

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

CHINA AUTOMOTIVE SYSTEMS INC
Form 10KSB
March 31, 2005

=====

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

FORM 10-KSB

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

For the fiscal year ended December 31, 2004

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
-----	-----

1

SECURITIES REGISTERED UNDER SECTION 12(g) OF THE EXCHANGE ACT:
COMMON STOCK

(Title of Class)

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

(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 issuer's revenue for its most recent fiscal year \$ 58,185,845

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. \$29,140,288.35 based on a closing bid price of \$9.65 on March 16, 2005.

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 March 16, 2005 there were 22,574,542 shares outstanding.

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

CHINA AUTOMOTIVE SYSTEMS, INC.
FORM 10-KSB
INDEX

PART I

- Item 1. Description of Business.....
Item 2. Description of Property.....
Item 3. Legal Proceedings.....
Item 4. Submission of Matters of a Vote of Security Holders.....

PART II

- Item 5. Market for Company's Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities....
Item 6. Management's Discussion and Analysis of Financial or Plan of Operation.....

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Item 7.	Financial Statements.....
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....
Item 8A.	Controls and Procedures.....

PART III

Item 9.	Directors and Executive Officers of the Registrant.....
Item 10.	Executive Compensation.....
Item 11.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.....
Item 12.	Certain Relationships and Related Transactions.....
Item 13.	Exhibits, List and Reports on Form 8-K.....
Item 14.	Principal Accountant Fees and Services.....

3

Signatures.....
Financial Statements.....

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. 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's 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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 leaded glass windows through a Web site. From August 23, 2002, through March, 2003, the Company 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"), Yiu Wong Tse ("Tse"), Hanlin Chen ("Chen" together with Dong, Tse, Wu and Xie, the "Sellers") and Great Genesis Holding Limited, a corporation organized under the

4

laws of the Hong Kong Special Administrative Region, China ("Genesis"), the Company 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, the Company issued 20,914,250 shares of common stock to the Sellers. After the Acquisition, the Company 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 four Sino-joint ventures, 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 2004 the combined sales of the Sino-joint ventures ranked second in their industry sector, with a market share of 13.7%.

Effective March 10, 2003, Hanlin Chen, Guofu Dong, Liping Xie, Qizhou Wu, and Yiu Wong Tse began serving their terms as members of the Company's 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.

On May 19, 2003, the Company changed its name from Visions-In-Glass, Inc. to China Automotive Systems, Inc.

On August 1, 2004, the Company divested its non-core business, exchanging 51% equity of Jingzhou Henglong Fulida Textile Co., Ltd. for 2.5% equity of Jingzhou Henglong Automotive Parts Co. Limited.

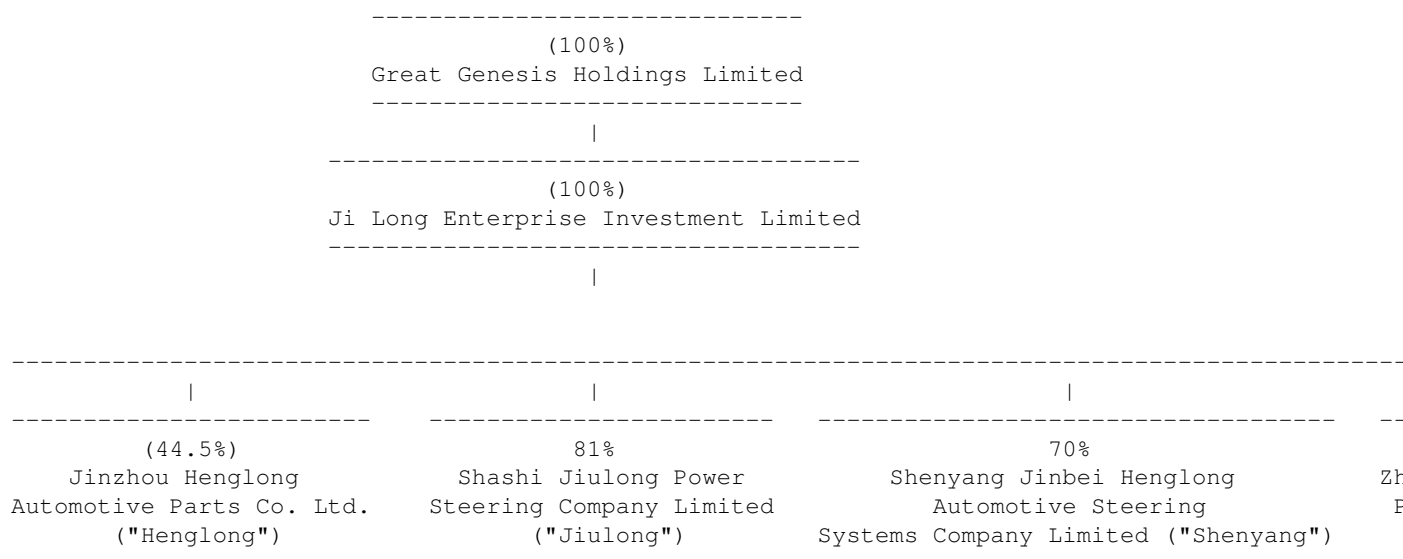
BUSINESS OVERVIEW

Unless the context indicates otherwise, the Company uses the terms "the Company", "we", "our" and "us" to refer to both its predecessor, Genesis and China Automotive collectively on a consolidated basis, but such terms do not include the Jingzhou Henglong Fulida Textile Co., Ltd. The historical financial statements for the periods prior to the Acquisition and summaries thereof appearing in this report are those of Vision and Genesis and represent the combined financial statements of the Company. The Company is a holding company and has no significant business operations or assets other than its interest in Genesis. Through Genesis, the Company manufactures power steering systems and other component parts for automobiles. All operations are conducted through four Sino-foreign joint ventures in China. Set forth below is an organizational chart.

China Automotive Systems

|

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB



Source: Company data, unless the context indicates otherwise.

5

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 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. Jingzhou's business have been divested since August 31, 2004.

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. Both the Chairman of the Board of Directors and the general manager are 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 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. Both the Chairman of the Board of Directors and the general manager are appointed by the Company.

As a result of the foregoing board structures and the divestiture of Jingzhou, 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 before January 1, 2003

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

pursuant to EITF 96-16.

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.

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.

The Company has long-term business relations with more than fifty vehicle manufacturers, among them are FAW Group and Dongfeng Auto Group, two of the five largest automobile manufacturers in China; Shenyang Brilliance Jinbei Co., Ltd., the largest van manufacturers in China; Cherry Automobile Co., Ltd, the largest state owned car manufacturer in China, and Geely Automobile Co., Ltd., the largest private owned car manufacturer. In 2004, the Company signed a one-year sales contract with SAIC GM Wuling Co., one of the Sino-Foreign joint ventures invested by GM.

The Company currently owns two trademarks on automobile parts and twelve Chinese patents for power steering technology. The Company is in the process of integrating new advanced technologies such as electronic chips in power steering systems into its current production line and is pursuing aggressive strategies in technology to maintain a competitive edge within the automobile industry. In 2001, the Company signed a Licensing Agreement with Bishop Steering Technology Ltd, a leader in automotive steering gear technology innovation. In 2003, the Company signed a Technology Transfer Agreement with Namyang Ind. Co. Ltd., a leading steering column maker, for the technology necessary for electronic power steering (EPS) systems.

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

In January 2005, the Company entered into a ten-year Technology License Agreement with Korea Delphi Automotive Systems Corporation ("KDAS") to manufacture KDAS's M150/M200 model automotive steering systems. These systems will be utilized in GM Daewoo Auto & Technology Company's Matiz vehicle.

STRATEGIC PLAN

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

8

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

- Quality Control. The Henglong and Jiulong manufacturing facilities passed the ISO/TS 16949 System Certification process in January 2004, a well recognized quality control system in auto industry developed by TUV Rheinland of Germany.

- Decrease Cost. By improving the Company's production ability and

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

enhancing equipment management, optimizing the process and products structure, perfecting the supplier system and cutting production cost, the Company's goal is to achieve a more competitive profit margin.

- Research and Development. By partnering with Bishop Steering Technology Limited for the development of advanced steering systems, the Company's objective is to gain increased market share in China.

- International Expansion. The Company has established contacts with several international vehicle manufacturers and auto parts modules suppliers and are in preliminary negotiations regarding future development projects.

- Acquisitions. The Company is exploring opportunities to create long-term growth through new ventures or acquisitions of other auto component manufacturers. The Company 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
- companies involved with power steering systems, oil pump or engine-cooling systems.

CUSTOMERS

The Company's ten largest customers represent 73.1% of the Company's total sales. The following table sets forth information regarding the Company's ten largest customers.

9

List of Major Customers

Name of Customer	Percentage of Total Revenue
Brilliance China Automotive Holdings Limited	19.2%
Beiqi Foton Motor Co., Ltd.	16.2%
Dongfeng Auto Group Co., Ltd	10.9%
China FAW Group Corporation	7.2%
CHERY AUTOMOBILE CO., Ltd	4.3%
Great Wall Motor Company Limited	4.3%
Zhejiang Geely Holding Co., Ltd	3.7%
Shanxi Heavy Auto Co., Ltd	2.8%
Southeast (Fujian) Auto Industry Co., Ltd	2.3%
Hebei Zhongxing Auto Co., Ltd	2.2%

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

SALES AND MARKETING

The Company's sales and marketing team has 60 sales persons. In addition to an OEM team and a sales service team established in 2003, the Company established in 2004 a working group to dedicate itself to international business. These sales and marketing teams provide a constant interface with the Company's key customers. They are located in all major vehicle producing regions to more effectively represent the Company's customers' interests within the Company's organization, to promote customer programs and to coordinate customer strategies with the goal of enhancing overall customer service and satisfaction. The Company's ability to support its customers is further enhanced by its broad presence in terms of sales offices, manufacturing facilities, engineering/technical centers and joint ventures.

DISTRIBUTION

The Company's distribution system spreads all over China. The Company has established sales and service points within certain significant customers to deal with matters related to such customers timely. The Company also established distribution warehouses close to major customers to ensure timely delivery. The Company maintains strict control over inventories. Each of these sales and service points sends back to the Company through

10

E-mail or fax information related to the inventory and customers' needs. The Company guarantees product delivery in eight hours for those customers who are located within 200 km from the Company's distribution warehouses, and 24 hours for customers which are located over 200 km from the Company's distribution warehouses. Delivery time is a very important competitive factor in terms of customer decision making, together with quality, pricing and long-term relationships.

The Company's sales and marketing organization and activities are designed to create overall awareness and consideration of, and therefore to increase sales of, the Company's modules systems and components. To achieve that objective, the Company organized delegations to visit the United States, Korea, India and Japan and met with potential customers. Through these activities, the Company has generated potential business interests for a strong base for future development.

EMPLOYEES AND FACILITIES

The Company currently employs approximately 1,957 persons in its production facilities of the four joint ventures located at the Jingzhou City of Hubei Province, Shenyang City of Liaoning Province and Zhuji City of Zhejiang Province. Jiulong and Henglong in Jingzhou together employ 1,530 persons in facilities on 137,971 square meters of land. Shenyang has 218 employees, in production facilities covering an area of 35,000 square meters. Zhejiang has 209 employees covering an area of 33,000 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 was 420,000 units in 2003 and approximately 450,000 units in 2004. Although the production process continues to rely heavily on manual labor, the Company has invested substantially in high-level production machinery to improve capacity and production quality. Approximately \$20 million was spent over the last two years on professional-grade equipment -- approximately 80% of which was already

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

in place and put into use.

RAW MATERIALS

The Company purchases various manufactured components and raw materials for use in the Company's manufacturing processes. The principal components and raw materials the Company purchases include castings, electronic parts, molded plastic parts, finished sub-components, fabricated metal, aluminum and steel. The most important raw material is steel. The Company enters 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 the Company from building up inventory when the orders from customers change.

11

The Company's three largest suppliers are Wugang Group Wuhan Metallurgy Equipment Co., Ltd, Shaoxing Sonic Automotive Components Co., Ltd. and Shenyang Steering Co., Ltd. They account in the aggregate for 12.0% of all components and raw materials the Company purchases.

All components and raw materials are available from numerous sources. The Company has not, in recent years, experienced any significant shortages of manufactured components or raw materials and normally does not carry inventories of these items in excess of what is reasonably required to meet the Company's production and shipping schedules.

RESEARCH AND DEVELOPMENT

The Company has spent \$1,518,512 and \$1,017,031 on research and development activities for each of 2004 and 2003, all of which were borne by the Company. The Company has 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, the Company has implemented the Bishop steering valve technology into the Henglong brand R&P power steering gear product. The Company spends approximately twenty-five to thirty percent of its net sales of new products on research and development in 2004.

Henglong owns a Hubei Provincial-Level Technical Center, which is approved by the Hubei Economic Commission. The center has a staff of 110 including 25 senior engineers, 4 foreign experts and 70 engineers primarily focused on steering system R&D, tests, production process improvement and new material and production methodology application.

The Company has established a R&D center, Changchun Hualong Auto Technology Co., Ltd., with 45 employees which is composed of 10 senior engineers, 3 foreign experts and 25 engineers, all focusing on steering system R&D, tests, and new material applications.

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

COMPETITION

The automotive components industry is extremely competitive. Criteria for

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

the Company's 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 the Company has 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 2.4 million

12

units with the Company providing approximately 450,000 of these units. Like many competitive industries, there is downward pressure on selling prices. In 2004, the selling price of the Company's principal products was reduced by an average of 6% by the end of the fourth quarter, as compared to the end of 2003.

The Company's major competitors, including Shanghai ZF and FKS, are component suppliers to specific automobile manufacturers. Shanghai ZF is the joint venture of SAIC and ZF Germany, has 20% of the market share and is an exclusive supplier to SAIC-Volkswagen and SAIC-GM. First Auto FKS, a joint venture between First Auto Group and Japan's Koyo Company, is the third largest in the market with an approximately 12% market share. Its main customers are FAW-Volkswagen Company.

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 the Company is in China in terms of production cost and flexibility in meeting client requirements.

THE CHINESE AUTOMOBILE INDUSTRY

According to the latest statistics from China Association of Automobile Manufacturers (CAAM), in 2004, the output and sales volume of domestic made vehicles both broke 5 million units for the first time, with 5,070,050 and 5,071,100 units respectively, with an increase of 14.1% and 15.5% compared with the same period of last year. However, the increase level was 20 percentage lower than that of the past two years.

CAAM indicated that, although the growth has dropped by 20% from that of 2003, a 15% growth on the base of more than 4 million production and sales volume of 2003 showed that China's entire automotive industry had developed smoothly, even if it experienced the drop aforementioned.

Since China has become a member of the World Trade Organization, the national automotive production and sales amount have increased more than 30% year by year. In 2002, the production and sales amounts were 3,250,000 and 3,248,000 units with an increase of 38% and 37.1% respectively. In 2003, the production and sales amounts were 4,443,700 and 4,390,800 units with an increase of 35.2% and 34.2% respectively.

