



Air International

A DIVISION OF FUTURES CORPORATION LIMITED

Air International Group Limited

Experiences in the China market

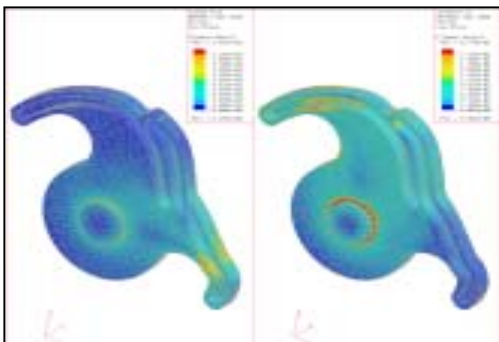
**Carl de Koning, General Manager -
Strategy**

26th November 2002



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Introduction to Air International

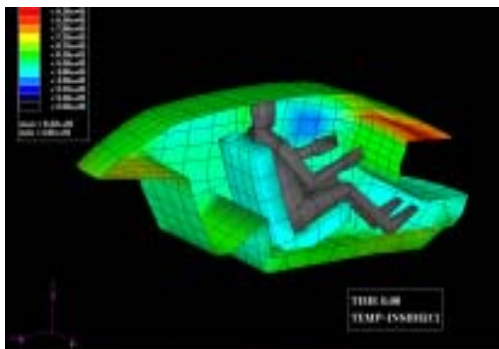


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CORPORATION LIMITED



CORE
BUSINESS

**Automotive
Engineering &
Manufacturing**



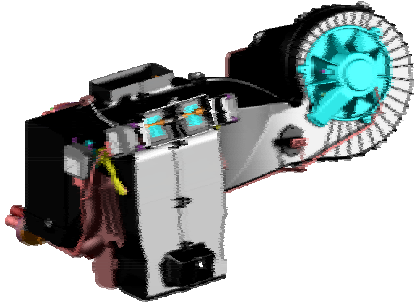

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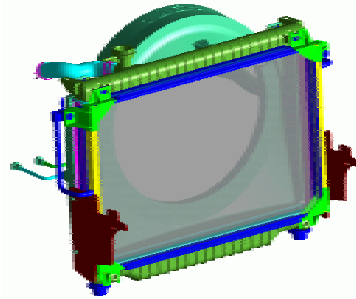


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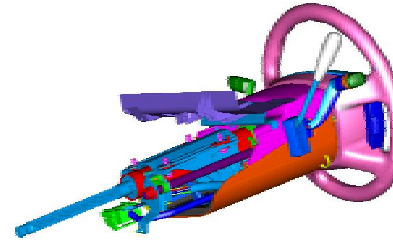
Air International's product offerings



