

CHINA AUTOMOTIVE SYSTEMS INC
Form 10-Q
August 13, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

China Automotive Systems, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

33-0885775

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

**No. 1 Henglong Road, Yu Qiao Development Zone, Shashi District,
Jing Zhou City, Hubei Province, People's Republic of China**

(Address of Principal Executive Offices)

Registrant's telephone number, including Area Code: (86) 716- 832- 9196

Registrant's fax number: (86) 716-832-9298

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2007, the Company had 23,959,702 shares of common stock issued and outstanding.

CHINA AUTOMOTIVE SYSTEMS, INC.
INDEX

	Page
Part I — Financial Information	
Item 1. Financial Statements	3
Condensed Consolidated Statements of Operations (Unaudited) for the Three Months and Six Months Ended June 30, 2007 and 2006	3
Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months and Six Months Ended June 30, 2007 and 2006	4
Condensed Consolidated Balance Sheets at June 30, 2007(Unaudited) and December 31, 2006	7
Condensed Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2007 (Unaudited) and December 31, 2006	8
Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2007 and 2006	9
Notes to Condensed Consolidated Financial Statements (Unaudited)	11
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3. Quantitative and Qualitative Disclosures About Risk	39
Item 4. Controls and Procedures	39
Part II — Other Information	
Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	45
Item 3. Defaults Upon Senior Securities.	45
Item 4. Submission of matters to a Vote of Security Holders.	45
Item 5. Other Information.	45
Item 6. Exhibits	45
Signature	47

PART 1 — FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

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

	Three Months Ended June 30	
	2007	2006
Net product sales, including \$1,173,244 and \$794,200 to related parties in 2007 and 2006, respectively	\$ 36,312,338	\$ 24,747,912
Cost of product sold, including \$1,414,954 and \$674,207 purchased from related parties in 2007 and 2006, respectively	24,218,532	15,476,767
Gross profit	12,093,806	9,271,145
Add: Gain on other sales	147,993	117,887
Less: Operating expenses-		
Selling expenses	2,813,166	2,386,901
General and administrative expenses	2,080,578	2,352,153
Research and development expenses	468,517	251,394
Depreciation and amortization	935,173	1,253,604
Total Operating expenses	6,297,434	6,244,052
Income from operations	5,944,365	3,144,980
Add: Other income, net	—	—
Financial (expenses)	(16,495)	(177,477)
Income before income taxes	5,927,870	2,967,503
Less: Income taxes	1,067,535	850,739
Income before minority interests	4,860,335	2,116,764
Less: Minority interests	2,405,181	1,365,128
Net income	\$ 2,455,154	\$ 751,636
Net income per common share		
Basic and diluted	\$ 0.10	\$ 0.03
Weighted average number of common shares outstanding		
Basic	23,959,702	23,254,121
Diluted	23,962,153	23,267,235

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

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

	Three Months Ended June 30	
	2007	2006
Net income	\$ 2,455,154	\$ 751,636
Other comprehensive income:		
Foreign currency translation gain	1,265,553	—
Comprehensive income	\$ 3,720,707	\$ 751,636

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

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

	Six Months Ended June 30	
	2007	2006
Net product sales, including \$2,075,828 and \$1,377,739 to related parties in 2007 and 2006, respectively	\$ 64,695,730	\$ 45,712,364
Cost of product sold, including \$2,466,434 and \$1,330,202 purchased from related parties in 2007 and 2006, respectively	43,410,018	29,496,022
Gross profit	21,285,712	16,216,342
Add: Gain on other sales	260,087	200,602
Less: Operating expenses-		
Selling expenses	4,406,812	3,879,390
General and administrative expenses	3,589,605	4,389,690
Research and development expenses	587,982	441,141
Depreciation and amortization	1,828,424	1,942,094
Total Operating expenses	10,412,823	10,652,315
Income from operations	11,132,976	5,764,629
Add: Other income, net	38,462	625
Financial (expenses)	(411,492)	(511,863)
Income before income taxes	10,759,946	5,253,391
Less: Income taxes	2,361,615	1,051,450
Income before minority interests	8,398,331	4,201,941
Less: Minority interests	4,300,076	2,355,907
Net income	\$ 4,098,255	\$ 1,846,034
Net income per common share		
Basic and diluted	\$ 0.17	\$ 0.08
Weighted average number of common shares outstanding		
Basic	23,948,950	22,969,051
Diluted	23,956,740	22,987,095

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

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

	Six Months Ended June 30	
	2007	2006
Net income	\$ 4,098,255	\$ 1,846,034
Other comprehensive income:		
Foreign currency translation gain	1,265,553	601,399
Comprehensive income	\$ 5,363,808	\$ 2,447,433

