		Gasoline automobile	3491281	2372541	47.15
		Other fuel automobile	0	0	*
CKD	Total CKD		319712	406694	-21.39
	Among	delivery volume≤1L	0	0	*
		delivery volume≤1L	112766	113260	-0.44
		1 L＜delivery volume≤1.6 L	84907	165588	-48.72
		1.6 L＜delivery volume≤2.0 L	116453	119955	-2.92
		2.0 L＜delivery volume≤2.5 L	4421	3570	23.84
		2.5 L＜delivery volume≤3.0 L	1165	4321	-73.04
		3.0 L＜delivery volume≤4.0 L	0	0	*
	Among	Diesel automobile	0	1072	-100
		Gasoline automobile	317560	405621	-21.71
		Other fuel automobile	2152	1	215100

Note: Date from China Automobile Industry Yearbook

Table 7-12 Output statistics of different models of MPV in 2006

			2005	2006	Rate of growth, %
Total			194710	155113	25.53
Home manufacture	Total home manufacture		186209	149931	24.2
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	13612	14893	-8.6
		1.6 L＜delivery volume≤2.0 L	41727	35532	17.43
		2.0 L＜delivery volume≤2.5 L	77384	67511	14.62
		2.5 L＜delivery volume≤3.0 L	53227	27840	91.19
		3.0 L＜delivery volume≤4.0 L	259	4155	-93.77
		More than 4.0 L	0	0	*
	Among	Diesel automobile	4601	6309	-27.07
		Gasoline automobile	181608	143622	26.45
		Other fuel automobile	0	0	*
CKD	CKD 合计		8501	5182	64.05

	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	3153	3901	-19.17
		1.6 L＜delivery volume≤2.0 L	5348	1281	317.49
		2.0 L＜delivery volume≤2.5 L	0	0	*
		2.5 L＜delivery volume≤3.0 L	0	0	*
		3.0 L＜delivery volume≤4.0 L	0	0	*
		More than 4.0 L	0	0	*
	Among	Diesel automobile	13	1281	-98.99
		Gasoline automobile	8488	3901	117.59
		Other fuel automobile	0	0	*

Note: China Association Of Automobile Manufacturers

Table 7-13 Sales Volume statistics of different models MPV in 2006

			2005	2006	Rate of growth, %
Total Multifunctional Passenger vehicles (MPV)			191090	155834	22.62
Home manufacture	Total home manufacture		182358	154036	18.39
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	13910	14987	-7.19
		1.6 L＜delivery volume≤2.0 L	39714	35708	11.22
		2.0 L＜delivery volume≤2.5 L	77806	67624	15.06
		2.5 L＜delivery volume≤3.0 L	50315	31327	60.61
		3.0 L＜delivery volume≤4.0 L	613	4390	-86.04
		More than 4.0 L	0	0	*
	Among	Diesel automobile	4858	6348	-23.47
		Gasoline automobile	177500	147688	20.19
		Other fuel automobile	0	0	*
CKD	Total CKD		8732	1798	385.65
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	3406	1203	183.13
		1.6 L＜delivery volume≤2.0 L	5326	595	795.13
		2.0 L＜delivery volume≤2.5 L	0	0	*
		2.5 L＜delivery volume≤3.0 L	0	0	*
		3.0 L＜delivery volume≤4.0 L	0	0	*

		More than 4.0 L	0	0	*
	Among	Diesel automobile	694	595	16.64
		Gasoline automobile	8038	1203	568.16
		Other fuel automobile	0	0	*

Note: Data from China Association Of Automobile Manufacturers

Table 7-14 Output statistics of different models of SUV in 2006

			2005	2006	Rate of growth, %
Total Two-wheeled Sports Utility Vehicle (SUV)			132184	99362	33.03
Home manufacture	Home manufacture		Total home manufacture	99362	33.03
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	7182	0	*
		1.6 L＜delivery volume≤2.0 L	27301	11252	142.63
		2.0 L＜delivery volume≤2.5 L	86689	74417	16.49
		2.5 L＜delivery volume≤3.0 L	11012	13693	-19.58
		3.0 L＜delivery volume≤4.0 L	0	0	*
		More than 4.0 L	0	0	*
	Among	Diesel automobile	14197	14902	-4.73
		Gasoline automobile	117987	84460	39.7
		Other fuel automobile	0	0	*
Total four -wheeled Sports Utility Vehicle (SUV)			105929	95956	10.39
Home manufacture	Total home manufacture		96697	84357	14.63
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	0	0	*
		1.6 L＜delivery volume≤2.0 L	37478	20353	84.14
		2.0 L＜delivery volume≤2.5 L	34429	36517	-5.72
		2.5 L＜delivery volume≤3.0 L	21516	22633	-4.94
		3.0 L＜delivery volume≤4.0 L	2923	4278	-31.67
		More than 4.0 L	351	576	-39.06
	Among	Diesel automobile	6992	5152	35.71
		Gasoline automobile	89705	79205	13.26
		Other fuel automobile	0	0	*
CKD	Total CKD		9232	11599	-20.41
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	287	1653	-82.64
		1.6 L＜delivery volume≤2.0 L	0	0	*
		2.0 L＜delivery volume≤2.5 L	0	0	*
		2.5 L＜delivery volume≤3.0 L	0	0	*
		3.0 L＜delivery volume≤4.0 L	6139	5895	4.14
		More than 4.0 L	2806	4051	-30.73

	Among	Diesel automobile	0	0	*
		Gasoline automobile	9232	11599	-20.41
		Other fuel automobile	0	0	*

Note: Data from China Association Of Automobile Manufacturers

Table 7-15 Output statistics of different models SUV in 2006

			2005	2006	Rate of growth, %
Total Two-wheeled Sports Utility Vehicle (SUV)			132184	99362	33.03
Home manufacture	Total home manufacture		132184	99362	33.03
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	7182	0	*
		1.6 L＜delivery volume≤2.0 L	27301	11252	142.63
		2.0 L＜delivery volume≤2.5 L	86689	74417	16.49
		2.5 L＜delivery volume≤3.0 L	11012	13693	-19.58
		3.0 L＜delivery volume≤4.0 L	0	0	*
		More than 4.0 L	0	0	*
	Among	Diesel automobile	14197	14902	-4.73
		Gasoline automobile	117987	84460	39.7
		Other fuel automobile	0	0	*
Total four -wheeled Sports Utility Vehicle (SUV)			105929	95956	10.39
Home manufacture	Total home manufacture		96697	84357	14.63
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	0	0	*
		1.6 L＜delivery volume≤2.0 L	37478	20353	84.14
		2.0 L＜delivery volume≤2.5 L	34429	36517	-5.72
		2.5 L＜delivery volume≤3.0 L	21516	22633	-4.94
		3.0 L＜delivery volume≤4.0 L	2923	4278	-31.67
		More than 4.0 L	351	576	-39.06
	Among	Diesel automobile	6992	5152	35.71
		Gasoline automobile	89705	79205	13.26
		Other fuel automobile	0	0	*
CKD	Total CKD		9232	11599	-20.41
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	287	1653	-82.64
		1.6 L＜delivery volume≤2.0 L	0	0	*
		2.0 L＜delivery volume≤2.5 L	0	0	*
		2.5 L＜delivery volume≤3.0 L	0	0	*
		3.0 L＜delivery volume≤4.0 L	6139	5895	4.14
		More than 4.0 L	2806	4051	-30.73

	Among	Diesel automobile	0	0	*
		Gasoline automobile	9232	11599	-20.41
		Other fuel automobile	0	0	*

Note: Data from China Association Of Automobile Manufacturers

Table 7-16 Sales Volume statistics of different models of SUV in 2006

			2005	2006	rate of growth, %
Total Two-wheeled Sports Utility Vehicle (SUV)			130939	99251	31.93
	Total home manufacture		130939	99251	31.93
Home manufacture	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	6258	0	*
		1.6 L＜delivery volume≤2.0 L	26755	12266	118.12
		2.0 L＜delivery volume≤2.5 L	87026	73530	18.35
		2.5 L＜delivery volume≤3.0 L	10900	13455	-18.99
		3.0 L＜delivery volume≤4.0 L	0	0	*
		More than 4.0 L	0	0	*
	Among	Diesel automobile	13369	14775	-9.52
		Gasoline automobile	117570	84476	39.18
		Other fuel automobile	0	0	*
Total four -wheeled Sports Utility Vehicle (SUV)			107167	97150	10.31
Home manufacture	Total home manufacture		98088	85236	15.08
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	0	0	*
		1.6 L＜delivery volume≤2.0 L	36846	21027	75.23
		2.0 L＜delivery volume≤2.5 L	34274	37380	-8.31
		2.5 L＜delivery volume≤3.0 L	22408	21666	3.42
		3.0 L＜delivery volume≤4.0 L	4165	4316	-3.5
		More than 4.0 L	395	847	-53.36
	Among	Diesel automobile	6749	5418	24.57
		Gasoline automobile	91339	79818	14.43
		Other fuel automobile	0	0	*
CKD	Total CKD		9079	11914	-23.8
	Among	delivery volume≤1L	0	0	*
		1 L＜delivery volume≤1.6 L	296	1682	-82.4

	1.6 L＜delivery volume≤2.0 L	0	0	*
	2.0 L＜delivery volume≤2.5 L	0	0	*
	2.5 L＜delivery volume≤3.0 L	0	0	*
	3.0 L＜delivery volume≤4.0 L	6077	5939	2.32
	More than 4.0 L	2706	4293	-36.97
Among	Diesel automobile	0	0	*
	Gasoline automobile	9079	11914	-23.8
	Other fuel automobile	0	0	*

Note: Data from China Association Of Automobile Manufacturers

Table 7-17 Output statistics of different models chiasma type Passenger vehicles in 2006

			2005	2006	rate of growth, %
Home manufacture	Total home manufacture		930815	812565	14.55
	Among	delivery volume≤1L	536370	588456	-8.85
		1 L＜delivery volume≤1.6 L	386413	214835	79.87
		1.6 L＜delivery volume≤2.0 L	0	0	*
		2.0 L＜delivery volume≤2.5 L	7820	8970	-12.82
		2.5 L＜delivery volume≤3.0 L	212	304	-30.26
		3.0 L＜delivery volume≤4.0 L	0	0	*
		More than 4.0 L	0	0	*
	Among	Diesel automobile	212	304	-30.26
		Gasoline automobile	930603	812261	14.57
		Other fuel automobile	0	0	*
CKD	Total CKD		0	0	*

Note: Date from China Association Of Automobile Manufacturers

7.2.2 The statistical figures on commercial-use vehicles in 2006

Table 7-18 Output aggregation of Commercial-use vehicle

			2005	2006	rate of growth, %
Total Commercial-use vehicles			2046594	1775852	15.25
Home manufacture	Total home manufacture		2046081	1771955	15.47
	1: Among	Diesel automobile	1612617	1376198	17.18
		Gasoline automobile	431665	394355	9.46
		Other fuel automobile	1799	1402	28.32

	2: Among	passenger car	195317	173492	12.58
		wagon	1318040	1161636	13.46
		articulated vehicle	91015	56211	61.92
		Bus non-complete vehicles	98267	90125	9.03
		Non-truck vehicles integrity	343442	290491	18.23
CKD	Total		513	3897	-86.84
	1: Among	Diesel automobile	513	545	-5.87
		Gasoline automobile	0	3352	-100
		Other fuel automobile	0	0	0
	2: Among	passenger car	16	3357	-99.52
		wagon	5	103	-95.15
		articulated vehicle	0	0	0
		Bus not-complete vehicles	21	103	-79.61
		Non-truck vehicles (complete)	471	334	41.02

Note: Data from China Association Of Automobile Manufacturers

Table 7-19 Sales Volume aggregation of Commercial-use vehicles

			2005	2006	rate of growth, %
Total Commercial-use vehicles			2040011	1785881	14.23
Home manufacture	Total home manufacture		2039553	1781859	14.46
	1: Among	Diesel automobile	1617643	1389956	16.38
		Gasoline automobile	420138	390510	7.59
		Other fuel automobile	1772	1393	27.21
	2: Among	passenger car	191004	175152	9.05
		wagon	1317211	1162550	13.3
		articulated vehicle	92660	56438	64.18
		Bus not-complete vehicles	97862	90426	8.22
		Non-truck vehicles (complete)	340816	297293	14.64

CKD	Total		458	4022	-88.61
	1: Among	Diesel automobile	458	557	-17.77
		Gasoline automobile	0	3465	-100
		Other fuel automobile	0	0	0
	2: Among	passenger car	18	3469	-99.48
		wagon	6	120	-95
		articulated vehicle	0	0	0
		Bus not-complete vehicles	22	105	-79.05
		Non-truck vehicles (complete)	412	328	25.61

Note: Date from China Association Of Automobile Manufacturers

Table 7-20 Output aggregation of Wagon

		2005	2006	Increase, %
Van		1318045	1161739	13.45
Heavy	Diesel automobile	52744	60579	-12.93
	Gasoline automobile	41	31	32.26
	Other fuel automobile	0	0	*
	Total	52785	60610	-12.91
Medium	Diesel automobile	133772	122561	9.15
	Gasoline automobile	1114	3023	-63.15
	Other fuel automobile	0	0	*
	Total	134886	125584	7.41
Light	Diesel automobile	760547	668199	13.82
	Gasoline automobile	92467	83013	11.39
	Other fuel automobile	0	0	*
	Total	853014	751212	13.55
Mini-type	Diesel automobile	62609	34434	81.82
	Gasoline automobile	214751	189899	13.09
	Other fuel automobile	0	0	*
	Total	277360	224333	23.64

Data from China Association of Automobile Manufacturers

Table 7-21 Sales Amount of Vans

		2005	2006	Increase, %
Van		1317217	1162670	13.29
Heavy	Diesel automobile	55023	65048	-15.41

	Gasoline automobile	59	16	268.75
	Other fuel automobile	0	0	*
	Total	55082	65064	-15.34
Medium	Diesel automobile	136047	117040	16.24
	Gasoline automobile	1149	2873	-60.01
	Other fuel automobile	0	0	*
	Total	137196	119913	14.41
Light	Diesel automobile	762536	675604	12.87
	Gasoline automobile	91973	78807	16.71
	Other fuel automobile	0	0	*
	Total	854509	754411	13.27
Mini-type	Diesel automobile	62375	34761	79.44
	Gasoline automobile	208055	188521	10.36
	Other fuel automobile	0	0	*
	Total	270430	223282	21.12

Data from China Association of Automobile Manufacturers

Table 7-22 Output of Buses

Unit: vehicle

		2005	2006	Increase, %
Bus		195333	176849	10.45
Large	Diesel automobile	19951	18190	9.68
	Gasoline automobile	852	600	42
	Other fuel automobile	265	1018	-73.97
	Total	21068	19808	6.36
Medium	Diesel automobile	24232	20460	18.44
	Gasoline automobile	121	242	-50
	Other fuel automobile	1290	310	316.13
	Total	25643	21012	22.04
Light	Diesel automobile	60746	50464	20.37
	Gasoline automobile	87717	85491	2.6
	Other fuel automobile	159	74	114.86
	Total	148622	136029	9.26

Data from China Association of Automobile Manufacturers

Table 7-23 Sales Amount pf Buses

		2005	2006	Increase, %
Bus		191022	178621	6.94
Large	Diesel automobile	19911	18295	8.83
	Gasoline automobile	884	584	51.37

	Other fuel automobile	264	1016	-74.02
	Total	21059	19895	5.85
Medium	Diesel automobile	24231	20327	19.21
	Gasoline automobile	141	216	-34.72
	Other fuel automobile	1260	310	306.45
	Total	25632	20853	22.92
Light	Diesel automobile	60030	49650	20.91
	Gasoline automobile	84138	88156	-4.56
	Other fuel automobile	163	67	143.28
	Total	144331	137873	4.68

Data from China Association of Automobile Manufacturers

Table 7-24 Output of Buses

		2005	2006	Increase, %
Bus		195333	176849	10.45
Large	Diesel automobile	19951	18190	9.68
	Gasoline automobile	852	600	42
	Other fuel automobile	265	1018	-73.97
	Total	21068	19808	6.36
Medium	Diesel automobile	24232	20460	18.44
	Gasoline automobile	121	242	-50
	Other fuel automobile	1290	310	316.13
	Total	25643	21012	22.04
Light	Diesel automobile	60746	50464	20.37
	Gasoline automobile	87717	85491	2.6
	other fuel automobile	159	74	114.86
	Total	148622	136029	9.26

Data from China Association of Automobile Manufacturers

Table 7-25 Sales Amount of Buses

		2005	2006	Increase, %
Bus		191022	178621	6.94
Large	Diesel automobile	19911	18295	8.83
	Gasoline automobile	884	584	51.37
	other fuel automobile	264	1016	-74.02
	Total	21059	19895	5.85
Medium	Diesel automobile	24231	20327	19.21
	Gasoline automobile	141	216	-34.72
	other fuel automobile	1260	310	306.45
	Total	25632	20853	22.92

Light	Diesel automobile	60030	49650	20.91
	Gasoline automobile	84138	88156	-4.56
	other fuel automobile	163	67	143.28
	Total	144331	137873	4.68

Data from China Association of Automobile Manufacturers

7.2.3 Top 10 auto manufactuers and their sales volumes in various brands in 2006

Table 7-26 Top 10 passenger vehicles sales volumes in 2005-2006

Serial Number	2006		2005	
	Corporation	Sales amount （10,000）	Corporation	Sales amount （10,000）
1	Shanghai GM	36.54	Shanghai GM	29.86
2	FAW Volkswagen	34.12	Shanghai Volkswagen	24.47
3	Shanghai Volkswagen	34.06	FAW Volkswagen	23.83
4	Chery	27.24	Beijing Hyundai	22.47
5	Beijing Hyundai	26.18	Guangzhou Honda	20.32
6	Guangzhou Honda	22.43	FAW Xiali	19.00
7	FAW Toyota	21.04	Chery	18.40
8	Geely	20.43	Dongfeng Nissan	15.75
9	DPCA	20.13	Geely	14.99
10	Dongfeng Nissan	19.89	DPCA	14.04
Total	2．5906 million		2.0313 million	
Proportion of saloon vehicles	67.66%		72.87%	

Data from China Association of Automobile Manufacturers

Table 7-27 2005-2006 Top 10 basic passenger vehicles corporations

	Name of Corporation	2006	2005	Increase %
	summation of basic vehicles	3828862	2797113	36.89
1	Shanghai General Motors Co.,Ltd.	365372	298571	22.37

2	FAW Volkswagen Automobile Co.,Ltd.	341218	238322	43.18
3	Shanghai Volkswagen Automobile Co.,Ltd.	340578	244746	39.16
4	Chery Automobile Co.,Ltd.	272432	183994	48.07
5	Beijing Hyundai Automobile Co.,Ltd.	261835	224661	16.55
6	Guangzhou Honda Automobile Co.,Ltd.	224319	203229	10.38
7	FAW Toyota Motor Sales Co.,Ltd.	210387	135471	55.3
8	Geely Holding Group Co.,Ltd.	204331	149869	36.34
9	Dongfeng Peugeot Citroen Automobile Company Ltd	201318	140399	43.39
10	Dongfeng Nissan Passenger vehicles Company	198905	157516	26.28

Data from China Association of Automobile Manufacturers

Table 7-28 2005-2006 Top 10 MPV corporations

	Name of Corporation	2006	2005	Increase %
	summation of MPV	191090	155834	22.62
1	Shanghai General Motors Co.,Ltd.	38030	26271	44.76
2	Guangzhou Honda Automobile Co.,Ltd.	35777	27544	29.89
3	Anhui Jianghuai Automobile Co.,Ltd.	34363	31516	9.03
4	Dongfeng Motor Corporation	18818	18800	0.1
5	FAW Hainan Automobile Co.,Ltd.	14418	15009	-3.94
6	Changan Automobile(group) Co.,Ltd.	13910	14987	-7.19
7	Jinbei Automobile Co.,Ltd.	10060	5056	98.97
8	Shanghai Volkswagen Automobile Co.,Ltd.	8510	5230	61.79
9	Dongfeng Nissan Passenger vehicles Company	4632	0	0
10	FAW Volkswagen Automobile Co.,Ltd.	4100	1798	128.03

Data from China Association of Automobile Manufacturers

Table 7-29 2005-2006 Top 10 SUV corporations

	Name of Corporation	2006	2005	Increase %
	summation of SUV(2WD)	130939	99251	31.93
1	Great Wall Motor Company Limited	40062	28462	40.76
2	Chery Automobile Co.,Ltd.	25083	5164	385.73
3	Jiangling Motors Co.,Ltd.	10265	14858	-30.91
4	Binzhou Ji Ao Nanyan Chifeng Automobile Co.,Ltd.	9062	10136	-10.6
5	Chang Feng (Group) Co.,Ltd.	8586	8040	6.79
6	Hebei Zhongxing Automobile Co.,Ltd.	7371	7226	2.01
7	Chengdu New Dadi Automobile Co.,Ltd.	6648	1942	242.33
8	Beijing Benz-Daimler Chrysler Automobile Co.,Ltd.	6433	6662	-3.44
9	Dandong Huanghai Automobile Co.,Ltd.	5896	0	0
10	Dongfeng Motor Corporation	3393	2991	13.44
	Summation of SUV(4WD)	107167	97150	10.31

1	Beijing Hyundai Automobile Co.,Ltd.	28176	9007	212.82
2	Dongfeng Honda Automobile Co.,Ltd.	25493	26244	-2.86
3	Chang Feng (Group) Co.,Ltd.	16102	16130	-0.17
4	FAW Toyota Motor Sales Co.,Ltd.	9079	11898	-23.69
5	Beijing Benz-Daimler Chrysler Automobile Co.,Ltd.	6176	16690	-63
6	Rongcheng Huatai Automobile Co.,Ltd.	5176	4460	16.05
7	Dongfeng Motor Corporation	4407	5284	-16.6
8	Chery Automobile Co.,Ltd.	3065	0	0
9	Jiangling Motors Co.,Ltd.	2797	2568	8.92
10	Beijing Automobile Works Co.,Ltd.	2379	2925	-18.67

Data from China Association of Automobile Manufacturers

Table 7-30 2005-2006 Top 10 Mini-type Bus Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Mini-type bus	917903	831450	10.4
1	SAIC-GM-Wuling Automobile Co.,Ltd.	368417	264814	39.12
2	Changan Automobile(group) Co.,Ltd.	223456	231394	-3.43
3	Harbin Hafei Automobile Industry Group Co.,Ltd.	137471	154953	-11.28
4	Jiangxi Changhe Automobile Co.,Ltd.	52081	51883	0.38
5	Dongfeng Motor Corporation	46801	9085	415.15
6	China FAW Group Corporation	45052	47815	-5.78
7	Nanjing Changan Automobile Co.,Ltd.	27464	59263	-53.66
8	Beijing Automobile Works Co.,Ltd.	7169	7953	-9.86
9	Shaanxi Aircraft Industry(Group}Co.,Ltd.	4345	1187	266.05
10	South East(Fujian) Automobile Co.,Ltd.	4162	0	0

Data from China Association of Automobile Manufacturers

Table 7-31 2005-2006 Top 10 Large Bus Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Large Bus	21059	19895	5.85
1	Zhengzhou Yutong Group Co.,Ltd.	6775	6867	-1.34
2	Dandong Huanghai Automobile Co.,Ltd.	4059	3510	15.64
3	Shanghai Sunwin Bus Corporation	2551	1245	104.9
4	Anhui Ankai Automobile Co.,Ltd.	1420	1540	-7.79
5	Higer Bus Company Limited	1348	1040	29.62
6	Jinhua Young Man Vehicle Co.,Ltd.	1117	663	68.48
7	YangZhou YaXing Motor Coach Co.,Ltd.	599	755	-20.66
8	Beiqi Foton Motor Co.,Ltd.	582	339	71.68
9	Dongfeng Motor Corporation	417	775	-46.19
10	Hunan Sanxiang Motor Corporation	339	128	164.84

Data from China Association of Automobile Manufacturers

Table 7-32 2005-2006 Top 10 Medium Bus Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Medium Bus	25632	20853	22.92
1	Higer Bus Company Limited	8771	7056	24.31
2	Zhengzhou Yutong Group Co.,Ltd.	6767	4543	48.95
3	Anhui Ankai Automobile Co.,Ltd.	1749	1218	43.6
4	Dongfeng Motor Corporation	1672	890	87.87
5	YangZhou YaXing Motor Coach Co.,Ltd.	1501	2212	-32.14
6	Baoding Changan Motor Co.,Ltd.	1379	689	100.15
7	Dandong Huanghai Automobile Co.,Ltd.	936	793	18.03
8	Suzhou YaXing Motor Coach Co.,Ltd.	668	1077	-37.98
9	Beiqi Foton Motor Co.,Ltd.	647	561	15.33
10	Guangzhou Denway Bus Co.,Ltd.	417	300	39

Data from China Association of Automobile Manufacturers

Table 7-33 2005-2006 Top 10 Light Bus Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Light Bus	144331	137873	4.68
1	Jinbei Automobile Co.,Ltd.	53333	54951	-2.94
2	Jiangling Motors Co.,Ltd.	22739	18887	20.39
3	Nanjing Automobile Group Corporation	14309	12885	11.05
4	Beiqi Foton Motor Co.,Ltd.	13972	13248	5.46
5	Shenyang Polarsun Automobile Co.,Ltd.	10024	4463	124.6
6	South East (Fujian) Automobile Co.,Ltd.	7557	12827	-41.09
7	FAW Toyota Motor Sales Co.,Ltd.	4599	3465	32.73
8	Shanghai Huizhong Automobile Co.,Ltd.	4029	2373	69.79
9	Higer Bus Company Limited	3151	2062	52.81
10	Dongfeng Motor Corporation	2787	1878	48.4

Data from China Association of Automobile Manufacturers

Table 7-34 2005-2006 Sales Amount of Bus except Assembly Vehicles of Main Motor Groups

	Name of Corporation	2006	2005	Increase %
	Summation of Bus Except Assembly Vehicle	97884	90531	8.12
	Large Bus Except Assembly Vehicle	10657	9084	17.32
1	Fujian Forta Automobile Industry Co.,Ltd.	3612	2204	63.88
2	China FAW Group Corporation	2842	3244	-12.39
3	Dongfeng Motor Corporation	2290	1888	21.29
4	Shaanxi Automobile Group Co.,Ltd.	1075	822	30.78
5	Anhui Ankai Automobile Co.,Ltd.	435	214	103.27

6	Beijing Zhonda Automobile Group	403	473	-14.8
	Medium Bus Except Assembly Vehicle	38983	41092	-5.13
1	Dongfeng Motor Corporation	12068	10421	15.8
2	Anhui Jianghuai Automobile Co.,Ltd.	7746	9098	-14.86
3	China FAW Group Corporation	4688	5439	-13.81
4	Fujian Forta Automobile Industry Co.,Ltd.	4607	4546	1.34
5	Nanjing Automobile Group Corporation	4167	4024	3.55
6	Hunan Automobile Cheqiao Corporation	4158	6037	-31.12
7	Beijing Zhonda Automobile Group	536	652	-17.79
8	Shaanxi Automobile Group Co.,Ltd.	444	0	0
9	Chongqing Jialing Special Equipment Co.,Ltd.	335	289	15.92
10	Anhui Ankai Automobile Co.,Ltd.	224	255	-12.16
	（3）Light Bus Except Assembly Vehicle	48244	40355	19.55
1	Dongfeng Motor Corporation	20492	18667	9.78
2	Anhui Jianghuai Automobile Co.,Ltd.	17568	13588	29.29
3	Hunan Automobile Cheqiao Corporation	3967	928	327.48
4	Nanjing Automobile Group Corporation	2902	2692	7.8
5	Zhongyu Automobile Co.,Ltd.	1879	2300	-18.3
6	Chery Commercial(Anhui) Vehicle Co.,Ltd.	1341	2008	-33.22
7	China FAW Group Corporation	95	154	-38.31

Data from China Association of Automobile Manufacturers

Table 7-35 2005-2006 Top10 Heavy Trucks Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Heavy Truck	55082	65064	-15.34
1	China National Heavy Duty Truck Group Corp Ltd	13516	7703	75.46
2	Baotou North Benz Truck Co.,Ltd.	7978	4800	66.21
3	China FAW Group Corporation	7066	10464	-32.47
4	Dongfeng Motor Corporation	6250	17852	-64.99
5	Shaanxi Automobile Group Co.,Ltd.	4249	5560	-23.58
6	Anhui Jianghuai Automobile Co.,Ltd.	3065	555	452.25
7	Hubei Sanhuan Special Automobile Co.,Ltd.	3053	3253	-6.15
8	Beiqi Foton Motor Co.,Ltd.	1893	11223	-83.13
9	Chonqing Hongyan Automobile Group Co.,Ltd.	1546	609	153.86
10	Nanjing Chunlan Automobile Works Co.,Ltd.	1516	435	248.51

Data from China Association of Automobile Manufacturers

Table 7-36 2005-2006 Top10 Medium Trucks Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Medium Truck	137196	119913	14.41

1	China FAW Group Corporation	35615	27327	30.33
2	Dongfeng Motor Corporation	23592	25923	-8.99
3	Anhui Jianghuai Automobile Co.,Ltd.	15888	13389	18.66
4	Chengdu Wangpai Motor Group Co.,Ltd.	14318	11251	27.26
5	Sichuan Yinhale Automobile Group Co.,Ltd.	10548	11824	-10.79
6	Chongqing Lifan Automobile Co.,Ltd.	8653	4532	90.93
7	Shaanxi Automobile Group Co.,Ltd.	8642	8229	5.02
8	China YTO Group Co.,Ltd.	6611	0	0
9	Hubei Sanhuan Special Automobile Co.,Ltd.	3845	5193	-25.96
10	Nanjing Automobile Group Corporation	3239	1835	76.51

Data from China Association of Automobile Manufacturers

Table 7-37 2005-2006 Top10 Light Trucks Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Light Truck	854509	754411	13.27
1	Beiqi Foton Motor Co.,Ltd.	287811	274575	4.82
2	Anhui Jianghuai Automobile Co.,Ltd.	92932	72983	27.33
3	Dongfeng Motor Corporation	64975	53308	21.89
4	Jiangling Motors Co.,Ltd.	57604	48991	17.58
5	Shandong KAMA Automobile Manufacturing Co.,Ltd.	46943	41961	11.87
6	Great Wall Motor Company Limited	45980	36017	27.66
7	Nanjing Automobile Group Corporation	43265	45815	-5.57
8	Jinbei Automobile Co.,Ltd.	29598	19625	50.82
9	Zibo Automobile Manufacturing Co.,Ltd.	28316	26678	6.14
10	FAW Hongta Yunnan Automobile Co.,Ltd.	23633	35913	-34.19

Data from China Association of Automobile Manufacturers

Table 7-38 2005-2006 Top10 Mini-type Trucks Corporations

	Name of Corporation	2006	2005	Increase %
	Summation of Mini-type Truck	270430	223282	21.12
1	Changan Automobile(group) Co.,Ltd.	74112	71242	4.03
2	SAIC-GM-Wuling Automobile Co.,Ltd.	37700	40212	-6.25
3	Harbin Hafei Automobile Industry Group Co.,Ltd.	28959	25458	13.75
4	Hebei Zhongxing Automobile Co.,Ltd.	22626	17313	30.39
5	China FAW Group Corporation	21403	14271	49.98
6	Jiangxi Changhe Automobile Co.,Ltd.	18898	21790	-13.27
7	Dongan Heibao Holding Co.,Ltd.	15623	13092	19.33
8	Jinbei Automobile Co.,Ltd.	14775	4868	203.51
9	Fujian Newlongma Auto Co.,Ltd.	12983	8459	53.48
10	Binzhou Ji Ao Nanyan Chifeng Automobile Co.,Ltd.	11442	2930	290.51

Data from China Association of Automobile Manufacturers

Table 7-39 2005-2006 Sales Amount of Trucks except Assembly Vehicles of Main Motor Groups

	Name of Corporation	2006	2005	Increase %
	Truck Except Assembly Vehicle	341228	297621	14.65
	Heavy truck Except Assembly Vehicle	159554	113877	40.11
1	Dongfeng Motor Corporation	48458	44203	9.63
2	China FAW Group Corporation	33650	32370	3.95
3	China National Heavy Duty Truck Group Corp Ltd.	26705	18539	44.05
4	Beiqi Foton Motor Co.,Ltd.	18619	0	0
5	Shaanxi Automobile Group Co.,Ltd.	12924	4023	221.25
6	Chonqing Hongyan Automobile Group Co.,Ltd.	12804	10250	24.92
7	Anhui Hualing Heavy Truck Automobile Co.,Ltd.	4434	2664	66.44
8	Qingling Motors(Group) Co.,Ltd.	714	646	10.53
9	Hebei Changzheng Automobile Manufacturing Co, Ltd	384	216	77.79
10	YTO Group Corporation	238	0	0
	Medium truck Except Assembly Vehicle	64622	74411	-13.16
1	Dongfeng Motor Corporation	37170	39289	-5.39
2	China FAW Group Corporation	21281	32849	-35.22
3	Beiqi Foton Motor Co.,Ltd.	3435	0	0
4	Qingling Motors(Group) Co.,Ltd.	2253	919	145.16
5	China National Heavy Duty Truck Group Corp Ltd	278	152	82.89
6	Nanjing Automobile Group Corporation	197	185	6.49
	Light truck Except Assembly Vehicle	96386	99213	-2.85
1	Dongfeng Motor Corporation	39050	33818	15.47
2	China FAW Group Corporation	13107	11111	17.96
3	Jinbei Automobile Co.,Ltd.	9378	5753	63.01
4	Qingling Motors(Group) Co.,Ltd.	9338	8308	12.4
5	FAW Hongta Yunnan Automobile Co.,Ltd.	9016	11030	-18.26
6	Dandong Huanghai Automobile Co.,Ltd.	6376	7600	-16.11
7	Nanjing Automobile Group Corporation	4539	6858	-33.81
8	Chengdu New Dadi Automobile Co.,Ltd.	2583	1250	106.64
9	Jiangling Motors Co.,Ltd.	1326	1494	-11.24
10	Liaoning Linyuan Honglin Automobile Co.,Ltd.	786	0	0
	Mini-type truck Except Assembly Vehicle	20666	10120	104.21

1	SAIC-GM-Wuling Automobile Co.,Ltd.	14023	5262	166.5
2	Jinbei Automobile Co.,Ltd.	6336	3291	92.53
3	China FAW Group Corporation	307	1506	-79.61

Data from China Association of Automobile Manufacturers

Table 7-40 2005-2006Sale Amount of Semi-trailer Towing Vehicle

	Name of Corporation	2006	2005	Increase %
	Summation of semi-trailer towing vehicle	92660	56438	64.18
	weight of trailer ≤25 tons	1354	3948	-65.7
1	China FAW Group Corporation	711	184	286.41
2	Dongfeng Motor Corporation	551	320	72.19
3	China YTO Group Co.,Ltd.	61	50	22
4	Hebei Changzheng Automobile Co, Ltd	24	6	300
5	Qingling Motors(Group) Co.,Ltd.	7	12	-41.67
	25tons ＜weight of trailer≤40tons	74599	39666	88.07
1	China FAW Group Corporation	18287	9539	91.71
2	Shaanxi Automobile Group Co.,Ltd.	13964	4947	182.27
3	Dongfeng Motor Corporation	12289	9422	30.43
4	China National Heavy Duty Truck Group Corp Ltd	11573	10793	7.23
5	Beiqi Foton Motor Co.,Ltd.	11340	2177	420.9
6	Chonqing Hongyan Automobile Group Co.,Ltd.	2657	1986	33.79
7	Baotou North Benz Truck Co.,Ltd.	1914	9	21166.67
8	Shanghai Huihong Automobile Co.,Ltd.	1311	187	601.07
9	Anhui Hualing Heavy Truck Co.,Ltd.	992	488	103.28
10	China YTO Group Co.,Ltd.	227	87	160.92
	40tons ＜weight of trailer	16707	12824	30.28
1	China National Heavy Duty Truck Group Corp Ltd	8379	6840	22.5
2	China FAW Group Corporation	5585	3413	63.64
3	Shaanxi Automobile Group Co.,Ltd.	1474	1474	0
4	Chonqing Hongyan Automobile Group Co.,Ltd.	1071	1097	-2.37
5	Baotou North Benz Truck Co.,Ltd.	146	0	0
6	Dongfeng Motor Corporation	52	0	0

Data from China Association of Automobile Manufacturers

7.2.4 The output & sales volumes in various auto brands achieved by Top 5 car-making groups

Table 7-41 The ouput & sales volumes in various auto brands achieved by top 5 car-making groups of Passenger Vehicles

Name of Corporation	Total	Among				
		Basic Passenger Vehicles	Multifunctional Passenger Vehicles	2WD SUV	4WD SUV	Crossover Passenger Vehicles
Summation of 5 groups	3663242	2716175	110815	21010	78150	737092
Summation of FAW Group	959910	883571	19928	5	9232	47174
FAW Volkswagen Automobile Co.,Ltd.	346787	343621	3166	0	0	0
*FAW Toyota Motor Sales Co.,Ltd.	219839	210607	0	0	9232	0
Tianjin FAW Xiali Automobile Co.,Ltd.	201663	201663	0	0	0	0
FAW Hainan Automobile Co.,Ltd.	83636	67910	15726	0	0	0
FAW Car Co.,Ltd.	57804	57804	0	0	0	0
China FAW Group Corporation	47174	0	0	0	0	47174
FAW Hongta Yunnan Automobile Co.,Ltd.	2800	1759	1036	5	0	0
FAW Huali(Tianjin) Automobile Co.,Ltd.	207	207	0	0	0	0
China FAW Group Chengdu Manufacturing Co.,Ltd.	0	0	0	0	0	0
Summation of Dongfeng Motor Group	657295	548148	27326	3468	31660	46693
Dongfeng Peugeot Citroen Automobile Company Ltd	201858	201858	0	0	0	0
Dongfeng Nissan Passenger vehicles Company	201251	195916	5335	0	0	0
Dongfeng Yueda Kia Automobile Co.,Ltd.	114523	111769	2754	0	0	0

Dongfeng Motor Corporation	73725	0	19237	3468	4327	46693
Dongfeng Honda Automobile Co.,Ltd.	65938	38605	0	0	27333	0
Summation of SAIC Group	1192708	759181	48588	0	0	384939
SAIC-GM-Wuling Automobile Co.,Ltd.	427355	42416	0	0	0	384939
Shanghai Volkswagen Automobile Co.,Ltd.	350630	342073	8557	0	0	0
Shanghai General Motors Co.,Ltd.	268006	268006	0	0	0	0
Shanghai GM Dongyue Automobile Co.,Ltd.	106686	106686	0	0	0	0
shanghai GM(Shenyang) Beisheng Automobile Co.,Ltd.	40031	0	40031	0	0	0
Shanghai Sunwin Bus Corporation	0	0	0	0	0	0
Shanghai Huizhong Automobile Co.,Ltd.	0	0	0	0	0	0
SAIC Group Yizheng Branch	0	0	0	0	0	0
Summation of Changan Group	533459	255084	14973	10218	2930	250254
Changan Auto(Group)Co.,Ltd.	246916	4606	13612	0	0	228698
Changan Ford Mazda Automobile Co.,Ltd.	137913	137913	0	0	0	0
Chongqing Changan Suzuki Automobile Co.,Ltd.	112565	112565	0	0	0	0
Nanjing Changan Automobile Co.,Ltd.	21556	0	0	0	0	21556
Baoding Changan Bus Co.,Ltd.	0	0	0	0	0	0
Jiangling Motors Co.,Ltd.	14509	0	1361	10218	2930	0
Summation of Beijing Auto Group	319870	270191	0	7319	34328	8032

Beijing Hyundai Motors Co.,Ltd.	290088	262115	0	0	27973	0
Beijing Benz-Daimler Chrysler Automobile Co.,Ltd.	18726	8076	0	5583	4067	1000
Beijing Automobile Works Co.,Ltd.	9791	0	0	471	2288	7032
Beijing Beilv Automobile Co.,Ltd.	0	0	0	0	0	0
Beijing Sida Beach Wagen Co.,Ltd.	0	0	0	0	0	0
Beiqi Foton Motor Co.,Ltd.	1265	0	0	1265	0	0

Data from China Association of Automobile Manufacturers

Table 7-42 Sales Amount of Passenger Vehicles of 5 Main Group

Name of Corporation	Total	Among				
		Basic Passenger Vehicles	Multifunctional Passenger Vehicles	2WD SUV	4WD SUV	Crossover Passenger Vehicles
summation of 5 groups	3619688	2693007	107029	21763	78507	719382
Summation of FAW Group	946193	872772	19283	7	9079	45052
FAW Volkswagen Automobile Co.,Ltd.	345318	341218	4100	0	0	0
*FAW Toyota Motor Sales Co.,Ltd.	219466	210387	0	0	9079	0
Tianjin FAW Xiali Automobile Co.,Ltd.	196817	196817	0	0	0	0
FAW Hainan Automobile Co.,Ltd.	80218	65800	14418	0	0	0
FAW Car Co.,Ltd.	56340	56340	0	0	0	0
China FAW Group Corporation	45052	0	0	0	0	45052
FAW Hongta Yunnan Automobile Co.,Ltd.	2374	1602	765	7	0	0
FAW Huali(Tianjin) Automobile Co.,Ltd.	608	608	0	0	0	0
China FAW Group Chengdu Manufacturing Co.,Ltd.	0	0	0	0	0	0

