

CHINA AUTOMOTIVE SYSTEMS INC  
Form 10-Q  
May 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark one)

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

For the quarterly period ended March 31, 2018

Or

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

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

Commission file number: **000-33123**

**China Automotive Systems, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or

**33-0885775**

(I.R.S. employer identification  
number)

organization)

**No. 1 Henglong Road, Yu Qiao Development Zone, Shashi District**

**Jing Zhou City, Hubei Province, the People’s Republic of China**

**(Address of principal executive offices)**

**(86) 716- 412- 7912**

Issuer’s telephone number

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

Yes      x      No      ..

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes      x      No      ..

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

Large accelerated filer	..	Accelerated filer	..
Non-accelerated filer (Do not check if a smaller reporting company)	..	Smaller reporting company	x
		Emerging growth company	..

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. "

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

Yes      "      No      x

As of May 10, 2018, the Company had 31,644,004 shares of common stock issued and outstanding.

CHINA AUTOMOTIVE SYSTEMS, INC.

INDEX

	<b>Page</b>
 <u>Part I — Financial Information</u>	
<u>Item 1. Unaudited Financial Statements.</u>	<u>4</u>
<u>Condensed Unaudited Consolidated Statements of Operations and Comprehensive Income for the Three Months Ended March 31, 2018 and 2017</u>	<u>4</u>
<u>Condensed Unaudited Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017</u>	<u>5</u>
<u>Condensed Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017</u>	<u>6</u>
<u>Notes to Condensed Unaudited Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	<u>42</u>
<u>Item 4. Controls and Procedures.</u>	<u>42</u>
 <u>Part II — Other Information</u>	
<u>Item 1. Legal Proceedings.</u>	<u>42</u>
<u>Item 1A. Risk Factors.</u>	<u>42</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	<u>42</u>
<u>Item 3. Defaults Upon Senior Securities.</u>	<u>43</u>
<u>Item 4. Mine Safety Disclosures.</u>	<u>43</u>
<u>Item 5. Other Information.</u>	<u>43</u>
<u>Item 6. Exhibits.</u>	<u>43</u>
 <u>Signatures</u>	 <u>44</u>

## Cautionary Statement

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or the Company's future financial performance. The Company has attempted to identify forward-looking statements by terminology including "anticipates," "believes," "expects," "can," "continues," "could," "estimates," "expects," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology. Such statements are subject to certain risks and uncertainties, including the matters set forth in this Quarterly 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-Q is filed, and the Company does not intend to update any of the forward-looking statements after the date this Quarterly Report on Form 10-Q is filed to conform these statements to actual results, unless required by law. All of the forward-looking statements are qualified in their entirety by reference to the factors discussed under Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission.

**PART I — FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****China Automotive Systems, Inc. and Subsidiaries****Condensed Unaudited Consolidated Statements of Operations and Comprehensive Income***(In thousands of USD, except share and per share amounts)*

	Three Months Ended March 31,	
	2018	2017
Net product sales (\$10,846 and \$9,538 sold to related parties for the three months ended March 31, 2018 and 2017)	\$ 134,018	\$ 119,308
Cost of products sold (\$8,249 and \$7,363 purchased from related parties for the three months ended March 31, 2018 and 2017)	112,379	97,679
Gross profit	21,639	21,629
Gain on other sales	1,513	788
Less: Operating expenses		
Selling expenses	5,827	4,068
General and administrative expenses	4,424	4,354
Research and development expenses	8,307	6,765
Total operating expenses	18,558	15,187
Income from operations	4,594	7,230
Other income/(expense)	621	(254)
Interest expense	(415)	(231)
Financial (expense)/income, net	(765)	332
Income before income tax expenses and equity in earnings of affiliated companies	4,035	7,077
Less: Income taxes	588	1,190
Equity in earnings of affiliated companies	585	51
Net income	4,032	5,938
Net (loss)/income attributable to non-controlling interests	(280)	224
Net income attributable to parent company's common shareholders	\$ 4,312	\$ 5,714
Comprehensive income:		
Net income	\$ 4,032	\$ 5,938
Other comprehensive income:		
Foreign currency translation gain, net of tax	13,242	1,629
Comprehensive income	17,274	7,567
Comprehensive income attributable to non-controlling interests	236	278
Comprehensive income attributable to parent company	\$ 17,038	\$ 7,289

Net income attributable to parent company's common shareholders per share

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Basic –	\$ 0.14	\$ 0.18
Diluted-	\$ 0.14	\$ 0.18
Weighted average number of common shares outstanding		
Basic	31,644,004	31,644,004
Diluted	31,644,004	31,649,908

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

**China Automotive Systems, Inc. and Subsidiaries****Condensed Unaudited Consolidated Balance Sheets***(In thousands of USD unless otherwise indicated)*

	March 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 78,729	\$ 64,558
Pledged cash	32,697	31,535
Short-term investments	13,040	29,587
Accounts and notes receivable, net - unrelated parties	282,072	274,989
Accounts and notes receivable, net - related parties	22,661	19,086
Advance payments and others - unrelated parties	12,208	12,790
Advance payments and others - related parties	1,068	20,841
Inventories	87,370	79,217
Total current assets	529,845	532,603
Non-current assets:		
Property, plant and equipment, net	132,899	126,033
Intangible assets, net	632	661
Other receivables, net - unrelated parties	1,624	2,188
Advance payment for property, plant and equipment - unrelated parties	8,406	9,657
Advance payment for property, plant and equipment - related parties	9,244	5,264
Long-term investments	29,268	27,596
Deferred tax assets	13,800	13,367
Total assets	\$ 725,718	\$ 717,369
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Bank and government loans	\$ 63,176	\$ 72,711
Accounts and notes payable - unrelated parties	230,036	233,048
Accounts and notes payable - related parties	7,544	7,168
Customer deposits	1,398	1,128
Accrued payroll and related costs	7,841	8,577
Accrued expenses and other payables	38,952	40,127
Accrued pension costs	4,786	4,051
Taxes payable	9,902	5,927
Amounts due to shareholders/directors	364	343
Advances payable (current portion)	398	383
Total current liabilities	364,397	373,463
Long-term liabilities:		
Long-term government loan	318	306
Advances payable	373	359