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

China Automotive Systems, Inc.
Condensed Consolidated Balance Sheets

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,627,606	\$ 27,418,500
Pledged cash deposits	2,828,672	3,484,335
Accounts and notes receivable, net, including \$1,850,422 and \$1,770,933 from related parties at 2007 and 2006, respectively	69,919,862	57,234,383
Advance payments and other, including \$223,684 and \$487,333 to related parties at 2007 and 2006, respectively	1,141,534	837,014
Inventories	17,364,810	15,464,571
Total current assets	\$ 110,882,484	\$ 104,438,803
Long-term Assets:		
Property, plant and equipment, net	\$ 41,656,104	\$ 40,848,046
Intangible assets, net	418,593	3,140,548
Other receivables, net, including \$811,653 and \$738,510 from related parties at 2007 and 2006, respectively	1,145,384	966,715
Advance payment for property, plant and equipment, including \$1,315,243 and \$488,873 to related parties at 2007 and 2006, respectively	5,633,146	2,640,708
Long-term investments	72,368	73,718
Total assets	\$ 159,808,079	\$ 152,108,538
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank loans	\$ 11,447,368	\$ 15,384,615
Accounts and notes payable, including \$987,473 and \$640,405 to related parties at 2007 and 2006, respectively	42,487,454	37,647,913
Customer deposits	265,730	146,171
Accrued payroll and related costs	2,006,378	1,506,251
Accrued expenses and other payables	8,979,953	11,078,186
Accrued pension costs	3,421,258	3,266,867
Taxes payable	7,622,569	5,914,362
Amounts due to shareholders/directors	370,080	358,065
Total current liabilities	\$ 76,600,790	\$ 75,302,430
Long-term liabilities:		
Advances payable	321,392	313,151
Total liabilities	\$ 76,922,182	\$ 75,615,581
Minority interests	\$ 22,798,874	\$ 23,112,667
Stockholders' equity:		
Preferred stock, \$0.0001 par value - Authorized - 20,000,000 Shares issued and outstanding - None	\$ —	—
Common stock, \$0.0001 par value - Authorized - 80,000,000 Shares Issued and Outstanding - 23,959,702 shares and 23,851,581 shares at June 30, 2007 and December 31, 2006, respectively	2,396	2,385
Additional paid-in capital	29,994,873	28,651,959
Retained earnings-		
Appropriated	6,078,613	6,209,909

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Unappropriated	20,276,788	16,047,237
Accumulated other comprehensive income	3,734,353	2,468,800
Total stockholders' equity	\$ 60,087,023	\$ 53,380,290
Total liabilities and stockholders' equity	\$ 159,808,079	\$ 152,108,538

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

7

China Automotive Systems, Inc.
Consolidated Statements of Stockholders' Equity
Six months ended June 30, 2007 (unaudited) and year ended December 31, 2006

	Common Stock		Additional	Retained Earnings		Accumulated	Total
	Shares	Par Value	Paid-in Capital	Appropriated	Unappropriated	Other Comprehensive Income (Loss)	
Balance, December 31, 2005	22,574,543	\$ 2,257	\$ 18,146,722	\$ 4,923,262	\$ 12,522,180	\$ 1,332,684	\$ 36,927,798
Foreign currency translation gain	—	—	—	—	—	1,136,116	1,136,116
Sale of common stock	1,216,675	122	10,899,872	—	—	—	—10,899,872
Exercise of stock options by independent directors	22,500	2	101,248	—	—	—	101,250
Cash paid for retaining fee, commissions and placement agent fee in connection with offering	—	—	(627,504)	—	—	—	(627,504)
Issuance of common stock related to financing services	37,863	4	449,996	—	—	—	450,000
Payment of financing services by issuance of common stock in accordance with Cornell Partners, LP	—	—	(450,000)	—	—	—	(450,000)
Issuance of a warrant to purchase common stock	—	—	832,639	—	—	—	832,639
Payment of commission and placement agent fee by issuance of common stock warrants in accordance with Cornell Partners, LP	—	—	(832,639)	—	—	—	(832,639)
Issuance of stock options to independent directors	—	—	131,625	—	—	—	131,625
Net income for the year ended December 31, 2006	—	—	—	—	4,811,704	—	4,811,704
Appropriation of retained earnings	—	—	—	1,286,647	(1,286,647)	—	—
Balance, December 31, 2006	23,851,581	\$ 2,385	\$ 28,651,959	\$ 6,209,909	\$ 16,047,237	\$ 2,468,800	\$ 53,380,486
Foreign currency translation gain	—	—	—	—	—	1,265,553	1,265,553
Sale of common stock	108,121	11	1,199,989	—	—	—	1,200,000
Cash paid for retaining fee, commissions and placement agent fee in connection with offering	—	—	(54,500)	—	—	—	(54,500)

Increase in connection with minority shareholders' abandonment of all its right and interest in Joint-venture	—	—	197,425	—	—	—	197,425
Net income for six months ended June, 30, 2007	—	—	—	—	4,098,255	—	4,098,255
Appropriation of retained earnings	—	—	—	(131,296)	131,296	—	—
Balance, June 30, 2007	23,959,702	\$ 2,396	\$ 29,994,873	\$ 6,078,613	\$ 20,276,788	\$ 3,734,353	\$ 60,087,715