Among all types of national vehicles, the decline in growth of cars is the biggest. In 2004, the aggregate production of cars was 2,316,300 units, while the percentage of increase fell from 83.3% of 2003 to 12.0%; and the sales were 2,326,500 units, while the percentage fell from 75.3% of 2003 to 15.2%. They dropped by about 60-70%.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

CAAM believes the main reasons leading to this situation are as follows: First, the private car consumption was reduced greatly from the past two years; secondly, the

13

finance, fuel price, parking, road conditions and some other factors related to car consumption also influenced consumers' enthusiasm; third, the macroeconomic adjustment policies of the Chinese government delayed the public car consumption; and finally, wide ranged continuous price cutting made consumers waiting longer for more cost cutting.

The Company expects that in 2005, China's automobile market will develop steadily.

Dr. Shusong Ba, the vice head of the Finance Division, Development and Research Center of China's State Council, believes that in 2005, the macroeconomic adjustment and control measures will still be carried out, but will be improved. He estimated that GDP would increase by 8.5%, a little bit lower than 9.3% of 2004. He also indicated that in the long run the Chinese automobile market will grow at a reasonable pace, rather than in an exploded way.

Xiaoyu Zhang, the vice chairmen of China Mechanical Industry League, believes that the Chinese automobile market is adaptive to the macroeconomic adjustment. He believes that the adjustment and control measures will not cause a negative growth of the market, but will slow it down. He also believes that the Chinese automobile market will maintain a normal growth in the long period.

Changming Xiu, the head of the Division of Economic Consulting, China State Information Center, made a projection for the automobile market in 2005: the total sales volume of domestic vehicles would reach up to 5.64 million units, with a 12% increase compared with that of last year, among which, the total sales volume for cars would be 2.64 million units, with an increase of 16% compared with last year.

CHINESE 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. According to Asian Development Bank Key Indicators 2004, GDP growth averaged 9% between 1983 and 2003 per year. Per capita GDP increased from \$585 in 1995 to \$854 in 2000 and \$1,093 in 2003. 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 during 1998-1999, the Chinese 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.

Even though the macroeconomic adjustments and controls were implemented in 2004, the data from the China Statistics Bureau showed a 9.5% GDP growth in 2004. The Chinese economy has shown a strong momentum.

14

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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.

According to the latest statistics from China Highway Network, in 2004, the Chinese government invested RMB 500 billion on highway development, an increase of 21.2% from 2003, and almost twice that of 2000. The statistics from the Ministry of Traffic show that 46,000 kilometer highway and 4,400 kilometer expressway were developed in 2004, reaching a total highway and expressway of 1,856,000 kilometers and 34,200 kilometers, respectively.

The China State Council has approved the "National Expressway Network Plan" in principle. In 2005, road expansion will continue with a focus on national expressway network. The Ministry of Traffic will devote efforts in making high level network-building plans to accelerate construction of China's big channel to reach a total expressway of 35,000 kilometers and highway of 1,900,000 kilometers.

DOING BUSINESS IN CHINA

THE CHINESE LEGAL SYSTEM

The practical effect of the People's Republic of China legal system on the Company's 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 provinces. Similarly, the People's Republic of China accounting laws mandate accounting practices, which are not consistent with US Generally Accepted Accounting Principles. The Chinese accounting laws require that an annual "statutory audit" be performed in accordance with the People's Republic of China accounting standards and that the books of account of Foreign Invested Enterprises be 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 designated 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 the Company's 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,

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

while different in operation from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

Because the Chinese government treats the automobile parts supply industry as an encouraged industry, it is not necessary for the Company's Sino-foreign joint ventures to obtain any Chinese government approval for production or distribution of their principal products or services. Except as disclosed in this Report, the Company is not aware of any probable governmental regulations on the automobile business and its sino-foreign joint ventures are in compliance with Chinese environmental laws.

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:

- The Company will be able to capitalize on economic reforms;
- The Chinese government will continue its pursuit of economic reform policies;
- The economic policies, even if pursued, will be successful;
- Economic policies will not be significantly altered from time to time; and
- Business operations in China will not become subject to the risk of nationalization.

16

Negative impact upon economic reform policies or nationalization could result in a total investment loss in the Company's common stock.

Since 1979, the Chinese government has reformed its economic systems. Because many reforms are unprecedented or experimental, they are expected to be refined and improved. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment or inflation, or in the disparities in per capita wealth between regions within China, could lead to further readjustment of the reform measures. This refining and readjustment process may negatively affect the Company's operations.

Over the last few years, China's economy has registered a high growth rate. Recently, there have been indications that rates of inflation have increased. In response, the Chinese government recently has taken measures to curb this excessively expansive economy. These measures have included devaluations of the Chinese currency, the renminbi, restrictions on the availability of domestic credit, reducing the purchasing capability of certain of its customers, and limited re-centralization of the approval process for purchases of some foreign products. These austerity measures alone may not succeed in slowing down the economy's excessive expansion or control inflation, and may result in severe dislocations in the Chinese economy. The Chinese government may adopt additional measures to further combat inflation, including the establishment of freezes or restraints on certain projects or markets.

To date reforms to China's economic system have not adversely impacted the

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Company's operations and are not expected to adversely impact operations in the foreseeable future; however, there can be no assurance that the reforms to China's economic system will continue or that the Company will not be adversely affected by changes in China's political, economic, and social conditions and by changes in policies of the Chinese government, such as changes in laws and regulations, measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and remittance abroad, and reduction in tariff protection and other import restrictions.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's headquarters are located at No. 1 Henglong Road, Yu Qiao Development Zone Shashi District, Jing Zhou City Hubei Province. Set forth below are the manufacturing facilities operated by each of the joint ventures. The Company has long-term rights (fifty years) to use the land and the Company owns all of the land improvements on the land.

17

FACILITY	PRODUCT	TOTAL AREA (M2)	BUILDING AREA (M2)	ORIGINAL COST OF EQUIPMENT
Henglong	Automotive Parts	307,830	12,490	\$ 10,653,640
		18,820	19,214	--
Jiulong	Power Steering	98,441	17,401	8,071,390
Shenyang	Automotive Steering	35,354	11,413	2,023,988
Zhejiang	Steering Pumps	27,756	7,262	3,299,415

The Company is not involved in investments in (i) real estate or interests in real estate, (ii) real estate mortgages, and (iii) securities of or interests in persons primarily engaged in real estate activities, as all of its land rights are used for production purposes.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to any pending or to the best of the Company's 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 the Company or has a material interest adverse to the Company in reference to pending litigation.

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

During the fiscal year 2004, 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

18

The Company's common stock is traded on the Over-The-Counter Bulletin Board under the symbol "CAAS.OB" since March 2003, and listed and traded on NASDAQ Small Cap market since August 24, 2004 under the symbol "CAAS". The high and low bid intra-day prices of the common stock were reported on the OTCBB and NASDAQ 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 and NASDAQ for the time periods indicated.

For Fiscal Years Ended December 31, 2004 and 2003:

	Price Range			
	2004		2003	
	High	Low	High	Low
First Quarter	\$ 18.45	\$ 8.05	\$ 0.10	\$ 0.01
Second Quarter	9.65	3.70	4.50	2.90
Third Quarter	6.47	3.25	4.85	3.82
Fourth Quarter	\$ 18.09	\$ 3.50	\$ 18.50	\$ 4.80

The above quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

(b) STOCKHOLDERS

The Company's common shares are issued in registered form. Securities Transfer Corporation in Frisco, Texas is the registrar and transfer agent for the Company's common stock. As of December 31, 2004, there were 22,574,542 shares of the Company's common stock outstanding and the Company had approximately 50 stockholders of record.

(c) DIVIDENDS

The Company has never declared or paid any cash dividends on its common stock and it does not anticipate paying any cash dividends in the foreseeable future. The Company currently intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay cash dividends will be at the discretion of the board of directors and will be based upon the Company's 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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

In December, 2003 the Company issued 509,856 shares to investors upon the exercise of warrants that were issued in March, 2003. The warrants were exercised on a cashless

19

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.

On July 21, 2004, the Company issued options to purchase 7,500 shares of common stock to each of its three independent directors. Such share options vest immediately upon grant and are exercisable at \$4.50 per share over a period of two years.

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 the Company's financial position and operating results during the periods included in the accompanying consolidated financial statements, as well as information relating to the plans of its current management. This report includes forward-looking statements. 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. 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-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.

The following discussion and analysis should be read in conjunction with the Company's 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 of 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

20

Automotive Systems, Inc.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 of 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 and \$70,000 to the former officer, director and controlling shareholder of Visions for the cancellation of 17,424,750 shares of common stock in 2003 and 2004, respectively, for a total amount of \$320,000.

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.

Ji Long owns the following aggregate net interests in four Sino-foreign joint ventures organized in the PRC as of December 31, 2004 (Jingzhou was sold in August, 2004):

Name of Entity -----	Percentage Interest	
	2004 ----	2003 ----
Jingzhou Henglong Automotive Parts Co. Limited ("Henglong")	44.5%	42.0%
Shashi Jiulong Power Steering Co. Limited ("Jiulong")	81.0%	81.0%
Shenyang Jinbei Henglong Automotive Steering System Co. Limited ("Shenyang")	70.0%	55.0%
Zhejiang Henglong & Vie Pump-Manu Co. Limited ("Zhejiang")	51.0%	51.0%
Jingzhou Henglong Fulida Textile Co., Ltd. ("Jingzhou")	-	51.0%

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

As of December 31, 2003, the Company owned 55% equity interest of Shenyang. On April 8, 2004, the board of directors approved an increase in Shenyang's registered capital and total capital from \$5,421,687 (RMB45,000,000) to \$8,132,530 (RMB67,500,000), the Chinese investor was changed from Shenyang Jinbei Automotive Industry Co., Ltd. to Shenyang Jinbei Automotive Company Limited. The shareholder transfer and capital increase, together with the newly signed Joint Venture Agreement and Articles of Association, have been approved by the applicable PRC authorities. Accordingly, Shenyang's registered capital is now \$8,132,530 (RMB67,500,000), including \$5,692,771 (RMB47,250,000) from the Company, constituting 70% of the total registered capital, and \$2,439,759 (RMB20,250,000) from Shenyang Jinbei Automotive Company Limited, constituting 30% of the total registered capital. The increase in capital of \$2,710,843 (RMB22,500,000) has been injected into Shenyang.

Jingzhou was formed in February, 2003 to produce environmental textiles and raw materials, and was owned 51% by Ji Long and 49% by Cixi City Fulida Synthetic Fibre Co., Ltd. Effective September 1, 2004, in order to concentrate on its main products, namely steering and automotive parts, the Company disposed of its 51% interest in Jingzhou by entering into an equity exchange agreement (the "Exchange Agreement") with Hubei Wanlong Investment Co., Ltd ("Hubei Wanlong"), controlled by Mr. Hanlin Chen, the Company's Chairman. Pursuant to the Exchange Agreement, the 51% equity interest in Jingzhou owned by Ji Long was exchanged for 2.5% of Hubei Wanlong's equity interest in Henglong based on their respective fair market values as determined by an independent appraisal firm. The difference between the fair value and the book value resulting from the disposition of the joint venture interest in Jingzhou was debited to additional paid-in capital. With respect to consideration paid by the Company in excess of its Chairman's basis for his investment, such excess has been charged to additional paid-in capital as a distribution to the Chairman, resulting in the acquired 2.5% equity interests in Henglong being recorded by the Company at the Chairman's original cost basis. The Company paid approximately \$90,000 to Hubei Wanlong in conjunction with this transaction.

The divested non-core business of Jingzhou has been treated as a discontinued operation under SFAS No. 144. Jingzhou's results of operation and related charges have been reclassified as discontinued operations in the Company's consolidated statements of operations. The Company's prior financial statements have been restated to reflect the discontinued operation of Jingzhou. See accompanying notes to the Company's consolidated financial statements.

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 focus on power steering parts and power steering pumps. The Company has long-term business relations with more

22

than fifty vehicle manufacturers, including two of the largest automobile manufacturers in China, FAW Group, with 1,007,471 in annual sales volume, and Dongfeng Auto Group, with 523,309 of annual sales volume in 2004. The Company also has long-term business relations with the largest van manufacturer in China, Shenyang Brilliance Jinbei Co., Ltd, which has approximately 99,572 in annual sales volume, and also has long-term business relations with two other smaller car manufacturers, Cherry Automobile Co., Ltd and Geely Automobile Co., Ltd.

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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.

ACCOUNTS RECEIVABLE:

23

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.

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:

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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.

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 ("\$\$") has been made at the rate of RMB8.30 to \$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.

OFF-BALANCE SHEET ARRANGEMENTS

24

The Company does not have any off-balance sheet arrangements.

RESULTS OF OPERATIONS:

During early 2003, the Directors of the Company and the other joint ventures in the Company's Sino-foreign joint ventures executed "Act in Concert" agreements, accordingly, the Company has accounted for the above joint ventures on a consolidated basis since January 1, 2003 because the Company has exercised sufficient control over their management and operations.

The below condensed statements of continued operations of the Company's Sino-foreign joint ventures for the years ended December 31, 2003 and 2004 exclude corporate general and administrative expense of \$1,108,481, stock-based compensation of \$1,300,000, and non-operating income of \$105,151 in 2003; and also exclude the corporate general and administrative expense of \$823,852, depreciation and amortization of \$78,500, stock-based compensation of \$55,125, financial expenses \$(4,620), and non-operating loss of \$12,806 in 2004.

The results of operations and related charges generated during January to August 2004 and February to December 2003 of Jingzhou have been classified as a discontinued operation. Therefore, the analysis and discussions below have excluded Jingzhou's information in 2004 and 2003.

25

For the years ended December 31, 2004 and 2003, the condensed statements of operations of the Company's Sino-foreign joint ventures were as follows:

Henglong		Jiulong		
2004	2003	2004	2003	2
-----	-----	-----	-----	-----

Proportionate ownership

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

interest at end of year	44.5%	42%	81%	81%	
Net sales	\$ 29,029,209	\$ 33,929,946	\$ 26,932,386	\$ 18,660,367	\$ 12,660,367
Cost of goods sold	20,614,311	21,242,707	17,196,990	9,695,034	9,695,034
Gross profit	8,414,898	12,687,239	9,735,396	8,965,333	3,000,000
Selling expenses	1,658,537	1,434,715	1,423,586	1,078,316	
General and administrative expenses	2,990,779	2,724,473	1,725,512	2,764,807	
R & D expenses	1,363,644	809,914	154,434	201,627	
Depreciation and amortization	372,491	757,219	238,409	263,925	
Income (loss) from operations	2,029,447	6,960,918	6,193,455	4,656,658	2,000,000
Finance costs	374,067	209,146	366,350	126,025	
Other income (expense), net	866,935	228,587	710,101	139,989	
Income (loss) before income taxes	2,522,315	6,980,359	6,537,206	4,670,622	2,000,000
Income taxes	(51,395)	777,485	669,795	973,455	

	Zhejiang		Elimination		2004
	2004	2003	2004	2003	
Proportionate ownership interest at end of year	51%	51%			
Net sales	\$ 4,259,791	\$ 1,678,018	\$ (14,725,750)	\$ (13,816,897)	\$ 58,185,000
Cost of goods sold	2,482,645	1,215,407	(14,773,127)	(13,481,838)	35,042,000
Gross profit	1,777,146	462,611	47,377	(335,059)	23,143,000
Selling expenses	230,828	121,046	--	--	3,473,000
General and administrative expenses	318,660	359,116	(6,408)	--	5,655,000
R & D expenses	434	5,490	--	--	1,518,000
Depreciation and amortization	74,597	161,290	--	--	769,000
Income (loss) from operations	1,152,627	(184,331)	53,785	(335,059)	11,726,000
Finance costs	(9,460)	1,081	--	(1,249)	735,000
Other income (expense), net	20,120	49,303	--	--	1,664,000
Income (loss) before income taxes	1,182,207	(136,109)	53,785	(333,810)	12,655,000
Income taxes	--	--	--	--	618,000

Net income (loss)	2,573,710	6,202,874	5,867,411	3,697,167	2,359,000
-------------------	-----------	-----------	-----------	-----------	-----------

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Minority interest	1,523,326	3,597,666	1,230,314	1,006,117	849,
Equity in income (loss) of joint ventures	\$ 1,050,384	\$ 2,605,208	\$ 4,637,097	\$ 2,691,050	\$ 1,510,
Net income (loss)	1,182,207	(136,109)	53,785	(333,810)	12,037,
Minority interest	579,652	(66,693)	--	--	4,182,
Equity in income (loss) of joint ventures	\$ 602,555	\$ (69,416)	\$ 53,785	\$ (333,810)	\$ 7,854,

27

NET SALES FROM CONTINUED OPERATIONS.