Auto HVAC Systems



Condenser/Radiator



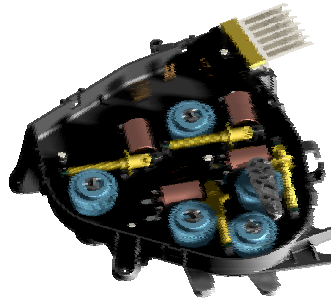
Steering Systems



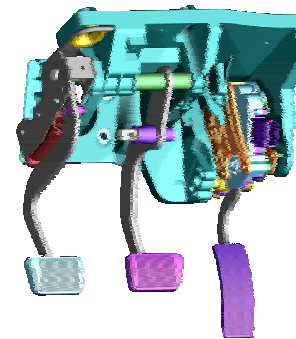
Seat Frames



Rail HVAC Systems



Control Modules



Pedal Box Modules



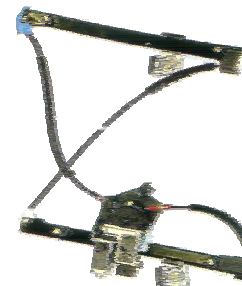
Seat Assemblies



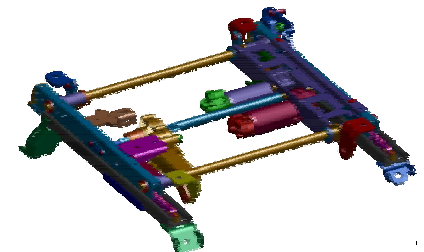
Bus HVAC Systems



Carpet Systems

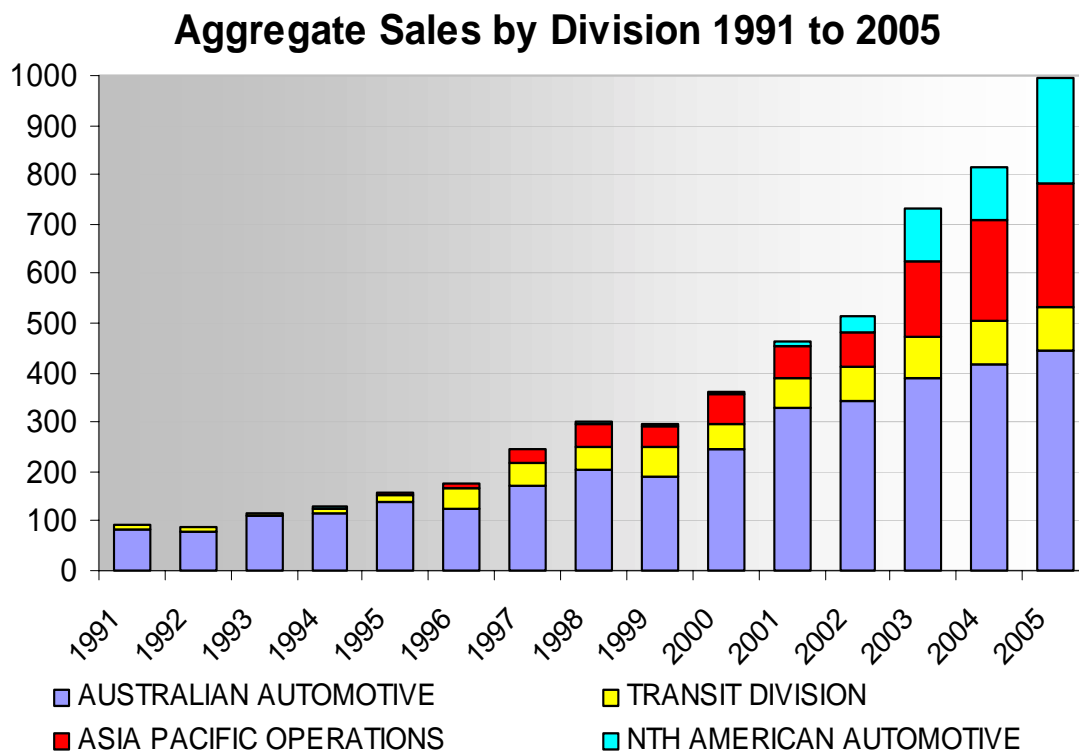


Window Regulators



Seat Tracks

Air International's global presence



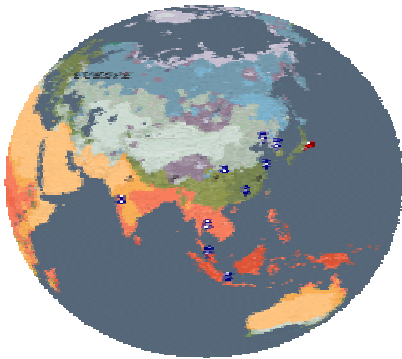


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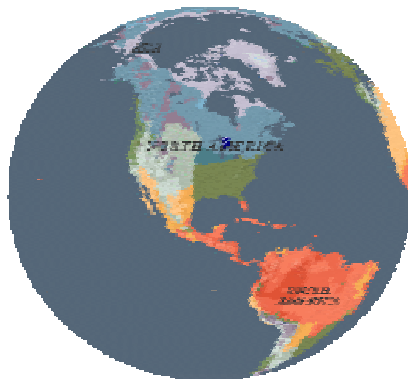
Air International's growth strategy