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

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

	Six Months Ended June 30	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 4,098,255	\$ 1,846,034
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Minority interests	4,300,076	2,355,907
Depreciation and amortization	3,440,985	3,334,319
Allowance for doubtful accounts (Recovered)	(107,765)	1,263,545
Other operating adjustments	5,622	—
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Pledged deposits	734,198	(661,757)
Accounts and notes receivable	(11,092,496)	(11,818,049)
Advance payments and other	(280,899)	(1,067,535)
Inventories	(1,425,194)	(2,366,961)
Increase (decrease) in:		
Accounts and notes payable	3,825,270	4,120,931
Customer deposits	116,009	609,049
Accrued payroll and related costs	457,740	48,500
Accrued expenses and other payables	(537,559)	2,282,869
Accrued pension costs	68,177	180,874
Taxes payable	1,520,988	1,076,165
Advances payable	—	(62)
Net cash provided by operating activities	\$ 5,123,407	\$ 1,203,829
Cash flows from investing activities:		
(Increase) decrease in other receivables	(34,753)	94,383
Cash received from equipment sales	146,412	—
Cash paid to acquire property, plant and equipment	(6,064,201)	(952,502)
Cash paid to acquire intangible assets	(28,717)	(139,462)
Cash received from other investing activities	—	3,920
Net cash (used in) investing activities	\$ (5,981,259)	\$ (993,661)
Cash flows from financing activities:		
(Decrease) increase in proceeds from bank loans	(4,156,545)	1,414,898
Dividends paid to the minority interest holders of Joint-venture companies	(4,377,448)	(739,586)
Increase (decrease) in amounts due to shareholders/directors	100	(451,138)
Proceeds from issuance of common stock	1,145,500	4,959,740
Capital Contribution from the minority interest holders of Joint-venture companies	—	1,422,075
Net cash provided by (used in) financing activities	\$ (7,388,393)	\$ 6,605,989
Cash and cash equivalents effected by foreign currency	\$ 455,351	\$ 601,399
Net (decrease) increase in cash and cash equivalents	(7,790,894)	7,417,556
Cash and cash equivalents at beginning of period	27,418,500	12,374,944
Cash and cash equivalents at end of period	\$ 19,627,606	\$ 19,792,500

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

China Automotive Systems, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	Six Months Ended June 30	
	2007	2006
Cash paid for interest	\$ 422,902	\$ 347,886
Cash paid for income taxes	\$ 366,832	\$ 686,927

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

	Six Months Ended June 30	
	2007	2006
Issuance of common shares on a non-cash basis	\$ —	\$ 4
Financing services fee related to issuance of common shares	—	(4)
Increase in capital by minority shareholders of Joint-venture companies on a non-cash basis	—	921,785
Dividends payable to minority shareholders of Joint-venture companies being converted into capital	—	(921,785)
Decrease in minority interests as a result of minority shareholder's withdrawal from Joint-venture.	(2,830,545)	—
Withdrawal of invested intangible assets by minority shareholder of Joint-venture	2,600,204	—
Increase in equity in connection with minority shareholder's withdrawal from Joint-venture	\$ 230,341	\$ —

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

China Automotive Systems, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. ORGANIZATION AND BUSINESS

China Automotive Systems, Inc., “China Automotive”, was incorporated in the State of Delaware on June 29, 1999 under the name Visions-In-Glass, Inc. China Automotive, 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.

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”, is a wholly-owned subsidiary of the Company. 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.

Henglong USA Corporation, “HLUSA”, which was incorporated on January 8, 2007 in Troy, Michigan, is a wholly-owned subsidiary of the Company, and mainly engages in marketing of automotive parts in North America, and provides after sales service and research and development support accordingly.

The Company owns the following aggregate net interests in eight Sino-foreign joint ventures organized in the PRC as of June 30, 2007 and 2006.

Name of Entity	Percentage Interest	
	June 30, 2007	June 30, 2006
Shashi Jiulong Power Steering Gears Co., Ltd., "Jiulong"	81.00%	81.00%
Jingzhou Henglong Automotive Parts Co., Ltd., "Henglong"	44.50%	44.50%
Shenyang Jinbei Henglong Automotive Steering System Co., Ltd., "Shenyang"	70.00%	70.00%
Zhejiang Henglong & Vie Pump-Manu Co., Ltd., "Zhejiang"	51.00%	51.00%
Universal Sensor Application Inc., "USAI"	85.71%	60.00%
Wuhan Jielong Electric Power Steering Co., Ltd., "Jielong"	85.00%	85.00%
Wuhu HengLong Automotive Steering System Co., Ltd., "Wuhu"	77.33%	77.33%
Jingzhou Hengsheng Automotive System Co., Ltd, "Hengsheng"	100.00%	—

Jiulong was established in 1993 and mainly engaged in the production of integral power steering gears for heavy-duty vehicles.

Henglong was established in 1997 and mainly engaged in the production of rack and pinion power steering gears for cars and light duty vehicles.

Shenyang was established in 2002 and focuses on power steering parts for light duty vehicles.

Zhejiang was established in 2002 to focus on power steering pumps.

On April 12, 2005, Great Genesis entered into a Joint-venture agreement with Shanghai Hongxi Investment Inc., "Hongxi", a company controlled by Mr. Hanlin Chen, the Company's Chairman, and Sensor System Solution Inc., "Sensor", to establish a joint venture, Universal Sensor Application Inc., "USAI", in the Wuhan East Lake development zone to engage in production and sales of sensor modulars. The registered capital of the Joint-venture is \$10 million. Great Genesis and Hongxi intended to invest \$6 million and \$1 million, respectively, including cash and land and building, which would account for 60% and 10% of the total registered capital, respectively. Sensor would invest \$3 million in technology, accounting for 30% of the total registered capital. As of March 20, 2007, the three parties of USAI, Great Genesis, Hongxi, Sensor, entered into an agreement, which led to Sensor's withdrawal from USAI and abandonment of all its rights and interests in USAI. The registered capital of the Joint-venture has changed to \$7,000,000, with 85.71% owned by the Company, 14.29% owned by Hongxi. Since the withdrawal of intangible assets, another technology supplier is being sought.