The increase in net sales of the Company is summarized as follows:

Item	2004		2003		Inc	
	Quantity (sets)	Amount (\$)	Quantity (sets)	Amount (\$)	Quantity (sets)	Amount
Steering Gears	442,962	44,746,849	417,000	44,556,450	25,962	19
Steering accessories	--	9,179,204	--	7,390,573	--	1,78
Steering pumps	94,881	4,259,792	34,172	1,677,845	60,709	2,58
Total	--	58,185,845	--	53,624,868	--	4,56

For the year ended December 31, 2004, net sales were \$58,185,845, as compared to \$53,624,868 for the year ended December 31, 2003, an increase of \$4,560,977 or 8.5%. The increase in net sales in 2004 as compared to 2003 was a result of several factors.

1. The steady increase of sales of steering gears, one of the Company's principal products in 2004. During 2004, the Chinese government implemented macroeconomic adjustment and control measures. Banks tightened consumer credit, thus cooled down the light-duty vehicle and car market, as they were partly supported by consumer credit. As one of the parts suppliers to light-duty vehicle and car makers, the Company's sales of steering gears for light-duty vehicles and cars also suffered by dropping 12% in 2004. Under such disadvantaged situation, the management made adjustments, shifted the Company's priorities to truck related products and established a special team to develop the truck market. In 2004, the Company expanded business with several heavy-duty vehicle customers. Among them are Dongfeng Auto Group and Shanxi Heavy Auto Co., whose contribution of sales rose from less than 1% to 10.9% and 2.8%, respectively. As a result of the expansion in the truck market, sales of steering gears maintained steady growth, and contributed in aggregate 76.9% of the Company's consolidated net sales in 2004.

2. Sustained expansion of production and sales of Zhejiang. During 2004, Zhejiang generated net sales of \$4,259,791, an increase of \$2,581,773 or 153.9% as compared with \$1,678,018 of 2003. During 2004, Zhejiang contributed a major part in the increase of the Company's consolidated net sales, i.e.: 56.6%.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

3. Increase in sales of steering accessories. The sales of steering accessories were affected by tight money policy as well. In 2004, sales of accessories to light-duty and cars customers dropped by 10%, as compared with 2003. The Company strengthened its retail network team to respond to this unfavorable situation. The number of agents of the Company's products was increased from twelve in 2003 to twenty in 2004, and some incentive measures

28

were made, for example, promptly refunding their earned incentives to agents based on their performance during each quarter. These steps of networking and incentive measures worked effectively. Overall, sales of steering accessories rose from \$7,390,573 in 2003 to \$9,179,204 in 2004, an increase of \$1,788,631 or 24.2%, which contributed in the aggregate 39.2% to the increase of the Company's consolidated net sales.

The increase of sales in 2004 also benefited from maintaining customer loyalty and expanding high grade customer base. During 2004, the Company's ten largest customers accounted for 73.1% of the Company's consolidated net sales. Three of them each accounted for more than 10% of consolidated net sales, contributing 19.2%, 16.2% and 10.9% to consolidated net sales, or an aggregate of 46.3% of consolidated net sales.

In 2005, the Company intends to increase sales by 15%-20% by developing the markets both domestically and internationally. In domestic market, the Company has entered into development plans for a model 323 car of Hainan Mazda Auto Co., Ltd, model Lioncel of Southeast Auto Co. Ltd. and model ZX of Shenlong Auto Co, which supplies are expected to be made in batches in the second half of 2005. As for the international market, Henglong passed the quality system verification of Vesteon in July 2004, and thus has become a potential supplier to Vesteon, which intends to have Henglong develop the steering gears for its D3 platform.

The Company also established a business relationship with Tata Motors, the biggest automobile manufacturer in India, and entered into a letter of intention with it to develop steering systems for city mini cars and business cars. In January 2005, the Company entered into a Technology Agreement with Korea Delphi Automotive Systems Corporation to supply GM Daewoo Auto & Technology Company model M150 and M200 Rack and Pinion steering gears for a type of car named MATIZ. Pursuant to this agreement, Henglong will supply annually 60,000 sets rack and pinion steering gears with the support of KDAS.

GROSS PROFIT FROM CONTINUED OPERATIONS.

For the year ended December 31, 2004, the gross profit was \$23,143,493, as compared to \$24,988,960 for the year ended December 31, 2003, a decrease of \$1,845,467 or 7%, as a result of following factors:

1. According to the latest statistics from China Highway Network, China's car and light-duty vehicle industry expansion obviously slowed down starting with the second quarter of 2004, as compared to the same period of 2003. The industry booming index fell and the first strong shakedown of the auto industry after entering TWO occurred. By the end of the third quarter of 2004, the statistics from the China National Statistic Bureau showed the auto industry booming index in the third quarter of 2004 was 127.9, a decrease of 3.3% and 10% from the second and first quarter of 2004, respectively, and a decrease of 24.1% from the best quarter of the fourth quarter of 2002. Some of the Company's major car and light-duty vehicle customers experienced a significant drop in their sales. For example, the sales of Cherry Automobile has dropped to 76,000 units from 90,000 in 2003, and Southeast Auto has dropped to 58,000 from 72,000 of

2003.

29

As a result, the Company's sales to them of steering used in cars and light-duty vehicles also dropped dramatically as compared to 2003. However, with the Chinese government promulgating amendments to the Road Act, opportunities opened for increased sales of heavy-duty vehicles. The Company adjusted its marketing strategies timely, made a big effort on developing the heavy-duty and retail markets, and achieved a steady increase on the sale of the Company's main products, the Steering gears. The Zhejiang joint venture also had a good performance of sales of Steering pumps. In 2004, the sales of Steering gears, Steering pumps and Steering accessories increased 6%, 178% and 3% respectively, and made a total contribution of \$3,393,377 to gross profit.

2. The year 2004 was undoubtedly a "price down" year for the Chinese auto industry, affecting many different models and types of cars and in different ranges and degrees. Such "price down" is rare in the world's auto development history, with an average price reduction of 13.1% during that period. To keep its market share, the Company also reduced the prices of its principal products: steering gears by 6%, steering pumps by 9%, and steering accessories by 41% at the requests of the Company's customers. Decreased gross profit of \$6,743,466 in 2004 is due to such decreased sales prices.

3. The advanced production equipment in which the Company invested in 2003 has achieved the expected positive effects. In 2004, the manufacturing efficiency was improved, and cost control over the production process was enhanced, reflecting the cost reduction of the main products - steering gears were reduced by 2%, and steering pumps were reduced by 29%. Gross profit in 2004 increased by \$1,504,581 as a result of these cost control measures. However, in 2004, the gross margin decreased to 40% from 47% in 2003 due to greater sales price reduction than cost reduction.

It is estimated that the Chinese auto market will resume its upward development in 2005, at approximately 15% for the car market and approximately 13% for the total vehicle market. However, certain factors, such as the downward trend of the cars' sales price and the upward trend of the price of gasoline, will accelerate the structural change on automotive consumption framework. More consumers would be interested in economy cars. This change is not just a choice, but a historic development trend, and will be more significant in 2005. It is predicted that the popular private cars in China will not be luxurious but economy cars. In addition, if the Chinese government begins its intended policy change to replace the current practice of levy of road maintenance fees with gasoline tax, the economy car market will get its additional expansion. Overall, the sale prices of cars and car component parts will be on a further downward trend in 2005. The automotive manufacturers will request automotive parts manufacturers to reduce prices to keep their profit and market shares. The Company estimated that the price reductions of auto parts will be in the range of 5% to 10% in 2005. This will have an adverse effect on the Company's gross profit in 2005. The Company plans to take the following measures to reduce costs to meet its target of 35% gross profit.

1. Reduce the labor force cost. The advanced production equipment which the Company purchased in 2003 has worked steadily for nearly a year. In 2005, the Company will modify the standard labor hours per piece based on the new equipment to reduce the labor cost. The Company estimates that with the application of new equipment and more controlled standard labor hours, the labor cost will be reduced by 2%.

30

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

2. Reduce the cost of raw materials. In 2005, the Company plans to control cost of raw materials with two measures: Firstly, volume purchase of major raw materials will be made through a bidding process; for purchases of other smaller quantities of non major materials, "target price" will be set to guide such purchases. Second, the technology department was asked to re-evaluate the product structure and production techniques so as to optimize product design, to reduce the weight of parts and wastage in the process of production, and to eventually reduce the cost of raw materials. It is estimated that the cost of materials would be reduced by 4% through these measures.

3. Reduce the manufacturing expenses. The Company will re-examine the headcount of non-operative employees in workshops and lay off 20% of them gradually in 2005. At the same time, the Company will set "targets" to control the manufacturing overhead. It is estimated that the manufacturing overhead would be reduced by 2% through these measures.

SELLING EXPENSES FROM CONTINUED OPERATIONS.

For the years ended December 31, 2003 and 2004, selling expenses are summarized as follows:

Item	2004	2003	Increased (Decreased)	
			Amount	Percentage
Salaries and wages	\$ 872,720	\$ 1,298,470	\$ (425,750)	-32.8%
Supplies	29,698	141,167	(111,469)	-79.0%
Travel	300,082	228,929	71,153	31.1%
Transportation	793,474	760,649	32,825	4.3%
After sales service	1,199,728	69,720	1,130,008	1620.8%
Rent	103,451	69,034	34,417	49.9%
Office	78,979	63,229	15,750	24.9%
Advertising	18,666	34,243	(15,577)	-45.5%
Entertainment	37,617	27,092	10,525	38.9%
Insurance	18,813	14,512	4,301	29.6%
Other	20,576	12,531	8,045	64.2%
Total	\$ 3,473,804	\$ 2,719,576	\$ 754,228	27.7%

Selling expenses were \$3,473,804 for the year ended December 31, 2004, as compared to \$2,719,576 for 2003, an increase of \$754,228 or 27.7%. Significant expense items that increased by more than \$50,000 in 2004 as compared to 2003 were travel and after sales service. The increase in travel was due to increased market development activities as described above.

The increase in after sales service expenses was due to consumer rights protection policies of "recall" issued by the Chinese Government in 2004. In 2004, the Chinese Government introduced a number of policies on protection of consumers' rights, such as the recalling flawed vehicles policy. Accordingly, in 2004 the automobile manufacturers introduced a policy unilaterally requiring the automotive parts suppliers to pay a "three warranties" service charge (for compensations, exchange and withdraw) in an amount equal to one percent (1%) of the total amount of parts supplied. Therefore, the increase in after sales service charges does not mean an increase of product failures, it is simply due

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

to the new "three warranties" charges by auto makers.

Significant expense items that decreased more than \$50,000 in 2004 as compared to 2003 were salaries and wages and supplies. The decrease in salaries and wages was due to the failure of the sales personnel to achieve sales growth target of 20%. Therefore, the Company reduced their sales bonus. The decrease of supplies was due to the fact that with the payment of the 1% "three warranties" charges, certain after-sales service was performed by the automotive manufacturers.

GENERAL AND ADMINISTRATIVE EXPENSES FROM CONTINUED OPERATIONS.

For the years ended December 31, 2003 and 2004, general and administrative expenses are summarized as follows:

Item	2004	2003	Increased (Decreased)	
			Amount	percentage
Salaries and wages	\$ 1,896,942	\$ 1,414,785	\$ 482,157	34.1%
Travel	377,452	188,118	189,334	100.6%
Office	196,058	160,176	35,882	22.4%
Supplies	329,323	566,050	(236,727)	-41.8%
Repairs	235,400	197,424	37,976	19.2%
Rent	1,814	103,421	(101,607)	-98.2%
Entertainment	37,966	31,866	6,100	19.1%
Securities and insurance	1,105,911	1,062,695	43,216	4.1%
Labor union dues	84,663	78,092	6,571	8.4%
Board of directors expense	56,330	75,026	(18,696)	-24.9%
Taxes	196,619	159,420	37,199	23.3%
Provision for bad debts	136,205	1,547,728	(1,411,523)	-91.2%
Impairment of inventories	187,871	276,938	(89,067)	-32.2%
Training	68,272	56,427	11,845	21.0%
Warranty	391,350	152,208	239,142	157.1%
Listing expenses	823,852	1,108,483	(284,631)	-25.7%
Others	352,831	424,899	(72,068)	-17.0%
Total	\$ 6,478,859	\$ 7,603,756	\$ (1,124,897)	-14.8%

32

General and administrative expenses were \$6,478,859 for the year ended December 31, 2004, consisting of \$823,852 incurred by the corporate and \$5,655,007 by the Sino-foreign joint ventures. General and administrative expenses were \$7,603,756 for the year ended 31, 2003, consisting of \$1,108,481 incurred by the corporate and \$6,495,275 by the Sino-foreign joint ventures.

General and administrative expenses of 2004 decreased by \$1,124,897 or 14.8% as compared to the year of 2003.

Significant expense items that increased more than \$100,000 in 2004 as compared to 2003 were salaries and wages, travel and warranty. Significant expense items that decreased more than \$100,000 in 2004 as compared to 2003 were supplies, rent, provision for bad debts, listing expenses and others. Listing expenses consisted of the acquisition of a controlling interest in the public company and the costs associated with legal, accounting and auditing fees of operating a public company.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

The reason for increased salaries and wages was attributable to increased difficulty of work and workload compared to 2003, and therefore the management and staff received more compensation compared to 2003. In 2003, demand in the China automotive consumption market was booming, and therefore it was a seller's market for the automotive parts suppliers in 2003, but it was reversed in 2004.

The reason for increased travel expenses was attributable to the expenses of management going abroad for overseas market development, as mentioned in the sections relating to selling and marketing expenses above.

Warranty reserves represent the Company's obligation to repair or replace defective products under certain conditions. The estimate of the warranty reserves is based on historical experience. In 2004, the warranty rate was determined to be 0.9% of net sales, while in 2003, it was determined to be 0.2% of net sales.

The reason for decreased supplies expenses was the Company incurred supplies losses due to plant relocation by Shenyang, Zhejiang and Jiulong in 2003, while there is no similar expense in 2004.