Summation of Dongfeng Motor Group	656647	550265	26288	3393	29900	46801
Dongfeng Peugeot Citroen Automobile Company Ltd	201318	201318	0	0	0	0
Dongfeng Nissan Passenger Vehicle Company	203537	198905	4632	0	0	0
Dongfeng Yueda Kia Automobile Co.,Ltd.	115000	112162	2838	0	0	0
Dongfeng Motor Corporation	73419	0	18818	3393	4407	46801
Dongfeng Honda Automobile Co.,Ltd.	63373	37880	0	0	25493	0
Summation of SAIC Group	1163684	748707	46540	0	0	368437
SAIC-GM-Wuling Automobile Co.,Ltd.	408432	40015	0	0	0	368417
Shanghai Volkswagen Automobile Co.,Ltd.	349088	340578	8510	0	0	0
Shanghai General Motors Co.,Ltd.	403402	365372	38030	0	0	0
shanghai GM Dongyue Automobile Co.,Ltd.	2742	2742	0	0	0	0
shanghai GM(Shenyang) Beisheng Automobile Co.,Ltd.	0	0	0	0	0	0
Shanghai Sunwin Bus Corporation	0	0	0	0	0	0
Shanghai Huizhong Automobile Co.,Ltd.	0	0	0	0	0	0
SAIC Group Yizheng Branch	20	0	0	0	0	20
Summation of Changan Group	530632	251732	14918	10265	2797	250920
Changan Auto(Group)Co.,Ltd.	241430	4064	13910	0	0	223456
Changan Ford Mazda Automobile Co.,Ltd.	135571	135571	0	0	0	0
Chongqing Changan	112097	112097	0	0	0	0

Suzuki Automobile Co.,Ltd.						
Nanjing Changan Automobile Co.,Ltd.	27464	0	0	0	0	27464
Baoding Changan Bus Co.,Ltd.	0	0	0	0	0	0
Jiangling Motors Co.,Ltd.	14070	0	1008	10265	2797	0
Summation of Beijing Auto Group	322532	269531	0	8098	36731	8172
Beijing Hyundai Motors Co.,Ltd.	290011	261835	0	0	28176	0
Beijing Benz-Daimler Chrysler Automobile Co.,Ltd.	21308	7696	0	6433	6176	1003
Beijing Automobile Works Co.,Ltd.	10061	0	0	513	2379	7169
Beijing Beilv Automobile Co.,Ltd.	0	0	0	0	0	0
Beijing Sida Beach Wagen Co.,Ltd.	0	0	0	0	0	0
Beiqi Foton Motor Co.,Ltd.	1152	0	0	1152	0	0

Data from China Association of Automobile Manufacturers

Table 7-43 Summation of Commercial-use vehicless of 5 Main Groups

Name of Corporation	Total	Among				
		Bus	Truck	semi-trailer towing vehicle	Bus except Assembly Vehicle	Truck Except Assembly Vehicle
summation of 5 groups	1098855	58603	702948	49884	42932	244488
Summation of FAW Group	216904	4760	103393	23270	7629	77852
China FAW Group Corporation	179033	85	79585	23270	7629	68464
FAW Hongta Yunnan Automobile Co.,Ltd.	33197	1	23808	0	0	9388
*FAW Toyota Motor Sales Co.,Ltd.	4594	4594	0	0	0	0
China FAW Group	80	80	0	0	0	0

Chengdu Manufacturing Co.,Ltd.						
Summation of Dongfeng Motor Group	278603	4886	98077	13516	35301	126823
Dongfeng Motor Corporation	278603	4886	98077	13516	35301	126823
Summation of SAIC Group	60901	6440	39270	1022	2	14167
SAIC-GM-Wuling Automobile Co.,Ltd.	52813	0	38877	0	0	13936
Shanghai Huizhong Automobile Co.,Ltd.	5519	3871	393	1022	2	231
Shanghai Sunwin Bus Corporation	2569	2569	0	0	0	0
Summation of Changan Group	179936	26500	150853	0	0	2583
Changan Auto(Group)Co.,Ltd.	92849	0	92849	0	0	0
Jiangling Motors Co.,Ltd.	80429	22949	54897	0	0	2583
Baoding Changan Bus Co.,Ltd.	3551	3551	0	0	0	0
Nanjing Changan Automobile Co.,Ltd.	3107	0	3107	0	0	0
Summation of Beijing Auto Group	362511	16043	311355	12076	0	23063
Beiqi Foton Motor Co.,Ltd.	343098	15208	292751	12076	0	23063
Beijing Automobile Works Co.,Ltd.	19367	763	18604	0	0	0
Beijing Beilv Automobile Co.,Ltd.	46	46	0	0	0	0

Data from China Association of Automobile Manufacturers

Table 7-44 Sales Amount of Commercial-use vehicless of 5 Main Groups

Name of Corporation	Total	Thereinto				
		Bus	Truck	semi-trailer towing vehicle	Bus except Assembly Vehicle	Truck Except Assembly Vehicle

summation of 5 groups	1096139	58603	702948	50126	42475	239607
Summation of FAW Group	219509	4866	105071	24583	7625	77364
China FAW Group Corporation	182004	86	81365	24583	7625	68345
FAW Hongta Yunnan Automobile Co.,Ltd.	32726	1	23706	0	0	9019
*FAW Toyota Motor Sales Co.,Ltd.	4599	4599	0	0	0	0
China FAW Group Chengdu Manufacturing Co.,Ltd.	180	180	0	0	0	0
Summation of Dongfeng Motor Group	275697	4876	98401	12892	34850	124678
Dongfeng Motor Corporation	275697	4876	98401	12892	34850	124678
Summation of SAIC Group	60324	6655	38177	1311	0	14181
SAIC-GM-Wuling Automobile Co.,Ltd.	51723	0	37700	0	0	14023
Shanghai Huizhong Automobile Co.,Ltd.	6042	4096	477	1311	0	158
Shanghai Sunwin Bus Corporation	2559	2559	0	0	0	0
Summation of Changan Group	178105	26239	150540	0	0	1326
Changan Auto(Group)Co.,Ltd.	90235	0	90235	0	0	0
Jiangling Motors Co.,Ltd.	81669	22739	57604	0	0	1326
Baoding Changan Bus Co.,Ltd.	3500	3500	0	0	0	0
Nanjing Changan Automobile Co.,Ltd.	2701	0	2701	0	0	0
Summation of Beijing Auto Group	362504	16181	312925	11340	0	22058
Beiqi Foton Motor Co.,Ltd.	342527	15201	293932	11340	0	22054
Beijing Automobile	19854	857	18993	0	0	4

Works Co.,Ltd.						
Beijing Beilv Automobile Co.,Ltd.	123	123	0	0	0	0

Data from China Association of Automobile Manufacturers

7.2.5 Statistical figures about the annual sales of car-driving engines

Table 7-45 Top 10 statistical finures about the annual sales of car-driving engines in 2005-2006

	Name of Corporation Top 10 auto manufactuers and their sales volumes in various brands in 2006	2006	2005	Increase %
	Summation of Automobile Engines	6209022	4725043	31.41
1	Dongfeng Motor Corporation	539518	507198	6.37
2	Liuzhou Wuling Liuji Power Co.,Ltd.	410408	276983	48.17
3	Changan Automobile(group) Co.,Ltd.	402463	423356	-4.94
4	Guangxi Yuchai Machinery Group Co.,Ltd..	354674	246640	43.8
5	FAW Volkswagen Automobile Co.,Ltd.	344383	245935	40.03
6	Beijing Hyundai Motors Co.,Ltd.	334147	233756	42.95
7	Harbin Dongan Automobile Power Co.,Ltd.	314808	317561	-0.87
8	Shanghai Volkswagen Automobile Co.,Ltd.	304433	227908	33.58
9	Chery Automobile Co.,Ltd.	261898	135281	93.6
10	Shanghai General Motors Co.,Ltd.	258919	286694	-9.69

Data from China Association of Automobile Manufacturers

Table 7-46 2005-2006 Top 10 Automobile Diesel Engines Manufacturers

	Name of Corporation	2006	2005	Increase %
	Automobile Diesel Engines	1529968	1272536	20.23
1	Guangxi Yuchai Machinery Group Co.,Ltd..	354674	246640	43.8
2	Dongfeng Motor Corporation	255197	245628	3.9
3	China FAW Group Corporation	216566	185778	16.57
4	Kunming Yunnei power CO.,LTD.	207210	193748	6.95
5	Jiangling Motors Co.,Ltd.	95487	84262	13.32
6	Weichai Power Co.,Ltd.	84269	58820	43.27
7	Yangzhou Diesel Engine Co.,Ltd.	80662	76850	4.96
8	China National Heavy-Duty Truck Group Corp Ltd	57651	11422	404.74
9	Beiqi Foton Motor Co.,Ltd.	50603	47115	7.4
10	Qingling Motors(Group) Co.,Ltd.	33109	30094	10.02

Data from China Association of Automobile Manufacturers

Table 7-47 2005-2006 Top 10 Automobile Gasoline Engines Manufacturers

	Corporation	2006	2005	Increase %
	Automobile Gasoline Engines	4675583	3449673	35.54
1	Liuzhou Wuling Liuji Power Co.,Ltd.	410408	276983	48.17
2	Changan Automobile(group) Co.,Ltd.	402463	423356	-4.94
3	Beijing Hyundai Motors Co.,Ltd.	334147	233756	42.95
4	FAW Volkswagen Automobile Co.,Ltd.	324477	225386	43.97
5	Harbin Dongan Automobile Power Co.,Ltd.	314808	317561	-0.87
6	Shanghai Volkswagen Automobile Co.,Ltd.	304433	227908	33.58
7	Dongfeng Motor Corporation	281322	260397	8.04
8	Chery Automobile Co.,Ltd.	261898	135281	93.6
9	Shanghai General Motors Co.,Ltd.	258919	286694	-9.69
10	Dongfeng Peugeot Citroen Automobile Company Ltd	202217	141954	42.45

Data from China Association of Automobile Manufacturers

8 Industry summarization and development trend of special vehicles, auto parts and motorcycles

8.1 Industry summarization and development trend of special vehicles

8.1.1 Summary

In recent years, China’s special vehicle industry gained unprecedented development. Its annual production capacity reaches 1 million and output about 550,000. The industry structure is further optimized. Some enterprises are able to compete in the international market.

Product varieties and grades, process equipment, and independent research and development are greatly improved. Special vehicles, which completely rely on imports, began to be exported. What are the conditions for developing special vehicles in the country? The criteria are to see the proportion of special vehicles out of the total output of trucks of the country. From 2001 to 2005, China's special vehicle output accounted for between 25% and 40% of trucks produced during the period, indicating that specialization of China’s truck has been accelerated, and the trend of specialization has become more and more evident.

The development of China's special vehicle shows a growing momentum. Since 1998, the Government has implemented a series of pro-active fiscal policy, such as expansion of domestic demand and increase in infrastructure investment. It included the measures that the Government should include special vehicle in the list of key development and boost the demand for special vehicles. With these measures, special vehicle sector showed a trend of rapid growth. From the 10th Five-Year Plan to the initial period of the 11th Five-Year Plan, China's national economy experienced a major turnaround, and the overall economy grew at a high speed. The capacity of automobile market increased as production and sales created new records.

Statistics indicate special vehicle output was 350,000 in 2004, 500,000 in 2005 and 600,000 in 2006. In 2006, there were 628 special vehicle enterprises, while there were 4,910 types of special vehicle, including 1,520 kinds of vans, 830 special vehicles and 676 tank cars. During the 10th

Five-Year Plan period, most special vehicle enterprises dedicated to readjusting the setup of enterprises, while many minor enterprises realized the transition of their nature through restructuring, merger and acquisition and by other means. According to incomplete statistics, private enterprises of special vehicles accounted for 50% of special vehicle enterprises in the country. Among the new special vehicle enterprises, private enterprises accounted for more than 90% of the total.

China's special vehicle technology equipment is close to the level of that of the developed countries. During the 10th Five-Year Plan period, China's special vehicle technology equipment level improved greatly. Advanced technology and equipment, including digital controlled cutter, plasma cutting machine, CNC shearing machine, CNC press brakes, intelligent welding machine, shot peening vehicle sandblasting machine and intelligent coating line, were used in many enterprises, playing a significant role to enhance product quality and reliability. By 2006, more than 60% of China's special vehicle enterprises had owned complete product development system. Product design technology grew rapidly during the 10th Five-Year Plan period. More than 50% of enterprises applied CAD technology and design techniques, while some used three-dimensional technology for simulation modular design. Most enterprises have passed the verification of GB/T19000-ISO9000 Certification System, while all enterprises in the list are recognized by 3C Mandatory Product Certification.

In recent years, Government's supportive policies on automobile industry played a positive role in promoting rapid development of automobile. 'Outline of Development Plan for Road Transport Industry' in 2001-2010, issued by the Ministry of Communications in 2001, makes the following requirements for the industry: Strive to develop van cars, quarter-trailers, special vehicles and heavy-duty vehicles. In terms of policy, the government has listed the development of container vehicles, vans, special vehicles and heavy-duty diesel trucks with a loading capacity of more than eight tons and the acceleration of ordinary convertible lorries to van in the 'Outline of development plan for Road Transport Industry'. China has issued a series of preferential policies, making it an inevitable trend of the growing demand for heavy-duty vehicles and special vehicles. The adjustment of cargo vehicles is a structural one, aiming to improve transport efficiency, reduce energy consumption and achieve cargo transport miniaturization. It is expected that special vehicles, as main models, will replace ordinary vehicles in the road transport industry. In June 2004, the National Development and Reform Commission issued the 'Long-term special planning on energy-saving' to promote energy-saving activities in the whole society and build conservation-minded society to promote sustainable economic and social development, providing new varieties expansion space for the development of special vehicles. The Outline on the road transport requires the acceleration of the development of large-tonnage trucks and vans as well as

professional container transporter vehicles.

8.1.2 Development Trend

In Western countries, the automobile market is relatively mature. Special vehicles accounted for above 70% of ordinary trucks. Products are involved in all aspects of national economy, while meeting clients' individuality to a higher degree with significant features. By contrast, development of China's auto market is relatively slow without enough market segmentation. Currently, special vehicles account for about 40%, while similar production is large, poorly meeting the requirements of individual users. Production process of hardware has significantly narrowed the gap between domestic and foreign manufacturers, while their gap in management, requirement and implementation of production process has expanded. Therefore, whether in domestic or international market, there is still much room for China special vehicle.

From the perspective of the Chinese market, with the changes in the composition of the national economy, demand for special vehicles' varieties will be changed correspondingly. With constant improvement in infrastructure, demand for general dump automobiles should be gradually reduced, while demand for vans, quarter-trailer and urban auxiliary service vehicles will be greatly increased.

From the perspective of the international market, because of constraints of labor price and economic downturn in developed countries, manufacturing emigrated one after another in recent years, providing some opportunities for China's special vehicles to enter overseas market. On the one hand, market share of domestic special vehicles gradually increased in Europe, the United States, Japan, Southeast Asia and the Middle East by means of price advantage, which laid a sound foundation for domestic special vehicles entering overseas market; On the other hand, for seeking new economic growth, overseas special vehicles will actively explore the Chinese market. Therefore, in the field of high-end products, in the form of joint venture and cooperation, we should be enthusiastic to promote the development of China's high value-added products.

At present, China's special vehicle accounts for 40% of total trucks, compared with the more than 65% market share in the Western countries, leaving a large gap. However, Chinese market of special vehicle has the potential to increase. It is estimated that, by 2010, special vehicles will account for more than 50% of total trucks.

Rapid development of national economy has driven the speedy growth of related industries, while huge consumption of resources has become the impetus of developing China's heavy-duty trucks

and heavy-duty special vehicles. In 2004, China's heavy-duty truck showed a ‘blow-out’. Though pleasant hours flied past, heavy-duty truck industry has slowed down too much due to the changes in product sales structure, the growing specialized extent of the complete heavy-duty truck. All these have made the decreasing speed of heavy-duty truck’s chassis much slower than that of heavy-duty complete truck and quarter-trailer tractor vehicle. In addition, improvement of road conditions and transport created good conditions for container transport on highways. At the same time, it also provided a broad space for wide applications of large tonnage, high-power, multi-axle special vehicles.

In terms of lightweight of the special vehicle, there is still a big difference between China and Europe, the United States and Japan. Applications of tank and van in aluminum and stainless steel have just started in China’s special vehicle industry. However, it is used for more than 20 years in Europe and the United States, while aluminum and other lightweight materials are widely used in top part in Japan. There is no doubt that the introduction of new materials and new technology, reduction of weight and enhancement of transport efficiency are of great significance for promoting China's technological progress and narrowing the gap with overseas products.

In addition, applications on integration of machinery, electricity, gas, liquid, microelectronic technology and GPS technology in special vehicles can greatly enhance the added value of products and technical content of products. Experts predict that in a certain period in future, large application of high-tech together with the traditional cost advantages of special vehicles will boost export to a new level.

Vigorous promotion on van transportation is proposed in the 10^{th} Five-Year Plan, while development trend is recognized by the industry. Especially with the development of highway, van quarter-trailer and container quarter-trailer have become the main models for logistics enterprises. With the improvement of living standards, refrigerated container quarter-trailer has become the future development trend. At the same time, with the world business giants entering China's market, a great number of supermarkets mushroomed. Demand for light vans will increasingly grow. At present, China's van automobile is far from perfect in design and production. It lacks research and development for personalized demand. The sector does not take full consideration of the performance of specific features, and considers van vehicle as general vehicle to produce. However, the growing demand for vans has made it absolute ‘stable goods’ with low technology content and added value. Development and production of vans with high-tech content to meet the market demand is a major subject for China's automobile industry during the 11th Five-Year Plan period.

With sustained and stable development of its market economy, China's national economy will continue to maintain a rapid growth in future. A large number of national key infrastructure projects, such as the transport of natural gas from the West to the East, the transmission of electricity from the western to the eastern region, and the diversion of water from the south to the north, will be put on agenda and come into effect. Meanwhile, national key construction projects, such as Olympic projects before 2008 and World Expo projects before 2010, will stimulate market demand for special vehicles. In recent years, manufacturing bases in developed countries are relocated one after another, providing some opportunities for China's special vehicles to enter overseas markets. Domestic special vehicle has gradually increased its market share by taking the advantage of its price advantage in Europe, the United States, Southeast Asia and the Middle East, which laid a sound foundation for special vehicles entering the international market.

The mainstream market of the future special vehicle will still focus on two places: One is urban construction and services. The other is the high-grade highway transportation and management. Special vehicle's main technical source channels are as follows: Form a certain technology support platform by means of technology transfer; guarantee the advancement and primacy through technical cooperation with domestic college and technology institutes; foster a talent cluster effect through forming industrial groups; dedicate to independent innovation and system design of integrated innovation by inviting experienced professional and technical personnel in domestic automobile industry, and further innovate the technology through technical cooperation with institutions that offer the innovative technology, and the introduction of advanced technology from the developed countries.

During the period of the 11th Five-Year Plan, China's national economy will continue to maintain a rapid development trend, while special automobile market will be more mature. With a complete change in the national economy, market demand for special vehicle varieties will be changed correspondingly. With the improvement of infrastructure, demand for general dump automobiles will gradually reduce, as demand for vans, quarter-trailer and urban supporting service vehicles will be greatly increased. According to new demand pattern for special vehicles, the following products will be developed rapidly: 1. Heavy-duty tractor and various tractor-quartertrailers suitable for highway transportation. 2. Various light, medium and heavy-duty van vehicles suitable for demand of logistics system. 3. Various vehicles of ancillary services to enhance development of city functions. They mainly include the followings: Municipal category (Clearing vehicles, high-altitude vehicles, etc); Sanitation category (various types of vehicles and rubbish cleaning truck, the water dredging car, etc); Urban construction engineering services category (bulk cement carrier, concrete mixers, Concrete pump truck, crane vehicles, fire engines and bridge inspection car, etc); Fire-fighting car category; Cultural life category (household motor, television broadcast

truck, lighting car, power vehicles, etc); Medical category (medical vehicles, etc); Airport service vehicles. 4. Highway service vehicles. Road maintenance vehicles, emergency and rescue vehicles, etc. 5. Major engineering vehicles. Such as dump vehicles meeting for highway construction need; Gas transit vehicles for transporting the natural gas from the West to the East; Charged vehicles and power cars for guaranteeing the safety of electricity; Engineering vehicles for diverting water from the south to the north, highway and railway construction; Infrastructure project vehicles for the development of China's West; Vehicles for transporting oils and food. 6. Other category vehicles, such as coal transport vehicles and farm-use vehicles.

With the rapid development of China's economy, social demand for the efficiency and economy of automobile transport, as well as various functions and performances, is getting higher, making it an inevitable trend to specialize auto transport vehicles and bring wider applications on special vehicles in many sectors. China Automobile Manufacturers Association Special Vehicle Branch predicted that during the 11th Five-Year Plan period, special vehicle would increase by 10%. By the end of 11th Five-Year Plan, annual demand for special vehicles will reach nearly 900,000 and the total number of private cars reach 6 million.

Table 8-1 Annual demand and inventory forecast of special vehicles.

Unit: 10,000

Year	2007	2008	2009	2010	2015	2020
Increasing rate	10					8
Demand	66.5	73.2	80.5	88.6	130	174
Update Volume	14.0	14.0	16.0	16.0	22.0	26.0
Inventory	403	462.2	526.7	599.3	707.3	855.3

Data source: China Machinery Industry Prosperity Monitoring Center.

8.2 Industry summarization and development trend of Automobile Spare Parts.

8.2.1 A summary of the industry

In 2006, China's auto production and sales both exceeded 7 million. The amount of automobile in service increased year by year. If the growth continues, China's automobile production and sales will reach 8 million in 2007. Facing so tremendous support and after-sale service market, China's

auto spare parts industry will gradually become an important factor to influence the entire auto industry development and after-sale service market. With the rise of exports of China's auto parts industry, China's auto spare parts should have an impact on the world automobile industry.

Since 2001, auto spare parts made in China have basically met the needs of high-speed development of production and social service; while auto spare parts basically have owned the development and production capacity for commercial-use, medium- and low-standard passenger car. The sector boasts certain introduction and absorbing capacity of high-grade passenger car spare parts; The reorganization, socialization of production and specialization of the auto parts enterprises have gained rapid development; During the 10th Five-Year Plan, the annual sales income of motor vehicle business increased by 28.75%, while car spare parts' annual sales income increased by 36.82%, higher than the average of the industry.

In 2005, total output of China's auto spare parts industry was RMB 383.8 B, accounting for 35% of that of automobile industry. The figure included an export of US$8.5B and OEM production about 268.1 B Yuan. In 2006, spare parts manufacturing industry accumulatively realized a total industrial output value of RMB 471.696 B, an increase of 33.12% year-on-year, while industrial sales value reached RMB 459.622 B, an increase of 32.48% year-on-year; and product sales increased by 97.44%, a 0.64% increase compared last year. Output value of new products achieved RMB 47.854 B, an increase of RMB 18.064 B with growth rate of 60.63%, while export delivery valued at RMB69.146 B, an increase of 30.56% year-on-year. Total profit hit RMB 29.514 B with a growth rate of 46.43%. Auto industry's contribution rate to total profit was 38.66%, an increase of 3.55% compared last year, only second to vehicle manufacturing industry, while profit level raised faster than that of the corresponding period last year.

Spare parts industry's reorganization and merger have achieved initial success, and socialization of production and specialization have developed fairly fast, forming a new industry pattern, which orderly uses overseas investment, improves private business capital environment, enhances efficiency of State-owned enterprises under the diversified capital structure. New industry pattern consists of State-owned assets, private-owned assets and overseas capital. The State-owned enterprises have formed supporting system, which is based on the principle of internal support, and now they are trying to set aside the original scope of supporting enterprise groups to open up new space; due to little direct relationship with complete vehicles in the past, private enterprises are secondary or tertiary supporters, or struggle in retail market; overseas spare parts enterprises, mostly controlled by powerful world-class spare parts supplier, have higher level of management and advanced product technology and make original supporting relations with transnational corporations, showing strong competitiveness.

The entry of overseas automobile transnational corporations made subsequent entry of a large number of overseas spare parts suppliers to set up joint ventures or wholly-owned enterprises in China. These transnational enterprises have a large scale of operation, strong technical strength and rich experience in multinational operations, greatly promoting the capacity of domestic spare parts and technical level. Famous overseas spare parts manufacturers, such as ROBERT BOSCH, ZF, Delphi, TRW, Dana Corporation, Japanese Electrical, Aisin Seiki, Fujitsu, Alpine Electronics, France Valeo, etc, have established a few joint ventures and wholly-owned enterprises in China.

These enterprises range from automotive electronics, car stereos, car chassis, body parts and other varieties. Currently, the world's top Fortune 500 enterprises of auto spare parts have all entered China to set up joint ventures or wholly-owned enterprises. These international automobile enterprises bring advanced products, technologies as well as advanced production and management system. China, benefited from the auto parts industry, has made use of the technology and production lines to rapidly to improve the quality of its products, brand recognition and market competitiveness.

At the same time, with the influx of transnational group’s capital, China's auto spare parts industry has accumulated much capital, laying a solid foundation for future development of enterprises. Particularly, upgrading core technologies needs further introduction of more technology reference, digestion and absorption.

In the process of introduction of advanced technology and cooperation in the joint venture, domestic enterprises have developed a number of products with higher levels of technology. For example, Shanghai Joint Electronic Co.,Ltd. introduced Bosch technology and electrical and mechanical spraying gasoline production system; Shanghai Automobile Braking Systems Inc made use of the technology to produce cars with Bosch ABS; and Dongfeng Honda Engine Company produced automatic transmission, etc.

In addition, some enterprises have intensified their own R&D input through internal research or cooperation with advanced overseas institutions, gaining success in some aspects. For example, Chery Automobile and Austrian AVL company developed ACTECO engine with a production capacity of 20,000 by the end of the year; and 1.8 T turbocharged engine, developed by Brilliance Automobile on its own, made debut in Shenyang on June 26, becoming a pioneer of independent brands attacking independent research and high-end engines development.

Spare parts exports increased rapidly, an increase of 6.6 times in five years. Product sales from

after-sale market to OEM market, while changing from low value-added products to high value-added product exports from scattered to orderly, especially some own-brand products, began to enter the international procurement system, and the technological level of exports was greatly improved. From 2004 to 2006, for three consecutive years, China was a net exporter of auto part products.

In 2006, China's auto parts and other auto-related imports continued to grow rapidly. Imports of automobile spare parts, total amount of accessories and body reached US$11.105 B, an increase of 32.38% year-on-year, while imports of automobile and motorcycle tire saw an accumulation of US$194 M, an increase of 65.32% year-on-year, and the imports of other auto-related products reached US$783 M, an increase of 34.38% year-on-year: The above three categories of imports totaled at US$12.082B, accounting for 57.87 % of total imports.

China is becoming a global auto parts production base. In 2006, China's auto spare parts and other auto-related product exports maintained a strong momentum as the previous year. From January to December, total exports of automobile spare parts, accessories and body were US$11.519 B, an increase of 35.04%, and the imports of automobiles, motorcycles tire were US$4.563 B, up 33.61%. Accumulated exports of other auto-related products were US$4.699B, an increase of 56.20%. The exports of the above three categories reached US$20.781 B, accounting for 73.84% of the total amount of exports, which was the highest one in the above three categories.

Although China's exports of parts and components have a wide distribution with more varieties, there were obviously still low technology content and added value and higher energy consumption problems. In 2005, in the category of key parts of vehicle, the brake system and the engine were the main exports, accounting for nearly 62.2% of the total exports of braking system; while exports of engines accounted for nearly 21.8% of total key parts. In the auto parts of the braking system, ABS exports accounted for only 0.64% of the total. Such export business, relying on low-end products' quantity and price advantages, was at great risk of anti-dumping lawsuits. Since 1997, the United States has levied anti-dumping duties from 1% to 20% for imported auto parts from China, involving nearly 10 anti-dumping cases of China's automobile industry.

Major products involved included wheel gaskets, brake drum brakes, disc brake cylinders, automobile tires, anti-skid chains, steel windshield, vehicle's fuel tanks, and other varieties. Recently, there were eight anti-dumping cases of China's exports of auto products launched by foreign countries. Tire industry suffered the highest frequency of anti-dumping. China's automobile and part exports are facing an increasing number of tariff barriers and the most impediment remains to be anti-dumping.

In recent years, with rapid development of China Automobile Group, automobile spare parts industrial clusters are rapidly developed, showing an obvious concentration with complete vehicle assembly factories as its center. Now it has formed several major spare parts industrial clusters, such as Northeast (FAW Group as the center), Beijing-Tianjin-Tangshan (Beijing Auto and Tianjin Xiali as the center), Hubei (Dongfeng Group), Southwest (Changan Group), the Yangtze River Delta (SAIC, Nanjing, Chery, Jianghuai as the centre, etc), the Pearl River Delta (Guangzhou Automobile and the South East Automobile Centre). Among the list of 'Top 100 China Auto Spare Parts in 2005' issued in 2006, four enterprises saw their sales exceeding RMB 10 B, while 22 enterprises witnessed their sales surpassing RMB 2B, accounting for 61.44% of the total top 100 enterprises' sales. In 2005, sales of top 100 enterprises were 217.577 B yuan, an increase of 10.7% year-on-year, accounting for 63% of domestic 4,447 auto parts enterprises, which indicates that auto parts industry has greatly enhanced the scale effect with the progressive development of industrial clusters. At present, China's auto parts enterprises are mainly concentrated in Zhejiang, Jiangsu, Shanghai, Hubei, Shandong, Guangdong and Jilin.

Output efficiency of enterprises in Shanghai and Zhejiang Province is higher. Through internal integration and the development of clusters, auto parts industry has given full play to the Chinese labor costs and market potential and the advantages of industrial clusters. It will also help promote China to become an international automotive components industry base. Auto parts industry cluster will develop faster in the future.

Table 8-2: Name list of top 10 automobile spare parts in 2005.

Serial Number	Name of enterprise	Sales in 2005 (RMB: Ten Thousand)
1	Wanxiang Group.	2521488
2	Weifang Diesel Engine Factory.	1691772
3	Guangxi Yuchai Machine Group Co.	1213751
4	Dongfeng Honda Engine Co.,Ltd.	1077333
5	Yanfeng Visteon Automotive Trim Systems Co.,Ltd.	775965
6	Beijing Hyundai Mabishi Automobile Spare Part Co.,Ltd.	651486
7	Shanghai Automotive Industry Corp.	638869
8	Fu Ao Automobile Spare Part Co.,Ltd.	558925
9	Liuzhou Wuling Automobile Co.,Ltd.	425479
10	Guangzhou Automobile Group Spare Part Co.,Ltd.	416810

11	FAW Auto Group Subsidiary Wuxi Diesel Engine Branch.	410250
12	Dongfeng Cummins Engine Co.,Ltd.	362482
13	Liaoning Shuguang Automobile Group Co.,Ltd.	321513
14	Shanghai Diesel Engine Co.,Ltd.	310912
15	Changchun FAW Sihuan Automobile Co.,Ltd.	302418
16	United Automotive Electronic Systems Co.,Ltd.	292886
17	Wuxi Weifu Tech Co.,Ltd.	279095
18	Dongfeng Bridge Limited Co.	260880
19	Harbin Dongan Automobile Power Co.,Ltd.	225467
20	Wanfeng Aute Holdings Group Co.,Ltd.	224737
21	Zhengxing Wheel Group Holdings Co.,Ltd.	205006
22	Tianjin Toyota Motor Engine Co.,Ltd.	200725
23	Dongfeng Industry Co.,Ltd.	199922
24	Tianjin Fushi Tongtian Electron Co.,Ltd.	193460
25	Shantou Special Economic Zone Yazaki Auto Spare Part Co.,Ltd.	188167
26	Jiangyin Molding Group Co.,Ltd.	184097
27	Daika Wheel Manufacturing Co.,Ltd.	179963
28	Beijing Mabishi Transmission Co.,Ltd.	177838
29	Hebei Lingyun Industry Group Co.,Ltd.	175079
30	Huizhou Zhurun Electrical Co.,Ltd.	175021
31	Delphi (Shanghai) Energy Propulsion System Co.,Ltd.	174051
32	Dongfeng Chaoyang Diesel Limited Liability Company.	165807
33	FAW Auto Group Dalian Diesel Branch Co.	165421
34	Beijing Futian Environment Protection Force Ltd	165137
35	Chongqing Zongshen Engine Manufacturing Co.,Ltd.	164963
36	Shenyang Aerospace Mitsubishi Motors Engine Manufacturing Co.,Ltd.	155633
37	Jiangmen Hualing Precision Mechanism Ltd	154902
38	Xinxiang Aviation Industry (Group) Co.,Ltd.	152454
39	Shandong Longji Group Ltd	149436
40	Jiangxi Changli Automobile Spring Co.,Ltd.	145427
41	Sailing Co.,Ltd.	136741
42	Beijing Xingyu Zhongche Technology Co.,Ltd.	136280

43	Jiangsu Mabishi Auto Spare Part Co.,Ltd.	132763
44	Dongfeng Motor Wheel Co.,Ltd.	127302
45	Beijing Delphi Wanyuan Engine Management System Co.,Ltd.	123385
46	Hangzhou West Lake Auto Spare Part Group Co.,Ltd.	123077
47	Kunming Yunnei Power Co.,Ltd.	119958
48	Shanghai GM Dongyue Power Co.,Ltd.	119759
49	Shandong Bohai Piston Group Limited Liability Company.	118400
50	Shanghai Delphi Automobile Air Conditioning System Co.,Ltd.	107278
51	Qingte Group Co.,Ltd.	106471
52	Wandu (Beijing) Automobile Chassis System Co.,Ltd.	104722
53	Huizhou Dongfeng Yijin Industry Co.,Ltd.	98998
54	Tianjin Yingtai Automobile Accessories Co.,Ltd.	98597
55	Beijing Jiangsen Auto Spare Part Co.,Ltd.	95704
56	Shanghai Hyundai Mabishi Automobile Spare Part Co.,Ltd.	95547
57	Tianjin Yazaki Auto Spare Part Co.,Ltd.	93606
58	Beijing Mabishi Zhongche Automobile Spare Part Co.,Ltd.	93399
59	Shandong Yongjia Head Group.	90867
60	Shanghai Oriental Electric Co.,Ltd.	90452
61	Shenyang XingYuanDong Automobile Spare Part Co.,Ltd.	86996
62	Guangxi Fangcheng Industry Co.,Ltd.	86975
63	Yantai Shougang Electric Co.,Ltd.	86859
64	Tianjin Jinzhu Automobile Harness Co.,Ltd.	86852
65	Faurecia Quanxing (Wuhan) Automobile Seat Co.,Ltd.	86067
66	Chongqing Yujiang Casting Co.,Ltd.	85870
67	Takata (Shanghai) Automobile Safety Device Co.,Ltd.	85813
68	Yantai Yazaki Auto Spare Part Co.,Ltd.	85612
69	Zhucheng Yihe Axle Co.,Ltd.	85000
70	Anhui Anqing Huanxin Group Co.,Ltd.	83520
71	Tianjin Fengjin Automobile Transmission Parts Limited Liability Company.	81920

72	Jilin Dongguang Group Co.,Ltd.	81538
73	Hangzhou Automobile Engine Factory.	80370
74	Zhejiang Asia-Pacific Electrical and Mechanical Services Ltd	80091
75	Dongguan Keihin Automobile Electricity-Spraying Device Co.,Ltd.	79917
76	Guangzhou Aiji Automobile Spare Part Co.,Ltd.	79449
77	Hangzhou Yazaki Accessory Co.,Ltd.	78956
78	Anyang Automobile Spare Part Co.,Ltd.	78325
79	Zhejiang Yipeng Engine Parts Co.,Ltd.	78149
80	Harbin Dongan Automobile Engine Manufacturing Co.,Ltd.	77843
81	Yangzhou Diesel Engine Limited Liability Company.	77807
82	Zhongding Stock Co.,Ltd.	77756
83	Dongfeng Honda Automobile Spare Part Co.,Ltd.	77162
84	Siemens VDO Automobile Electronic (Changchun) Co.,Ltd.	77072
85	Guangzhou Aimoke Automobile Spare Part Co.,Ltd.	75842
86	Hunan Tongxin Industry Co.,Ltd.	75803
87	Huatai Aluminum Wheels (Tai'an) Co.,Ltd.	75021
88	Tianjin Huafeng Automobile Decoration Co.,Ltd.	73460
89	Tianjin Electronic Co.,Ltd.	73227
90	Zhejiang Jinfei Machinery Group Co.,Ltd.	72836
91	Lier Changchun Automobile Interior Decoration Systems Co.,Ltd.	71651
92	Yangzhou Hongquan Industry Co.,Ltd.	71329
93	Chongqing Hongyu Precision Industry Co.,Ltd.	71309
94	Shandong Longkou Xingmin Wheel Co.,Ltd.	70243
95	Dandong Alpine Electronic Co.,Ltd.	69593
96	Ruili Group Co.,Ltd.	69330
97	Siemens VDO Automobile Electronic (Wuhu) Co.,Ltd.	68682
98	Baoding Great Wall Internal Combustion Engine Manufacturing Co.,Ltd.	68584
99	Delphi Pike (Guangzhou) Co.,Ltd.	68491
100	Bosch Automobile Parts (Suzhou) Co.,Ltd.	68057

Data source: China Association Of Automobile Manufacturers.

'Auto industry policy', issued as early as in 1994, proposed localization requirements and implemented localization rate and preferential policy linked to different import duties, laying a solid foundation for spare parts' localization and development; Santana's localization stimulated Shanghai and other parts of the country to develop a large number of higher level supporting enterprises. Most new cars were able to meet the requirement of more than 40% domestic matching rate at the starting stage; Santana's localization made the late comer enterprises and new cars in the sector relatively easy to buy domestic auto parts, commercial-use-use vehicles and mid-low passenger cars. When these enterprises started operation, their supporting rate of domestic auto parts was able to reach even higher than 90%. Auto spare parts have made distinctive progress in localization.

Private enterprises showed obvious growth and competitiveness; the absorption of introduced technology made the technology and quality level of automobile spare parts increasing remarkably; Taking Zhejiang and Jiangsu provinces for examples, most spare parts enterprises have already completed the privatization, making private enterprises one of the subjects in the auto parts industry in China. Private economy performed a strong growth and competitiveness. It has not only become the main force and the main exporter of suppliers in after-sales market, but also created a group of automobile spare parts exporting enterprises with international competitiveness, as represented by Wanxiang Group.

China has basically set up complete supporting systems for domestic automobile. But auto spare parts enterprises' products tend to convergence with a small scale and low capacity of risk resistance. Their technology content is low. They are lack of sustainable development capacity, especially lack of core technology for major car assembly and key Parts. Enterprises are generally lack of the ability of independent development. Most enterprises' current investment in research and development accounts for about only 1.4% of their sales revenue. The figure is far less than the average level of 5% of multinational corporations. The lack of R&D funds directly results in backward R&D facilities; the serious shortage in qualified personnel results in weak ability in research and development and being unable to develop new competitive products. The lack of social awareness of their own brands results in a lack of brand-name products. Inadequate independent development capacity and weak competitiveness of own-brand products have seriously restricted the development of automotive components industry and promotion of international competitiveness.

Currently, there are several ten thousands of auto parts enterprises. But few of them reached

certain economy scale: The proportion of large-scale enterprises is less than 1%, while the proportion of medium and large-scale enterprises is less than 15%. The weak-small-scattered pattern of the overall spare parts enterprises has not been fundamentally improved. Localities, government departments and enterprises formed their own systems. They were eager for quick success and instant benefit and without prudent investing from view of strategy. As a result, these enterprises were seriously redundant. It is thus difficult for enterprises to enter the lucrative high-end market. Due to scattered strength, it can hardly show the overall advantages, and most enterprises have not entered vehicle supporting market, but as a single social service auto parts supplier.

8.2.2 Development trend

Chinese auto component industry needs to be included in the development of global auto part industry for its further development. The development trend of the Chinese auto part industry is:

1) Globalization. Economic globalization is a worldwide industrial restructuring driven by the fast development of science and technology. It took information network service as its platform and regarded multinationals as carriers for global operations. The resources, originated from the internal resource of mere a single country, started to distribute globally. Multinationals make use of their global resources to optimize the investment, development, manufacture, purchase and sales to accommodate with different environment in different districts and demand of different markets in order to improve competitiveness and obtain competitive priority. Auto part globalization involves many links of global purchase, manufacturing, research and development, sales and service. They are reflected in global auto part purchase, outsourced manufacturing, co-operative global R&D and after-sale consumer service network.
2) Specialization. Economic globalization has a great impact on auto part industry. As the relationship between complete vehicles manufacturers and auto part manufacturers changes, there are 2 important changes in auto part industry. First, auto component shifting from regional production to global manufacturing. As the number of auto part manufacturers reduced in big margin, more global specialized corporations emerged in this industry. Second, the labor-intensive auto part enterprises moved to low-cost countries and regions, and the manufacturers supplied products to many multinationals. That has caused the relocation of global resources and expansion of purchase ranges of auto part industry. All these changes have greatly improved the scaled production of the auto parts and reduced cost and enhanced the technology level of auto part producers and the ability to develop new products.
3) High technology. Most global auto part manufacturers utilize the high and new technologies of aerospace, aviation, electron and information in auto part industry, making the technologies

on safety, power-saving and environmental protection widely applied. The application of these technologies helps improve the power, economy, reliability and comfort of vehicles and speed up the development of automate, intelligence, electron and communication of vehicles. Particularly, high technologies represented by the electronic information technology are not only used in auto part industry, but also extended to the aspects of research, testing, manufacture, examination and service.

4) Optimization. Optimized manufacture, timely supply, zero storage and timely service make auto part suppliers take the responsibility of development, examination, assuring quality and timely supply. In order to improve competitiveness, these enterprises need to find their correct market status, optimize manufacturing sections by systematic design and modularized supply.
5) Localization. Because of the huge potential and low cost of those new markets, when multinationals carry out their globalization strategy, they actively advocate their localization strategy. That is, to make use of local resource to manufacture vehicles and accessories fit for local consumers, and provide marketing and financial services to form the localized competitiveness so as to approach the local customers and market target.
6) Forming a partnership with complete vehicle enterprises. Judging the development trend of the auto industry in developed countries, the strategic relationship between Japanese auto component manufacturers and assembly vehicle manufacturers is a successful example for Chinese corporations in automotive industry. Some Chinese auto part manufacturers need to seize the opportunity for strategic development and actively cooperate with assembly vehicle manufacturers. And assembly vehicle manufacturers have to change their operational idea and rectify relationship with accessory manufacturers. That is the right way for further development of Chinese automotive industry.

