

CHINA AUTOMOTIVE SYSTEMS INC  
Form 10KSB/A  
October 29, 2004

=====
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
Amendment No. 1

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file Number 000-33123
-----

CHINA AUTOMOTIVE SYSTEMS, INC.

(Name of Small Business Issuer in Its Charter)

Delaware

33-0885775

-----
(State or other Jurisdiction
of Incorporation)

-----
(I.R.S. Employer
Identification No.)

No. 1 Henglong Road, Yu Qiao Development Zone
Shashi District, Jing Zhou City
Hubei Province

-----
(Address of Principal Executive Offices)

-----
(Zip Code)

(86) 7168329196

(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class Name of Each Exchange
----- on Which Registered
-----

-----
-----

Securities registered under Section 12(g) of the Exchange Act:

Common Stock
-----

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

(Title of Class)

(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for past 90 days.

Yes X No
--- ---

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained to the best of Company's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-SKB. [X]

State the aggregate market value of the voting and non-voting common equity held by no-affiliates computed by reference to the price at which the common equity as sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. \$20,078,904 based on a closing bid price of \$8.00 on April 12, 2004.

APPLICABLE ONLY TO CORPORATE COMPANIES

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date. As of April 12, 2004 there were 22,574,542 shares outstanding

Transitional Small Business Disclosure Format (check one): Yes No X
--- ---

State issuer's revenue for its most recent fiscal year \$ 55,327,174
-----

China Automotive Systems, Inc.
FORM 10-KSB
INDEX

Table with 2 columns: Item Description and Page. Includes sections for PART I (Description of Business, Property, Legal Proceedings, Matters of a Vote) and PART II (Market for Company's Common Equity, Management's Discussion and Analysis).

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Item 7.	Financial Statements.....	26
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	27
Item 8A.	Controls and Procedures.....	27
PART III		
Item 9.	Directors and Executive Officers of the Registrant.....	27
Item 10.	Executive Compensation.....	31
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....	21
Item 12.	Certain Relationships and Related Transactions.....	32
Item 13.	Exhibits, List and Reports on Form 8-K.....	32
Item 14.	Principal Accountant Fees and Services.....	33
Signatures	.....	34
Financial Statements.....		F-1

### PART I

#### ITEM 1. DESCRIPTION OF BUSINESS.

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or the Company's future financial performance. The Company has attempted to identify forward-looking statements by terminology including "anticipates," "believes," "expects," "can," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predict," "should" or "will" or the negative of these terms or other comparable terminology. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The Company expectations are as of the date this Form 10-KSB is filed, and the Company does not intend to update any of the forward-looking statements after the date this Annual Report on Form 10-KSB is filed to confirm these statements to actual results, unless required by law.

#### BUSINESS

##### Company History

China Automotive Systems, Inc. ("China Automotive" or the "Company") was incorporated in the State of Delaware on June 29, 1999 under the name Visions-In-Glass, Inc. and was principally engaged in the business of designing, marketing and selling custom-designed stained glass, leaded glass artifacts and

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

leaded glass windows through a Web site. From August 23, 2002, through March, 2003, we had no business operations.

Pursuant to a Share Exchange Agreement dated as of March 5, 2003, among Yarek Bartosz, Guofu Dong ("Dong"), Liping Xie ("Xie"), Qizhou Wu ("Wu"), Tse Yiu Wong ("Wong"), Hanlin Chen ("Chen" together with Dong, Wong, Wu and Xie, the "Sellers") and Great Genesis Holding Limited, a corporation organized under the laws of the Hong Kong Special Administrative Region, China ("Genesis"), we acquired (the "Acquisition") from the Sellers all of the issued and outstanding equity interests of Genesis (the "Genesis Shares"). As consideration for the Genesis Shares, we issued 20,914,250 shares of common stock to the Sellers. After the Acquisition, we continued the operations of Genesis. Genesis owns all of the capital stock of Jilong Enterprises Investment Corp. Ltd., a Hong Kong Company ("Jilong"). Jilong in turn owns interests in five Sino-joint ventures four of which manufacture power steering systems and/or related products for different segments of the automobile industry in China. According to the China National Information Center, in 2003 the combined sales of the Sino-joint ventures ranked second in their industry sector, with a market share of 18%.

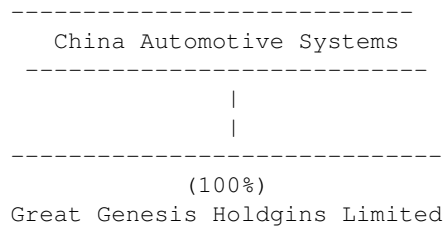
Effective March 10, 2003, Hanlin Chen, Guofu Dong, Liping Xie, Qizhou Wu, and Tse Yiu Wong began serving their terms as members of our Board of Directors. The newly elected directors appointed Hanlin Chen as the Chief Executive Officer and Chairman of the Board of Directors, Qizhou Wu as the Chief Operating Officer and Daming Hu as Chief Financial Officer.

1

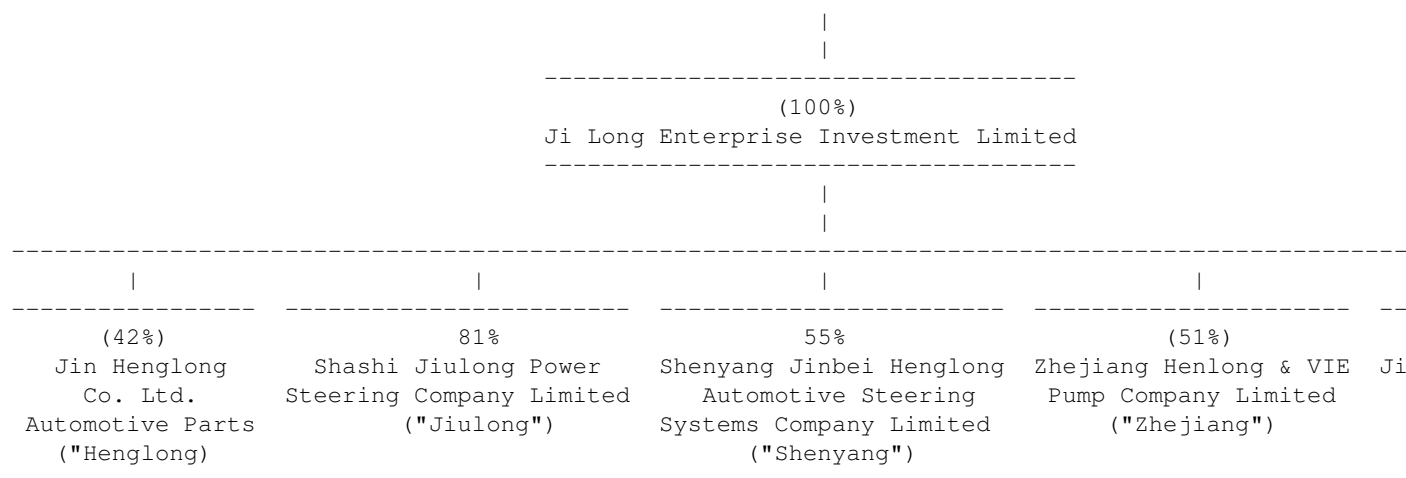
On May 19, 2003, we changed our name from Visions-In-Glass, Inc. to China Automotive Systems, Inc.

### Business Overview

Unless the context indicates otherwise, we use the terms the "the Company", "we", "our" and "us" to refer to both our predecessor, Genesis and China Automotive collectively on a consolidated basis. The historical financial statements for the periods prior to the Acquisition and summaries thereof appearing in this report are those of our predecessor company and represent the combined financial statements of Genesis. We are a holding company and have no significant business operations or assets other than our interest in Genesis. Through Genesis, we manufacture power steering systems and other component parts for automobiles. All operations are conducted through five Sino-foreign joint ventures in China. Set forth below is an organizational chart.



Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A



Source: Company data

Henglong and Jiulong are mainly engaged in the production of rack and pinion power steering gears and integral ball and nut power steering gears for cars and light and heavy-duty vehicles. Shenyang and Zhejiang were established in 2002 for the production of power steering parts and power steering pumps. Jingzhou was formed in 2003 to produce environment- protection textile and raw materials. At present, Henglong, Jiulong and Shenyang are the principal entities generating revenues while Zhejiang and Jingzhou are in the early development stage.

We have long-term contracts with more than forty vehicle manufacturers or VM's, including two of the largest automobile manufacturers in China with \$6.25 billion and \$2 billion in annual sales in 2003, respectively. We also have long-term contracts with the largest van manufacturers in China, Shenyang Brilliance Jinbei Co., Ltd., and Fukang, a Citroen invested automobile manufacturer. We also have long-term contracts with SAIC Cherry Automobile Co., Ltd. and Geely Automobile Co., Ltd.

We currently own two trademarks on automobile parts and twelve Chinese patents for power steering technology. We are in the process of integrating new advanced technologies such as electronic chips in power steering systems into our current product line and are pursuing aggressive strategies in technology to maintain a competitive edge within the automobile industry. In 2001, we signed a Licensing Agreement with Bishop Steering Technology Ltd, one of the leading manufacturers of power steering systems. In 2003, we signed a Technology Transfer Agreement with Namyang Ind. Co. Ltd., a leading steering column maker, for the technology necessary for electronic-controlled power steering (EPS) systems.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Responding to the trends of environmental protection, safety, energy saving and electronicalization, in 2003, we established a steering systems research institute with Tsinghua University, designed to develop the EPS and Electronic Hydraulic Steering System(EHPS).

### Strategic Plan

Our short to mid-term strategic plan is to focus on both domestic and international market expansion. To achieve this goal, we will focus on brand recognition, quality control, decreasing costs, research and development and strategic acquisitions. Set forth below are our goals:

- o Brand Recognition. Under the Henglong and Jiulong brands we offer four separate series of power steering sets and 307 models of power steering sets, steering columns steering oil pumps and steering hoses.

- o Quality Control. The Henglong and Jiulong manufacturing facilities passed the ISO/TS 16949 System Certification process that was developed by TUV Rheinland of Germany.

- o Decrease Cost. By improving our production ability and enhancing equipment management, optimizing the process and products structure, perfecting the supplier system and cutting production cost, our goal is to achieve a more competitive profit margin.

- o Research and Development. By partnering with Bishop Steering for the development of advanced steering systems, our objective is to gain increased market share in China.

- o International Expansion. We have established contacts with several international VM's and auto parts modules suppliers and are in preliminary negotiations regarding future development projects.

- o Acquisitions. We are exploring opportunities to create long-term growth through new ventures or acquisitions of other auto component manufacturers. We will seek acquisition targets that fulfill the following criteria:

- companies that can be easily integrated into product manufacturing and corporate management;
- companies that have strong joint-venture partners that would become major customers; and

3

- companies involved with power steering systems, oil pump or engine-cooling systems.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

### Customers

Our ten largest customers represent 73.18% of our total sales. The following table sets forth information regarding our ten largest customers.

#### List of Major Customers

Name of Customer	Percentage of Total Revenue
Brilliance China Automotive Holdings Limited	25.02%
Beiqi Foton Motor Co., Ltd.	11.08%
SAIC CHERY AUTOMOBILE CO., Ltd	10.49%
Great Wall Motor Company Limited	6.56%
Southeast Automotive Industry Co., Ltd	4.51%
China FAW Group Corporation	4.25%
Hebei Zhongxing Automobile Co., Ltd.	4.13%
Zhejiang Geely Holding Co., Ltd	3.69%
Dongfeng Liuzhou Motor Co., Ltd	2.15%
Zhengzhou Yutong Bus Co.,Ltd	1.30%

### Sales and Marketing

Our sales and marketing team of 59 salespersons is divided into two teams - the OEM team and the aftermarket team. Our sales and marketing team provide a constant interface with our key customers. These teams are located in all major vehicle producing regions to more effectively represent their respective customers' interests within our organization, to promote customer programs and to coordinate customer strategies with the goal of enhancing overall customer service and satisfaction. Our ability to support our customers is further enhanced by our broad presence in terms of sales offices, manufacturing facilities, engineering/technical centers and joint ventures.

Our sales and marketing organization and activities are designed to create overall awareness and consideration of, and to increase sales of our systems, modules and components. To further this objective, we participate in international trade shows in Paris, Frankfurt and Detroit, as well as international aftermarket-focused events.

### Distribution

The core of our distribution system is our ten district sales centers located in the Northeastern, Northern, Eastern, Southeastern, and the Central Western parts of China. Each of the district sales centers covers approximately

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

twelve sales locations in 31 provinces. We guarantee product delivery in eight hours if the client is located within 200 km from the district sales office. The guaranteed delivery time is 24 hours for customers located over 200 km from the sales office. Delivery time is a very important competitive factor, after quality, pricing and long-term relationships, in terms of customer decision making.

### Employees and Facilities

We currently employ approximately 2,159 persons in our production facilities of the four joint ventures located at the Jingzhou City of Hubei Province, Shenyang City of Liaoning Province and Zhejiang Province. Jiulong and Henglong in Jingzhou together employ 1,601 persons in facilities on 137,970.85 square meters of land. Shenyang has 200 employees, in production facilities covering an area of 35,000 square meters. Zhejiang has 208 employees covering an area of 33,000 square meters. Jingzhou has 150 employee covering an area of 46,305 square meters.

Hubei Province which is home to Dongfeng, one of the largest auto maker in China provides an ample supply of inexpensive but skilled labor to automotive-related industries. The annual production of Henglong and Jiulong in 2002 was 230,000 sets and approximately 15,000 sets in 2003. Although the production process continues to rely heavily on manual labor, we have invested substantially in high-level production machinery to improve capacity and production quality. A total of approximately \$10 million has been spent over the last two years on professional-grade equipment -- approximately 80% of the machines are already in place and ready for implementation into the manufacturing process.

### Raw Material

We purchase various manufactured components and raw materials for use in our manufacturing processes. The principal components and raw materials we purchase include castings, electronic parts, molded plastic parts, finished sub-components, fabricated metal, aluminum and steel. The most important raw material is steel. We enter into purchase agreements with local suppliers. The annual purchase plans are predetermined at the beginning of the calendar year but are subject to revision every three months as a result of customers' orders. A purchase order is made according to monthly production plans. This protects us from building up inventory when the orders from customers change.

Our three largest suppliers are Shanghai Lemforder Automotive Components Co. Ltd., Shaoxing Sonic Automotive Components Co., Ltd. and Zhejiang Yingfeng Cast Co. Ltd. which in the aggregate account for 17.18% of all components and raw materials we purchase.

All components and raw materials are available from numerous sources. We have not, in recent years, experienced any significant shortages of manufactured components or raw materials and normally do not carry inventories of these items in excess of what is reasonably required to meet our production and shipping schedules.

### Research and Development



## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

We have a 10-year consulting and licensing agreement with Bishop Steering Technology Ltd, one of the leading design firms in power steering systems. Bishop's technology in power steering systems is currently used by carmakers such as BMW and Mercedes Benz. Pursuant to the agreement, we have implemented the Bishop steering valve technology into the Henglong brand R&P power steering gear product.

Henglong owns a Hubei Provincial-Level Technical Center, which is approved by the Hubei Economic Commission. The center has a staff of 101 including 20 senior engineers, three foreign experts and 63 engineers primarily focused on Steering System R&D, experiment, process improvement and new material and process application.

We have established an R&D center—Changchun Hualong Auto Technology Co., Ltd. — with 40 employees which is composed of eight senior engineers, three foreign experts and 22 engineers all focused on Steering System R&D, experiments, and new material applications.

In addition, we have partnered with Tsinghua University to establish a steering system research center, called Qtsinghua Henglong Automobile Steering Research Institute for the purpose of R&D and experimentation for Electronic-controlled Power Steering (EPS).

We estimate that approximately three to five percent of our net earnings are allocated to research and development each year. We currently own twelve Chinese patents on power steering technology and four international patents. Sales of new products developed in 2003 account for approximately 25 to 30 percent of total sales.

### Competition

The automotive components industry is extremely competitive. Criteria for our customers include quality, price/cost competitiveness, system and product performance, reliability and timeliness of delivery, new product and technology development capability, excellence and flexibility in operations, degree of global and local presence, effectiveness of customer service and overall management capability. The power steering system market is fragmented in China, and we have seven major competitors. Of these competitors, two are Sino-foreign joint ventures while the other five are state-owned. The total output of the eight top-tier suppliers amounted to approximately 1.875 million sets with China Automotive Systems providing approximately 450,000 of these sets. Like many competitive industries, there is downward pressure on selling prices. In 2003, the selling price of our products was reduced by an average of 6% by the end of the fourth quarter.

Our major competitors are component suppliers of automobile manufacturers (i.e. the component suppliers that exclusively produce and supply specific automobile manufacturers) including Shanghai ZF and FKS. Shanghai ZF is the joint venture of Shanghai Automobile Company and Germany ZF. Shanghai Automobile Company has 28% of the market share and is an exclusive supplier to GM and Volkswagen in China. First Auto, FKS is the third largest in the market with approximately a 12% market share and is a joint venture of First Auto Group and Japan's Koyo Company.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

While the Chinese government limits foreign ownership of auto assemblers to 50% there is no analogous limitation in the automotive components industry. Thus opportunities exist for foreign component suppliers to set up factories in China. These overseas competitors employ technology that may be more advanced and may have already maintained a long-term relationship with the global automobile assemblers, but they are generally not yet as competitive as we are in China in terms of production cost and flexibility in meeting client requirements.

