

CHINA AUTOMOTIVE SYSTEMS INC  
Form 10-Q  
August 10, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

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

**For the quarterly period ended June 30, 2006**

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

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

**Commission file number: 000- 33123**

**China Automotive Systems, Inc.**  
*(Exact name of registrant as specified in its charter)*

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**33-0885775**  
(IRS employer identification number)

No. 1 Henglong Road, Yu Qiao Development Zone Shashi District,  
Jing Zhou City, Hubei Province, People's Republic of China  
(Address of principal executive offices)  
Issuer's telephone number: (86) 716- 832- 9196  
Issuer'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 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, 2006, the Company had 23,274,495 shares of common stock issued and outstanding.

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**CHINA AUTOMOTIVE SYSTEMS, INC.**  
**INDEX**

	<b>Page</b>
<b>Part I — Financial Information</b>	
Item 1. Financial Statements	2
Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2006 (Unaudited) and 2005	2
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months and Six Months Ended June 30, 2006 (Unaudited) and 2005	4
Condensed Consolidated Balance Sheets at June 30, 2006 (Unaudited) and December 31, 2005 (Audited)	5
Condensed Consolidated Statements of Cash Flows for the Three Months and Six Months Ended June 30, 2006 (Unaudited) and 2005	6
Notes to Condensed Consolidated Financial Statements for the Three Months and Six Months Ended June 30, 2006 (Unaudited) and 2005	10
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3. Quantitative and Qualitative Disclosures About Market Risk	53
Item 4. Controls and Procedures	55
<b>Part II — Other Information</b>	
Item 1. Legal Proceedings	55
Item 1A. Risk Factors	56
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.	65
Item 3. Defaults Upon Senior Securities.	65
Item 4. Submission of Matters to a Vote of Security Holders.	66
Item 5. Other Information.	66
Item 6. Exhibits	66
Signature	67

**PART 1 — FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	<b>Three Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Net sales from continued operations, including \$794,200 and \$544,935 to related parties at June 30, 2006 and 2005, respectively	\$ 24,747,912	\$ 16,763,309
Cost of sales, including \$674,207 and \$490,032 purchased from related parties at June 30, 2006 and 2005, respectively	15,476,767	10,796,558
Gross profit	9,271,145	5,966,751
Costs and expenses:		
Selling	1,699,118	1,716,305
General and administrative (See Note 15)	3,039,936	1,602,040
R&D expenses (See Note 15)	251,394	138,239
Depreciation and amortization (See Note 15)	1,253,604	769,950
Stock-Based Compensation	—	68,850
Total costs and expenses	6,244,052	4,295,384
Income from operations	3,027,093	1,671,367
Other income (expenses):		
Other non-operating income	117,887	31,702
Financial expenses	(177,477)	(324,368)
Other income (loss), net	(59,590)	(292,666)
Income before income taxes	2,967,503	1,378,701
Income taxes	850,739	302,361
Income before minority interests	2,116,764	1,076,340
Minority interests	1,365,128	574,286
Net income	\$ 751,636	\$ 502,054
Basic	\$ 0.03	\$ 0.02
Diluted	\$ 0.03	\$ 0.02
Weighted average number of common shares outstanding -		
Basic	23,254,121	22,574,542
Diluted	23,267,235	22,577,958

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



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

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
Net sales from continued operations, including \$1,377,739 and \$999,860 to related parties at June 30, 2006 and 2005, respectively	\$ 45,712,364	\$ 30,739,759
Cost of sales, including \$1,330,202 and \$895,788 purchased from related parties at June 30, 2006 and 2005, respectively	29,496,022	19,742,667
Gross profit	16,216,342	10,997,092
Costs and expenses:		
Selling	2,608,970	2,390,373
General and administrative (See Note 15)	5,660,110	3,372,325
R&D expenses (See Note 15)	441,141	495,948
Depreciation and amortization (See Note 15)	1,942,094	1,384,771
Stock-Based Compensation	—	68,850
Total costs and expenses	10,652,315	7,712,267
Income from operations	5,564,027	3,284,825
Other income (expenses):		
Other non-operating income	201,227	57,021
Financial expenses	(511,863)	(607,601)
Other income (loss), net		