Rent. In the first half of 2003, Zhejiang, Shenyang and Jiulong's workshops were rented. After their new buildings of workshop were completed and ready for use in the second half of 2003, the Company had no such rental expense in 2004.

Provision for bad debts. In 2003, the Company recorded an allowance for general bad debts and special bad debts based on an analysis of each accounts receivable aging. The company recorded an allowance for bad debts 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. The Company also identified customers with no ongoing business

33

relationship and a bad credit standing in 2003. Based on this method, the Company recorded \$962,448 special provision for doubtful accounts. The Company did not record such provision in 2004 because there were no such customers. In addition, the Company recovered \$489,605 included in the special provision for doubtful accounts in 2003. Such recovery caused a decrease in provision for doubtful accounts in 2004.

The decrease of listing expenses was due to the Company's paying \$250,000 of reverse merger costs for the acquisition of a controlling interest in a public company in 2003. Only \$70,000 was paid in 2004.

The other items included in general and administrative expenses included traffic expenses and public relationship expenses. Decrease in other items of general and administrative expenses in 2004 is due to a decrease in public relationship activities.

RESEARCH AND DEVELOPMENT EXPENSES FROM CONTINUED OPERATIONS. Research and development expenses were \$1,518,512 for the year ended December 31, 2004, as compared to \$1,017,031 for the year ended December 31, 2003, an increase of \$501,481 or 49.3%, consisting of research and development on electronic power steering units of \$361,000, adjustable steering columns of \$251,000, and steering gear improvement of \$643,000, and foreign experts' compensation of \$264,000.

DEPRECIATION AND AMORTIZATION EXPENSE FROM CONTINUED OPERATIONS. For the year ended December 31, 2004, the depreciation and amortization expenses excluded

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

those recorded in cost of sales were \$848,009, as compared to \$1,321,601 for the year ended December 31, 2003, a decrease of \$473,592 or 35.8%. The main reasons are:

1. In 2003 the Company made a one time amortization of \$241,625 for intangible assets and deferred assets, while there was no such amortization in 2004;

2. The amortized deferred assets were sold for at \$71,555 in 2004; and

3. As the Company adopted new accelerated depreciation methods in 2003, some of equipment in use are fully depreciated in 2003, and do not need to be depreciated any more.

STOCK COMPENSATION FROM CONTINUED OPERATIONS. During March 2003, in conjunction with the transaction with 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. The warrants were exercised on a cashless basis. During July 2004, the Company issued options to purchase 22,500 shares of common stock to three independent directors. Such share options vest immediately upon grant and are exercisable at \$4.50 per share over a period of two years. The aggregate fair value of these options, calculated pursuant to the Black-Scholes option-pricing model, was estimated to be \$55,125, which was charged

34

to operations during the year ended December 31, 2004.

INCOME FROM OPERATIONS FROM CONTINUED OPERATIONS. Income from operations was \$10,769,184 for the year ended December 31, 2004, as compared to \$11,026,996 for the year ended December 31, 2003, a decrease of \$257,812 or 2.3%, consisting of a decrease of gross profit of \$1,845,467 or 7.4%, and a decrease of costs and expenses of \$1,587,655 or 11.4%, which increased the income from operations.

OTHER NON-OPERATING INCOME FROM CONTINUED OPERATIONS. For the year ended December 31, 2003 and 2004, other non-operating income are summarized as follows:

	Materials sold ----	Subsidy income -----	Write off Accounts Payable -----	Equipment disposal -----	Share e inc ---
2004	\$ 699,107	\$ 175,959	\$ 680,980	\$ 95,514	\$
2003	279,536	132,000	--	14,047	10
	-----	-----	-----	-----	-----
Increased (Decreased) Amount	\$ 419,571	\$ 43,959	\$ 680,980	\$ 81,467	\$ (10
	-----	-----	-----	-----	-----
Increased (Decreased) percentage	150%	33%	--	580%	=====
	=====	=====	=====	=====	=====

For the year ended December 31, 2004, the non-operating income was \$1,651,560, as compared to \$532,583 for the year ended December 31, 2003, with an increase of \$1,118,977 or 210%, mainly due to:

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

1. Increased materials sold income of \$419,571 more than 2003;
2. Increased subsidy income of \$43,959 more than 2003. The Chinese government encourages enterprises to purchase domestic equipment. The Company purchased more domestic equipment in 2004 than in 2003 and thus obtained more subsidy income;
3. Write off of long-term (over three years) accounts payable of \$680,980. In 2004, two Sino-foreign joint-ventures of the Company, Henglong and Jiulong, wrote off accounts payables of \$680,980 because there had been no pay back requirements for over 3 years. The Company has received confirmations from those suppliers. While in 2003, there was no write off of accounts payable;
4. Increased income from equipment disposal of \$81,467 more than 2003; and
5. Decreased share exchange income. The Company suffered a reduction in share exchange income because in 2002, the Company transferred a 7% interest in Henglong in exchange for an 11% interest of Jiulong. As a term of the transaction, the joint venture partner paid the Company \$107,000 in 2003, which was recorded as non-operation Income in 2003. In 2004, no share exchange income occurred.

35

FINANCE EXPENSES FROM CONTINUED OPERATIONS. For the year ended December 31, 2004, finance expenses were \$730,962, consisting of bank loan interests of \$641,277 and notes discount expenses of \$89,685, as compared with \$333,336 for the year ended December 31, 2003, an increase of \$397,626 or 119%, which consisted of increased interest of \$277,098 for additional bank loan, an increase of interest of \$30,843 for interest rate hike, and an increase in financial expenses \$89,685 due to an increased notes discount expense in 2004, while there was no notes discount expense in 2003.

INCOME BEFORE INCOME TAXES FROM CONTINUED OPERATIONS. Income before income taxes was \$11,689,782 for the year ended December 31, 2004, as compared to \$11,226,243 for the year ended December 31, 2003, an increase of \$463,539 or 4.1%, consisting of decreased income from operation of \$257,812 or 2.3%, increased non-operating income of \$1,117,532 or 210%, and increased finance expenses of \$397,626 or 119.0%, which reduced the income before income taxed.

INCOME TAXES FROM CONTINUED OPERATIONS. Income tax expense was \$618,400 for the year ended December 31, 2004, as compared to \$1,750,940, a decrease of \$1,132,540 or 64.7%, mainly because of:

(1) two of the Company's Sino-foreign joint ventures, Henglong and Jiulong, received an income tax refund of \$901,600 and \$521,000 in 2004 and 2003 respectively for purchase of domestic equipment, which have been reflected as a reduction to income tax expense in the Company's consolidated statements of operations for the year ended December 31, 2004 and 2003. As compared to 2003, the increased refund of income tax of \$380,600 in 2004 reduced the Company's income tax expenses; and

(2) The consolidated income before income taxes of Henglong and Jiulong in 2004 were less than those in 2003, which led to a decrease of \$230,940 in income taxes.

INCOME BEFORE MINORITY INTEREST FROM CONTINUED OPERATIONS. Income before minority interest was \$11,071,382 for the year ended December 31, 2004, as compared to \$9,475,303 for the year ended December 31, 2003, an increase of \$1,596,079 or 16.8%, due to increased income before income taxes of \$463,538 or

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

4.1%, and decreased income tax expenses of \$1,132,540 or 64.7%, which increased income before minority interest.

MINORITY INTEREST FROM CONTINUED OPERATIONS. The Company recorded minority interests' share in the earnings of the Sino-foreign joint ventures aggregating \$4,182,454 for the year ended December 31, 2004, as compared to \$5,476,495 for the year ended December 31, 2003, a decrease of \$1,294,041 or 23.6%.

The Company owns varied equity interests in four Sino-foreign joint ventures, through which it conducts its operations. All the operating results of these four Sino-foreign joint ventures were consolidated in the Company's financial statements of December 31, 2003 and 2004 (the equity interest of "Jingzhou" was sold effective August 31, 2004). The Company records the minority interests' share in the earnings of the respective

36

Sino-foreign joint ventures for each period. Because the Company does not own the same equity interest in each Sino-foreign joint venture, a comparison of the Company's consolidated results of operations for different periods can be significantly affected by the performance mix of the individual joint ventures. The aggregate minority interests in the earnings of the Company decreased in 2004 as compared to 2003 primarily as a result of a decrease in net income from Henglong, a 44.5%-owned Sino-foreign joint venture, and an increase in net income from Jiulong, an 81%-owned Sino-foreign joint venture.

In 2004, as stated above, there was an increased equity in joint-ventures compared to 2003, which also contributed to a decrease in minority interests.

Based on analysis and calculation, as compared with 2003, the decreased minority interest for the year ended December 31, 2004 consisted of a decrease of \$942,298 caused by various reduced operating results in different Sino-foreign joint ventures and different operating periods, and a decrease of \$351,743 caused by decreased minority interest percentage in Sino-foreign joint ventures.

NET INCOME FROM CONTINUED OPERATIONS. Net income was \$6,888,928 for the year ended December 31, 2004, as compared to \$3,998,808 for the year ended December 31, 2003, an increase of \$2,890,120 or 72.3%, consisting an increased income before minority interest of \$1,596,078 or 16.8%, and a decreased minority interest of \$1,294,041 or 23.6%, which increased net income.

DISCONTINUED OPERATIONS. As mentioned above, effective August 31, 2004, in order to concentrate on its main products, namely steering and other automotive parts, the Company disposed of its 51% interest in Jingzhou by entering into an equity exchange agreement (the "Exchange Agreement") with Hubei Wanlong Investment Co., Ltd ("Hubei Wanlong"), which is controlled by Mr. Chen Hanlin, the Company's Chairman. Pursuant to the Exchange Agreement, the 51% equity interest in Jingzhou owned by Ji Long was exchanged for 2.5% of Hubei Wanlong's equity interest in Henglong based on their respective fair market values as determined by an independent appraisal firm. Accordingly, effective August 31, 2004, the Company did not own any Jingzhou's equity.

The divested non-core business of Jingzhou has been treated as a discontinued operation under SFAS No. 144. Jingzhou's results of operation and related charges have been reclassified as discontinued operations in the Company's consolidated statements of operations. The Company's prior financial statements have been restated to reflect the discontinued operation of Jingzhou.

The following table is the analysis relating to results of operation of discontinued operations -Jingzhou in 2004 and 2003:

Item	Discontinued operation (Jingzhou)		A Increase (Decrease)
	2004	2003	
Net sales of discontinued operation	\$ 2,746,389	\$ 1,702,306	\$ 1,044,0
Cost of goods sold of discontinued operation	2,679,008	1,764,293	914,7
Gross profit of discontinued operation	67,381	(61,987)	129,3
Cost and expenses:			
Selling expenses	11,595	13,849	(2,2
General and administrative expenses	80,696	118,749	(38,0
R & D expenses	--	--	
Depreciation and amortization expenses	19,042	45,569	(26,5
Stock compensation	--	--	
Total costs and expenses	111,333	178,167	(66,8
Income (loss) from operations of discontinued operation	(43,952)	(240,154)	196,2
Other non-operating income (expenses)			
Other non-operating income	18,605	1,464	1,71
Financial costs	(16,989)	(11,387)	(5,6
Other income (loss), net	1,616	(9,923)	11,5
Income (loss) before income taxes	(42,336)	(250,077)	207,7
Income taxes	--	--	
Net income (loss) from discontinued operation	(42,336)	(250,077)	207,7
Minority Interests (loss) from discontinued operations	(20,745)	(122,538)	101,7
Equity in income (loss) of joint ventures	\$ (21,591)	\$ (127,539)	\$ 105,9

FINANCIAL CONDITION AS OF DECEMBER 31, 2004 AND 2003:

LIQUIDITY AND CAPITAL RESOURCES:

The Company has relied primarily on cash flow from operation, bank loans and investments for its capital requirements in 2004 and 2003.

OPERATIONS. The Company's operations provided cash of \$21,365,367 for the year ended December 31, 2004, including \$22,719,873 from continued operations, as compared to cash of \$3,925,587 for the year ended December 31, 2003, including \$1,561,151 from continued operations. The cash from continued operations increased by \$21,158,722, primary as a result of the following:

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

1. For the year ended December 31, 2004, cash flow provided by product selling and servicing was \$13,013,397, as compared to \$13,909,596 for the year ended December 31, 2003, a decrease of \$896,199 as a result of decreased gross profit.

2. For the year ended December 31, 2004, accounts receivable was reduced by \$6,229,536, as compared to an increase in accounts receivable of \$6,842,125 for the year ended December 31, 2003, which led to increased cash inflow of \$13,071,661, as a result of reduced notes receivable and advanced payments.

3. For the year ended December 31, 2004, inventory increased by \$2,882,650, as compared to an increase in inventory of \$423,884 for the year ended December 31, 2003, which led to decreased cash inflow of \$2,458,766, as a result of increased inventory turnover requirement caused by increased production and sales.

4. For the year ended December 31, 2004, accounts payable was increased by \$6,359,590, as compared to a decrease in accounts payable of \$5,082,436 for the year ended December 31, 2003, which led to increased cash of \$11,442,026, as a result of increased notes payable.

As of December 31, 2004, cash and cash equivalents were \$11,164,639, and working capital was \$11,454,114. As of December 31, 2003, cash and cash equivalents were \$10,730,882, and working capital were \$19,944,120, reflecting a current ratio of 1.22:1 and 1.39:1 for 2004 and 2003 respectively.

Since the Company's working capital at December 31, 2004 decreased by \$8,490,006 as compared to December 31, 2003, the Company intends to finance its costs and expenses for the year ending December 31, 2005 by the following ways.

1. Raise capital from institutional investors. The Company intends to raise about \$15 million to \$30 million from the stock market in the United States.

2. Loans by banks. The Company's Sino-foreign joint-ventures have good credit records with Chinese banks. In 2005, the Bank of China, China Construction Bank, and China Industrial & Commercial Bank have approved lines of credit of \$12,048,192 (RMB100,000,000), \$8,433,735 (RMB70,000,000) and \$2,409,639 (RMB20,000,000) respectively to the Company.

3. Reduce capital investment activities to meet working capital requirements. The Company has invested \$25,000,000 in 2004 and 2003 to enlarge its production lines. Based on valuation, the current production capacity has reached the objective of annual production of 600,000 sets of automotive steering gears. In 2005, the Company will reduce

39

its investment activities appropriately to meet its working capital requirements.

INVESTING. During the year ended December 31, 2004, the Company expended net cash of \$18,230,256 in investment activities, including 18,352,025 expenditure in investment in continued operations investment. The \$18,352,025 consisted of a decrease in other receivables of \$316,185, an increased investment of \$626,506 in Henglong, and payments of \$17,811,256 to acquire fixed assets, and \$230,448 to acquire intangible assets. During the year ended December 31, 2003, the Company expended cash of \$9,197,806 in investment activities, including \$6,885,384 expenditure from continued operation. The \$6,885,384 consisted of a decrease in long-term investment of \$1,189,157, an increase in other receivable of \$1,211,794, and payments of \$6,534,519 to acquire fixed assets, and \$328,228

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

to acquire intangible assets.

During 2003 and 2004, the Company purchased \$10,330,000 land and buildings, \$14,510,000 machines and equipment and enlarged its production capacity to 600,000 sets of steering gears annually from 150,000 sets of steering gears annually in 2002. The Company also increased its equity interest in Henglong from 42% in 2003 to 44.5% in 2004 by investing about \$626,506.