On April 14, 2006, Great Genesis entered into a Joint-venture agreement with Hong Kong Tongda, "Tongda", to establish a joint venture, Wuhan Jielong Electric Power Steering Co., Ltd., "Jielong", in the Wuhan East Lake development zone. Jielong is mainly engaged in the production and sales of electric power steering, "EPS". The registered capital of the Joint-venture is \$6 million. Great Genesis and Tongda will invest \$5,100,000 and \$900,000, respectively, amounting to 85% and 15% of the total registered capital, respectively.

On March 31, 2006, as amended on May 2, 2006, Great Genesis, entered into a Joint-venture agreement with Wuhu Chery Technology Co., Ltd., "Chery Technology", to establish a Joint-venture, Wuhu Henglong Automotive Steering System Co., Ltd., "Wuhu", in the Wuhu Technological Development Zone. Wuhu is mainly engaged in the production and sales of automobile steering system. The registered capital of the Joint-venture is \$3,750,387, the equivalent of RMB 30,000,000. Great Genesis and Chery Technology invested \$2,900,300, the equivalent of RMB 23,200,000, and \$848,938, the equivalent of RMB 6,800,000, respectively, which accounts for 77.33% and 22.67% of the total registered capital, respectively.

On March 7, 2007, Great Genesis established a wholly-owned subsidiary, Jingzhou Hengsheng Automotive Systems Co., Ltd, "Hengsheng", to engage in production and sales of automotive steering systems. The registered capital of Hengsheng is \$10,000,000.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - For the six months ended June 30, 2007 and 2006, the accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and Sino-foreign joint ventures, including eight Sino-foreign Joint-ventures disclosed 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.

Foreign Currencies - The Company maintains its books and records in Renminbi, "RMB", the currency of the PRC, its functional currency. 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.

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 based on the treasury stock method, assuming the issuance of common shares, if dilutive, resulting from the exercise of warrants.

Actual weighted average shares outstanding used in calculating basic and diluted income per share were:

	Three Months Ended June 30,	
	2007	2006
Weighted average shares outstanding	23,959,702	23,254,121
Effect of dilutive securities	2,451	13,114
Diluted shares outstanding	23,962,153	23,267,235

	Six Months Ended June 30,	
	2007	2006
Weighted average shares outstanding	23,948,950	22,969,051
Effect of dilutive securities	7,790	18,044
Diluted shares outstanding	23,956,740	22,987,095

The 156,250 shares underlying warrants issued to Cornell Capital Partners, LP on March 20, 2006, and 22,500 options issued to independent directors on July 16, 2006 have not been included in the computation of diluted income per share because such inclusion would have had an anti-dilutive effect.

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.

In July 2004, the Company adopted a stock incentive plan. The maximum number of common shares for issuance under this plan is 2,200,000 with a period of 10 years. 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. As of June 30, 2007, the Company has issued 67,500 stock options under this plan and there remain 2,132,500 stock options issuable in future.

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Accounting for Stock-Based Compensation", which establishes a fair value method of accounting for stock-based compensation plans. In accordance with SFAS No. 123R, the cost of stock options and warrants issued to employees and non-employees is measured at the grant date based on the fair value. The fair value is determined using the Black-Scholes option pricing model. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive benefit, which is generally the vesting period.

Comprehensive Income - 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 to include all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowance for doubtful accounts and notes receivables, valuation and costing of inventory, depreciation of property, plant and equivalent, impairment of long-lived assets and accrued liabilities. Actual results could differ from those estimates.

Reclassifications - Certain comparative amounts have been reclassified to conform to the current year's presentation.

Comments - The accompanying interim condensed consolidated financial statements are unaudited, but in the opinion of management of the Company, contain all adjustments, which include normal recurring adjustments, necessary to present fairly the financial position, the results of operations and cash flows for the three months and six months ended June 30, 2007 and 2006.

The consolidated balance sheet as of December 31, 2006 is derived from the Company's audited financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although the Company's management believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading. For further information, refer to the financial statements and the notes thereto included in the Company's 2006 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

The results of operations for the three months and six months ended June 30, 2007 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2007.

3. ACCOUNTS AND NOTES RECEIVABLE

The Company's accounts receivable at June 30, 2007 (unaudited) and December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Accounts receivable	\$ 47,885,212	\$ 41,174,404
Notes receivable	26,230,142	20,146,197
Less: allowance for doubtful accounts	(4,195,492)	(4,086,218)
Balance at the end of the period	\$ 69,919,862	\$ 57,234,383

Notes 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 six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of period	\$ 4,086,218	\$ 2,856,025

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Add: amounts provided during the period		1,741		1,099,092
Add: foreign currency translation		107,533		131,101
Balance at the end of the period	\$	4,195,492	\$	4,086,218

14

4. OTHER RECEIVABLES

The Company's other receivables at June 30, 2007 (unaudited) and December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Other receivables	\$ 1,955,651	\$ 1,864,918
Less: allowance for doubtful accounts	(810,267)	(898,203)
Balance at the end of the period	\$ 1,145,384	\$ 966,715

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.