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Long-term taxes payable	32,719	32,719
Deferred tax liabilities	4,508	4,393
Total liabilities	\$ 402,315	\$ 411,240

Commitments and Contingencies (See Note 27)

Stockholders' equity:

Common stock, \$0.0001 par value - Authorized - 80,000,000 shares; Issued – 32,338,302 and 32,338,302 shares as of March 31, 2018 and December 31, 2017, respectively	\$ 3	\$ 3
Additional paid-in capital	64,406	64,406
Retained earnings-		
Appropriated	10,707	10,707
Unappropriated	213,771	209,459
Accumulated other comprehensive income	30,506	17,780
Treasury stock –694,298 and 694,298 shares as of March 31, 2018 and December 31, 2017, respectively	(2,907 )	(2,907 )
Total parent company stockholders' equity	316,486	299,448
Non-controlling interests	6,917	6,681
Total stockholders' equity	323,403	306,129
Total liabilities and stockholders' equity	\$ 725,718	\$ 717,369

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

**China Automotive Systems, Inc. and Subsidiaries****Condensed Unaudited Consolidated Statements of Cash Flows****(In thousands of USD unless otherwise indicated)**

	Three Months Ended March	
	31,	2017
	2018	2017
Cash flows from operating activities:		
Net income	\$ 4,032	\$ 5,938
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	4,342	4,189
Accrual/(reversal) of provision for doubtful accounts	275	(19 )
Inventory write downs	1,543	813
Deferred income taxes	33	(63 )
Equity in earnings of affiliated companies	(585 )	(51 )
Gain on fixed assets disposals	12	17
Changes in operating assets and liabilities		
(Increase)/decrease in:		
Pledged cash	72	(2,618 )
Accounts and notes receivable	559	2,480
Advance payments and others	(128 )	52
Inventories	(6,592 )	(1,444 )
Increase/(decrease) in:		
Accounts and notes payable	(11,950 )	(1,592 )
Customer deposits	246	123
Accrued payroll and related costs	(1,064 )	(431 )
Accrued expenses and other payables	(4,031 )	(1,467 )
Accrued pension costs	576	(247 )
Taxes payable	5,230	(3,318 )
Net cash (used in)/provided by operating activities	(7,430 )	2,362
Cash flows from investing activities:		
Increase in other receivables	647	20
Cash received from property, plant and equipment sales	26	26
Payments to acquire property, plant and equipment (including \$5,224 and \$493 paid to related parties for the three months ended March 31, 2018 and 2017, respectively)	(8,192 )	(3,245 )
Purchase of short-term investments	(1,414 )	-
Proceeds from maturities of short-term investments	19,108	2,433
Loan to a related party	-	(29,044 )
Cash received from repayment of the loan to a related party	20,430	-
Net cash provided by/(used in) investing activities	30,605	(29,810 )
Cash flows from financing activities:		
Proceeds from bank loans	19,672	27,754

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Repayments of bank loans	(31,037	)	(245	)
Net cash (used in)/provided by financing activities	(11,365	)	27,509	
Effects of exchange rate on cash and cash equivalents	2,361		150	
Net (decrease)/increase in cash and cash equivalents	14,171		211	
Cash and cash equivalents at beginning of period	64,558		31,092	
Cash and cash equivalents at end of period	\$ 78,729		\$ 31,303	

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

**China Automotive Systems, Inc. and Subsidiaries**

**Condensed Unaudited Consolidated Statements of Cash Flows**

(In thousands of USD unless otherwise indicated)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Cash paid for interest	\$ 223	\$ 173
Cash paid for income taxes	\$ 129	\$ 325

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:

Non-cash investing activities:

	<b>Three Months Ended March</b>	
	<b>31,</b>	<b>2017</b>
	<b>2018</b>	<b>2017</b>
Property, plant and equipment recorded during the period for which there previously were advance payments	\$ 1,362	\$ 6,360
Accounts payable for acquiring property, plant and equipment	\$ 1,209	\$ 610

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

**China automotive Systems, Inc. and Subsidiaries****Notes to Condensed Unaudited Consolidated Financial Statements****Three Months Ended March 31, 2018 and 2017****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 joint ventures described below, is referred to herein as the “Company.” The Company is primarily engaged in the manufacture and sale of automotive systems and components, as described below.

Great Genesis Holdings Limited, a company incorporated in Hong Kong on January 3, 2003 under the Companies Ordinance in Hong Kong as a limited liability company, “Genesis,” is a wholly-owned subsidiary of the Company.

Henglong USA Corporation, “HLUSA,” 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 the following Sino-foreign joint ventures, wholly-owned subsidiaries and joint ventures organized in the People's Republic of China, the “PRC,” and Brazil as of March 31, 2018 and December 31, 2017.