FINANCING. During the year ended December 31, 2004, the Company expended net cash of \$2,701,354 in financing activities, including \$3,882,077 expenditure from continued operations. The \$3,882,077 consisted of the proceeds from bank loans of \$3,975,904, contributions to capital by minority interest holders of \$1,251,085, less dividend payments to the minority interest holders of Joint-venture companies \$4,469,379, and a decrease in amounts due to shareholders/directors of \$4,639,687. During the year ended December 31, 2003, the Company generated net cash of \$10,384,665 in financing activities, consisting of the proceeds from bank loans of \$6,101,410, advances from shareholders/directors of \$6,770,887, contributions to capital by minority interest holders of \$159,000, less dividend payments of \$2,646,632. In 2004, the Company repaid shareholders/directors \$4,639,687 for their advances in prior years at their request.

DISCONTINUED OPERATIONS. As mentioned above, effective August 31, 2004, in order to concentrate on its main products, namely steering and automotive parts, the Company disposed of its 51% interest in Jingzhou. The divested non-core business of Jingzhou has been treated as a discontinued operation under SFAS No. 144. Jingzhou's cash flows have been reclassified as discontinued operations in the Company's consolidated statements of cash flows. The Company's prior financial statements have been restated to reflect the discontinued operations of Jingzhou.

The following table presents the statements of cash flows of discontinued operations-Jingzhou in 2004 and 2003:

40

	2004	2003
	----	----
Cash flows from operating activities:		
Net income from discontinued operations	\$ (21,591)	\$ (127,539)
Adjustments to reconcile income from discontinued operations to net cash provided by operating activities		
Minority shareholders' interests	(20,745)	(122,538)
Depreciation and amortization	83,537	74,909
Changes in operating assets and liabilities:		
(Increase) Decrease in:		
Accounts and notes receivable and		
Advance payments	344,005	(344,005)
Inventories	317,306	(604,162)
Increase (Decrease) in:		
Accounts and notes payable, accrued expenses,		
other payables and customer deposits	(912,507)	2,334,871
Increase(decrease) in liabilities related to		
Acquisition of joint venture assets	(1,204,819)	1,204,819
Taxes payable	60,308	(51,919)
	-----	-----
Net cash provided by(used in) operating activities	(1,354,506)	2,364,436

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Cash flow from investing activities:		
(Increase) Decrease in other receivables	(300,750)	(3,812)
Received (paid) cash for disposal fixed assets	35,412	(2,308,610)
Received (paid) cash from investing activities	387,107	--
Net cash provided by (used in) investing activities	121,769	(2,312,422)
Cash flows from financing activities:		
(Increase (decrease) of proceeds from bank loans	602,410	--
Contributions to capital by minority interest holders	578,313	--
Net cash provided by (used in) financing activities	1,180,723	--
Cash and cash equivalents from discontinued operations:		
Net increase (decrease)	(52,014)	52,014
At beginning of period	52,014	--
At end of period	\$ --	\$ 52,014

DISCLOSURES ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS:

The Company has the following material contractual obligations and capital expenditure

41

commitments:

Date	Parties involved	Description of Commitments
October 30, 2001	Henglong & Bishop Steering Technology Limited ("Bishop"), an Australian company	Ten year license agreement for power steering systems. Henglong is obligated to pay Bi technical assistance fee of app \$200,000 per year during the fi two years and \$110,000 per year during the remaining eight year of the agreement.
March 2003	Henglong & Wuhan Huazhong Shuguang Software Park Co., Ltd.	Purchase and construction agree design and construct a software development facility. Total value \$4,820,000. The Company paid \$2,421,300 dur 2003. 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 th land and a building property

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

		certificate. During the year ended December 31, 2004, the Company paid \$3,164,241 based on the construction progress, and \$1,655,759 remains outstanding.
July 21, 2003	Henglong & Namyang Industrial Co. Ltd. ("Namyang"), a Korean manufacturer of steering assemblies for automobiles	Five year license and technical agreement. Henglong paid Namyang payment of \$100,000 and is further to pay a royalty of 3% of the sales products sold, which includes tie rods, steering columns and universal joint technology.
October 2003	Henglong & Wuhu Science and Technology Zone	Invest \$10,000,000 to develop a new enterprise to carry out automobile projects related to power steering. The agreement does not specify the amount of investment. The Company plans to invest in the next five year period. The Company paid approximately \$870,000 in the first quarter to acquire land use rights. The
		Company advanced approximately \$435,000 during 2003 pursuant to the agreement under the first phase. The second phase of investment was delayed because the local Government did not complete its water and electricity supply system on time. This new plant is expected to provide service a large vehicle manufacturer in Wuhu at reduced transportation and storage costs.
October 5, 2003	Henglong & Advanced Custom Sensors,	Letter of intent for a joint venture to develop a sensor production facility.
		Henglong will be responsible for the loans and payments of \$500,000, two installments of \$250,000, the development of related production, training of personnel, and other costs. The first payment of \$250,000 was made on February 12, 2004. The second payment of \$250,000 was made on August 31, 2004 based on construction progress. The Company expects to pay \$205,000 during 2005.
March to December, 2004	Henglong & some equipment manufacturers	Have entered into some equipment purchase agreements with a total value of approximately \$2,000,000. Henglong has paid \$1,740,000 during 2004 and will pay off the remaining \$2,980,000 during 2005.
March to December	Jiulong & some	Have entered into some equipment purchase agreements with a total value of approximately \$2,000,000. Henglong has paid \$1,740,000 during 2004 and will pay off the remaining \$2,980,000 during 2005.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

2004

equipment manufacturers

total value of approximately \$2
paid \$1,020,000 during 2004, an
pay off the remaining \$1,730,00

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 abroad, including price and currency exchange controls, and fluctuations in the relative value of currencies. The Company conducts virtually all of its business

43

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 Chinese 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, 2003 and 2004.

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 basis point 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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

(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.

44

RECENT ACCOUNTING PRONOUNCEMENTS

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.

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

45

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an Amendment of ARB No. 43, Chapter 4." This statement clarifies the accounting for abnormal amounts of idle facility expense, freight handling costs and spoilage, requiring these items be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this accounting principle is not expected to have a material impact on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment (Revised 2004)." This statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for the company's equity instruments or liabilities that are based on the fair value of the company's equity securities or may be settled by the issuance of these securities. SFAS No. 123R eliminates the ability to account for share-based compensation using the intrinsic value method and generally requires that such transactions be accounted for using a fair value method. The provisions of this statement are effective for financial statements issued for fiscal periods beginning after June 15, 2005. The Company has yet to determine a transition method to adopt SFAS 123R or which valuation method to use. The full impact that the adoption of this statement will have on the Company's financial statements will be determined by share-based payments granted in future periods, the transition method and valuation model used.

In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("FAS 153"). FAS 153 requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. Further, it expands the exception for nonmonetary exchanges of similar productive assets to nonmonetary assets that do not have commercial substance. The provisions of this Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of the provisions of FAS 153 is not expected to have a material impact on our financial position or results of operations.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1 ("FAS 109-1"),

46

"Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." The AJCA introduces a special 9% tax deduction on qualified production activities. FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with Statement 109. Pursuant to the AJCA, the Company do not have any operating activities so far. We do not expect the adoption of these new tax provisions to have a material impact on our consolidated financial position, results of operations or cash flows.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

In June 2004, the FASB issued Emerging Issues Task Force Issue No. 02-14 ("EITF 02-14"), "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." EITF 02-14 addresses whether the equity method of accounting applies when an investor does not have an investment in voting common stock of an investee but exercises significant influence through other means. EITF 02-14 states that an investor should only apply the equity method of accounting when it has investments in either common stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The accounting provisions of EITF 02-14 are effective for reporting periods beginning after September 15, 2004. We do not expect the adoption of EITF 02-14 to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2004, the FASB issued EITF Issue No. 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" which provided new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF 03-1; however the disclosure requirements remain effective for annual periods ending after June 15, 2004 (see Note 4). We will evaluate the impact of EITF 03-1 once final guidance is issued.

ITEM 7. FINANCIAL STATEMENTS.

(a) FINANCIAL STATEMENTS

The following financial statements are set forth at the end hereof.

1. Report of Independent Auditors
2. Consolidated Balance Sheets as of December 31, 2004 and December 31, 2003.
3. Consolidated Statements of Operations for the years ended December 31, 2004 and December 31, 2003.
4. Consolidated Statements of Changes in Stockholders' Equity for

47

the years ended December 31, 2004 and 2003.

5. Consolidated Statements of Cash Flows for the years ended December 31, 2004 and December 31, 2003.
6. Notes to Consolidated Financial Statements.

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

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

Prior to SLF becoming the Company's independent accountants, SLF was not consulted by the Company or anyone on the Company's behalf regarding either the

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

application of accounting principles to a specific or contemplated transaction, or the type of audit opinion that might be rendered on the Company's 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 the Company's 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 the Company's losses from operations raised substantial doubt about its ability to operate as a going concern.

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 the Company's 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, 2004, the end of the period covered by this report, the Company's chief executive officer and its chief financial officer reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in

48

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, 2004, 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, 2004. 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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

requirements under the Federal securities laws.

Name	Age	Position(s)
Hanlin Chen	47	Chief Executive Officer and Chairman of the Board
Qizhou Wu	40	Chief Operating Officer and Director
Guofu Dong	39	Vice President and Director
Daming Hu	46	Chief Financial Officer
Li Ping Xie	44	Director
Yiu Wong Tse Andy	34	Sr. VP, Director
Robert Tung	48	Director
Dr. Haimian Cai	41	Director
William E. Thomson	63	Director

BIOGRAPHIES OF DIRECTORS AND EXECUTIVE OFFICERS:

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

49

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 as 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 the 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 from 1996 to 1999 and Finance Manager of Heng Long from 1999 to 2002.

Liping 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 the Company's Chief Executive Officer, Mr. Hanlin Chen.

Andy Yiu Wong Tse 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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

University of Maryland and National Taiwan University, respectively.

Dr. Haimian Cai has been a Director since September 2003 and a member of the Company's Audit Committee, Compensation Committee and Nominating Committee. Dr. 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 written more than fifteen technical

50

papers and co-authored a technical book regarding the power 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 Tsinghua 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 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 - Maxus Technology Inc. (Technology Waste Recycling); TSX - Asia Media Group Ltd. Chm. (Media), Score Media Inc. (formerly Headline Media Group Inc.) (Media), YTW Weslea Growth Capital Corporation (Capital Pool Company); Private -Corbett Waste Solutions Corporation (Barbados) (Waste Management Solutions), Electrical Contacts Ltd. (Electrical Contacts), Redpearl Funding Corporation (IT Financing), Wright Tech Systems Inc. (Waste Management Solutions), YTW Growth Capital Management Corporation (Vice Chairman); Not For Profit - World Education Services.

(a) COMPENSATION FOR DIRECTORS AND OTHER MATTERS

In 2004, directors received a certain amount for serving on the Board of Directors. Each of the three independent directors received \$24,000 cash compensation and 7,500 stock options compensation in the year 2004. Other directors (except Liping Xie who has received compensation of \$16,000 for her serving on the Board of Directors in 2004) have not been compensated for their serving on the Board of Directors in the year 2004, but received their compensation ranging from \$40,000 to \$100,000 as managers. In addition the independent directors 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. Mr. William Thomson is the Chairman of the Audit Committee. Mr. William Thomson is the financial expert serving on the Company's audit committee.

(c) COMPENSATION COMMITTEE

The Compensation Committee is responsible for determining compensation for the Company's executive officers. The Company's three independent directors, Robert Tung, Haimian Cai and William Thomson serve on the Compensation Committee. Mr. Haimian Cai is the Chairman of the Compensation Committee.

(d) NOMINATING COMMITTEE

Director candidates are nominated by the Nominating Committee. The

51

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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. The Company's independent directors, Robert Tung, Haimian Cai and William Thomson, serve on the Nominating Committee. Mr. Robert Tung is the Chairman of the Nominating Committee.

(e) STOCKHOLDER COMMUNICATIONS

Stockholders interested in communicating directly with the Board of Directors, or specified individual directors, may email the Company's 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 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.

Mr. Andy Yiu Wong Tse and Ms. Liping Xie are brother and sister.

(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

52

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.

(h) CODE OF ETHICS AND CONDUCT

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 was attached to the Form 10-K for year ended December 31, 2003.

(i) SECTION 16(a) BENEFICIAL OWNERSHIP COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors and persons who own more than 10% of a registered class of the Company's 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 the Company's 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 the Company's 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.

ITEM 10. EXECUTIVE COMPENSATION

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 2004 in excess of \$100,000.

53

SUMMARY COMPENSATION TABLE

Name and Principal Position (a)	Long-Term Compensation						
	Annual Compensation			Awards		Payouts	
	Year (b)	Salary (\$) (c)	Bonus (\$) (d)	Other Annual Compen- sation (\$) (e)	Restricted Stock Award(s) (\$) (f)	Securities Under- lying Options/ SARs (#) (g)	(\$) (h)
Hanlin Chen	2004	100,000.00	-0-	0	0	0	0
Hanlin Chen	2003	49,885.00	-0-	0	0	0	0
Hanlin Chen	2002	15,883.00	1,237	0	0	0	0
Hanlin Chen	2001	5,564.00	1,087	0	0	0	0

There are no employment agreements with any of the Company's executive officers and there are no stock option grants.

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 22,574, 542 shares of Common Stock outstanding at December 31, 2004.

Name/Title	Total Number of Shares	Percentage Ownership
Hanlin Chen, CEO, Chairman and President	13,280,547	58.8%
Qizhou Wu, COO, Director	2,195,996	9.7%
Guofu Dong, Vice President, Director	627,429	2.8%

54

Daming Hu, CFO	--	--
Liping Xie, Director	2,091,425	9.3%
Yiu Wong Tse Andy, Sr. VP, Director	1,359,426	6.0%
Robert Tung, Director	--	--
Dr. Haimian Cai, Director	--	--
William E. Thomson, Director	--	--
	-----	----
All Directors and Executive Officers (9 persons)	19,554,823 =====	86.6% =====

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 and 2004, 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, 2004, Sino-American had paid, on behalf of or for the benefit of the Company, a total of \$1,931,105, including a \$250,000 initial investment in a joint venture with an unrelated party, \$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 \$996,105 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, the unexpended funds were repaid to the Company subsequent to that date or continue to be used to pay normal operating expenses on behalf of the Company. The \$250,000 reimbursement to the Chairman and controlling shareholder was recorded as a charge to

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

operations during the three months ended March 31, 2003.

Effective August 31, 2004, in order to concentrate on its main products, namely steering and automotive parts, the Company disposed of its 51% interest in Jingzhou by entering into an equity exchange agreement (the "Exchange Agreement") with Hubei Wanlong Investment Co., Ltd ("Hubei Wanlong"), which is controlled by Mr. Chen Hanlin, the Chairman of the Company. Pursuant to the Exchange Agreement, the 51% equity interest in Jingzhou owned by Ji Long was exchanged for 2.5% of Hubei Wanlong's equity interests in Henglong based on their respective fair market values as determined by an independent appraisal firm. The difference between the fair value and the book value resulting from the disposition of the joint venture interest in Jingzhou was debited to additional paid-in capital. With respect to consideration paid by the Company in excess of the Chairman's basis in

55

his investment, such excess has been charged to additional paid-in capital as a distribution to the Chairman, resulting in the acquired 2.5% equity interests in Henglong being recorded by the Company at the Chairman's original cost basis. The Company paid approximately \$90,000 to Hubei Wanlong in conjunction with this transaction.