The activity in the Company's allowance for doubtful accounts of other receivable during the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of the period	\$ 898,203	\$ 1,040,169
Less: recovered amounts during the period	(111,573)	(210,861)
Add: foreign currency translation	23,637	68,895
Balance at the end of the period	\$ 810,267	\$ 898,203

5. INVENTORIES

The Company's inventories at June 30, 2007 (unaudited) and December 31, 2006 consisted of the following:

	June 30, 2007	December 31, 2006
Raw materials	\$ 6,759,773	\$ 5,381,372
Work in process	3,778,082	3,253,192
Finished goods	8,098,081	7,548,218
	18,635,936	16,182,782
Less: provision for loss	(1,271,126)	(718,211)
Balance at the end of the period	\$ 17,364,810	\$ 15,464,571

6. PROPERTY, PLANT AND EQUIPMENT

The Company's property, plant and equipment at June 30, 2007 (unaudited) and December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Land use rights and buildings	\$ 19,186,883	\$ 17,384,534
Machinery and equipment	36,284,695	33,466,198
Electronic equipment	2,964,833	2,945,454
Motor vehicles	2,365,192	2,095,169
Construction in progress	2,621,085	3,280,279
	63,422,688	59,171,634
Less: Accumulated depreciation	(21,766,584)	(18,323,588)
Balance at the end of the period	\$ 41,656,104	\$ 40,848,046

Depreciation charge for the six months ended June 30, 2007 and the year ended December 31, 2006 are \$3,279,111 and \$5,816,922 respectively.

7. INTANGIBLE ASSETS

The activities in the Company's intangible asset account at June 30, 2007 (unaudited) and December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of period	\$ 3,140,548	\$ 3,503,217
Add: additions during the period-		
Patent technology	—	109,073
Management software license	29,044	65,852
Foreign currency translation	11,078	121,698
Less: decrease during the period-		
Patent technology*	(2,600,204)	—
	580,446	3,799,840
Less: Amortization for the period	(161,873)	(659,292)
Balance at the end of the period	\$ 418,593	\$ 3,140,548

*When USAI was established in 2005, Sensor contributed \$3,000,000 as capital, being the fair market value of the intangible assets, namely the sensor product and the technology for sensor production, as well as the Joint-venture's technical personnel training. As of March 20, 2007 Sensor withdrew from USAI, abandoned all its right and interest in the Joint-venture, and repossessed the rights to the intangible assets at the carrying value of \$2,600,204. Please see Note 1 and Note 14.

8. BANK LOANS

At June 30, 2007, the Company, through its Sino-foreign joint ventures, had outstanding fixed-rate short-term bank loans of \$11,447,368, with weighted average interest rate at 6.12% per annum. These loans are secured with some of the property and equipment of the Company and are repayable within one year.

At December 31, 2006, the Company, through its Sino-foreign joint ventures, had outstanding fixed-rate short-term bank loans of \$15,384,615, with weighted average interest rate at 5.90% per annum. These loans are secured with some of the property and equipment of the Company, and are repayable within one year.

9. ACCOUNTS AND NOTES PAYABLE

The Company's accounts and notes payable at June 30, 2007 (unaudited) and December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Accounts payable	\$ 29,694,147	\$ 22,517,260
Notes payable*	12,793,307	15,130,653
Balance at the end of the period	\$ 42,487,454	\$ 37,647,913

*Notes 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 property plant and machinery to secure trade financing granted by banks.

10. ACCRUED EXPENSES AND OTHER PAYABLES

The Company's accrued expenses and other payables at June 30, 2007 (unaudited) and December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Accrued expenses	\$ 1,377,222	\$ 1,695,188
Other payables	1,236,984	1,987,540
Warranty reserves*	3,867,967	2,954,326
Dividend payable to minority shareholders of Joint-ventures	2,497,780	4,441,132
Balance at the end of the period	\$ 8,979,953	\$ 11,078,186

*The Company provides for the estimated cost of product warranties when the products are sold. Such estimates of product warranties were based on, among other things, historical experience, product changes, material expenses, service and transportation expenses arising from the manufactured products. Estimates will be adjusted on the basis of actual claims and circumstances.

For the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006, the warranties activities were as follows:

	June 30, 2007	December 31, 2006
Balance at the beginning of period	\$ 2,954,326	\$ 1,787,869
Additions during the reporting period	2,549,064	3,956,521
Settlement within reporting period, by cash or actual material	(1,713,168)	(2,858,829)
Foreign currency translation	77,745	68,765
Accrual balance at end of period	\$ 3,867,967	\$ 2,954,326

11. ACCRUED PENSION COSTS

Since the Company's operations are all located in China, all the employees are located in China. The Company records pension costs and various employment benefits in accordance with the relevant Chinese social security laws, which is substantially based on a total of 31% of salary as required by local governments. Base salary levels are the average salary determined by the local governments.

