

CHINA AUTOMOTIVE SYSTEMS INC  
Form 10-Q  
August 09, 2011

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

FORM 10-Q

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2011

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.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

33-0885775  
(I.R.S. employer identification number)

No. 1 Henglong Road, Yu Qiao Development Zone, Shashi District,  
Jing Zhou City, Hubei Province, People's Republic of China  
(Address of principal executive offices)

(86) 716- 832- 9196  
Issuer's telephone number

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  
" No x

As of August 9, 2011, the Company had 28,083,534 shares of common stock issued and outstanding.

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Cautionary Statement

This quarterly report on Form 10-Q 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," "continues," "could," "estimates," "expects," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology. Such statements are subject to certain risks and uncertainties, including the matters set forth in this report or other reports or documents the Company files with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected. 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. Undue reliance should not be placed on these forward-looking statements which speak only as of the date hereof. The Company undertakes no obligation to update these forward-looking statements. The Company's expectations are as of the date this Form 10-Q is filed, and the Company does not intend to update any of the forward-looking statements after the date this quarterly report on Form 10-Q is filed to confirm these statements to actual results, unless required by law. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission.

## PART 1 — FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS.

China Automotive Systems, Inc.  
Condensed Consolidated Statements of Income (Unaudited)

	Three Months Ended June 30,	
	2011	2010
Net product sales, including \$13,121,030 and \$2,941,718 to related parties for the three months ended June 30, 2011 and 2010	\$82,505,886	\$85,081,138
Cost of product sold, including \$4,710,325 and \$5,248,896 purchased from related parties for the three months ended June 30, 2011 and 2010	67,705,216	65,270,878
Gross profit	14,800,670	19,810,260
Add: Gain on other sales	480,735	681,999
Less: Operating expenses		
Selling expenses	2,537,012	2,903,125
General and administrative expenses	3,514,000	2,134,773
Research and development expenses	1,589,628	1,741,405
Total operating expenses	7,640,640	6,779,303
Income from operations	7,640,765	13,712,956
Add: Other income, net	72,934	250,851
Financial expenses, net	(560,929 )	(840,683 )
Gain (loss) on change in fair value of derivative	(146,444 )	19,587,135
Income before income tax expenses and equity in earnings of affiliated companies	7,006,326	32,710,259
Less: Income taxes	1,289,769	2,291,292
Add: Equity in earnings of affiliated companies	47,635	-
Net income	5,764,192	30,418,967
Net income attributable to noncontrolling interest	1,420,234	2,811,362
Net income attributable to parent company	4,343,958	27,607,605
Allocation to convertible notes holders	(460,268 )	(3,734,882 )
Net income attributable to parent company's common shareholders	\$3,883,690	\$23,872,723
Net income attributable to parent company's common shareholders per share		
Basic	\$0.14	\$0.88
Diluted	\$0.14	\$0.28
Weighted average number of common shares outstanding		
Basic	28,083,534	27,075,607
Diluted	28,202,989	31,562,479

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

China Automotive Systems, Inc.  
Condensed Consolidated Statements of Income (Unaudited)

	Six Months Ended June 30,	
	2011	2010
Net product sales, including \$22,656,851 and \$4,602,111 to related parties for the six months ended June 30, 2011 and 2010	\$ 173,520,056	\$ 169,313,827
Cost of product sold, including \$10,130,095 and \$9,596,184 purchased from related parties for the six months ended June 30, 2011 and 2010	138,734,478	126,968,550
Gross profit	34,785,578	42,345,277
Add: Gain on other sales	893,921	1,133,609
Less: Operating expenses		
Selling expenses	4,952,288	4,770,928
General and administrative expenses	7,454,837	6,061,350
Research and development expenses	3,900,359	3,043,163
Total operating expenses	16,307,484	13,875,441
Income from operations	19,372,015	29,603,445
Add: Other income, net	105,574	266,379
Financial expenses, net	(1,623,142 )	(1,348,904 )
Gain on change in fair value of derivative	11,585,383	5,434,753
Gain on convertible notes conversion	1,564,418	-
Income before income tax expenses and equity in earnings of affiliated companies	31,004,248	33,955,673
Less: Income taxes	3,246,364	4,576,814
Add: Equity in earnings of affiliated companies	86,546	-
Net income	27,844,430	29,378,859
Net income attributable to noncontrolling interest	3,858,490	5,877,705
Net income attributable to parent company	23,985,940	23,501,154
Allocation to convertible notes holders	(2,772,492 )	(3,180,834 )
Net income attributable to parent company's common shareholders	\$ 21,213,448	\$ 20,320,320
Net income attributable to parent company's common shareholders per share		
Basic	\$ 0.76	\$ 0.75
Diluted		