**Predominant Interior Systems
Integrator in the Australian market**



**Major Supplier of HVAC systems to
the vehicle OEMs in the Asian Region**

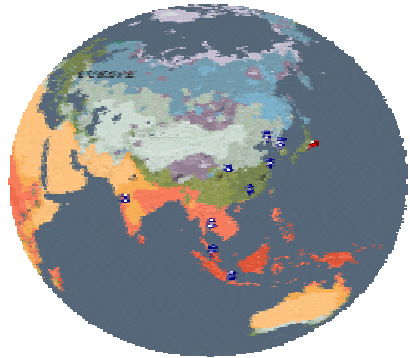


**Technology provider of HVAC
systems to OEMs & Interior
System Integrators in USA**



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Strategy for the Asian Region



Major supplier of HVAC systems

- Asia is diverse with a number of specialised markets
 - *China & India - small compact cars*
 - *Thailand - light commercial vehicles*
- Asia will account for over 32% of global automotive sales & production by 2010
- Several opportunities emerging in Asia for competent automotive systems suppliers
- OEM's seeking quality suppliers with global technology
- Potential upside in sales in Asia is greater than entire Australian market

“growth through joint ventures & technology transfer.....”

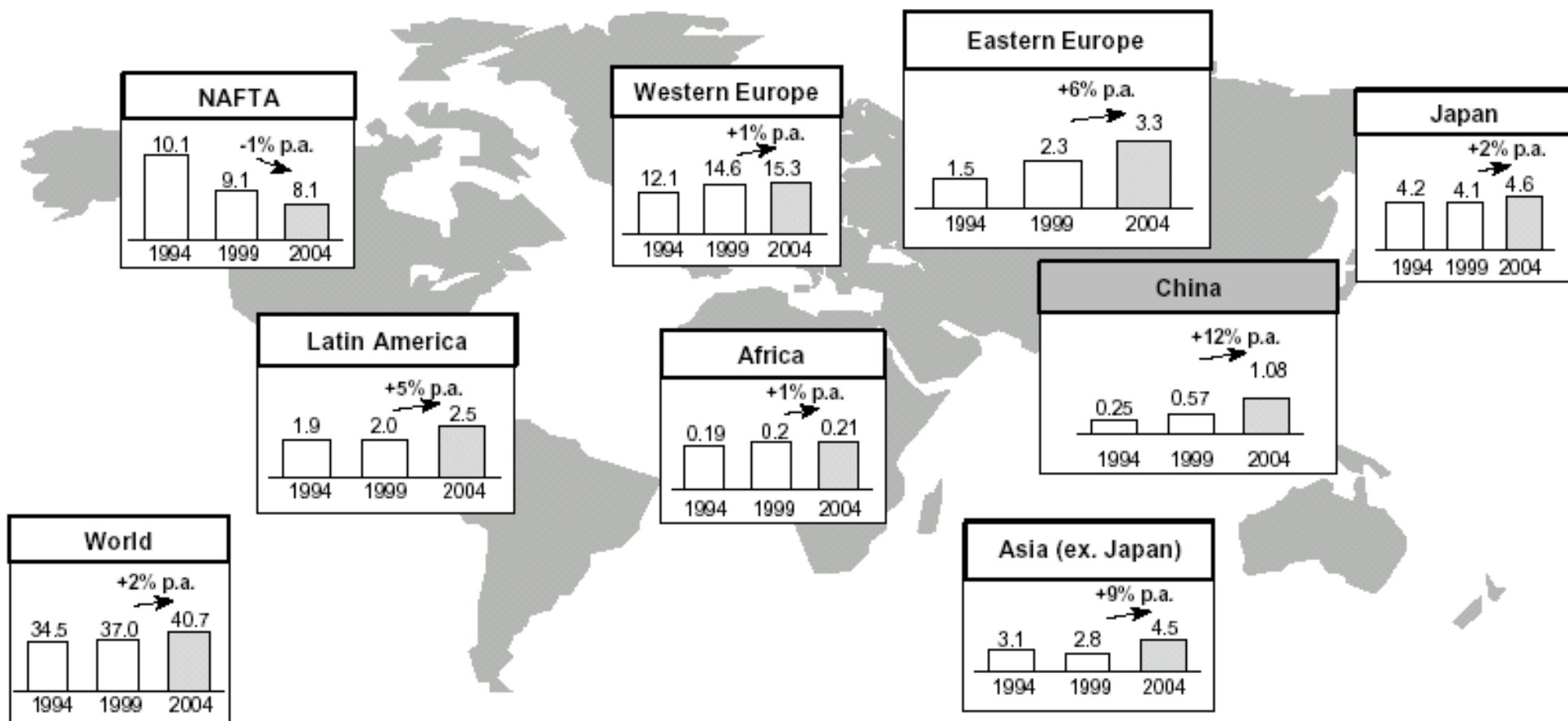


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Global world vehicle sales

World car sales
[million units]



China has been forecast as the fastest growing car market worldwide



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Our view of the China market

- **China is the major growth market in Asia**
 - ▶ China, will lead the way in both passenger & commercial vehicle production and sales
- **Automotive is a “Pillar Industry” in China**
 - ▶ 2%-4% of China’s total industry output
 - ▶ 300,000 employees within the industry
 - ▶ 120 OEM companies in the market
 - ▶ 2,000+ component manufacturers
- **International OEM technologies dominant in the China market**
 - ▶ Volkswagen, Ford, General Motors,
 - ▶ Fiat, Citroen, Honda, Toyota ...
- **Industry spread across various regions**
 - ▶ North, Central, East & South





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Air International in the China market

- **First China J/V established in 1995 in Shanghai**
 - Supply of mini-bus HVAC systems to Iveco & Jinbei
 - new manufacturing facilities in 1998