The activities in the Company's pension account during the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of the period	\$ 3,266,867	\$ 2,653,064
Amounts provided during the period	622,485	1,287,609
Settlement during the period	(554,064)	(789,265)
Foreign currency translation	85,970	115,459
Balance at end of period	\$ 3,421,258	\$ 3,266,867

12. TAXES PAYABLE

The Company's taxes payable at June 30, 2007 (unaudited) and December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Value-added tax payable	\$ 5,897,966	\$ 6,274,698
Income tax payable*	1,657,037	(362,267)
Other tax payable	67,566	1,931
Balance at the end of the period	\$ 7,622,569	\$ 5,914,362

*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 enterprise. The Company's PRC subsidiaries are generally subject to enterprise income tax at a statutory rate of 33%, which comprises 30% national income tax and 3% local income tax.

On January 1, 1996, one of the subsidiaries of the Company, Jiulong, was granted an enterprise income tax holiday of a 100% enterprise income tax exemption for two years commencing from 1996, and a 50% enterprise national income tax deduction and a 100% local income tax deduction for the next nine years thereafter, from 1998 to 2006, for income tax purposes. In 2007, Jiulong continued to be granted a 100% local income tax deduction.

On January 1, 1999, one of the subsidiaries of the Company, Henglong, was granted an enterprise income tax holiday of a 100% enterprise income tax exemption for two years commencing from 1999, and a 50% enterprise national income tax deduction and a 100% local income tax deduction for the next nine years thereafter, from 2001 to 2009, for income tax purposes.

On January 1, 2003, one of the subsidiaries of the Company, Shenyang, was granted an enterprise income tax holiday of a 100% enterprise income tax exemption for two years commencing from 2003, and a 75% enterprise national income tax deduction and a 100% local income tax deduction for the next three years thereafter, from 2005 to 2007, for income tax purposes.

On January 1, 2004, one of the subsidiaries of the Company, Zhejiang, was granted an enterprise income tax holiday of a 100% enterprise income tax exemption for two years commencing from 2004, and a 50% enterprise national income tax deduction and a 50% local income tax deduction for the next three years thereafter, from 2006 to 2008, for income tax purposes.

USAI, Wuhu, Jielong and Hengsheng are at their start up stage and accordingly, there is no assessable profit for the period ended June 30, 2007 subject to PRC enterprise income tax.

No provision for Hong Kong tax is made as Jilong and Great Genesis are both investment holding companies, and have no assessable income in Hong Kong for the six months ended June 30, 2007 and the year ended December 31, 2006.

No provision for US tax is made as the Company has no assessable income in the US for the six months ended June 30, 2007 and the year ended December 31, 2006.

The Company's activities of income taxes during the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Tax rate	7.5%-30.0%	7.5%-16.5%
Balance at beginning of the period(a)	\$ (362,267)	\$ (624,707)
Add: additions during the period-		
Accrual taxation	2,887,887	2,597,189
Less: decrease during the period-		
Income tax refund (b)	(526,272)	(928,108)
Settlement during the period	(366,832)	(1,382,614)
Foreign currency translation	24,521	(24,027)
Balance at the end of the period	\$ 1,657,037	\$ (362,267)

(a) At the end of the fiscal year, the Company must pay income tax in advance, and the government will settle with the Company within the three months after the end of the fiscal year.

(b) For the six months ended June 30, 2007 and the year ended December 31, 2006, two of the Company's Sino-foreign joint ventures received an income tax benefit of \$526,272 and \$928,108, respectively, for purchase of domestic equipment, which has been reflected as a reduction to income tax expense in the respective period of the

Company's consolidated statements of operations.

19

13. AMOUNTS DUE TO SHAREHOLDERS/DIRECTORS

The Company's activities in the amounts due to shareholders/directors during the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Balance at the beginning of period	\$ 358,065	\$ 766,642
Decrease during the reporting period	—	(429,061)
Foreign currency translation	12,015	20,484
Balance at end of period	\$ 370,080	\$ 358,065

The amounts due to shareholders/directors were unsecured, interest-free and repayable on demand.

14. MINORITY INTERESTS

The Company's activities in respect of the amounts of the minority interests' equity during the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of the period	\$ 23,112,667	\$ 21,751,043
Add: Additions during the period-		
contribution by minority shareholders	—	2,332,470
Minority interest's income	4,300,076	5,545,350
Increase in connection with minority shareholders' abandonment of all its right and interest in Joint-venture.	32,916	—
Foreign currency translation	570,140	1,468,787
Less: decrease during the period-		
Dividends declared to the minority interest holders of Joint-venture companies	(2,386,380)	(7,984,983)
Decrease in minority interests as a result of minority shareholders' withdrawal from Joint-venture	(2,830,545)	—
Balance at end of period	\$ 22,798,874	\$ 23,112,667

As of March 20, 2007, Great Genesis, Hongxi and Sensor entered into an agreement, which led to Sensor's withdrawal from USAI, its withdrawal of intangible assets, and abandonment of all its right and interest in USAI. Please see Note 1.