ITEM 13. 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
-----	-----
2.1	Equity Exchange Agreement, dated October 23, 2004, incorporated herein by reference from the Filing on Form 8-K filed with the Commission on October 27, 2004.
10.1	Technology License Agreement between Korea Delphi Automotive Systems Corporation and Jingzhou Henglong Automotive Parts Co., Ltd.*
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*

* Filed herewith

56

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 annual financial statements for the fiscal years 2004 and 2003, and fees billed for other services provided by Schwartz Levitsky Feldman LLP for fiscal years 2004 and 2003.

	Fiscal Year Ended	
	2004	2003
Audit Fees	\$ 190,000.00	\$ 140,000.00
Audit-Related Fees (1)	--	\$ 21,000.00
Tax Fees (2)		
All Other Fees	--	\$ 5,750.00
	\$ 190,000.00	\$ 166,750.00
	\$ 190,000.00	\$ 166,750.00

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

(2) Includes fees for service related to tax compliance services, preparation and filing of tax returns and tax consulting services.

Audit Committee's Pre-Approval Policy

During fiscal year ended December 31, 2003 and 2004, 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 the Company's independent auditor and for the prohibition of certain services from being provided by the independent auditor. The Company may not engage the Company's 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.

57

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.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Dated: March 29, 2005 /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: March 29, 2005 /s/ Hanlin Chen

Name: Hanlin Chen
Title: Chairman, CEO and President

Dated: March 29, 2005 /s/ Daming Hu

Name: Daming Hu
Title: CFO

Dated: March 29, 2005 /s/ Qizhou Wu

Name: Qizhou Wu
Title: COO, Director

Dated: March 29, 2005 /s/ Guofu Dong

Name: Guofu Dong
Title: Vice President, Director

Dated: March 29, 2005 /s/ Liping Xie

Name: Liping Xie
Title: Director

58

Dated: March 29, 2005 /s/ Tse Yiu Wong Andy

Name: Tse Yiu Wong Andy
Title: ST. VP, Director

Dated: March 29, 2005 /s/ Robert Tung

Name: Robert Tung
Title: Director

Dated: March 29, 2005 /s/ Dr. Haimian Cai

Name: Dr. Haimian Cai
Title: Director

Dated: March 29, 2005 /s/ William E. Thomson

Name: William E. Thomson
Title: Director

59

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

To the Board of Directors and Stockholders of
China Automotive Systems, Inc.

We have audited the accompanying consolidated balance sheets of China Automotive Systems, Inc. as at December 31, 2004 and 2003 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the years then ended. These consolidated financial statements are the responsibility of the management of China Automotive Systems, Inc. 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial 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 provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Automotive Systems, Inc. as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Toronto, Ontario, Canada
January 28, 2005,

China Automotive Systems, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2004 and 2003

	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,164,639	\$ 10,678,868
Pledged cash deposits	1,842,536	1,272,067
Accounts and notes receivable, including \$982,722 and \$1,248,328 from related parties, net of an allowance for doubtful accounts of \$2,944,990 and \$ 2,757,374 at December 31, 2004 and 2003, respectively	37,632,603	38,667,831
Advance payments, including \$433,724 and \$1,513,973 to related parties at December 31, 2004 and 2003, respectively	3,886,406	9,648,542
Inventories	12,507,910	9,625,260
Current assets from discontinued operations (see Note 19)	--	1,000,181
Total current assets	67,034,094	70,892,749

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Long-term Assets:

Property, plant and equipment	43,552,725	25,741,469
Less: Accumulated depreciation	(7,609,101)	(5,625,114)
Discontinued property, plant and equipment (see Note 19)	--	2,233,701
	-----	-----
	35,943,624	22,350,056
	-----	-----
Intangible assets, net	392,552	218,639
Other receivables, including		

60

\$974,815 and \$1,472,758 to related parties, net of an allowance for doubtful accounts of \$930,425 and \$1,053,047 at December 31, 2004 and 2003 respectively	2,044,086	2,309,205
Long-term investments	72,289	72,289
Other assets from discontinued operations (See Note 19)	-	3,812
	-----	-----
Total assets	\$105,486,645	\$ 95,846,750
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Bank loans	\$ 13,614,458	\$ 9,638,554
Accounts and notes payable, including \$522,754 and \$1,175,006 to related parties ended December 31, 2004 and 2003, respectively	28,518,720	22,928,944
Customer deposits	227,389	652,475
Accrued payroll and related costs	1,370,576	1,168,189
Accrued expenses and other payables	5,005,525	1,210,863
Accrued pension costs	2,438,971	1,516,649
Taxes payable	3,814,746	6,320,722
Amounts due to shareholders/directors	589,594	5,229,281
Current liabilities of discontinued operation (See Note 19)	-	2,282,952
	-----	-----
Total current liabilities	55,579,979	50,948,629
	-----	-----
Long-term Liabilities:		
Advances payable	196,378	196,547
	-----	-----
Total long-term liabilities	196,378	196,547
	-----	-----
Minority interest	17,571,838	18,686,712
	-----	-----

Stockholders' equity:

Preferred stock, \$0.0001 par value -
Authorized - 20,000,000 shares

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Issued and outstanding - None	--	--
Common stock, \$0.0001 par value -		
Authorized - 80,000,000 shares		
Issued and Outstanding -		
22,574,542 shares and 22,574,542		

61

shares at December 31, 2004 and 2003, respectively	2,257	2,257
Additional paid-in capital	18,003,168	18,779,880
Retained earnings -		
Appropriated	4,396,339	3,775,254
Unappropriated	9,733,626	3,461,621
Accumulated other comprehensive income (loss)	3,060	(4,150)
	-----	-----
Total stockholders' equity	32,138,450	26,014,862
	-----	-----
Total liabilities and stockholders' equity	\$105,486,645	\$ 95,846,750
	=====	=====

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

China Automotive Systems, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2004 and 2003

	2004	2003
	-----	-----
Net sales from continued operations, including \$1,682,625 and \$2,666,000 sold to related parties ended December 31, 2004 and 2003, respectively	\$ 58,185,845	\$ 53,624,868
Cost of sales, including \$1,703,179 and \$1,663,483 purchased from related parties ended December 31, 2004 and 2003, respectively	35,042,352	28,635,908
	-----	-----
Gross profit	23,143,493	24,988,960
	-----	-----
Costs and expenses:		
Selling	3,473,804	2,719,576
General and administrative	6,478,859	7,603,756
Research and development	1,518,512	1,017,031
Depreciation and amortization	848,009	1,321,601
Stock-based compensation	55,125	1,300,000
	-----	-----
Total costs and expenses	12,374,309	13,961,964
	-----	-----
Income from operations	10,769,184	11,026,996
	-----	-----

Other income (expenses):		
Other non-operating income	1,651,560	532,583
Financial expenses	(730,962)	(333,336)
	-----	-----
Other income, net	920,598	199,247
	-----	-----
Income before income taxes	11,689,782	11,226,243
Income taxes	618,400	1,750,940
	-----	-----
Income from continued operations before minority interest	11,071,382	9,475,303
Minority interest from continued operation	4,182,454	5,476,495
	-----	-----
Net income from continued operation	6,888,928	3,998,808
Net (loss) from discontinued operation (See Note 19)	(21,591)	(127,539)
	-----	-----
Net income	\$ 6,867,337	\$ 3,871,269
	=====	=====
Net income per common share -		
Net income from continued operation - Basic and diluted	\$ 0.30	\$ 0.19
	=====	=====
Net (loss) from discontinued Operation - Basic and diluted	\$ (0.00)	\$ (0.01)
	=====	=====
Basic	\$ 0.30	\$ 0.18
	=====	=====
Diluted	\$ 0.30	\$ 0.18
	=====	=====
Weighted average common shares outstanding -		
Basic	22,574,542	21,773,149
	=====	=====
Diluted	22,582,494	22,075,006
	=====	=====

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

	2004 -----	2003 -----
Net income	\$6,867,337	\$ 3,871,269
Other comprehensive loss:		
Foreign currency translation income (loss)	7,210	(4,150)
Comprehensive income	\$6,874,547 =====	\$ 3,867,119 =====

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

China Automotive Systems, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2004 and 2003

	Common Stock		Preferred Stock		Ad P C ---
	Shares -----	Par Value -----	Shares -----	Par Value -----	
Balance, December 31, 2003	22,574,542	\$ 2,257	\$ --	\$ --	\$ 1
Foreign currency translation gain(loss)	--	--	--	--	
Deemed distribution to shareholders	--	--	--	--	
Deemed distribution to minority shareholders	--	--	--	--	
Issuance of options for independent directors	--	--	--	--	
Appropriation of Retained earnings	--	--	--	--	
Balance, December 31, 2004	22,574,542 =====	\$ 2,257 =====	\$ -- =====	\$ -- =====	\$ 1 =====

64

(continued)

China Automotive Systems, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (continued)
Years Ended December 31, 2004 and 2003

	Retained Earnings		Accumulated Other	Total
	Appropriated -----	Unappropriated -----	Comprehensive Income (Loss) -----	
Balance,				

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

December 31, 2003	\$ 3,775,254	\$ 3,461,621	\$ (4,150)	\$ 26,014,862
Foreign currency translation gain	--	--	7,210	7,210
Deemed distribution to shareholders	--	--	--	(831,837)
Deemed distribution to minority shareholders	25,753	--	--	25,753
Issuance of options for independent directors	--	--	--	55,125
Net income for the year ended				
December 31, 2004	--	6,867,337	--	6,867,337
Appropriation of Retained earnings	595,332	(595,332)	--	--
	-----	-----	-----	-----
Balance, ended				
December 31, 2004	\$ 4,396,339	\$ 9,733,626	\$ 3,060	\$ 32,138,450
	=====	=====	=====	=====

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

China Automotive Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2004 and 2003

	2004	2003
	-----	-----
Cash flows from operating activities:		
Net income from continued operations	\$ 6,888,928	\$3,998,808
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority shareholders' interests	4,182,454	5,476,495
Stock-based compensation	55,125	1,300,000
Depreciation and amortization	2,006,052	2,390,944

65

Provision for doubtful accounts	(126,370)	777,841
Other operating adjustments	7,208	(34,492)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Pledged cash deposits	(570,468)	1,272,067
Accounts and notes receivable, advance payments	6,800,004	(8,114,192)
Inventories	(2,882,650)	(423,884)
Increase (decrease) in:		
Accounts and notes payable, accrued expenses, customer deposits and other payables	7,943,244	(9,694,814)
Accrued pension costs	922,322	755,692
Increase(decrease)liability related to acquisition of joint venture assets	--	--

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Taxes payable	(2,505,976)	3,660,139
Long-term liabilities	--	196,547
Net cash provided by (used in) operating activities from discontinued operations (See Notes 19)	(1,354,506)	2,364,436
Net cash provided by (used in) operating activities	21,365,367	3,925,587
Cash flows from investing activities:		
(Increase) Decrease in other receivables	316,185	(1,211,794)
Cash paid to acquire property, plant and equipment	(17,811,256)	(6,534,519)
Cash paid to acquire intangible assets	(230,448)	(328,228)
Increase (decrease) in long-term investments	(626,506)	1,189,157
Net Cash provided by (used in) investing activities from discontinued operations (See Notes 19)	121,769	(2,312,422)
Net cash provided by (used in) investing activities	(18,230,256)	(9,197,806)
Cash Flows from financing activities:		
Proceeds from bank loans, net	3,975,904	6,101,410
Dividends paid to be the minority interest holders of Joint-venture companies	(4,469,379)	(2,646,632)
Increase (decrease) in amounts due to shareholders/directors	(4,639,687)	6,770,887
Contributions to capital by minority interest holders	1,251,085	159,000
Net cash provided by financing activities from discontinued operations (See Notes 19)	1,180,723	--
Net cash provided by (used in) financing activities	(2,701,354)	10,384,665
Cash and cash equivalents from continued operations:		
Net increase	485,771	5,060,432
Cash and cash equivalents from discontinued operations:		
Net increase(decrease)	(52,014)	52,014
At beginning of year	10,678,868	--
Adjustment as a result of change to consolidation accounting from equity accounting effective January 1, 2003	--	5,618,436
At end of year	\$ 11,164,639	\$ 10,678,868

66

(continued)

China Automotive Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2004 and 2003

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

	2004 -----	2003 -----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 641,277 =====	\$ 399,610 =====
Cash paid for income taxes	\$ 1,676,290 =====	\$ 3,591,925 =====
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Cancellation of dividends previously declared	\$ --	\$17,167,000

67

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)
Advances from shareholders in connection with dividends declared	\$ --	\$ 2,295,394
Deemed distribution to shareholders	\$ (831,837)	\$ (279,863)
Stock-based compensation	\$ 55,125	\$ 1,300,000

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

China Automotive Systems, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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.

68

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 and \$70,000 to the former officer, director and controlling shareholder of Visions for the cancellation of 17,424,750 shares of common stock in 2003 and 2004, respectively, total amount of \$320,000.

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.

Ji Long owns the following aggregate net interests in four Sino-foreign joint Ventures(Jingzhou was sold in August 2004) organized in the PRC as of December 31, 2004. The Company accounted for its interests in these joint ventures in 2004 and 2003 as described in Note 2.

Name of Entity -----	Percentage Interest	
	2004 -----	2003 -----
Jingzhou Henglong Automotive Parts Co. Limited ("Henglong")	44.5%	42.0%
Shashi Jiulong Power Steering Co. Limited ("Jiulong")	81.0%	81.0%
Shenyang Jinbei Henglong Automotive Steering System Co. Limited ("Shenyang")	70.0%	55.0%
Zhejiang Henglong & Vie Pump-Manu Co. Limited ("Zhejiang")	51.0%	51.0%
Jingzhou Henglong Fulida Textile Co., Ltd. ("Jingzhou")	--	51.0%

69

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

As of December 31, 2003, the Company has owned 55% of Shenyang. On April 8, 2004, the board of directors approved an increase in Shenyang's registered capital and total capital from \$5,421,687 (RMB45,000,000) to \$8,132,530 (RMB67,500,000); the Chinese investor was changed from Shenyang Jinbei Automotive Industry Co., Ltd. to Shenyang Jinbei Automotive Company Limited. The shareholder transfer and capital increase, along with the newly signed Joint Venture Agreement and Articles of Incorporation, have been approved by the applicable PRC authorities. Accordingly, Shenyang's registered capital is now \$8,132,530 (RMB67,500,000), including \$5,692,771 (RMB47,250,000) from the Company, which is 70% of the total registered capital, and \$2,439,759 (RMB20,250,000) from Shenyang Jinbei Automotive Company Limited, which is 30% of the total registered capital. The increase in capital of \$2,710,843 (RMB22,500,000) has been injected into Shenyang.