- **APO Head Office relocated to Shanghai in 1999**
 - General Manager, APO now operating out of China
 - Engineering Design Centre set-up in Shanghai
- **Won HVAC & steering for Jinbei 'Zhonghua M1' in 1999**
 - Start of production in 2002
- **Secured GM Chevrolet Blazer localisation program**
- **New J/V formed in Chongqing in 2000**
 - support Changan (Suzuki) & new Changan Ford J/V
 - new manufacturing facilities in 2001 in Chongqing
- **Won HVAC programs for the Ford Ikon & Changan Star**



Development programs currently underway

Air International (Shanghai) Co, Ltd

Air International (Shanghai) Co, Ltd

A Sino Australian joint venture established in 1995

- ▶ 50/50% joint venture with Shanghai Aerospace Automobile Electromechanical Co. Ltd, a subsidiary of the Ministry of Aerospace
- ▶ Products: Passenger car, mini-bus & bus HVAC systems, Heat exchangers & condensers, Hose & pipe assemblies
- ▶ Total of 240 employees



Air International in Chongqing, China

Air International Chongqing (AICQ)

New manufacturing facility in Chongqing, China

- ▶ J/V with Chongqing Changjiang Electrical Appliances Factory, a Division of the China South Industry Group (Ministry of Weapons)
- ▶ Land area 16,038 m², total plant area of 9,882 m²
- ▶ Products: HVAC systems, Hose & pipe assemblies, Condensers, Evaporators, Heat exchangers, Radiators
- ▶ 80 employees





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Critical issues in the China market

- **Politics & relationships**
 - ▶ Need to develop strong links with Government
 - ▶ Need to establish close personal relationships with customers
 - ▶ Equity links to customers & key suppliers
- **Provincial automotive markets**
 - ▶ Need to investment in various locations
- **Transfer of technology**
 - ▶ Need to develop local technical capability
- **Development of supplier base**
 - ▶ Often poor quality and delivery
 - ▶ Pressure to use J/V partner's subsidiaries
- **Localisation**
 - ▶ Manufacturing, people, engineering, business development