Name of Entity	Percentage Interest		
	March 31, 2018	December 31, 2017	
Shashi Jiulong Power Steering Gears Co., Ltd., “Jiulong <sup>6</sup> ”	100.00 %	100.00	%
Jingzhou Henglong Automotive Parts Co., Ltd., “Henglong <sup>2</sup> ”	100.00 %	100.00	%
Shenyang Jinbei Henglong Automotive Steering System Co., Ltd., “Shenyang <sup>3</sup> ”	70.00 %	70.00	%
Universal Sensor Application Inc., “USA <sup>4</sup> ”	83.34 %	83.34	%
Wuhan Jielong Electric Power Steering Co., Ltd., “Jielong <sup>5</sup> ”	85.00 %	85.00	%
Wuhu Henglong Automotive Steering System Co., Ltd., “Wuhu <sup>6</sup> ”	77.33 %	77.33	%
Hubei Henglong Automotive System Group Co., Ltd, “Hubei Henglong <sup>7</sup> ”	100.00 %	100.00	%
JingzhouHenglong Automotive Technology (Testing) Center, “Testing Center <sup>8</sup> ”	100.00 %	100.00	%

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Chongqing Henglong Hongyan Automotive System Co., Ltd., “Chongqing Henglong <sup>8</sup> ”	70.00	%	70.00	%
CAAS Brazil’s Imports and Trade In Automotive Parts Ltd., “Brazil Henglong <sup>9</sup> ”	95.84	%	95.84	%
Wuhan Chuguanjie Automotive Science and Technology Ltd., “Wuhan Chuguanjie <sup>1</sup> ”	85.00	%	85.00	%
Hubei Henglong Group Shanghai Automotive Electronics Research and Development Ltd., “Shanghai Henglong <sup>2</sup> ”	100.00	%	100.00	%
Jingzhou Qingyan Intelligent Automotive Technology Research Institute Co., Ltd., “Jingzhou Qingyan <sup>3</sup> ”	60.00	%	60.00	%

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

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

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

4. USAI was established in 2005 and mainly engages in the production and sales of sensor modules.

5. Jielong was established in 2006 and mainly engages in the production and sales of automotive steering columns.

6. Wuhu was established in 2006 and mainly engages in the production and sales of automobile steering systems.

7. On March 7, 2007, Genesis established Hubei Henglong, formerly known as Jingzhou Hengsheng Automotive System Co., Ltd., its wholly-owned subsidiary, to engage in the production and sales of automotive steering systems. On July 8, 2012, Hubei Henglong changed its name to Hubei Henglong Automotive System Group Co., Ltd.

8. In December 2009, Henglong, a subsidiary of Genesis, formed Testing Center, which mainly engages in the research and development of new products.

9. On February 21, 2012, Hubei Henglong and SAIC-IVECO Hongyan Company, “SAIC-IVECO,” established a Sino-foreign joint venture company, Chongqing Henglong, to design, develop and manufacture both hydraulic and electric power steering systems and parts.

10. On August 21, 2012, Brazil Henglong was established as a Sino-foreign joint venture company by Hubei Henglong and two Brazilian citizens, Ozias Gaia Da Silva and Ademir Dal’ Evedove. Brazil Henglong engages mainly in the import and sales of automotive parts in Brazil. In May 2017, the Company obtained an additional 15.84% equity interest in Brazil Henglong for nil consideration. The Company retained its controlling interest in Brazil Henglong and the acquisition of the non-controlling interest was accounted for as an equity transaction.

11. In May 2014, together with Hubei Wanlong, Jielong formed a subsidiary, Wuhan Chuguanjie Automotive Science and Technology Ltd., “Wuhan Chuguanjie”, which mainly engages in research and development, manufacture and sales of automobile electronic systems and parts. Wuhan Chuguanjie is located in Wuhan, China.

12. In January 2015, Hubei Henglong formed Hubei Henglong Group Shanghai Automotive Electronics Research and Development Ltd., “Shanghai Henglong”, which mainly engages in the design and sales of automotive electronics.

13. In November 2017, Hubei Henglong formed Jingzhou Qingyan Intelligent Automotive Technology Research Institute Co., Ltd., “Jingzhou Qingyan”, which mainly engages in the research and development of intelligent automotive technology.

## **2. Basis of presentation and significant accounting policies**

### *(a) Basis of Presentation*

Basis of Presentation – The accompanying condensed unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. The details of subsidiaries are disclosed in Note 1. Significant inter-company balances and transactions have been eliminated upon consolidation. The condensed unaudited consolidated financial

statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions in Article 10 of Regulation S-X. Accordingly they do not include all of the information and footnotes required by such accounting principles for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

The accompanying interim condensed consolidated financial statements are unaudited, but in the opinion of the Company’s management, contain all necessary adjustments, which include normal recurring adjustments, for a fair statement of the results of operations, financial position and cash flows for the interim periods presented.

The condensed consolidated balance sheet as of December 31, 2017 is derived from the Company’s audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.



Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with U.S. GAAP 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 herein not misleading. For further information, please refer to the financial statements and the notes thereto included in the Company's 2017 Annual Report on Form 10-K, as filed with the Securities and Exchange Commission.

The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2018.

**Estimation** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Foreign Currencies** - China Automotive, the parent company, and HLUSA maintain their books and records in United States Dollars, "USD," their functional currency. The Company's subsidiaries based in the PRC and Genesis maintain their books and records in Renminbi, "RMB," their functional currency. The Company's subsidiary based in Brazil maintains its books and records in Brazilian reais, "BRL," its functional currency. In accordance with ASC Topic 830, "FASB Accounting Standards Codification", foreign currency transactions denominated in currencies other than the functional currency are remeasured into the functional currency at the rate of exchange prevailing at the balance sheet date for monetary items. Nonmonetary items are remeasured at historical rates. Income and expenses are remeasured at the rate in effect on the transaction dates. Transaction gains and losses, if any, are included in the determination of net income for the period.

*(b)Recent Accounting Pronouncements*

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, to address specific consequences of the recent U.S. federal tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "U.S. Tax Reform"). The update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the U.S. Tax Reform. The accounting update is effective January 1, 2019, with early adoption permitted, and is to be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the U.S. Tax Reform is recognized. The Company is currently evaluating the impact of the new standard on the Company's consolidated financial statements.