### The Chinese Automobile Industry

According to the Analysis Report on Vitality of China's Industries, which is jointly issued by National Planning Economy Research Institute and Beijing Xinhua-on-line, there is estimated to be a 30% increase of automobile sales in China in 2004. Management believes that the automotive market expansion will bolster the development of automobile component parts.

A key factor in the projected increase of automobile manufacturing is that Chinese retail banks now offer loans for automobile purchase. Consumers can obtain financing from banks for up to 70% of the purchase value for a maximum of six years. Recently, the Chinese government also adopted long-awaited regulations necessary to allow car firms to finance the purchase of their vehicles, a step to further accelerate the already rapidly growing market in China. These new regulations allow non-bank institutions and car companies to set up car financing firms. Currently, less than 20% of new car buyers in China use credit financing, as compared to 70% worldwide. Management believes that this change in banking regulations should encourage more individuals in China to buy cars.

### China's Economy

Management believes that the most important factor to understanding the Chinese automobile industry is the country's rapid economic growth. The strong demand in the auto sector has been, and will continue to be, underpinned by the desire of residents to improve their living standards, given significant increase in income levels. GDP growth averaged 9.8% between 1982 and 2002. Per capita GDP increased from \$276 in 1982 to \$392 in 1992 and \$967 in 2002. At present, China ranks as the world's sixth-largest economy, behind the US, Japan, Germany, the United Kingdom and France. Despite the Asian financial crisis in 1998-1999, China's economy has been fairly insulated from the fallout. Based on an accommodative fiscal policy that bolstered domestic demand and consumption, GDP growth averaged 7.6% between 1998 and 2002. In addition, China has successfully maintained a low rate of inflation.

Looking forward, the Chinese government and the International Monetary Fund forecast GDP growth in the region of 8% in 2004. Over the longer term, China's accession to the World Trade Organization (WTO) is expected to accelerate the capital flow to China from other developed countries.

### Highway Development

Management believes that the continuing development of the highway system will have a significant positive impact on the manufacture and sale of private automobiles. In this regard, by the end of 2002, China's total roads measured 1.758 million kilometers (1.055 million miles) making it the fourth longest system in the world (see Figure 1).

Figure 1: China Trunk & National Highway Network

[GRAPHIC OMITTED]

Source: worldhighways.com

National expressways run more than 30,000 kilometers, up from 6,200 kilometers as recently as four years ago. According to the Chinese National Bureau of Statistics, of a total of 78.7% or 1.336 million kilometers are of a high standard with 13.4% or 227,000 kilometers being first or second grade roads. For every 100 square kilometers, there are now 17.7 kilometers of road. With roads spread throughout all counties, 99.3% of towns and 91.8% of villages in China are connected.

According to a report by Peopledaily.com, the Chinese government's annual expenditure on road construction had been approximately US \$24.2 billion for three successive years up through 2000 and escalated to be US \$31.1 billion in 2001 and US\$26.6 billion budgeted (at the time of the report) for 2002. Construction of expressways is expected to continue through 2008 when the Olympic Games are scheduled to be held in Beijing. A national mainline network composed of five vertical and seven horizontal throughways is being developed, and new roads are also being built to improve links with neighboring countries. It was estimated - in the same report - that 40,000 kilometers (24,855 miles) were to be constructed during 2002 of which 62% were to be in the west of China. The Ministry of Communications indicates that the government is expected to invest some US \$84-\$100 billion on construction of 300,000 kilometers (217,480 miles) in western regions in the next ten years. China has 12 provinces and autonomous regions in its western area covering nearly 71.7% of the country's total landmass, but the roads are generally at a poor low level with few asphalt roads.

Doing Business in China

The Chinese Legal System

The practical effect of the People's Republic of China legal system on our business operations in China can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate Articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are not qualitatively different from the general corporation laws of the several states. Similarly, the People's Republic of China accounting laws mandate accounting practices, which are not consistent with US Generally Accepted Accounting Principles. The China accounting laws require that an annual "statutory audit" be performed in accordance with People's Republic of China accounting standards and that the books of account of Foreign Invested Enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a Wholly Foreign-Owned Enterprise to submit certain periodic fiscal reports and statements to designate financial and tax authorities, at the risk of business license revocation.

Second, while the enforcement of substantive rights may appear less clear than United States procedures, the Foreign Invested Enterprises and Wholly Foreign-Owned Enterprises are Chinese registered companies which enjoy the same status as other Chinese registered companies in business-to-business dispute resolution. Because the terms of the respective Articles of Association provide that all business disputes pertaining to Foreign Invested Enterprises are to be resolved by the Arbitration Institute of the Stockholm Chamber of Commerce in Stockholm, Sweden applying Chinese substantive law, the Chinese minority partner in our joint venture companies will not assume a privileged position regarding such disputes. Any award rendered by this arbitration tribunal is, by the express terms of the respective Articles of Association, enforceable in accordance with the "United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958)." Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different in operation from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

Economic Reform Issues

Although the Chinese government owns the majority of productive assets in China, in the past several years the government has implemented economic reform measures that emphasize decentralization and encourage private economic activity. Because these economic reform measures may be inconsistent or ineffectual, there are no assurances that:

- o We will be able to capitalize on economic reforms;



## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

	M2	Manufactured
Jingzhou Henglong	39,529.59	Automotive Parts
Shashi Jiulong	98,441.26	Power Steering
Shenyang Jinbei	35,354	Automotive Steering
Zhejiang Henlong	27,756	Pumps
Jingzhou Henglong Fulida	46,305.97	Textile

### ITEM 3. LEGAL PROCEEDINGS.

We are not a party to any pending or to the best of our knowledge, any threatened legal proceedings. No director, officer or affiliate of the Company, or owner of record of more than five percent (5%) of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to us or has a material interest adverse to us in reference to pending litigation.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the fourth quarter of the fiscal year there were no matters submitted to the stockholders for approval.

## PART II

### ITEM 5. MARKET FOR COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

#### (a) Market Prices of Common Stock

Our common stock is traded on the Over-The-Counter Bulletin Board under the symbol "CAAS.OB" in March 2003. The high and low bid intra-day prices of the common stock were reported on the OTCBB for the time periods indicated on the table below. Accordingly, the table below contains the high and low bid closing prices of the common stock as reported on the OTCBB for the time periods indicated.

	Price Range	
	High	Low
Fiscal Year Ended December 31, 2003		
First Quarter	\$ .10	\$0.01
Second Quarter	4.50	2.90
Third Quarter	4.85	3.82
Fourth Quarter	18.50	4.80

(b) Stockholders

Our common shares are issued in registered form. Securities Transfer Corporation in Frisco, Texas is the registrar and transfer agent for our common stock. As of March 15, 2004, there were 22,574,542 shares of our common stock outstanding and we had approximately 50 stockholders of record.

(c) Dividends

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be based upon our financial condition, operating results, capital requirements, plans for expansion, restrictions imposed by any financing arrangements and any other factors that the board of directors deems relevant.

(d) Sales of Unregistered Securities

In December 2003 we issued 509,856 shares to investors upon the exercise of warrants that were issued in March. The warrants were exercised on a cashless basis. The shares were issued pursuant to an exemption from the registration requirements under Section 4(2) of the Securities Act of 1933, as amended.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following is management's discussion and analysis of certain significant factors which have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements, as well as information relating to the plans of our current management. This report includes forward-looking statements. Generally, the words "believes," "anticipates," "may," "will," "should," "expect," "intend," "estimate," "continue," and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including the matters set forth in this report or other reports or documents we file with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected. Undue reliance should not be placed on these forward-looking statements which speak only as of the date hereof. We undertake no obligation to update these forward-looking statements.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto and other financial information contained elsewhere in this Form 10-KSB.

General Overview:

Effective March 5, 2003, Visions-In-Glass, Inc., a United States public company incorporated in the State of Delaware ("Visions"), entered into a Share Exchange Agreement to acquire 100% of the shareholder interest in Great Genesis Holding Limited, a company incorporated on January 3, 2003 under The Companies Ordinance in Hong Kong as a limited liability company ("Great Genesis"), as a result of which Great Genesis became a wholly-owned subsidiary of Visions. At the closing, the old directors and officers of Visions resigned, and new directors and officers were appointed. Visions subsequently changed its name to China Automotive Systems, Inc.

China Automotive Systems, Inc., including, when the context so requires, its subsidiaries and the subsidiaries' interests in the Sino-foreign joint ventures described below, is referred to herein as the "Company". The Company, through its Sino-foreign joint ventures described below, is primarily engaged in the manufacture and sale of automotive systems and components in the People's Republic of China (the "PRC" or "China") as described below.

Ji Long Enterprise Investment Limited was incorporated on October 8, 1992 under the Companies Ordinance in Hong Kong as a limited liability company ("Ji Long"). Ji Long is an investment holding company. Effective March 4, 2003, all of the shareholders of Ji Long exchanged their 100% shareholder interest for a 100% shareholder interest in Great Genesis, as a result of which Ji Long became a wholly-owned subsidiary of Great Genesis.



## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

In exchange for the acquisition of 100% of the shareholder interest in Great Genesis, the shareholders of Great Genesis were issued 20,914,250 shares of common stock of Visions. In addition, the shareholders of Great Genesis paid \$250,000 to the former officer, director and controlling shareholder of Visions for the cancellation of 17,424,750 shares of common stock and have agreed to pay an additional \$70,000, subject to certain conditions.

The acquisition of Great Genesis by the Company was accounted for as a recapitalization of Great Genesis, pursuant to which the accounting basis of Great Genesis continued unchanged subsequent to the transaction date. Accordingly, the pre-transaction financial statements of Great Genesis are the historical financial statements of the Company.

13

As of December 31, 2002 and 2003, Ji Long owned aggregate net interests in five Sino-foreign joint ventures organized in the PRC as shown below.

Name of Entity -----	Percentage Interest	
	2002 ----	2003 ----
Jingzhou Henglong Automotive Parts Co. Limited ("Henglong")	42.0%	42.0%
Shashi Jiulong Power Steering Co. Limited ("Jiulong")	81.0%	81.0%
Shenyang Jinbei Henglong Automotive Steering System Co. Limited ("Shenyang")	37.6%	55.0%
Zhejiang Henglong & Vie Pump-Manu Co. Limited ("Zhejiang")	51.0%	51.0%
Jingzhou Henglong Fulida Textile Co., Ltd. ("Jingzhou")	--	51.0%

During December 2002, the Company entered into three transactions with entities controlled by its chairman and controlling shareholder involving the Company's minority interest ownership in certain of its Sino-foreign joint ventures as follows: (1) the Company acquired a 21% interest in Jiulong for \$6,320,241; (2) the Company acquired a 7% interest in Henglong for \$3,310,602; and (3) the Company transferred a 7% interest in Henglong in exchange for an 11% interest in Jiulong. The amounts due to or from the chairman resulting from these transactions were accounted for as increases or decreases to the amounts due to or from shareholders/directors and were recorded at fair value, as determined by an independent appraisal firm. The difference between fair value and book value resulting from the disposition of joint venture interests was credited to additional paid-in capital. With respect to consideration paid by the Company in excess of the chairman's basis in his investment, such excess has been charged to additional paid-in capital as a distribution to the chairman, resulting in the acquired investment being recorded by the Company at the chairman's original cost basis.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Jingzhou was formed in February 2003 to produce environmental textile and raw materials, and is owned 51% by Ji Long and 49% by Cixi City Fulida Synthetic Fibre Co., Ltd. Operations to date have not been material. As an "Act in Concert" Agreement has been executed for Jingzhou, the Company consolidated Jingzhou as of December 31, 2003, and for the year then ended.

Henglong and Jiulong are mainly engaged in the production of rack and pinion power steering gears and integral ball and nut power steering gears for cars, light and heavy-duty vehicles. Shenyang and Zhejiang were established in 2002 and are focused on power steering parts and power steering pumps. Jingzhou was formed in 2003 to produce environment-protection textile and raw materials. At present, Henglong, Jiulong and Shenyang are the main revenue-generating entities, while Zhejiang and Jingzhou are in the early development stage and generated approximately 6% of consolidated revenues in 2003. The Company has long-term contracts with more than forty vehicle manufacturers, including two of the largest automobile manufacturers in China, First Auto Works, with \$6.25 billion in annual sales and Dongfeng Auto Company, with \$2.0 billion in annual sales. The Company also has long-term contracts with the largest van manufacturer in China, Shenyang Brilliance Jinbei Co., Ltd., which has approximately \$1.6 billion in annual sales, and Fukang, a Citroen-invested automobile manufacturer which has approximately \$1 billion in annual sales. The Company also has long-term contracts with two other smaller car manufacturers, SAIC Cherry Automobile Co., Ltd and Geely Automobile Co., Ltd.

14

During early 2003, the Directors of the Company and the other joint venturers in the Company's Sino-foreign joint ventures executed "Act in Concert" agreements, resulting in the Company having voting control of such Sino-foreign joint ventures. The Company is in the process of making application to the relevant PRC authorities for their approval to effect this change through amendments to the respective joint venture agreements. Consequently, effective January 1, 2003, the Company changed from equity accounting to consolidation accounting for its investments in Sino-foreign joint ventures ended December 31, 2003.

As a result of the board structures of the Company's joint ventures, each of the minority partners of Zhejiang, Jingzhou, Henglong, Jiulong and Shenyang had the right to approve major operating decisions of their respective joint ventures because the Company's representatives on the Boards of Directors of the joint ventures did not account for the requisite 67% of voting control required to approve various operating matters, which allowed the minority partners to participate in the operations of the management of the respective joint ventures. As such, the Company accounted for its interest in these joint ventures under the equity method in 2002 pursuant to Emerging Issues Task Force Issue No. 96-16, which states that if a minority joint venture partner has the right to participate in management, the majority joint venture partner is required to account for its interest in the joint venture under the equity method of accounting.

In March 2003, Henglong outsourced to Jiulong the production of an integral power steering system. Jiulong sells the related finished product to Henglong, which then sells the product to third parties. All intercompany profit is eliminated on consolidation. The transferred profit due to this transaction has been recorded in the interest account of minority shareholders according to their investment ratios.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

### Critical Accounting Policies:

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

Minority shareholders' interest refers to the percentage of the owner's equity of a subsidiary owned by those investors other than the parent company. Minority shareholders' interest in the consolidated financial statements means the percentage of the Company's net assets owned by shareholders of the Company's Sino-foreign joint ventures other than the Company, according to their respective investment ratios.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's consolidated financial statements.

### Revenues:

The Company recognizes revenue when the significant risks and rewards of ownership have been transferred to the customer pursuant to PRC law, including factors such as when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, sales and value added tax laws have been complied with, and collectibility is probable. The Company recognizes product sales generally at the time the product is shipped. Concurrent with the recognition of revenue, the Company reduces revenue for estimated product returns. Shipping and handling costs are included in cost of goods sold. Revenue is presented net of any sales tax and value added tax.

15

### Accounts Receivable:

In order to determine the value of the Company's accounts receivable, the Company records a provision for doubtful accounts to cover estimated credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectibility of outstanding accounts receivable. The Company evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

### Inventories:

Inventories are stated at the lower of cost or net realizable value. Cost is calculated on the moving-average basis and includes all costs to acquire and other costs incurred in bring the inventories to their present location and condition. The Company evaluates the net realizable value of its inventories on a regular basis and records a provision for loss to reduce the computed moving-average cost if it exceeds the net realizable value.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

### Income Taxes:

The Company records a tax provision to reflect the expected tax payable on taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

### Impairment of Long-Lived Assets:

The Company's long-lived assets consist of property and equipment and certain intangible assets. In assessing the impairment of such assets, the Company periodically makes assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions indicate that the carrying amount may not be recoverable, the Company records impairment charges for these assets at such time.

### Results of Operations:

The Company's Sino-foreign joint ventures are presented on a consolidated basis for the year ended December 31, 2003, as compared to the equity method of accounting for the year December 31, 2002. Accordingly, the results of operations for the year ended December 31, 2003 are not comparable to the year ended December 31, 2002. The equity method of accounting does not reflect the overall financial condition of the whole equity group, including the scale of assets and liabilities, asset structure, revenue and profitability, and cash flows. In 2003, the directors of the minority shareholders approved an "Act in Concert" agreement with the directors of the Company's wholly-owned subsidiary, Great Genesis. Accordingly, as of and for the year ended December 31, 2003, the financial statements are presented on a consolidated basis, to present Great Genesis and its Sino-foreign joint ventures as one accounting body in order to comprehensively reflect the overall results of operations and financial condition of the Company.

16

For the years ended December 31, 2003 and 2002, the condensed statements of operations of the Company's Sino-foreign joint ventures are presented below.

The condensed statements of operations of the Company's Sino-foreign joint ventures for the year ended December 31, 2003 excludes corporate general and administrative expense of \$1,109,000, stock-based compensation of \$1,300,000, and non-operating income of \$106,000.