Jingzhou was formed in February 2003 to produce environmental textiles and raw materials, and was owned 51% by Ji Long and 49% by Cixi City Fulida Synthetic Fibre Co., Ltd. Effective September 1, 2004, in order to concentrate on its main products, namely steering and automotive parts, the Company disposed of its 51% interest in Jingzhou by entering into an equity exchange agreement (the "Exchange Agreement") with Hubei Wanlong Investment Co., Ltd ("Hubei Wanlong"), which is controlled by Mr. Chen Hanlin, the Chairman of the Company. Pursuant to the Exchange Agreement, the 51% equity interest in Jingzhou owned by Ji Long was exchanged for 2.5% of Hubei Wanlong's equity interests in Henglong based on their respective fair market values as determined by an independent appraisal firm. The difference between the fair value and the book value resulting from the disposition of the joint venture interest in Jingzhou was debited 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 2.5% equity interests in Henglong being recorded by the Company at the Chairman's original cost basis. The Company paid approximately \$90,000 to Hubei Wanlong in conjunction with this transaction.

The divested non-core business of Jingzhou has been treated as a discontinued operation under SFAS No. 144. Jingzhou's results of operation and related charges have been reclassified as discontinued operations in the Company's consolidated statements of operations. The prior financial statements have restated to reflect the discontinued operation of Jingzhou for the periods. See accompanying Notes 19 to consolidated financial statements.

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. The Company has long-term contracts with more than fifty vehicle manufacturers, including two of the largest automobile manufacturers in China, First Auto Group, with 1,007,471 in annual sales volume, and Dongfeng Auto Company, with 523,309 of annual sales volume in 2004. The Company also has long-term contracts with the largest van manufacturer in China, Shenyang Brilliance Jinbei Co., Ltd., which has approximately 99,572 in annual sales volume. The Company also has long-term contracts with two other smaller car manufacturers, Cherry Automobile

Co., Ltd and Geely Automobile Co., Ltd.

2. Basis of Presentation

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Basis of Presentation - For the year ended December 31, 2004 and 2003, the accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. The subsidiaries include four Sino-foreign joint ventures mentioned in Note 1. Significant inter-company balances and transactions have been eliminated upon 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 venture partners in the Company's Sino-foreign joint ventures executed "Act in Concert" agreements, resulting in the Company having voting control in such Sino-foreign joint ventures. Consequently, effective January 1, 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 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 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. Jingzhou's business have been divested since August 31, 2004.

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.

71

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 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 and the divestiture of Jingzhou, each of the minority partners of Zhejiang, Jingzhou, Henlong, Jiulong and Shenyang had the right

72

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 before January 1, 2003 pursuant to EITF 96-16.

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.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 periods. Significant estimates primarily relate to the realizable value of accounts receivable and inventories, useful lives of plant and equipment, and warranty liabilities. 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 and 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

73

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.

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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.

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.

74

In January 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets". The Company did not have any goodwill at December 31, 2004 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.

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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

75

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 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, 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 stock warrants and options. Income per common share calculations for the years ended December 31, 2003 reflect the retroactive restatement of the shareholders' equity section to reflect the March 2003 recapitalization. In 2004, the Company had potential diluted shares due to issuance of 22,500 common stock options to three independent directors at \$4.50 par share.

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

76

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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 gain of \$7,210 for the year ended December 31, 2004. 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, 2004 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 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.

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

77

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

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

options issued to non-employee directors at fair market value will be accounted for under the intrinsic value method.

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.

Segment Information - No business or geographical segmentation analysis is

78

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 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.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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.

79

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 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.

4. Recent Accounting Pronouncements

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.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

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

80

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 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.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an Amendment of ARB No. 43, Chapter 4." This statement clarifies the accounting for abnormal amounts of idle facility expense, freight handling costs and spoilage, requiring these items be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The

81

provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this accounting principle is not expected to have a material impact on the Company's financial

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

statements.

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment (Revised 2004)." This statement addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for the company's equity instruments or liabilities that are based on the fair value of the company's equity securities or may be settled by the issuance of these securities. SFAS No. 123R eliminates the ability to account for share-based compensation using the intrinsic value method and generally requires that such transactions be accounted for using a fair value method. The provisions of this statement are effective for financial statements issued for fiscal periods beginning after June 15, 2005. The Company has yet to determine a transition method to adopt SFAS 123R or which valuation method to use. The full impact that the adoption of this statement will have on the Company's financial statements will be determined by share-based payments granted in future periods, the transition method and valuation model used.

In December 2004, the FASB issued FASB Statement No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("FAS 153"). FAS 153 requires that exchanges of nonmonetary assets be measured based on the fair value of the assets exchanged. Further, it expands the exception for nonmonetary exchanges of similar productive assets to nonmonetary assets that do not have commercial substance. The provisions of this Statement are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of the provisions of FAS 153 is not expected to have a material impact on our financial position or results of operations.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1 ("FAS 109-1"), "Application of FASB Statement No. 109, "Accounting for Income Taxes," to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004." The AJCA introduces a special 9% tax deduction on qualified production activities. FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with Statement 109. Pursuant to the AJCA, the Company do not have any operating activities so far. We do not expect the adoption of these new tax provisions to have a material impact on our consolidated financial position, results of operations or cash flows.

In June 2004, the FASB issued Emerging Issues Task Force Issue No. 02-14 ("EITF 02-14"), "Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock." EITF 02-14 addresses whether the equity method of accounting applies when an investor does not have an investment in voting common stock of an investee but exercises significant influence through other means. EITF 02-14 states that an investor should only apply the equity method of accounting when it has investments in either common

82

stock or in-substance common stock of a corporation, provided that the investor has the ability to exercise significant influence over the operating and financial policies of the investee. The accounting provisions of EITF 02-14 are effective for reporting periods beginning after September 15, 2004. We do not expect the adoption of EITF 02-14 to have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2004, the FASB issued EITF Issue No. 03-1 ("EITF 03-1"), "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" which provided new guidance for assessing impairment losses on investments. Additionally, EITF 03-1 includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

the accounting provisions of EITF 03-1; however the disclosure requirements remain effective for annual periods ending after June 15, 2004 (see Note 4). We will evaluate the impact of EITF 03-1 once final guidance is issued.

5. Accounts Receivable from continued operations

The Company's accounts receivable from continued operations at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Accounts receivable	\$ 28,440,608	\$ 19,725,237
Bills receivable	12,136,985	21,699,968
Less: allowance for doubtful accounts	(2,944,990)	(2,757,374)
	-----	-----
	\$ 37,632,603	\$ 38,667,831
	=====	=====

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, 2004 and 2003 were summarized as follows:

	2004	2003
Balance at beginning of year	\$ 2,757,374	\$ 1,979,533
Add: amounts provided during the year	187,616	777,841
Less: amounts written off during the year	--	--
	-----	-----
Balance at end of year	\$ 2,944,990	\$ 2,757,374
	=====	=====

83

6. Other Receivables from continued operations

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, 2004, other receivables totaled \$2,044,086 including \$974,815 to related parties, net of an allowance for doubtful accounts of \$930,425. During the year ended December 31, 2004, the allowance for doubtful accounts included \$472,843 made to an investee of Jiulong.

At December 31, 2003, other receivables totaled \$2,309,205 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 included \$771,084 made to an investee of Joulong.

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,

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd. 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 credit and JL Material repaid Jiulong according to the terms of the agreement.

At December 31, 2004, Jiulong had an accounts receivable balance from JL Material of \$472,843, as compared with \$1,003,987 at December 31, 2003. Since JL Material was experiencing financial difficulties, the Company believed there would be an uncollectible amount of \$472,843 at December 31, 2004, 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.

7. Inventories from continued operations

Inventories from continued operations at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Raw materials	\$ 3,868,859	\$ 3,452,120
Work in process	2,049,963	2,056,117
Finished goods	6,817,372	4,429,016
	-----	-----

84

	12,736,194	9,937,253
Less: provision for loss	(228,284)	(311,993)
	-----	-----
	\$12,507,910	\$ 9,625,260
	=====	=====

8. Property, Plant and Equipment from continued operations

Property, plant and equipment at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Land use rights and buildings	\$13,232,650	\$ 3,937,011
Machinery and equipment	20,425,269	15,913,409
Electronic equipment	1,694,587	1,227,039
Motor vehicles	2,083,578	1,253,718
Construction in progress	6,116,641	3,410,292
	-----	-----
	43,552,725	25,741,469
Less: Accumulated depreciation	(7,609,101)	(5,625,114)

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

	-----	-----
	\$35,943,624	\$ 20,116,355
Add: Discontinued property		
Plant and equipment	--	2,233,701
	-----	-----
	\$35,943,624	\$ 22,350,056
	=====	=====

9. Intangible Assets from continued operations

The activity in the Company's intangible asset account during the year ended December 31, 2004 and 2003 is summarized as follows:

	2004	2003
Balance at beginning of year,	\$ 218,639	\$ 38,831
Add: Additions during the year -		
Management software license	158,159	10,271
Mapping design software license	72,289	180,000
	-----	-----
	449,087	229,102
Less: Amortization for the year	(56,535)	(10,463)
	-----	-----
Balance at end of year	\$ 392,552	\$ 218,639
	=====	=====

10. Accounts Payable from continued operations

85

Accounts payable from continued operations at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Accounts payable	\$ 15,358,250	\$ 14,653,753
Notes payable	13,160,470	8,275,191
	-----	-----
	\$ 28,518,720	\$ 22,928,944
	=====	=====

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, notes receivable and certain plant and machinery to secure trade financing granted by banks.

In 2004, Henglong and Jiulong, two Sino-foreign joint-ventures of the Company wrote off accounts payable of \$680,980 from fifty suppliers, which have not required to pay back in a long term (over three years). The Company has received confirmations from related suppliers and authorities. The write off of accounts payables were shown as the decrease in liability to suppliers in the Balance Sheets as of December 31, 2004. Should any supplier requires payments in the

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

future, the Company will record the payment as expense in that period.

11. Bank Loans from continued operations

At December 31, 2004, the Company through its Sino-foreign joint ventures, had fixed-rate short-term bank loans outstanding of \$13,614,458. The weighted average interest rate for the year ended December 31, 2004 was 4.98% 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 \$3,012,000. Henglong has provided Jiulong with loan guarantees covering bank loans of \$6,627,000. The remaining balance of the bank loan of \$3,976,000 was mortgaged with some of the plant and equipment of the Company.

At December 31, 2003, the Company, through its Sino-foreign joint ventures, had outstanding 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.

86

12. Amounts Due From and Due to Shareholders/Directors from continued operations

The activity in the amounts due to (due from) shareholders/directors during the years ended December 31, 2004 and 2003 is summarized as follows:

Balance, December 31, 2002	\$ 13,330,000
Dividends declared	2,295,394
Advances from shareholders	6,770,887
Cancellation of dividends previously declared	(17,167,000)

Balance, December 31, 2003	5,229,281
Advances from shareholders	10,531,918
Return to shareholders	(15,171,605)

Balance, December 31, 2004	\$ 589,594
	=====

At December 31, 2004 and 2003, the amounts due to shareholders/directors were unsecured, interest free and repayable on demand.

13. Minority interests' Equity from continued operations

The activities in respect of the amounts of the minority interests' equity during the year ended December 31, 2004 are summarized as follows:

Balance, December 31, 2003	\$ 18,686,712
Contribution by minority shareholders	1,251,085
Minority interests' income	4,182,454
Others	30,103
dividends declared to the minority	

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

interest holders of Joint-venture companies	(5,256,700)
Appropriations of employee welfare and bonus fund	(386,196)
Exchange of equity interest in Jingzhou for Henglong	(935,620)

Balance, December 31, 2004	\$ 17,571,838
	=====

14. Stockholders' Equity from continued operations

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

87

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.

In July 2004, the Company adopted a stock incentive plan. The stock incentive plan provides for the issuance, to the Company's officers, directors, management and employees, of options to purchase shares of the Company's common stock. On July 21, 2004, the Company issued options to purchase 7,500 shares of common stock to each of its three independent directors. Such stock options vest immediately upon grant and are exercisable at \$4.50 per share over a period of two years. The exercise price represents a 11.11% premium from the fair market value as based upon the grant date the stock options.

15. Additional paid-in capital from continued operations

At December 31, 2004, the Company had \$18,003,168 additional paid-in capital, as compared to \$18,779,880 at December 31, 2003, a decrease of \$776,712. An increase of \$55,125 was related to the above mentioned granted options to three independent directors. The Company calculated pursuant to the Black-Scholes option-pricing model and debited in operating expenses, credited in additional paid-in capital. A decrease of \$831,837 was due to the exchange 51% of Jingzhou equity for 2.5% of Henglong equity based on Equity Exchange Agreement as mentioned in Note 1. The excess paid by Company for the Chairman investment had been debited in additional paid-in capital, which was deemed to be distribution to the Chairman.

16. Non-operating Income from continued operations

In 2004, Company recorded \$1,651,560 non-operating income, in which \$699,107 was net income from selling materials, \$175,959 was subsidies from government, \$95,514 was net income from the disposal of the equipments and \$680,980 was income from write off of accounts payable of suppliers.

88

In 2004, two Sino-foreign joint-ventures of the Company, Henglong and Jiulong, wrote off accounts payable of \$680,980 as mentioned in Note 11. Related net non-operating income after deducting income tax was \$579,550, which was shown in the statements of operations of 2004. Net non-operating income (net of the allocation to minority interests) would be decreased by \$382,364 or \$0.02 per share, if there were no such non-operating income item.

17. Distribution of Profits from continued operations

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 these subsidiaries paid all the relevant 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 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 and Zhejiang are \$9,000,000, RMB19,800,000, RMB67,500,000, and \$7,000,000, 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, The percentage of annual appropriations of these funds are stipulated in the joint venture agreement. The employee welfare and incentive fund is charged to the statement of operations. The accrual of such fund of \$633,972 was recorded in general and administrative expenses during 2004. The other appropriations are not available for distribution as dividends to the joint venture partners of the companies. Appropriation of these funds of \$595,332 was made during 2004. Under the joint venture agreements, the boards of directors determine the percentages of these appropriations with regard to the economic situation of each company.

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

89

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

to the extent foreign currency is available. Otherwise, it is necessary to obtain approval and convert such distributions at an authorized bank.

18. Income Taxes from continued operations

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 invested enterprises. Two of the Company's subsidiaries, Henglong and Jiulong, were subject to a tax rate of 15% during 2004 and 2003. Shenyang is entitled to and was rectified for a two-year tax holiday commencing with its first profit-making year of 2003. Hence Shenyang was tax exempted in 2003 and 2004. The tax rate for the Company's other subsidiary, Zhejiang, has not been ratified, but in accordance with the relevant income tax laws for Sino-foreign joint ventures, Zhejiang is also entitled to a two-year tax holiday commencing with its first profit-making year of 2004.

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, and \$1,899,272 or \$0.08 per share for 2004.

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 and 2004.

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, 2004 and 2003 are as follows:

Statutory tax rate	33%
Tax holidays and concessions	(18)

Effective tax rate	15%
	===

Chinese government encourages enterprises to purchase domestic equipment by refunding part of income tax payment at 40% of the total amount of qualified purchases. During the year ended December 31, 2004 and 2003, two of the Company's Sino-foreign joint ventures, Henglong and Jiulong, received an income tax refund of \$901,600 and \$521,000 respectively, which have been reflected as a reduction to income tax expense in the accompanying consolidated statements of operations. 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 \$585,091 or \$0.03 per share and \$301,181 or \$0.01 per share for the year ended December 31, 2004 and 2003 respectively.