*(c) Significant Accounting Policies*

Net Product Sales - On January 1, 2018, the Company adopted ASC Topic 606 “Revenue from Contracts with Customers”, and all related amendments, using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting practices under ASC Topic 605 “Revenue Recognition”.

Management has determined that the impact of the transition to the new standard is immaterial to the Company’s revenue recognition model since the vast majority of our revenue recognition is based on point in time transfer of control. Accordingly, the Company has not made any adjustment to opening retained earnings.

Products sales to customers are made pursuant to master agreements entered into between the Company and its customers that provide for transfer of both title and risk of loss upon the Company’s delivery to the location specified in the contracts. The Company’s sales arrangements generally do not contain variable considerations and short-term in nature. A period of credit term is granted to the customers after the delivery and before making payment. The Company recognizes revenue at a point in time based on management’s evaluation of when the customer obtains control of the products. Revenue is recognized when all performance obligations under the terms of a contract with the customer are satisfied and control of the product has been transferred to the customer. Sales of goods typically do not include multiple product and/or service elements.

Revenue is measured as the amount of consideration management expects the Company to receive in exchange for transferring goods pursuant to the contracts. Value-added tax that the Company collects concurrent with revenue-producing activities is excluded from revenue. Incidental contract costs that are not material in the context of the delivery of goods and services are recognized as expense.

At the time revenue is recognized, allowances are recorded, with the related reduction to revenue, for estimated price discounts based upon historical experience and related terms of customer arrangements. Where the Company has offered product warranties, the Company also establishes liabilities for estimated warranty costs based upon historical experience and specific warranty provisions. Warranty liabilities are adjusted when experience indicates the expected outcome will differ from initial estimates of the liability.

The Company treats shipping and handling fees as a fulfillment cost since control of the products is usually transferred to the customer after the delivery.

#### *Revenue Disaggregation*

Management has concluded that the disaggregation level is the same under both the revenue standard and the segment reporting standard. Revenue under the segment reporting standard is measured on the same basis as under the revenue standard, so management did not repeat the disaggregation of revenue under both standards.

#### *Contract Assets and Liabilities*

Contract assets, such as costs to obtain or fulfill contracts, are an insignificant component of the Company's revenue recognition process. The majority of the Company's cost of fulfillment as a manufacturer of products is classified as inventory, fixed assets and intangible assets, which are accounted for under the respective guidance for those asset types. Other costs of contract fulfillment are immaterial due to the nature of our products and their respective manufacturing processes.

Contract liabilities are mainly customer deposits.

#### *Customer Deposits*

As of March 31, 2018, the Company has customer deposits of \$1.4 million, of which \$1.3 million was received in the first quarter of 2018. \$1.0 million was recognized as net product sales revenue in the first quarter of 2018 that was included in the balance of customer deposits as of December 31, 2017. Customer deposits represent non-refundable cash deposits for customers to secure rights to an amount of products produced by the Company under supply agreements. When the products are shipped to customers, the Company will recognize revenue and bill the customers to reduce the amount of the customer deposit liability.

*Practical Expedient and Exemptions*

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

The Company does not adjust the promised amount of consideration for the effects of a significant financing component since the Company expects, at contract inception, that the period between when the Company transfers promised goods to the customers and when the customers pay for the goods will be within one year.

Except for the adoption of ASC Topic 606, there have been no updates to the significant accounting policies set forth in the notes to the consolidated financial statements for the year ended December 31, 2017.

### 3. Short-term investments

Short-term investments comprise time deposits with terms of three months or more which are due within one year and financial instruments with a variable interest rate indexed to the performance of underlying assets (“Wealth Management Financial Products”) with maturities within one year. The carrying values of time deposits approximate fair value because of their short maturities. The interest earned is recognized in the consolidated statements of income over the contractual term of the deposits. The Wealth Management Financial Products are measured at fair value and classified as Level 2 within the fair value measurement hierarchy. The fair values were measured by using directly or indirectly observable inputs in the marketplace. Changes in the fair value are reflected in other income in the consolidated statements of operations and comprehensive income.

The Company’s short-term investments as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Time deposits	\$ 11,609	\$ 12,019
Wealth Management Financial Products measured at fair value	1,431	17,568
Total	\$ 13,040	\$ 29,587

As of March 31, 2018, the Company had pledged short-term investments of RMB 7.0 million, equivalent to approximately \$1.1 million, to secure standby letters of credit under Bank of China and China CITIC Bank (Note 12). The use of the pledged short-term investments is restricted.

As of December 31, 2017, the Company had pledged short-term investments of RMB 13.0 million, equivalent to approximately \$2.0 million, to secure standby letters of credit under HSBC Bank (Note 12) and China CITIC Bank. The use of the pledged short-term investments is restricted.

### 4. Accounts and notes receivable, net

The Company’s accounts and notes receivable as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Accounts receivable - unrelated parties	\$ 166,627	\$ 166,889

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Notes receivable - unrelated parties <sup>(1)</sup> <sup>(2)</sup>	116,867	109,183
Total accounts and notes receivable- unrelated parties	283,494	276,072
Less: allowance for doubtful accounts - unrelated parties	(1,422 )	(1,083 )
Accounts and notes receivable, net - unrelated parties	282,072	274,989
Accounts and notes receivable, net - related parties	22,661	19,086
Accounts and notes receivable, net	\$ 304,733	\$ 294,075

(1) Notes receivable represent accounts receivable in the form of bills of exchange for which acceptances are guaranteed and settlements are handled by banks.