	Henglong		Jiulong		Shenyang	
	2003	2002	2003	2002	2003	2002
Proportionate ownership interest at end of year	42%	42%	81%	81%	55%	55%

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Net sales	33,929,946	26,007,000	18,660,367	10,789,000	13,173,434	4,0
Cost of goods sold	21,242,707	14,841,000	9,695,034	5,881,000	9,964,598	3,8
Gross profit	12,687,239	11,166,000	8,965,333	4,908,000	3,208,836	2
Selling expenses	1,434,715	632,000	1,078,316	1,900,000	85,499	
General and administrative expenses	2,724,473	2,109,176	2,764,807	2,242,409	646,879	3
Research & Development expenses	809,914	59,753	201,627	164,881	--	
Depreciation and amortization	757,219	167,071	263,925	99,710	139,168	
Stock-based compensation						
Income (loss) from operations	6,960,918	8,198,000	4,656,658	501,000	2,337,290	-1
Finance costs	209,146	145,000	126,025	17,000	-1,667	
Other income (expense), net	228,587	451,000	139,989	216,000	9,553	
Income (loss) before income taxes	6,980,359	8,504,000	4,670,622	700,000	2,348,510	-1
Income taxes	777,485	1,303,000	973,455	302,000	--	
Net income (loss)	6,202,874	7,201,000	3,697,167	398,000	2,348,510	-1
Equity in income (loss) of joint ventures	2,605,207	3,989,000	2,691,050	311,000	1,409,106	-

	Jingzhou		Elimination		Total	
	2003	2002	2003	2002	2003	2002
Proportionate ownership interest at end of year	51%					
Net sales	1,702,306	--	-13,816,897	-7,084,000	55,327,174	33,8
Cost of goods sold	1,764,293	--	-13,481,838	-7,084,000	30,400,201	17,5
Gross profit	-61,987	0	-335,059	0	24,926,973	16,2
Selling expenses	13,849	--	--	--	2,733,425	2,5
General and						

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

administrative expenses	118,749	--	--	--	6,614,024	4,8
Research & Development expenses	--	--	--	--	1,017,031	2
Depreciation and amortization	45,569	--	--	--	1,367,171	2
Stock-based compensation						
Income (loss) from operations	-240,154	0	-335,059	0	13,195,322	8,3
Finance costs	11,387	--	-1,249	--	344,723	1
Other income (expense), net	1,464	--	--	--	428,896	6
Income (loss) before income taxes	-250,077	0	-333,810	0	13,279,495	8,8
Income taxes	--	--	--	--	1,750,940	1,6
Net income (loss)	-250,077	0	-333,810	0	11,528,555	7,2
Equity in income (loss) of joint ventures	-127,539	--	-333,810	--	6,174,598	4,1

17

Years Ended December 31, 2003 and 2002:

Net Sales. The increase in net sales of the Company's Sino-foreign joint ventures for the year ended December 31, 2003 as compared to the year ended December 31, 2002 is summarized as follows:

Item	2002		2003		Increase		Contr totot sales
	Quantity	Amount (\$)	Quantity	Amount (\$)	Quantity	Amount (\$)	
Steering gear	236,000	28,980,000	417,000	44,557,000	181,000	15,577,000	
Steering							

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

pump	1,326	66,000	34,172	1,678,000	32,846	1,612,000
Terylene material	--	--	1,420,000	1,702,000	1,420	1,702,000
Steering accessories	--	4,754,000	--	7,390,000	--	2,636,000
Total	--	33,800,000	--	55,327,000	--	21,527,000

For the year ended December 31, 2003, net sales were \$55,327,000, as compared to \$33,800,000 for the year ended December 31, 2002, an increase of \$21,527,000 or 64%. The increase in net sales in 2003 as compared to 2002 was a result of several factors.

1. The sales of steering gears, one of the Company's principal products, increased substantially as a result of increased marketing activities by the Company. Sales of steering gears increased to 417,000 sets in 2003 from 236,000 sets, reflecting sales in 2003 of \$44,557,000, as compared to \$28,980,000 in 2002, an increase of \$15,577,000 or 54%. Steering gear sales represented 46% of consolidated sales.

2. Production at Zhejiang and Jingzhou commenced in the fourth quarter of 2003. Zhejiang was formed in 2002 and is mainly engaged in the production of power steering pumps. In 2002, Zhejiang was in the initial development stage, generating \$66,000 of net sales. During the three months ended December 31, 2003, Zhejiang commenced production and sales, generating \$1,678,000 of net sales. Jingzhou was formed in February 2003 to produce environmental textiles and raw materials of terylene, such as POY (pre-oriented yarn) and DTY (draw texturing yarn). During 2003, Jingzhou generated net sales of \$1,702,000. During 2003, Jingzhou and Zhejiang contributed in the aggregate 10% of the Company's consolidated net sales.

3. Increase in sales of other products. As a result of increased sales of the Company's main product, sales of accessories also increased. In 2003, net sales of accessories were \$7,390,000, as compared to \$4,754,000 for 2002, an increase of \$2,636,000 or 55%. During 2003, accessories contributed in the aggregate 8% of the Company's consolidated net sales.

Net sales were \$55,327,000 for the year ended December 31, 2003. Sales for the nine months ended September 30, 2003 were \$36,776,000 and for the three months ended December 31, 2003 sales were \$18,551,000, reflecting strong sales growth in the Company's product lines. Sales growth in the fourth quarter of 2003 was substantially in excess of sales growth in the prior three quarter of 2003 as a result of several factors.

In the first half of 2003, the SARS virus spread through most of China, which had a substantial negative impact on consumer spending and, in particular, automobile sales in China during the nine months ended September 30, 2003. As a parts supplier to the automobile industry, the Company's sales were also affected. As a result, during the first three quarter of 2003, the sales of the Company's Henlong, Jiulong and Jinbei Sino-foreign joint ventures were below budgeted sales levels.

In the fourth quarter of 2003, the SARS virus was controlled, and the pent-up demand for automobiles was released. Furthermore, as there is typically a surge in retail sales during the Chinese New Year (which occurs during January and February), vehicle manufacturers increased their parts inventories during the fourth quarter of 2003 in anticipation of this increase in consumer demand. These factors contributed to a sales increase in the fourth quarter of 2003 at

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Henglong, Jiulong and Jinbei in excess of budgeted levels.

During the nine months ended September 30, 2003, Zhejiang and Jingzhou were Sino-foreign joint ventures in the initial development stage, and were primarily engaged in preparations to begin production. During the three months ended December 31, 2003, production and sales commenced.

The Company's ten largest customers accounted for 73.18% of the Company's consolidated sales, with three customers accounting for in excess of 10% of consolidated sales, with 25.02%, 11.08% and 10.49% of consolidated sales, or an aggregate of 46.59% of consolidated sales.

Gross Profit. The change in gross profit for the year ended December 31, 2003 as compared to the year ended December 31, 2002 is summarized as follows:

2002						
Item	Quantity	Price	Sales amount	Unit cost	Total cost	Gross profit
Power steering gear	236,000	122.80	28,980,000	63.51	14,988,000	13,992,000
Power steering pump	1,326	49.77	66,000	51.92	69,000	-3,000
Terylene material	--	--	--	--	--	--
Accessories	--	--	4,754,000	--	2,464,000	2,290,000
Total	--	--	33,800,000	--	17,521,000	16,279,000

2003						
Item	Quantity	Price	Sales amount	Unit cost	Total cost	Gross profit
Power steering gear	417,000	106.85	44,557,000	59.07	24,632,000	19,925,000
Power steering pump	34,172	49.10	1,678,000	31.43	1,074,000	604,000
Terylene material	1,420	1,198.59	1,702,000	1,242.25	1,764,000	-62,000
Accessories	--	--	7,390,000	--	2,930,000	4,460,000
Total	--	--	55,327,000	--	30,400,000	24,927,000

### Analysis

Item	Increased profit	%	Effected by quantity	Effected by price	Effected by unit cost



Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Power steering gear	5,933,000	42%	10,731,490	-6,650,600	1,852,110
Power steering pump	607,000	--	-70,619	-22,740	700,359
Terylene material	-62,000	--	-62,000	--	--
Accessories	2,170,000	95%	1,269,760	--	900,240
Total	8,648,000	53%	11,818,631	-6,673,340	3,452,709

The gross profit in 2003 was \$24,927,000, as compared to \$16,279,000 in 2002, an increase of \$8,648,000 or 53%, as a result of following factors:

1. The Company increased its marketing activities in 2003, resulting in an increase in sales, including a 77% increase in sales of the Company's principal product. Gross profit increased by \$11,868,631 in 2003 due to increased sales.

2. In 2003, the Company reduced its sales prices to maintain and increase market share in a highly competitive environment, including a 13% decrease in the sales price of its main product. Gross profit decreased by \$6,673,340 in 2003 due to reduced sales prices.

3. The Company increased its investment in advanced production equipment to improve manufacturing efficiency, while at the same time improving cost controls. As a result, the production cost of the Company's principal product decreased by 7%. Gross profit increased by \$3,452,709 in 2003 due to the implementation of cost reduction measures.

As reflected in the table, the decrease in sales price exceeded the decrease in costs, resulting in a decreased gross margin of 45% in 2003, as compared to 48% in 2002.

During September 2003, the SARS virus was controlled and the pent-up demand for automobiles was rapidly released. Increases in real estate construction and increased production by numerous automobile manufacturers at the same time resulted in a shortage of steel. Accordingly, during the first quarter of 2004, as steel demand was in excess of steel supply, steel prices increased by 10% to 20%.

Gross profit was \$24,927,000 or 45.1% of net sales for the year ended December 31, 2003, which is consistent with budgeted levels.

The Company expects that gross margins will decrease to approximately 35% during 2004 as a result of increased raw material costs.

In response, the Company intends to attempt to reduce costs and at the same time continue to improve the quality of its products.

Since the increase in raw material costs will have an adverse effect on gross margin in 2004, the Company plans to take the following measures to reduce costs to meet the target of 35%:

1. Reduce the labor force; and
2. Decrease the use of raw materials.

The Company expects to accomplish this in two ways:

1. Equip a digital control system on the common machine and purchase advanced

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

production equipment to improve manufacturing efficiency; to check and modify standard working time based on actual work time, and reduce standard working time per piece.

2. Optimize product design and reduce the weight of the parts, thus reducing the usage of raw materials. To enhance the production organization, build a special team to control costs in advance and/or during the manufacturing process.

18

In order to improve its manufacturing efficiency, the Company plans to purchase advanced production equipment as shown in the table below, while at the same time reducing labor costs.

Name	Model	Former man hour (min/piece)	Newly man hour (Min/piece)	Quality of product	Made by	Made in
CNC Fast Cut Lathe	FC-SD39	4.2	2.2	Advanced	CHIEN YIH MACHINERY CO., LTD.	China Tai Wan
Steering Rack Grinding Machine	MEP-125-35	4.9	1.6	Advanced	MAGERLE AG MASCHINENFABRIK	Swiss
Drilling and Cutting Machine	TC-600S	7	4	Advanced	DAWAN MACHINERY CO., LTD.	China Tai Wan
Horizontal Cutting Central Machine	MK603H	16.5	8.5	Advanced	QUASER MACHINE TOOLS, INC.	China Tai Wan
Internal Thread Grinding Machine	CNC335IG	12	3.2	Advanced	BUDERUS SCHLEIFTECHNIK GMBH	Germany
External Thread Grinding Machine	CNC635GA	3.5	3.5	Advanced	BUDERUS SCHLEIFTECHNIK GMBH	Germany
Kirby Worm Shaft and Valve Sleeve Slotting Machine	SSM	6	0.6	Advanced	KIRBY ENGINEERING	Australia
Kirby Valve Balance and Test Machine	VBM	7	1.8	Advanced	KIRBY ENGINEERING	Australia
Automatic Assembly Lines	ZDZPX	20	5	Advanced	DALIAN MACHINERY CO., LTD.	P.R.C.

Once the foregoing equipment has been installed and is operational, under the assumptions that the Company will produce 420,000 - 600,000 steering sets per year and will have a standard unit man hour cost of \$3 per hour, the Company expects a reduction in man hours from 354,900 to 507,000, thus reducing labor costs by \$1,064,700 - \$1,521,000.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

During the year ended December 31, 2003, labor costs accounted for approximately 10% of net sales. Through expanded use of numerical control machines and automatic assembly lines, the Company anticipates reducing labor costs to less than 8% of net sales by the end of 2004.

The Company also intends to optimize product design and its production organization to reduce the consumption of raw materials. During the year ended December 31, 2003, raw material costs accounted for approximately 40% of net sales. During the first quarter of 2004, the price of the Company's primary raw material, steel, rose 20% in China. It is estimated the average price increase during 2004 will be 15%. The Company anticipates that it will attempt to enhance the processes that control production and optimize the structural design of its products with the objective being to decrease the use of raw materials and direct material costs up to 3% of net sales. Combined with the above-mentioned two factors, the Company expects that direct material costs will increase to 52% of net sales in 2004.

Selling Expenses. For the years ended December 31, 2002 and 2003, selling expenses are summarized as follows:

	Salaries and wages	Supplies	Travel	Transportation	Sales service	Rent
2002	1,300,000	86,000	253,000	546,000	211,000	45,000
2003	1,302,000	142,000	233,000	764,000	69,000	69,000
Increased (decreased) amount	2,000	56,000	-20,000	218,000	-142,000	24,000
Increased (decreased) percentage	0.2%	65%	-8%	40%	-67%	53%

	Office	Advertising	Entertainment	Insurance	Other	Total
2002	53,000	17,000	14,000	23,000	30,000	2,578,000
2003	64,000	34,000	28,000	15,000	13,000	2,733,000
Increased (decreased) amount	11,000	17,000	14,000	-8,000	-17,000	155,000
Increased (decreased) percentage	21%	100%	100%	-36%	-58%	6%

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Selling expenses were \$2,733,000 for 2003, as compared to \$2,578,000 for 2002, an increase of \$155,000 or 6%, principally as a result of increases in supplies, transportation, rent, advertising and entertainment. The increase in supplies, transportation and rent was due to the increased level of business. The increase in advertising and entertainment was due to market development activities as described above. The decrease in seller's expenses was caused by a reduction in sales service costs, as a result of the Company hiring outside contractors to perform this function in 2002, while the Company performed this function in-house in 2003.

General and Administrative Expenses. For the years ended December 31, 2002 and 2003, general and administrative expenses are summarized as follows:

	Reverse merger costs	Salaries and wages	Travel	Office	Supplies	Repairs	Rent
2002	0	680,000	100,000	172,000	384,000	41,000	179,000
2003	1,109,000	1,430,000	193,000	173,000	568,000	198,000	103,000
Increased (decreased) amount	1,109,000	750,000	93,000	1,000	184,000	157,000	-76,000
Increased (decreased) percentage	--	110%	93%	--	48%	383%	-42%

Item	Adminis- trative	Tax	Provision for bad debts	Impairment of long-term investment	Impairment of inventories	Training	Warranty
2002	159,000	165,000	1,363,000	214,000	--	47,000	--
2003	153,000	159,000	1,549,000	--	277,000	56,000	157,000
Increased (decreased) amount	-6,000	-6,000	186,000	-214,000	277,000	9,000	157,000
Increased (decreased) percentage	-4%	-4%	14%	-100%	--	21%	--

General and administrative expenses were \$7,723,000 for the year ended December 31, 2003, consisting of \$1,109,000 from the parent company and \$6,614,000 from the Sino-foreign joint ventures.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Significant expense items that increased more than \$100,000 in 2003 as compared to 2002 were reverse merger costs, salaries and wages, supplier and costs, insurance, bad debts, impairment of inventories and warranty expense. Reverse merger costs consisted of the acquisition of a controlling interest in a public company. The Company also incurred increased costs in 2003 associated with the legal, accounting and auditing costs of operating a public company.

The reason for increased salaries and wages and insurance was attributable to increased management costs as a result of increased production at Henglong, Jiulong and Shenyang, and sustained production from Jingzhou and Zhejiang.

The reason for the increase in supplier and repair costs was due to an increase in production, which in turn caused an increase in materials used and repaired. In addition, Jingzhou also incurred inspection and repair expenses during 2003, its first year of operation.

Allowance for doubtful accounts, impairment of inventories and warranty reserve are based on historical experience. For 2003, the Company recorded an allowance for doubtful accounts of \$771,841 based on an analysis of the accounts receivable aging. The Company recorded an allowance for doubtful accounts of 25% for accounts outstanding from 180-365 days; 50% for accounts outstanding from 1 - 2 years; and 100% for accounts outstanding over two years. For 2002, the Company recorded an allowance for doubtful accounts based on 4% of net sales.

Impairment of inventories is recorded based on the lower of cost or net realizable value. In 2002, the inventory cost was approximately equal to net realizable value.

Warranty reserve represents an obligation to repair or replace defective products under certain conditions. The estimate of the warranty reserve is calculated based on historical experience. In 2003, the warranty rate was determined to be 0.3% of net sales.

The expense items that decreased more than \$100,000 were impairment of long-term investment. Since the cost of the long-term investment was approximately equal to its net realizable value, an impairment reserve was no longer required.

Research and Development Expenses. Research and development expenses were \$1,017,000 for the year ended December 31, 2003, as compared to \$226,000 for the year ended December 31, 2002, an increase of \$791,000 or 350%, consisting of new projects as follows: electronic power steering units - \$350,000; absorbable steering columns - \$100,000; steering pumps for passenger vehicles - \$80,000; tie rods - \$140,000; and new techniques for rack production - \$120,000.

Depreciation and Amortization Expense. Depreciation and amortization expense included in costs and expenses, excluding amounts included in cost of sales, was \$1,367,170 for the year ended December 31, 2003, as compared to \$291,000 for the year ended December 31, 2002, an increase of \$1,076,000 or 369%, as a result of increased production and the increase in depreciation charges for machinery equipment of 6 years and electronic equipment of 4 years based on a reduction in the estimated useful lives of the respective assets. For 2002, the Company determined that the useful life of machinery equipment ranged from 10 to 13 years, and electronic equipment ranged from 6 to 10 years. The increase in depreciation expense of \$944,000 resulting from the reduction in estimated useful lives of the respective assets was recorded as a charge to operations in 2003.