Key factors for further development of China’s auto component industry

(1) The market of China’s assembly vehicle industry develops quickly and the market competition of assembly vehicle is increasingly fierce. Assembly vehicle manufacturers must cooperate with accessory manufacturers to enhance their localization proportion so that they can get supplies at low prices. The assembly vehicles manufacturers and accessory manufacturers need to establish new research platform for new technology. Once they establish such a stable cooperation relationship, assembly vehicle manufacturers will be able to increase the amount of the purchase in big margin from these accessory manufacturers.

(2) Some domestic accessory corporations, particularly those who manufacture key ancillary facilities for the complete vehicle companies, developed rapidly driven by

the development of Chinese independent brand assembly vehicles. With the fast development of the regional auto component industrial cluster with these enterprises as its cores, these corporations will occupy large market share in the Chinese market. Along with the gradual rise of the Chinese automotive industry, and the enhancement of domestic auto part manufacturing technology and the policies and measures to push forward localization, the growing demand for localized auto components will surely bring up the proportion and quantity of Chinese auto part industry. Today, China's independent brand vehicle gains great development. Independent brands such as Chery and Geely have made great progress in research and development. And the development of these Chinese-owned brand assembly vehicles corporations is the fundamental power to improve the competitiveness of Chinese auto part industry.

(3) The number of vehicles in service in China is 34 million and the number will reach 60 million in 2010. There will surely be a huge service market for accessory manufacturers. Chinese consumers are really dissatisfied with the price of maintenance materials provided by automotive manufacturers due to the wide use of substitute products. The after-sale auto part retail and wholesale market is booming. This is a great opportunity for the new comers in the market to achieve cost control, market segmentation, price competition and consummate marketing system. It has also helped auto part enterprises to get rid of the survival mode by relying on providing supportive parts to the main vehicle manufacturers.

(4) Due to the enormous advantage and potential of the Chinese market, overseas capital moved to Chinese market. The cost factor has caused the international industrial transfer. Multinationals moved their labor-intensive industry in the auto part sector to low-cost countries and regions. Because of the low cost of labor in China, the country becomes the best destination for overseas accessory manufacturers to move manufacturing bases. About 70% of top 100 automotive accessory suppliers have already started business in China and more than 1,200 overseas accessory corporations invested manufacturing bases in the Chinese mainland. For example: German Bosch established 20 plants, 10 representative offices, 5 trade corporations and 345 service stations in China; Japanese Denson established more than 20 manufacturing bases and will invest 30 billion JPY between 2006 to 2010 in China. And Delphi, Nada, French Valeo and Japan's Fujitsu and Sumitomo invested in China. The investment of overseas capital from foreign auto part enterprises helps strengthen the dimensions of Chinese accessory industry and leads to technology advancement and export.

(5) Chinese accessory corporations will enter international market in the end. First they supply products to main overseas accessory corporations as second or third suppliers, and then they will directly supply products to international motor groups and provide service in oversea market. Finally, Chinese corporations will become the important cache in international automotive supply chain. With the increase in export of Chinese accessories, Chinese accessory industry will play a key role in the world. The global procurement of auto parts of Volkswagen is being carried out in the industrial clusters in Jiangsu, Zhejiang and Changchun. Once the agreement is reached, these accessories will be exported to all corporations of Volkswagen in the world including Germany. Shanghai GM has more than 200 domestic suppliers including Shanghai GM's wholly owned enterprise, State-owned enterprises and private enterprises, which makes up more than 70% of the total procurement. Its more than 100 overseas suppliers only take up about 30% of the total procurement. Many domestic auto part manufacturers are entering the procurement system of international motor groups. Binzhou Piston, which is the top producer of piston in China, becomes a supplier to international motor groups such as GM, Ford and Daimler Chrysler. It enjoys a prospect international market.

The environment of accessory market will keep a standard and sound development along with industrial policies and laws issued by the Chinese government. The industrial output of accessory industry will be 600 billion yuan in 2007 and the sales volume will be as much as 570 billion yuan basing on the current level. The level of profit will return slowly in 2007 and reach 6.15% by the end of 2007. The total profit is expected to exceed 36 billion yuan in 2007. The export volume will continue to increase by more than 30% and reach $18.5 billion. The import volume will keep a steady low-speed growth and is expected to hit $12 billion.

In its 11th Five-Year Plan, the Chinese authorities clarify the direction and aim for Chinese accessory industry. The general aim is: to establish specialized and large-scale automotive accessory ancillary facility system for domestic and international market; to make automotive industry a pillar industry for national economy and lay a firm foundation for China to be the manufacture base for global auto accessory industry.

The targeted total output value of automotive accessory industry is 1,300 billion yuan in 2010. Among them, output value of ancillary facility systems for assembly vehicles is 730 billion yuan; output value of social maintenance accessory is 170 billion yuan; and the export value reaches 400 billion yuan ($50 billion). Exports will increase by 27.5% every year. Increase the proportion of export of technology- and capital-intensive products. Try to occupy 30% of market share of international accessory market and establish several accessory export bases.

By 2010, form several auto component suppliers whose business targets both domestic and

international markets and have independent research capacity to develop assembly vehicle and accessory. The suppliers should realize systematic design, modularized supply and international competitiveness by 2010. The suppliers need to establish professional, clear arrangement, efficient and large-scaled ancillary facility systems.

By 2010, China will primarily form a group of research and development centers for key accessories that will develop together with the development of key accessory of assembly vehicles. Automotive accessory industry will shoulder 30%-40% of new vehicles developed by China and 20% of new vehicles jointly developed by Chinese and overseas corporations.

8.3 The general situation and trend of motorcycle industry

8.3.1 General situation

In the first half of 2005, the Chinese government strengthened to rectify the motorcycle industry and revoked the license of 28 enterprises that failed to meet the qualification. More than 2,100 kinds of motorcycle, which do not reach China's Ⅱ Emission standard, were required to stop production within limited time. Affected by these policies and measures, the sales of motorcycles reduced considerably in the first half of 2005 and then began to pick up in the second half month by month. In 2006 the Chinese government promulgated and implemented new policies on motorcycle consuming tax and standardized export policies for motorcycle products. The new law prescribed that the consuming tax of motorcycles with a discharge below 250ml reduced from 10% to 3%, which greatly increased the profit room for domestic motorcycle producers. In 2006, the production and sales of motorcycle reached 21.4435 million and 21.2667 million, an increase of 20.83% and 19.96% respectively.

In 2006, motorcycles of five different discharges of 50ml、100ml、110ml、125ml and 150ml took the lion's share in the market. Among them, the output and sales of 50ml motorcycle were 1.3753 million and 1.3802 million, an increase of 10.20% and 10.28% respectively; the output and sales of 100ml motorcycle were 3.1857 million and 3.1874 million, up 18.39% and 17.64% respectively; the output and sales of 110ml motorcycle were 2.8034 million and 2.7597 million, an increase of 28.67% and 26.71% respectively; the output and sales of 125ml motorcycle were 10.521 million and 10.3984 million, an increase of 13.83% and 12.61%; the output and sales of 150ml motorcycle were 1.753 million and 1.7335 million, up 68.5% and 66.74% respectively. The output of these 5 types of motorcycle was 19.6385 million, accounting for 91.58% of the total output and the sales of the 5 motorcycles was 19.4592 million, accounting for 91.50% of the total sales. Among them, the accumulated output and sales of 100ml、110ml、125ml and 150ml medium- and high-grade discharge two-wheel motorcycles were 18.2632 million, accounting for 85.17% of the total output, and 18.079 million, accounting for 85.01% of the total sales of motorcycle. Because of the sound

power performance of these four different discharge motorcycles, they can be used either as a vehicle or a cargo transport, winning the favor from consumers.

In 2006, the rapid growth of motorcycle with discharge of 110ml、125ml and 150ml greatly boosted the level of production and sales of the industry. The contribution rate of the three discharges of 110ml、125ml and 150ml was 68.93%, driving the industrial growth of 13.75 percentage points.

In 2006, Chinese motorcycle enterprises exported 6.4035 million, an increase of 41.11% year-on-year. It generated $2.52 billion from exports, up 41.35%. The export volume of motorcycle accounted for 30.11% of the total sales in 2006, representing an increase of 4.51 percentage points compared with that of the previous year. The exports of motorcycle contributed 52.71% to the growth of the industry and promoted the industrial increase by 10.52%. That is to say, nearly half of the sales growth was brought by export. Therefore, the fast development of export greatly boosted the development of the industry. In 2006, 17 corporations exported more than 100,000 motorcycles and the total export was 4.905 million, accounting for 76.6% of the total export and 19 corporations earned more than $50 million from exports and the total income was $2.351 billion, accounting for 77.7% of the total income of export.

Table 8-3 2006 Main exporters of motorcycle industry

Ranking	Name of Top 10 Exporters	Export Income ($100 million)	Name of Top 10 Exporters	Total Exports (ten thousand)
1	Loncin	3.35	Loncin	74.93
2	Lifan	2.39	Jincheng	54.93
3	Grand River	2.30	Lifan	54.70
4	Jincheng	1.82	Grand River	45
5	Zongshen	1.61	Zongshen	44.46
6	Sundiro	1.47	Jialing	27.40
7	Qingqi	1.29	Qingqi	27.38
8	Jianshe Holding	1.26	Jinshe Holding	24.73
9	Linhai Motor	1.02	Sundiro	24
10	Yinxiang	1.00	Yinxiang	17.9
Total		17.51		396.32
Proportion in Industry		57.90%		61.89%

Source: China Association of Automobile Manufacturers

According to a survey of China's 105 motorcycle manufacturers by the China Association of Automobile Manufacturers, in 2006 the accumulated industrial output of the 105 manufacturers increased by 13.253 billion yuan and to reach 85.676 billion yuan, an increase of 18.30% year-on-year. The accumulated sales value increased by 12.43 billion yuan to hit 83.963 billion yuan, up 17.38% from the previous year. The accumulated incremental value increased by 2.338 billion yuan to hit 15.503 billion yuan, representing an increase of 17.76% from the previous year.

In 2006, total revenue of the 105 motorcycle manufacturers increased by 11.008 billion yuan to realize 81.629 billion yuan, up 15.59% from the previous year. Total profit decreased by 380 million yuan to stand at 5.484 billion yuan, a decrease of 6.47% from the previous year. Total operation cost increased by 17.62% to reach 69.633 billion yuan. Total operation tax and affixation decreased by 40.26% from the previous year and stood at 1.807 billion yuan. Although the increase of operation cost was higher than that of the revenue and the investment increased, the profit of the motorcycle industry gained a net increase of 1.785 billion yuan or 21.27% because the operation tax and affixation decreased and the rapid growth of the main business revenue.

At the end of 2006, 22 producers were running in red, accounting for 20.95% among the 105 motorcycle companies. The proportion of loss-making companies decreased by 5.52% than that in 2005.

In 2006, 19 motorcycle producers among the 105 manufacturers saw their main business revenue exceeding 1 billion yuan, five more producers than that of the previous year. Total revenue of the 19 companies was 66.57 billion yuan, accounting for 81.55% of the total income of the Chinese motorcycle industry. There were 10 enterprises realized more than a profit of more than 50 million yuan with a combined profit of 2.134 billion yuan, accounting for 86.22% of the total profit generated by the motorcycle industry in China.

Table 8-4 2006 Total Revenue and Profit of Major Enterprises in Motorcycle Industry

Ranking	Name of Top 10 Enterprises in Revenue	Revenue (hundred million yuan)	Name of Top 10 Enterprises in Profit	Total profit (hundred million yuan)
1	Grand River	85.97	Grand River	8.19
2	Lifan	72.37	Zongshen	3.39
3	Loncin	69.72	Loncin	2.49
4	Zongshen	58.81	Lifan	1.76
5	Jianshe Holding	39.97	Qianjiang	1.25
6	Qianjiang	38.85	Linhai	1.22

7	Jialing	38.74	Jincheng	1.06
8	Guangzhou Motor	38.02	Luoyang Beifang	0.79
9	Jincheng	36.49	Qingqi	0.66
10	Qingqi	32.84	Guangzhou Motor	0.52

Source: China Association of Automobile Manufacturers

8.3.2 Development trend

The main factor to boost the development of motorcycle industry is the increase of purchasing power of farmers and export. With national economic growth, the living standard of residents continued to increase. Particularly, with the favorable rural economic policies from the central government, farmers' income increased greatly. With the transition from an adequate food and clothing society to a fairly comfortable society, the consuming capacity of farmers increased greatly. Farmers were not satisfied with products of simple function and low price. They pursued products with higher quality and personality as well as products with cultural value. It can be seen that medium and top grade motorbike took more and more market share with the upgrade of China's motorcycle market. The growing demand for motorcycle as a tool of transport, the stimulation of the adjustment of consumption tax and other policies, motorcycle producers took the chance to launch new products and promotions to drive up the growth of the motorcycle industry. In a certain period of time in future, stimulating domestic demand is the essential factor underlying China's economic development, especially the increase of farmers' income and expansion of consumption of countryside. The market of Chinese countryside is huge and the central and western regions of the country are still underdeveloped. Today, light-duty trucks, mini-vans, low-speed vehicles and motorcycles are key products targeting the rural market in the automobile industry in China. Most investment is for the production materials but investment in motorcycle as a tool of transport is the enhancement of living standard and consuming level. Therefore, the rural area has great potential for the motorcycle market.

Expanding export is the best way to save motorcycle industry under the situation of fierce competition. The new generation of motorcycle manufacturers represented by the private motorcycle enterprises in Chongqing conduct direct trading and establish overseas operations to improve the capacity of export of Chinese motorcycle industry by choosing southeast Asia market as their first target. During the competition with the renowned brands from Japan, Italy and Taiwan, they gradually formed their oversea marketing forces. On March 1, 2006, the *Circular on Standardizing the Export Order of Motorcycle Product* issued by the Ministry of Commerce and the National Development and Reform Commission and other three ministers took effect. The circular sets certain quality requirements for motorcycle export enterprises. The oversea strategy

of domestic motorcycle enterprises will be further developed driven by the government policy in future.

Although some corporations actualized the strategy of difference, guided by the industrial policy and directed by the market demand, used new technology of electro-spout and developed new products with high and new technology of independent intellectual property rights, these detailed product categories are not strong enough to keep their market shares. For example, some corporations developed middle and high discharge vehicles, some concentrated on cross-country vehicles, some studied on special vehicles. The development history of the motorcycle industry indicated that only large comprehensive manufacturing groups could improve market competitiveness by building product brands and adjusting products structure. The integration of motorcycle industry will be strengthened in future. After years of competition of low prices, some companies will survive but some will be eliminated. Cases of company integration in the motorcycle industry have been increased year after year. On December 18, 2006, the State Assets Supervision and Administration Commission of the State Council promulgated *Guidance of Regulation on State Assets and Restructuring of State-Owned Enterprises.* On December 28th, China South acquired Jinan Qingqi through regrouping. Adding three other motorcycle producers of Jianshe, Jialing and Luoyang Beifang under the group, China South became the largest motorbike manufacturer in China.

The *Special Programming of Motorcycle Industry for the 11th Five-Year Plan* proposed the output of motorcycle will be 20 million by the end of the 11th Five-Year Plan (2006-10). The industrial output will be between 120 billion to 130 billion yuan. Currently, the output has already realized in advance, but the industrial output was only 80 billion yuan, leaving a gap of 1/3 of the target. That reflects China's motorcycle industry is still hovering in low prices and low quality. This indicates that Chinese motorcycle manufacturers have to expedite technical innovation, launch new products with high quality and adopt difference marketing strategy to get rid of the competition of low prices and low quality and gain more profit.

The motorbike industry will face great challenge in the next few years. The challenge includes the improvement of emission standard, the debut of electronic bicycle, the growing traffic pressure to cause restrictions on certificate permit of motorbike, the increase of production cost and various barriers in international trade and risks of overseas operation of motorcycle enterprises.

9 Current situation of China Automotive Group

9.1 SAIC

In accordance with the State requirements for automotive industry policy, SAIC revitalized its domestic resources by mergers and regrouping. It made full use of its resources, costs, market advantages in different regions to enhance its competitive edge and make it mutually complementary to its headquarters in Shanghai.. Shanghai GM Dongyue Production Company, located in Yantai, mainly targets economy sedan car market and manufactures Chevrolet. The Shenyang-based Shanghai GM North Shing Co.,Ltd., mainly manufactures Buick GL8 of business car and targets business MPV market. The Shenyang company is quite different compared with the medium- and high-grade Buick produced by Shanghai GM Pudong production base. This proper setup became an important foundation for Shanghai GM to continue its expansion of the production capacity and maintain cost advantages of varied products. In 2002, after acquiring Liuzhou Wuling Co.,Ltd., SAIC relied on Liuzhou Wuling's mini-car and its own advantages to develop mini-cars. Starting from 2006, SAIC-GM-Wuling Company made an annual breakthrough of 450,000.

SAIC increased its investment in the commercial-use vehicle. In September 2004, SAIC signed an agreement framework with Chongqing Heavy Vehicle Group Co.,Ltd.. In December 2005, it signed a tripartite 'agreement framework of reorganization of Chongqing Hongyan Automotive Limited Liability Company' with Chongqing Heavy Vehicle and Iveco. Under the agreement, SAIC and Iveco would jointly set up a commercial-use vehicle investment company and acquire 67% stake of Hongyan Automotive held by Chongqing Heavy Vehicle, while Chongqing Heavy Vehicle still controls the remaining 33%. In August 2006, the Ministry of Commerce of China approved that SAIC and Iveco set up 'SAIC Iveco Commercial-use Vehicle Investment Limited Co (a Sino-overseas joint venture)'. The new Hongyan planned to build a production base with an annual output with 40,000 heavy-duty trucks. Among them, Iveco would produce 4,000 complete vehicles and 26,000 assembly vehicles jointly produced by Iveco and Hongyan;Hongyan would produce 10,000 Hongyan trucks with a total investment of 62 million yuan. It is expected that the company will be officially operational by 2010. At the same time, SAIC Fiat Powertrain Limited Hongyan engine project is under construction. The designed annual output of the project is 100,000 engines.

Statistics from the China Association Of Automobile Manufacturers indicate that, in 2006, the sales of SAIC Group's complete vehicle ranked in the first place in the nation's automobile enterprises. Vehicle sales of the year were more than 1.34 million, an increase of 27% year-on-year. Among them, passenger car sales were 915,000, an increase of 23.6% year-on-year. The sales of commercial-use vehicles were 429,000, an increase of 35.8% year-on-year. Shanghai GM complete vehicle sales reached 410,000 units, taking the first place in the domestic automobile market. Shanghai Volkswagen complete vehicle sales recorded 340,000 units. SAIC-GM-Wuling mini-car sales made a breakthrough of 460,000 units, an increase of 36.5% year-on-year. The achievement made the company the leader in mini-car market. The sales of complete heavy-duty trucks and ISTANA of SAIC Huizhong also achieved good results. Sunwin Bus sales and production created a new high. SAIC formed an integrated, complete and efficient R&D system by incorporating SAIC Automotive Engineering Research Institute, the SAIC overseas (Europe) R&D Center basing on the original Rover R&D team, and SAIC Ssangyong South Korea R&D centerto jointly develop internationally competitive products. On October 24, 2006, Roewe 750 car was officially unveiled, marking SAIC's entry into the new stage of dual operation of joint venture and the independent intellectual property right development.

SAIC should take the R&D of fuel cell vehicles as a long-term development strategy, concentrating its strengths and resources on the research and development of key parts. Currently, it has made some breakthroughs. In 2006, SAIC released the 'Shanghai' brand of fuel cell cars and successfully trial produced a fuel cell bus of its own brand. SAIC will be in conjunction with the State 863 'energy-saving and new energy vehicle' projects and concentrate on the research of the core technology of the fuel cell and key components to further conduct the R&D of the reliability, safety and comfort of the fuel cell car. It will strengthen key parts' cost control. Through many phases of trial production and test of dynamic platform to enhance fuel cell vehicle's performance and accelerate the pace of industrialization of fuel cell cars. The SAIC's own-brand and its joint venture's brand under the flagship of SAIC are expected to achieve the commercialization of hybrid cars by 2010.

9.2 FAW Group

First Auto Works (FAW) focuses on the cultivation of its own development system and starts to construct research and development system. FAW has set up a framework, which includes a technology center and the entire process of supporting independent research from product

planning, product design, production preparation, quality assurance, procurement, sales and service, participatedby other entities. FAW formed complementary R&D network in Changchun, Tianjin, Wuxi and Qingdao, and set up a science and technology framework of product technology, development of technology, the basic technology and manufacturing techniques. FAW now has 475 patented technology vehicles, the highest one in the sector.

In 2005, car sales of FAW Group made a breakthrough of one million. In 2006, FAW Group's total vehicle sales were 1,165,700, an increase of 18.6% year-on-year; Its sales income is expected to reach 148.08 billion yuan, an increase of 24.6% year-on-year; its profit is expected to reach 3.46 billion yuan, an increase of 51.1% year-on-year, making a good start for its development during the Eleventh Five-Year Plan period.

The growth of FAW Group sedan system was the main reason driving up its sales and efficiency. In 2006, FAW sedan sales were 873,000 units, an increase of 27% year-on-year. Among them, FAW-VW exceeded the sales threshold of 300,000. Its whole year sales were 345,000, an increase of 43.8% year-on-year. Jetta maintained as the sales champion for its single domestic brand. Entering its leaping development stage in 2006, FAW Toyota's sales reached 220,000 units under the situation of no new product launching and price war. The figure made a jump from the 10th place in 2005 to seventh in the ranking of domestic car sales. FAW Economy Car Base - Tianjin FAW Xiali's annual sales were 196,800, an increase of 3.6% year-on-year. It continued to maintain its advantage in economy cars in the Chinese market. At the same time, new products from joint ventures have achieved remarkable progress. The development of new Jetta, the main product of the joint venture, proceeded steadily. Sagita and New Bora GP made successful debut. The on-time launch of Mazda sedan, Wagon and other new products helped enrich the product line and enhance the market position. In 2006, FAW launched Besturn, Red flag HQ3 and Weizhi successfully, marking a historical jump in the development and utilization of the new product serial of FAW's independent intellectual property right..

In face of fierce competition in the truck market in 2006, Jiefang Truck realized sales of 207,000. Among them, heavy-duty truck sales were 65,000, an increase of 16% year-on-year. In 2006, Jiefang heavy-duty truck sales ranked the first, while the Jiefang brand market share ranked the first in the country.

According to the FAW Group's 'Outline of long-term science and technology development plan in 2007', by 2015, FAW will invest 13 billion yuan in independent research and development and innovation to fulfil 10 tasks, including 21 technical presentations and 229 important technologies. FAW planned to spend about 10 years to form a complete system with competitive advantage in

the overall progress of science and technology to realize its targets and make it a large enterprise group with international competitiveness, laying a solid foundation to rank among the world's Top 10 automotive enterprises.

9.3 Dongfeng Automobile

Dongfeng Automobile Company jointly established Dongfeng Automobile Co.,Ltd. with a registered capital of 16.7 billion yuan with Nissan Motor Co.,Ltd. during the 10th Five-Year Plan period. The Dongfeng Automobile Co.,Ltd. held 50% stake by Dongfeng Automobile Company and Nissan Motor Co.,Ltd. became the largest-scale joint venture in the sector. It is also the largest investment project in the world of Nissan Motor Co.,Ltd.. In March 2005, Zhengzhou Nissan Motor, another joint venture of Nissan Motor in China, smoothly entered into Dongfeng Nissan. Therefore, Nissan Motor Company realized its business integration in China, and Dongfeng Motor Co.,Ltd. filled the gap in the high-end pickup and SUV field. In December 2005, Dongfeng Motor Corporation listed on the main board at the Hong Kong Stock Exchange and Clearing Co.,Ltd. (HKEx), becoming the largest listed company in the Chinese automotive industry and the largest international public offering in the global automotive industry in 2005.

Dongfeng Group is engaged in passenger cars, commercial-use vehicles, motor engines, parts and components, and automotive equipment and other auto-related production and services. It ranks the first in Chinese heavy-duty and medium-duty truck market. In 2006, Dongfeng Motor Group sales reached 930,000, an increase of 27.89% year-on-year; while sales proceeds increased by 12.6% year-on-year, and profit increased by 46% year-on-year. The sales of Dongfeng Heavy-duty and Medium-duty truck ranked the first in industry, while light trucks and mini-buses' sales ranked second in industry. Car sales still firmly ranked the third place in the industry. SUV sales captured the second in industry. Commercial-use vehicles and passenger car sales were 276,000 and 656,000. In 2006, Dongfeng strengthened the market release of new products and enhanced the competitiveness of the independent innovation products. In passenger cars, it has launched nearly 10 types of new cars such as Dongfeng Peugeot 206, Dongfeng Citroen C-Triomphe and C2, Dongfeng Nissan new Tiana, Bluebird Sylphy, Geniss, Dongfeng Honda CIVIC, Dongfeng mini-van series. In business car, Dongfeng introduced a new replacement Dongfeng Tianlong, and Dongfeng Hercules - 36 models of more than 100 varieties. These new products are a new growth area for sales to enhance efficiency and increase the stamina of company.

In 2006, technology centers were set up early and late by Dongfeng Peugeot Citroen Automobile Co.,Ltd., Dongfeng Nissan, Dongfeng commercial-use vehicle, Dongfeng Co.,Ltd., Dongfeng

Honda and Dongfeng Cummins. The R&D institutions improved the hardware and software facilities of experiment and testing trial production, and optimized the organizational system, established and improved the R&D flow, accelerated the accumulation of research database, and promoted the concentration work of R&D professionals.The group planned to strengthen cooperation in the field of commercial-use vehicles with the world's second largest manufacturers of heavy-duty commercial-use vehicles AB Volvo Group to explore opportunities to establish joint ventures in China in the production of heavy-duty commercial-use vehicles. To promote the cooperation, Dongfeng Group, Nissan, Dongfeng Co.,Ltd. and Volvo Group signed a non-binding framework agreement, aiming that the Volvo Group invests in the medium- and heavy-duty commercial-use vehicles and engines business, while Nissan and Dongfeng Group together focus on long-term cooperation on passenger cars and light truck business.

9.4 Chang'an Automobile

Chang'an Group was set up in 1862. It is China's most long-standing industrial enterprise with a history of more than 100 years. Now it has more than 10 automobile companies, such as 'Chongqing Chang'an Automobile Co.,Ltd.', 'Chang'an Suzuki', 'Chang'an Ford Mazda Automobile Co.,Ltd.', 'Chang'an Ford Mazda Nanjing Company', 'Chang'an Ford Mazda Engines', 'Nanjing Chang'an', 'Hebei Chang'an Automobile Co.,Ltd.', 'Hebei Baoding Bus Co.,Ltd.', 'Chongqing Chang'an Kuayue Automobile Co.,Ltd.', 'Jiangxi Jiangling Holding Co.,Ltd.'. Its business ranges from complete vehicle, engines, parts and components, and real estate. Currently, it has four production bases in Chongqing, Nanchang, Nanjing and Hebeiwith a combined annual production capacity of 1 million and annual production capacity of one million engines. It has Chang'an Ford, Chang'an Suzuki, Chang'an Mazda, Chang'an ALTO, Chang'an Volvo, the Landwind, JMC, Transit and other passenger cars and commercial-use vehicle brand; Its products covered mini-passenger car and mini-cargo truck, mini-truck, small commercial-use vehicle, sedans, SUV and MPV in various fields of high, medium and –low areas. In 2005, Chang'an Automobile Group accounted for 10.96% of the market share in the domestic market, while the mini-car market share was 37.61%. Automobile production and sales ranked the fourth place in the Chinese automobile industry and the first in mini-car industry for six years.

In 2006, Chang'an Automobile Group adopted a strategy to create a new independent car brand strategy, and pursued 'profit, growth, and innovation' policies for the Chang'an 'T35 leading plan' making Chang'an Automobile Group achieve considerable progress in own brands, joint venture and cooperation and continue its strong momentum of development. In 2006, Chang'an

Automobile's production scale achieved new breakthrough, taking the fourth place in the Chinese automobile industry. Its annual vehicle production was 713, 395, an increase of 14.78% year-on-year; while sales were 708, 737, an increase of 12.29% year-on-year; and sales revenue was 43.2 billion yuan, an increase of 43.83% year-on-year; exports of vehicles were 21, 725, an increase of 43.3% year-on-year.

In 2006, Chang'an improved the mini-car brand products. At the same time, it first launched its own-brand car. In November, 'Chang'an Ben Ben', Chang'an's independent research and development sedan, made an officialdebut at the Beijing International Auto Show. In less than a month, orders for the car exceeded10,000, setting a new standard for cost-effective ratio of economy cars. Chang'an Ford Mazda, Chang'an Suzuki, and other joint ventures have introduced a series of new models, the hatchback version of Focus, Mazda 3, Volvo S40 and Tianyu SX4, all obtaining a high degree of market recognition. Particularly, Focus performed strong in market, taking the first place in the domestic car sales Leader Board for several months. At the same time, Hebei Chang'an, Nanjing Chang'an, the Jiangling Holdings and other base enterprises have also made good market performance.

In 2005, China Ordnance Equipment Corporation, the parent company of Chang'an Automobile, sold 630,000 cars ranking fourth in the country. The motorcycle sales reached 3.65 million ranking the first in the country. The automobile and motorcycle's production capacity reached to one million and five million. In 2005, among Chinese top 500 companies, Ordnance Group ranked 31st place and eighth in the manufacturing industry. It has completed four national technology development centers and 18 provincial-level technology development centers, and established three auto research bases in Europe, Shanghai, Chongqing, and established the special line LAN to connect various centers and PDM systems to realize collaborative design in different places.

Chang'an Automobile established Hebei Chang'an through north extension, and Nanjing East Chang'an through east extension, and Jiangling Holding through entering into the central part of China. It set up joint venture with international giants Ford, Suzuki and Mazda to improve production scale. According to its plan, by 2010, Chang'an Automobile Group's vehicle output will be close to 1.8 million sets, while engine production capacity is more than 1.8 million. Among them, the proportion of independent brand vehicles is more than 50%. It strives to realize the production and sales of more than 1.5 million vehicles and with an overseas sales of more than 80,000. Independent intellectual property rights automobile production and sales accounted for more than 50% of company's total sales with a sales income exceeding 100 billion yuan. Chang'an Automobile has a total market share of 15% in the domestic car market. Among them, cars, mini-cars, and commercial-use vehicles account for 13%, 38%, and 6% in their respective

segment market. Mini-car maintains the first position in the market of the category.

9.5 Beijing Automobile Holding Co.,Ltd.

Beijing Automobile Industry Holding Company is the development planning center, capital operation center, product development center and talent center of Beijing's auto industry. It has 32 complete vehicle manufacturers, parts and components manufacturers and auto trading and investment enterprises, with a total staff of more than 40,000 employees. Beijing Automobile Holding Company actively promoted its strategic cooperation with DaimlerChrysler and Hyundai Motor Group of South Koreato guide and support Beijing Futon Automobile Co.,Ltd., Beijing Hyundai Motor Co.,Ltd., Beijing Benz - DaimlerChrysler Automobile Co.,Ltd., Beijing Automotive Manufactory Co.,Ltd. to forma 'three-block' pattern of sedan car, commercial-use vehicle and off-road vehicle.In 2006, subordinate enterprises under Beijing Automobile Holding Company produced 682407 vehicles, an increase of 16.5% year-on-year. The sales were 685,062, an increase of 14.7% year-on-year. Among them, Beijing Hyundai sold 290,011 cars, an increase of 24.1% year-on-year; Beijing Futon Automobile's sales were 343,679, an increase of 10.5% year-on-year; Beijing Automobile sales were 29, 904, an increase of 12.9% year-on-year. In 2006, Beijing Automobile Holding Company ranked the fifth place in the Group sales in China, accounting for 9.49% of the market share. Beijing Hyundai Motor Company ranked the fifth place among the car sales ranking for sedan car enterprises in the country.

Beijing Automobile Holding Company's goal is to become Beijing's key pillar industry on behalf of the auto industry in Beijing. It strives to keep its fourth place while trying to take the third place in the domestic auto ranking and enters the world's top 500. The company proposed implementation of the strategic guiding principles of '345' strategy. That is, the production of three categories of sedan cars, off-road vehicles and commercial-use cars, and four goals of consolidating strategy, operation and capital control to enable the Group operation; enhance the R&D and coordination, manufacturing, service integration to realize industrialization; and strengthening management system, operational mechanism and the innovation of operating meansto achieve modernization and the formation of five platforms of complete vehicle, auto parts, R&D, service trade and readjustment.. The planning and development goal of Beijing Automobile Holding Companyare toproduce and sale one million vehicles, with the sales income of 100 billion yuan by 2008; and by 2010, the Group will realize the production and sales of 1.3 million vehicles.

In 2006, Beijing Automobile Holding Company invested 3 billion yuan to construct an automotive component industry base, and launched comprehensive strategic cooperation with world-renowned enterprises. It has signed a contract with the world's leading auto parts supplier Lear Limited of the United States to offset up a new joint venture in Beijing. It has also signed a strategic cooperation agreement with American Johnson Controls Co.,Ltd..

9.6 Guangzhou Automobile Industry Group

In 2005, shareholders of Guangzhou Automobile Industry Group Co.,Ltd. (hereinafter referred as “GAIC”) initiated to change the group as Guangzhou Automobile Group Co.,Ltd.. (hereinafter “GAC”) (. GAC's equity participation is as follows: Guangzhou Automobile Industry Group Co., Ltd. holds 3,217,403,529 shares, accounting for 91.9346% of the total shareholding equity; Wanxiang Group Corporation holds 139,636,656 shares, accounting for 3.99%; China National Machinery Industry Corporation holds 129,169,156 shares, accounting for 3.6909%; Guangzhou Iron & Steel Enterprises Group holds 6,999,331 shares, accounting for 0.20000%, Guangzhou Chime-Long Hotel Co., Ltd. holds 6,456,883 shares, accounting for 0.1845%.

To date, wholly-funded or share-holding enterprises of Guangzhou Automobile Industry Group include: Guangzhou Automobile Group Co.,Ltd., Guangzhou Motor Group, Guangzhou Guangyue Assets Management Co.,Ltd., and Guangzhou Automobile Industry Technical High School. Enterprises that GAIC holds shares via GAC include:
Guangzhou Honda Automobile Co.,Ltd., Honda Motor (China) Co.,Ltd.; Guangzhou Toyota Motor Co.,Ltd.; Guangzhou Automobile Toyota Engine Co.,Ltd.; Guangzhou Isuzu Bus Co.,Ltd.; Guangzhou Denway Bus Co.,Ltd.; Guangzhou Yangcheng Automobile Co.,Ltd.; Guangzhou Automobile Group Component Co.,Ltd.; Guangzhou Automobile Group Trading Co.,Ltd.; and Guangzhou Automobile Technology Center; and other units of cars and spare parts manufacturing; R&D; and services trade enterprises.

The Group's principal products are Guangzhou Honda Accord, Odyssey, Fit and SDL serial cars; Guangzhou Toyota Camry; Guangzhou Isuzu series luxury large- and medium-sized passenger cars; Denway brand and the Pearl River Series of large- and medium-sized passenger cars; Yangcheng brand light buses, trucks and special vehicles; Wuyang brand and Wuyang - Honda motorcycles; Toyota AZ engine series and automobile air conditioners, chairs, lights, springs, dampers, and other automobile and motorcycle products.

Since the official launch of Guangzhou Honda in March 1999, consumers have been shown favor to its Accord sedan. It witnessed sustained good sales in the market, becoming a leader with an accumulated sale of more than 550,000. In 2006, Guangzhou Honda realized its market goal set early in the year.

Its accumulated car production and sales were 260,096, an increase of 13% compared with 2005, while sales income reached 40 billion yuan, an increase of 11% year-on-year. In 2006, sales of Accord sedan totalled 123, 183, becoming the champion of the annual sales for the second time in the domestic luxury car market. In 2006, the market performance of Odyssey, Fit and SDL sedan car was outstanding. Among them, total car sales of Fit were 59,234, while Odyssey's total sales were 35,777.

In May 2006, Guangzhou Toyota was officially put into operation and the factory was expected to produce 61,304 Camry sedans with sales exceeding 60,000 in the same year. Based on the outstanding performance in 2006, Guangzhou Toyota set its production and sales at 150,000 units in 2007. Meanwhile, Guangzhou Toyota officially announced to invest to produce the second model of Yaris in 2008.

9.7 Chery Automobile

In 1997, five Anhui-based State-owned investment companies registered Chery Automobile Co.,Ltd. with an investment of 1.752 billion yuan. Two years later, Chery cars rolled off the assembly line. In 2001, Chery "Fengyun" made its first debut. In 2003, three models of Chery QQ, Dongfangzhizi and Qiyun were launched to the market. The high cost-effective ratio and accurate market positioning - had made sound market performance of the three models. In particular, Chery QQ created a sales record of a single brand compact car of 280,000 sets in six-month. In April 2004, the number 200,000th cars of Chery rolled off the assembly line in six months. On March 28, 2006, Chery, with only a history of nine years, rolled off its 500,000th car from the assembly line. Chery, thus, became not only the first producer of 500,000 sets of own-brand car,but also became one of the enterprises that enjoyed rapid development. Since its establishment, Chery has always been uphelding its own intellectual property rights, and forged internationally renowned brands, and expanded global automotive market. Now it has 230,000 employees and a totall asset of more than 22.0 billion yuan. The company has independent research and development capability and independent intellectual property rights of complete vehicles, engines and some key auto parts and core technology. Currently, it became Chinese largest independent brand car R&D, production, sales and export enterprise.

In 2006, Cherry's sales were 305,200, 108.6 percent of the annual sales plan of 281,000 vehicles set at the early time of the year. It ranked fourth place in the industry, becoming the first own-brand enterprise with a sales of passenger carsof 300000. It realized a milestone breakthrough in the history of independent

Chery now has sedan car company, engine company, gearbox company and auto engineering research and development companies, the Planning and Design Institute and testing technology centers with an annual output of 650,000 cars and 400,000 engines and 300,000 sets of gearbox. Ten serial products such as QQ3, QQ6, A1, Ruiqi 2, Qiyun, Swiss 3, A5, Ruihu3, Dongfangzhizi, and Dongfangzhizi Cross are put into the market.

Chery focuses on developing domestic and international markets, actively implements the 'going-out' strategy. It has become China's first sedan car company that exports complete vehicle, CKD spare parts, engines and vehicle manufacturing technology and equipment. It has exported products to nearly 60 countries and regions in the world and its exports of cars have firmly ranked the first placce in China for four years. The Ministry of Commerce, the National Development and Reform Commission identified it as the first batch of 'National complete vehicle export base'. It established joint ventures with American Quantum Corporation, Chrysler, Fiat of Italy, and other international enterprises, realizing a breakthrough of 500,000 vehicles in 2006.

9.8 Hafei Automobile Co.,Ltd.

Harbin Hafei Motor Industry Group's affiliated enterprises include Hafei automobile plant, Dongandongli plant, Dongan Mitsubishi, Dongan electromechanical, Shenzhen Branch, and Weihai Branch. Existing employees are more than 11000 including more than 1,200 senior technical management staff. Group covers an area of 1.48 million square meters, while construction area is 577700 square meters with total assets of RMB11.14B. At present, the production capacity of company is 300000 per year, while the car's engine production capacity is 55 million per year.

In 1996, Hafei Automobile and Binnie Farina determined 'Hafei Italian' mini-bus as the two sides' first cooperation project. After successful development, the two sides have jointly developed 'Hafei Lubao' and 'Hafei Leopard' two cars. It continually expands the scope of cooperation with countries.

Through extensive cooperation with Britain, France, Italy and other countries and relying on its own strength to complete digestion and absorption, introducing ‘Hafei Jockey Club’ from Japan's Mitsubishi, it successfully opened a road of independent innovation. Hafei has launched vehicle of ‘public opinion’, ’Ruiyi’, ‘Hafei Leopard V ‘ models, which are completed by independent design with shorten design cycles. In 2006, annual sales were 266000, ranking in the Top 10 list in China.

Hafei depends on the domestic automobile sales. It actively explored overseas auto market. Since exporting business of cars in 2001, Hafei Automobile’ volume of exports is improved, while exports in the region continued to expand. In 2004, Hafei Automobile cumulative exported 10, 145 all the year - an increase of 391% compared with 2003; while it realized export exchange about US$35.1M - an increase of 593.68% compared with 2003.

In 2005, export of vehicles was 20,359 - an increase of 100.68% year-on-year, realizing export exchange of about US$54M. In 2006, export of cars was 37000 - an increase of about 80% compared with last year, while export exchange was US$80M. The export volume occupied a leading position in the domestic automobile industry and Hafei Lubao won the title in 2006.

In 2006, Hafei Lubao was off the assembly line in Malaysia and sales, annual sales breakthrough 10000. This is the first Chinese independent IPR car assembly production in Malaysia. Hafei Automobile exports are concentrated in the Middle East, South America, and Eastern Europe. Its exports to the Russian market grew rapidly.

Hafei Automobile exports cover its Ruiyi, Zhongyi, Public Opinion, Lubao, Horseracing, Leopard, and many other brands. Vehicle and spare parts exported to more than 40 countries and regions, and some models to the United States and Italian market.