As of March 31, 2018, the Company collateralized its notes receivable in an amount of RMB 258.8 million, equivalent to approximately \$41.2 million, as security for the credit facilities with banks in China and the Chinese government, including RMB 238.8 million, equivalent to approximately \$38.0 million, in favor of Industrial and Commercial Bank of China, Jingzhou Branch, “ICBC Jingzhou”, and China CITIC Bank, Wuchang branch, “CITIC Wuchang”, for the purpose of obtaining the Henglong Standby Letters of Credit (as defined in Note 12), which are used as security for the non-revolving credit facility in the amount of \$20.0 million provided by Industrial and Commercial Bank of China (Macau) Limited, “ICBC Macau”, and the non-revolving credit facility in the amount of \$10.0 million provided by Taishin Bank, and RMB 20.0 million, equivalent to approximately \$3.2 million, as security in favor of the Chinese government for the low-interest government loan (See Note 12).

As of December 31, 2017, the Company collateralized its notes receivable in an amount of RMB 258.5 million, equivalent to approximately \$39.6 million, as security for the credit facilities with banks in China and the Chinese government, including RMB 238.4 million, equivalent to approximately \$36.5 million, in favor of Industrial and Commercial Bank of China, Jingzhou Branch, “ICBC Jingzhou”, and China CITIC Bank, Wuchang branch, “CITIC Wuchang”, for the purpose of obtaining the Henglong Standby Letters of Credit (as defined in Note 12), which are used as security for the non-revolving credit facility in the amount of \$20.0 million provided by Industrial and Commercial Bank of China (Macau) Limited, “ICBC Macau” and the non-revolving credit facility in the amount of \$10.0 million provided by Taishin Bank, and RMB 20.0 million, equivalent to approximately \$3.1 million, as security in favor of the Chinese government for the low-interest government loan (See Note 12).

- (3) Provision for accounts and notes receivable amounted to \$0.3 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively.

## 5. Advance payments and others

The Company’s advance payments and others as of March 31, 2018 and December 31, 2017 consisted of the following (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Advance payments and others - unrelated parties	\$ 13,258	\$ 13,801
Less: allowance for doubtful accounts – unrelated parties	(1,050 )	(1,011 )
Advance payments and others, net – unrelated parties	12,208	12,790
Advance payments and others - related parties <sup>(1)</sup>	1,068	20,841
Total advance payments and others	\$ 13,276	\$ 33,631

- On March 16, 2017, in order to generate higher returns for the Company’s idle cash, one of the Company’s subsidiaries, Hubei Henglong, lent RMB 200.0 million (equivalent to \$31.8 million as of March 31, 2018) to Henglong Real Estate, one of the Company’s related parties, through an independent financial institution by way of (1) an entrusted loan. The term of the loan is one year and the annual interest rate is 6.05%. In the fourth quarter of 2017, Henglong Real Estate repaid RMB 70 million to Hubei Henglong. In the first quarter of 2018, Henglong Real Estate repaid the remaining RMB 130 million to Hubei Henglong. As of March 31, 2018 and December 31, 2017, the outstanding loan balance was nil and RMB 130 million (equivalent to \$19.9 million), respectively.

## 6. Inventories

The Company’s inventories as of March 31, 2018 and December 31, 2017 consisted of the following (figures are in thousands of USD):

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	March 31, 2018	December 31, 2017
Raw materials	\$ 22,705	\$ 20,033
Work in process	19,329	17,951
Finished goods	45,336	41,233
Total	\$ 87,370	\$ 79,217

Provision for inventories amounted to \$1.5 million and \$0.8 million for the three months ended March 31, 2018 and 2017, respectively.

**7. Other receivables, net**

The Company's other receivables as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Other receivables - unrelated parties <sup>(1)</sup>	\$ 1,116	\$ 1,109
Other receivables - employee housing loans <sup>(2)</sup>	619	1,187
Less: allowance for doubtful accounts - unrelated parties	(111 )	(108 )
Other receivables, net - unrelated parties	\$ 1,624	\$ 2,188



	March 31, 2018	December 31, 2017
Other receivables - related parties <sup>(1)</sup>	\$ 608	\$ 585
Less: allowance for doubtful accounts - related parties	(608 )	(585 )
Other receivables, net - related parties	\$ -	\$ -

Other receivables consist of amounts advanced to both related and unrelated parties, primarily as unsecured (1) demand loans. These receivables originate as part of the Company's normal operating activities and are periodically settled in cash.

On May 28, 2014, the board of directors of the Company approved a loan program under which the Company will (2) lend an aggregate of up to RMB 50.0 million, equivalent to approximately \$8.0 million, to the employees of the Company to assist them in purchasing houses. Employees are required to pay interest at an annual rate of 3.8%. These loans are unsecured and the term of the loans is generally five years.

## 8. Long-term investments

In January 2010, the Company invested \$3.1 million to establish a joint venture company, Beijing Henglong, with Hainachuan. The Company owns 50% of the equity in Beijing Henglong and can exercise significant influence over Beijing Henglong's operating and financial policies. The Company accounted for Beijing Henglong's operational results using the equity method. As of March 31, 2018 and December 31, 2017, the Company had \$4.3 million and \$4.1 million, respectively, of net equity in Beijing Henglong.

In September 2014, Hubei Henglong entered into an agreement with other parties to establish a venture capital fund, the "Suzhou Venture Fund", which mainly focuses on investments in emerging automobiles and parts industries. Hubei Henglong has committed to make investments of RMB 50.0 million, equivalent to approximately \$8.0 million, in the Suzhou Venture Fund in three installments. As of March 31, 2018, Hubei Henglong has completed a capital contribution of RMB 50.0 million, equivalent to approximately \$8.0 million, representing 12.5% of the Suzhou Venture Fund's shares. As a limited partner, Hubei Henglong has more than virtually no influence over the Suzhou Venture Fund's operating and financial policies. The investment is accounted for using the equity method. As of March 31, 2018 and December 31, 2017, the Company had \$11.3 million and \$10.3 million, respectively, of net equity in the Suzhou Venture Fund.