Stock Compensation. During March 2003, in conjunction with the transaction with

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Great Genesis described above, the Company issued common stock purchase warrants to three consultants to acquire an aggregate of 550,375 shares of common stock, exercisable for a period of one year at \$1.20 per share. The aggregate fair value of these warrants, calculated pursuant to the Black-Scholes option-pricing model, was estimated to be \$1,300,000, which was charged to operations during the year ended December 31, 2003.

**Income From Operations.** Income from operations was \$10,786,842 for the year ended December 31, 2003.

**Equity Income (Loss) of Joint Ventures.** The Company recorded equity income of joint ventures aggregating \$4,160,000 for the year ended December 31, 2002, reflecting the Company's aggregate proportionate share of the earnings of its Sino-foreign joint ventures based on the equity method of accounting.

**Other Non-Operating Income.** For the years ended December 31, 2002 and 2003, other non-operating income is summarized as follows:

	Material sold	Subsidy income	Equipment disposal	Share exchange income	Total
2002	267,000	392,000	17,000	--	676,000
2003	281,000	132,000	14,000	107,000	534,000
Increased (decreased) amount	14,000		-260,000	-3,000	107,000
Increased (decreased) percentage	5%	-66%	-18%	--	-21%

For the year ended December 31, 2003, non-operating income was \$534,000, as compared to \$676,000 for the year ended December 31, 2002, a decrease of \$142,000 or 21%, primarily because of a reduction in subsidies from the Chinese government. The Company purchased less domestic equipment in 2003 than in 2002 and thus obtained less subsidy income. In addition, in 2002, the Company transferred a 7% interest in Henglong in exchange for an 11% interest of Jiulong. As a part of terms of the transaction, the joint venture partner paid the Company \$107,000 in 2003, which was recorded as non-operating income.

**Financial Expenses.** Financial expenses were \$344,723 for the year ended December 31, 2003.

**Income Before Income Taxes.** Income before income taxes was \$10,976,166 for the year ended December 31, 2003, as compared to \$4,159,000 for the year ended December 31, 2002.

**Income Taxes.** Income tax expense was \$1,750,940 for the year ended December 31, 2003. During the year ended December 31, 2003, Henglong, one of the Company's

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Sino-foreign joint ventures, received an income tax refund of \$521,000, which has been reflected as a reduction to income tax expense in the consolidated statements of operations for the year ended December 31, 2003.

Income Before Minority Interest. Income before minority interest was \$9,225,226 for the year ended December 31, 2003, as compared to \$4,159,000 for the year ended December 31, 2002.

Minority Interest. The Company recorded the minority interests' aggregate share in each Sino-foreign joint venture's earnings aggregating \$5,353,957 for the year ended December 31, 2003.

Net Income. Net income was \$3,871,269 for the year ended December 31, 2003, as compared to \$4,159,000 for the year ended December 31, 2002.

Financial Condition - December 31, 2003:

Liquidity and Capital Resources:

The Company has relied primarily on advances and investments from its shareholders for its capital requirements since inception.

Operating. The Company's operations provided cash of \$3,925,587 for the year ended December 31, 2003. At December 31, 2003, cash and cash equivalents were \$10,730,882. Working capital was \$19,944,120 at December 31, 2003, reflecting a current ratio of 1.39:1.

The Company anticipates that its working capital resources are adequate to fund anticipated costs and expenses for the year ending December 31, 2004.

Investing. During the year ended December 31, 2003, the Company utilized \$9,197,806 in investing activities, consisting of payments of \$8,843,129 to acquire fixed assets, \$328,228 to acquire intangible assets and an increase in other receivables of \$1,215,606, less \$1,189,157 generated from the liquidation of long-term investments. During the year ended December 31, 2002, the Company utilized \$51,000 in investing activities, consisting of an increase in other receivables.

Financing. During the year ended December 31, 2003, the Company generated \$10,384,665 from financing activities, consisting of bank loans of \$6,101,410, advances from shareholders/directors of \$6,770,887 and the proceeds from the sale of common stock of \$159,000, less dividends paid of \$2,646,632. During the year ended December 31, 2002, the Company generated \$52,000 from financing activities, consisting of an increase in amounts due to shareholders/directors.

During the year ended December 31, 2002, the shareholders/directors advanced \$3,040,000 to fund the Company's investments in joint ventures and. During the year ended December 31, 2003, the shareholders/directors cancelled dividends previously declared of \$17,167,000, which was treated as a contribution to capital.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

### Disclosures about Contractual Obligations and Commercial Commitments:

During October 2003, Henglong, one of the Company's Sino-foreign joint ventures, signed an agreement with the management council of Wuhu Science and Technology Zone to invest \$10,000,000 to develop an industrial enterprise to carry out automobile component projects related to power steering systems. The agreement does not specify a time limit. The Company plans to invest in phases over a five year period. The Company plans to invest approximately \$870,000 in the first phase to acquire land rights, which will be completed during 2004. The Company advanced approximately \$435,000 during 2003 pursuant to the agreement under the first phase. This new plant is expected to service a large vehicle manufacturer in Wuhu at reduced transportation and storage costs.

During March 2003, Henglong signed a purchase and construction agreement with Wuhan Huazhong Shuguang Software Park Co., Ltd. for \$4,820,000 to design and construct a software research and development facility. This facility will design software and other products for the automobile. The Company paid \$2,421,300 during 2003. According to the agreement, the Company will pay an additional \$952,900 during 2004 and pay off the remaining \$1,445,800 after it receives a license for the right to use the land and a building property certificate. This new software research and development facility will be located in an area of Hubei Province that contains ten well-known universities and a large vehicle manufacturer.

On October 29, 2001, Henglong entered into a ten year license agreement with Bishop Steering Technology Limited ("Bishop"), an Australian company engaged in the design of power steering systems. Pursuant to the agreement, Henglong is obligated to pay Bishop an annual technical assistance fee of approximately \$200,000 per year during the first two years of the agreement and \$110,000 per year during the remaining eight years of the agreement, and a royalty to be determined.

On July 21, 2003, Henglong entered into a five year license and technical assistance agreement with Namyang Industrial Co. Ltd. ("Namyang"), a Korean company engaged in the manufacture of steering columns and universal joint assemblies for automobiles. Pursuant to the agreement, Henglong paid Namyang an initial payment of \$100,000 and is further obligated to pay a royalty of 3% of the sales price of products sold that include the licensed technology.

On October 20, 2003, Henglong, one of the Company's Sino-foreign joint ventures, entered into a contract to purchase a land use right relating to parcel of land for \$3,680,000 and paid a \$361,000 deposit. This transaction is expected to close in 2004.

21

### Inflation and Currency Matters:

In the most recent decade, the Chinese economy has experienced periods of rapid economic growth as well as relatively high rates of inflation, which in turn has resulted in the periodic adoption by the Chinese government of various corrective measures designed to regulate growth and contain inflation. The success of the Company depends in substantial part on the continued growth and development of the Chinese economy.

Foreign operations are subject to certain risks inherent in conducting business



## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

abroad, including price and currency exchange controls, and fluctuations in the relative value of currencies. The Company conducts virtually all of its business in China and, accordingly, the sale of its products is settled primarily in RMB. As a result, devaluation or currency fluctuation of the RMB against the USD would adversely affect the Company's financial performance when measured in USD. Although prior to 1994 the RMB experienced significant devaluation against the USD, the RMB has remained fairly stable since then. In addition, the RMB is not freely convertible into foreign currencies, and the ability to convert the RMB is subject to the availability of foreign currencies. Effective December 1, 1998, all foreign exchange transactions involving the RMB must take place through authorized banks or financial institutions in China at the prevailing exchange rates quoted by the People's Bank of China.

As China has recently been admitted as a member of the World Trade Organization, the central government of China is expected to adopt a more rigorous approach to partially deregulate currency conversion restrictions, which may in turn increase the exchange rate fluctuation of the RMB. Should there be any major change in the central government's currency policies, the Company does not believe that such an action would have a detrimental effect on the Company's operations, since the Company conducts virtually all of its business in China, and the sale of its products is settled in RMB.

Although prior to 1994 the RMB experienced significant devaluation against the USD, the RMB has remained fairly stable since then. The exchange rate was approximately US\$1.00 to RMB 8.30 at December 31, 2002 and 2003.

### Quantitative and Qualitative Disclosures about Market Risk:

The Company does not have any market risk with respect to such factors as commodity prices, equity prices, and other market changes that affect market risk sensitive investments. A 10 point basis change in the Company's average debt interest rate would not have a material effect on the Company's results of operations.

With respect to foreign currency exchange rates, the Company does not believe that a devaluation or fluctuation of the RMB against the USD would have a detrimental effect on the Company's operations, since the Company conducts virtually all of its business in China, and the sale of its products and the purchase of raw materials and services are settled in RMB. The effect of a devaluation or fluctuation of the RMB against the USD would affect the Company's results of operations, financial position and cash flows, when presented in USD (based on a current exchange rate) as compared to RMB.

As the Company's debt obligations are primarily short-term in nature, with fixed interest rates, the Company does not have any risk from an increase in market interest rates. However, to the extent that the Company arranges new borrowings in the future, an increase in market interest rates would cause a commensurate increase in the interest expense related to such borrowings.

### Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

associated asset retirement costs. The Company adopted SFAS No. 143 effective January 1, 2003. The adoption of SFAS No. 143 did not have a significant effect on the Company's financial statement presentation or disclosures.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS No. 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. The adoption of SFAS No. 145 did not have a significant effect on the Company's financial statement presentation or disclosures.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces the previous accounting guidance provided by the EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a significant effect on the Company's financial statement presentation or disclosures.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 did not have a significant effect on the Company's financial statement presentation or disclosures.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies under what circumstances a contract with initial investments meets the characteristics of a derivative and when a derivative contains a financing

component. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a significant effect on the Company's financial statement presentation or disclosures.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS No. 150 did not have a significant effect on the Company's financial statement presentation or disclosures.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company implemented the disclosure provisions of FIN 45 in its December 31, 2002 consolidated financial statements, and the measurement and recording provisions of FIN No. 45 effective January 1, 2003.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities (and Interpretation of ARB No. 51)" ("FIN 46"). FIN 46 requires that the primary beneficiary in a variable interest entity consolidate the entity even if the primary beneficiary does not have a majority voting interest. The consolidation requirements of FIN 46 are required to be implemented for any variable interest entity created on or after January 31, 2003. In addition, FIN 46 requires disclosure of information regarding guarantees or exposures to loss relating to any variable interest entity existing prior to January 31, 2003 in financial statements issued after January 31, 2003. The implementation of the provisions of FIN 46 effective January 31, 2003 did not have a significant effect on the Company's consolidated financial statement presentation or disclosures.

### ITEM 7. FINANCIAL STATEMENTS.

#### (a) Financial Statements

The following financial statements are included elsewhere in this document.

1. Report of Independent Auditors
2. Consolidated Balance Sheets as of December 31, 2003 and December 31, 2002.
3. Consolidated Statements of Operations for the years ended

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

December 31, 2003 and December 31, 2002.

4. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2002 and 2001.
5. Consolidated Statements of Cash Flows for the years ended December 31, 2003 and December 31, 2002.
6. Notes to Consolidated Financial Statements.

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Effective May 6, 2003, we dismissed Armando C. Ibarra ("Ibarra"), as China Automotives' independent accountant. Effective May 6, 2003, we engaged Schwartz Levitsky Feldman LLP ("SLF") as our new independent accountants. China Automotive's Board of Directors approved the dismissal of Ibarra and the engagement of SLF.

Prior to SLF becoming our independent accountants, SLF was not consulted by us or anyone on our behalf regarding either the application of accounting principles to a specific or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements; or any matter that was the subject of a disagreement or event as defined at Item 304 (a)(1)(iv) of Regulation S-B.

Ibarra audited our financial statements for the fiscal years ended December 31, 2001 and 2002. Ibarra's reports for these periods did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified as to audit scope or accounting principles, except that reports indicated that our losses from operations raised substantial doubt about its ability to operate as a going concern.

25

During the fiscal years ended December 31, 2001 and 2002 and the interim period from January 1, 2003 through May 6, 2003, there were no disagreements with Ibarra on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Ibarra, would have caused such firm to make reference to the subject matter of the disagreements in connection with its report on our financial statements. In addition, there were no such events as described under Item 304(a)(1)(IV)(B) of Regulation S-B during the fiscal years ended December 31, 2002 and 2001 and the interim period from January 1, 2003 through May 6, 2003.

### ITEM 8A. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures: As of December 31, 2003, the end of the period covered by this report, the Company's chief executive officer and its chief financial officer reviewed and evaluated the

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)), which are designed to ensure that material information the Company must disclose in its report filed or submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized, and reported on a timely basis, and have concluded, based on that evaluation, that as of such date, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's chief executive officer and chief financial officer as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in internal controls over financial reporting: For the fiscal year ended December 31, 2003, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

### PART III

#### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT MANAGEMENT

The following table and text set forth the names and ages of all directors and executive officers of the Company as of December 31, 2003. The Board of Directors is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Also provided herein are brief descriptions of the business experience of each director and executive officer during the past five years and an indication of directorships held by each director in other companies subject to the reporting requirements under the Federal securities laws.

26

Name	Age	Position(s)
Hanlin Chen	46	Chief Executive Officer and Chairman of the Board
Qizhou Wu	39	Chief Operating Officer and Director
Guofu Dong	38	Vice President and Director
Daming Hu	45	Chief Financial Officer
Li Ping Xie	43	Director
Tse Yiu Wong Andy	33	Sr. VP, Director
Robert Tung	47	Director
Dr. Haimian Cai	40	Director
William E. Thomson	62	Director

#### Biographies of Directors and Executive Officers:

Hanlin Chen has served as a chairman of the board and CEO since March

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

2003. Mr. Chen is a standing board member of Political Consulting Committee of Jingzhou city and vice president of Foreign Investors Association of Hubei Province. He was the general manager of Jiulong from 1993 to 1997. Since 1997, he has been the Chairman of the Board of Henglong. Mr. Chen graduated from Barrington University with an MBA degree.

Qizhou Wu has served as the Chief Operating Officer since March 2003. He was the Managing Vice General Manager of Jiulong from 1993 to 1999 and GM of Henglong from 1999 to 2002. Mr. Wu graduated from Tsinghua University in Beijing with a Masters degree in Automobile Engineering.

Guofu Dong has served the Vice President of the Company and oversees general management, international business and investor relations since March 2003. Mr. Dong has over ten years experience in corporate management and strategic development. Mr. Dong graduated from Fujian Normal University with a Bachelor of Arts degree. He also completed his law degree in Fudan University.

Daming Hu has served as Chief Financial Officer of the Company since March 2003. He is in charge of corporate account planning, reporting and tax planning. Mr. Hu was the Finance Manager of Jiulong since 1996 to 1999 and Finance Manager of HengLong from 1999 to 2002.

Li Ping Xie has served as a director of the Company since March 2003. She is the Vice GM of Xiamen Joylon Co., Ltd. She was the Vice GM at Xiamen Jiayum Auto-parts Repairing Company from 1990-1999. Ms. Xie is the wife of our Chief Executive Officer, Mr. Hanlin Chen.

Tse Yiu Wong Andy, has served as Sr. VP of the Company since March 2003. He has also served as the general manager of the Henglong and Jiulong joint ventures and the Chairman of the Board of Shenyang since 2003. He was the vice GM of Jiulong from 1993 to 1997 and the vice GM of henglong. Mr. Tse has over 10 years of experience in automotive parts sales and strategic development. Mr. Tse has an MBA from the China People University.

Robert Tung has been a Director of the Company since September 2003 and a member of the Company's Audit Committee, Compensation Committee and Nominating Committee. Mr. Tung is currently the President of Multi-Media Communications, Inc. and Executive Vice President of Super Microbial Sciences International, LLC. Mr. Tung holds an M.S. in Chemical Engineering from the University of Virginia and B.S. degrees in Computer Science and Chemical Engineering from the University of Maryland and National Taiwan University, respectively.

27

Dr. Haimian Cai has been a Director since September 2003 and a member of the Company's Audit Committee, Compensation Committee and Nominating Committee. Mr. Cai is a technical specialist in the automotive industry. Prior to that, Dr. Cai was a staff engineer in ITT Automotive Inc. Dr. Cai has more than fifteen technical papers and co-authored a technical book regarding the powder of metallurgy industry for automotive application. Dr. Cai has more than ten patents including pending patents. Dr. Cai holds a B.S. Degree in Automotive Engineering from Tsing-Hua University and a M.S. and Ph.D in manufacturing engineering from Worcester Polytechnic Institute.

William E. Thomson, CA has been a Director of the Company since September 2003 and is a member of the Company's Audit, Compensation and

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Nominating Committees. Mr. Thomson has been the president of Thomson Associates, Inc., a merchant banking company, since 1978. Mr. Thomson's current additional directorships include: Nasdaq - Med-Emerg International Inc. chm. (Healthcare), Acto Digital Video (USA) Inc. (Consumer Electronics), Maxus Technology Inc. (Technology Waste Recycling); TSX - Asia Media Group Ltd. Chm. (Media), Imperial Plastech Inc. (Plastics); Crown Corp. - Aurora Fund (Venture Capital); Private - Delfour Corporation (Software), Electrical Contracts Ltd. (Electrical Contacts), Redpearl Funding Corporation (IT Financing), Wright Environment Management Inc. (Waste Management Solutions); Charitable - Opera Mississauga, World Education Services.