The calculation of the withdrawal of Sensor is summarized as follows:

	Equity of USAI (before Sensor's withdrawal at March 20, 2007) a	Withdrawal of equity in USAI b	Sensor's Carrying value of intangible assets withdrawn c	Abandoned interest d=b-c	Additional paid-in capital The Company's e=d*85.71%	Hongxi's f=d*14.29%
Additional paid-in capital	\$ 4,337,291	\$ 3,000,000	\$ 2,600,204	\$ 399,796	\$ 342,665	\$ 57,131
Foreign currency translation	219,927	183,923	—	183,923	157,640	26,283
Stockholders' deficit	(1,177,928)	(353,378)	—	(353,378)	(302,880)	(50,498)
Equity	\$ 3,379,290	\$ 2,830,545	\$ 2,600,204	\$ 230,341	\$ 197,425	\$ 32,916

Sensor's withdrawal from USAI, its withdrawal of intangible assets, and abandonment of all its right and interest in USAI, was charged to minority interests of \$2,830,545, and credited to intangible assets of \$2,600,204. The abandoned interest of \$230,341, recognized as additional paid-in capital of USAI, was credited into additional paid-in capital and minority interests of \$197,425 and \$32,916, respectively.

15. SHARE CAPITAL

The Company's activities in its share capital account during the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007		December 31, 2006	
	Common Stock	Par Value	Common Stock	Par Value
Balance at beginning of the period	23,851,581	\$ 2,385	22,574,543	\$ 2,257
Add: Additions during the period				
Issuance of common stock for cash in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP	108,121	11	1,216,675	122
Exercise of stock option by independent directors	—	—	22,500	2
Commissions and placement agent fee payable in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP	—	—	37,863	4
Balance at end of period	23,959,702	\$ 2,396	23,851,581	\$ 2,385

On January 17, 2007, the Company raised gross amounts of \$1,200,000 in a private placement (PIPE) to Cornell Capital Partners, LP ("Investor") by issuing 108,121 shares of common stock.

16. ADDITIONAL PAID-IN CAPITAL

The Company's activities in the Company's additional paid-in capital account during the six months ended June 30, 2007 (unaudited) and the year ended December 31, 2006 are summarized as follows:

	June 30, 2007	December 31, 2006
Balance at beginning of the period	\$ 28,651,959	\$ 18,146,722
Add: Additions during the period-		
Issuance of common stock for cash in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP. Please see Note 15.	1,199,989	10,899,872
Exercise of stock option by independent directors	—	101,248
Issuance of stock options to independent directors	—	131,625
Issuance of common stock in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP	—	449,996
Issuance of common stock warrants in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP	—	832,639
Increase in connection with minority shareholders' abandonment of all its right and interest in Joint-venture. (Please see Note 14.)	197,425	—
Less: decreases during the period		
Payment of commissions and placement agent fee by issuance of common stock in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP	—	(449,996)
Payment of commissions and placement agent fee by issuance of common stock warrants in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP	—	(832,639)
Cash paid for retaining fee, commissions and placement agent fee in connection with offering. (Please see Note 15.)	(54,500)	(627,504)
Payment of commissions and placement agent fee by issuance of common stock in accordance with the standby equity distribution agreement with Cornell Capital Partners, LP	—	(4)
Balance at end of period	\$ 29,994,873	\$ 28,651,959

17. SIGNIFICANT CONCENTRATIONS

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

During the six months ended June 30, 2007 (unaudited), the Company's ten largest customers accounted for 75.6% of the Company's consolidated net sales, with each of four customers individually accounting for more than 10% of consolidated net sales, i.e. 17.6%, 12.4%, 12.0% and 10.7% individually, or an aggregate of 52.7%. At June 30, 2007, approximately 37.1% of accounts receivable were from trade transactions with the aforementioned four customers.

During the six months ended June 30, 2006 (unaudited), the Company's ten largest customers accounted for 75.3% of the Company's consolidated net sales, with each of four customers individually accounting for more than 10% of consolidated net sales, i.e. 16.2%, 14.1%, 12.3% and 11.1% individually, or an aggregate of 53.7%. At June 30, 2006, approximately 36.2% of accounts receivable were from trade transactions with the aforementioned four customers.

18. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions with companies with common directors are as follows:

Related sales:

	Six Months Ended June 30	
	2007	2006
Merchandise Sold to Related Parties (unaudited)	\$ 2,075,828	\$ 1,377,739

22

Related purchases (unaudited):

	Six Months Ended June 30	
	2007	2006
Materials Purchased from Related Parties	\$ 2,466,434	\$ 1,330,202
Technology Purchased from Related Parties	64,103	188,640
Equipment Purchased from Related Parties	294,836	199,476
Total	\$ 2,825,373	\$ 1,718,318

Related receivables (June 30, 2007 unaudited):

	June 30, 2007	December 31, 2006
Accounts receivable	\$ 1,850,422	\$ 1,770,933
Other receivables	811,653	738,510
Total	\$ 2,662,075	\$ 2,509,443

Related advances (June 30, 2007 unaudited):

	June 30, 2007	December 31, 2006
Advanced Equipment Payment to Related Parties	\$ 1,315,243	\$ 488,873
Advanced Expenses and Others to Related Parties	223,684	487,333
Total	\$ 1,538,927	\$ 976,206

Related payables:

	June 30, 2007	December 31, 2006
Accounts payable (June 30, 2007 unaudited)	\$ 987,473	\$ 640,405

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

19. COMMITMENTS AND CONTINGENCIES:

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

The following table summarizes the Company's major contractual payment obligations and commitments as of June 30, 2007 (unaudited):