In May 2016, Hubei Henglong entered into an agreement with other parties to establish a venture capital fund, the "Chongqing Venture Fund". Hubei Henglong has committed to make investments of RMB 120.0 million, equivalent to approximately \$18.0 million, in the Chongqing Venture Fund in three installments. As of March 31, 2018, Hubei Henglong has completed a capital contribution of RMB 84.0 million, equivalent to approximately \$13.4 million, representing 23.5% of the Chongqing Venture Fund's shares. As a limited partner, Hubei Henglong has more than virtually no influence over the Chongqing Venture Fund's operating and financial policies. The investment is

accounted for using the equity method. As of March 31, 2018 and December 31, 2017, the Company had \$13.2 million and \$12.7 million, respectively, of net equity in the Chongqing Venture Fund.

In October 2016, Hubei Henglong invested RMB 3.0 million, equivalent to approximately \$0.4 million, to establish a joint venture company, Chongqing Jinghua Automotive Intelligent Manufacturing Technology Research Co., Ltd., “Chongqing Jinghua”, with five other parties. The Company owns 30% of the equity in Chongqing Jinghua, and can exercise significant influence over Chongqing Jinghua’s operating and financial policies. The Company accounts for Chongqing Jinghua’s operational results with the equity method. As of March 31, 2018 and December 31, 2017, the Company had \$0.5 million and \$0.5 million, respectively, of net equity in Chongqing Jinghua.

The Company’s consolidated financial statements reflect the net income of non-consolidated affiliates of \$0.6 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively.

**9. Property, plant and equipment, net**

The Company's property, plant and equipment as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Land use rights and buildings	\$ 65,655	\$ 63,173
Machinery and equipment	178,073	165,863
Electronic equipment	6,138	5,819
Motor vehicles	5,151	4,945
Construction in progress	23,671	22,352
Total amount of property, plant and equipment	278,688	262,152
Less: Accumulated depreciation <sup>(1)</sup>	(145,789 )	(136,119 )
Total amount of property, plant and equipment, net <sup>(2)(3)</sup>	\$ 132,899	\$ 126,033

As of March 31, 2018 and December 31, 2017, the Company pledged property, plant and equipment with a net (1) book value of approximately \$60.0 million and \$57.8 million, respectively as security for its comprehensive credit facilities with banks in China.

(2) Depreciation charges were \$4.2 million and \$4.1 million for the three months ended March 31, 2018 and 2017, respectively.

(3) Interest costs capitalized for the three months ended March 31, 2018 and 2017, were \$0.2 million and \$0.1 million, respectively.

**10. Intangible assets**

The Company's intangible assets as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Costs:		
Patent technology	\$ 2,191	\$ 2,108
Management software license	1,498	1,441
Total intangible assets	3,689	3,549
Less: Amortization <sup>(1)</sup>	(3,057 )	(2,888 )
Total intangible assets, net	\$ 632	\$ 661

(1) Amortization expenses were \$0.1 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively.

### **11. Deferred income tax assets**

In accordance with the provisions of *ASC Topic 740, "Income Taxes"*, the Company assesses, on a quarterly basis, its ability to realize its deferred tax assets. Based on the more likely than not standard in the guidance and the weight of available evidence, the Company believes a valuation allowance against its deferred tax assets is necessary. In determining the need for a valuation allowance, the Company considered the following significant factors: an assessment of recent years' profitability and losses by tax authorities; the Company's expectation of profits based on margins and volumes expected to be realized, which are based on current pricing and volume trends; the long period in all significant operating jurisdictions before the expiry of net operating losses, noting further that a portion of the deferred tax asset is composed of deductible temporary differences that are subject to an expiry period until realized under tax law. The Company will continue to evaluate the provision of valuation allowance in future periods.

The components of estimated deferred income tax assets as of March 31, 2018 and December 31, 2017 are as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Losses carry forward (U.S.) <sup>(1)</sup>	\$ 3,464	\$ 3,580
Losses carry forward (Non-U.S.) <sup>(1)</sup>	2,800	2,178
Product warranties and other reserves	5,608	5,264
Property, plant and equipment	4,836	4,607
Share-based compensation	156	156
Bonus accrual	224	287
Other accruals	1,510	1,535
Deductible temporary difference related to revenue recognition	232	465
Others	1,415	1,353
Total deferred tax assets, net	20,245	19,425
Less: Valuation allowance	(6,445)	(6,058)
Total deferred tax assets, net of valuation allowance	\$ 13,800	\$ 13,367

The net operating losses carry forward for the U.S. entities for income tax purposes are available to reduce future years' taxable income. These carry forward losses will expire, if not utilized, at various times over the next 20 years. Net operating losses carry forward for China entities can be carried forward for 5 years to offset taxable income. As of March 31, 2018, the valuation allowance was \$6.4 million, including \$3.6 million allowance for the (1) Company's deferred tax assets in the United States and \$2.8 million allowance for the Company's non-U.S. deferred tax assets. Based on the Company's current operations in the United States, management believes that the deferred tax assets in the United States are not likely to be realized in the future. For the deferred tax assets in other countries, pursuant to certain tax laws and regulations, management believes such amount will not be used to offset future taxable income.

## 12. Bank and government loans

Loans consist of the following as of March 31, 2018 and December 31, 2017 (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Short-term bank loans <sup>(1)</sup>	\$ 15,744	\$ 9,948
Short-term bank loans <sup>(2) (3) (4)</sup>	29,858	30,454
Short-term bank loans <sup>(5)</sup>	14,393	29,248
Short-term government loan <sup>(6)</sup>	3,181	3,061
Total short-term bank and government loans	\$ 63,176	\$ 72,711
Long-term government loan <sup>(7)</sup>	318	306
Total bank and government loans	\$ 63,494	\$ 73,017

(1) These loans are secured by property, plant and equipment of the Company and are repayable within one year (See Note 9). As of March 31, 2018 and December 31, 2017, the weighted average interest rate was 4.5% and 4.7% per annum, respectively. Interest is to be paid monthly on the twentieth day of the applicable month or at maturity and the principal repayment is at maturity.