(a) Compensation and Other Matters

In 2003, directors received \$5,000 per quarter for serving on the Board of Directors. In addition they were reimbursed for any out-of-pocket expenses, if any, incurred in attending board meetings.

(b) Audit Committee and Independent Directors

The Audit Committee consists of the following individuals, all of whom the Company considers to be independent: Robert Tung, Haimian Cai, and William Thomson.

(c) Compensation Committee

The Compensation Committee is responsible for determining compensation for our executive officers. Our three independent directors, Robert Tung, Haimian Cai and William Thomson serve on the Compensation Committee.

(d) Nominating Committee

Director candidates are nominated by the Nominating Committee. The Nominating Committee will consider candidates based upon their business and financial experience, personal characteristics, expertise that is complementary to the background and experience of other Board members, willingness to devote the required amount of time to carrying out the duties and responsibilities of Board membership, willingness to objectively appraise management performance, and any such other qualifications the Nominating Committee deems necessary to ascertain the candidates ability to serve on the Board. The Nominating Committee will not consider nominee recommendations from security holders, other than the recommendations received from a security holder or group of security holders that beneficially owned more than five (5) percent of the Company's outstanding common stock for at least one year as of the date the recommendation is made. Our independent directors, Robert Tung, Haimian Cai and William Thomson, serve on the Nominating Committee.

(e) Stockholder Communications

Stockholders interested in communicating directly with the Board of Directors, or specified individual directors, may email our independent director William Thomson at Bill.Thomson@chl.com.cn. Mr. Thomson will review all such correspondence and will regularly forward to the Board copies of all such correspondence that deals with the functions of the Board or committees thereof

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

or that he otherwise determines requires their attention. Directors may at any time review all of the correspondence received that is addressed to members of the Board of Directors and request copies of such correspondence. Concerns relating to accounting, internal controls or auditing matters will immediately be brought to the attention of the Audit Committee and handled in accordance with procedures established by the Audit Committee with respect to such matters.

(f) Family Relationships

Mr. Chen and Ms. Xie are husband and wife.

(g) Involvement in Legal Proceedings

To the best of the Company's knowledge, during the past five years, none of the following occurred with respect to a present or former director or executive officer of the Company: (1) any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (2) any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses); (3) being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of any competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; and (4) being found by a court of competent jurisdiction (in a civil action), the SEC or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.

(e) Code of Ethics and Conduct

The Board of Directors has adopted a Code of Ethics and Conduct which is applicable to all officers directors and employees. The Code of Ethics and Conduct is attached to this Form 10-K as an Exhibit.

(F) Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers and directors and persons who own more than 10% of a registered class of our equity securities to file with the Securities and Exchange Commission initial statements of beneficial ownership, reports of changes in ownership and annual reports concerning their ownership of common stock and other of our equity securities, on Forms 3, 4 and 5 respectively. Executive officers, directors and greater than 10% stockholders are required by Commission regulations to furnish the Company with copies of all Section 16(a) reports they file. To the best of our knowledge (based solely upon a review of the Form 3, 4 and 5 filed), no officer, director or 10% beneficial shareholder failed to file on a timely basis any reports required by Section 16(a) of the Securities Exchange Act of 1934, as amended.



## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

The following Summary Compensation Table sets forth the compensation earned by the Company's Chief Executive Officer. No other executive officer(s) received compensation for the fiscal year 2003 in excess of \$100,000.

### SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Year (b)	Annual Compensation			Long-Term Com Awards	
		Salary (\$) (c)	Bonus (\$) (d)	Other Annual Compen- sation (\$) (e)	Restricted Stock Award(s) (\$) (f)	Securities Under- lying Options/ SARs (#) (g)
Hanlin Chen	2003	49,885.00	-0-	0	0	0
Hanlin Chen	2002	15,883.00	1,237	0	0	0
Hanlin Chen	2001	5,564.00	1,087	0	0	0

There are no employment agreements with any of our executive officers and there are no stock option grants.

#### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

As used in this section, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power (including the power to vote or direct the vote) and/or sole or shared investment power (including the power to dispose of or direct the disposition of) with respect to the security through any contract, arrangement, understanding, relationship or otherwise, subject to community property laws where applicable. The percentage ownership is based on 22,064,686 shares outstanding at December 31, 2003.

Name/Title	Total Number of Shares	Percentage Ownership
Hanlin Chen, CEO, Chairman and President	13,280,547	60.2%
Qizhou Wu, COO, Director	2,195,996	9.9%
Guofu Dong, Vice President, Director	627,429	2.8%
Daming Hu, CFO	--	--
Liping Xie, Director	2,091,425	9.4%
Tse Yiu Wong Andy, Sr.VP, Director	1,359,426	6.1%
Robert Tung, Director	--	--
Dr. Haimian Cai, Director	--	--
William E. Thomson, Director	--	--
All Directors and Executive Officers (9 persons)	19,554,823	88.6%

At December 31, 2003 we did not have any equity compensation plans.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Effective August 2, 2003, the Company entered into a five-year License and Technical Assistance Agreement (the "Agreement") with Sino-American, Inc. ("Sino-American"), a United States company controlled by the Company's Chairman and controlling shareholder. The Agreement provided for total payments of \$6,000,000 to enable Sino-American to purchase technical assistance and equipment for use in the Company's business operations in China. During November 2003, \$2,000,000 was paid by the Company to Sino-American, which has been classified as advance payments in the consolidated balance sheet at December 31, 2003, net of amounts expended through such date.

ITEM 13. EXHIBITS AND REPORTS ON 8K.

(a) Exhibits

The following is a list of exhibits filed as part of this Annual Report on Form 10-KSB. Where so indicated by footnote, exhibits that were previously filed are incorporated by reference.

Exhibit Number	Description
3.1	Certificate of Incorporation, Incorporated herein by reference from the filing on Form filing on Form 10SB File No. 000-33123.
3.2	Certificate of Amendment to the Certificate of Incorporation, incorporated herein by reference from the Filing on Schedule 14C, filed with the Commission on April 21, 2004.
4.1	Share Exchange Agreement, dated March 5, 2003, incorporated herein by reference from the Filing on Form 8-K filed with the Commission on March 5, 2003.
10.1	Purchase Contract for Futian Automobile Parts*
10.2	Purchase Contract for Chery Automobile Parts*
10.3	Purchase Contract for Shenyang Brilliance Hance Automotive*
10.4	License and Technical Assistant Agreement Between Namyang Industrial Co., Ltd. and Jingzhou Heng Long Automotive Parts Co., Ltd.*
10.5	License Agreement between Bishop Steering Technology Limited and Jingzhon Henglong Automotive Parts.*
23.1	Subsidiaries of the Company*

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

31.1	Certification under Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification under Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification under Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification under Section 906 of the Sarbanes-Oxley Act of 2002*
99.1	Code of Conduct and Ethics*
99.2	Audit Committee Charter*

-----  
\*Filed herewith

31

(b) Reports on Form 8-K.

None.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees for professional audit services rendered by Schwartz Levitsky Feldman LLP ("SLF") for the audit of the Company's financial statements for the years ended December 31, 2003 and 2002, and fees billed for other services provided by SLF for the years ended December 31, 2003 and 2002. Certain amounts for the year ended December 31, 2002 have been reclassified to conform to the new presentation requirements.

	Years Ended December 31,	
	2003	2002
	-----	-----
Audit Fees	\$ 140,000	\$ 78,763
Audit-Related Fees (1)	21,000	--
Tax Fees (2)	--	--
All Other Fees	5,750	--
	-----	-----
Total Fees Paid	\$ 166,750	\$ 78,763
	=====	=====

-----  
(1) Includes accounting and reporting consultations related to acquisitions and internal control procedures.

(2) Includes fees for service related to tax compliance services, preparation

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

and filing of tax returns and tax consulting services.

Audit Committee's Pre-Approval Policy

During the year ended December 31, 2003, the Audit Committee of the Board of Directors adopted policies and procedures for the pre-approval of all audit and non-audit services to be provided by our independent auditor and for the prohibition of certain services from being provided by the independent auditor. We may not engage our independent auditor to render any audit or non-audit service unless the service is approved in advance by the Audit Committee or the engagement to render the service is entered into pursuant to the Audit Committee's pre-approval policies and procedures. On an annual basis, the Audit Committee may pre-approve services that are expected to be provided to the Company by the independent auditor during the fiscal year. At the time such pre-approval is granted, the Audit Committee specifies the pre-approved services and establishes a monetary limit with respect to each particular pre-approved service, which limit may not be exceeded without obtaining further pre-approval under the policy. For any pre-approval, the Audit Committee considers whether such services are consistent with the rules of the Securities and Exchange Commission on auditor independence.

32

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA AUTOMOTIVE SYSTEMS, INC.

Dated: October 20, 2004

/s/ Hanlin Chen

-----  
Name: Hanlin Chen  
Title: Chairman, CEO and President

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Dated: October20, 2004

/s/ Hanlin Chen

-----  
Name: Hanlin Chen  
Title: Chairman, CEO and President

Dated: October20, 2004

/s/ Daming Hu

-----  
Name: Damming Hu  
Title: CFO

Dated: October 20, 2004

/s/ Qizhou Wu

-----  
Name: Qizhou Wu

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Title: COO, Director

Dated: October 20, 2004 /s/ Guofu Dong  
-----  
Name: Guofu Dong  
Title: Vice President, Director

Dated: October 20, 2004 /s/ Liping Xie  
-----  
Name: Liping Xie  
Title: Director

Dated: October 20, 2004 /s/ Tse Yiu Wong Andy  
-----  
Name: Tse Yiu Wong Andy  
Title: ST.VP, Director

Dated: October 20, 2004 /s/ Robert Tung  
-----  
Name: Robert Tung  
Title: Director

Dated: October 20, 2004 /s/ Dr. Haimian Cai  
-----  
Name: Dr. Haimian Cai  
Title: Director

Dated: October 20, 2004 /s/ William E. Thomson  
-----  
Name: William E. Thomson  
Title: Director

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
China Automotive Systems, Inc.  
(Formerly Visions-In-Glass, Inc.)  
(Successor to Ji Long Enterprise Investment Limited)

We have audited the accompanying revised consolidated balance sheets of China Automotive Systems, Inc. (incorporated in Delaware) as at December 31, 2003 and 2002 and the revised related consolidated statements of operations, cash flows and stockholders' equity for each of the years ended December 31, 2003 and 2002. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the revised consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Automotive Systems, Inc. as at December 31, 2003 and 2002 and the results of its operations and its cash flows for each of the years ended December 31, 2003 and 2002 in conformity with United States generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, the basis of presentation has changed from the equity method of accounting for the Company's investments in 2002, to the consolidation method of accounting in 2003.

Toronto, Ontario, Canada

February 14, 2004 except for note 18,

as to which the date is April 1, 2004 and

note 22, as to which the date is October 26, 2004

"Schwartz Levitsky Feldman llp"

Chartered Accountants

F-1

China Automotive Systems, Inc. and Subsidiaries  
Consolidated Balance Sheets  
December 31, 2003 and 2002

	2003 -----	2002 ----- (Restated - Note 21)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,730,882	\$ --
Pledged cash deposits	1,272,067	--
Accounts and notes receivable, including \$1,248,328 from related parties, net of an allowance for doubtful accounts of \$2,757,374	38,680,011	--
Advance payments, including		

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

\$1,513,973 to related parties, net of an allowance for doubtful accounts of \$191,364	9,980,367	--
Inventories	10,229,422	--
Total current assets	70,892,749	--
Property, plant and equipment	28,050,079	316,000
Less: Accumulated depreciation	(5,700,023)	(32,000)
	22,350,056	284,000
Equity investments in joint ventures	--	19,078,000
Intangible assets, net	218,639	--
Other receivables, including \$1,472,758 to related parties, net of an allowance for doubtful accounts of \$1,053,047 in 2003	2,313,017	65,000
Long-term investments	72,289	--
Total assets	\$ 95,846,750	\$ 19,427,000

(continued)

F-2

China Automotive Systems, Inc. and Subsidiaries  
Consolidated Balance Sheets (continued)  
December 31, 2003 and 2002

	2003	2002
		(Restated - Note 21)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank loans	\$ 9,638,554	\$ --

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Accounts and notes payable, including \$1,175,006 to related parties	23,017,221	--
Customer deposits	907,519	--
Accrued payroll and related costs	1,173,576	--
Accrued expenses and other payables	1,992,207	--
Accrued pension costs	1,516,649	--
Liability related to acquisition of joint venture assets	1,204,819	--
Taxes payable	6,268,803	--
Amounts due to shareholders/directors	5,229,281	13,330,000
	-----	-----
Total current liabilities	50,948,629	13,330,000
	-----	-----
Long-term liabilities	196,547	--
Minority interest	18,686,712	--
Stockholders' equity:		
Preferred stock, \$0.0001 par value - Authorized - 20,000,000 shares Issued and outstanding - None	--	--
Common stock, \$0.0001 par value - Authorized - 80,000,000 shares Issued and Outstanding - 22,574,542 shares and 20,914,250 shares at December 31, 2003 and 2002, respectively	2,257	2,091
Additional paid-in capital	18,779,880	433,909
Retained earnings - Appropriated	3,775,254	3,186,000
Unappropriated	3,461,621	2,475,000
Foreign currency translation loss	(4,150)	--
	-----	-----
Total stockholders' equity	26,014,862	6,097,000
	-----	-----
Total liabilities and stockholders' equity	\$ 95,846,750	\$ 19,427,000
	=====	=====

See accompanying notes to consolidated financial statements.

F-3

China Automotive Systems, Inc. and Subsidiaries  
Consolidated Statements of Operations  
Years Ended December 31, 2003 and 2002



Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

	2003	2002
	-----	-----
		(Restated - Note 21)
Net sales, including \$3,268,978 sold to related parties	\$ 55,327,174	\$ --
Cost of sales, including \$2,106,814 purchased from related parties	30,400,201	--
	-----	-----
Gross profit	24,926,973	--
	-----	-----
Costs and expenses:		
Selling	2,733,425	--
General and administrative	7,722,505	1,000
Research and development	1,017,031	--
Depreciation and amortization	1,367,170	--
Stock-based compensation	1,300,000	--
	-----	-----
Total costs and expenses	14,140,131	1,000
	-----	-----
Income (loss) from operations	10,786,842	(1,000)
	-----	-----
Other income (expense):		
Equity income of joint ventures	--	4,160,000
Other non-operating income	534,047	--
Financial expenses	344,723	--
	-----	-----
Other income, net	189,324	4,160,000
	-----	-----
Income before income taxes	10,976,166	4,159,000
Income taxes	1,750,940	--
	-----	-----
Income before minority interest	9,225,226	4,159,000
Minority interest	5,353,957	--
	-----	-----
Net income	\$ 3,871,269	\$ 4,159,000
	=====	=====
Net income per common share - Basic and diluted	\$ 0.18	\$ 0.20
	=====	=====
Weighted average common shares outstanding - Basic and diluted	21,846,034	20,914,250
	=====	=====

See accompanying notes to consolidated financial statements.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

China Automotive Systems, Inc. and Subsidiaries  
 Consolidated Statements of Comprehensive Income (Loss)  
 Years Ended December 31, 2003 and 2002

	2003 -----	2002 ----- (Restated - Note 21)
Net income	\$ 3,871,269	\$ 4,159,000
Other comprehensive loss:		
Foreign currency translation loss	(4,150)	--
Comprehensive income	\$ 3,867,119 =====	\$ 4,159,000 =====

See accompanying notes to consolidated financial statements.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

China Automotive Systems, Inc. and Subsidiaries  
 Consolidated Statements of Stockholders' Equity  
 Years Ended December 31, 2002 and 2003

	Common Stock		Preferred Stock	
	Shares	Par Value	Shares	Par Value
Balance, January 1, 2002	20,914,250	\$ 2,091	--	\$ --
Net income for the year ended December 31, 2002	--	--	--	--
Dividends declared	--	--	--	--
Deemed distribution to shareholder	--	--	--	--
Appropriation of retained earnings	--	--	--	--
Balance, December 31, 2002	20,914,250	2,091	--	--
Adjustment as a result of recapitalization of company in conjunction with reverse merger	--	--	--	--
Dividends declared	--	--	--	--
Cancellation of dividends previously declared	--	--	--	--
Shares of common stock retained by public shareholders in March 2003 reverse merger transaction	1,100,750	110	--	--
Issuance of warrants for consulting services	--	--	--	--
Sale of common stock for cash	49,686	5	--	--
Exercise of warrants on a cashless basis	509,856	51	--	--
Foreign currency translation loss	--	--	--	--
Net income for the year ended December 31, 2003	--	--	--	--
Appropriation of retained earnings	--	--	--	--
Balance, December 31, 2003	22,574,542	\$ 2,257	--	\$ --

(continued)

F-6

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Years Ended December 31, 2002 and 2003