19. Discontinued operations

90

Effective August 31, 2004, in order to concentrate on its main products, namely steering and automotive parts, the Company disposed of its 51% interest in Jingzhou by entering into an equity exchange agreement (the "Exchange Agreement") with Hubei Wanlong Investment Co., Ltd ("Hubei Wanlong"), which is controlled by Mr. Chen Hanlin, the Chairman of the Company. Pursuant to the Exchange Agreement, the 51% equity interest in Jingzhou owned by Ji Long was exchanged for 2.5% of Hubei Wanlong's equity interests in Henglong based on

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

their respective fair market values as determined by an independent appraisal firm. Accordingly, effective August 31, 2004, the Company did not own Jingzhou's equity.

The disposal of Jingzhou was accounted for as discontinued operations according as SFAS No. 144. The operating results and related costs and expense of Jingzhou have shown as discontinued operations in the consolidated Statements of operations. Financial statements of prior period are also changed to reflect the discontinued operation of Jingzhou. There is no taxes accrued from discontinued operating loss. The financial position and operating results are summarized as follows:

1. Assets and liabilities of discontinued operations as of December 31, 2003.

Item	December 31, 2003
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 52,014
Accounts and notes receivable	12,180
Advance payments	331,825
Inventories	604,162

Total current assets	1,000,181

Property, plant and equipment	2,308,610
Less: Accumulated depreciation	(74,909)
	2,233,701

Other receivable	3,812

Total assets	3,237,694
	=====
Current liabilities:	
Bank loans	--
Accounts and notes payable	88,277
Customer deposits	255,044
Accrued payroll and related costs	5,387
Accrued expenses and other payables	781,344
Liability related to acquisition of joint venture assets	1,204,819
Taxes payable	(51,919)

Total current liabilities	\$ 2,282,952

Net assets	\$ 954,742
	=====

The consolidated balance sheet of the Company for the year ended December 31, 2004 excludes assets and liabilities of Jingzhou, since the Company did not own Jingzhou effective August 31, 2004. The Company have restated the Consolidated balance sheet of 2003 on December 31, 2004. The current assets of Jingzhou have shown as current assets from discontinued operations, such as \$1,000,181 in above schedule. Current liabilities of Jingzhou are shown as current liabilities from discontinued operations. Property, plant and equipment of Jingzhou are shown as property, plant and equipment from discontinued operation. The other

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

assets except current assets and property, plant and equipments have been shown as other assets from discontinued operations.

2. Statements of operation from discontinued operations for 2004 and 2003:

Item	2004	2003
Net sales	\$ 2,746,389	\$ 1,702,306
Cost of sales	2,679,008	1,764,293
	-----	-----
Gross profit	67,381	(61,987)
	-----	-----
Costs and expenses:		
Selling	11,595	13,849
General and administrative	80,696	118,749
Depreciation and amortization	19,042	45,569
	-----	-----
Total costs and expenses	111,333	178,167
	-----	-----
Income (loss) from operations	(43,952)	(240,154)
	-----	-----
Other income (expenses):		
Other non-operating income	18,605	1,464
Financial expenses	(16,989)	(11,387)
	-----	-----
Other income (loss), net	1,616	(9,923)
	-----	-----
(Loss) before income taxes	(42,336)	(250,077)
Income taxes	--	--
	-----	-----
(Loss) before minority interest	(42,336)	(250,077)
Minority interest (loss) from discontinued operation	(20,745)	(122,538)
	-----	-----
Net (loss) from discontinued operations	\$ (21,591)	\$ (127,539)
	=====	=====

92

The consolidated statements of operations included results of discontinued operations, but reclassified for 2004 and 2003. The net loss of discontinued operations of \$(21,591) and \$(127,539) in 2004 and 2003, respectively have been reclassified as net loss from discontinued operations.

3. Statement of Cash Flows from discontinued operations for 2004 and 2003:

Item	2004
Cash flows from operating activities:	
Net loss from discontinued operations	\$ (21,591)
Adjustments required to reconcile income from discontinued operations to net cash provided by operating activities	
Minority interests	(20,745)

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Depreciation and amortization	83,537
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Accounts and notes receivable and advance payments	344,005
Inventories	317,306
Increase (decrease) in:	
Accounts and notes payable, accrued expenses and other payables and customer deposits	(912,507)
Increase(decrease) in liabilities related to acquisition of joint venture assets	(1,204,819)
Taxes payable	60,308

Net cash provided by(used in)operating activities	(1,354,506)

Cash flow from investing activities:	
(Increase)decrease in other receivables	(300,750)
Received(paid) cash for disposal fixed assets	35,412
Received(paid)cash from investing activities	387,107

Net cash provided by(used in)investing activities	121,769

Cash flows from financing activities:	
Increase(decrease)proceeds from bank loans	602,410
Contributions to capital by minority interest holders	578,313

Net cash used in financing activities	1,180,723

Cash and cash equivalents from discontinued operations:	
Net increase(decrease)	(52,014)
At beginning of period	52,014

At end of period	\$ --
	=====

93

The Statements of Cash Flows included cash flows from discontinued operations reclassified for 2003. In the consolidated statements of cash flows, cash flows from discontinued operations in 2004 and 2003 have been classified as net cash flows provided by (used in) operation activities from discontinued operations of \$(1,354,506) and \$2,364,436; net cash provided by (used in) investing activities from discontinued operations of \$121,769 and \$(2,312,422); net cash provided by (used in) financing activities from discontinued operations of \$1,180,723 and \$0, respectively.

20. 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.

In 2004, the Company's ten largest customers accounted for 73.1% of the Company's consolidated sales, with three customers accounting for in excess of 10% of consolidated sales, with 19.2%, 16.2% and 10.9% of consolidated sales, or an aggregate of 46.3% of consolidated sales.

In 2003, the Company's ten largest customers accounted for 73.2% of the Company's consolidated sales, with three customers accounting for in excess of

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

10% of consolidated sales, with 25.0%, 11.1% and 10.5% of consolidated sales, or an aggregate of 46.6% of consolidated sales.

At December 31, 2004 and 2003, approximately 38.7% and 34% of accounts receivable were from trade transactions with the aforementioned three customers.

21. Related Party Transactions

Effective August 2, 2003, the Company entered into a five-year License and Technical Assistance Agreement (the "Agreement") with Sino-American, Inc.

94

("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, 2004 and 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, 2004, Sino-American had paid, on behalf of or for the benefit of the Company, a total of \$1,931,105, including \$250,000 for an initial investment in an unrelated joint venture; \$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 \$996,105 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.

Effective October 23, 2004, in order to concentrate on its main products, namely steering and automotive parts, the Company disposed of its 51% interest in Jingzhou by entering into an equity exchange agreement (the "Exchange Agreement") with Hubei Wanlong Investment Co., Ltd ("Hubei Wanlong"), which is controlled by Mr. Chen Hanlin, the Chairman of the Company. Pursuant to the Exchange Agreement, the 51% equity interest in Jingzhou owned by Ji Long was exchanged for 2.5% of Hubei Wanlong's equity interests in Henglong based on their respective fair market values as determined by an independent appraisal firm. The difference between the fair value and the book value resulting from the disposition of the joint venture interest in Jingzhou was debited 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 2.5% equity interests in Henglong being recorded by the Company at the Chairman's original cost basis. The Company paid approximately \$90,000 to Hubei Wanlong in conjunction with this transaction.

During year ended December 31, 2004 and 2003, the joint ventures entered into related party transactions with companies with common directors as shown below:

	2004	2003
Sales		
- received	\$ 699,903	\$ 2,020,650
- receivable	982,722	1,248,328

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Purchases		
- paid	\$1,180,425	\$ 931,808
- payable	522,754	1,175,006

95

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

22. 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.

The Company has the following material contractual obligations and capital expenditure commitments:

Date	Parties involved	Description of Commitments and Contingencies
-----	-----	-----
October 30, 2001	Henglong & Bishop Steering Technology Limited ("Bishop"), an Australian company	Ten year license agreement for the design of power steering systems. Henglong is obligated to pay Bishop a technical assistance fee of approximately \$200,000 per year during the first two years and \$110,000 per year during the remaining eight years of the agreement.
March 2003	Henglong & Wuhan Huazhong Shuguang Software Park Co., Ltd.	Purchase and construction agreement to design and construct a software research and development facility. Total value \$4,820,000. The Company paid \$2,421,300 during 2003. 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. During the year ended December 31, 2004, the company has paid \$3,164,241 based on the construction progress, and \$1,655,759 remains outstanding.
July 21, 2003	Henglong &	Five year license and technical assistance agreement. Henglong paid Namyang an initial

96

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

	Namyang Industrial Co. Ltd. ("Namyang"), a Korean manufacturer of steering columns and universal joint assemblies for automobiles.	payment of \$100,000 and is further obligated to pay a royalty of 3% of the sales price of products sold, which includes the licensed technology.
October 2003	Henglong & Wuhu Science and Technology Zone	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 use rights. The Company advanced approximately \$435,000 during 2003 pursuant to the agreement under the first phase. The second phase of investment was delayed because the local Government did not complete its water and electricity supply system on time. This new plant is expected to service a large vehicle manufacturer in Wuhu at reduced transportation and storage costs.
October 5, 2003	Henglong & Advanced Custom Sensors,	Letter of intent for a joint venture to develop a sensor production facility. Henglong will be responsible for initial loans and payments of \$500,000, payable in two installments of \$250,000, to be used for the development of related products, the training of personnel, and other operating costs. The first payment of \$250,000 was made on February 12, 2004. The Company paid \$45,000 on August 31, 2004 based on the development progress. The company expects to pay the remaining \$205,000 during 2005.
March to December, 2004	Henglong & some equipment manufacturers	Have entered into some equipment purchase contra total value of approximately \$4,720,000. Henglon paid \$1,740,000 during 2004, and will pay off the remaining \$2,980,000 during 2005
March to December 2004	Jiulong & some equipment manufacturers	Have entered into some equipment purchase contra total value of approximately \$2,750,000. Jiulong paid \$1,020,000 during 2004, and will pay off the remaining \$1,730,000 during 2005

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

As of December 31, 2003 and 2004, the condensed balance sheets for continued operations of the Company's Sino-foreign joint ventures, which excluding assets, liability and shareholders' equity of the corporate were as follows,:

	Henglong -----		Jiulong -----		Shenyang -----	
	2004	2003	2004	2003	2004	2003
Current assets	\$31,288,596	\$35,336,427	\$30,491,838	\$26,575,218	\$ 10,141,350	\$6,000,000
Non-current assets	22,674,199	11,633,355	5,051,405	1,528,072	3,586,772	3,000,000
Total assets	53,962,795	46,969,782	35,543,243	28,103,290	13,728,122	10,000,000
Current liabilities	38,315,831	28,831,634	22,336,677	16,888,077	5,570,048	2,000,000
Non-current liabilities	192,459	192,459	--	--	3,920	--
Shareholders' equity	15,454,505	17,945,689	13,206,566	11,215,213	8,154,154	7,000,000
Total liabilities and shareholders' equity	\$53,962,795	\$46,969,782	\$35,543,243	\$28,103,290	\$ 13,728,122	\$10,000,000
	Zhejiang -----		Total -----			
	2004	2003	2004	2003		
Current assets	\$5,205,019	\$3,358,264	\$ 77,126,803	\$71,986,134		
Non-current assets	4,520,360	3,251,814	35,832,736	19,707,784		
Total assets	9,725,379	6,610,078	112,959,539	91,693,918		
Current liabilities	1,810,811	1,877,718	68,033,367	50,359,162		
Non-current liabilities	--	--	196,379	196,548		
Shareholders' equity	7,914,568	4,732,360	44,729,793	41,138,208		
Total liabilities and shareholders' equity	\$9,725,379	\$6,610,078	\$112,959,539	\$91,693,918		

For the years ended December 31, 2004 and 2003, the condensed statements of operations from continued operations of the Company's Sino-foreign joint ventures are as below. The condensed statements of operations excludes corporate general and administrative expense of \$1,108,481, stock-based compensation of \$1,300,000, and non-operating income of \$105,151 in 2003; excludes corporate general and administrative expense of \$823,852, Depreciation and amortization of \$78,500, stock-based compensation of \$55,125, financial costs of \$(4,620) and non-operating income of \$12,806 in 2004.

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

	Henglong		Jiulong		S
	2004	2003	2004	2003	
Proportionate ownership interest at end of year	44.5%	42%	81%	81%	70%
Net sales	\$ 29,029,209	\$ 33,929,946	\$ 26,932,386	\$ 18,660,367	\$ 12,690,167
Cost of goods sold	20,614,311	21,242,707	17,196,990	9,695,034	9,521,200
Gross profit	8,414,898	12,687,239	9,735,396	8,965,333	3,168,967
Selling expenses	1,658,537	1,434,715	1,423,586	1,078,316	160,000
General and administrative expenses	2,990,779	2,724,473	1,725,512	2,764,807	626,000
R & D expenses	1,363,644	809,914	154,434	201,627	
Depreciation and amortization	372,491	757,219	238,409	263,925	84,000
Income (loss) from operations	2,029,447	6,960,918	6,193,455	4,656,658	2,297,000
Finance costs	374,067	209,146	366,350	126,025	4,000
Other income (expense), net	866,935	228,587	710,101	139,989	67,000

	Zhejiang		Elimination		2
	2004	2003	2004	2003	
Proportionate ownership interest at end of year	51%	51%			
Net sales	\$ 4,259,791	\$ 1,678,018	\$ (14,725,750)	\$ (13,816,897)	\$58,000
Cost of goods sold	2,482,645	1,215,407	(14,773,127)	(13,481,838)	35,000
Gross profit	1,777,146	462,611	47,377	(335,059)	23,000
Selling expenses	230,828	121,046	--	--	3,000
General and administrative expenses	318,660	359,116	(6,408)	--	5,000
R & D expenses	434	5,490	--	--	1,000
Depreciation and amortization	74,597	161,290	--	--	
Income (loss) from operations	1,152,627	(184,331)	53,785	(335,059)	11,000
Finance costs	(9,460)	1,081	--	(1,249)	
Other income (expense), net	20,120	49,303	--	--	1,000

100

Income (loss) before income taxes	2,522,315	6,980,359	6,537,206	4,670,622	
Income taxes	(51,395)	777,485	669,795	973,455	

Edgar Filing: CHINA AUTOMOTIVE SYSTEMS INC - Form 10KSB

Net income (loss)	2,573,710	6,202,874	5,867,411	3,697,167	
Minority interest	1,523,326	3,597,666	1,230,314	1,006,117	
Equity in income (loss) of joint ventures	\$ 1,050,384	\$ 2,605,208	\$ 4,637,097	\$ 2,691,050	\$
Income (loss) before income taxes	1,182,207	(136,109)	53,785	(333,810)	12
Income taxes	-	-	-	-	
Net income (loss)	1,182,207	(136,109)	53,785	(333,810)	12
Minority interest	579,652	(66,693)	-	-	4
Equity in income (loss) of joint ventures	\$ 602,555	\$ (69,416)	\$ 53,785	\$ (333,810)	\$ 7