(2) On April 20, 2017, the Company entered into a credit facility agreement with ICBC Macau to obtain a non-revolving credit facility in the amount of \$20.0 million, the "ICBC Macau Credit Facility". The ICBC Macau Credit Facility will expire on May 12, 2018 unless the Company draws down the line of credit in full prior to such expiration date, and the maturity date for the loan drawdown is the earlier of (i) 12 months from the date of drawdown or (ii) one month before the expiry of the standby letter of credit obtained by Henglong from ICBC Jingzhou as security for the Credit Facility, the "Henglong Standby Letter of Credit". The interest rate of the loan drew down under the ICBC Macau Credit Facility is calculated based on a three-month LIBOR plus 1.30% per annum, subject to the availability of funds and fluctuation at ICBC Macau's discretion. Interest is calculated daily based on a 360-day year and it is fixed one day before the first day of each interest period. The interest period is defined as three months from the date of drawdown. As security for the ICBC Macau Credit Facility, the Company was required to provide ICBC Macau with a standby letter of credit for a total amount of not less than \$25.3 million if the ICBC Macau Credit Facility is fully drawn.

On May 5, 2017, the Company drew down the full amount of \$20.0 million under the ICBC Macau Credit Facility and provided a standby letter of credit issued by ICBC Jingzhou for an amount of \$25.3 million in favor of ICBC Macau. The standby letter of credit is collateralized by Henglong's notes receivable of RMB 158.9 million, equivalent to approximately \$25.3 million. The Company also paid an arrangement fee of \$0.04 million to ICBC Jingzhou.

On April 25, 2017, Great Genesis entered into a credit facility agreement with Taishin Bank to obtain a non-revolving credit facility in the amount of \$10.0 million, the "Taishin Bank Credit Facility". The Taishin Bank Credit Facility expired on April 25, 2018 and was extended to March 20, 2019. The Taishin Bank Credit Facility has an annual interest rate of 2.7%. Interest is paid quarterly and the principal repayment is payable at maturity. As security for the Taishin Bank Credit Facility, the Company's subsidiary Henglong was required to provide Taishin Bank with a standby letter of credit for a total amount of not less than \$10.0 million if the Taishin Bank Credit Facility is fully drawn.

(3)

On April 28, 2017, Great Genesis drew down the full amount of \$9.9 million under the Taishin Bank Credit Facility and provided a standby letter of credit issued by China CITIC Bank Wuchang branch for an amount of \$10.0 million in favor of Taishin Bank. The standby letter of credit issued by China CITIC Bank Wuchang branch is collateralized by Henglong's short-term investments of RMB 4.0 million, equivalent to approximately \$0.6 million, and notes receivable of RMB 79.4 million, equivalent to approximately \$12.2 million.

On August 26, 2016, Brazil Henglong entered into a credit facility agreement with Bank of China (Brazil) to obtain a credit facility in the amount of \$0.6 million, the "Bank of China Credit Facility". The Bank of China Credit Facility expired on January 15, 2018. As security for the Bank of China Credit Facility, the Company's subsidiary Hubei Henglong was required to provide Bank of China (Brazil) with a Standby Letter of Credit for a total amount of \$0.9 million if the Bank of China Credit Facility were to be fully drawn.

(4)

On August 26, 2016, Brazil Henglong drew down a loan amounting to \$0.6 million provided by Bank of China (Brazil). The loan matured on January 15, 2018 and has an annual interest rate of 4.05%. Interest was paid semiannually and the principal repayment was at maturity. Hubei Henglong provided a Standby Letter of Credit for an amount of \$0.9 million in favor of Bank of China (Brazil). Hubei Henglong's Standby Letter of Credit was issued by Bank of China Jingzhou branch and was collateralized by long-term time deposits of Hubei Henglong of RMB 6.0 million, equivalent to approximately \$0.9 million. The Company repaid this bank loan on January 16, 2018.

(5) On September 26, 2016, Henglong entered into a credit facility agreement with China CITIC Bank to obtain credit facilities in the amount of RMB 170.0 million (equivalent to \$27.0 million as of March 31, 2018), the "Henglong CITIC Credit Facility". The Henglong CITIC Credit Facility expired on September 26, 2017. As security for the Henglong CITIC Credit Facility, Henglong's property, plant and equipment were pledged and Hubei Henglong provided a guarantee. On March 3, 2017, Henglong drew down loans amounting to RMB 32.5 million, RMB 32.5 million and 30.6 million (equivalent to \$5.2 million, \$5.2 million and \$4.9 million as of March 31, 2018), respectively. The loans matured on February 5, 6 and 7, 2018, respectively. The annual interest rate of the loans was 4.99%. The principal and interest have been repaid.

On October 27, 2017, Henglong entered into a credit facility agreement with China CITIC Bank to obtain credit facilities in the amount of RMB 226.0 million (equivalent to \$35.9 million as of March 31, 2018), the “Henglong CITIC Credit Facility”. The Henglong CITIC Credit Facility will expire on October 27, 2018. As security for the Henglong CITIC Credit Facility, Henglong’s property, plant and equipment were pledged and Hubei Henglong provided a guarantee. Henglong provided Jielong with a Standby Letter of Credit under the Credit Facility. On January 25, 26 and 29, 2018, Jielong drew down loans amounting to RMB 29.5 million, RMB 20.7 million and 18.7 million (equivalent to \$4.7 million, \$3.3 million and \$3.0 million), respectively. The loans will mature on July 23, 24 and 26, 2018, respectively. The annual interest rate of the loans is 5.02%, 5.02% and 5.13%, respectively.