	Retained Earnings		Foreign Currency Translation Gain (Loss)	Total
	Appropriated	Unappropriated		
Balance, January 1, 2002	\$ 2,881,000	\$ 2,230,000	\$ --	\$ 12,288,000
Net income for the year ended December 31, 2002	--	4,159,000	--	4,159,000
Dividends declared	--	(3,609,000)	--	(3,609,000)
Deemed distribution to shareholder	--	--	--	(6,741,000)
Appropriation of retained earnings	305,000	(305,000)	--	--
Balance, December 31, 2002	3,186,000	2,475,000	--	6,097,000
Adjustment as a result of recapitalization of company in conjunction with reverse merger	--	--	--	(279,863)
Dividends declared	--	(2,295,394)	--	(2,295,394)
Cancellation of dividends previously declared	--	--	--	17,167,000
Shares of common stock retained by public shareholders in March 2003 reverse merger transaction	--	--	--	--
Issuance of warrants for consulting services	--	--	--	1,300,000
Sale of common stock for cash	--	--	--	159,000
Exercise of warrants on a cashless basis	--	--	--	--
Foreign currency translation loss	--	--	(4,150)	(4,150)
Net income for the year ended December 31, 2003	--	3,871,269	--	3,871,269
Appropriation of retained earnings	589,254	(589,254)	--	--
Balance, December 31, 2003	\$ 3,775,254	\$ 3,461,621	\$ (4,150)	\$ 26,014,862

See accompanying notes to consolidated financial statements.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

China Automotive Systems, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows  
 Years Ended December 31, 2003 and 2002

	2003	2002
	-----	-----
		(Restated - Note 21)
Cash flows from operating activities:		
Net income	\$ 3,871,269	\$ 4,159,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity income of joint ventures	--	(4,160,000)
Minority shareholders' interests	5,353,957	--
Issuance of warrants to consultants	1,300,000	--
Depreciation and amortization	2,465,853	--
Provision for doubtful accounts	777,841	--
Other operating adjustments	(34,492)	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Pledged deposits	1,272,067	--
Accounts receivable	(8,458,197)	--
Inventories	(1,028,046)	--
Increase (decrease) in:		
Accounts payable, accrued expenses, customer deposits and other payables	(7,359,943)	--
Accrued pension costs	755,692	--
Liability related to acquisition of joint venture assets	1,204,819	--
Taxes payable	3,608,220	--
Long-term liabilities	196,547	--
	-----	-----
Net cash provided by (used in) operating activities	3,925,587	(1,000)
	-----	-----
Cash flows from investing activities:		
Increase in other receivables	(1,215,606)	(51,000)
Cash paid to acquire fixed assets	(8,843,129)	--
Cash paid to acquire intangible assets	(328,228)	--
Decrease in long-term investments	1,189,157	--
	-----	-----
Net cash used in investing activities	(9,197,806)	(51,000)
	-----	-----

(continued)

F-8

China Automotive Systems, Inc. and Subsidiaries  
 Consolidated Statements of Cash Flows (continued)  
 Years Ended December 31, 2003 and 2002

	2003	2002
	-----	-----
		(Restated - Note 21)
Cash Flows from financing activities:		
Proceeds from bank loans, net	\$ 6,101,410	\$ --
Dividends paid	(2,646,632)	--
Increase in amounts due to shareholders/directors	6,770,887	52,000
Proceeds from sale of common stock	159,000	--
	-----	-----
Net cash provided by financing activities	10,384,665	52,000
	-----	-----
Cash and cash equivalents:		
Net increase	5,112,446	--
At beginning of year	--	--
Adjustment as a result of change to consolidation accounting from equity accounting effective January 1, 2003	5,618,436	--
	-----	-----
At end of year	\$ 10,730,882	\$ --
	=====	=====

(continued)

F-9

China Automotive Systems, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows (continued)  
Years Ended December 31, 2003 and 2002

	2003 -----	2002 ----- (Restated - Note 21)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 399,610 =====	\$ -- =====
Cash paid for income taxes	\$ 3,591,925 =====	\$ -- =====
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of interest in joint venture from controlling shareholder	\$ --	\$ 9,631,000
Advances from shareholder to fund investments in joint ventures	--	3,040,000
Cancellation of dividends previously declared	17,167,000	--
Shares of common stock retained by public shareholders in March 2003 recapitalization	110	--
Exercise of warrants on a cashless basis	51	--
Dividends declared	(2,295,394)	(3,609,000)
Advances from shareholders in connection with dividends declared	2,295,394	3,609,000
Deemed distribution to shareholders	(279,863)	6,741,000
Issuance of warrants to consultants	1,300,000	--

See accompanying notes to consolidated financial statements.

F-10

China Automotive Systems, Inc. and Subsidiaries  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2003 and 2002

1. Organization and Business

Effective March 5, 2003, Visions-In-Glass, Inc., a United States public company incorporated in the State of Delaware ("Visions"), entered into a Share Exchange Agreement to acquire 100% of the shareholder interest in Great Genesis Holding Limited, a company incorporated on January 3, 2003 under The Companies Ordinance in Hong Kong as a limited liability company ("Great Genesis"), as a result of which Great Genesis became a wholly-owned subsidiary of Visions. At the closing, the old directors and officers of Visions resigned, and new directors and officers were appointed. Visions subsequently changed its name to China Automotive Systems, Inc.

China Automotive Systems, Inc., including, when the context so requires, its subsidiaries and the subsidiaries' interests in the Sino-foreign joint ventures described below, is referred to herein as the "Company". The Company, through its Sino-foreign joint ventures described below, is primarily engaged in the manufacture and sale of automotive systems and components in the People's Republic of China (the "PRC" or "China") as described below.

Ji Long Enterprise Investment Limited was incorporated on October 8, 1992 under the Companies Ordinance in Hong Kong as a limited liability company ("Ji Long"). Ji Long is an investment holding company. Effective March 4, 2003, all of the shareholders of Ji Long exchanged their 100% shareholder interest for a 100% shareholder interest in Great Genesis, as a result of which Ji Long became a wholly-owned subsidiary of Great Genesis.

In exchange for the acquisition of 100% of the shareholder interest in Great Genesis, the shareholders of Great Genesis were issued 20,914,250 shares of common stock of Visions. In addition, the shareholders of Great Genesis paid \$250,000 to the former officer, director and controlling shareholder of Visions for the cancellation of 17,424,750 shares of common stock (see Note 13), and have agreed to pay an additional \$70,000, subject to certain conditions.

The acquisition of Great Genesis by the Company was accounted for as a recapitalization of Great Genesis, pursuant to which the accounting basis of Great Genesis continued unchanged subsequent to the transaction date. Accordingly, the pre-transaction financial statements of Great Genesis are the historical financial statements of the Company.

As of December 31, 2002 and 2003, Ji Long owned aggregate net interests in five Sino-foreign joint ventures organized in the PRC as shown below. The Company accounted for its interests in these joint ventures in 2002 and 2003 as described at Note 2.



Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Name of Entity -----	Percentage Interest -----	
	2002 ----	2003 ----
Jingzhou Henglong Automotive Parts Co. Limited ("Henglong")	42.0%	42.0%
Shashi Jiulong Power Steering Co. Limited ("Jiulong")	81.0%	81.0%
Shenyang Jinbei Henglong Automotive Steering System Co. Limited ("Shenyang")	37.6%	55.0%
Zhejiang Henglong & Vie Pump-Manu Co. Limited ("Zhejiang")	51.0%	51.0%
Jingzhou Henglong Fulida Textile Co., Ltd. ("Jingzhou")	--	51.0%

F-11

Henglong and Jiulong are mainly engaged in the production of rack and pinion power steering gears and integral ball and nut power steering gears for cars, light and heavy-duty vehicles. Shenyang and Zhejiang were established in 2002 and are focused on power steering parts and power steering pumps. Jingzhou was formed in 2003 to produce environment-protection textile and raw materials. At present, Henglong, Jiulong and Shenyang are the main revenue-generating entities, while Zhejiang and Jingzhou are in the early development stage and generated approximately 6% of consolidated revenues in 2003.

At December 31, 2002, the investors in Shenyang were Ji Long, Henglong, Shenyang Automotor Industry Investment Corporation and Shenyang Jinbei Automotor Industry Co., Ltd. On December 12, 2002, according to a decision made at the meeting of the board of directors, 30% of the stock rights in Shenyang held by Henglong were to be transferred to Ji Long, and 17% of the stock rights in Shenyang held by Shenyang Automotor Industry Investment Corporation were to be transferred to Shenyang Jinbei Automotor Industry Co., Ltd. On January 8, 2003, Ji Long and Henglong signed an agreement for the transfer of stock rights, which was approved by the applicable PRC authorities on May 22, 2003. As of December 31, 2002, the Company owned 25% of Shenyang directly and 12.6% of Shenyang indirectly through its ownership in Henglong, for a combined ownership of 37.6%. As of December 31, 2003, the Company owned 55.0% of Shenyang directly. The Company accounted for this increase in ownership in Shenyang commencing as of the effective date of January 1, 2003, with an appropriate adjustment to the minority interest.

During December 2002, the Company entered into three transactions with entities controlled by its chairman and controlling shareholder involving the Company's minority interest ownership in certain of its Sino-foreign joint ventures as follows: (1) the Company acquired a 21% interest in Jiulong for \$6,320,241; (2) the Company acquired a 7% interest in Henglong for \$3,310,602; and (3) the Company transferred a 7% interest in Henglong in exchange for an 11% interest in Jiulong. The amounts due to or from the chairman resulting from these transactions were accounted for as increases or decreases to the amounts due to or from shareholders/directors and were recorded at fair value, as determined by an independent appraisal firm. The difference between fair value and book value

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

resulting from the disposition of joint venture interests was credited to additional paid-in capital. With respect to consideration paid by the Company in excess of the chairman's basis in his investment, such excess has been charged to additional paid-in capital as a distribution to the chairman, resulting in the acquired investment being recorded by the Company at the chairman's original cost basis.

Jingzhou was formed in February 2003 to produce environmental textile and raw materials, and is owned 51% by Ji Long and 49% by Cixi City Fulida Synthetic Fibre Co., Ltd. Operations to date have not been material. As an "Act in Concert" Agreement has been executed for Jingzhou, the Company consolidated Jingzhou as of December 31, 2003, and for the year then ended.

### 2. Basis of Presentation

Basis of Presentation - For the year ended December 31, 2003, the accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and Sino-foreign joint ventures. For the year ended December 31, 2002, the accompanying financial statements include the accounts of the Company, with the Company's investments in its Sino-foreign joint ventures accounted for under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

During early 2003, the Directors of the Company and the other joint venturers in the Company's Sino-foreign joint ventures executed "Act in Concert" agreements, resulting in the Company having voting control of such Sino-foreign joint ventures. The Company is in the process of making application to the relevant PRC authorities for their approval to effect this change through amendments to the respective joint venture agreements. Consequently, effective January 1,

F-12

2003, the Company changed from equity accounting to consolidation accounting for its investments in Sino-foreign joint ventures for the year ended December 31, 2003.

Prior to January 1, 2003, the Company used the equity method pursuant to Emerging Issues Task Force Issue No. 96-16, which states that if a minority joint venture partner has the right to participate in management, the majority joint venture partner is required to account for its interest in the joint venture under the equity method of accounting, as more fully described as follows:

Jingzhou was formed in February 2003, with 51% owned by Jilong and 49% owned by Cixi City Fulida Synthetic Fibre Co., Ltd. ("Cixi"). The highest authority of the joint venture is the Board of Directors, which is comprised of seven directors, four of which (57%) are appointed by the Company and three of which (43%) are appointed by Cixi. Pursuant to the Joint Venture Agreement, unanimous approval of the Board of Directors is required for any decisions concerning issues such as amendments to the articles of incorporation, termination or dissolution of the joint venture, increase or decrease in registered capital, guaranties, share transfers, mergers and consolidations, and formation of a

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

subsidiary. As for other operating matters, approval of more than two-thirds of the members of the Board of Directors (67%) is required. The Chairman of the Board of Directors is appointed by the Company. The general manager is appointed by Cixi.

Zhejiang was formed in 2002, with 51% owned by Great Genesis and 49% owned by Zhejiang Vie Group ("ZVG"). The highest authority of the joint venture is the Board of Directors, which is comprised of seven directors, four of which (57%) are appointed by the Company and three of which (43%) are appointed by ZVG. Pursuant to the Joint Venture Agreement, unanimous approval of the Board of Directors is required for any decisions concerning issues such as amendments to the articles of incorporation, termination or dissolution of the joint venture, increase or decrease in registered capital, guaranties, share transfers, mergers and consolidations, and formation of a subsidiary. As for other operating matters, approval by more than two-thirds of the members of the Board of Directors (67%) is required. The Chairman of the Board of Directors is appointed by ZVG. The general manager is appointed by the Company.

Henglong was formed in 1997, with 42% owned by Jilong, 34% owned by Hubei Wanlong Investment Co., Ltd. ("HBWL"), 12% owned by Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd. ("JLME"), 7% owned by Jiangling Tongchuang Machinery Co., Ltd. ("Jiangling") and 5% owned by Shanghai Tianxiang Automotive Parts Co., Ltd. ("Shanghai"). The highest authority of the joint venture is the Board of Directors, which is comprised of seven directors, four of which (57%) are appointed by the Company, two of which (29%) are appointed by HBWL, and one of which (14%) is appointed by JLME. Pursuant to the Joint Venture Agreement, unanimous approval of the Board of Directors is required for any decisions concerning issues such as amendments to the articles of incorporation, termination or dissolution of the joint venture, increase or decrease in registered capital, guaranties, share transfers, mergers and consolidations, and formation of a subsidiary. As for other operating matters, approval by more than two-thirds of the members of the Board of Directors (67%) is required. The Chairman of the Board of Directors is appointed by the Company. The general manager is appointed by the Company.

Jiulong was formed in 1993, with 49% owned by Jilong, 20% owned by Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd. ("JLME"), 21% owned by Xiamen Joylon Co., Ltd. ("Joylon") and 10% owned by Jingzhou Tianxin Investment Consulting Co., Ltd. ("Tianxin"). The highest authority of the joint venture is the Board of Directors, which is comprised of seven directors, four of which (57%) are appointed by the Company, two of which (29%) are appointed by JLME, and one of which (14%) is appointed by Joylon. Pursuant to the Joint Venture Agreement, unanimous approval of the Board of Directors is required for any decisions concerning issues such as amendments to the articles of incorporation, termination or dissolution of the joint venture, increase or decrease in registered capital, guaranties, share transfers, mergers and consolidations, and formation of a subsidiary. As for other operating matters, approval by more than two-thirds of the members of the Board of Directors (67%) is required. The Chairman of the Board of Directors is appointed by the JLME. The general manager is appointed by the Company.

Shenyang was formed in 2002, with 25% owned by Jilong, 30% owned by Henglong, 28% owned by Shenyang Jinbei Automotive Industry Co., Ltd. ("JB Industry"), and 17% owned by Shenyang Automotive Industry Investment Corporation ("JB Investment"). The highest authority of the joint venture is the Board of Directors, which is comprised of seven directors, four of which (57%) are appointed by the Company, two of which (29%) are appointed by JB Industry, and one of which (14%) is appointed by JB Investment. Pursuant to the Joint Venture Agreement, unanimous approval of the Board of Directors is required for any decisions concerning issues such as amendments to the articles of incorporation, termination or dissolution of the joint venture, increase or decrease in registered capital, guaranties, share transfers, mergers and consolidations, and

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

formation of a subsidiary. As for other operating matters, approval by more than two-thirds of the members of the Board of Directors (67%) is required. The Chairman of the Board of Directors is appointed by the Company. The general manager is appointed by the Company.

As a result of the foregoing board structures, each of the minority partners of Zhejiang, Jingzhou, Henlong, Jiulong and Shenyang had the right to approve major operating decisions of their respective joint ventures because the Company's representatives on the Boards of Directors of the joint ventures did not account for the requisite 67% of voting control required to approve various operating matters, which allowed the minority partners to participate in the operations of the management of the respective joint ventures. As such, the Company accounted for its interest in these joint ventures under the equity method in 2002 pursuant to EITF 96-16.

F-13

The minority partners of each of the joint ventures are all private companies not controlled, directly or indirectly, by any PRC municipal government or other similar government entity.

In March 2003, Henglong outsourced to Jiulong the production of an integral power steering system. Jiulong sells the related finished product to Henglong, which then sells the product to third parties. All intercompany profit is eliminated on consolidation. The transferred profit due to this transaction has been recorded in the interest account of minority shareholders according to their investment ratios.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates primarily relate to the realizable value of accounts receivable and inventories. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include all highly-liquid investments with an original maturity of three months or less at the date of purchase.

Pledged Cash Deposits - The Company has pledged cash deposits to secure trade finance provided by banks.

Accounts Receivable - In order to determine the value of the Company's accounts receivable, the Company records a provision for doubtful accounts to cover estimated credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectibility of outstanding accounts receivable. The Company evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Inventories - Inventories are stated at the lower of cost or net realizable value. Cost is calculated on the moving-average basis and includes all costs to acquire and other costs incurred in bring the inventories to their present location and condition. The Company evaluates the net realizable value of its inventories on a regular basis and records a provision for loss to reduce the computed moving-average cost if it exceeds the net realizable value.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Advance Payments - These amounts represent advances or prepayments to acquire various assets to be utilized in the future in the Company's normal business operations. Such amounts are paid according to their respective contract terms and are classified as a current asset in the consolidated balance sheet.

Property and Equipment - Property and equipment are stated at cost. Major renewals and improvements are capitalized; minor replacements and maintenance and repairs are charged to operations. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets as follows:

Category	Estimated Useful Life (Years)
-----	-----
Land use rights and buildings:	
Land use rights	45
Buildings	25
Machinery and equipment	6
Electronic equipment	4
Motor vehicles	6

Assets under construction represent buildings under construction and plant and equipment pending installation and are stated at cost. Cost includes construction and acquisitions, and interest charges arising from borrowings used to finance assets during the period of construction or installation and testing. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for their intended commercial use.