9.9 China Brilliance Automobile

Huachen Automotive Group Holding Co.,Ltd. was established in 2002. Currently, it has total assets of more than RMB30B and nearly 40000 employees. The Group’s wholly-owned companies holding shares in automobile enterprises are Shenyang Brilliance JinBei Automobile Co.,Ltd., BMW Brilliance Automotive Ltd, and JinBei’s three vehicle factories - Shenyang Xinguang Brilliance Automobile Engine Co.,Ltd., Shenyang Aerospace Mitsubishi Engine Manufacturing Co.,Ltd., and Mianyang Xinchen Power Machinery Company Limited as well as

more than 30 enterprises.

Group's main products are BMW Brilliance Series sedan, senior business Zunchi car, family sedan Junjie, JinBei seal series of minibuses and light trucks Gold Series, JinBei Geruishi MPV and the gasoline engine series 491, and 4 G6.

Brilliance cooperated with BMW, Toyota, and other well-known international companies. It introduced and absorbed advanced international technology and management experience, walking on the road to independent innovation in Chinese auto industry, two Chinese independent brands and brilliant joint venture BMW brand.

In 2006, China Brilliance Automobile achieved vehicle sales of 210000 - an increase of 71.5% year-on-year; while sales revenue was RMB31.9B - an increase of 47% year-on-year; realizing the added value of RMB5.45 B - an increase of 111% year-on-year; achieving export of 8, 655 cars and export of exchange of US$110 US dollars.

Brilliance Automotive already has three vehicles of JinBei, Brilliance BMW, JinBei vehicles and three brands of ‘Chinese’, ‘JinBei’, ‘Brilliance BMW’. Among them, there are three series of BMW and five series of sedan of Brilliance BMW: Chinese series are Chinese, Zunchi, Junjie intermediate sedan; JinBei brand are minibuses and light trucks, JinBei Geruishi HPV Business car. The products covered commercial-use vehicles, passenger cars two areas.

Jinbei Haishi is an important product in China mini-bus market. JinBei Sea Lions now has five series, and nearly 20 varieties to meet different levels of consumer demands. Production and sales ranked the top in minibus market in country for five consecutive years. In the field of 8-14 commercial-use vehicles, JinBei Sea Lions’ market share close to 60%, and the market holdings was more than 400000.

Chinese car is a luxury car product with own brand. In 2002, it was introduced to the market. The car meets the growing domestic consumer demand in the premium sedan and had superior competitive strength in the price-performance in the market. In 2003, Chinese 2.4 L and Luxury-Chinese 2.0 L formally listed, marking the same model of Chinese products in the strategy series step an important one.

On March 2003, BMW Brilliance signed the joint venture contract in Beijing, and set up a joint production and marketing of BMW's joint venture with the BMW Group. On October 2003, China BMW 325i successfully listed, and then BMW Brilliance has released three series of BMW and

five series of models, whose product covered all market segments of the price range of senior Chinese cars.

Brilliance and BMW's cooperation not only greatly raised their own brand, but made it take part in more competitive market segments in China to get a senior car market. Creating cooperation relationship with international famous brands Germany's BMW is the beginning of international for Brilliance Group.

On July 2006, Chinese first self-developed turbocharged engine went into production in Brilliance. Turbocharged engine used aluminum high-performance compact structure, with a small volume, strong momentum, energy saving and environmental protection, and high reliability characteristics. After using engine turbocharger technology, the same displacement can enhance the power of 30%-100%, with obvious advantages in environmental protection, becoming a trend of world's engine technology.

Because of high technical requirements, development difficulties, countries only used in the Mercedes-Benz, Volvo, Volkswagen and a few manufacturers of high-end models, while China-made cars used 1.8 T engines only were Audi, Passat, Jetta , and a few Sagita several cars. Brilliance Automobile Germany FEV Engine built brilliance 1.8 T-series engine jointly, lasting for three years. This year, it plans to produce 50000 units.

Brilliance already had two factories overseas: One located in Egypt, produced Chinese Zunchi cars by CKD production, and planned to achieve 5000-assembly Zunchi car in 2007. The other one located in Vietnam, produced JinBei light truck. In 2007, Brilliance planned to implement PMC Group in North Korea Haishi cars KD (piece assembly) assembly projects, successfully achieving the third of Brilliance in North Korea.

Through years of development, Brilliance's overseas network has grown to more than 30, and has established a good trading relationship with Africa, Asia, and Europe, North and South America and other regions. At the same time, Brilliance cooperated with Egypt, North Korea, Iran, Russia, Vietnam and Malaysia to establish three factories overseas CKD project.

According to high-level strategic planning of Brilliance Group, in 2007, Brilliance plans to sell 300000 cars - an increase of 43%. The sales revenue was RMB45B - an increase of 41%. Among them, it planned to realize export of vehicles of 35000 with overseas exchange of 360 million US dollars.

By 2010, it should achieve sales of 500000 cars with sales revenue more than RMB80B to enhance export. During the 11th Five-Year Plan, Brilliance shall uphold three high strategies - independent innovation with a high starting point, high-quality independent brands and leapfrog development. It achieved annual sales of 400000 vehicles and 400000 engines and key parts and components thus building a strong brand.

9.10Geely Automobile

Zhejiang Geely Group Co.,Ltd. is a private car production venture, built in 1986. After 20 years of construction, it has coved motor vehicles, motorcycles, motor engines, transmissions, auto electrical and electronic automotive components manufacturing, and other fields. After entering the area of cars in 1997, it has owned four specialized in Vehicle Powertrain production and manufacturing base in Linhai, Ningbo, Luqiao and Shanghai.

Now it has the production capacity of 200000 cars, 20 million engines and 200000 transmission units. Geely has the complete product and technology independent intellectual property rights. Now it has eight series of more than 30 specifications such as Geely of pride, the United States and Japan, Youliou, Meirenbao, Maple, the Liberal ship, Geely King Kong; while it has eight series of transmission, such as 1.0 L (triplex), 1.0 L (four-cylinder), 1.0 LVVT-1, 1.3L, 1.5L and 1.6L, 1.8L, 1.8LVVT-1. It has eight series of speeder such as JLS160, JLS160A, JLS110, JLS170, JLS90, Z110, Z130, and Z170. In the former 20 Chinese Automobile Groups, only Geely cars are designed by itself.

Now it owns 101 patents, including seven patents for inventions. All aluminum engines' research and development has reached the international advanced level of similar products. Independent research and development of automatic transmission filled a blank in China, becoming a major innovation project recognized by Ministry of Science and Technology in 2005.

In 2006, Geely Automobile's total sales of all types of Geely were nearly 200000 - an increase of more than 40%; while exports were nearly 15000 - an increase of more than 110%; while sales income were about RMB100B - an increase of more than 41.88%; while profits achieved were RMB15B - an increase of more than 50%. Its car sales ranked ninth in country, while car sales below 1.5 L ranked second. Since 2001, Geely Automobile formally list in the national automobile products' notice. Starting from marketing sales, sales of all types of Geely cars accumulated nearly 600000.

The sales of cars belonged to independent innovative products. The Geely trademark is identified as well-known Chinese trademarks.

Geely Automobile has made breakthrough progress in the development of international market. By end of 2006, it had built overseas 26 agents and 128 sales outlets with total exports of nearly 30000 Geely Automobile.

In 2006, Geely Automobile Group took energy and environment problems as a major business opportunity, and it used scientific and technological progress to look for breakthrough for energy-saving reduction. Geely Automobile has achieved development of dual-fuel vehicles, and methanol fuel vehicles. Through the usage of alternative fuels to replace petrol and diesel, it should realize reduction of the consumption of petroleum products.

10 Introduction of Capital & Technology in Automotive Industry

10.1 Introduction of Overseas Capital and Technology

Chinese automotive industry makes great changes through introducing new products, and new technologies, altering old factories, and absorbing advanced foreign management methods by making use of foreign capital.

There are three phases for the investment of overseas automotive companies in Chinese automotive industry. The first period is from 1980s to early 1990s. During this period the market of Chinese automotive was still small and overseas companies was not confident in Chinese automotive market. Therefore, they were not willing to invest cosmically and only assembled vehicles in CKD mode. At the end of 1980s, Chinese companies began to cooperate with Peugeot Automotive and American automotive companies after China confirmed the strategic plan to develop sedan vehicle industry. The second period is in the middle of 1990s. In early 1990s, Chinese automotive market developed fast. In 1992, the output increased by almost 50%, and the industry reached the output point of one million vehicles. At the same time, the importation quantity reached more than 300,000 vehicles. Then many multinational companies came to china, but Chinese government publicized the Development Policy of Automotive Industry in 1994, confirming not to add new sedan manufacturers, confining joint venture projects of complete vehicle, confining the importation of complete vehicles, and encouraging localization and cooperation projects of accessories. Until 1998, Chinese automotive enterprises have established more than 600 joint enterprises with corporations from 20 countries and regions, and the scale of foreign-invested companies was US$20.939B, where the registered capital was US$10.579B, accounting for 50.05% of the total investment, and foreign enterprises invested US$5.286B, accounting for 49.96% of the registered capital. More than 400 joint ventures operated with parts and accessories, accounting for 70% of the total joint ventures. The successful enterprises during this period contained Toyota that implemented the Hop Skip and Jump strategy (export products - produce parts and accessories – produce complete vehicles) and Volkswagen that carried out the strategy of assisting Chinese manufacturers in locoliaztion in an all-round way. Failure projects in this period included Guangzhou Peugeot, Beijing Jeep and South MPV by Mercedes Benz. The third period was from 1998. After China signed the Bilateral Agreement with the US about China joining WTO, the foreground for China to join WTO became clear. Many multinational

corporations made great effects to get the approval of complete vehicle manufacturing projects in China in order to enter Chinese market and prepare for competition in the future. In 2001, 17 new joint enterprises entered Chinese automotive industry, including 14 parts and accessories joint enterprises, one complete vehicle manufacture, one autobike manufacturing enterprise, and one automotive sales company. The total investment amount was US$725M. The number of complete vehicle joint enterprises was less than the number in 2000, and the number of parts and accessories joint enterprises remained the same with 2000, but the total investment capital increased by 43% than 2000. On April 25, 2001, Chana Inc. signed the investment agreement with Ford Motor, one of the three largest American automotive magnates, and the first investment was US$98M. The newly established Changan Ford Automobile Co., Ltd is the first sedan joint manufacturer that Ford set up in West China. Changan and Ford held 50% stocks of the new company and the joint company generated household sedan and relevant parts and accessories. In June 2006, SAIC, GM and Wuling combined and restructured themselves, and initiated the new joint form of 'Chinese enterprise - Chinese enterprise - foreign enterprise'. The practice of Anji-tnt logistic was the first joint case in non-motor manufacturing field. In May 2002, Beijing Automobile Works signed the joint venture agreement with Hyundai, and Beijing Hyundai Motor Company was established in October. The first vehicle was produced in the same year and it was called the Beijing Speed. In July 2002, the establishment of Honda (China) Guangzhou Export Base (GAIG and Dongfeng were shareholders) was a new innovative way. All products were exported. In August 2002, FAW signed a cooperation agreement with Toyota after combining with Tianjin Auto in June. In July 2003, FAW Fengyue was established and produced Toyota SUV. In September 2003, Tianjin FAW Toyota was established and Tianjin FAW Toyota Sales Company was set up in Beijing in December 2003. Toyota finally had the chance to cooperate with Chinese large-scale enterprises through a bypass, and its status in China was largest promoted. In December 2002, Dongfeng established cooperation with Nissan. In July 2003, Dongfeng and Nissan set up Dongfeng Motor Company Limited (New Dongfeng). This new company was the largest joint venture in automotive industry by September 2002. In October 2002, SAIC invested in GM Daewoo project. In December 2002, SAIC, GM China and Shanghai GM purchased Shandong Yantai Vehicle Body Co., Ltd, continued Daewoo project, and established Shanghai GM Donhyue (Yantai) manufacturing base.

In March 2003, Brilliance Auto established a joint enterprise with BMW (One production line is used by both Zhonghua and BMW autos). In August 2003, Dongfeng acquired Wuhan Wantong and established Dongfeng Honda. In September 2003, DYK was established. So far, Dongfeng had four foreign partners of Peugeot-Citroen, Nissan, Honda and Hyundai (Kia) to produce passenger vehicles. In September 2003, BAW signed a strategic cooperation agreement with Daimler Chrysler, and in November 2004, Beijing Benz-Daimler Chrysler Automotive Co., Ltd

was set up through increasing investment and shares. Large-size Chinese-foreign joint ventures increased capital and shares in succession, and their original projects were expanded. In 2003, 52 new joint enterprises landed in Chinese automotive industry, including 30 parts and accessories manufacturing enterprises, increasing by almost three times than 2002, and 10 complete vehicle manufacturing enterprises, increasing by 30% than 2002.

In March 2004, SAIC, GM China and Shanghai GM restructured Jinbei GM and established Shanghai GM Beisheng (Shenyang) Manufacturing Base. In December 2004, GAIG and Toyota established a joint enterprise, Camry entered the market in 2006. In 2004, 35 new joint enterprises landed in Chinese Automotive industry, and among them are 28 parts and accessories manufacturing enterprises and seven complete vehicle manufacturing enterprises. In 2005, 46 new joint enterprises landed in Chinese automotive industry, and among them are 35 parts and accessories manufacturing enterprises two complete vehicle manufacturing enterprises, and nine joint enterprises dealing with automotive research and development, steel, finance, technology and automotive gas. The total number of new joint enterprises in 2005 increased by 31% than last year and the total investment was US$3.254B.

Five years ago, Chinese WTO Workgroup decided to increase the investment proportion limitation of auto manufacturers at above province level from US$30M gradually to US$150M, which is the level in the fourth year after entering WTO. The overseas enterprises got assurance to hold stock in automotive distribution service field and among engine manufacture joint ventures. More than 90% of engine manufacture companies that were set up in 2006 were wholly foreign-funded enterprises.

There were 44 new joint enterprises and Chinese-foreign cooperation projects in 2006, including 30 new joint enterprises (four complete vehicle manufacturing enterprises, one complete auto bike manufacturing enterprise; four complete vehicle and parts and accessories manufacturing enterprises, 12 parts and accessories manufacturing enterprises, and nine enterprises in relation to technology, finance and cooperation with universities), as well as 14 Chinese-foreign cooperation projects (four complete vehicle projects, one complete vehicle and parts and accessories project, one parts and accessories project, and eight projects in relation to technology, finance and cooperation with universities). The number of joint enterprises decreased by 4.3% on a y-o-y basis. In recent years, commercial-use vehicle cooperation projects increased in complete vehicle cooperation field in China. The purpose for joint ventures was to shorten technology upgrade cycle and apply foreign advanced technology to their own products in a short period of time. In 2006, SG Automotive Group cooperated with German MAN Group, and FAWBCC cooperated with Korean Daewoo. Chinese market needs new-type buses with large space, fast speed,

environment-friendly performance and energy-saving feature, so the investment in bus manufacturers increased. Heavy-duty truck field was another key investment area. SAIC established Shanghai Iveco Commercial-use Vehicle Investment Corporation with Italian Iveco Corporation after the cooperation between CNHTC and Volvo, Shaanxi Automobile and German MAN, and Foton and Benz. SAIC, Chongqing Heavy-duty Vehicle Group Company and Fiat established the joint enterprise SAIC-IVECO Hongyan Commercial-use Vehicle Co., Ltd. Another feature in complete vehicle field is that original joint ventures expanded cooperation field and improved production scale and capacity. For example, after the third factory of Tianjin FAW Toyota was built up, the output of Toyota in China increased by 200,000 vehicles, and after the expansion project of the engine factory of Beijing Hyundai is completed, the output will increase by 200,000 engines. Nanjing Automobile Group (Corporation) signed the agreement for deepened cooperation with Iveco stock company of Italian Fiat Group. Both sides were going to cooperate in the field of commercial-use vehicles based on the cooperation in light bus field.

Apart from complete vehicle field, auto parts and accessories industry gradually became a key investment field among foreign investors. Now the number of vehicles in service in china has reached 34 million. The number would increase largely in the coming five years according to industry experts, and the number will be over 60 million. Huge market potential attracted international capital moving to Chinese market rapidly. According to the information recently issued by Chinese Association of Automobile Manufacturers and the Statistic Department of Industry and Traffic under the National Bureau of Statistic, there were 54 foreign-funded enterprises, including 20 wholly foreign-funded enterprises among Top 100 Chinese Auto Parts and Accessories Manufacturers 2005. Among top 100 auto parties and accessories suppliers in the world, 70% of them have operated business in China. More than 1,200 foreign-funded enterprises produce auto parts and accessories in Chinese Mainland. German Bosch Corporation has 20 factories, 10 representative offices, five trade companies and 345 chain service stations. There were two main features in the cooperation of auto parts and accessories in 2006. The first feature was that the number of joint ventures reduced and the scale decreased compared with 2005, and the second feature was that most newly signed production projects were supplemental to the original cooperation projects.More and more Chinese and overseas large-size companies began to pay attention to Chinese auto parts and accessories industry, and many Chinese and foreign large-scale companies cooperated with each other to consolidate their market shares in 2006. Chinese companies included Weichai Power, Hubei Tri-ring Development Corporation Ltd, Dongfeng Electronic Technology Co., Ltd and FAW, and these companies are major ones in the industry. Foreign companies included US Delphi Corporation, German Bosch, US Johnson Controls and German Thyssenkrupp Group. Most cooperation projects were in large scale. Thyssenkrupp held the stock of Tianrun Crankshaft Co., Ltd, and the output and scale would be large after the joint ventures of Beijing Foton Cummins Engine Corporation and FAW Bharat

Forge (Changchun) Co., Ltd are set up.

Table 10-1 Chinese-foreign cooperation projects on complete vehicles as well as parts and accessories during 2006

Iran Automotive Industry Group and Zhejiang Jinhua Youth Automotive Company intended to cooperate in sedan manufacturing.	On February 24, 2006, Iran Automotive Industry Group signed cooperation intent agreement with Zhejiang Jinhua Youth Automotive Company. Both brands of the two sides will be used for new cars in the future. Shandong Taian Youth Automotive Industrial Park, supportive project for the cooperation, was started in September 2005.
Suzhou Huanghai Automotive Industrial Park	On February 26, 2006, Suzhou Huanghai Automotive INdustrial Park was initiated. The Park received investment from Liaoning SG Automotive Group, TSIR, Suzhou Hi-Tech District Economic Development Group Corporation and Dandong Huanghai Automotive Co., Ltd. The investment for the first period is 120 million yuan. The expected annual output is 2,000 buses, and the annual sales amount will be 2.5 billion yuan during the Eleventh Five-year Plan period.
SG Group and German MAN Group signed a cooperation agreement in city bus and BRT technology.	On March 19, 2006, SG Group and German MAN Group signed an agreement in Beijing. SG Group introduces low-floor city bus and BRT technology from MAN Group. German MAN commercial-use vehicle company has advanced technologies in bus chassis and BRT. With the utilization of low-floor technology, there will be no steps in the bus. BRT is a new group public transportation system between traditional orbit mode and public transport mode with the advantages of dedicated road, large capacity, first pass at crossings, and fast speed.
Initiation ceremony of Nanjing Automobile MG project	On March 27, 2006, Nanjing Automobile MG project was initiated. Nanjing Automobile Group purchased all aeests of MGR and PTL to improve the independent research capability and adjust brand structure on July 22, 2005. The total investment of the project is 2.815 billion yuan, the project area covers 720,000 square meters, and the total floor area is 290,000 square meters. The annual output will be 200,000 complete vehicles and 250,000 engines when the project is completed.

SAIC Iveco Commercial Vehicle Investment Co., Ltd.	SAIC Iveco Commercial-use Vehicle Investment Co., Ltd established by SAIC and Italian Iveco was officially approved in August 2006. The new corporation will build a new manufacturing base of modern cargo vehicle based on Chongqing Hongyan Aubomobile Manufacturing Base through introducing heavy-duty truck technologies from Iveco.
SAIC Iveco Hongyan Commercial Vehicle Co., Ltd	On October 16, 2006, SAIC, Chongqing Heavy Automobile Group and Fiat Drive Science and Technology Co., Ltd signed an agreement in establishing SAIC Iveco Hongyan Commercial-use Vehicle Co., Ltd. The new company will build a complete vehicle manufacturing base in Huangmaoping in the Automotive Industrial Park in the new area in North Chongqing. The total investment of the project is 2 billion yuan, the manufacturing base covers 450,000 square meters and the floor area is 140,000 square meters. The output of the base will be 40,000 vehicles in 2012 and the sales income will be 10 billion yuan.
Shanghai LTI Automobile (International) Co., Ltd	On October 24, 2006, UK Manganese Bronze Holdings Ltd signed the agreement to establish Shanghai LTI Automobile Components Co., Ltd with Geely and Shanghai Maple. The new company produces TX4, British famous taxi brand, and will start to produce in 2008 with an annual output of 50,000 vehicles. According to the agreement, Geely takes 51% stock shares, Shanghai Maple takes 1%, and UK Manganese Bronze Holdings takes 48% stock shares. The Chinese side controls the company with 52% shares. The joint venture will introduce the production line of TX4 London taxi and build a new factory in Shanghai.
FAW Bus and Korean Daewoo Bus signed an intent agreement.	On December 21, 2006, FAW Bus signed an intent cooperation agreement with Korean Daewoo in Dalian. Each party will invest US$10 million to occupy 50% stock shares and establish a joint venture producing Daewoo high-class inter-city passenger vehicles and city buses. The annual output will start with 1,200 vehicles. In order to improve the productive conditions and expand production scale, the new enterprise will remove and alter Dalian Bus Factory of FAW Bus and build a

	new joint plant.
BMW cooperated with Longxin Chongqing in auto bike manufacturing.	German BMW chose Chongqing Longxin as a strategic partner of auto bike manufacturing outside Europe and started BMW Motorcycle Cooperation Project in China in January 2006. The cooperation between BMW and Longxin is the core of the project, and the project base is in Chongqing. The project serves Chinese auto and motorcycle parts and accessories enterprises. It is planned to establish a production base that provides BMW with high-quality motorcycle parts and accessories within two years.
Foton Motor, Weichai Power, German BOSCH and Austrian AVL Company established a strategic league.	On April 28, 2006, Foton Motor, Weichai Power, German Bosch and Austrian AVL signed a stragetic league agreement. According to the agreement, Weichai Power and Foton Motor will mutually develop new products specially for Foton Heavy Trucks and use the brand of Weichai V Power, which was registered and owned by both parities. of The new technology R&D centre will be responsible for developing the world-class engine to meet the demand of Foton Heavy Trucks. Bosch and AVL will provide necessary technical and resource support according to practical conditions.
FAW Daihatsu (Jilin) Bodywork Accessory Corporation	In May 2006, Japanese Daihatsu Industry announced that it has set up FAW Daihatsu (Jilin) Bodywork Accessory Corporation with FAW Jilin, manufacturing and selling vehicle bodies and relevant parts and accessories. The registered capital was US$287M and each party took 50% of stock shares. The new company will start production in May 2007.
Cooperation between Beijing Automobile Motorcycle and Delphi Group	On August 18, 2006, Beijing Automobile Motorcycle signed an agreement with US Delphi to establish a factory producing auto safety products in Changping, Beijing. The new company will produce airbags, safety bells, and steering wheels, and the new plant will be put into production in 2007.
SAIC Fiat Engine Co., Ltd	On October 16, 2006, SAIC, Chongqing Heavy Automobile Group and Fiat Engine Technology Co., Ltd signed an agreement on establishing SAIC Fiat Motor Engine Co., Ltd. The new company will build an engine manufacturing base in Huangmaoping in the Automotive Industrial Park in the new area in North Chongqing. The total investment of the project is

	1.7 billion yuan, and the manufacturing base covers 200,000 square meters. The output of the base will be 100,000 engine in 2012 and the sales income will be 3.8 billion yuan.
Beijing Foton Commins Engine Co., Ltd	On October 19, 2006, Beiqi Foton Motor and US Cummins (China) Investment Co., Ltd signed a joint venture agreement. Foton and Commins will establish Beijing Foton Commins Engine Co., Ltd, and each party holds 50% shares. The new company will manufacture 2.8L and 3.8L light diesel engine and build a light diesel engine base. The new company will be put into production in 2008 and the annual output will be 400,000 engines. The total investment is 2.5 billion yuan and the registered capital is one billion yuan.
Thyssenkrupp Controlled Tianrun Crankshaft	On January 10, 2006, Thyssenkrupp invested 50 million Euros to take 51% stock shares of Tianrun Crankshaft. Thyssenkrupp and Tianrun will establish the largest forging steel crankshaft manufacturing base with the most advanced technology. Currently, both parties have planned a crankshaft industrial park covering 800,000 square meters, and plan to build a foundry production line that produces 320,000 crankshafts per year and 11 processing production lines, each of which produces 920,000 crankshafts paer year. The return profit margin is expected to be 20% and the new company will get profit in five years.
Shanghai Johnson Controls Automotive Electronic Co., Ltd	On February 24, 2006, Dongfeng Electronic Science and Technology Co., Ltd and US Johnson Controls Co., Ltd signed an agreement in Shanghai, establishing Shanghai Johnson Controls Automotive Electronic Co., Ltd. The registered capital was USD$5M. Dongfeng Science and Technology invested US$2.5M, accounting for 50.01% of total stock shares, and Johnson invested US$2.499M, accounting for 49.99% of total stock shares. Dongfeng Science and Technology invested with asset and capital, and Johnson invested with cash. The new company develops, designs, produces, and sells auto electronic devices, and provides after-sale technical support and customer service.

FAW Bharat Forge (Changchun) Company Limited	On March 20, 2006, China FAW Group Corporation established FAW Bharat Forge Company Limited with Bharat Forge Limited (India) in Changchun. The total investment amount was US$90M and the registered capital was US$54M. Bharat Forge Limited holds 52% stock shares and FAW holds 48% stocks shares. FAW Bharat Forge (Changchun) Company Limited engages in manufacturing of various forging parts for both automotive and non-automotive industry. In addition, the company is involved in the development, design and technical consultancy of forging modules, design, production, and technical service of non-standard forging equipment and technical equipment, as well as technical service and parts processing of forging and pressing euqipment. At present, the company has more than 370 forging and pressing sets, including 44 forging forging unit sets and 13 forging part heating treatment lines. The annual capacity of the company will reach 200,000 tons of forging parts in the future 10 years.
Shenyang Aerospace Xinguang Mitsubishi Heavy Industries Engine Valves Co., Ltd	On April 18, 2006, Shenyang Aerospace Xinguang Mitsubishi Heavy Industries Engine Valves Co., Ltd, which was set up by Japanese Mitsubishi and Shenyang Aerospace Xinguang Group Company. The new company manufactures valves for engines for both Chinese market and international market. The total investment is 3.1533 billion yuan. The project production guidelines are: the first part will be put into production in April 2006 with the annual output of 10 million engine inlet and outlet valves; the second part will be put into production in December 2007 with the annual output of 20 million engine inlet and outlet valves; and the third part will be put into production in December 2009 with the annual output of 30 million engine inlet and outlet valves. When the project is completely finished, the sales income will reach 266,040,000 yuan, and the profit will reach 68,780,000 yuan.
Fawer Y- tec Chassis Parts (Changchun) Co., Ltd	On June 16, 2006, Fawer Y- tec Chassis Parts (Changchun) Co., Ltd was established in Changchun Hi-Tech Development Zone. The company was founded by Fawer Automotive Parts Co., Ltd, Japanese Y-tec, and Japanese Sumitomo Corporation. The total investment is 237,280,000 yuan, and the share proportion is

	40%, 40%, and 20% respectively. The cooperation period is 30 years. The new company covers 37,800 square meters, and the floor area is 11,177 square meters. The company produces sedan chassis mainly for Mazda 6 series of FAW. In 2008, the output of the new company will be 70,000 sets of chassis.
Canadian Meridian Corp and Chongqing BoAo Magnesium Co., Ltd signed a cooperation agreement.	Canadian Meridian Corp and Chongqing BoAo Magnesium Co., Ltd signed a cooperation agreement in June 2006. Meridian determined to invest US$15M to establish a magnesium alloy die-casting factory in Chongqing. When the new factory is put into production, Chongqing will become the largest magnesium alloy manufacture base in China.
Weichai Power and German Bosch signed a strategic cooperation agreement.	On June 29, 2006, Weichai Power and Bosch signed a strategic cooperation agreement in Weifang. Both parties will share the achievement of high-end technological innovation, and occupy the market of above-Europe-III engine.According to the agreement, Bosch will operate with Weichai Power in development and research and supply of oil spray system of large-power and high-speed diesel engines, and carry out supportive development according to the use features of commercial-use vehicles in Chinese market..
ASIMCO PTI Air Intake System (Yizheng) Co., Ltd	On August 9, 2006, ASIMCO and US Phillips Temro Industry Company announced to establish ASIMCO PTI Air Intake System (Yizheng) Co., Ltd, which is integrated with design, production, and distribution of intake heaters and serves Chinese diesel engine market. The intake heater improves the combustion of the engine during cool start and initial heating phase, guarantees more stable and rapid idle operation status, and reduces the discharge of white smoke caused by the substances that cannot be combusted completely. Intake heaters have been supplied to Chinese commercial-use vehicle manufactuers in the fourth quarter of 2006.
Swell Marui (Guangzhou) Automotive Accessory Co., Ltd	The foundation ceremony of Swell Marui (Guangzhou) Automotive Accessory Co., Ltd was held in August 2006. The company was established by Ningbo Swell Auto Decoration Co., Ltd and Japanese Marui, and the investment was US$20M. The company produces auto parts and accessories and instrument for Guangzhou Honda, Guangzhou Aeolus,

	FAW-VW and Tianjin Toyota, and the designed annual production value is 200 million yuan.
MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd	On September 11，2006, Hubei Tri-Ring Co., Ltd, MAHLE Technology Investment (China) Co., Ltd, and German MAHLE Ventiltrieb GmbH signed an agreement on establishing MAHLE Tri-Ring Valve Train (Hubei) Co., Ltd. According to the agreement, the total investment of the new company is US$42.032 million and the registered capital is US$14.0106 million. Hubei Tri-Ring Co., Ltd invested equipment, workshops, land, and operative assets of its subordinate valve factory, worthing US$5,604,300, accounting for 40% shares of the new joint venture. MAHLE Technology Investment (China) Co., Ltd invested US$4.9037 million in cash and held 35% stock shares. MAHLE Ventiltrieb GmbH invested US$3.5026 million in cash and held 25% stock shares. The new company deals with auto parts and accessories, development, manufacturing, and sale of valves used for internal-combustion engines, ans after-sale services. The company is planned to be set up within three months after the cooperation agreement takes effect. The output of valves of the joint venture will reach about 25.3 million in 2007 and will be sold in China as well as exported to Asian-Pacific region, the US and Europe.
Johnson Controls Wuhu Automotive Decorations Co., Ltd	On November 20, 2006, Cherry officially announced to establish Johnson Controls Wuhu Automotive Decorations Co., Ltd with US Johnson Controls. Each party holds 50% of stock shares. The joint venture is the first enterprise engaged in automotive internal decoration system and auto parts and accessories in China, producing internal decorations for autos and providing technical services. The management team of the new company comprises managers from both Johnson Controls and Cherry Motor.
Saginaw Lingyun Semi-shaft (Wuhu) Co., Ltd	On December 20, 2006, Delphi Auto System (China) announced to establish Saginaw Lingyun Semi-shaft (Wuhu) Co., Ltd with Hebei Lingyun Industrial Group to manufacture semi-shaft products for Chinese market. The new company was in Wuhu, Anhui Province. Delphi holds 60% stock shares and Lingyu

	holds 40% stock shares. According to the agreement, the investment of the new semi-shaft production base is US$40M, and the base covers 10,000 square meters. The base will be put into production in 2008.
Wuhu Zhenghai Xingyuan Automotive Inner Decoration Company	On December 26, 2006, Wuhu Zhenghai Xingyuan Automotive Inner Decoration Company, invested by Yantai Zhenghai Xingyuan Automotive Inner Decoration Company and Hong Kong Ocean Master Company started construction in Jiujiang Economic Development Zone. The investment of the project is 115 million yuan, and the new company will manufacture one million automotive inner canopies each year.

Data source: *China Automotive Industry Yearbook*

10.2 Introduction of foreign capital

The trend that the foreign side controls an auto parts and accessories company is obvious. Because WTO has no limitation to the proportion of shares for engine manufacturers and parts and accessories manufacturers, foreign companies try to control the joint venture from the very beginning. Volkswagen took 60% of stocks in the joint engine enterprise invested by German Volkswagen and FAW, and FAW took 40% of stocks. Toyota took 70% of stocks in the joint engine enterprise invested by Toyota and GAIG, and GAIG took 30% of stocks. Valeo took 60% of stocks in the joint compressor enterprise invested by Valeo and FAW in April 2005, and FAW took 40% stocks. Some joint enterprises gradually became wholly foreign-funded enterprises in recent years. Tangshan Aisin Gear Co., Ltd was a joint enterprise in the past and now became a Japanese solely funded enterprise after the Japanese side bought the equities of the Chinese side. To strictly control core technology, more and more overseas corporations prefer wholly funded mode when entering Chinese auto parts and accessories market. In September 2006, an American comapny invested US$15 million to establish Southco Manufacturing and Technology (Shanghai) Co., Ltd, and Germany ZF Group invested EUR4.4 million to establish ZF Commercial Vehicle Chassis Technology (Shanghai) Co., Ltd.

The tendency of overseas sole proprietorship enterprise affects the innovative ability of Chinese enterprises. In recent years, many joint enterprises operate business in complete vehicle and auto parts and accessories in China, but almost all vehicles made in China use foreign brands. The overseas companies still control the core technology of design and manufacture. The development and research ability of Chinese enterprises is still low. Auto parts and accessories joint enterprises have introduced many advanced technologies, such as electric spray system (UAES, and Beijing Wanyuan Delphi), automatic derailleur (Dongfeng Honda), high-pressure oil pump (Wuxi

Weifu), ABS (Shanghai Auto Automation System Corporation), andexhaust cleaning system (Dalian Walker Gillet Exhaust System Corporation). However, core technologies of these hi-tech products are controlled by overseas corporations. The lack of core technologies cumbered independent innovation of Chinese auto industry.

10.3 Tendency of introducing foreign capital

Overseas motor corporations made great achievements in Chinese market. In 2006, GM, Ford, Volkswagen, Daimler Chrysler, PSA Peugeot Citroen, BMW, Toyota, Honda, and other foreign motor magnates succeeded in Chinese market. The sales amount of Toyota increased from 183,000 in 2005 to 308,000 in 2006, increasing by 68%. Chinese market contributed the highest growth rate to Toyota in global market. GM sold 876,700 vehicles in Chinese market in 2006, increasing by 32% than 2005. GM's share in Chinese market reached 11.8% while its business in North American market experienced negative growth. Ford sold 166,700 vehicles in China in 2006, increasing by 77,360 vehicles than 2005 with the growth rate of 86.6%. Volkswagen sold 711,000 vehicles in China in 2006, increasing by 24.3%. The sales volume of Audi, a luxurious brand, exceeded 80,000, increasing by 39% than 2005. The sales volume of Mercedes Benz, another luxurious brand, was 21,200 vehicles in China in 2006, increasing by 32% than 2005. The sales volume of joint ventures of French Peugeot Citroen Group increased by 42% in 2006. China in not only a manufacturing base but also an important market, and has become a region on which auto manufacturers must focus..

All Chinese joint automobiles enterprises meet bottleneck spontaneously in the process of development. In the past they could get through by introducing into new products but now their foreign partners could not offer so many new products any more. Therefore, 80% of core joint ventures have set up dedicated research and development centers. It has become a new trend to develop new products with independent brands. Shanghai Volkswagen has switched to a new stage of independent development in 2001 and Santana 3000 was the first product independently developed by Shanghai Volkswagen while Passat Lingyu released in 2005 best represented the latest achievement of the carmaker. Shanghai Volkswagen's new plan, coded NMS, is to develop new models targeted at the global market on the basis of the new generation Class B platform. Volkswagen and Shanghai Volkswagen agreed in the statement that they would make full use of the testing equipments and field, trial-manufacture capability of sample car, accessories and mould of Shanghai Volkswagen, including development of bodywork, interior and exterior and spare parts. The design, trial manufacturing and test also will be carried out in Shanghai Volkswagen. . Beijing Automotive Industry (Holding) Corp (Beijing Auto for short) will release five sedan models and one SUV in 2010. The Passenger Car Business Unit of Dongfeng

Automobile Co. Ltd. will invest 7.6 billion yuan to build sedan manufacturing base and 600 million yuan to build Dongfeng sedan R&D center with independent brand.

Foreign investment in investment in automotive accessories will increase continuously. Since April 2005 when the Measures for the Administration of Import of Automobile Components and Parts Featuring Complete Vehicles came into effect, foreign investors of components and parts were greatly spurred to invest in China The statistics showed that more than 90 foreign investors signed agreements to invest in China in the same year joint venture and the agreed investment reached US$4 billion in total, as much as 3.2 times of that in 2004, Including the multinational giant of components and part such as Delphi, Denso, Sumitomo Corporation, Dana, Valeo and Fujitsu Electronics. The total investment of multinational companies in the automobile components and parts hit 13 billion yuan in the first half of 2006 covering engine, chassis, gearbox and electronic components. More than 90% of new joint venture projects were wholly-owned subsidiaries of the foreign investors.

The cooperation between upper reaches and lower reaches of the industrial chain became a development trend. To centralize resources and reduce costs, nearly 30 leading global suppliers such as Ford Motor and Bosch, TRW and ZF established strategic ties to form a sustainable development business operational mode. Now the global motor corporations not only want to consolidate their positions in the Chinese market, but they want reduce cost and increase competitiveness relying on the local enterprises. They have to localize the R&D to achieve this goal. The multinational components and parts giant cooperated with enterprises of upper and lower reaches of the industry chain to strengthen their competitiveness with segmenting the localized operations. The ‘International Strategic Alliance’ among Beiqi Foton Motor, Bosch and AVL was established. Product R&D Community’ was set up by dozens of powerful components and parts suppliers. They made the agreement to become strategic partners with Shaanxi Heavy Automotive Group, Chongqing Hongyan Heavy Automotive Group and AFC.

Another important trend of joint ventures is to localize product development and research. Shanghai GM, Shanghai Volkswagen, Dongfeng Peugeot-Citroen Automobile Co. Ltd. and Guangzhou Honda have continued product R&D localizationin China. Beiqi Foton Motor and Changan Ford declared independence research strategy, igniting unprecedented independent R&D tide among joint ventures It is a new jumping-off point of ‘Market Exchange Technology’ for the automobile industry of China, indicating the new development stage of overseas investment in Chinese Automotive industry.

The Pan Asia Technical Automotive Center ameliorated all the new vehicles of Shanghai GM

according the situation of China. The localization of Pan Asian has extended to engine in 2002. Pan Asia, not belonging to Shanghai GM joint venture, was established in 1997 with equal shares from both SAIC and GM. Pan Asia is a integral part of GM Motor global research system, where engineers can access to the latest development in GM research system. Pan Asia involved the research and amelioration of engine, interior and exterior for Regal in 2002 and developed more than 600 new accessories, which took 35% of all accessories for Regal. Pan Asia spent two years on the development of GL8 in bodywork, chassis , shape, interior and engine. In recent years, they released three concept cars, which are Kylin, Kunpeng and Changyi.

Shanghai Volkswagen worked together with Volkswagen in R&D programs. Shanghai Volkswagen re-creates classic models of Volkswagen according the demand of Chinese users and successfully developed Santana 3000, Passat Lingyu, Polo Jinqing and Polo Jinqu. Shanghai Volkswagen developed Lingyu based on Passat for medium and high-end automobile market of China. In 2006, Shanghai Volkswagen released the first concept car NEEZA, which stands in the international level. This vehicle was 100% developed by Shanghai Volkswagen and advanced a foresighted trend of Shanghai Volkswagen in the product modeling and development in the future. Some designs will be used in other models such as dashboard, grill, headlight and skylight. However, without chassis, NEEZA could not shake off Volkswagen.

Guangzhou Honda synchronized brand building and product development t. The carmaker established a research and development center, which belongs to the joint venture. The new brand will use a new mark different from ‘H’ mark of Honda. The new R&D center has capability of independent development of a complete car, from concept car design, type design, complete car trial manufacturing, , testing, component development to develop models for the new brand of Guangzhou Honda. Out of commercial-use consideration, Guangzhou Honda released the new brand plan as Honda has not rich product lines. In order to enlarge the market share, Guangzhou Honda has to develop new models to enrich their product lines. The old vehicle development platform can be used for new models to maximize utilization of resources.

DPCA has continued R&D localization and has released Elysee, Dongfeng Peugeot 307 and C-Triumphe that are developed in China. The Chinese party has certain independent intellectual property rights on these models. DPCA R&D Center has already invested 200 million yuan to build component lab, engine lab, material lab, environment and emission lab with more than 2,000 engineers working in. DPCA invests about 200 million yuan in these two factories in Wuhan and Xiangfan for technical development. The technical center will be responsible for independently developing eight new models in the next three years. They want to achieve ‘independent mass production, nearly independent model transformation and joint development of new products'. The

R&D center has developed from 200 engineers to 2,000. DPCA engages in joint R&D with Peugeot-Citroen. With accelerating R&D localization, DPCA will release models under its own brand in the next two years.

10.4 Current situation of technology introduction

The technology introduction for the automobile industry of China grew with establishment of joint ventures. Establishing joint ventures was a major method to introduce comprehensive technologies of the industry. After 20 years of technology introduction, joint venture and joint operations, the practice of 'exchange technology with market' has become the hot topic of the industry. In the past 20 years sedans from joint ventures occupied 90% of Chinese automotive market but Chinese enterprises did not get core technologies of the industry but the mature technologies to be washed out. As the technology introduction did not accompany with absorption, the results of joint ventures were two strange vicious recycles: continuous introduction of backward technologies and depending on foreign parties, which leads to that the Chinese parties become even weaker and have to rely more on the foreign party. In this way the policy of introduction and absorption was not implemented, let alone innovation. On the contrary, Chery and Geely gain a foothold in the world automotive industry for Chinese enterprises as they persist in independent innovation to develop independent brands.