	Payment Obligations by Period						Total
	2007(a)	2008	2009	2010	Thereafter		
Obligations for service agreements	\$ —	\$ 110,000	\$ 110,000	\$ 110,000	\$ 110,000	\$ 440,000	
Obligations for purchasing agreements	5,423,726	1,281,332	—	—	—	6,705,058	
Total	\$ 5,423,726	\$ 1,391,332	\$ 110,000	\$ 110,000	\$ 110,000	\$ 7,145,058	

(a) Remaining six months in 2007

20. OFF-BALANCE SHEET ARRANGEMENTS

At June 30, 2007 and 2006, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

21. SEGMENT REPORTING

The accounting policies of the product sectors are the same as those described in the summary of significant accounting policies except that the disaggregated financial results for the product sectors have been prepared using a management approach, which is consistent with the basis and manner in which management internally disaggregates financial information for the purposes of assisting them in making internal operating decisions. Generally, the Company evaluates performance based on stand-alone product sector operating income and accounts for inter segment sales and transfers as if the sales or transfers were to third parties, at current market prices.

During the three months and six months ended June 30, 2007 (unaudited), the Company had nine product sectors, five of them were principal profit makers, which were reported as separate sectors which engaged in the production and sales of power steering (Henglong), power steering (Jiulong), power steering (Shenyang), power pumps (Zhejiang), and power steering (Wuhu). The other four sectors which were established in 2005, 2006, 2007 and 2007 respectively, engaged in the production and sales of sensor modular (USAI), electronic power steering (Jielong), power steering (Hengsheng), and provider of after sales and R&D services (HLUSA). Since the revenues, net income and net assets of these four sectors are less than 10% of its segment in the consolidated statement, the Company incorporated these four sectors into "other sectors".

During the three months and six months ended June 30, 2006 (unaudited), the Company had seven product sectors, four of them were principal profit makers, which were reported as separate sectors which engaged in the production and sales of power steering for cars (Henglong), power steering for trucks (Jiulong), power steering for light duty vehicles (Shenyang), and power pumps (Zhejiang). To conform with the year 2007, power steering (Wuhu) was reported separately. The other two sectors which were established in 2005 and 2006 respectively, engaged in the production and sales of sensor modular (USAI), and electronic power steering (Jielong). Since the revenues, net income and net assets of these two sectors are less than 10% of its segment in the consolidated statement, the

Company incorporated these three sectors into “other sectors”

24

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The Company's product sectors information is as follows:

	Henglong	Jiulong	Shenyang	Zhejiang	Wuhu	Other Sectors	Other (1)	Total
For the Three Months Ended: June 30, 2007								
Revenue								
Net product sales - external	\$ 11,227,899	\$ 9,929,409	\$ 5,623,382	\$ 3,528,630	\$ 5,989,690	\$ 13,328		\$ 36,312,338
Net product sales - internal	9,271,479	794,417	808,420	21,423	—	—	(10,895,739)	—
Gain on other sales and other income - external	106,461	32,405	10,176	(1,619)	2,499	(579)	(1,350)	147,993
Total revenue	\$ 20,605,839	\$ 10,756,231	\$ 6,441,978	\$ 3,548,434	\$ 5,992,189	\$ 12,749	(\$10,897,089)	\$ 36,460,331
Net income	\$ 2,057,464	\$ 770,313	\$ 606,730	\$ 545,066	\$ (150,304)	\$(165,395)	\$(1,208,720)	\$ 2,455,154
June 30, 2006								
Revenue								
Net product sales - external	11,670,227	6,040,117	4,083,729	2,844,383	\$ —	109,456		\$ 24,747,912
Net product sales - internal	2,433,500	1,159,712	246,628	103,829	—	—	(3,943,669)	—
Gain on other sales and other income - external	42,599	62,138	5,741	8,693	—	—	(1,284)	117,887
Total revenue	\$ 14,146,326	\$ 7,261,967	\$ 4,336,098	\$ 2,956,905	\$ —	\$ 109,456	(\$3,944,953)	\$ 24,865,799
	\$ 876,720	\$ 94,467	\$ 350,431	\$ 279,214	\$ —	\$(242,827)	(\$606,369)	\$ 751,636

Net
income

	Henglong	Jiulong	Shenyang	Zhejiang	Wuhu	Other Sectors	Other (1)	Total
For the Six Months Ended: June 30, 2007								
Revenue								
Net product sales - external	\$ 21,773,617	\$ 17,350,790	\$ 8,940,966	\$ 6,785,961	\$ 8,919,539	\$ 24,857		\$ 64,695,730
Net product sales - internal	15,650,556	1,888,812	1,411,688	30,152	—	—	(18,981,208)	—
Gain on other sales and other income - external	220,638	64,455	18,369	(4,165)	2,499	(579)	(2,668)	298,549
Total revenue	\$ 37,644,811	\$ 19,304,057	\$ 10,371,023	\$ 6,811,948	\$ 9,822,038	\$ 24,278	(\$18,983,876)	\$ 64,994,279
Net income	\$ 3,507,777	\$ 1,542,694	\$ 964,736	\$ 824,924	\$ (456,249)	\$ (235,462)	(\$2,050,165)	\$ 4,098,255

June
30,2006
Revenue

Net product sales - external	\$ 22,087,564
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