Gains or losses on disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the relevant asset, and are recognized in the consolidated statements of operations on the date of disposal.

Interest Costs Capitalized - Interest costs incurred in connection with specific borrowings for the acquisition, construction or installation of fixed assets are capitalized and depreciated as part of the asset's total cost when the respective asset is placed into service.

F-14

Intangible Assets - Intangible assets, representing patents and technical know-how acquired, are stated at cost less accumulated amortization and impairment losses. Amortization is provided on the straight-line method over the estimated useful lives of the respective assets of 5 years.

In January 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". The Company did not have any goodwill at December 31, 2002 or 2003.

Impairment of long-lived assets is monitored on a continuing basis, and is assessed based on the undiscounted cash flows generated by the underlying assets. In the event that the carrying amount of long-lived assets exceeds the undiscounted future cash flows, then the carrying amount of such assets is adjusted to their fair value.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Long-Lived Assets - The Company has adopted the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". Property, plant and equipment and intangible assets are reviewed periodically for impairment losses whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If required, an impairment loss is recognized as the difference between the carrying value and the fair value of the assets.

Long-Term Investments - Investments in which the Company owns less than 20% and does not have the ability to exert significant influence are stated at cost, and are reviewed periodically for realizability.

Revenue Recognition - The Company recognizes revenue when the significant risks and rewards of ownership have been transferred to the customer pursuant to PRC law, including factors such as when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, sales and value added tax laws have been complied with, and collectibility is probable. The Company recognizes product sales generally at the time the product is shipped. Concurrent with the recognition of revenue, the Company reduces revenue for estimated product returns. Shipping and handling costs are included in cost of goods sold. Revenue is presented net of any sales tax and value added tax.

Sales Taxes - The Company is subject to value added tax ("VAT"). The applicable VAT tax rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold less VAT paid on purchases made with the relevant supporting invoices. VAT is collected from customers by the Company on behalf of the PRC tax authorities and is therefore not charged to the consolidated statements of operations.

Warranties - The Company provides for the estimated cost of product warranties at the time revenue is recognized. Warranty costs are included in general and administrative expense. The Company's warranty obligation is affected by product failure rates and material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from the Company's estimates, the Company may be required to revise its estimated product warranty liability.

Concentration of Credit Risk - Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of trade accounts receivable. The Company performs ongoing credit evaluations with respect to the financial condition of its creditors, but does not require collateral. In order to determine the value of the Company's accounts receivable, the Company records a provision for doubtful accounts to cover probable credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectibility of outstanding accounts receivable.

Income Taxes - The Company accounts for income taxes using the liability method whereby deferred income taxes are recognized for the tax consequences of temporary differences by applying statutory tax rates applicable to future years

F-15

to differences between the financial statement carrying amounts and the tax bases of certain assets and liabilities. Changes in deferred tax assets and liabilities include the impact of any tax rate changes enacted during the year. A valuation allowance is provided for the amount of deferred tax assets that,

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

based on available evidence, are not expected to be realized.

**Research and Development Costs** - Research and development costs are expensed as incurred.

**Income Per Share** - Basic income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted income per share is calculated assuming the issuance of common shares, if dilutive, resulting from the exercise of warrants. Income per common share calculations for the years ended December 31, 2002 and 2003 reflect the retroactive restatement of the shareholders' equity section to reflect the March 2003 recapitalization.

The Company effected a 3.5 to 1 forward split of its outstanding shares of common stock during March 2003, prior to the transaction with Great Genesis described above. Unless otherwise indicated, all share and per share amounts presented herein have been adjusted to reflect the forward stock split.

**Comprehensive Income (Loss)** - The Company has adopted the provisions of Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements. SFAS No. 130 defines comprehensive income (loss) to include all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities.

The Company's only component of other comprehensive income (loss) is foreign currency translation loss of \$4,150 for the year ended December 31, 2003. This amount has been recorded as a separate component of stockholders' equity.

**Fair Value of Financial Instruments** - The Company believes that the carrying value of the its cash and cash equivalents, accounts receivables, accounts payable and accrued liabilities as of December 31, 2003 approximates their respective fair values due to the short-term nature of those instruments.

**Stock-Based Compensation** - The Company may periodically issue shares of common stock for services rendered or for financing costs. Such shares will be valued based on the market price on the transaction date.

The Company may periodically issue stock options to employees and stock options or warrants to non-employees in non-capital raising transactions for services and for financing costs.

The Company has adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which establishes a fair value method of accounting for stock-based compensation plans.

The provisions of SFAS No. 123 allow companies to either record an expense in the financial statements to reflect the estimated fair value of stock options to employees, or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", but to disclose on an annual basis the pro forma effect on net income (loss) and net income (loss) per share had the fair value of the stock options been recorded in the financial statements. SFAS No. 123 was amended by SFAS No. 148, which now requires companies to disclose in interim financial statements the pro forma effect on net income (loss) and net income (loss) per common share of the estimated fair market value of stock options issued to employees. The Company has elected to continue to account for stock-based compensation plans utilizing the intrinsic value method. Accordingly, compensation cost for stock options will be measured as the excess, if any, of

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

the fair market price of the Company's common stock at the date of grant above the amount an employee must pay to acquire the common stock.

F-16

In accordance with SFAS No. 123, the cost of stock options and warrants issued to non-employees is measured at the grant date based on the fair value of the award. The fair value of the stock-based award is determined using the Black-Scholes option-pricing model. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive benefit, which is generally the vesting period.

Pro Forma Financial Disclosure - Since the Company has not issued any stock options to employees, no pro forma financial disclosure has been presented.

In accordance with SFAS No. 123, the Company will provide footnote disclosure with respect to stock-based employee compensation. The value of a stock-based award will be determined using the Black-Scholes option-pricing model, whereby compensation cost is the fair value of the award as determined by the pricing model at the grant date or other measurement date. The resulting amount will be charged to expense on the straight-line basis over the period in which the Company expects to receive benefit, which is generally the vesting period. Stock options issued to non-employee directors at fair market value will be accounted for under the intrinsic value method.

As of December 31, 2003, the Company had not adopted any stock-based compensation plans.

Foreign Currencies - The Company maintains its books and records in Renminbi ("RMB"), the currency of the PRC, its functional currency. Translation of amounts into United States dollars ("US\$") has been made at the rate of RMB8.30 to US\$1.00.

Foreign currency transactions in RMB are reflected using the temporal method. Under this method, all monetary items are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at historical rates. Income and expenses are translated at the rate in effect on the transaction dates. Transaction gains and losses, if any, are included in the determination of net income (loss) for the period.

In translating the financial statements of the Company from its functional currency into its reporting currency in United States dollars, balance sheet accounts are translated using the closing exchange rate in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during the reporting period. Adjustments resulting from the translation, if any, are included in cumulative other comprehensive income (loss) in stockholders' equity.

The RMB is not readily convertible into United States dollars or other foreign currencies. The foreign exchange rate between the United States dollar and the RMB has been stable at approximately 1RMB to US\$0.1205 for the last few years. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate or at any other rate.



## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Segment Information - No business or geographical segmentation analysis is provided, as less than 10% of consolidated revenues and less than 10% of consolidated income from operations is attributable to business segments other than the manufacture and sale of automotive components in the PRC.

### 3. Certain Significant Risks and Uncertainties

The Company is subject to the consideration and risks of operating in the PRC. These include risks associated with the political and economic environment, foreign currency exchange and the legal system in the PRC.

The economy of PRC differs significantly from the economies of the "western" industrialized nations in such respects as structure, level of development, gross national product, growth rate, capital reinvestment, resource allocation, self-sufficiency, rate of inflation and balance of payments position, among

F-17

others. Only recently has the PRC government encouraged substantial private economic activities. The Chinese economy has experienced significant growth in the past several years, but such growth has been uneven among various sectors of the economy and geographic regions. Actions by the PRC government to control inflation have significantly restrained economic expansion in the recent past. Similar actions by the PRC government in the future could have a significant adverse effect on economic conditions in PRC.

Many laws and regulations dealing with economic matters in general and foreign investment in particular have been enacted in the PRC. However, the PRC still does not have a comprehensive system of laws, and enforcement of existing laws may be uncertain and sporadic.

The Company's operating assets and primary sources of income and cash flows are the interests of its subsidiaries in Sino-foreign joint ventures in the PRC. The PRC economy has, for many years, been a centrally-planned economy, operating on the basis of annual, five-year and ten-year state plans adopted by central PRC governmental authorities, which set out national production and development targets. The PRC government has been pursuing economic reforms since it first adopted its "open-door" policy in 1978. There is no assurance that the PRC government will continue to pursue economic reforms or that there will not be any significant change in its economic or other policies, particularly in the event of any change in the political leadership of, or the political, economic or social conditions in, the PRC. There is also no assurance that the Company will not be adversely affected by any such change in governmental policies or any unfavorable change in the political, economic or social conditions, the laws or regulations, or the rate or method of taxation in the PRC.

As many of the economic reforms which have been or are being implemented by the PRC government are unprecedented or experimental, they may be subject to adjustment or refinement, which may have adverse effects on the Company. Further, through state plans and other economic and fiscal measures, it remains possible for the PRC government to exert significant influence on the PRC economy.

The Company's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents, and accounts receivable

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

from customers. Cash and cash equivalents are maintained with major banks in the PRC. The Company's business activity is with customers in the PRC. The Company periodically performs credit analysis and monitors the financial condition of its clients in order to minimize credit risk.

Any devaluation of the Renminbi (RMB) against the United States dollar would consequently have adverse effects on the Company's financial performance and asset values when measured in terms of the United States dollar. Should the RMB significantly devalue against the United States dollar, such devaluation could have a material adverse effect on the Company's earnings and the foreign currency equivalent of such earnings. The Company does not hedge its RMB - United States dollar exchange rate exposure.

On January 1, 1994, the PRC government introduced a single rate of exchange as quoted daily by the People's Bank of China (the "Unified Exchange Rate"). No representation is made that the RMB amounts have been, or could be, converted into US\$ at that rate. This quotation of exchange rates does not imply free convertibility of RMB to other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rate quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

F-18

#### 4. Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company adopted SFAS No. 143 effective January 1, 2003. The adoption of SFAS No. 143 did not have a significant effect on the Company's financial statement presentation or disclosures.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS No. 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. The adoption of SFAS No. 145 did not have a significant effect on the Company's financial statement presentation or disclosures.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces the previous accounting guidance provided by the EITF No. 94-3, "Liability Recognition for

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a significant effect on the Company's financial statement presentation or disclosures.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 did not have a significant effect on the Company's financial statement presentation or disclosures.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies under what circumstances a contract with initial investments meets the characteristics of a derivative and when a derivative contains a financing component. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS No. 149 did not have a significant effect on the Company's financial statement presentation or disclosures.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 is to be implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The adoption of SFAS No. 150 did not have a significant effect on the Company's financial statement presentation or disclosures.

F-19

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair market value of the obligations it assumes under that guarantee and must disclose that information in its interim and annual financial statements. The initial recognition and measurement provisions of FIN 45 apply on a prospective basis to guarantees issued or modified after December 31, 2002. The Company implemented the disclosure provisions of FIN 45 in its December 31, 2002 consolidated financial statements, and the measurement and recording provisions of FIN 45 effective January 1, 2003.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities (and Interpretation of ARB No. 51)" ("FIN 46"). FIN 46 requires that the primary beneficiary in a variable interest entity consolidate the entity even if the primary beneficiary does not have a majority voting interest. The consolidation requirements of FIN 46 are required to be implemented for any variable interest entity created on or after January 31, 2003. In addition, FIN 46 requires disclosure of information regarding guarantees or exposures to loss relating to any variable interest entity existing prior to January 31, 2003 in financial statements issued after January 31, 2003. The implementation of the provisions of FIN 46 effective January 31, 2003 did not have a significant effect on the Company's consolidated financial statement presentation or disclosures.

### 5. Accounts Receivable

The Company's accounts receivable at December 31, 2003 are summarized as follows:

Accounts receivable	\$ 19,737,417
Bills receivable	21,699,968
Less: Allowance for doubtful accounts	(2,757,374)
	-----
	\$ 38,680,011
	=====

Bills receivable represent accounts receivable in the form of bills of exchange whose acceptances and settlements are handled by banks.

The activity in the Company's allowance for doubtful accounts during the year ended December 31, 2003 is summarized as follows:

Balance at beginning of year	\$ 1,979,533
Add: Amounts provided during the year	777,841
Less: Amounts written off during the year	--
	-----
Balance at end of year	\$ 2,757,374
	=====

### 6. Other Receivables

Other receivables consist of amounts advanced to both related and unrelated parties, primarily as unsecured demand loans, with no stated interest rate or due date. At December 31, 2003, other receivables totaled \$2,313,017, including \$1,472,758 to related parties, net of an allowance for doubtful accounts of \$1,053,047. During the year ended December 31, 2003, the allowance for doubtful accounts was increased by \$1,053,047, including \$771,084 to an investee of Jiulong.

In 1997, Jiulong, one of the Company's Sino-foreign joint ventures, made an investment to establish an auto sales firm named Jingzhou Jiulong Machinery and Electronic Material Co., Ltd. ("JL Material") in conjunction with a partner, Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd. ("JL Manufacturing"). JL Material had total capital of \$1,204,819 (RMB10,000,000), owned 20% by Jiulong. During the six year period from 1997 through 2002, Jiulong and JL Material had an agreement that Jiulong sold vehicles to JL Material on

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

credit and JL Material repaid Jiulong according to the terms of the agreement.

At December 31, 2003, Jiulong had an accounts receivable from JL Material of \$1,003,987. Since JL Material was experiencing financial difficulties, the Company believed there would be an uncollectible amount of \$771,084 at December 31, 2003, and accordingly, recorded an increase to its allowance for doubtful accounts by that amount. The Company terminated the agreement with JL Material during 2003.

With the exception of the receivable from JL Material, the Company believes that all other receivables are collectible, as the related parties are in good financial conditions and are paying their payables to Company pursuant to the terms of their respective contracts.

F-20

### 7. Inventories

Inventories at December 31, 2003 are summarized as follows:

Raw materials	\$ 3,622,369
Work in process	2,110,612
Finished goods	4,808,434
	-----
	10,541,415
Less: Provision for loss	(311,993)
	-----
	\$ 10,229,422
	=====

### 8. Property, Plant and Equipment

Property, plant and equipment at December 31, 2003 are summarized as follows:

Land use rights and buildings	\$ 5,593,726
Machinery and equipment	16,550,441
Electronic equipment	1,233,580
Motor vehicles	1,253,718
Construction in progress	3,418,614
	-----
	28,050,079
Less: Accumulated depreciation	(5,700,023)
	-----
	\$ 22,350,056
	=====

### 9. Intangible Assets

The activity in the Company's intangible asset account during the year ended December 31, 2003 is summarized as follows:

Balance at beginning of year,

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

consisting of technical know-how	\$	38,831
Add: Additions during the year -		
Financial software license		10,271
Mapping design software license		180,000
		-----
		229,102
Less: Accumulated amortization		(10,463)
		-----
Balance at end of year	\$	218,639
		=====

For the year ended December 31, 2003, amortization expense was \$10,463.

10. Accounts Payable

Accounts payable at December 31, 2003 are summarized as follows:

Accounts payable	\$	14,742,030
Bills payable		8,275,191
		-----
	\$	23,017,221
		=====

F-21

Bills payable represent accounts payable in the form of bills of exchange whose acceptances and settlements are handled by banks.

The Company has pledged cash deposits and certain plant and machinery to secure trade financing granted by banks.

11. Liability Related to Acquisition of Joint Venture Assets

In conjunction with the formation of the Jingzhou Sino-foreign joint venture in February 2003, the Company purchased certain operating assets consisting of production equipment from the local government and had a remaining obligation outstanding of \$1,204,819 at December 31, 2003. The obligation was interest free and matured on February 28, 2004. The Company paid this liability in full on a timely basis.

12. Bank Loans

At December 31, 2003, the Company, through its Sino-foreign joint ventures, had fixed-rate short-term bank loans outstanding of \$9,638,554. The weighted average interest rate for the year ended December 31, 2003 was 4.66% per annum. Jiulong, one of the Company's joint ventures, has provided Henglong, another of the Company's joint ventures, with loan guarantees covering bank loans of \$4,819,000. Henglong has provided Jiulong with loan guarantees covering bank loans of \$3,012,000. Great Genesis has provided Henglong with loan guarantees covering bank loans of \$602,000. The remaining balance of the loans of \$1,205,000 is unsecured.

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

### 13. Amounts Due From and Due to Shareholders/Directors

The activity in the amounts due to (due from) shareholders/directors during the years ended December 31, 2002 and 2003 is summarized as follows:

Balance, December 31, 2001	\$ (112,000)
Dividends declared	3,609,000
Deemed distribution to shareholder	6,741,000
Advances from shareholder to fund investments in joint ventures	3,040,000
Other advances from shareholders	52,000
	-----
Balance, December 31, 2002	13,330,000
Dividends declared	2,295,394
Cash advances from shareholder	6,770,887
Cancellation of dividends previously declared	(17,167,000)
	-----
Balance, December 31, 2003	\$ 5,229,281
	=====

At December 31, 2002 and 2003, the amounts due to shareholders/directors were unsecured, interest free and repayable on demand.