On September 26, 2016, Hubei Henglong entered into a credit facility agreement with China CITIC Bank to obtain credit facilities in the amount of RMB 100.0 million (equivalent to \$15.9 million as of March 31, 2018), the “Hubei Henglong CITIC Credit Facility”. The Hubei Henglong CITIC Credit Facility expired on September 26, 2017. Henglong provided a guarantee for the Hubei Henglong CITIC Credit Facility. On March 3, 2017, Hubei Henglong drew down loans amounting to RMB 28.7 million, RMB 28.7 million and 38.2 million (equivalent to \$4.6 million, \$4.6 million and \$6.1 million), respectively. The loans matured on February 2, 8 and 9, 2018, respectively. The annual interest rate of the loans was 4.99%. The principal and interest have been repaid.

On October 27, 2017, Henglong entered into a credit facility agreement with China CITIC Bank to obtain credit facilities in the amount of RMB 140.0 million (equivalent to \$22.3 million as of March 31, 2018), the “Hubei Henglong CITIC Credit Facility”. The Hubei Henglong CITIC Credit Facility will expire on October 27, 2018. Henglong provided a guarantee for the Hubei Henglong CITIC Credit Facility. Hubei Henglong provided Jiulong with a Standby Letter of Credit under the Credit Facility. On January 26 and 30, 2018, Hubei Henglong drew down loans amounting to RMB 5.9 million and 15.7 million (equivalent to \$0.9 million and \$2.5 million), respectively. The loans will mature on July 24 and 26, 2018, respectively. The annual interest rate of the loans is 5.02% and 5.79%, respectively.

(6) On August 17, 2017, the Company received an interest-free Chinese government loan of RMB 20.0 million, equivalent to approximately \$3.2 million, which will mature on August 16, 2018. Henglong pledged RMB 20.0 million, equivalent to approximately \$3.2 million, of notes receivable as security for the Chinese government loan (See Note 4).

(7) On November 13, 2017, the Company received a Chinese government loan of RMB 2.0 million, equivalent to approximately \$0.3 million, with an interest rate of 4.75% per annum, which will mature on November 12, 2020.

### 13. Accounts and notes payable

The Company’s accounts and notes payable as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Accounts payable - unrelated parties	\$ 142,420	\$ 149,200
Notes payable - unrelated parties <sup>(1)</sup>	87,616	83,848
Accounts and notes payable- unrelated parties	230,036	233,048
Accounts payable - related parties	7,544	7,168
Balance at end of period	\$ 237,580	\$ 240,216

(1)

Notes payable represent accounts payable in the form of notes issued by the Company. The notes are endorsed by banks to ensure that noteholders will be paid after maturity. The Company has pledged cash deposits, short-term investments, notes receivable and certain property, plant and equipment to secure notes payable granted by banks.

**14. Accrued expenses and other payables**

The Company's accrued expenses and other payables as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Accrued expenses	\$ 7,671	\$ 7,944
Accrued interest	178	1,347
Other payables	902	1,803
Warranty reserves <sup>(1)</sup>	30,201	29,033
Total	\$ 38,952	\$ 40,127

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

For the three months ended March 31, 2018 and 2017, and for the year ended December 31, 2017, the warranties activities were as follows (figures are in thousands of USD):

	Three Months Ended March 31,		Year Ended
	2018	2017	December 31, 2017
Balance at beginning of the period	\$ 29,033	\$ 26,225	\$ 26,225
Additions during the period	4,248	3,076	23,354
Settlement within period, by cash or actual materials	(4,206 )	(3,419 )	(22,034 )
Foreign currency translation loss/(gain)	1,126	(144 )	1,488
Balance at end of the period	\$ 30,201	\$ 25,738	\$ 29,033

## 15. Taxes payable

The Company's taxes payable as of March 31, 2018 and December 31, 2017 are summarized as follows (figures are in thousands of USD):

	March 31, 2018	December 31, 2017
Value-added tax payable	\$ 5,187	\$ 1,813
Income tax payable	3,739	3,450
Other tax payable	976	664
Long-term taxes payable <sup>(1)</sup>	32,719	32,719
Total	\$ 42,621	\$ 38,646

A one-time transition tax of \$35.6 million was recognized in the fourth quarter of 2017 that represented management's estimate of the amount of U.S. corporate income tax based on the deemed repatriation to the United States of the Company's share of previously deferred earnings of certain non-U.S. subsidiaries of the Company (1) mandated by the U.S. Tax Reform. The Company elected to pay the one-time transition tax over eight years commencing in April 2018. As of March 31, 2018 and December 31, 2017, \$2.7 million was included in taxes payable as a current liability which the Company believes will be paid within one year and the remaining balance was included in long-term taxes payable. See Note 23 for more details about the U.S. Tax Reform.

## 16. Advances payable

As of March 31, 2018 and December 31, 2017, advances payable by the Company were \$0.8 million and \$0.7 million, respectively.

The amounts are special subsidies made by the Chinese government to the Company to offset the costs and charges related to the improvement of production capacities and improvement of the quality of products. For the government subsidies with no further conditions to be met, the amounts are recorded as other income when received; for the amounts with certain operating conditions, the government subsidies are recorded as advances payable when received and will be recorded as a deduction of related expenses and cost when the conditions are met.

The balances are unsecured, interest-free and will be repayable to the Chinese government if the usage of such advance does not continue to qualify for the subsidy.

**17. Additional paid-in capital**

The Company's positions in respect of the amounts of additional paid-in capital for the three months ended March 31, 2018 and 2017, and the year ended December 31, 2017 are summarized as follows (figures are in thousands of USD):

	Three Months Ended March 31,		Year Ended
	2018	2017	December 31,
			2017
Balance at beginning of the period	\$ 64,406	\$ 64,764	\$ 64,764
Acquisition of the non-controlling interest in Brazil Henglong <sup>(1)</sup>	-		