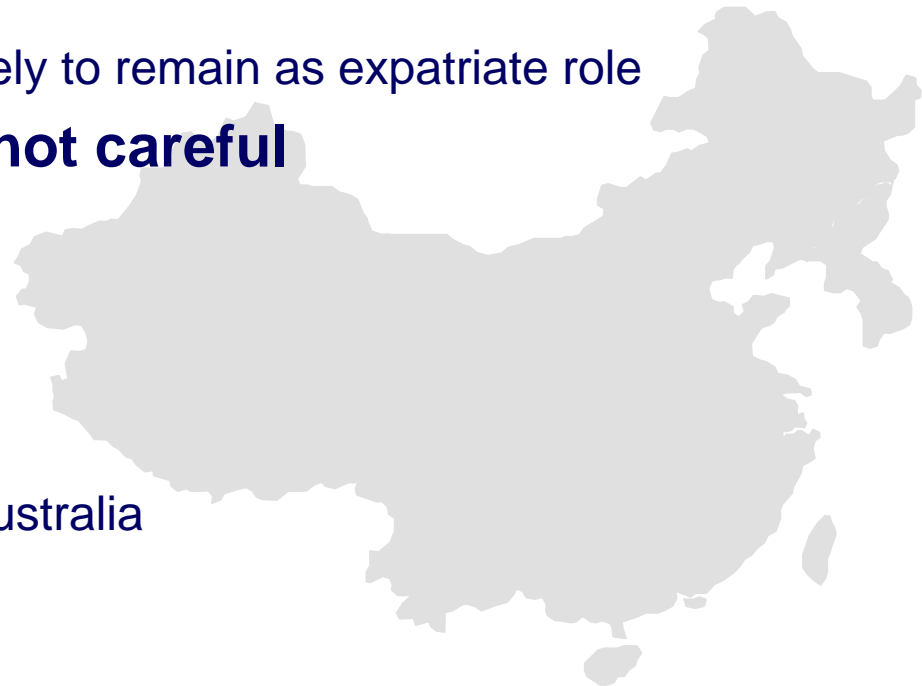




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Expatriates role in China

- **Expatriates key to initial success of joint ventures in China**
- **Major role of expatriates in Air International J/V's is to:**
 - Transfer technology, know-how, culture & systems
 - Develop local talent & relationships with J/V partner, customers & suppliers
- **Expatriate role is transitional**
 - Localised within 3 to 5 years
 - Engineering / technology management likely to remain as expatriate role
- **China can 'burn out' expatriates if not careful**
 - Language & cultural differences
 - Harshness of some locations
 - Managing partners & politics
- **Expatriates are very costly**
 - Often 2-3 times the cost of same role in Australia





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Major pressures in the China market

- **Competitive price pressures**
 - ▶ +30% reductions in prices not uncommon
 - ▶ Global competitors are now entering the market
 - ▶ Direct copying of our products by local suppliers
- **Global benchmarking of prices**
 - ▶ Market is moving closer to global prices
 - ▶ Global OEMs have access to global benchmarking data
- **Investment costs going forward**
 - ▶ Plant & equipment upgrading
 - ▶ New business requirements
- **Technology requirements for the future**
- **Current J/V partners capabilities**
 - ▶ Ability of partner to adapt to rapid change
 - ▶ Ability to support future growth





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Key issues for the future

- **Competition**

- ▶ Impact of WTO entry - opening up of supply base
- ▶ Focus on costdown, China moving closer to “world” prices

- **Quality**

- ▶ Significant changes in consumer expectations
- ▶ Increase in supplier development activities necessary

- **Technology**

- ▶ Must continually drive new technology & ideas into J/V's
- ▶ Localisation of technology resources & capabilities

- **Recruitment**

- ▶ Localisation of roles, need to tap into local talent bank
- ▶ Retention of developed talent within the J/V

- **Relationships**

- ▶ Will continue to play an important role in business transactions in China





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