During December 2002, the Company entered into three transactions with entities controlled by its chairman and controlling shareholder involving the Company's minority interest ownership in certain of its Sino-foreign joint ventures as follows: (1) the Company acquired a 21% interest in Jiulong for \$6,320,241; (2) the Company acquired a 7% interest in Henglong for \$3,310,602; and (3) the Company transferred a 7% interest in Henglong in exchange for an 11% interest in Jiulong. The amounts due to or from the chairman resulting from these transactions were accounted for as increases or decreases to the amounts due to or from shareholders/directors and were recorded at fair value, as determined by an independent appraisal firm. The difference between fair value and book value resulting from the disposition of joint venture interests was credited to additional paid-in capital. With respect to consideration paid by the Company in excess of the chairman's basis in his investment, such excess has been charged to additional paid-in capital as a distribution to the chairman, resulting in the acquired investment being recorded by the Company at the chairman's original cost basis.

F-22

### 14. Stockholders' Equity

As of December 31, 2003, the Company's authorized share capital consists of 80,000,000 shares of common stock, par value \$0.0001 per share, and 20,000,000 shares of preferred stock, par value \$0.0001 per share.

During March 2003, in conjunction with the transaction with Great Genesis described at Note 1, the Company effected a 3.5 to 1 forward split of its outstanding shares of common stock, thus increasing the 5,293,000 shares of common stock outstanding at that time to 18,525,500 shares, of which 17,424,750 shares were then returned to the Company and cancelled.

During March 2003, in conjunction with the transaction with Great Genesis described at Note 1, the Company issued common stock purchase warrants to three consultants to acquire an aggregate of 550,375 shares of common stock, exercisable for a period of one year at \$1.20 per share. The aggregate fair value of these warrants, calculated pursuant to the Black-Scholes option-pricing model, was estimated to be \$1,300,000, which was charged to operations during the year ended December 31, 2003. Effective December 31, 2003, these warrants were exercised on a cashless basis, resulting in the issuance of 509,856 shares of common stock.

During September 2003, the Company sold 49,686 shares of common stock in a private transaction to three investors at approximate fair value of \$3.20 per share for net proceeds of \$159,000.

As of December 31, 2003, the Company did not have any stock options outstanding, and had not adopted a stock option plan.

#### 15. Distribution of Profits

Pursuant to the relevant laws and regulations of Sino-foreign joint venture enterprises, the profits of the Company's Sino-foreign subsidiaries, which are based on their PRC statutory financial statements, are available for distribution in the form of cash dividends after they have satisfied all PRC tax liabilities, provided for losses in previous years, and made appropriations to reserve funds, as determined at the discretion of the board of directors in accordance with the PRC accounting standards and regulations.

As stipulated by the relevant laws and regulations for enterprises operating in the PRC, the Company's Sino-foreign joint ventures are required to make annual appropriations to two reserve funds, consisting of the statutory surplus and collective welfare funds. In accordance with the relevant PRC regulations and the articles of association of the respective companies, the companies are

F-23

required to allocate a certain percentage of their profits after taxation, as determined in accordance with the PRC accounting standards applicable to the companies, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the companies. Based on the business licenses of the Sino-foreign joint ventures, the registered capital of Henglong, Jiulong, Shenyang, Zhejiang and Jingzhou are \$9,000,000, RMB 19,800,000, RMB 45,000,000, \$7,000,000 and \$2,600,000, respectively.

The Company's Sino-foreign joint ventures are also required to make appropriations to a general reserve fund, an enterprise development fund and an employee welfare and incentive fund, in which the percentage of annual appropriations are subject to the joint venture agreement. The employee welfare and incentive fund is charged to the statement of operations. The other appropriations are accounted for as reserve funds in the balance sheet and are not available for distribution as dividends to the joint venture partners of the companies. Under the joint venture agreements, the boards of directors determine the appropriations with regard to the economic situation of each company.

Net income as reported in the US GAAP financial statements differs from that as



## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

reported in the PRC statutory financial statements. In accordance with the relevant laws and regulations in the PRC, the profits available for distribution are based on the statutory financial statements. If the Company has foreign currency available after meeting its operational needs, the Company may make its profit distributions in foreign currency to the extent foreign currency is available. Otherwise, it is necessary to obtain approval and convert such distributions at an authorized bank.

### 16. Income Taxes

The Company's subsidiaries registered in the PRC are subject to state and local income taxes within the PRC at the applicable tax rate on the taxable income as reported in their PRC statutory financial statements in accordance with the relevant income tax laws applicable to foreign enterprises. Two of the Company's subsidiaries, Henglong and Jiulong, were subject to a tax rate of 15% during 2002 and 2003. The tax rate for the Company's three other subsidiaries, Shenyang, Zhejiang and Zhejiang, has not been ratified. Certain of the Company's Sino-foreign joint ventures are also entitled to a two-year tax holiday commencing with the first profit-making year.

Had these tax holidays and concessions not been available, income tax expense (net of the allocation to minority interests) would have been increased by approximately \$1,382,000 or \$0.06 per share for the year ended December 31, 2003.

No provision for Hong Kong profits tax has been made as Ji Long and Great Genesis are investment holding companies and did not have any assessable profits in Hong Kong in 2003.

The reconciliation of the effective income tax rate of the Company to the statutory income tax rate in the PRC for the year ended December 31, 2003 is as follows:

Statutory tax rate	33%
Tax holidays and concessions	(17)
	--
Effective tax rate	16%
	==

During the year ended December 31, 2003, one of the Company's Sino-foreign joint ventures, Henglong, received an income tax refund of \$521,000, which has been reflected as a reduction to income tax expense in the accompanying consolidated statements of operations.

### 17. Significant Concentrations

The Company grants credit to its customers, generally on an open account basis. The Company's customers are all located in the PRC.

The Company's ten largest customers accounted for 73.18% of the Company's consolidated sales, with three customers accounting for in excess of 10% of consolidated sales, with 25.02%, 11.08% and 10.49% of consolidated sales, or an aggregate of 46.59% of consolidated sales.

At December 31, 2003, approximately 34% of accounts receivable were from trade transactions with the aforementioned three customers.

### 18. Related Party Transactions

## Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Effective August 2, 2003, the Company entered into a five-year License and Technical Assistance Agreement (the "Agreement") with Sino-American, Inc. ("Sino-American"), a United States company controlled by the Company's Chairman and controlling shareholder. The Agreement provided for total payments of

F-24

\$6,000,000 to enable Sino-American to purchase technical assistance and equipment for use in the Company's business operations in China. During November 2003, \$2,000,000 was paid by the Company to Sino-American, which has been classified as advance payments in the consolidated balance sheet at December 31, 2003, net of amounts expended through such date.

This agreement also allowed the Company to transfer funds from China to the United States to fund normal corporate general and administrative expenses.

Through December 31, 2003, Sino-American had paid, on behalf of or for the benefit of the Company, a total of \$1,136,737, including \$255,000 for equipment and \$180,000 for software to unrelated third parties, \$250,000 to the Company's Chairman and controlling shareholder as reimbursement for costs incurred by him related to the March 2003 recapitalization, and \$451,737 for selling, general and administrative expenses for the benefit of or on behalf of the Company. As this Agreement was terminated effective April 1, 2004, it is expected that any funds not expended will be repaid to the Company by May 1, 2004.

During December 2002, the Company entered into three transactions with entities controlled by its chairman and controlling shareholder involving the Company's minority interest ownership in certain of its Sino-foreign joint ventures as follows: (1) the Company acquired a 21% interest in Jiulong for \$6,320,241; (2) the Company acquired a 7% interest in Henglong for \$3,310,602; and (3) the Company transferred a 7% interest in Henglong in exchange for an 11% interest in Jiulong. The amounts due to or from the chairman resulting from these transactions were accounted for as increases or decreases to the amounts due to or from shareholders/directors and were recorded at fair value, as determined by an independent appraisal firm. The difference between fair value and book value resulting from the disposition of joint venture interests was credited to additional paid-in capital. With respect to consideration paid by the Company in excess of the chairman's basis in his investment, such excess has been charged to additional paid-in capital as a distribution to the chairman, resulting in the acquired investment being recorded by the Company at the chairman's original cost basis.

During year ended December 31, 2003, the joint ventures entered into related party transactions with companies with common directors as shown below:

Sales	
- received	\$ 2,020,650
- receivable	1,248,328
Purchases	
- paid	931,808
- payable	1,175,006

These transactions were consummated under similar terms as those with the Company's customers and suppliers.

19. Commitments and Contingencies

Legal Proceedings - The Company is not currently a party to any threatened or pending legal proceedings, other than incidental litigation arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

License Agreement - On October 29, 2001, Henglong, one of the Company's Sino-foreign joint ventures, entered into a ten year license agreement with Bishop Steering Technology Limited ("Bishop"), an Australian company engaged in the design of power steering systems. Pursuant to the agreement, Henglong is obligated to pay Bishop an annual technical assistance fee of approximately \$200,000 per year during the first two years of the agreement and \$110,000 per year during the remaining eight years of the agreement, and a royalty to be determined.

F-25

License and Technical Assistance Agreement - On July 21, 2003, Henglong, one of the Company's Sino-foreign joint ventures, entered into a five year license and technical assistance agreement with Namyang Industrial Co. Ltd. ("Namyang"), a Korean company engaged in the manufacture of steering columns and universal joint assemblies for automobiles. Pursuant to the agreement, Henglong paid Namyang an initial payment of \$100,000 and is further obligated to pay a royalty of 3% of the sales price of products sold that include the licensed technology.

Capital Commitments -

During October 2003, Henglong, one of the Company's Sino-foreign joint ventures, signed an agreement with the management council of Wuhu Science and Technology Zone to invest \$10,000,000 to develop an industrial enterprise to carry out automobile component projects related to power steering systems. The agreement does not specify a time limit. The Company plans to invest in phases over a five year period. The Company plans to invest approximately \$870,000 in the first phase to acquire land rights, which will be completed during 2004. The Company advanced approximately \$435,000 during 2003 pursuant to the agreement under the first phase. This new plant is expected to service a large vehicle manufacturer in Wuhu at reduced transportation and storage costs.

During March 2003, Henglong signed a purchase and construction agreement with Wuhan Huazhong Shuguang Software Park Co., Ltd. for \$4,820,000 to design and construct a software research and development facility. This facility will design software and other products for the automobile. The Company paid \$2,421,300 during 2003. According to the agreement, the Company will pay an additional \$952,900 during 2004 and pay off the remaining \$1,445,800 after it receives a license for the right to use the land and a building property certificate. This new software research and development facility will be located in an area of Hubei Province that contains ten well-known universities and a large vehicle manufacturer.

On October 20, 2003, Henglong, one of the Company's Sino-foreign joint ventures, entered into a contract to purchase a land use right relating to parcel of land for \$3,680,000 and paid a \$361,000 deposit. This transaction is expected to

close in 2004.

F-26

20. Information with Respect to the Company's Sino-Foreign Joint Ventures

For the year ended December 31, 2002, the Company's financial statements included the Company's investments in Sino-foreign joint ventures accounted for under the equity method of accounting.

As of December 31, 2003 and 2002, the condensed balance sheets of the Company's Sino-foreign joint ventures were as follows:

	Henglong		Jiulong		Shenyang	
	2003	2002	2003	2002	2003	2002
	-----	-----	-----	-----	-----	-----
Current assets	35,336,427	27,358,000	26,575,218	18,334,000	6,716,225	2,406,000
Non-current Assets	11,633,355	11,353,000	1,528,072	1,519,000	3,294,543	2,427,000
	-----	-----	-----	-----	-----	-----
Total assets	46,969,782	38,711,000	28,103,290	19,853,000	10,010,768	4,833,000
	=====	=====	=====	=====	=====	=====
Current Liabilities	28,831,634	22,880,000	16,888,077	10,849,000	2,761,733	1,258,000
Non-current liabilities	192,459	196,000	--	--	4,089	9,000

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Shareholders' equity	17,945,689	15,635,000	11,215,213	9,004,000	7,244,946	3,566,000
Total liabilities and shareholders' equity	46,969,782	38,711,000	218,103,290	19,853,000	10,010,768	4,833,000

	Zhejiang		Jingzhou		Total	
	2003	2002	2003	2002	2003	2002
Current asset	3,358,264	2,450,000	1,003,992	--	72,990,126	50,548,000
Non-current Assets	3,251,814	2,993,000	2,233,702	--	21,941,486	18,292,000
Total assets	6,610,078	5,443,000	3,237,694	--	94,931,612	68,840,000
Current Liabilities	1,877,718	494,000	2,282,952	--	52,642,114	35,481,000
Non-current liabilities	--	--	--	--	196,548	205,000
Shareholders' equity	4,732,360	4,949,000	954,742	--	42,092,950	33,154,000
Total liabilities and shareholders' equity	6,610,078	5,443,000	3,237,694	--	94,931,612	68,840,000

F-27

For the years ended December 31, 2003 and 2002, the condensed statements of operations of the Company's Sino-foreign joint ventures are presented below.

The condensed statements of operations of the Company's Sino-foreign joint ventures for the year ended December 31, 2003 excludes corporate general and administrative expense of \$1,109,000, stock-based compensation of \$1,300,000, and non-operating income of \$106,000.

Henglong		Jiulong		Shenyang	
2003	2002	2003	2002	2003	2002

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Proportionate ownership interest at end of year	42%	42%	81%	81%	55%	
Net sales	33,929,946	26,007,000	18,660,367	10,789,000	13,173,434	4,0
Cost of goods sold	21,242,707	14,841,000	9,695,034	5,881,000	9,964,598	3,8
Gross profit	12,687,239	11,166,000	8,965,333	4,908,000	3,208,836	2
Selling expenses	1,434,715	632,000	1,078,316	1,900,000	85,499	
General and administrative expenses	2,724,473	2,109,176	2,764,807	2,242,409	646,879	3
Research & Development expenses	809,914	59,753	201,627	164,881	--	
Depreciation and amortization	757,219	167,071	263,925	99,710	139,168	
Stock-based compensation						
Income (loss) from operations	6,960,918	8,198,000	4,656,658	501,000	2,337,290	-1
Finance costs	209,146	145,000	126,025	17,000	-1,667	
Other income (expense), net	228,587	451,000	139,989	216,000	9,553	
Income (loss) before income taxes	6,980,359	8,504,000	4,670,622	700,000	2,348,510	-1
Income taxes	777,485	1,303,000	973,455	302,000	--	
Net income (loss)	6,202,874	7,201,000	3,697,167	398,000	2,348,510	-1
Equity in income (loss) of joint ventures	2,605,207	3,989,000	2,691,050	311,000	1,409,106	-

	Jingzhou		Elimination		Total	
	2003	2002	2003	2002	2003	2002
Proportionate ownership interest at end of year	51%					
Net sales	1,702,306	--	-13,816,897	-7,084,000	55,327,174	33,8
Cost of goods sold	1,764,293	--	-13,481,838	-7,084,000	30,400,201	17,5
Gross profit	-61,987	0	-335,059	0	24,926,973	16,2

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

Selling expenses	13,849	--	--	--	2,733,425	2,5
General and administrative expenses	118,749	--	--	--	6,614,024	4,8
Research & Development expenses	--	--	--	--	1,017,031	2
Depreciation and amortization	45,569	--	--	--	1,367,171	2
Stock-based compensation						
Income (loss) from operations	-240,154	0	-335,059	0	13,195,322	8,3
Finance costs	11,387	--	-1,249	--	344,723	1
Other income (expense), net	1,464	--	--	--	428,896	6
Income (loss) before income taxes	-250,077	0	-333,810	0	13,279,495	8,8
Income taxes	--	--	--	--	1,750,940	1,6
Net income (loss)	-250,077	0	-333,810	0	11,528,555	7,2
Equity in income (loss) of joint ventures	-127,539	--	-333,810	--	6,174,598	4,1

F-28

21. Restatement

In conjunction with the Company's audit of its consolidated financial statements for the year ended December 31, 2003, the Company identified certain adjustments to its financial statements relating to the year ended December 31, 2002. A summary of the effect of these adjustments to the statement of operations for the year ended December 31, 2002 is as follows:

Net income, as reported	\$ 4,731,000
Adjustments to:	
Write-off intangible assets improperly deferred at December 31, 2002	(52,000)
Record sales bonus not properly accrued at	

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A

December 31, 2002	(520,000)
	-----
Net income, as revised	\$ 4,159,000
	=====
Net income per common share - basic and diluted - as reported	\$ 0.23
Adjustments to:	
Write-off intangible assets improperly deferred at December 31, 2002	--
Record sales bonus not properly accrued at December 31, 2002	(0.03)
	-----
Net income per common share - basic and diluted - as adjusted	\$ 0.20
	=====
Weighted average common shares outstanding - basic and diluted	20,914,250
	=====

F-29

22. Restatement to financial statements

Based on the comments from the Securities and Exchange Commission, the company amended the consolidated statement of cash flows for the year ended December 31, 2003 and extended or modified certain notes to the consolidated financial statements to provide additional information as detailed below. The consolidated balance sheets, consolidated statements of operations, consolidated statements of comprehensive income and consolidated statements of stockholders' equity remained unchanged.

The following table presents the effects of the aforementioned amendments to the consolidated statement of cash flows, reflecting interest paid of \$330,167 as "net cash provided by operating activities" instead of as "net cash provided by financing activities". Certain other items included in "net cash provided by operating activities" were also reclassified.

	2003	
	-----	-----
	\$	\$
	As restated	As previously reported
Net cash provided by operating activities	3,925,587	4,255,754
Net cash provided by financing activities	10,384,665	10,054,498



**Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB/A**

The following notes have been expanded or modified to provide additional information: Notes 1, 2, 6, 9, 11 and 20.