The introduction of technology made great effect in the development of Chinese automotive industry, best represented by the successful introduction of heavy-duty commercial-use vehicle technology , according to insiders. In December 1983, Chinese Heavy-duty Automotive Industries Company, which was constituted by Jinan Auto, Sichuan Auto and Shaanxi Auto, signed the Contract of Technology transfer for Heavy-duty Truck Manufacturing with Austria-based Steyr Motors. The Austrian party offered products, processing and standards of 91 series which were put into production in 1978 and WD engines and enterprises management , totaling 1.158 billion yuan. The introduction of Steyr technology made great achievement in 20 years and Steyr heavy-duty trucks have become the leading models in Chinese heavy-duty truck market and enabled the Chinese heavy-duty truck development technology to step forward towards world advanced level. More than 150,000 Steyr trucks have been manufactured since 1989 when the first batch of China-made Steyr were rolled down. The vehicles of Steyr in service are about 120,000 in China with a rapid growth every year. The final assembly technologies introduced along with the technology introduction from Steyr have become important supportive assembly technologies, greatly not only improving the overall technologies of heavy-duty trucks, but including of assembly technologies of bodywork, framework, engine and axle. So far 510,000 Steyr engines have been produced and the annual output reached 150,000.

With new understanding to technology introduction, Chinese enterprises did not value localization rate any longer technology absorption in new introduction and joint venture with increasing requirement on independent innovation. As the Chinese automotive industry has made great achievement and do not need complete technology absorption but select introduction for some weakness and urgently needed technologies such as design and development of advanced engine, product technology and design and manufacturing of automatic gearbox. The Chinese government also directs technology introduction of automobile industry with policies. The Ministry of Commerce and the State Administration of Taxation promulgated the 13th circular of 2006 and released the Encouraging Technology Import Catalogue . Nine automotive items are listed on the catalog of encouraged technologies.. According to the relevant provisions, taxes can be exempted or reduced for introduction of these nine technologies. If belonging to advanced technologies with preferential terms, the enterprise may apply for income tax exemption according to the stipulated procedure. The nine technologies are design and development of advanced engine; layout and bodywork design of full-load low-entry city bus; automobiles EPS technology; design and manufacturing of automative gear-box; design and manufacturing of substitute fuel automobiles; key accessories of hybrid, electromotor and battery fuel automobiles; design and manufacturing of high pressure common rail diesel engine; automobile electronics and design and manufacturing of air spring suspension system of automobile.

Beside co-operations in complete vehicle and components, cooperation in technology between Chinese and foreign enterprises increased stably during 2004 to 2006. The establishment of R&D center and cooperation in technology were emphasized in this period.

Table 10-2 Technical cooperation between Chinese automotive corporations and overseas automotive corporations during 2004 to 2006

Time	Name of joint venture (project)	Business scope	Cooperation parties
March 24, 2004	Passenger vehicles R&D Center, Dongfeng Dongfeng Motor	R&D on Passenger car	Dongfeng Motor and Nissan
May 18, 2004	Technology Transfer From MAN Group to Shaanxi Auto Group	Drive Axle technology of heavy-duty truck	Shaanxi Heavy-duty Vehicles Group and MAN Group
August 2004	Shanghai TJINNOVA and PCL	R&D technical cooperation	TJ Innova Engineering & Technology Co. Ltd. and PCL

	Group signed agreement		Group
July 6, 2005	Guangdong Huaiji Automotive Components Co. Ltd. established a valve R&D center with Eaton	Valve R&D center	Guangdong Huaiji Automotive Components Co. Ltd and Eaton Group
October 2005	Tianjin SwARC Automotive Research Laboratory Co. Ltd.	After-treatment system engine	China Automotive Technology &Research Center and SWRI
November 11, 2005	Strategic Agreement between CATARC and Toyota	Enforce cooperation in energy, environment and security	China Automotive Technology &Research Center and Toyota
November 12, 2005	Technology cooperation between Shanchuan Shock Absorber Industy Co. LTD. and Delphi Group	Shock absorber manufacturing technology	Longchang Shanchuan Shock Absorber Industy Co. LTD. and Delphi Automotive Group
November 16, 2005	Visteon technology center in China	Electric system and interior	Visteon Corporation and Yanfeng Visteon
November 21, 2005	Agreement on biologic fuel cooperation between CATARC and PSA Group	Biologic fuel for automotive	China Automotive Technology &Research Center and PSA Group
March 8, 2006	Yanfeng Key (Shanghai) Automotive Safety Systems Co., Ltd.Asia Technical and Manufacturing Center	Security System for Automotive	Key Safety Systems Inc. and Yanfeng Visteon Automotive Trim Systems Co. Ltd.
April 19, 2006	Technical cooperation between	Security technology for automobile	State Environmental Protection Administration and Korean SK

	State Environmental Protection Administration and SK Group (Korea)		Group
April 26, 2006	Cooperation between Brilliance BMW and GTZ	Mechanic-electronic integration training	Brilliance BMW and GTZ
June 27, 2006	Wind Hill Technologies and French NSI Group signed agreement for establishing strategic cooperation ties.	Vehicle-mounted network technology and automotive electronic	Beijing Wind Hill Technologies and NSI Group
August 8, 2006	East Asia R&D center	Engine	Dongfeng Motor and Cummins Engine Co. Ltd.
September 2006	Shanghai Nikki Environment System Inc, Celestial NutriFoods Limited and DAIKI-AXIS	Biologic diesel and energy	Shanghai Nikki Environment System Inc, Celestial NutriFoods Limited and DAIKI-AXIS

Data source: *China Automotive Industry Yearbook*

10.5 Foreign investment in China

10.5.1 GM

GM is famous for excellent marketing in China. GM markets six brands and exercises multi-brands strategy in China. GM also offers financial service and second-hand automobiles. In 2006 GM became the first enterprise to produce and sell 400,000 passenger vehicles in Chinese market. The total sales and production of Shanghai GM reached 876,747 in China, increased by 31.8% compared with that in 2005; Shanghai GM Wuling realized sales of 460,155 vechiles in 2006, increased by 36.5% compared with that in 2005, consolidating the leading position in Chinese mini vehicle market. Shanghai GM totally sold 413,367 cars in the year, increased by 27% compared with that in 2005. In 2006, the total sales of Buick brand reached 304,230, increased by 24.9% on a year-on-year basis; the total sales of Chevrolet hit 145,392 increased by 36.8% on a year-on-year basis; 2,830 imported Cadillac cars were sold in China and the carmaker was accepting orders for Cadillac SLS (Seville Luxury Sedan) which was especially

designed for the Chinese market ; the sales of Saab reached 364, showing a rapid growth on a year-on-year basis. The sales of Opel realized a rapid growth of 42% by selling 3801 cars in the year; the sales of Opel Astra sharply increased by 56%, reaching 2,213.

SAIC is the largest partner of US GM in China. The shares of joint ventures are Shanghai GM 50%, Pan Asia Technical Center 50%, Shanghai GM Beisheng (Shenyang) 25%, Shanghai GM Dongyue (Yantai) 25%, Shanghai GM Wuling 34%, Shanghai GM Finance 25%, GM Daewoo Technical Corporation (GM 42.1%, Suzuki 14.9%, SAIC 10%)

The strategic cooperation of Suzuki Auto of which GM holds 20% shares in China is Chongqing Chang'an Suzuki 35%, Chang'an Auto 4.98%, Changhe Suzuki 39%. The share holding of Isuzu, of which GM holds 48.45% of shares , is Guangzhou Isuzu 49%, Jiangxi Isuzu 12.5%, and Chongqing Qingling Auto 5.92%.

Another brand of GM series- Fuji Heavy Industries, of which holds 20% share, would cooperate with Guizhou Aviation Industry (Group)Co. Ltd. to invest in Guizhou Yunque Automotive Co. Ltd.

10.5.2Ford

Ford Motor Company mainly cooperates with Chang'an Group in China and Ford's shares in the joint ventures are: 50% in Chang'an Ford Motor, 50% in Chang'an Ford Nanjing Plant (Mazda also invested in) and 29.96% in the joint item with Jianglin Motor Corporation. Ford and Mazda are two main brands of Ford family in China.

In terms of the global distribution of Ford, its has three vehicles manufacturing platform in China. Ford Focus, Volvo S40 and Mazda 3 share C1 platform for compact vehicles. P1 platform produces Ford Mondeo old models. Ford S-Max uses new EUCD platform. While suffering from poor performance in the global market, Ford enjoyed record growth in China, reaching 86.6%. The total sales of all direct brands of Ford family, including Ford, Lincoln, Jaguar, Landrover and Volvo reached 166,722 in 2006, an increase of 77,360, or 86.6% compared with that in 2005. The total sales of Chang'an Ford Mazda, a joint venture of passenger vehicles, hit 129,790, increased by 112.7%. The total sales of Focus reached 78,430 in the year. The sales of Ford Transit commercial-use vehicles, produced by Jiangling Motors Co. Ltd. of which Ford holds shares reached 22,973, increased by 25.4% on a year-on-year basis,. Transmit was well received by consumers and became a leading model in niche market.

Ford Automotive Finance China Ltd. began to offer credit services for authorized distributors of Chang'an Ford Mazda and JMC in 2006. By the end of the year, Ford Automotive Finance China Ltd. not only offered credit services for more than 100 authorized distributors of Ford in China, but retail credit services for end-users in 26 cities of China.

Ford declared to establish Ford R&D center in China in November 2006. The initial investment of the center will be 220million yuan. It will be responsible for research and development of all Ford brands for the global market. Ford has made China of a major supply base for its global operations. The total procurement of components and systems of China Procurement Center of Ford Motor in China reached 20 billion yuan to support the global manufacturing and after-sale services of all Ford brands in the global market in 2006.

At the end of 2006, Ford changed the top management of its joint ventures in China and appointed Mr. Jeffrey Shen to replace Phil Spender as President of Changan Ford Mazda to harmonize the complicated relationship among Chang'an, Ford, Mazda and FAW.

Mazda Motor, of which Ford holds 33% shares, holds 50% shares of FAW Mazda Motor Sales Co. Ltd. (Changchun), engages in technical cooperation with FAW Car Co. Ltd. (technical cooperation), and 17.5% shares of Hainan Mazda Co. Ltd..

10.5.3 Daimler Chrysler

Daimler Chrysler is the first US carmaker to cooperate with Chinese automobile companies. In the early 1980s, AMC cooperated with Beiqi Group in manufacturing Cherokee Jeep series. AMC was acquired by Chrysler in 1986 and later Chrysler merged with Daimler to establish Daimler Chrysler Motor. Beifang Benz project was initiated in the 1980s to produce heavy-duty truck in Inner Mongolia; it was the first company to produce high-end heavy-duty truck in China. During the same period, Yangzhou Yaxing Motor Coach Co. Ltd. and Ford Motor were assembly and producing Mercedes-Benz buses. In 2003, Daimler Chrysler decided to continue cooperation with Beiqi Group. Both parties agreed to establish Beijing Benz-DaimlerChrysler Automotive Co. Ltd on the basis of increasing investment in and restructuring Beijing Benz-DaimlerChrysler Automotive Co. Ltd.. The total investment of Beijing Benz DaimlerChrysler Automotive Co. Ltd was US$600 million with US$400 million registered capital. Each party holds 50% shares of the joint venture. The new corporation will produce Class C and Class E sedan of Mercedes-Benz. Daimler Chrysler acquired 24% shocks of Beiqi Foton Motor Co. Ltd, which is a subsidary of

Beiqi Group. Daimler Chrysler will supply modern commercial-use vehicles for Foton to enable the company to enter into the market of medium-sized and heavy-duty trucks as a springboard.

In 2006, Daimler Chrysler sold 31,300 cars in Chinese mainland. The localization of Class E Mercedes Benz spurred the sales growth. Mercedes-Benz Group distributed 21,200 cars, increased by 32% compared with that in 2005. The sales of imported cars of the group increased by 26% in this year.

Daimler Chrysler holds 50% of shares in Beijing Benz-DaimlerChrysler which is a joint venture with Beiqi Holding, of which Daimler Chrysler accounted for 42.4% while Daimler Chrysler (China) accounted for 7.6%, 50% of shares of Yangzhou Yaxing-Benz which is a joint venture with Yangzhou Yaxiang Motor Coach. In addition, Daimler Chrysler Group also cooperated with China North Industries Group Corporation and Yangzhou Yaxiang Motor Coach to produce Ankai bus and Yangzhou Yaxing-Benz bus.

Mitsubishi, of which Daimler Chrysler holds 37.3% of shares also cooperated with Beiqi Holding to produce Pajero and Outlander. Mitsubishi also made investment in the following joint ventures: holding 19.95% of shares of Hunan Changfeng Motor, 50% in Shenyang Mitsubishi Engine (2.0~2.4L) and engaging in technical cooperation with Fujian Southeast Auto, , Harbin Dongan Auto Engine (1.3~1.6L) and gearbox (technical transfer) and , Dongfeng Liuzhou Motor Co. Ltd. (technology introduction, produce MPV Fengxing).

Hyundai KIA Motor of which Daimler Chrysler holds 10% of shares, also made the following investment in China, including 50% shares in Beijing Hyundai, 50% shares in Dongfeng Yueda KIA, J, Jianghuai Automobile Co. Ltd. (technology introduce, produce MPV Refine), to produce MPV Refine, Shandong Huatai Auto Group (technology introduction, produce SUV Terracan) and 50% shares of Guangzhou Hyundai.

10.5.4 Volkswagen

Volkswagen entered into the Chinese market with negotiation from 1978 to 1984 by establishing Shanghai Volkswagen Co. Ltd. Totally more than 2 million of Santana has been produced since it was launched in China and it became a model with the largest quantity in service in China ,. Volkswagen cooperated with FAW to produce medium and high-end business cars and introduced Audi 100 and later popular model Jetta. The joint venture started to make profits in 1995. The cooperation with SAIC and FAW enabled Volkswagen to take advantages of resources of FAW which is the largest carmaker of China and SAIC which has the largest sedan production base,

including the nationwide sales channel owned the state-owned carmakers. In 1996, Volkswagen took 58.1% shares of Chinese market. Its products include Audi, Passat, Bora, Golf, POLO, Santana and Jetta. Since China became a WTO state member, nearly all multinational carmakers have entered into the increasingly open market with the largest potential. .As of 2004, 13 overseas passenger car brands established plants in China, including Volkswagen, Hyundai (including KIA), GM, Honda, Peugeot-Citroen, Nissan, Mazda, Toyota, Suzuki, Ford, Fiat, Mitsubishi and BMW. The auto market experienced price reduction tide since 2002. In June 2004, the monthly sales of Shanghai GM and Guangzhou Honda exceeded Volkswagen for the first time,. Volkswagen suffered losses for the first time in the first half of 2005, whose market shares declined from 23.6% in 2004 to 17.3% in 2005. In 2006, the sale of Volkswagen Group increased by 11.6%, up to EURO104.8 billion. The new model retailing grew especially sharp in China, reaching 24.3% on a year-on-year basis. In May 2006, SAIC and Volkswagen reached agreement to put Octavia- a brand under SKODA- into production, which was equipped with 1.8TFSI engine, the latest development of Volkswagen.

Volkswagen's 'Olympic Plan' 'involves six restructuring parts, aiming to maintain a leading position of Volkswagen in the Chinese market forever and become the most attractive carmaker in China. According to its new strategy in China, Volkswagen will further differentiate products of Shanghai Volkswagen and FAW Volkswagen. The launch of SKODA Shanghai Volkswagen is roughly differential from FAW-Volkswagen who owns Audi brand. Secondly, Volkswagen supports independent brand development. Volkswagen will support its Chinese partners if the joint venture wishes to produce independent brands while the market needs. Thirdly, Volkswagen will design and develop new models according to the demand of Chinese market and introduce 10 to 12 new models to China before 2009. Reducing cost by 40% before 2008 is also one of the emphasis of the new plan. It plans sharply reduce the costs of products by various measures, involving with co-procurement with all the joint ventures in China to reduce prices raw materials in China to the international level and increasing the localization rate of components.

The joint ventures of Volkswagen Group in China and its shares in each cooperation sector: FAW-Volkswagen, 40% (Volkswagen 30%, Audi 10%); Shanghai Volkswagen, 50%; VW Gearboxes (Shanghai), 60%; Shanghai Volkswagen Sales Co. Ltd., 30% and Volkswagen FAW Engine (Dalian) Co. Ltd., 60%.

On Jan. 12, 2006, FAW-Volkswagen Audi business unit was set up. This unit dedicates to

management of imported and China-made Audi cars. The unit, with independent accounting system, directly reports to the Board of Management of FAW-Volkswagen. What's more, the sales of imported Audi cars will be transferred from Audi China to FAW-Volkswagen Audi Business Unit.

10.5.5 Toyota

Facing the huge market of China, Toyota gradually increases investment in China with the luxury commercial-use vehicle market as a touchstone. It established Sichuan Toyota Motor Co. Ltd. with Sichuan Travel Van Manufacturing Plant and Toyota TSUSHO Corporation in 1998. The total investment reached US$99.09million, of which Sichuan Travel Van holds 50%, Toyota Motor holds 45%, and Toyota TSUSHO Corporation 5%. It is the first automotive manufacturing plant of Toyota out of Japan. Sichuan Toyota had set up punching, welding, painting and assembly working procedures in 2000. The first COASTER rolled off the production line in 2000 with components localization rate reaching more than 60%. The joint venture produced 2200 units of Coaster and sold more than 2000 within one year after putting into production. In July 2005, Sichuan Toyota Motor Co. Ltd. was renamed to Sichuan FAW Toyota Motor Co. Ltd. The joint venture received more support and rapidly lifted its size and benefits. With rolling off Prado VX4.0L in 2006, the output reached 10,733 including 4,594 COASTER 6,139 Prado, increased by 27% and 4% respectively.

On July 12, 2000, Toyota Motor cooperated with Tianjin Automotive Xiali Co. Ltd. – a subsidiary of Tianjin Automotive Group, to invest US$100 million to establish Tianjin FAW Toyota Motor Co. Ltd. On June 14, 2002, Tianjin Automotive Group signed a restructuring agreement with FAW and the acquisition made Tianjin FAW Toyota Motor a manufacturing base of FAW. The third plant of Tianjin Faw Toyota started equipment installation in 2006 to increase the capacity by 200,000 units. This plant mainly produces economy car and the first product was planned to be new Corolla (10^{th} generation). The total investment of the plant was 2.2 billion yuan, equaling to that of the first and the second plant, established by FAW, Tianjin FAW Xiali, Toyota and Toyota (China) Motor (China) Investment Co. Ltd. Thus Tianjin FAW Toyota realized its objective of setting up three production bases for car manufacturing of various classes: and the first plant manufacturing Corolla and Vios, the second plant manufacturing Crown and Reiz and the third plant new Corolla after established.

Toyota Motor worked with GAIG to invest 2.2 billion yuan to establish GAIG Toyota Engine Co. Ltd. in 2004. The registered capital of the new company was 1.1 billion yuan, GAIG holding 30% and Toyota Motor holding 70%. According to its plant, the joint venture would be put into

production in 2005 and the designed capacity of the base would be 500,000 engines a year, valuing about 30 billion yuan. The initial capacity of the project was designed to be 300,000 engines a year, of which 200,000 units would be exported. Guangzhou Toyota Motor Co. Ltd. was established in the same year with total investment reaching 3.821billion yuan (about US$ 461.67million) and registered capital 1.3 billion yuan (about US$157.06 million). GAIG and Toyota Motor each holds 50% shares of the joint venture. The starting model of the new joint venture would be Camry and the initial capacity 100,000 units a year. The capacity will be adjusted according to the market demand. The joint venture was planned to be put into production in the first half of 2006.

Toyota has set up 17 joint ventures and wholly-owned subsidaries in five provinces in China with nearly 20,000 employees. Toyota cooperated with FAW and built four complete vehicle-manufacturing plants and two engine manufacturing plants in Tianjin, Chengdu and Changchun. It cooperated with GAIG to release China-made Camry. The business of high-end LEXUS has been rolled out smoothly with 23 franchised shops in the Chinese mainland in 19 cities. With consumption upgrading of Chinese consumers on the sedan, FAW Toyota offered SMILE Certificated Second-hand Cars service to old customers for their car upgrading while entering into the second-hand car market.

J Joint ventures of Toyota Motor in China and its investment are as follow: FAW Tianjin Toyota Co. Ltd. with FAW, 50%, FAW Toyota Motor Sales Co. Ltd. (Beijing), 50%, FAW Sichuan Toyota Co. Ltd., 50%, FAW Fengyue Automobile Co. Ltd. (established after FAW workshop revamping, produce Toyota SUV Land Cruiser, PRIUS), 50%, Tianjin Toyota Engine Co. Ltd., 50%, , Toyota GAIG Toyota Engine Co. Ltd. established with GAIG, 70%; GAIG Toyota Motor, 50%, and Brilliance Jinbei Automotive Co. Ltd. established with Brilliance Jinbei (introduced technology, produce Jinbei Haishi mini-bus, Jinbei Grace commercial vehicle).

In addition, Daihatsu Motor Co. and Hino Motor Limited, of which Toyota Motor holds controlling shares, also entered into the Chinese market. Daihatsu , cooperated with FAW and Tianjin Auto to invest in Tianjin Xiali (introduced technology, produce MPV Xingfushizhe and SUV Terios). Hino Motor cooperated with Shenyang Aircraft Corporation to establish Shenfei Hino Corporation and held 29% shares of the joint venture(Hino 24%, Toyota TSUSHO 5%).

10.5.6 Renault-Nissan

In 1994, Renault Motor and Sanjiang Space Estate invested US$98M to establish Sanjiang Renault Motor Corporation in Hubei with Sanjiang Space Estate holding 55% and Renault holding

45% equities for the production of Trafic. But the JV only sold 4000 vehicles from 1994 to 2001. Sanjiang Space Estate quitted the joint corporation in August 2000. Renault, holding 44.4% stocks of Nissan, is the largest shareholder and global strategic partners of Nissan. In 2002,Nissan Motor established a 50%-50% Dongfeng Motor Company Limiteded with Dongfeng Motor to produce Nissan's full series passenger vehicles, Dongfeng's heavy-, medium- and light-duty trucks and buses. In 2004, Renault made a principle agreement with Dongfeng Motor to establish a new joint corporation based on the lines of Dongfeng Liuzhou Motor Co.,Ltd.. The new corporation produces trucks and truck accessories.In early 2005, Dongfeng Motor Company Limited officially acquired 51% equities of Zhengzhou Nissan Automotive Co. Ltd., resulting in the sales volume of Dongfeng shooting up from 60000 in 2004 to 157000 sets in 2005 with an increase of 160%, becoming the automobile enterprise with largest increase, and the sales volume of Nissan vehicles rocketing up from 91800 in 2004 to 182300 sets in 2005, successfully achieving the sales target of 160000 sets. Chinese market springs up to the third largest market of Nissan following Japanese and American markets.

Renault cooperated with China Aerospace Science & Industry Corp. to manufacture Trafic with Renault holding 45% equities.

The Chinese partner of Nissan with Renault holding 36.8% equities is Dongfeng Motor Group. The equity shares of Nissan in JVs are:50% in Dongfeng Nissan Passenger vehicles Company, 30% in Dongfeng Zhengzhou Nissan Automotive Co.,Ltd., and 25% in Dongfeng Nissan Diesel Motor Co.,Ltd..(Hangzhou Dongfeng Nissan Disel Motor, chassis for large commercial-use vehicles).

In addition, Renault also holds 20% equities of Volvo Bus. The joint ventures and equity shares of Volvo Bus in China are: 50% equities in Xi'an Siliver Bus Corporation with Xi'an Aircraft Group, 50% equities in Sunwin Bus with SAIC.

10.5.7 Peugeot-Citroen

PSA established Guangzhou Peugeot Automotive Corporation in 1985 as the first overseas automotive corporation in China. The company had manufactured about 100,000 sets of Peugeot 505 and 504 from 1985 to 1997. But from 1992, the sales amount of Peugeot 505 decreased and only less than 1000 vehicles were sold in 1997. The corporation's loss accumulated to 2.9 billion in 1997. In the same year, Honda bought out all PSA's shares and debts in the joint corporation at the price of 1 dollar/share and Peugeot quitted the joint venture. In 1992, Peugeot-Citroen established Dongfeng Peugeot Citroen Automobile Co.,Ltd.(DPCA) with Dongfeng Motor to produce and sell Fukang automobiles. DPCA had built two manufacturing bases in Wuhan and Xiangfan from 1992 to 1996. In 2000, DPCA increased the capital to 6 billion yuan with 31%

contribution from Dongfeng Motor and 26.9% from Citroen. Elysee was launched in 2002, Xsara in May 2003, Peugeot 307 in 2004, Peugeot 206, Dongfeng Citroen C2, Dongfeng Citroen Ttriomphe launched in 2006. In accordance with its long-term plan, PSA is going to build a new production base in China,i.e. the third plant of DPCA by 2010 and launch 12 new types of cars. Currently, the installed production capacity of DPCA's first plant is 200,000 sets per year and the production capacity of its second plant to be completed in 2009 will be 150,000 sets per year.

In 2006, the global profit of Peugeot-Citroen decreased 800 million EUR but its annual sales amount still hit 200,000 sets in China, rising 43.1% year-on-year. PSA needs to set up higher capacity and new car types in China. In order to build new plants to enlarge production capacity, PSA admitted its close contacts with Hafei Automobile Group over the past years in public. According to the regulations in China's automobile industry policy, foreign-funded automobile group may have two Chinese JV partners at most. The probability of a successful cooperation between a transnational automobile enterprise like PSA with only one Chinese partner and Hafei is considerably high.

10.5.8 Honda

Honda, the second largest Automotive Corporation in Japan, established Guangzhou Honda Automotive Co.,Ltd. through acquiring the JV of SPA and Guangzhou Auto in July 1998 with registered capital of RMB1.16bil and both sides holding 50% shares. The duration of the JV will be 30 years. In March 1999, the JV started to produce Accord. By means of the successful implementation of the strategy of "rolling development", the enterprise achieved a rapid growth. Guangzhou Honda launched Odyssey MPV in 2002, and new generation Accord and compact car Fit in 2003. In 2003, the sales volume of Guangzhou Honda reached 23.68 billion yuan, increasing by 67.8%. In early 2003, Guangzhou Honda achieved production capacity of 120,000 sets per year after completing improvement and reached 240,000 sets annual production in 2004. Upon the completion of a new plant in Zengcheng, Guangzhou Honda's integrated annual production capacity hit 360,000 sets.

In May 2002, Honda, together with Dongfeng Motor and Guangzhou Motor, established Honda Motor (China) Co.,Ltd. as an export base of Honda's economical cars with a total investment of US$193M including 65% from Honda and annual capacity of 50,000 sets of Jazz for exporting to the entire Asia and Europe. The accumulated output till now is nearly 50000 sets.

In July 2003, Honda established Dongfeng Honda Motor Corporation with Dongfeng to manufacture Honda CR-V SUV. Now its production capacity reached 120,000 sets per year.

The total sales volume of Honda in China was about 320,000 sets in 2006, increasing by 123% year on year and creating a record-high for seven consecutive years. Honda's export to Europe via its Chinese production base was about 25,000 sets in the same year, shooting up 226% year on year.

Honda Motor's Chinese JVs and shares are: Guangzhou Honda Motor Co.,Ltd.,with GAIG as the partner, 50% shares in Dongfeng Honda Motor (Wuhan) Co.,Ltd., 50% in Dongfeng Honda Engine Corporation and 50% in Dongfeng Honda Automobile Accessories Co.,Ltd. with Dongfeng Motor as the partner. Honda also jointly set up Honda (Guangzhou) Automobile Export Base with GAIG and Dongfeng Motor, holding shares of 65%, 25% and 10% respectively.

10.5.9BMW

BMW is a world famous automobile manufacture company in Germany. BMW has 22 manufacturing and assembly plants in 22 countries across the world In 2003, BMW established a 50%-50% JV of BMW Brilliance Automotive Co.,Ltd. with Brilliance China Automotive Holdings Limited (CBA). CBA and uses the same production line with the estimated annual output of BMW Brilliance of 30,000 sets after establishment of the JV. BMW Brilliance sold above 4000 sets of local-made BMWs. BMW Brilliance's Shenyang-based plant was officially opened onMay 20, 2004. Brilliance BMW Automotive totally delivered 15,300 BMW 3 and 5 series vehicles to customers in China in 2005, increasing by 76.7% year on year. In September 2005 BMW established BMW (China) Auto Trade Co.,Ltd. in Beijing taking full responsibility of import, sale, marketing and service of the brands under BMW incl. MINI.

2006 witnessed BMW's record-high sales volume of 36,357 sets in China including BMW Brilliance's contribution of 22500 sets, shooting up 51.3% year on year.

As the sales amount of Zhonghua cars of Brilliance China was not as good as they expected at the beginning, Brilliance China sold its 50% equity of the line to BMW and started leasing the line from BMW to assembly Zhonghua cars. Zunchi and Junjie made by Brilliance China had an obvious quality improvement after learning BMW's production technology. In 2006, the total sales amount of Zhonghua cars reached 58,074 sets, rocketing up 545.8% year-on-year. The sales volume of Junjie broke through 30000 stes within less than one year marketing.

10.5.10 Fiat

Italian Fiat was very unsuccessful and rather embarrassed in Chinese market, although Fiat was one of the good auto groups in European and global market. In 1999, Fiat Group and Nanjing Auto Group invested 1.5 billion yuan respectively to establish Nanjing Fiat Auto Group. However, Nanjing Fiat only made outstanding achievements in 2002 and 2003, and after that the market share of Nanjing Fiat has kept on decreasing. In 2006, the production and sales amount of vehicles reached 7.2 million in Chinese market but the total sales amount of Nanjing Fiat was only 30,700 sets.

Currently Fiat and its JV partner planned to jointly increase investment of 600 million EUR in developing its Chinese business within the next 5 years. Fiat is actively boosting new cooperation in China, including cooperation with Cherry Auto and an engine project with Hunan Changfeng Auto. Fiat Group planned to reach accumulated investment in China of 16bil yuan by 2010, consisting of new investment valued 5.5 billion yuan, 3bil yuan in car project, 1.5 bil in commercial-use vehicles, 600 million in accessories and and 600 million in others. In addition, Fiat Group will purchase automobile accessories valued 15 billion yuan for export. Moreover, by 2010, Fiat Group hopes to sell 263,000 vehicles in China. To achieve this goal, Fiat will introduce three types of entire cars namely GrandePunto, Bravo and Linea into Chinese market at the end of 2007 and realized localized production of these cars by the end of 2008. The situation of importing entire Alfa Romeo 159 will be changed to localized production in China.

Iveco, a wholly-owned subcompany of Fiat, has 50% equities in its Chinese JVs of Nanjing Iveco and Changzhou Iveco. Relying on its solid foundation laid over the past years, Nanjing Iveco still performs well in the throat-cutting market and hopefully strengthen the export of its Yuejin products by means of leveraging the Iveco brand image and above 800 worldwide outlets to reach comparaive sales volumes of Yuejin home and abroad within the coming three to four years. On July12, 2005, SAIC inked a framework agreement with Iveco, subcompany of Fiat to establish a 50%-50% SAIC Iveco Commercial-use vehicles Investment Co.,Ltd..SAIC Iveco acquired 67% equities of Chongqing Hongyan Auto Co.,Ltd. with 1 billion RMB. And then, the three parties jointely increased the investment to 2 billion yuan to built a heavy-duty truck production base in the North New District with annual production value of 10 billion yuan. The registered capital of the newly-restructured SAIC Iveco Hongyan Commercial Automotive Co.,Ltd. was 1.3 billion yuan, with SAIC Iveco holding 67% equity and and Chongqing Heavy-duty Truck holding 33%. A new production base built by the new company in Chongqing is estimated to have a capacity of 40,000 sets of heavy-duty trucks each year upon completion, including 4000 sets of original Iveco vehicles, 26000 sets of assembled vehicles (Iveco cab and Hongyan chassis) and 10,000 sets of

Hongyan vehicles. Meanwhile, SAIC Fiat Powertrain HongYan Co., Ltd. is established with registered capital of 580 million yuan, 60% equity from SAIC Iveco Commercial Automotive Co.,Ltd., 30% from Fiat Power Science and Technology and 10% from Chongqing Heavy-duty Truck. The JV's operation term will be 30 years. Its 300-*mu*-big production base will forge an annual capacity of 100,000 sets high power engines by means of Iveco technolgy.

10.5.11 Hyundai Motor Group

As the largest automobile enterprise in Korea, Hyundai Motor Group totally sold 3.76mil cars (including Hyundai and Kia) in 2006, ranking No. 6 in sales volume of all global automakers, which shows the rapid growth of the company as a world-level auto producer Hyundai Motor established Beijing Hyundai Motor Co.,Ltd. with Beijing Automotive Industry Holding Co., Ltd. in 2002 with estimated annual production capacity of 100,000 cars.Beijing Hyundai became one of the top five automobile manufacturers in 2004. The sales amount of Beijing Hyundai was 23,400 sets in 2005. Now the production capacity of Beijing Hyundai hits 30,000 sets including four car types. Its second plant with the same capacity is under preparation. Beijing Hyundai plans to achieve eight car types with 60,000 sets capacity by 2008. Beijing Hyundai's engine project with designed capacity of 200,000 sets, kicked off in May 2006. So, together with existing capacity of 30,000 sets, the company will reach an annual capacity of50,000 sets of engines.

In 2002, Dongfeng Automobile Co.,Ltd., teamed up with Jiangsu Yueda Group and Korea KIA Motor Co.,Ltd., established Dongfeng Yueda KIA Automobile Co.,Ltd. based on a 25%, 25% and 50% equity division respectively.Two production bases were set up with major products of Qianlima, Carnival, Optima, and Cerato forged with advanced technology introduced from Kia. In Oct., 2005, the second plant of Dongfeng Yueda Kia with gross investment of 6.8bil yuan was initiated. Upon estimation, Dongfeng Yueda KIA will achieve a gross capacity of 430,000 sets (130,000 sets from plant 1 and 300,000 sets from plant 2) of seven types of cars and annual sales revenue of 50 billion yuan.

10.6 Introduction of foreign-funded accessory enterprises

10.6.1 Cummins

The sales amount of Cummins reached US$11.36bil in 2006, increasing by 15% comparing with US$9.92bil in 2005. Its sales volume in global market apart from American market occupied 50% of the entire income of the company for two consecutive years. The sales amount in Chinese

market broke through US$1bil for three consecutive years, and many key projects made great progress in China, including the official establishment and opening of East Asia Research and Development Center jointly set up with Dongfeng Motor, the first research and development center of foreign-funded diesel company in China, and Beijing Foton Cummins Engine Co.,Ltd. jointly invested with Beiqi Foton to produce Cummins new-generation 2.8L and 3.8L four-cylinder in-line, high pressure and direct-injection light-duty diesel engines for a wide application in light-duty trucks, pick-up trucks, SUVs, MPVs and small non-highway equipment to enter into China's potential-promising light-duty diesel market formally.

Since Cummins starting engine manufacture with production license in China in 1981 and the establishment of the China's first joint venture for engine production, now Cummins has totally set up above 20 organizations in China including 13 wholly owned and joint enterprises, which manufacture engines, dynamotors, alternators, filters, turbochargers, exhaust systems and fuel systems etc. Eight of Cummins' 14 engine series have already been manufactured in China.

Dongfeng Cummins Engine Co.,Ltd., jointly established in 1996 by Dongfeng Motor and Cummins with 50%-50%.investment, has become the largest and most advanced heavy-duty engine-manufacturing base in China and Cummins' globally second largest engine-production base, boasting annual production capacity of 180,000sets of engines currently.

Chongqing Cummins Engine Co.,Ltd., a JV between Cummins and China Sino Truck, has the products of Cummins M11, N14, K19, K38 and K50 series, 11-50L mechanical and full electric-control engines with power range from 175HP to 2000HP as well as power generation units. Chongqing Cummins achieved annual production and sales volume of 10,000 engines in 2006 and above 1.4bil yuan in sales revenue.

Xi'an Cummins Engine Co.,Ltd., jointly established by Cummins and Shaanxi Automobile Group with 50%-50% investment, is the third engine JV of Cummins in China with a designed annual capacity of 50,000 sets to officially produce Cummins SIM 11l full electric-control heavy-duty diesel engines.

10.6.2 Delphi

The turnover of Delphi was US$26.4bil in 2006, which is lower than that in 2005 of US$26.9 billion. And 56% of the annual turnover comes from clients other than General Motors. . In 2006, its business with GM shrunk by 10%, i.e. US$1.2bil, resulting in a net loss of US$5.5bil. One

important reason for Delphi's loss is the US$3.0bil payment for the special retirement program of American workers.

Delphi has established offices in Beijing, Shanghai and Changchun after entering into China in 1994. Presently, Delphi has five solely-invested enterprises and several joint ventures in China including Shanghai Delco Electronics & Instrumentation Co.,Ltd. jointly built with Shanghai Changjiang Instrument Plant, Delphi Automobile Air Conditioner Co.,Ltd. established with Shanghai Automobile Air Conditioner Co.,Ltd. and Delphi Automobile RKE System with Shanghai SIIC Transportation Electric Co., Ltd. Delphi also sets up technical centers and training centers. Its headcount has numbered above 7000 persons. Delphi's business volume in China had shot up from US$900M in 2001 to US$1.92B in 2006 at an annual growth rate of 20%.

In 2006, Delphi achieved arresting sales growth in China and established Delphi China Science and Technolocy Research & Development Center with investment of US$50mil. The laboratory of the Center, integrating the tests for mechanic, electronic and other products, mainly engages in the product development tests, performance tests, environmental adaptability tests, reliability and duration tests and product verification tests on autombile energy and engine management system, diesel common rail system, steering system, braking system, safety system, electronic system and accessories.Delphi established Delphi Trade (Shanghai) Co.,Ltd. and marketed Delphi original products and services via the company. In 2006, Delphi Packard Electric System Co.,Ltd., under the leadership of Delphi, established a new electronics/electric distribution system plant in Yantai. After that, Delphi announced that it inked agreements with Guangxi Yuchai and JMC for the latter's application of its diesel injection systems in their cars. In June 2006, Delphi declared to have acquired more equities of its JV in China for auto airconditioners and obtained the management right to the company.

10.6.3 Visteon

Visteon reached a sales amount of US$11.4bil in 2006. The amount of products sold to customers other than Ford totaled US$6.0bil, contributing 55% to the total sales volume. Its sales amount in 2005 summed up to US$17bil, 38% of which from customers excluding Ford.

Visteon, separated from Ford Motor in June 2006 and had moved its Asia-Pacific headquarters into China, mainly produces chassis, inner and outer decorations, air conditioner controllers, power assembly parts, electronic systems and auto glass. Vieston, entering into China in 1994, has established joint ventures, such as Yanfeng Vieston with SAIC, Automobile Decoration System Co. Ltd. with Dongfeng Motor, Beijing Motor and Changan Motor, Shanghai Fudian Automobile

Electronic Co.,Ltd. with Shanghai Automotion Instrumentation Co.,Ltd. and Shanghai Fuhua Glass Co.,Ltd. with Yaohua Glass Co.,Ltd..

10.6.4 Bosch

As one of global largest independent automobile accessory manufacturers, Bosch, established in 1886 and headquartered Stuttgart, Germany, has been the world leader in the electronic fuel injection system,

Bosch built Beijing office in 1990 and established Beijing Bosch (China) Investment Co.,Ltd.. Now Bosch has multiple joint enterprises and wholly-owned enterprises with 5000 employees in China. Bosch established JVs of UAES and Bosch Trading (Shanghai) Co.,Ltd. in Shanghai, Robert Bosch Co. Ltd (Hong Kong) in Hong Kong, and other enterprises in Nanjing, Wuxi, Hangzhou, Suzhou and Shunde etc..

In the field of gasoline engine management system, Bosch established UAES with Zhonglian Auto Electronic Co.,Ltd. in 1995 to produce and sell gasoline engine management System mainly applied in the accurate control of the injection and ignition of gasoline engines. Bosch also set a research and development center in Shanghai capable to execute Euro IV emission standard test..

As for spark plugs, Bosch established Nanjing Huade Spark Plug Co.,Ltd. with Nanjing Leidian Group in 1996 to supply spark plugs to manufacturers of cars, trucks, buses and motorcycles and vehicle post-service market. Some of the spark plug products are exported to international market.

As for steering gears, steering pumps and valves, SAIC and AFLS established ZF Shanghai Steering Co.,Ltd., the existing largest professional steering gear production base in China, in 1994 to mainly manufacture steering gears, steering pumps and steering valves for cars and light-duty buses. AFLS is a 50%-50% joint venture of Bosch and ZF for mass-producing active steering system. In addition, for the purpose of special production of steering pumps for cars and light-duty automobiles, AFLS and Jincheng Group jointly established ZF Steering Pump Jincheng (Nanjing) Co.,Ltd. in 1994 with annual production capacity of 700,000 to 800,000 sets.

10.6.5 Denso

Denso, separated from Toyota Motor in December 1949 and headquartered in Aichi Japan, mainly produces power control systems, heating systems, electronic systems, electric systems and mini motors. Since its first joint venture in Yantai in 1994, Denso has set up 23 affiliated companies

in China and above 100 service outlets across China after above ten years development. By June 2006, Denso nearly invested US$200 million in China. It has joint enterprises in Tianjin, Chongqing, Guangzhou and Shanghai. Denso (China) Investment Co.,Ltd., established in February 2003, is a solely-invested company of Denso Corporation. Currently, Denso (China) has 19 wholly owned and joint enterprises with a nationwide sales network in China. Denso plans to totally invest 30 billion JPY from 2006 to 2010 to increase the local output of automobile air-conditioners and engine accessories and improve its sales volume in China to 150 billion JPY by 2010. In addition, Denso also intends to improve localized purchase proportion from current 40% to 60% in 2008.

10.6.6 Others

TRW

TRW Automotive achieved sales amount of US$13.1b in 2006, increasing by 4% year on year, and net surplus of US$176m in 2006, less than that in 2005 of US$204m. TRW， headquartered in Detroit US with above 200 operation facilities and 63000 staff in 26 countreis across the world, is one of the top 10 automobile accessory suppliers in the world. Since starting its Chinese business in 1994, TRW, with its Asia-Pacific Headquarters and Technical Center established in Shanghai, have opened 15 operations in China, including 10 production enterprises, to supply chassis system, steering and suspension systems, safty and electronic systems, safety belts, safety airbags, steering wheels, electronic stability control systems, engine accessories,fasteners and all core products in China. TRW's Chinese production bases are mainly in Shanghai and the surrounding cities, such as Shanghai TRW Automotive Safety System Co.,Ltd., TRW (Suzhou) Automotive Electronics Co.,Ltd., TRW (Ningbo) Electronic Components Fasteners Co.,Ltd., and the solely-funded companies of TRW Automotive Accessory Technical Service(Shanghai) Co.,Ltd., TRW Automotive Accessory (Shanghai) Co.,Ltd. and TRW System Consulting Service (Shanghai) Co.,Ltd. etc..

Lear

Lear Corp., one of the globally largest automotive inner decorations manufacturers headquartered in Michigan, USA, mainly produces inner decorations, seat system and electric systems. Lear entered into China in 1997 and established Lear (China) Investment Co.,Ltd.. It has multiple accessory enterprises in Shanghai, Wuhan, Chongqing, Nanjing and Jiangxi Province, including LEAR-STEC, Shanghai Lear Automotive Inner Decorations Co.,Ltd. and Shanghai Songjiang Lear Automotive Carpet & Acoustics Co., Ltd. etc.

Dana

Dana, established in 1904 and headquartered in Ohio US, is engaged in four business units, namely, automobile, aftersales service, engine and liquid management system and heavy-duty truck technical system. Dana has solely-funded enterprises in China of Dana Shanghai Representative Office (sales business) and Dana (Wuxi) Technical Co.,Ltd.. and JVs of Dongfeng Dana Axle Co. Ltd jointly set up with Dongfeng Motor and Tianjin WIX Filter Co.,Ltd.

Magna

Magna International Inc. is a world famous automotive accessory manufacture listed in in TSX and NYSE. The Group's product range covers all automobile accessaries except automobile glass and tyres. Shanghai Longmashen Automotive Seat Co.,Ltd., a joint venture of Magna in China with Shanghai Jiaoyun Co.,Ltd., produces the framework of seats.

Federal-Mogul

Federal-Mogul Corporation, established in 1899 and headquartered in Michigan, USA, is a supplier of engine parts, an inventer of brake lining and the sales champion of spark plugs in Europe and America. Federal-Mogul entered into China in 1996 and has established solely-funded enterprises and JVs in Guangzhou, Wuhan, Nanchang, Shanghai, Qingdao and Anqing etc., including Federal-Mogul Shanghai Bearing Co.,Ltd..

Valeo

Valeo is a world famous automotive accessory supplier specializing in OEM, OES and IMA service for independent accessory distributors and end-users. Valeo entered into China in the late 1980s and established Valeo China headquarters in Beijing in August 1994. Valeo Sales Company established a contact office in China in1998. Valeo has six joint ventures in China, namely, Shanghai Valeo Automotive Motor and Wiper Co.,Ltd., Shanghai Valeo Automotive Electric System Co.,Ltd., Valeo Automotive Air Conditioner Hubei Co.,Ltd., Hubei Valeo Autombile Light Co.,Ltd., Valeo Wenling Automotive Accessories Co.,Ltd. and Nanjing Valeo Clutch Co.,Ltd.

Continental

Continental AG was established in 1871 and headquartered in Hanover, Germany specializing in the production of rubber products. Continental AG has two joint enterprises in Shanghai, namely, Shanghai Automotive Braking System Co.,Ltd. for producing ABS and Shanghai Kangdi Automotive Brake Co.,Ltd. for producing main cylinders and vacuum boosters.

ZF

ZF, founded in 1905, established ZF Group in 1992, resulting in its global leader position in power drive and chassis technology. ZF has representative offices in Beijing and Shanghai. Its joint

enterprises in Shanghai are ZF Shanghai Steering Co.,Ltd., ZF Automotive Gear-box (Shanghai) Co.,Ltd., SHAC Sachs Shock Absorber Co.,Ltd., Shanghai Lunfude Automotive Accessory Co.,Ltd., ZF Sales & Service (Shanghai) Co.,Ltd., Nanjing ZF Steering Pump Co.,Ltd., Liuzhou ZF Machinery Co.,Ltd., Beijing ZF North Drive System Technology Co.,Ltd. and ZF Drive Technology (Suzhou) Co.,Ltd. etc.

Autoliv

Autolive was established in 1956 and headquartered in Stockholm, Sweden. Autoliv is one of the largest automotive safety equipment manufacturers in the world. Autoliv established three joint enterprises in Shanghai, Nanjing and Changchun in 1989.

Benteler

Benteler, established in 1922 and headquartered in Paderborn, Germany, developed into Benteler Group in 1999. The chassises and suspension modules integrated by Benteler are leading the global market. It established an representative office in Shanghai in the late 1990s. In 2001, it teamed up with Shanghai Huizhong to jointely establish Shanghai Benteler Huizhong Automotive Co. Ltd. for mainly producing car sub-frames and relevant structure components.

Behr

Behr, established in 1905 with headquarters in Stuttgart, Germany, is the largest heating system supplyer in Europe with its biggest plant in Spain. Behr has the capability of designing and developing automoblile air-conditioning systems. Its enterprises in China include Shanghai Behr Automotive Air Conditioning Co.,Ltd., Dongfeng Behr Thermal Systems Co.,Ltd. with Dongfeng Motor as the JV partner and Shanghai Sanden Behr Automotive Air Conditioning Co.,Ltd., a company co-established by SAIC, Sanden and Shanghai Longhua Industrial Corporation.

Aisin

Aisin, a core member of Toyota Motor and the ninth largest automotive accessory manufacturer in the world, has the product range covering power drive facilities , bodyworks, brakes and chassises, engines and electronic information systems. Aisin has established joint enterprises in Tianjin and Foshan till now.

Skoito

Skoito, founded in 1915, evloves from a railway signal lamps producer at its early times. It started producing automobile lights from 1945 and became the largest manufacturer for automobile lights in Japan in 1957. Skoito established a joint enterprise in Shanghai in 1989. Now Shanghai Skoito boasts 50% share in Chinese automobile lamp market.

11 'Going global' Strategy of China automobile industry

11.1 Automobile import situation in 2006

In 2006, the total import and export value of the whole country's auto products has reached US$49.022 B. Among them, import values US$20.878 B, growing 36.34% year-on-year, while export values US$28.144 B, growing 42.76% year-on-year.

In 2006, the accumulated import of automotive vehicle (including chassis) has reached 228,000 sets, an increase of 40.85% year-on-year; while total amount of import has reached US$7.553B - an increase of 46.59% year-on-year.

In 2006, import of cars, off-road vehicles and mini-buses all maintained a rapid growth, reaching 111,800 sets, 86,200 sets and 20,200 sets, an increase of 46.04%, 30.74% and 63.99% year-on-year respectively. In 2006, import of the above three varieties has reached 218,200 sets, accounting for 96% of the total vehicles.

In 2006, total car import has reached 111,800 sets - an increase of 46.04% year-on-year, a net increase of 35,300 sets compared with that last year. The total import values US$3.995B; an increase of 53.99% year-on-year, a net increase of US$1.401B achieved compared with last year. In the major varieties of car import, the market of 1.5 L and above has done well, among them, series with an engine displacement of above 3L witnessed the most significant increase.

In 2006, the series imported 32,900 sets, an increase of 80.09% year-on-year, while imports amount is US$1.958 B, an increase of 83.63% year-on-year. Series of 1.5 ~ 2.5L and 2.5~3.0 L have maintained a rapid growth, importing 43,900 sets and 32,700 sets respectively, an increase of 50.52% and 14.23% year-on-year; while imports amount is US$865M and US$1.138B, an increase of 47.70% and 21.79% year-on-year.

In 2006, the above three series of cars imported 109,500 sets, accounting for 98% of total car import. The import amount was US$3.961B accounting for 99% of the total car imports. In 2006, the top five countries in import are Germany, Japan, Korea, the United States and France. Among

them, the quantity of imported cars from Germany was 59,700 sets, accounting for 53% of the total imports cars; while the quantity of imported cars from the other four countries import cars were 19,100 sets, 7600 sets, 6400 sets and 4100 sets.

Total quantity of imported cars of the above-mentioned five countries is 96,900 sets, accounting for 87% of the total imported cars.

In 2006, import of off-road has slowed down the growth to some extent: Among them, import was 86200 sets, an increase of 30.74% year-on-year, a decrease of 56.09% of the growth compared with last years. The imports amount was US$2.538B, an increase of 39.52% year-on-year, a decrease of 26.76% of the growth compared with last period was recorded. Among the major varieties of imported off-road, series of above 2.5L accounted for the largest proportion.

Among them, the import with an engine displacement of 2.5~3L was 34,900 sets, an increase of 11.63% year-on-year; while import amount was US$804M, an increase of 12.80% year-on-year. The import with an engine displacement above 3L was 40,700 sets, an increase of 45.55% year-on-year; while import amount was US$1525M, an increase of 55.71% year-on-year.

In 2006, the import of the above two major series of off-roads was 75,600 sets, accounting for 88% of total import; while import amount was US$2.329B, accounting for 92% of total import. Among the major importing countries, the import of off-road from Japan was far more than other countries: In 2006, a total of 37,900 sets of off-road are imported from Japan was 37,900, accounting for 44% of total import. Countries taking the 2nd, 3rd, 4th and 5th slots in off-road import was South Korea, the United States, Germany and Slovakia.

Table 11-1: Import statistics of passenger vehicles in 2000-2006.

Passenger vehicles narrowly defined	2000	2001	2002	2003	2004	2005	2006
Small sedan	21620	46632	70329	103017	116085	76527	111777
Off-road vehicles	8662	10336	32179	39669	35308	65975	86273
Small passenger vehicles	2727	4551	12348	10812	10510	12328	20262

Source: China Association Of Automobile Manufacturers, the General Administration of Customs

In 2006, a total of 601,800 engines were imported, an increase of 4.18% year-on-year; while import amount was US$1.23B, an increase of 15.99% year-on-year was recorded. In addition, import amount of automobile spare parts, accessories and body, as well as other auto-related goods maintained rapid growth. The import amount of auto spare parts, accessories and body imports was US$11.105B, an increase of 32.38% year-on-year. While import amount of auto and

motorcycles tyres was US$9.4 B, an increase of 65.32% year-on-year, an increase of 52.15% compared with last year was recorded; while import amount of other auto-related goods was US$783 M, an increase of 34.38% year-on-year. In 2006, the above four categories of imported cars were US$13.312 B, accounting for 64% of the total imported automobiles.

In 2006, in the statistics of 109 importing countries and regions, 16 countries and regions have an import amount of over US$100M, with a total import amount of US$20.265B, accounting 97% of the total import amount. Among them, among the top ten countries and regions, import amount of auto vehicles from Japan, Germany, South Korea and the United States is over US$1B, reaching to US$6.931B, US$5.765 B, US$2.625 B and US$1.524 B respectively.

In addition, compared with that in the previous year, except that the import of South Korea and China Taiwan slightly goes down, the import of other countries all maintained a rapid growth. In 2006, the import amount of the top ten countries and regions reached US$1.952 B, accounting for 92% of the total imported vehicles.

11.2Export situation of automobile in 2006

In 2006, the export of complete vehicles (including chassis) was 342,400 sets, an increase of 98.13% year-on-year; while foreign exchange earning through export was US$3.135B, an increase of 96.62% year-on-year.

Among the main varieties of automobile exports, the sedan has done well: In 2006, the export of vehicles was 93,300 sets, an increase of 2.0 times year-on-year. Among them, export of vehicles in July, August, and November was over 10,000 sets.

Table 11-2: Export statistics of passenger vehicles in 2000-2006.

	2000	2001	2002	2003	2004	2005	2006
Small sedan	523	763	969	2849	9335	31124	93315
Sport utility vehicle	2050	853	440	648	779	1844	7984
Small passenger vehicles	61	69	269	745	2840	5844	14168

Source: China Association Of Automobile Manufacturers, the General Administration of Customs

In addition, exports of trucks and passenger vehicles show a strong momentum growth: In 2006, the export of trucks was 155,500 sets, an increase of 61.08% year-on-year; export of passenger vehicles was 27,200 sets, an increase of 1.2 times year-on-year. In 2006, export of the above three species was 275,200 sets, accounting 80% of the total vehicles.

Foreign exchange earning through export of engine, spare parts, accessories and body, the automobile, motorcycle tires and other automotive-related products were US$21.554B, accounting for 77% of the total foreign exchange earning through export. The foreign exchange earning by export of engine was US$773M - an increase of 27.11% year-on-year; while that of automobile spare parts, accessories and bodies were US$11.519 B, an increase of 35.04% year-on-year; while that of vehicles, motorcycles and tire were US$4.563B, an increase of 33.61% year-on-year; and that of other auto-related merchandise were US$4.699B, an increase of 56.20% year-on-year.

Table 11-3: Export situation of major bus companies in 2005 and 2006

Serial number	Name of enterprise	Volume of exports in 2005	Volume of exports in 2006
1	Zhengzhou Yutong Group Co.,Ltd.	1120	1804
2	King Long United Automotive Industry (Suzhou) Co.,Ltd.	181	1，548
3	Xiamen Golden Dragon Van Co.,Ltd.	519	1，515
4	Suzhou Youyi Automobile Co.,Ltd.	842	1，288
5	Xiamen King Long United Automotive Industry (Suzhou) Co.,Ltd.	551	797
6	Baoding Changan Bus Manufacturing Co.,Ltd.	62	532
7	Anhui Jianghuai Bus Co.,Ltd.	290	508
8	Mudan Automobile Shares Co., Ltd.	359	461
9	Zhongtong Bus Holding Co.,Ltd.	222	461
10	Dandong Huanghai Automobile Co.,Ltd.	117	248
11	Henan Shaolin Auto Co.,Ltd.	112	241
12	Shanghai Sunlong Bus Co.,Ltd.	5	229
13	Nanjing Iveco Automobile Co.,Ltd.	93	202
14	Anhui Ankai Automobile Co.,Ltd.	44	200
15	Dongfeng Hangzhou Automobile Co.,Ltd.	122	181
16	Wuxi Anyuan Automobile Co.,Ltd.	71	140
17	Yancheng Zhongwei Passenger Bus Co., Ltd.	75	131
18	Shenzhen Wuzhoulong Motors Co.,Ltd.	60	100
19	Yangzhou Yaxing Bus Co.,Ltd.	350	95

20	FAW Bus (Wuxi) Co.,Ltd.	65	35
21	Chongqing Hengtong Bus Co.,Ltd.	20	10

Source: China Association Of Automobile Manufacturers.

In 2006, China exported cars to 186 countries and regions, while this figure was 179 in 2005. Among them, export amount of more than US$100M increased from three in 2005 to seven. Russia turned into the largest exporting country of China last year, while the export amount was US$350M and the export volume was 38,000 sets, an increase of more than 300% year-on-year.

The proportion for the amount and quantity of Russia both exceeded 11%, with extremely big growth, and Russia thus becomes the most concentrated and important market of export car in China. At the same time, Iran jumped from the fifth to the second slot in the country market in 2005. The amount of exports was US$238 M, an increase of 146.5% year-on-year, while the export volume was 10,600 sets, an increase of 133.2% year-on-year, becoming one of the most important countries of China's car export.

Countries with an export amount of more than US$100M are Belgium, Syria, Algeria, Angola and Kazakhstan; countries with an export amount of less than US$100M and more than US$50M increased from 5 in 2005 to 12; while countries with an export amount of less than US$50M and more than US$20M increased from 10 in 2005 to 15. As China's export of automotive products accelerates the pace, China's exports of automotive products will be further expanded, while the pace to enter developed countries is also accelerated.

In 2006, China's export enterprises in the automobile industry is were mainly state-owned enterprises, the export amount and volume of state-owned enterprises accounted for 54.4% and 45.3%, with a more or less break-even situation in 2005. The amount and volume of export of Sino-foreign joint ventures accounted for 30.4% and 25.8%; a slight decrease compared with that in 2005, yet, still see a significant growth, growing 136.4% and 101.5%.

Private enterprises ranked the third. The amount of export increased 212.7%, reaching US$512.04 M, accounting for 16.3% of the total amount of export; while the volume of export increased 142.7%, reaching 46,053 sets, accounting for 13.4% of the total volume, both slightly higher than that of 2005.

In 2006, the total export of motorcycles was 8577200 sets, a decrease of growth by 66.84% compared with the same period last year,; while foreign exchange earning was US$3.044 B, an increase of 35.37% year-on-year, compared with the same period last year, a decrease of growth by 21.65%.

After a comprehensive view on export of Chinese auto industry in 2006, we can see that the international competitiveness of China's automobiles is strengthened to a certain extent in the following areas:

1. Exports of vehicle have come a certain scale. In 2006, exports of car increased 197.2%; while exports of truck increased 61.1%, which shows that the export of Chinese complete vehicle output increased quickly, and the international market becomes gradually opened.

2. The car with independent intellectual property rights has further enhanced the competitiveness. The export volume accounted for 73.2% of all automotive exports. Among them, volume of exporting of Great Wall, Chery both exceeded US$100M. In 2006, self-brand cars in China were still the absolute main export products. The export volume of self-brand cars accounted for nearly 60% of total exports of cars. The forerunners in the export of self-brand cars were still Chery, Geely, Xiali, Brilliance, the Great Wall, Hafei, and FAW. Therefore, in China's exports of self-brand cars, automobile exports are still in a dominant position.

3. Present vehicle exports are still in the low-end market, and the main countries are seven markets, such as Russia and Iran. These markets' export of ultra-vehicles exceed US$100M; while China's auto parts export market was concentrated in Europe, the United States, Japan and other countries and regions, indicating China, as the world's important supplier of auto parts, continues to strengthen its status.

4. With the gradual expansion of the export scale, international relations and service attracted close attention of enterprises in the automobile industry. Because of the upstream and downstream enterprises' double squeeze of the price, as well as most of the existing products' low benefit, cost control gives more and more pressure to the majority of the auto parts enterprises.

Currently, most of the export vehicles are commercial-use vehicles with truck as the representative, and it is difficult to make breakthrough in technical barriers on overseas performance and environmental protection. In the entire 2006, the fastest growth of export cars was mid-and low-standard cars with smaller displacement and low level of technology, while export of high-grade was very small.

At the same time, China's exports of automotive quality and technical performance need to adapt to the social environment, natural environment, geography and even the characteristics of a human

environment in international market in different countries and regions, facing a tough international competition. This year, trade friction on auto parts between China and the United States, the European Union, and other countries is an obvious example.

Although the rapid growth of China's automobile import and export, at present, China's exports of automobiles and parts and components were less than 1% of total world trade volume, being incompliant with the development of China's automobile industry.

To encourage enterprises to actively participate in international exchanges and cooperation, to enhance their capability of independent innovation, maintain export order, expand their own brands with independent intellectual property rights and the export of products, and enhance the international competitiveness of enterprises, the State will take measures to enable Chinese automotive vehicles accounts for 10% of the world's total trade volume, reaching an export scale of US$120B in a period of about 10 years.

In 2006, the Ministry of Commerce and the National Development and Reform Commission granted 44 auto enterprises as the State enterprises vehicle export bases, and gave the necessary support to these enterprises in the financial, insurance and information services.

Table 11-4:State export bases for vehicle enterprises

Serial number	Vehicle enterprises	Serial number	Vehicle enterprises
1	Chery Automobile Co.,Ltd.	23	Anhui Valin Automobile Group Co.,Ltd.
2	Beijing auto Fotan Automobile Co.,Ltd.	24	Anhui Changfeng Yangtze Motor Manufacturing Co.,Ltd.
3	Tianjin FAW Xiali Automobile Co.,Ltd.	25	Southeast (Fujian) Automobile Industry Co.,Ltd.
4	Great Wall Automobile Co.,Ltd.	26	Xiamen King Long Joint Automotive Industry Co.,Ltd.
5	Hebei Zhongxing Automobile Manufacturing Co.,Ltd.	27	Xiamen Jinlong Van Co.,Ltd.
6	Baoding Beiao Special Vehicle Manufacturing Co., Ltd	28	Jiangling Motors Corporation Jiangxi Jiangling Holding Company.
7	Baotou North Benz Heavy Automobile Co.,Ltd.	29	Jiangxi Changhe Automobile Co.,Ltd.

8	Liaoning Shuguang Automotive Group Co.,Ltd.	30	Zhongtong Heavy Vehicles Group Co.,Ltd.
9	Shenyang Brilliance JinBei Automobile Co.,Ltd.	31	Zhongtong Bus Holding Co.,Ltd.
10	FAW Volkswagen Automotive Co.,Ltd.	32	Chongqing Vehicles Group Special Company.
11	FAW Jilin Automobile Co.,Ltd.	33	Zhengzhou Yutong Bus Co.,Ltd.
12	FAW Auto Group Co.,Ltd.	34	Zhengzhou Richan Automobile Co.,Ltd.
13	FAW Bus Co.,Ltd.	35	Dongfeng Motor Co.,Ltd.
14	Hafei Automobile Co.,Ltd.	36	Dongfeng Motor Limited Liability Company.
15	Shanghai General Motors Co.,Ltd.	37	Sany Heavy Inc.
16	Yangzhou Zhongji Tongji Special Vehicle Co.,Ltd.	38	Dongfeng Liuzhou Automotive Co.,Ltd.
17	Nanjing Automobile Group Co.,Ltd.	39	Shanghai GE Wuling Automobile Co.,Ltd.
18	Mudan Automobile Shares Company Limited	40	Chang'an Automobile (Group) Limited Liability Company
19	King Long United Automobile Industry (Suzhou) Co.,Ltd.	41	Chongqing Hongyan Automotive Limited Liability Company
20	Zhejiang Geely Holding Group Co.,Ltd.	42	Chongqing Lifan Industry (Group) Co.,Ltd.
21	Zhejiang Gonow Automobile Co.,Ltd.	43	FAW Hongta Yunnan Automotive Manufacturing Co.,Ltd.
22	Anhui Jianghuai Automobile Group Co.,Ltd.	44	Shaanxi Automobile Group Co.,Ltd.

Source: Ministry of Commerce

11.3 Overseas investment situation of Chinese automobile enterprises

In 2006, with the acceleration of economic globalization and China's rapid economic development, Chinese enterprises further accelerated the pace of overseas investment, promoting the national economy's sustained, rapid, coordinated and healthy development.

In 2006, overseas direct investment (non-financial) was US$16.13 B, an increase of 31.6% year-on-year. By the end of 2006, China's total overseas direct investment reached US$73.33 B.

The foreign investment of Chinese enterprises has developed from the general export trade, catering and simple processing to marketing network, shipping & logistics, resources development, manufacturing and design research, and many other fields; while the region for has expanded from Europe, America, Hong Kong and Macao, and other developed countries and regions to the Asia-Pacific, Africa and Latin America and more than 160 countries and regions. Competitive domestic enterprises make more use of acquisition and merger approach to oversea investment.

In 2006, overseas direct investment achieved by M&A means was US$4.74 B, accounting for 36.7% of total foreign direct investment year-on-year. For example, Sinopec acquired the Russian Udmurtia Oil Company, while China Blue Star Corporation acquired French Rhodia, etc. In 2006, the Ministry of Commerce grasped the implementation of the ‘going global’ strategy to improve the overseas investment-related policies and regulations to promote overseas investment facilitation.

The Ministry of Commerce has compiled the ‘Countries and Industries for Overseas Investment Guidance Catalogue’, further improving overseas investment coordination and guidance for domestic enterprises. In October 2006, the Executive Meeting of the State Council approved the ‘Opinions on Encouraging and Regularizing Foreign Investment Cooperation of Chinese Enterprises” in principle, which is the first comprehensive and systematic criterions and a guidance document to encourage overseas investment since the Central Committee of CPC put forward the ‘going global’ strategy.

Some Chinese auto enterprises, especially large enterprises groups, are growing in various fields in recent years, and their enterprise scale, product yield and brand name are recognized with certain reputation in the international community. On this basis, enterprises are no longer satisfied with the development of the Chinese market, and they have to look for business opportunities to open up and even occupy a part of the international market.

Setting up factories in countries (or technical centers) is a landmark of business development and expansion. For example, automobile groups such as Dongfeng, Great Wall, Jianghuai and Chery, have a superpower in domestic Commercial-use Vehicle, SUV, pickup and self-brand cars, and their firm size, capacity and market share, are a large enterprise group’s demeanor. Going out of the country to set up factories overseas (or technology center) is a reflection of the strength of

enterprises.

In 1984, Scheele, one of the three major parts suppliers in the United States automobile maintenance market, ordered 30,000 sets of universal joint assembly from Wanxiang Group by means of foundry, while Wanxiang Group got help from Scheele to enter the North American market. Scheele seriously got a loss in 1998, while Wanxiang Group's sale in the United States has reached US$30 M at this time. In 2000, Wanxiang Group and America LSB cooperated to buy Scheele's brands, patents, as well as specialized equipment by US$420,000.

In the following 2001, Wanxiang Group acquired the American listed companies UAI. In 2003, it acquired American Rockford, the world's largest wing drive shaft universal joints first-class supplier. In 2005, it acquired American directional rod enterprise PS, becoming the first-class supplier of the three major engine manufacturer of Ford, GM and Chrysler. After this series of operation, Wanxiang Group has owned 18 companies in eight countries, such as the United States, the United Kingdom, Germany, Canada, Australia, raising its overseas status.

In October 2002, SAIC invested about US$59.7 M. to jointly acquire GM and Japan Suzuki acquired South Korea's Daewoo cars by debt, owned a 10% stake, and sent a representative to the GM Daewoo Board. This is the first domestic automobile enterprise to go abroad to take part in reorganization of international automobile industry. In January 2005, SAIC announced the investment of 590 billion won to acquire 48.92% stake of Korean Ssangyong, becoming Korea's fourth largest shareholder of Auto Company. This acquisition is China's auto industry first successful merger and acquisition abroad.

In 2003, Chery began to collaborate with Iran SKT to build the first overseas CKD factory by way of technical cooperation. Subsequently, Chery signed with Malaysia ALADO, and authorize ALADO to be Chery brand cars' manufacture, assembly, placement import agent. In 2005, Chery established a new assembly factory to manufacture Ruihu Automobile in Siberia, Russia. Chery planned to build a new factory with an annual output of 150,000 vehicles with Aying Duotuoer Company in Kaliningrad in 2007, and planned to invest US$200M.

In November 2006, Iran IKCO Group signed an understanding memorandum of joint venture with Chery Automobile Co.,Ltd. under the MOU, Iran and Chery Automobile IKCO Group should invest a total of US$200M to build Chery S21 in Iran, named Chery QQ6. It is expected to start production in two years.

At that time, the annual capacity will reach 100,000. IKCO Group is the largest automobile group

in Iran and even the Middle East region. Currently, IKCO Group has used their spare capacity to assemble a code-named A15 (Qiyun) model for the Chery CKD. For rapid expansion of production capacity, as well as the Chinese market sales increased competition brought about by pressure, currently, Chery is building new factories in a global scale.

In 2005, Geely signed an agreement on jointly build factories in the local with Malaysia IGC Group. According to the agreement, Geely should assemble new -Geely Automobile, and build assembly plants in Kuantan in the future, enjoying preferential policies of 'free of import tariffs, free of 70% enterprise tax in the first five years'. Geely was scheduled to annually export 10,000 sedan cars from Malaysia, and supply 30,000 sets of automobile spare parts for assembly plants.

Great Wall Automobile began to engage in the export trade the in 1998. Apart from of exporting a large number of vehicles, Great Wall Automobile had cooperation projects in CKD, SKD forms to export and assemble plants overseas. Countries conducting cooperation in the field include Russia, the Commonwealth of Independent States, Iran, Nigeria, Vietnam, Tunisia, and these countries also exported o engine spare parts and related products.

In April 2006, the National Development and Reform Commission formally approved Great Wall to invest US$70M to build a base with an annual output of 50,000 SUV and pickup in the Russian Republic of Tatarstan Yilabujia City (Russian auto parts HKSAR). Great Wall Automobile should invest US$70M to build a plant with an annual yield of 50,000 sets. The main product species were Haversian CUV, the Great Wall pickup and SUV, cars, and MPV cars of the assembly line in the next three years.

Currently, apart from setting up more than 100 service stations in Russia, Great Wall planned to set up 50 special auto monopoly to provide independent sales, repair services, car insurance, and business loans in Russia in 2007.

In 2005, SAIC and Nanjing Automobile Group acquired British bankrupt Rover in the aspects of technology and assets, Of which, SAIC acquired a part of intellectual property rights of Rover 25 and Rover 27 models. On July 23, 2005, Nanjing Automobile Group successfully acquired all assets of MGR and PTL.

Through the acquisition, Nanjing Automobile Group not only got production equipment and R & D facilities from the series of vehicle models to entire car models, but got brands and related intangible assets of the manufacturing technology, including MG, Austin, etc. Based on the acquisition, Nanjing Automobile Group plans to have a production capacity of 200,000 cars,

250,000 engines and 100,000 transmissions.

On February 22, 2006, MG Rover, the Chinese owner- Nanjing Automobile Group Co.,Ltd. signed a leasing agreement for 33 years on MG Rover Longbridge Factory in Birmingham.

In 2006, domestic automobile enterprises set up six factories in countries, an increase of two year-on-year. Some of them set up factories to produce complete vehicle; some of them build technical centers. The aim is to explore the international market. For example, Great Wall Motor Company built factories in Russia and produced SUV and pickup, the company planned to build special cars.

Currently, it has set up a parts warehouse and entered the European market based on major plans. Judging from this point, setting up companies abroad is the first step in expanding the international market. The establishment of technical centers abroad is to learn from concept of international product development and design automotive products to satisfy the needs of both the domestic and international.

In January 2006, Yancheng bus group signed an agreement with Blagoveshchensk of Russia. Both of the two parties should cooperate to establish bus production base in the year in Russian, and it should provide passenger vehicles manufacturing technology and management support. Completion of the plant, not only help to open up the market in the Far East of Russian, but to create a European bus market radiation.

In July 2006, Dongfeng Motor Co.,Ltd. and Ukraine BOGDAN Industrial Investment Holding Company signed in Wuhan to jointly build CKD (piece assembly) plants in Ukraine. The main production is ‘Dongfeng’ light commercial vehicle product. Dongfeng Automobile of production process design provided CKD joint venture, while Ukraine BOGDAN companies invested US$35M to jointly establish cars with a capacity of 12,000 in Ukraine.

In November 2006, the Japan Design Center of Anhui Jianghuai Automobile Group Co.,Ltd. was inaugurated in Tokyo. In the start-up phase, the new design center should be responsible for intelligence gathering, personnel recruitment and cooperation in the management, and gradually develop design research and functions on this basis. Jianghuai Group hoped that through the newly establishment of design centers, it should cooperate with Japan's automotive design experts and institutions.

12 Appendix

12.1 Automobile Industry Development Policy

Executed on May 21, 2004

The Automobile Industry Development Policy is specially formulated to suit the needs of increasingly perfecting Socialist Market Economic System, and the new situation of automobile industry development home and abroad after China becoming a member of WTO, to promote the readjustment and upgrade of automobile industrial structure, to enhance comprehensively automobile industry international competitiveness, to satisfy the increasing demands of customers for automobile products, and facilitate sound development of automobile industry. The implementation of the Policy allows our automobile industry to develop into the mainstay of national economy by the year of 2010, which makes greater contribution to realization of the goal of building comprehensively a affluent society.

Chapter 1 Policy Objective

Article 1

We shall adhere to the principle of combining a fundamental role played by market-allocated resources and a macro economically controlling and adjusting role acted by the government, create a fairly competitive and unified market environment, and perfect law-based management system of automobile industry. Depending on mandatory requirements of administrative regulations and technical specifications, functional departments of the government manage manufacturers of automobiles, agricultural vehicles (low-speed trucks and tri-wheel cars), motorcycles and parts, and their products, standardize marketing behaviors of varieties of economic entities in the automobile industry.

Article 2

We shall promote harmonious development of the automobile industry and related industries, urban transportation infrastructure and environmental protection. We shall create a relatively-good environment for customers to use automobiles, foster sound automobile consumption markets, protect customers' rights and provide impetus for private-car consumption. We shall make China one of the main automobile-manufacturing countries in the world by the year of 2010, automobile products meeting the most needs of domestic markets and entering international markets in

batches.

Article 3

We shall encourage automobile manufacturers to boost technical research and creativeness, actively develop the products with independent intellectual property and implement strategies to market brands. A certain number of well-known brands of automobiles, auto cycles and spare parts will be establishing in 2010.

Article 4

We shall advance readjusting and reforming of automobile industrial structure, enlarge benefit of enterprise scale, improve industrial concentration and avoid low-level, duplicated constructions of dispersion and disorder. We shall form a number of internationally competitive large-scale automobile groups through market competition, working hard for them to become members of 500 Giants globally.

We shall encourage automobile manufacturers to cartelize according to the market rules, realizing complementary advantages and shared resources, and enlarging business scale.

We shall foster a batch of part enterprises of comparative advantages and realize mass production, encouraging them to enter internationally purchasing system of automobile spare parts and participate actively in the international competition.

Chapter 2 Development Planning

Article 5

China shall direct the establishment of industrial development planning according to Automobile Development Policies, including medium-and-long-term industrial development planning and planning of large-scale automobile groups. The former is established based on widely sought advice by State Development and Reform Commission and related departments and approved by State Council. Large-scale automobile groups shall establish the development planning according to medium-and-long-term industrial development planning.

Article 6

Those automobile enterprise groups which unify planning, develop products independently, possesses independent trademarks and brands, and integrate sales service system management, and whose key enterprises, exclusively-invested affiliated enterprises, holding enterprises and Sino-foreign joint venture’s automobile products occupy more than 15% of national markets or entire car sales revenue achieves more than 15% of whole industry sales revenue of entire cars, can prepare independently, as large-scale automobile groups, group development planning

which will be implemented after being approved by State Development and Reform Commission.

Chapter 3 Technology Policy

Article 7

We shall adhere to the principle of combining introduced foreign technology with independently developed technology, tracing and studying advanced technique, carrying out international cooperation, and developing advanced technique, intellectual property independently owned. Introduced foreign products shall have international competitiveness, suit the needs of mandatory requirements of internationally technological specifications, while independently developed products shall be in line with international technology level and capable of participate in global competition. China shall support developing and researching activities conformed to technology policies in terms of tax policies.

Article 8

China shall lead and encourage the auto industry to develop energy-saving and eco-friendly small-displacement automobiles. The automobile industry shall readjust strategies and discharge standards according to national resource structure, actively develop the research and industrialization of new-fashioned force, such as electric automobiles and car battery, and prioritize hybrid vehicles and car diesel motor technology. China shall take action on technical research, technical reform, industrial application of new technologies, environmental policies and promote the manufacture and production of hybrid vehicles.

Article 9

China shall be in favor of developing new kind of vehicle fuel, such as alcohol fuel, natural gas, mixed fuel and hydrogen fuel, and encourage automobile manufacturers to develop new-type-fuel automobiles.

Article 10

The automobile industry and related industries shall concentrate on developing and applying new technology, and improve automobile fuel economy. New-style automobiles' average oil consumption in the years before 2010 shall be decreased by more than 15%. Automobile oil consumption shall be established based on demands of technical specifications.

Article 11

We shall develop the research of new-fashioned materials used by automobiles, such as light materials, retrievable materials and environment-friendly materials, and establish the lowest

efficiency demands of regenerated materials in a timely manner.

Article 12

We shall support automobile electronic products' development and production, actively develop automobile electronic products, accelerate the application of electronic information technology in automobile products, sales logistics and production enterprises and advance development of the automobile industry.

Chapter 4 Structure Readjustment

Article 13

China shall develop collectivization of the automobile industry, form the new competitive pattern and realize the optimization and upgrade of the automobile industrial structure by strategic reform based on the principle of combining a competitive market and a government-controlled-and-adjusted macroeconomics.

Strategic reforming is aimed at supporting automobile manufacturers in developing large-scale automobile enterprise groups through reorganized assets. We shall encourage cartelization of automobile manufacturers through a way of complementary advantages and shared resources, and form the industrial pattern of coordinated development of large-scale automobile groups, enterprise groups and special automobile manufacturers.

Article 14

Entire automobile manufacturers shall improve their specialized production level during structural adjustment, and turn internally matching production units of spare parts into society-oriented, independent and specialized manufacturers of spare parts.

Article 15

Enterprise unions shall, in the fields of product research and development, manufacturing cooperation and sales service, extensively work together, readjust product structure, optimize resource allocation, reduce operational cost and realize scale efficiency and intensive development. Those enterprises joining one union shall not take part in other unions to stabilize enterprise unions. The government shall encourage enterprise unions to form economic entities based on assets. Newly-built automobile manufacturers and category-spanning automobile production items involved in cooperative development schemes of enterprise unions shall be performed as indicated in the Policy.

Article 16

The government shall encourage automobile and auto cycle manufacturers to cooperate

internationally, offer comparative advantages and participate in internationally industrial division. The government shall support large-scale automobile group in combining with the foreign automobile groups to reorganize automobile manufacturers home and abroad, enlarge business scale, and suit the globalization trend in automobile manufacture.

Article 17

The government shall establish the mechanism of withdrawing entire automobile and autocycle manufacturers, and implement special the announcement system to automobile manufacturers, including the existing manufacturers of refitted cars, which cannot maintain the regular production operation. This kind of manufacturers shall not transfer the producing qualification of automobiles and autocycles to individuals and manufacturers which do not produce automobiles and autocycles, but the government shall encourage them to change the line of production into special automobiles and spare parts or combine with other entire-car manufacturers to reorganize assets. Automobile manufacturers shall not sell or purchase production qualifications, and names of bankrupt automobile manufacturers shall be cancelled from the announcement catalogue.

Chapter 5 Entry Permission Management

Article 18

Motor Vehicle Management Regulation is established. Based on the Regulation, the government function department shall take charge of designing, manufacturing, certificating, registering, verifying, maintaining and discarding and recycling vehicles, clearly demarcating responsibility and power, giving publicity to the procedure and facilitating the operation.

Article 19

The government shall establish mandatory requirements of technical specifications in terms of vehicle security, environmental protection, energy saving and guarding against theft. All the vehicles shall implement established mandatory requirements of technical specifications, which shall accord with Chinese situations and be linked with mandatory requirements of international vehicle technologic specifications to facilitate technical advance of the automobile industry. Those vehicles which do not accord with related mandatory requirements of vehicle technologic specifications shall not be produced and sold. Agricultural vehicles shall only run on highways whose level is under three, including three, according with related mandatory requirements of vehicle technologic specifications.

Article 20

Unified entry permission management system of vehicle manufacturers and products shall be established based on the Policy and National Authentication Regulations. Those vehicle products

which accord with Entry Permission Management Regulations and mandatory requirements of related laws and technical specifications, and which have passed the compulsory product authentification shall be listed on *Road Motor Vehicle Manufacturer and Product Announcement*, and issued by State Development and Reform Commission and General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China. The products listed on the Announcement shall be marked with Chinese Compulsory Certification (3C). Imported automobiles and foreign autobody assembled automobiles shall not replace home-made products for authentification. Flowing of illegally assembled automobiles and intellectual-property-violating products into the market shall be forbidden.

Article 21

Public Security Traffic Administrative Department shall transact vehicle registration based on *Road Motor Vehicle Manufacturer and Product Announcement* and Chinese Compulsory Certification (3C).

Article 22

Related functional departments of the government shall establish enterprise production permission criteria for automobiles, agricultural vehicles and autocycles based on Entry Permission Management System, dynamically manage manufacturers and products, and in *Road Motor Vehicle Manufacturer and Product Announcement*, cancel the directories of those vehicles or products which do not accord with the regulations. Enterprise production permission criteria shall include related demands, such as the capabilities of the product design development, product manufacturing equipment, product manufacturing coherence, product sales and product after sales.

Article 23

Road vehicle authentification and test Organizations shall be appointed by State Development and Reform Commission and General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and then verified and tested according to specific regulations of Market Entry Permission Management System. The authentification and test organizations shall be the just third parties, which do not possess interest relationship with automobile manufacturers and could not test and charge the same product repeatedly. The government shall support the regulated development of third-party automobile, autocycle and critical part testing organization.

Chapter 6 Trademarks and Brands

Article 24

Automobile, autocycle, motor and spare part manufacturers shall strengthen the awareness of

enterprises and brands, actively developing intellectual-property-independently-owned products, attaching importance to intellectual property protection, making great efforts to increase brand popularity during production and maintaining the brand image.

Article 25

Automobile, autocycle, motor and spare part manufacturers shall register enterprise-owned product trademarks and service trademarks based on *Trademark Law*. The government shall encourage enterprises to constitute brand development and protection planning, and strive to implement brand business operating strategies.

Article 26

All the home-made automobiles and spare parts shall be marked with manufacturers' trademarks from the year of 2005. All the entirely-sold automobiles in home markets shall be identified with manufacturers' trademarks, and enterprises' names or place on the notable place outside the car. If trademarks have already included manufacturers' geographical marks, the place can be omitted. All the brand dealers shall mark the manufacturers' trademarks on the notable position in their merchandising location.

Chapter 7 Product Development

Article 27

The government shall assist automobile, autocycle and spare part manufacturers in the establishment of product research and developing organizations and in the formation of independently-developing and creative capabilities. Independent development shall take the shape of self-actuated development, enterprise-combining development and entrusted development. Policies encouraging independent development will come into being as soon as possible.

Article 28

Automobile manufacturers shall strive to have a grasp of autobody development technology, attach importance to technical skill development and form chassis and motor development capabilities. The government shall support large-scale automobile groups, enterprise unions and spare part manufacturers in developing the entire cars or unit assembly with advanced technical level and independent intellectual property.

Article 29

Automobile, autocycle and spare part manufacturers shall actively take part in key scientific and technological projects organized by the government, strengthen the cooperative research with research organizations and institutes of higher learning, and attach importance to application and

transformation of achievements in scientific research.

Chapter 8 Spare Parts and Related Industries

Article 30

Automobile spare part manufacturers shall suit the international industry development trend, and actively participate in product development activities in main engine plants. System development capabilities shall be built in the main automobile spare part fields and advanced product development and manufacture capabilities shall be formed in the general spare part domains in order to satisfy the market demands home and abroad and enter the international spare part purchasing system.

Article 31

The government shall establish specialized development planning, guide and support the classification of automobile spare parts, guide social capital into the automobile spare part manufacturing domain, urge spare part manufacturers of comparative advantages to build volume-producing, specialized, and modularized delivery capability. The government shall give priority to those spare part manufacturers completing sets for multiple independent entire car manufacturers and entering the international automobile spare part purchasing system in terms of technological introduction, technical reform, financing and annexation and reorganization. Entire car manufacturers shall gradually implement society-oriented spare part purchase through e-commerce and online purchase.

Article 32

Based on the automobile industry development planning, automobile-related fields such as metallurgy, petrochemical chemical, machinery, electron, light manufacturing, spinning and building materials shall focus on improving production quality level and competitive capacity in terms of metal material, mechanical equipments, moulds, automotive electron, rubber, engineering plastics, textiles, glass, and vehicular petroleum products, simultaneously developing with the automobile industry.

Priority will be given to iron and steel enterprises for realization of a self supply of plate for passenger cars, establishment of specialized die design and manufacturing centers to raise the capability of automobile die designing and manufacturing, technical progress and product upgrading of petrochemical enterprises to bring quality of oil products and lubricant oil up to the advanced world level and satisfy the need of the development of the automobile industry.

Chapter 9 Marketing network

Article 33

The State encourages motor vehicle, motorcycle and parts production enterprises, financial and service trade firms to actively develop automobile service trade by learning from internationally advanced methods of marketing, management experience and service trade concepts for automobile products.

Article 34

In order to protect the legal right of automobile consumers and help them obtain good service in the process of purchase and operation, both domestic and foreign automobile production enterprises, which conduct sales of automobile products manufactured by themselves on China's market, must establish a brand marketing and service system for their own products at an early date. The system can be founded with their own investment by domestic or foreign automobile production enterprises or entrusted automobile traders in the form of investment. Investors from home and abroad, after obtaining the authorization from auto production enterprises and completing necessary procedures according to related regulations, can undertake brand marketing and after-sales activities of domestically manufactured or imported motor vehicles in China.

Article 35

Starting from 2005, passenger vehicles made by automobile production enterprises should undertake brand marketing and service, and all types of motor vehicles has conducted brand marketing and service since 2006.

Article 36

The existing approval management method for the sales right of passenger cars is abolished. The Ministry of Commerce will work in co-operation with the State Administration for Industry and Commerce and the State Development and Reform Commission and other related departments to draft the implementation rules for management of brand marketing for automobile products. Automobile traders should undertake business activities within the scope as approved by the industrial and commercial-use administration departments. Of this, the business scope of brand marketing dealers of passenger vehicles with nine seats or less (including second-hand vehicles) will be approved and announced to the public by the State industrial and commercial-use administration departments according to the related policy. Business licenses for brand marketing dealers will be unified into brand marketing of motor vehicles.

Article 37

Motor vehicle and motorcycle production enterprises shall strengthen the sales management of the marketing network and standardize the service of maintenance and repair. They have the responsibility to announce to the public the cessation of the production of certain vehicle models, and take positive measures to ensure supply of reliable fittings for after-sales service and

maintenance and repair within a reasonable period of time, make regular announcements of authorized and cancelled lists of brand marketing outlets or maintenance and repair enterprises; and refuse to provide products to dealers with no authorization for brand marketing and business conditions.

Article 38

Motor vehicle, motorcycle and parts dealers should abide by related state laws and regulations in their business activities. Departments concerned will punish according to the law those selling vehicles, which are banned by the State or the sales of whose have been halted as listed in the announcement, those making forgery and infringement of other's factory name, legal address, certificate of quality inspection, and with no authorized right granted by auto production enterprises, continuing the original brand in automobile and fitting sales and maintenance and repair services even after the authorized right is withdrawn, as well as those selling sham and shoddy auto fittings to customers in repair service.

Article 39

Motor vehicle production enterprises should take into consideration the general interest of manufacturing and sales service links as well to improve comprehensive economic efficiency. Transferring right of sales links to another impersonal entity is regarded as a major change in the feasibility study report in the original investment project, and should be approved by the Ministry of Commerce and reported to the original project examining and approving unit for approval.

Chapter 10 Investment Management

Article 40

To reform the examination and approval management system for investment projects of motor vehicle production enterprises to undertake two forms - registration system for the record and approval system - in accordance with the principle of benefiting enterprises in independent development and government in macro control.

Article 41 Investment projects under the registration system for the record:

1. Expansion of production capacity of the same types of products and increase of varieties by the existing motor vehicle, farm transport vehicle and vehicle engine production enterprises with self-raised funds, including launching of new production units of the same product in other places with non-independent legal corporate position.

2. Investment in production of motorcycles and motorcycle engines.

3. Investment in production of parts and accessories of motor vehicles, farm transport

vehicles and motorcycles.

Article 42

The projects in the first of the investment projects undertaking the registration system for the record should be reported to the State Development and Reform Commission for the record by the investment administration department of the provincial government or enterprises groups under unified planning of the central government; and those in the second and third sections of the investment projects should be reported to the investment administration department of the provincial government for the record. For contents of the record please see Appendix 2.

Article 43 Investment projects under the system of approval:

1. Launching of new motor vehicles, farm transport vehicles and vehicle engine production enterprises, including launching of a new production enterprise in other places by the existing automobile manufacturers with independent legal person position.

2. The existing automobile manufacturers producing other types of complete vehicle products.

Article 44

Investment projects under the system of approval should be reported to the State Development and Reform Commission for examination by the governmental administration department for investment at the provincial level or enterprises groups under unified planning of the central government. Of this, investment projects for production of special-purpose vehicles should be reported to the State Development and Reform Commission for the record by the governmental administration department for investment at the provincial level after examination and approval, and new Sino-foreign joint venture passenger car projects should be reported to the State Development and Reform Commission for examination and approval.

Article 45 Upon approval, projects involved in the development plan of large automobile enterprises groups should be carried out by enterprises themselves.

Article 46 Since January 1, 2006, approval for new farm transport vehicles production enterprises has been suspended.

Article 47 New investment projects should comply with the following conditions:

1. New motorcycle and motorcycle engine production enterprises should have the capability and conditions for technological development, with total investment not less than RMB200 million.

2. Special-purpose vehicle production enterprises should have registered capital not less than

RMB20 million, and boast the capability and conditions for product development.

3. Investment projects producing other types of complete vehicle products should have total investment not less than RMB1.5 billion (including the original fixed assets and intangible assets), asset/liability ratio standing at less than 50 percent, and bank rating of AAA.

4. Automobile production enterprises to produce passenger car and passenger vehicles products under another category should have the ability of batch production of automobile products, after-tax profits exceeding RMB1 billion in the latest three years (presenting a certificate on taxes), asset/liability ratio standing at less than 50 percent, and bank rating of AAA.

5. New investment projects launched by automobile production enterprises should have total investment not less than RMB2 billion, including self-raised funds not less than RMB800 million, product research and development organizations to be established with investment not less than RMB500 million. New investment projects of passenger vehicles and heavy-duty truck production enterprises should have an engine production line for the complete vehicle.

New investment projects of vehicle engine production enterprises should have total investment not less than RMB1.5 billion, including self-raised funds not less than RMB500 million, establishment of R&D organizations, and product quality meeting the rising standards of the State technical compulsory requirements.

6. Production scale of the following newly launched investment projects are required to be:

Heavy-duty truck: 10,000 vehicles;

Passenger vehicles: 50,000 for models with four cylinders, and 30,000 for models with six cylinders.

Article 48

Chinese partners in Sino-foreign joint venture production enterprises of complete vehicles, special-purpose vehicles, farm transport vehicles and motorcycles should control a share of not less than 50 percent. One of the legal persons of the Chinese party must have the comparative controlling share and more than the total of the foreign counterparts when a listed company with limited liabilities of complete vehicles, special-purpose vehicles, farm transport vehicles and motorcycle is selling the corporate share to the public. A foreign company can launch joint ventures not exceeding two (including two), which produce the same types of complete vehicles (passenger vehicles, commercial-use vehicles and motorcycles). Foreign automobile manufacturers will be allowed to have more than two joint ventures in China if they join forces with their existing joint venture's Chinese partners to merge other companies in China. If a foreign enterprise with legal person qualification controls a majority stake in another enterprise, they will

be treated as one company in China.

Article 49

Both Chinese and foreign automobile production enterprises launching export-oriented automobile and vehicle engine projects in an export processing zone are not under the constraints of the policy, but should be reported to the State Council for examination and approval under a special category.

Article 50 Various parties of Sino-foreign joint venture automobile production enterprises should report to the original approval department for necessary procedures for the extension of the co-operation term, and alteration of share proportion or foreign shareholders.

Article 51

Projects which have not obtained approval notice are not permitted to go through procedures for land requisition with the land administration department, loans from the State-owned banks, tax exemption with the customs, stock floating and listing with the securities regulatory commission, and enterprise registration with the administration department for industry and commerce. Relevant state departments are not allowed to handle any application for production enterprises and access of product.

Chapter 11 Import management

Article 52 The State supports automobile production enterprises to increase the localization production capacity of automobile products, stimulate the technical progress of automobile parts enterprises, and boost automobile manufacturing.

Article 53

Automobile production enterprises, which produce vehicles with complete vehicle features with imported parts, should report to the Ministry of Commerce, the General Administration of Customs and the State Development and Reform Commission, and all the imported parts for the production of the vehicles must be declared at the customs for taxes for the convenience of effective management by related departments.

Article 54

Taxes shall be levied on imported complete vehicles and parts and accessories by strictly following the tariff rate to prevent tax evasion and losses. Related State functional departments shall conduct inspection and examination of such links as application of quota, declaration on import, and product access.

Article 55

The definition scope of complete vehicle features covers vehicle body general assembly (including

driving cab), engine general assembly, transmission general assembly, drive axle general assembly, non-drive axle assembly, vehicle frame assembly, gear system and brake system.

Article 56

The definition scope of general assembly of motor vehicle covers CKD, or general assembly or systems separating step by step into key parts. Imported key parts reaching or exceeding the designated quota are regarded as shaping of complete vehicle features.

Article 57 Following are the conditions of complete vehicle features according to the definition scope of complete vehicle features:

1. Vehicles made with two big general assemblies of imported vehicle body (including driving cab) and engine;

2. Vehicles made with one of the two big general assemblies of imported vehicle body (including driving cab) and engine and three other general assemblies;

3. Vehicles made with five other imported general assemblies except the two big general assemblies of vehicle body (including driving cab) and engine.

Article 58

The State designates four coastal ports - Dalian New Port, Tianjin New Port, Shanghai Port and Huangpu Port - and two land ports - Manzhouli and Shenzhen (Huanggang), as well as the Xinjiang Alataw Pass (which handles import of complete vehicles for use in Xinjiang Uygur Autonomous Region and vehicles originally manufactured in the Commonwealth of Independent States (CIS) to be ports handling import of complete vehicles. Imported complete vehicles must enter China via the above ports. Since the year of 2005, all bonded zones in the importing ports have not been permitted to store motor vehicles imported for sales on the domestic market.

Article 59

The State bans the import of second-hand vehicles and motorcycles and their parts in the forms of trade and donations, and dismantling and renovation of general assemblies and parts of old vehicles imported in the name of iron and scrap steel and scrap metals. Repairing products from the overseas or for re-export can be conducted within the export processing zone, but dismantling and the renovation of old motor vehicles and motorcycles are not permitted.

Article 60

Concrete administration rules on import of complete vehicles and parts will be drafted by the General Administration of Customs in co-operation with other related departments, and then reported to the State Council for approval and implementation. Imported vehicles as samples for

inspection and exhibits for exhibitions held in China should follow the administration rules on temporary import and export commodities of the customs in management.

Chapter 12 Automobile consumption

Article 61

To foster an automobile market with private consumption as the main player, improve the environment for use of motor vehicles, and safeguard the right of automobile consumers. To direct consumers to purchase and use motor vehicles with low energy consumption, low pollution, small displacement, new energy and new power in order to strengthen environmental protection. To achieve a co-ordinated development of the automobile industry with urban transport facilities, environmental protection, energy saving and associated industries.

Article 62

A nationally unified and open automobile market and management system shall be established and various local governments should encourage fair competition among motor vehicles made by different places on the local market. They are not allowed to carry out any discriminative policy or measure which may lead to discrimination against non-locally manufactured automobile products. All restrictions and extra conditions, which are not in keeping with the state regulations and laws, and requirements of this policy in automobile purchase, use and disposal of property right should be revised or abolished.

Article 63

The State drafts and announces unified items and standards for all automobile-related administrative charges and government-type fund charges, and standardized links of automobile registration and various charges collected by the government in the process of use. Various localities are not permitted to add new administrative charges and government-type fund items and fees in the links of automobile purchase, registration and operation. If there is the need for new charges, they should report for approval according to the law, regulations or approved documents of the State Council. Except charging items stipulated by the State, no departments are allowed to collect any compulsory non-operational service charges from automobile consumers. In cases where regulations have been violated and charges have been forced on automobile consumers, the consumers have the right to report and refuse to pay the fee.

Article 64

Management of operation-type service charge shall be strengthened. Operation-type service charge concerning repair and maintenance, non-statutory insurance and parking fee for motor vehicles in the process of automobile operation should be collected by service units on the basis of

consumers who are willing to accept the service. Charges and charging standards in the competitive sectors such as repair and maintenance shall be decided by service operators according to the market rule. Charging standards and management methods of such sectors as automobile parking which control resources is decided and announced as well as supervised by price administrative departments of the State Council or authorized province-level price administration bodies. Service operators shall erect notice boards on charges in parking places for the supervision by the public.

Establishment of highway toll stations must follow the related state regulations. All toll stations should publicize the basis of the charging and the charging standards in a conspicuous place at the toll stations.

Article 65

To make active efforts in developing automobile service trade, and promote spending on motor vehicles. The State supports development of automobile credit consumption. Financial institutions engaging in automobile financing should improve their service, and auto credit mortgage method. Consumers are permitted to obtain automobile consumption loans with their purchased motor vehicles as objects of pledge under the precondition of ensuring credit safety. Qualified enterprises are permitted to set up special service non-banking financial institutions, and foreign companies can undertake automobile consumption credit and rental services. The country will work for expansion of auto-related services such as rental, driving training, storage and transportation and vehicle aid, and development of an information and statistics system for the sector. It will promote development of an automobile on-line information service and e-commerce, and support qualified departments to establish a consumers' credit information system to achieve information sharing.

Article 66 The State encourages circulation of second-hand vehicles. Related departments shall make active efforts to create conditions, and unify and standardize charging forms on transaction of second-hand vehicles, provide convenience for second-hand vehicle dealers in trading, and foster and develop the second-hand vehicle market.

An application assessment system for second-hand vehicles on a voluntary basis shall be established. With the exception of vehicles of the State-owned assets, transaction prices of second-hand vehicles should be decided by both the buyers and sellers; the buyers and sellers can entrust an intermediary body for assessment on a voluntary basis for reference of trading; and no units and departments are permitted to force, or force in a disguised form, an assessment of the vehicle transaction.

Article 67

Enterprises undertaking second-hand vehicle business should boast a relative amount of funds,

place of business and special technical personnel, and then conduct business upon approval and registration of administrative departments for industry and commerce. Automobile dealers should provide true information for vehicle buyers when selling second-hand vehicles, and not hold back any facts or cheat. All vehicles on sale must have a Motor Vehicle Registration Certificate and a Motor Vehicle Driving license, as well as an effective annual inspection certificate produced by public traffic and environmental protection administration departments. Dealers shall accept return of second-hand vehicle from buyers when they cannot transfer the registration and acceptance registration unconditionally, and take relative responsibility.

Article 68

The automobile insurance system shall be improved. The insurance system should be based on consumers and the degree of risk of insurance on vehicles to collect premium, and promote diversification of automobile insurance policies and market-oriented premium rate.

Article 69

People's governments of various cities shall conduct comprehensive study of policy and methods of the need of transportation and balanced development among transport sources such as ways of transport and urban roads and parking facilities; and a public hearing system for drafting the traffic control system of non-temporary driving restricting zone.

Article 70

People's governments of various cities shall make active efforts in planning and construction of parking places and facilities by following the principle of ensuring smooth traffic flow and convenient parking, and promoting automobile consumption, according to economic development of the city; drafting policy on land use for parking places and encouraging investment, and encouraging individual, collective and foreign business to invest in construction of parking facilities. In order to standardize construction of urban parking facilities, the Ministry of Construction shall draft relative standards and requirements for construction of parking facilities in residential and commercial-use areas, public places and entertainment places.

Article 71

The State departments concerned shall draft and promulgate unified standards for automobile emission, which are divided into the operational standards or expected standards. If the expected standards are to be turned into operational standards, there should be an announcement of the date of implementation one year ahead of the time.

Article 72

A national unified system for registration and inspection of motor vehicles shall be implemented.

Various localities are not permitted to draft their own administration methods. Public traffic administration departments are not allowed to ask for other certificates except certificates (such as motor vehicle owner's ID, certificate on source of the vehicle, producer's quality certificate of domestically manufactured motor vehicles or import certificate of motor vehicles, relevant tax documents, and premium certificate on legal insurance) required by related state laws and regulations, regulations of the State Council or authorized regulations. Various-level people's governments and related department are not permitted to require public traffic administration departments to increase inspection items of other certificates in registration and annual inspection. If the automobile consumers provide documents in conformity with the State regulations, public traffic administration departments are not permitted to refuse to conduct procedures of registration and annual inspection for the automobile consumers.

Article 73

Public traffic and environmental protection administration departments shall draft differential management methods according to the types of automobile products, purpose of use and conditions. New motor vehicles and non-operational vehicles are inspected infrequently, and old vehicles are inspected more frequently and the items of inspection are greater.

Article 74

The Motor Vehicle Registration Certificate issued by public traffic administration departments can be used as a property certificate of the vehicle owners in automobile rental and consumption credit, and trading business of second-hand vehicles. *The Motor Vehicle Registration Certificate* must be transferred at the time of vehicle trading.

Chapter 13 Others

Article 75

Automobile industry organizations, intermediary bodies and other social organizations shall strengthen self construction and sense of service, and play the role as an intermediary body, while actively participating in international exchange activities, play the role as a bridge and links between the government and enterprises, and promote development of the automobile industry.

Article 76 Investors from the Hong Kong Special Administrative Zone, the Macao Special Administrative Zone and Taiwan investing in the automobile industry in the mainland of China shall follow related stipulations of this policy.

Article 77 Before the announcement of the compulsory requirements on technical standards of road motor vehicle products, the state compulsory standards shall be implemented temporarily.

Article 78 The implementation of the policy shall go into effect as of the date of

promulgation, and the right to interpret the policy resides in the State Development and Reform Commission.

Appendix 1: Word Explanation

1. Road motor vehicles -- Various motor vehicles and trailers with at least two wheels and maximum designed speed exceeding six kilometers per hour, mainly including motor vehicles, farm transport vehicles, motorcycles and other types of road transport machinery and trailers, not including vehicles running on rails, as well as various non-road motor machinery and tractors for agriculture, forestry and engineering production.

2. Motor vehicle, special-purpose vehicle, farm transport vehicle and motorcycle - motor vehicle listed in the Automobile Industry Development Policy refers to vehicles of the State standards (GB/T 3730.1-2001) 2.1 definition, including complete vehicle and special-purpose vehicle. Special-purpose vehicle refers to vehicles of the State standards (GB/T 3730.1-2001) 2.1.1.11, 2.1.2.3.5, 2.1.2.3.6 definition. Farm transport vehicle refers to vehicle of the State standards (GB18320-2001) definition. Motorcycle refers to vehicles of the State Standards (GB/T5359.1-1996) definition.

3. Product category - detailed classification of passenger vehicles, commercial-use vehicle and motorcycles based on the definition of the State standards, including:

(1) Detailed classification of passenger vehicles:

- Passenger car: 2.1.1.1 - 2.1.1.6 in the State standard GB/T3730.1-2001

- Other types of passenger vehicles (including multi-purpose vehicle (MPV) and sports vehicle): 2.1.1.7-2.1.1.11 in the State standard GB/T3730.1-2001

(2) Detailed classification of commercial-use vehicles:

- Bus type: 2.1.2.1 in the State standard GB/T3730.1-2001

- Semi-trailer and truck type: 2.1.2.2, 2.1.2.3 in the State standard GB/T3730.1-2001

4. New motor vehicle, farm transport and vehicle investment project - newly launched complete vehicle, special-purpose vehicle, farm transport vehicle and vehicle engine production enterprises (including Sino-foreign joint venture enterprises), and the existing complete vehicle, special-purpose vehicle, farm transport vehicle and vehicle engine production enterprises (including Sino-foreign joint venture enterprises) which make changes in stake holding by legal person and launch new production bases with independent corporate right in other places. Other places refer to places outside the city and county where the enterprises are located.

5. Total investment in the project - The aggregate of all the investment needed by the project

in fixed assets (including the original and newly-added fixed assets), tangible assets and working funds.

6. China's own intellectual property right (IPR) - Products made based on independent development, joint development and entrusted development, and the enterprise has the product IPR, and the right of improvement and recognition and technological transfer of the product.

7. Auto production enterprises - Complete vehicle and special-purpose vehicle production enterprises (including Sino-foreign joint venture and co-operative enterprises) with legal registration in China by going through examination and approval procedures according to the State regulations.

8. Domestic market share - Proportion of sales of complete vehicles of one group (enterprise) in the national total sales of motor vehicles.

Appendix 2: Contents of registration system for the record

Contents of the system:

1. Basic information, legal address and name of legal representative of auto production enterprises or project investors, and performance and bank credit rating of the enterprises in the latest three years.

2. Necessity to launch the investment project and analysis of both the domestic and overseas market: Analysis of product technological level and technological sources (explanation on product IPR); sources of project total investment, registered capital and funds; production (business) scale, contents of project construction; and arrangement of construction method and construction process.

3. Basic information of foreign partner and co-operation partner of Sino-foreign joint venture, co-operative enterprises, including foreign business's name, registration country, legal address, legal representative and nationality; information and performance of investment by foreign partner in China; Proportion of shares held by Chinese and foreign sides in the investment project, form of investment and sources of funds, and co-operation term of joint venture.

4. Contracts on technical transfer by foreign side, and technical co-operation.

5. Economic efficiency analysis on the investment project.

6. Environmental protection, land and bank commitment documents, and approval documents for construction by local governments.

7. Affiliated conditions and preferential policy by local governments.

12.2The Notice of Adjusting the Automobile Industry Structure by the State Development and Reform Commission

Dec. 20, 2006

No. 2882 decree of the State Development and Reform Commission [2006]

Each province, autonomous region、directly-governed city and city specifically designated in the state plan, vice provincial capital cities, Development and Reform Commission of Xinjiang Production and Construction Groups and Economy and Trade Committee:

According to the related deployment of The State Council's Notice to Accelerate Advancing Structure Adjustment of Industries with a Surplus of Production Capability ([2006] No.11), suggestions used for the automobile industry to respond a surplus of production capability and accelerate structural adjustment are listed as below:

1. Increasing the Urgency of Structural Adjustment for Automobile Industry

The national automobile industry has stepped over the scale of 3 million, 4 million and then 5 million cars since the 10th Five-Year Plan, the output and sales of 2005 breaking through 5.7 million automobiles, China becoming one of main giants of automobile production and consumption, the automobile industry contributing greatly to economic growth. Automobile Industry Development Policy was issued in June 2004 by State Development and Reform Commission, clarifying the task and orientation of the automobile industry structure adjustment, standardizing enterprises' investment behaviors, so that the overheated investment conditions of the automobile industry were improved and structure adjustment was implemented as expected. Automobile export volume increases with years and internationalized operation of enterprises begin. The automobile industry investment of 2003 increases by 76.1% (RMB 49,86 billion)，2004 by 28.6% (RMB 64.13 billion), and 2005 by 25.2% (RMB 80.28 billion), the investment rise decreases with years and the momentum of greatly increasing national automobile markets is weakened. However, due to the increasing demand of the automobile market, the expectation of partial demands of the automobile market is still high, and investment is increasingly enlarged to expand the production capacity, which leads to the increase of manufacturing ability over that of market demands. That results in a further descent of production capacity efficiency, covers the conflicts of the industrial structure, product structure and technical structure, and affects the sustainable and sound development of the automobile industry. It displays as:

(1) The symptom of overcapacity has already appeared and is likely to intensify.

Up to July 1, 2005, the national automobile industry has formed the complete automobile

production capacity of pressing, welding and assembling, coating and assembly, about 8 million automobiles, capacity under construction about 2.2 million automobiles and the total capacity of this year and the next year to exceed 10 million automobiles. Production capability efficiency of all the industries in 2005 is only 71.5%, where that of the automobile industry is 72.5%. With regard to the market demands, the national automobile consumption has tended to increase stably since the second half year of 2004 and it is expected that the growth of consumption demands are going to keep stable in the next few years. According to The Eleventh Five-year Plan of main automobile manufacturers, the planning production capability shall exceed greatly the expected market demands, therefore, if that trend is not directed, the potential overcapacity will become a reality. With a surplus of the total production capacity, the supply of some automobile types falls short of demands and there exists the symptom of production capacity shortage, therefore, a structural surplus features overcapacity of the existing automobile industry, and is the main problem of the current automobile industry development.

(2) The industrial structure is improper and competitive advantages of enterprise groups are not distinct. The number of national complete automobile manufacturers exceeds 100, about 80 enterprise groups. Between 2003 and 2005, manufacturing concentration of the top 3 enterprise groups fell from 49.3% to 46.1% and resistance to annexation and reorganization across regions and departments is still strong. Those enterprises having no capability to do manufacturing effectively shall not exit from markets. The independent brand market of main enterprise groups lacks competition and has not formed advantages of large-scale production, the competition of the automobile market mainly depending on joint-venture products.

(3) The structural adjustment of products relatively lags, and the technical advance and product upgrade is slow. The production and marketing of high oil consumption vehicle styles is rather high in proportion to that of energy-saving automobiles with advanced technology. The average oil consumption level of the individual passenger vehicles is far beyond that of developed countries, obviously not in agreement with the national resource conditions and economic development level, bringing considerable pressure on resource supply and influencing greatly and negatively the environment.

(4) The ability to independently develop is relatively weak and automobile manufacturers excessively depend on introducing the foreign technology to develop products. The low ability of some automobile industries' independent development leads to a passive high-cost introduction of technology and products. Many a enterprise still continue to introduce technology and assemble production against a background of the automobile industry gaining meager profit, which results in performance of enterprises further declining or even in the red, and thus influencing the long-term development of enterprises.

(5) Spare parts do not develop with complete automobiles. The complete automobiles' manufacturing technological skill and quality approximates to the international level by implementing the policy of opening, and cooperating, but spare part production lags behind the development of complete automobiles. The capacity of completing sets in national part manufacturers is not strong, the level of specialized production is quite low, and the capacity of independent development and system integration is frail, therefore, the part development does not keep up with the complete part development.

If the above-mentioned problems cannot be solved in time, a surplus of production capacity becomes more serious and the symptoms of poor structure more severe, which discourages the development of the automobile industry and make it lose the important strategic opportunity.

2. The Task and Principle of Structure Adjustment

Nowadays, the declining efficiency of automobile production has already attracted the great attention of related departments. Every automobile manufacturer has paid attention to the damage brought by overcapitalization, and some enterprises have already adjusted the scheme of production capability enlargement, and cancelled or delayed projects of newly-built brand factories. This trend shall present an opportunity for the automobile industry adjustment. Aiming at the new situations and problems emerging from the automobile industry, local governments and the automobile manufacturers shall grasp the main conflicts and key links, take effective actions to inhibit unstable elements produced during the automobile industry development and maintain a good momentum of growth.

(1) Tasks

The automobile industry shall make a difference between to The automobile industry shall answer the overcapacity and total demands of advancing structural adjustment by making a difference, controlling the total amount, optimizing the structure, support enterprises with high quality and eliminating enterprises with inferior quality and governing from stem to stern, in order to keep the automobile industry steadily developing.

Local governments and automobile manufacturers shall make the optimization and upgrade of the industrial structure the main line of development and adjustment the current, depend on market mechanism and promote union, annexation and reorganization. Local governments shall support the increasing development of automobile and spare part manufacturer groups with the independent development capabilities, products of independent brands and scale advantages. They shall intensify the structural adjustment of products, facilitate the technological advance, direct enterprises to change the developing pattern of low-level competition, reasonably control newly-increasing automobile capabilities to suit the growth of market needs, make full use of the

national market resource and international resource, open up and develop new markets and solve problems of enterprises to be eliminated exiting from the market.

Automobile manufacturers shall focus on the optimization and upgrade of product structure, facilitate the research and production of energy saving, environment protection and new energy automobiles. They shall focus on independent development of products, promote independent innovation, improve product structure and strengthen independent brands.

(2) Principles

<1> To keep steady development and avoid violent ups and downs. To ensure the control of total amounts of the automobile industry and smooth implement of the structure adjustment, the government shall maintain relatively steady policy environment, control vigor and rhythm of adjustment, obtain achievements of structural adjustment at the lowest cost and avoid unsteady factors.

<2> To treat manufacturers differently, direct them after classification. The related departments shall support some automobile manufacturers and suppress others, continuing to support those which have high production capability efficiency and the demand of whose products exceeds supply, and strictly controlling those which have low production capability efficiency and supply of whose products exceeds demand.

<3> To govern according to the law and put markets into play. The related departments shall strictly carry out the policies with regard to energy saving, environmental protection and safety of automobile products, and establish related policies to direct the market consumption, support the advanced manufacturers and eliminate those falling behind.

<4> To govern both macro-economy and micro-economy, and establish long-term mechanism. The related departments shall combine a surplus of the total amount with improper structure together to solve, establish the system to collect, analyze and monitor automobile production capability data, regularly announce the efficiency information to the public and serve local governments at different levels and enterprises to make reasonable investment decisions.

3. Taking Actions to Ensure that Structural Adjustment and Production Capability Controlling Obtains Real Effects

(1) To control new projects of complete automobiles, and raise standards of investment admittance

The related investing government regulations shall be complemented and perfected based on the admittance standards stated in *The Automobile Industry Development Policy*:

<1> When the state encourages nationally-invested automobile manufacturers to newly establish automobile manufacturers with separate legal entities, newly-established enterprises shall keep

their own brands and mark them on the notable place in the front of automobiles.

<2> The existing automobile manufactures (excluding joint ventures by Chinese enterprises combining with those automobile manufacturers overseas and their reinvested enterprises) shall make efforts to implement brand operation policies, and mark, on the notable place in the front of newly-developed and introduced automobiles, the automobile brands owned by themselves or of their own or exclusively owned by its investment shareholders.

<3> The existing complete automobile manufactures set up branch factories in other cities. In addition to demands by industry policies, automobile sales in the last year should reach more than 80% of the approved production capability while if the original production capability has not yet been approved or documented by the state, automobile sales in the last year should not be under: 100,000 in terms of passenger automobiles, 50,000 in terms of Sports Utility Vehicles (SUV), 50,000 in terms of Multi-Purpose Vehicles (MPV) and 80,000 in terms of other passenger vehicles; 10,000 heavy motor trucks, 50,000 in terms of medium-duty trucks, 100,000 in terms of light duty trucks, 100,000 in terms of mini-trucks, 5000 in terms of large and medium buses, 50,000 in terms of light passenger buses.

<4> Special purpose vehicle manufacturers shall focus on the research, development and production of special purpose vehicle products which are advanced, applicable and filling the domestic gaps, the adoption of new materials and technology to improve functionality of products.

Seeing that the production capability of ordinary semi-trailers, dump trucks, tankers, cabin vehicles and stake trucks exceed the supply, the related departments shall not, in two years, temporarily transact approval and document formalities for enterprises applying for newly establishing above-mentioned products and shall not, in two years, temporarily transact approval and document formalities for existing special-purpose automobile manufacturers applying for producing above-mentioned products.

<5> Sino-foreign automobile manufactures shall open the corresponding activities according to the related content in joint capital operating contracts signed by every party of joint capital and censored and approved by the related documents. The contract contents which do not become a reality shall be perfected. Those automobile manufacturers whose contract contents are not perfected shall temporarily halt establishment of brand factories and application for the new product announcement.

<6> Before automobile manufacturers produce new products, they shall establish production capability and make preparation according to the contents in feasibility study reports or document reports edited and reported by each manufacturers, and only after having the corresponding

production conditions can they authenticate and produce new products.

<7> See that the capability and distribution of nationally vehicle-detecting organizations have already satisfied the needs of the automobile industry development, State Development and Reform Commission shall not, in two years, authorize newly-established vehicle-detecting organizations involving national administrative licensing services. The authorized organizations shall strengthen the capability establishment and staff training.

If some related departments and local governments violate the national automobile industry policies and files of related macroeconomic control, or still support the establishment of automobile projects not in accordance with admittance conditions, the state shall ascertain where the responsibility lies. If they cause economic losses, the state shall strictly investigate and treat them.

(2) To encourage manufactures to develop energy-saving and environment-protecting automobiles and products with independent brands

The related department shall establish specific supporting policies and related standards to encourage the development of energy-saving and environment-protecting automobiles, promote technological advance and speed up the upgrade of automobile product structure.

To those products which can not achieve nationally mandatory standards of safety, environmental protection and energy saving, the corresponding product catalog shall be cancelled. To those passenger automobiles which do not achieve the state mandatory standards in *Passenger vehicles Fuel Consumption Limit*, additional tax shall be collected, and the fuel consumption limit standard of light and large duty commercial-use vehicles shall be issued.

Local government at different levels shall take the lead to purchase energy-saving and new-energy-adopting vehicles, especially those with independent brands to set an example for ordinary consumers.

(3) To promote automobile manufactures to merge and reorganize

Each local government shall promote automobile manufactures to merge and reorganize across regions and departments to foster large-scale enterprise groups with international competition, encourage key enterprises to implement the strong union linked by intellectual property, products as the main line and scale economy as the aim. Those automobile manufactures taking over other complete automobile manufactures as branch factories shall not be confined to the related conditions of establishing branch factories. The state Development and Reform Commission shall sort out the product announcement according to affiliation relationship of assets of automobile groups, promote collectivization of enterprise groups, and at the same time establish production capability and sales amount announcement system to regularly announce the production capability

and sales amount information of passenger vehicles and commercial-use vehicle manufacturers whose output and sales amount does not reach the certain amount. The commission shall temporarily cancel the product announcement of those not meeting the qualification, promote state-owned enterprise system reform, mechanism innovation and capital diversification transformation, advance the development of private enterprises, promote Sino-foreign joint ventures to establish the long-term cooperation system of mutual trust and double-win and form the industrial pattern of harmonious development between state-owned, private and Sino-foreign joint ventures.

(4) To support spare part manufacturers in fast development

The state shall break the blockage not in favor of completing sets of parts between regions or enterprise groups, and gradually establish open and competitive sets-completing system of all technological level. The government shall support regions with favorable conditions in developing automobile part industry groups, encourage automobile manufacturers and spare part manufacturers to combine together and develop complete automobile products, direct the leading spare part enterprises to develop into large-scale enterprises with high quality, and form large-scale part enterprise groups, oriented to two markets home and abroad, by annexing, combining and reorganizing. Local governments and related departments shall constitute practical measures to support the national backbone of part enterprises in promoting research capability of products.

(5) To establish the system of monitoring production capability information and direct enterprises to open newly-establishing markets

To establish regular release system of the automobile production capability information. The provincial development and reform commission shall establish or entrust special organizations to collect the automobile industry investment information and related data within the administrative jurisdiction range. The complete automobile manufacturers shall report the existing production capability of the manufacturers, production capability under construction and planned production capability conditions according to the related regulations. After analyzing and summarizing the information, the State Development and Reform Commission shall regularly release the information with regard to automobile production capability efficiency to the public and the forecasted conditions of the national automobile markets and the automobile industry profitability and price behaviour correspondingly. Local governments shall seriously analyze production capability efficiency of enterprises, assist enterprises in developing emerging markets, direct rational resource allocation and standardize enterprise export behavior.

(6) To perfect performance-evaluating contents of state-owned automobile groups

The state-owned automobile groups shall adhere to the principle of combining opeing up to the outside world and independently developing, and overall consider development of Sino-foreign enterprises and China-owned enterprises. Departments in charge in local governments shall list establishing of enterprise research capability and fostering of independent brands as important evaluation indexes, making efforts to promote independent research capability and foster independent brand products.

National Development and Reform Commission of People's Republic of China

Dec. 20, 2006

12.3 Measures Governing the Importation of Automobile Parts with Features of Assembling Whole Vehicles

No. 125 decree of General Administration of Customs, State Development and Reform Commission, Ministry of Finance, and the Ministry of Commerce

The Measures Governing the Importation of Automobile Parts with Features of Assembling Whole Vehicles, drafted by the General Administration of Customs, State Development and Reform Commission, Ministry of Finance, and the Ministry of Commerce in line with the Development Policy of the Automobile Industry and related provisions, is released and shall enter into force as of April 1, 2005.

Measures Governing the Importation of Automobile Parts with Features of Assembling Whole Vehicles Chapter 1 General Principles

Article 1 This set of measures is formulated in line with related laws and regulations to standardise and strengthen the importation administration of automobile parts and promote the healthy development of the automobile industry.

Article 2 This set of measures shall be applicable to the regulation and administration over the importation of automobile parts with features of assembling whole vehicles by automobile producing enterprises that have been verified by or have registered with the related authorities of the State for the purpose of producing and assembling vehicles.

This set of measures is not applicable to the importation of CKD or SKD by automobile producing enterprises, in which case they shall handle the customs clearance procedures with, and pay duties to the customs authorities at the place where they are located.

Article 3 Automobiles mentioned in this set of measures refer to M type and N type motor vehicles specified in the Categorisation of Motor Vehicles and Trailers (GB/T 15089-2001 National

Standard of the People's Republic of China).

M type motor vehicles refer to motor vehicles that have at least 4 wheels and are intended for carrying passengers; N type motor vehicles refer to motor vehicles having a minimum of 4 wheels and intended to carry cargoes.

Article 4 Automobile assembly (system) mentioned in this set of measures includes automobile body assembly (including cage), engine assembly, transmission assembly, driving bridge assembly, non-driving-bridge assembly, frame assembly, direction system, braking system, etc.

Article 5 With features of assembling whole vehicles and of assembly (system) mentioned in this set of measures refers to those imported automobile parts used by automobile producing enterprises which have features of assembling whole vehicles at the time of assembling or have features of assembly (system) at the time of installation.

Article 6 The General Administration of Customs, the State Development and Reform Commission (hereinafter referred to as SDRC), Ministry of Commerce (MOFCOM) and Ministry of Finance shall be responsible for the administration over imported automobile parts with features of assembling whole vehicles according to the provisions of this set of measures.

The General Administration of Customs, SDRC, MOFCOM and Ministry of Finance shall set up a leading team to administer the importation of automobile parts with features of assembling whole vehicles (hereinafter referred to as "leading team"), which is to have its office within the General Administration of Customs and handle daily affairs of the team. The State Professional Verification Centre for Features of Whole Vehicles (hereinafter referred to as "verification centre") shall be responsible for the verification of whether or not the importation automobile parts have features of assembling whole vehicles or of assembly (system), upon appointment by the General Administration of Customs.

Chapter 2 Registration for Filing Administration

Article 7 An automobile producing enterprise producing automobiles with imported automobile parts for the purpose of selling in the domestic market shall conduct self testing and evaluation to see whether the imported parts used to manufacture models of vehicles have the features of assembling whole vehicles according to the provisions of this set of measures. In cases where the self testing or evaluation has shown that the parts do have the features of assembling whole vehicles, the manufacturing enterprise shall, before the importation of automobile parts, file with the General Administration of Customs for record of the related models of automobiles. The manufacturing enterprise shall file differently for different types of automobile models it manufactures.

In cases where an automobile producing enterprise finds from its self testing and evaluation that

the parts do not have features of assembling whole vehicles, it shall apply to the General Administration of Customs to be reviewed. The General Administration of Customs shall entrust the verification centre to conduct simple review or on-the-spot review. In cases where the review finds otherwise, the automobile producing enterprises shall supplement the record filing. If the review arrives at the same result as the self testing and evaluation, no record filing is needed.

An automobile producing enterprise applying to the SDRC for a Public Notice of Road Motor Vehicle Manufacturing Enterprises and Products and to the MOFCOM for an automatic import license shall provide the result of self testing and evaluation of related automobile models. In cases where the imported parts do not have features of assembling whole vehicles, it shall also provide a result of the review conducted by the General Administration of Customs.

The SDRC shall put on the Public Notice of Road Motor Vehicle Producing Enterprises and Products the characters “with features of assembling whole vehicles” for automobile models manufactured with imported automobile parts with features of assembling whole vehicles, and the MOFCOM shall write on the automatic import license for the importation of automobile parts with features of assembling whole vehicles the characters “with features of assembling whole vehicles”.

Article 8 Automobile models filed for record shall be those that are included in the Public Notice of Road Motor Vehicle Producing Enterprises and Products of the SDRC.

Article 9 An automobile producing enterprise applying for record filing shall submit the following materials:

1. Basic information of the enterprise;

2. Annual production plan of the automobile model to be filed for record;

3. Categorisation and list of price percentage of parts for the model to be filed for record; total price of the model to be filed for record and separate prices of domestically manufactured and imported parts (calculated according to the duty free prices);

4. List of domestic and foreign suppliers and types of products supplied for all the parts that are purchased for automobile models to be filed for record;

5. Proof of inclusion in the Public Notice of Road Motor Vehicle Producing Enterprises and Products.

Article 10 The General Administration of Customs, upon receiving the application for record filing, shall distribute related record filing materials to the SDRC, MOFCOM and Customs Authorities at the places where the enterprises are located that are directly under the General Administration of Customs. The SDRC, MOFCOM and Customs Authorities at the places where

the enterprises are located, directly under the General Administration of Customs, shall exercise record-filing administration according to their respective powers upon receipt of the record-filing materials.

Article 11 The Customs Authorities at the places where the enterprises are located that are directly under the General Administration of Customs shall conduct examination and verification upon receipt of the record-filing materials of the enterprises and proceed with the record filing registration for qualified automobile producing enterprises and automobile models to be manufactured, and notify the automobile producing enterprises.

Article 12 Automobile producing enterprises, after having registered for record filing, shall, according to the importation plan of automobile parts, provide general guarantee for duties to the local Customs Authorities before the importation of automobile parts. The amount of guarantee of the general guarantee for duties shall not be lower than the total monthly amount of duties paid by the enterprises for the importation of parts.

Automobile producing enterprises shall in line with the number of automobile models filed for record and adjustment made to the importation plan, apply to the local Customs Authorities in a timely fashion for changing the guaranteed amount of general guarantee for duties. The customs shall handle the related modification formalities in cases where no mistakes are found.

Chapter 3 Customs Clearance Administration

Article 13 In cases where an automobile producing enterprise imports automobile parts with features of assembling whole vehicles, it shall go to the local Customs to handle customs clearance formalities and pay duties.

In cases where an automobile producing enterprise imports automobile parts with features of assembling whole vehicles from a port other than its local one, it shall, after having completed record-filing registration and formalities of general guarantee for duties, apply to the local Customs for the handling of cross-customs transportation, and the Customs shall handle the formalities related to the cross-customs according to the related provisions governing cross-customs transport.

The above-mentioned provisions shall not be applicable to the importation of automobile parts without features of assembling whole vehicles.

Article 14 The enterprise, when handling customs clearance formalities, shall submit a customs declaration note, automatic import license for automobile parts marked with the characters "with features of assembling whole vehicles", other related licenses and accompanying bills and notes requested by the Customs.

Article 15 In cases where the importation of automobile parts with features of assembling whole vehicles involves licenses, the certificates shall be examined and verified at the time of customs clearance. The column of nature of duty collection and exemption on the customs declaration note for the imported goods shall be marked with the characters "with features of assembling whole vehicles", and the column of consignee shall be for the name of the automobile producing enterprises.

Customs declaration notes shall be filled in separately for automobile parts of different types of vehicles.

Article 16 For the importation of automobile parts with features of assembling whole vehicles, the Customs shall handle the related importation formalities according to the provisions governing the administration of bonded cargoes, and include the importation figures into the customs statistics.

Chapter 4 Standard for the Verification of Features of Assembling Whole Vehicles and Verification

Article 17 The automobile producing enterprise shall apply to the General Administration of Customs for the verification of features of assembling whole vehicles. The General Administration of Customs shall entrust the verification centre to conduct the verification. The Customs shall identify the applicable rate and duty paid price according to the Verification Report issued by the verification centre, and handle duty collection formalities. Measures governing the verification of imported automobile parts with features of assembling whole vehicles shall be worked out and published by the General Administration of Customs separately.

Article 18 The verification centre shall, on the basis of the directive given by the General Administration of Customs, conduct verification over the related models of automobile of the automobile producing enterprises and issue a verification report.

Article 19 When the first batch of whole vehicles filed for record are assembled and produced, the automobile producing enterprise shall, within 10 days of the production, apply to the General Administration of Customs for verification of features of assembling whole vehicles. The verification centre shall, within one month of receiving the directive of the General Administration of Customs, complete the verification over the related models and issue a verification report.

For automobile models that have been manufactured before the entry into force of this set of measures, automobile producing enterprises shall complete their self testing and evaluation within one month upon entry into force of this set of measures and report the results of the self testing and evaluation to the General Administration of Customs. In cases where the self testing shows that there are features of assembling of whole vehicles, the automobile producing enterprises shall file with the General Administration of Customs for record within 10 days upon the completion of the self testing and apply to the General Administration of Customs for verification of features of

assembling whole vehicles. In cases where the self testing reveals that there are no features of assembling whole vehicles, the automobile producing enterprise shall apply to the General Administration of Customs for review. In cases where the result of review shows that there are features of assembling whole vehicles, the automobile producing enterprise shall supplement the record filing with the General Administration of Customs within 10 days, starting from the day of release of the review results, and apply to the General Administration of Customs for verification of features of assembling whole vehicles. The verification centre shall, on the basis of the directive given by the General Administration of Customs, complete within 3 months its verification over the model of automobiles filed for record that have been put into production, and issue a verification report.

Article 20 The model of automobiles verified by the verification centre shall be automobiles with basic equipment. For optional equipment of imported parts on the basis of the basic-equipment-model of automobiles verified, the automobile producing enterprises shall provide optional types to the local customs and the verification centre and declare according to the facts at the time of installing optional equipment. The verification centre shall conduct a review and issue its report, and the customs may make adjustments at the time of calculating duties according to the verified duty paid prices.

In cases where the feature of assembling whole vehicles has been changed in the course of production by an automobile producing enterprise, it may apply o the General Administration of Customs for re-verification of the basic-equipment-model, and the customs shall identify duty paid price on which the duties will be collected according to the new verification report issued by the verification centre. If the verification reveals that there are no features of assembling whole vehicles, the customs shall not exercise administration over the model according to this set of measures.

Article 21 Imported automobile parts will be considered as having features of assembling whole vehicles under any of the following circumstances:

1. Assembling automobiles with imported CKD or SKD;

2. Within the identified scope as specified in article 4 of this set of measures;

A. Assembling automobiles with imported automobile body (including cage) and engines;

B. Assembling automobiles with either imported automobile body (including cage) or engine, together with three or more imported assemblies (systems);

C. Assembling automobiles with five or more imported assemblies (systems), excluding automobile body (including cage) and engines;

3. The total price of imported parts amounting to 60% or more of the total price of the whole vehicle of the model. This set of standards of verification becomes effective as of July 1, 2006.

Article 22 The imported automobile parts will be considered as having features of automobile assembly (system) under any of the following circumstances:

1. Importing complete set of parts for assembly (system);

2. Importing key parts or sub-assembly for assembly (system) and the quantity of imported key parts or sub-assembly having reached or exceeded the specified quota (see attachments 1 and 2);

3. The total price of imported parts accounting for 60% or more of the total price of the assembly (system).

Article 23 In cases where the imported parts used by domestic automobile assembly (system) producing enterprises to produce an assembly (system) do not have features of an assembly (system), the assembly (system) thus produced will be considered as a domestically manufactured assembly (system).

Article 24 In cases where domestic automobile and parts production enterprises conduct material processing over imported parts (excluding assembly, sub assembly) and roughcast items used to produce parts, the accompanying parts thus produced will be taken as domestically manufactured ones.

Material processing refers to when the products after processing meet the standard for the material changes as specified in the Regulations of the People's Republic of China on the Rules of Origin of Imported and Exported Goods.

Article 25 When the verification centre conducts verification over the automobile models that have been filed for the record to see whether there are features of assembling whole vehicles, the automobile producing enterprise shall provide active cooperation and supply the following documents:

1. Application report for verification;

2. Self testing report of the enterprise;

3. List of purchase of spare parts for the automobile models that have been filed for record (see attachment 3 for details);

4. Other materials considered necessary by the verification centre.

Article 26 In cases where an automobile producing enterprise that is supposed to apply for record filing or verification of features of assembling whole vehicles fails to do so, the General Administration of Customs may direct the verification centre to conduct the verification.

Chapter 5 Taxation Principles and Calculation and Collection of Duties

Article 27 For imported automobile parts with features of assembling whole vehicles, the customs authority at the place where the importing enterprise is located shall exercise monitoring over the automobile parts in line with the regulations on bonded cargoes during the process when the automobile parts are declared for access and before duties have been collected. In order to enhance efficiency, qualified automobile producing enterprises shall connect electronically with the local customs authorities.

Article 28 In cases where imported automobile parts have been assembled into whole vehicles, the automobile producing enterprise shall declare to the customs for payment of duties, and the customs shall, in line with the related provisions of the Customs Law of the People's Republic of China (hereinafter referred to as the "customs law"), Regulations of the People's Republic of China on Import and Export Duties and the Import and Export Tariff Lines of the People's Republic of China, conduct categorization and collect duties.

For imported parts that are verified by the verification centre as having features of assembling whole vehicles, the Customs shall categories them as whole vehicles and collect duties and value added taxes in the importation process according to the duty rate applicable to whole vehicles. In cases where the verification finds no feature of assembling whole vehicles, the Customs shall categories them as spare parts and collect duties and value added taxes in the importation process according to the rate applicable.

Article 29 When the Customs collects duties on imported automobile parts with features of assembling whole vehicles according to the category of whole vehicles, and import duties and value added taxes in the importation process on parts provided by accompanying plants have been collected at the time of importation, the duties collected shall be refunded, provided the automobile producing enterprises are able to provide proof of payment of import duties.

For automobile parts that are imported by an enterprise in line with the provisions of this set of rules and are not used to produce complete vehicles within one year, the enterprise shall declare to the Customs for the payment of duties within 30 days upon the expiration of the one year period, and the Customs shall handle duty collection formalities according to the related regulations.

Article 30 This set of measures shall be applicable to the domestic sales of automobiles manufactured under processing trade.

Before applying for domestic sales of automobile products assembled with imported automobile parts with features of assembling whole vehicles, a processing trade automobile producing enterprise shall supplement the record filing formalities with the General Administration of Customs in line with the provisions of this set of measures and accept verification conducted by

the verification centre. The Customs shall, on the basis of the result of the verification, calculate and collect duties on those that have features of assembling whole vehicles according to the rate applicable as specified in this set of measures, on the strength of the Certificate of Approval of Domestic Sales of Bonded Imported Materials for Processing Trade and corresponding import licenses, and collect interest incurred as a result of delayed payment of duties on the total of imported parts.

For automobile producing enterprises within bonded zones, export processing zones and other zones that are under the special regulation of the Customs, in cases where they want to apply for domestic sales of automobile products assembled with automobile parts with features of assembling whole vehicles that are imported into the zones, they shall supplement the record filing formalities with the General Administration of Customs in line with the provisions of this set of measures and accept verification conducted by the verification centre. The Customs shall, according to the result of the verification, handle the related formalities for those that are found to have features of assembling whole vehicles on the strength of related licenses, and collect duties according to the actual status of domestic sales.

Article 31 An automobile producing enterprise shall, starting from the month following the issuance of the verification report by the verification centre confirming the features of assembling of whole vehicles, declare to the local Customs for duty payment before the 10th working day of each month. The Customs shall collect in a centralized manner duties and value added taxes in the importation process according to the rate applicable to whole vehicles on the basis of the quantity of imported spare parts that are used in the previous month by the automobile producing enterprises to produce related automobile models.

When an automobile producing enterprise makes its first declaration for duty payment, it shall also declare to the Customs the imported parts that have already been used to produce whole vehicles before the issuance of the verification report.

Article 32 An automobile producing enterprise shall, within 30 days upon the issuance of the verification report by the verification centre confirming the absence of features of assembling whole vehicles, declare to the local Customs for the automobile parts that are imported, without paying duties. The Customs shall collect duties and value added taxes involved in the importation process according to the rate applicable to automobile parts, and stop exercising administration over the related automobile models in line with the provisions of this set of measures.

Article 33 In cases where all of the automobile models filed for record by an automobile producing enterprise are verified by the verification centre as not having features of assembling whole vehicles and the enterprise has paid up all related duties, the Customs shall inform the enterprise to handle the formalities regarding the relief of general guarantee of duties.

Article 34 When declaring for duties to the local Customs, an automobile producing enterprise shall provide the following documents and materials:

1. Verification report issued by the verification centre;

2. Quantity of whole vehicles of related models produced by the enterprise in the previous month (excluding the circumstances where the verification result shows that there are no features of assembling whole vehicles);

3. List of automobile parts of related automobile models that are imported by the enterprise in the previous month for the assembling of whole vehicles (excluding the circumstances where the verification result shows that there are no features of assembling whole vehicles);

4. Other documents that are deemed necessary by the Customs.

Article 35 When an enterprise declares to the Customs for automobile parts with features of assembling whole vehicles, it shall fill in “duty collection on whole vehicles” in the column of nature of duty collection and “CIF” in the column of ways of transaction. In cases where an enterprise declares to the Customs for automobile parts without features of assembling whole vehicles, it shall fill in "duty collection on spare parts" in the column of nature of duty collection and “CIF” in the column of ways of transaction.

Chapter 6 Legal Liabilities

Article 36 For acts in violation of this set of provisions and constituting smuggling or in violation of the customs regulatory rules, the Customs shall impose sanctions in line with the provisions of the Customs Law and the Implementation Rules for the Customs Administrative Punishment of the People's Republic of China. In cases where the wrongdoings have constituted crimes, the criminal liabilities shall be investigated according to laws.

Article 37 In cases where an automobile producing enterprise declaring for a Public Notice of Road Motor Vehicle Producing Enterprises and Products and filing for record is in violation of the related provisions of this set of measures, for example failing to declare according to the facts for imported automobile parts with features of assembling whole vehicles, or parts imported separately being found to have features of assembling whole vehicles, and failing to apply to the General Administration of Customs for record filing before importation, the SDRC shall suspend the related models from the Public Notice of Road Motor Vehicle Producing Enterprises and Products and resume them after rectification has been made by the automobile producing enterprise.

Chapter 7 Supplementary Articles

Article 38 This set of measures shall enter into force as of April 1, 2005.

Appendix:

1. Assembly (System) Defining Table

2. The Related Part Defining Range of Automobile Assembly (System)

3. Documented Spare Part Purchasing List

Appendix 1: Assembly (System) Defining Table

Table 12-1 Assembly (System) Defining Table

Assembly Names			Key Parts or Subassembly Names	Imported Part Defining Amount (Unit: Piece)		Remark
				A-Class Parts	Total Defining Amount	
Vehicle Body (Cabin)	M1 Class	A -Class Parts	Side panels, vehicle doors, hood shields	2	5	If there are imported external covering stamping parts in M1 class subassembly, this subassembly is regarded as imported subassembly.
		B -Class Parts	Head covers, front walls, cabin floors, trunk lids (or back doors), rear walls, fenders	-		
	M2 Class	A -Class Parts	Head covers and side panels	2	4	
		B -Class Parts	Hood shields, front walls, vehicle doors, rear walls and floors	-		
	M3 Class	A -Class Parts	Head covers, side panels and body frames	2	4	
		B -Class Parts	Front walls, vehicle doors, rear walls and floors	-		
	N Class	A -Class Parts	Head covers, vehicle doors and side panels	2	5	
		B -Class Parts	Hood shields, front walls, rear walls, fenders and floors	-		
Engine Assembly	Diesel engines	A -Class Parts	cylinder bodies, cylinder covers, high-pressure fuel pumps	2	6	Not including radiators, fans,

		B -Class Parts	Crank shafts, boosters, camshafts, connecting rods, starter motors, generators, diesel ejectors	-		air filters, mufflers, fuel tanks, clutches
	Gasoline engines	A -Class Parts	Cylinder bodies, cylinder covers, EFI equipments (including ECU, throttle body, fuel injector, sensors)	2	6	
		B -Class Parts	crank shafts, cam shafts, fuel pumps, connecting rods, starter motors, generators, boosters	-		
Gearbox assembly	Manual Gearbox	A -Class Parts	Shells, gears, clutches	2	4	1. Not including Remote Speed Change Controlling System 2. If transfer gears of full-wheel driving vehicles are assembly evaluation, the total defining amount of gearbox assembly change correspondingly 3. If swing arms are added to front axles of independent suspension, the total defining amount is 6.
		B -Class Parts	Shaft types, shifting mechanism components, synchronizer, torque dividers	-		
	Automatic Gearbox	A -Class Parts	Shells, clutches (automatic gearbox used liquid pressure couplers), automatic gearbox controlling modules (ECU)	2	4	
		B -Class Parts	Torque dividers, gears (or friction wheels and steel belts), shaft types, shifting mechanism components	-		
M1 class vehicle axles	Driving axles		Shells, right and left axles (including constant velocity joints)	-	6	
	Non driving axles		Shells, right and left axles (including constant velocity joints)	-	4	

M2, M3, N class vehicle axles	Driving axles	Shells, right and left axles (including constant velocity joints)	-	5	
	Non driving axles	Shells, right and left axles (including constant velocity joints)	-	4	
Frame		Shells, right and left axles (including constant velocity joints)	-	2	
Braking System		Shells, right and left axles (including constant velocity joints)	-	4	
Steering Gears	Power Steering	Shells, right and left axles (including constant velocity joints)	-	3	Steering Gear Assembly includes Air Bag
	Non-Power Steering	Steering Gear Assembly, steering shafts, universal joints and steering gears	-	2	

Notes:

1. If the sum of imported A Class and B Class reaches or exceeds imported defining total amount, it can be regarded as component assembly (system) features. However, if the sum of imported A Class reaches or exceeds A class defining amount, it can be regarded as component assembly (system) features.

2. When the import price rate of key parts or subassembly exceeds 60%, this key part or subassembly can be calculated according to imported products. In principle, key parts or subassembly is only calculated to complete automobile suppliers of the second level.

3. If torque dividers of four-wheel driving automobiles are assembly, replacing non-driving axis. If a class of Torque dividers is shells and chains, the defining amount is 2. If B class is shaft types and synchronizers, the total defining amount is 4.

4. If there exists two or more driving axis, the assembly features are judged according to the real amounts, and assembly and component complete automobile feature defining amounts are added correspondingly.

5. From April 1, 2005 to June 30, 2006, key parts of A and B classes are combined together to be evaluated according to the total defining amount. From July 1, 2006, all automobile types are evaluated according to the standards distinguishing A and B Class.

6. If some certain automobile type does not match the functions listed in assembly (system) defining table, its defining amount or assembly (system) amount should be subtracted.

Appendix 2:

The Defining Range of Automobile Assembly (System) Related Parts

The assembly (system) related part range is mainly used for assembly and system of complete automobile feature identification. The principle of assembly (system) related part range: 1. completion of functions; 2. clear division of the assembly stage. At the same time, refer to standard QC/T265-2004 *Automobile Product Part Number Rules*, QC/T514-1999 *Passenger Automobile Terminology*, GB/T4780-2000 *Automobile Body Terminology*, GB/T5727-1985 *Automobile Liquid Gearbox Terminology and definitions* , GB/T5333-1985 *Automobile Driving Axis Terminology and definitions,* GB5620.2-1985 *Automobile and Brake Terminology and definitions*, GB/T5179-1985 *Automobile Steering System Terminology and definitions*.

Automobile Body (cabin): before painted, the automobile body (white) does not include accessories and decorations.

The M1class includes front walls, side panels, rear walls, head covers, floors, fenders, hood shields, trunk lids and so on.

In addition to M1, other class includes front walls, side panels, rear walls, head covers, floors, floor covers, fenders, hood shields, frames and so on.

Engine Assembly:

Include cylinder bodies, cylinder heads, timing gear chambers, valve covers, crank shafts, flywheels, connecting rods, pistons, bearing, camshafts, timing mechanism, exhausting doors, driving mechanism, exhausting manifold, firing system, pumps, lubricant pumps, oil cleaners, crankcase ventilation equipments, fuel pumps, EFI equipments (including ECU, throttle bodies, fuel injectors, sensors), boosters, starter motors, generators, fuel pipes, oil cleaners, sensors and alarm equipments;

Diesel engines still include high-pressure oil pumps, intercoolers and so on.

Diesel engines do no include radiators, fans, air cleaners, mufflers, fan clutches, the controlling equipments of discharging pollutants (particle catchers, three element catalyst converters.)

Gearbox Assembly:

Automatic gearboxes include shells, gear mechanism (or attrition wheels and steel belts), axis types, bearings, shifting mechanism components, torque converters, automobile gearbox controlling Modules (ECU), oil pumps, hydraulic controlling boxes, sensors and torque dividers.

Manual gearboxes include shells, gears, synchronizers, axis types, bearings, shifting mechanism components, sensors, clutches, and torque dividers.

They do not include remote control mechanism.

Driving axles Assembly:

Include main speed reducers, differential gears, bridge shells, half axle (including constant velocity joints), steering knuckles, swing arms, wheel hubs, bearings, suspension springs, shock absorbers.

Non-Driving axles Assembly:

Include automobile axles (hauling arm assembly), wheel hubs, bearings, suspension springs, shock absorbers.

Vehicle Frame Assembly:

Include longitudinal beams (or anterior subframes and engine cradles of unitized bodies), crossbeams (or back subframes and engine cradles of unitized bodies) and so on.

Braking System:

Includes braking pedals, pullback springs, braking main cylinders, wheel cylinders, boosters, brakes, brakes, ABS Systems (ECU, valve bodies, sensors), braking pipes, liquid storage tanks, speed-sustained devices, braking adjustment equipments, driving braking pedal equipments, automobile-halting controlled systems, three controlling valves, sensors and alarm equipments.

Air braking systems still include braking air chambers, baking actuators, air compressors, air storage cylinders, cleaners, air brake valves, double stop-return valves, fast charging.

Steering System:

Includes steering wheels (including safety air bags), steering pipes, steering brackets, steering axis, universal joint , sensors、steering gear brackets, steering arms, steering pull rods, knuckle arms and ladder mechanism.

Power steering still includes steering valves, steering power cylinders, steering pumps, steering power tanks, steering motors and controlling modules.

Torque divider Assembly:

Includes shells, axis types, bearings, gears (or chains), connecters, shifting mechanism components and electric control devices.

Notes:

1. Because of diversity of assembly features, the above-mentioned defining range is not unique, different structures judged according to their part functions.

2. To those components with one or more functions, the most important function of them shall be classified to related assembly.

3. To component assembly (excluding automobile body assembly and frame assembly), assembly includes connectors to complete subassembly (such as, pipelines, bolts, nuts, screws, catch hoops and adhesive), sealing elements and faxed facilities.

4. Each assembly does not include fuel, lubricating oil, grease, cooling fluid, brake fluid and power oil.

Appendix 3: Documented Automobile Type Part Purchasing List

Table 12-2 Documented Automobile Type Part Purchasing List

No	Product HS Tax No	Assembly No	Related Assembly Names	Part No	Names	Unit Price	Amount used by each vehicle	Part price	% complete cars	Origin	manufactures

Notes: Part Origin refers to exported parts or nationally completed sets.

12.4Customs Tariff Number and Product Tax Rate

Table 12-3 Customs Tariff Number and Product Tax Rate

Tariff Schedule Numbers	Product Names	Extracode	Import Benefit	Import Ordinary	Export Tax Rate	Increment	Consumption Tax	Unit	Supervision Conditions
87011000	Walking tractors		9	20	0	13	0		B6
87012000	Highway tractors		6	20	0	17	0		6AO
87013000	Crawler tractors	10	6	20	0	13	0		AB6
87013000	Caterpillar tractors	90	6	20	0	17	0		AB6
87019011	Other types of tractors	90	8	20	0	13	0		OAB6
87019011	Wheeled tractors, power more than 150 hp	10	8	20	0	13	0		ABO6
87019019	Other tractors	90	8	20	0	13	0		OAB6

87019019	Other tractors, power more than 150 hp	10	8	20	0	13	0		ABO6
87019090	Other towing vehicles		8	20	0	17	0		OAB6
87021020	Passenger vehicles		4	90	0	17	0		6ABO
87021091	Large passenger vehicles with more than 30 seats		25	90	0	17	0		6ABO
87021092	Diesel passenger vehicles with seats between 20 and 22	19	25	230	0	17	5		6ABO
87021092	Diesel passenger vehicles with seats between 20 and 22	11	25	230	0	17	3		6ABO
87021092	Other diesel medium passenger vehicles with seats between 23 and 30	90	25	230	0	17	0		6ABO
87021093	Displacement less than 2000cc, seats between 10 and 19	10	25	230	0	17	3		6ABO
87021093	Displacement more than 2000cc, seats between 10 and 19	90	25	230	0	17	5		6ABO
87029010	Large passenger vehicles, seats more than 30 (including 30)		25	90	0	17	0		6ABO
87029020	Non-Diesel passenger vehicles with seats between 20 and 22	19	25	230	0	17	5		6ABO
87029020	Non-Diesel passenger vehicles with seats between 20 and 22	11	25	230	0	17	3		6ABO
87029020	Other Non-Diesel passenger vehicles with seats between 20 and 30	90	25	230	0	17	0		6ABO
87029030	Displacement more than 2000cc, seats between 10 and 19	90	25	230	0	17	5		6ABO
87029030	Displacement less than 2000cc, seats between 10 and 19	10	25	230	0	17	3		6ABO

87031000	Special vehicles designed for walking on snow and golf vehicles		25	150	0	17	0		
87032130	Parts of 87032130 vehicles	90	30	230	0	17	0		6BO
87032130	Gasoline mini-power cars	11	30	230	0	17	3		6ABO
87032130	Gasoline mini-power cars	19	30	230	0	17	5		6ABO
87032190	Parts of 87032190 vehicles	90	30	230	0	17	0		6ABO
87032190	Gasoline mini-power cars and rovers	11	30	230	0	17	3		6ABO
87032190	Gasoline mini-power cars and rovers	19	30	230	0	17	5		6ABO
87032230	Gasoline mini-power cars and rovers	90	30	230	0	17	0		6ABO
87032230	Gasoline mini-power cars	10	30	230	0	17	5		6ABO
87032240	Gasoline mini-power rovers driven by four wheels	10	30	230	0	17	3		6ABO
87032240	Parts of 87032240 vehicles	90	30	230	0	17	0		6ABO
87032250	Gasoline mini-power cars (≤9 seats)	10	30	230	0	17	3		6ABO
87032250	Parts of 87032250 vehicles	90	30	230	0	17	0		6ABO
87032290	Other gasoline mini-power cars	19	30	230	0	17	0		6ABO
87032290	Gasoline mini-power cars (≤9 seats)	11	30	230	0	17	3		6ABO
87032290	Parts of 87032290 vehicles	90	30	230	0	17	0		6ABO
87032314	Passenger vehicles, with displacement between 1500cc and 2200cc	11	30	230	0	17	5		6ABO
87032314	Parts of 87032314 vehicles	90	30	230	0	17	0		6ABO
87032314	Passenger vehicles, with displacement between 2200cc and 2500cc	19	30	230	0	17	8		6ABO

87032315	Rovers, with displacement between 1500cc and 2200cc	11	30	230	0	17	3		6ABO
87032315	Rovers, with displacement between 2400cc and 2500cc	19	30	230	0	17	5		6ABO
87032315	Parts of 87032315 vehicles	90	30	230	0	17	0		6ABO
87032316	Passenger vehicles with displacement between 2000cc and 2500cc	19	30	230	0	17	5		6ABO
87032316	Parts of 87032316 vehicles	90	30	230	0	17	0		6ABO
87032316	Passenger vehicles with displacement between 1500cc and 2000cc	11	30	230	0	17	3		ABO
87032319	Parts of 87032319 vehicles	90	30	230	0	17	0		6ABO
87032319	Passenger vehicles with displacement between 2000cc and 2500cc	12	30	230	0	17	5		6ABO
87032319	Other vehicles with displacement between 1500cc and 2500cc	19	30	230	0	17	0		6ABO
87032319	Other passenger vehicles, 1500＜gasoline＜2000cc	11	30	230	0	17	3		6ABO
87032334	Parts of 87032334 vehicles	90	30	270	0	17	0		6O
87032334	Gasoline medium-power passenger vehicles	10	30	270	0	17	8		6AO
87032335	Gasoline medium-powerbrokers	10	30	270	0	17	5		6AO
87032335	Parts of 87032335	90	30	270	0	17	0		6O
87032336	Gasoline medium-power passenger vehicles (≤9seats)	10	30	270	0	17	5		6AO
87032336	Parts of 87032336	90	30	270	0	17	0		6O
87032339	Other Gasoline medium-power vehicles	19	30	270	0	17	0		6AO
8703233	Gasoline medium-power	11	30	270	0	17	5		6AO

9	passenger vehicles								
87032339	Parts of 87032339	90	30	270	0	17	0		6O
87032430	Gasoline large-power passenger vehicles (≤9 seats)	10	30	270	0	17	8		6ABO
87032430	Parts of 87032430	90	30	270	0	17	0		6ABO
87032440	Gasoline large-power rovers	10	30	270	0	17	5		6ABO
87032440	Parts of 87032440	90	30	270	0	17	0		6BO
87032450	Parts of 87032450	90	30	270	0	17	0		6ABO
87032450	Gasoline large-power passenger vehicles (≤9 seats)	10	30	270	0	17	5		6ABO
87032490	Parts of 87032490	90	30	270	0	17	0		6ABO
87032490	Gasoline large-power vehicles	19	30	270	0	17	0		6ABO
87032490	Gasoline large-power vehicles	11	30	270	0	17	5		6ABO
87033130	Diesel passenger vehicles, 1000≤displacement≤1500cc	19	30	230	0	17	5		6ABO
87033130	Parts of 87033130	90	30	230	0	17	0		6ABO
87033130	Diesel passenger vehicles, displacement＜1000cc	11	30	230	0	17	3		6ABO
87033140	Diesel passenger rovers	10	30	230	0	17	3		6ABO
87033140	Parts of 87033140	90	30	230	0	17	0		6ABO
87033150	Diesel passenger vehicles (≤9 seats)	10	30	230	0	17	3		6ABO
87033150	Parts of 87033150	90	30	230	0	17	0		6ABO
87033190	Parts of 87033190	90	30	230	0	17	0		6ABO
87033190	Diesel passenger vehicles (≤9 seats)	11	30	230	0	17	3		6ABO
8703319	Diesel passenger vehicle	19	30	230	0	17	0		6ABO

0	s								
87033230	Diesel passenger vehicles, 1500<passenger<2200cc	11	30	230	0	17	5		6ABO
87033230	Parts of 87033230	90	30	230	0	17	0		6ABO
87033230	Diesel passenger vehicles, 2200≤displacement≤2500cc	19	30	230	0	17	8		6ABO
87033240	2400≤displacement≤2500cc	19	30	230	0	17	5		6ABO
87033240	Parts of 87033240	90	30	230	0	17	0		6ABO
87033240	1500<displacement<2400cc	11	30	230	0	17	3		6ABO
87033250	Passenger vehicles, 1500<displacement<2000cc	11	30	230	0	17	3		6ABO
87033250	Passenger vehicles,, 2000≤displacement≤2500cc	19	30	230	0	17	5		6ABO
87033250	Parts of 87033250	90	30	230	0	17	0		6ABO
87033290	Parts of 87033290	90	30	230	0	17	0		6ABO
87033290	Diesel passenger vehicles	19	30	230	0	17	0		6ABO
87033290	Other passenger vehicles, 2000≤displacement≤2500cc	12	30	230	0	17	5		6ABO
87033290	Diesel passenger vehicles (≤9 seats)	11	30	230	0	17	3		6ABO
87033330	Diesel passenger vehicles, displacement＞2500cc	10	30	270	0	17	8		6ABO
87033330	Parts of 87033330	90	30	270	0	17	0		6ABO
87033340	Parts of 87033340	90	30	270	0	17	0		6ABO
87033340	Diesel passenger vehicles, displacement＞2500cc	10	30	270	0	17	5		6ABO
87033350	Parts of 87033350	90	30	270	0	17	0		6ABO
87033350	Diesel passenger vehicles, displacement >2500cc	10	30	270	0	17	5		6ABO

	(≤9 seats)								
87033390	Parts of 87033390	90	30	270	0	17	0		6ABO
87033390	Diesel passenger vehicles	19	30	270	0	17	0		6ABO
87033390	Diesel passenger vehicles (≤9seats)	11	30	270	0	17	5		6ABO
87039000	Rovers, displacement≥2400cc	17	30	230	0	17	5		6ABO
87039000	Others, displacement＜1000cc	11	30	230	0	17	3		6ABO
87039000	Others, 1000≤displacement＜2200cc	12	30	230	0	17	5		6ABO
87039000	Other rovers, displacement＜2400cc	16	30	230	0	17	3		6ABO
87039000	Other vehicles equipped with other motors	19	30	230	0	17	0		6ABO
87039000	Others, displacement <2000cc (≤9 seats)	14	30	230	0	17	3		6ABO
87039000	Other passenger vehicles, displacement≥2200cc	13	30	230	0	17	8		6ABO
87039000	Others, displacement≥2000cc	15	30	230	0	17	5		6ABO
87039000	Parts of 87039000	90	30	230	0	17	0		6ABO
87041030	Freight dump trucks		6	20	0	17	0		OAB6
87041090	Freight dump trucks		6	20	0	17	0		ABO6
87042100	Diesel trucks		25	70	0	17	0		6ABO
87042230	Diesel trucks		20	70	0	17	0		6ABO
87042240	Diesel trucks		20	40	0	17	0		6ABO
87042300	Parts, vehicle frame width ＞1050mm	10	15	40	0	17	0		6ABO
87042300	Diesel trucks	90	15	40	0	17	0		6ABO
87042300	Diesel trucks	30	15	40	0	17	0		6ABO
87042300	Concrete pump trucks	20	15	40	0	17	0		6ABO

87042300	Cranes ≥55 tons	40	15	40	0	17	0		6ABO
87043100	Other trucks ≤5 tons		25	70	0	17	0		6ABO
87043230	Gasoline type trucks, between 5 tons and 8 tons		20	70	0	17	0		AB6O
87043240	Other trucks >8 tons		20	70	0	17	0		AB6O
87049000	Other trucks		25	70	0	17	0		AB6O
87051021	Overall Road cranes, weight ≤50 tons		15	30	0	17	0		6AO
87051022	Overall Road cranes, 50 < weight≤100 tons		10	30	0	17	0		6AO
87051023	Overall Road cranes, weight>100 tons		10	30	0	17	0		6AO
87051091	Overall Road cranes, weight≤50 tons		15	30	0	17	0		6AO
87051092	Other cranes, 50< ≤100 tons		10	30	0	17	0		6AO
87051093	Other cranes, weight >100 tons		10	30	0	17	0		6A
87052000	Maneuver drilling vehicles		12	17	0	17	0		6AO
87053010	Maneuver fire engines		3	8	0	17	0		AB6O
87053090	Maneuver fire engines		3	8	0	17	0		AB6O
87054000	Maneuver fire engines		15	35	0	17	0		AB6O
87059010	Radio Communication vehicles		9	35	0	17	0		AB6O
87059020	Radio Communication vehicles		9	14	0	17	0		6AO
87059030	Radio Communication vehicles		12	20	0	17	0		6AO
87059040	Maneuver medical care vehicles		12	30	0	17	0		6AO
87059051	Maneuver (frequency 400hz)		12	30	0	17	0		O6
87059059	Other Maneuver		12	30	0	17	0		6AO
8705906	Temperature adjusting ve		12	35	0	17	0		OAB6

0	hicles								
87059070	Road snow sweeper		12	35	0	17	0		OAB6
87059080	Mixed sand vehicles		12	35	0	17	0		OAB6
87059090	Special purpose vehicles	90	12	35	0	17	0		AB6O
87059090	Wreckers	20	12	35	0	17	0		AB6O
87059090	Wreckers	10	12	35	0	17	0		AB6O
87059090	Wreckers	30	12	35	0	17	0		36ABO
87060010	Trucks		8	14	0	17	0		
87060021	Trucks, total weight≥14 tons		10	30	0	17	0		6AO
87060022	Trucks, total weight＜14 tons		10	45	0	17	0		6AO
87060030	Large trucks		20	70	0	17	0		6AO
87060040	Large trucks		20	100	0	17	0		6AO
87060090	Large trucks		20.7	100	0	17	0		6AO
87071000	Small trucks (including cabins)		22.9	100	0	17	0		6O
87079010	Vehicle bodies (including cabins)		18.6	70	0	17	0		6O
87079090	Vehicle bodies (including cabins)		18.6	70	0	17	0		6O
87081000	Spare parts		12.9	100	0	17	0	kilogram	
87082100	Seat belts		12.9	100	0	17	0	piece	6A
87082920	Safety air bags		18.6	100	0	17	0	set	
87082930	Vehicle windows		10	100	0	17	0	set	
87082990	Spare parts not listed	90	12.9	100	0	17	0	kilogram	6O
87082990	Skylight	10	12.9	100	0	17	0	kilogram	6O

87083100	Brake friction lining		10	100	0	17	0	kilogram	
87083910	Brake and spare parts		6	14	0	17	0	kilogram	
87083920	Brake and spare parts		12.9	70	0	17	0	kilogram	
87083930	Brake and spare parts		6	11	0	17	0	kilogram	
87083940	Brake and spare parts		12.9	45	0	17	0	kilogram	
87083950	Brake and spare parts		10	30	0	17	0	kilogram	
87083960	Brake and spare parts		10	100	0	17	0	kilogram	
87083991	Other brakes (ABS)		18.6	100	0	17	0		6O
87083999	Energy distribution (EBD) equipment (for ABS)	10	18.6	100	0	17	0		6O
87083999	Adjustor (for ABS)	20	18.6	100	0	17	0		6O
87083999	ASR (for ABS)	30	18.6	100	0	17	0		6O
87083999	Brake and spare parts	90	18.6	100	0	17	0		6O
87084010	Gearbox		6	14	0	17	0		
87084020	Gearbox		12.9	70	0	17	0		
87084030	Gearbox		6	11	0	17	0		
87084040	Gearbox		12.9	45	0	17	0		
87084050	Gearbox	90	10	30	0	17	0		
87084050	Gearbox, distortion distance≥90Kgm	10	10	30	0	17	0		
87084060	Gearbox		10	100	0	17	0		
87084091	Gearbox		18.6	100	0	17	0		6O
87084099	Gearbox		18.6	100	0	17	0		6O
8708501	Driving axis		6	14	0	17	0		6O

0									
87085020	Driving axis and its parts ⩾10 tons	10	12.9	70	0	17	0		6O
87085020	Driving axis	90	12.9	70	0	17	0		6O
87085030	Driving axis		6	11	0	17	0		
87085040	Driving axis		12.9	45	0	17	0		6O
87085050	Driving axis	90	10	30	0	17	0		6O
87085050	Driving axis ⩾6 tons	10	10	30	0	17	0		6O
87085060	Driving axis		10	100	0	17	0		6O
87085090	Driving axis		13.5	100	0	17	0		6O
87086010	Driving axis		6	14	0	17	0	kilogram	O6
87100010	Combat vehicles		15	100	0	17	0		
87100090	Combat vehicles		15	100	0	17	0		
87111000	Tow purpose vehicles	90	45	150	0	17	10		6ABO
87111000	Tow purpose vehicles	10	45	150	0	17	10		y4xABO6
87112010	50cc< Cylinder capacity ⩽100cc		45	150	0	17	10		y4xABO6
87112020	100cc< cylinder capacity ⩽125cc		45	150	0	17	10		y4xABO6
87112030	125cc<Cylinder capacity ⩽150cc		45	150	0	17	10		y4xABO6
87112040	150cc<Cylinder capacity ⩽200cc		45	150	0	17	10		y4xABO6
87112050	200cc<Cylinder capacity ⩽250cc		45	150	0	17	10		y4xABO6
87113010	250cc＜Cylinder capacity⩽400cc		45	150	0	17	10		ABO6
87113020	400cc＜Cylinder capacity⩽500cc		45	150	0	17	10		ABO6
87114000	Gasoline large power motorcycles and two purp		40	150	0	17	10		ABO6

	ose vehicles								
87115000	Gasoline super power motorcycles		30	150	0	17	10		ABO6
87119000	Bikes	10	45	150	0	17	10		ABO6
87119000	Motorcycles	90	45	150	0	17	10		ABO6

Note: Supervision conditions listed in the table are explained as below:

Table 12-4 Customs supervision certification name codes

Certificate or approval codes	Certificate or approval names
1	Import Certificate
2	Import Certificate (for passenger vehicles)
3	Export Certificate for Sensitive items
4	Export Certificate
6	Old Motor Products
7	Automatic Import Certificate
8	Products prohibited export
9	Products prohibited import
A	Customs Piece for Import products
B	Customs Piece for Export products
D	Customs Piece for Export/Import products
F	Export/Import Certificate for Extinguished Products
G	Quota Certificate
I	Mental Medicine Import (Export) Certificate
J	Export Certificate for Gold Products
O	Automatic Import Certificate
P	Approval Certificate for Imported Wastes
Q	Customs Sheet for Imported Medicine
S	Imported/Exported Agricultural Medicine Registration
T	Export Certificate for Band Cashes
W	Export Permission Certificate for Medicine
X	Notice for Medical Product Environment Management
Y	Origin Certificate
Z	Approval Sheet for Imported Products or Program Sheets
a	Pls Review and Check Autographs
r	Marks
s	Purpose Identification Certificate for ITA Tax Rate
t	Tariff Quota Certificate
u	Import Certificate (Processing Trade Bonded)
v	Automatic Import Certificate (Processing Trade)
x	Export Certificate (Processing Trade)

y	Export Certificate (Border Small Amount Trade)

13 Enterprise Name Lists