

CHINA AUTOMOTIVE SYSTEMS INC
Form 10-Q
May 11, 2017

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, 2017

Or

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

For the transition period from _____ to _____

Commission file number: **000-33123**

China Automotive Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

33-0885775

(I.R.S. employer identification number)

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

Jing Zhou City, Hubei Province, 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 No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer (Do not check if a smaller reporting company)	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

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

Yes No

As of May 11, 2017, the Company had 31,644,004 shares of common stock issued and outstanding.

CHINA AUTOMOTIVE SYSTEMS, INC.

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Cautionary Statement

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or the Company's future financial performance. The Company has attempted to identify forward-looking statements by terminology including "anticipates," "believes," "expects," "can," "continues," "could," "estimates," "expects," "may," "plans," "potential," "predicts," "should" or "will" or the negative of these terms or other comparable terminology. Such statements are subject to certain risks and uncertainties, including the matters set forth in this 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, 2016, 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,	
	2017	2016
Net product sales (\$9,538 and \$8,585 sold to related parties for the three months ended March 31, 2017 and 2016)	\$ 119,308	\$ 116,854
Cost of products sold (\$7,363 and \$6,875 purchased from related parties for the three months ended March 31, 2017 and 2016)	97,679	95,842
Gross profit	21,629	21,012
Gain on other sales	788	801
Less: Operating expenses		
Selling expenses	4,068	4,305
General and administrative expenses	4,354	4,315
Research and development expenses	6,765	6,139
Total operating expenses	15,187	14,759
Income from operations	7,230	7,054
Other expense, net	(254) (644
Interest expense	(231) (196
Financial income, net	332	322
Income before income tax expenses and equity in earnings of affiliated companies	7,077	6,536
Less: Income taxes	1,190	1,053
Equity in earnings of affiliated companies	51	62
Net income	5,938	5,545
Net income/(loss) attributable to non-controlling interests	224	(164
Net income attributable to parent company's common shareholders	\$ 5,714	\$ 5,709
Comprehensive income:		
Net income	\$ 5,938	\$ 5,545
Other comprehensive income:		
Foreign currency translation gain, net of tax	1,629	1,650
Comprehensive income	7,567	7,195
Comprehensive income/(loss) attributable to non-controlling interests	278	(85
Comprehensive income attributable to parent company	\$ 7,289	\$ 7,280

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

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Basic –	\$ 0.18	\$ 0.18
Diluted- Weighted average number of common shares outstanding	\$ 0.18	\$ 0.18
Basic	31,644,004	32,121,019
Diluted	31,649,908	32,123,588

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, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,303	\$ 31,092
Pledged cash	33,586	30,799
Short-term investments	28,208	30,475
Accounts and notes receivable, net - unrelated parties	284,608	285,731
Accounts and notes receivable, net - related parties	21,308	20,984
Advance payments and others - unrelated parties	9,123	10,203
Advance payments and others - related parties	29,957	624
Inventories	69,051	68,050
Current deferred tax assets	7,872	7,946
Total current assets	515,016	485,904
Non-current assets:		
Long-term time deposits	870	865
Property, plant and equipment, net	104,050	101,478
Intangible assets, net	576	617
Other receivables, net - unrelated parties	2,298	2,252
Advance payment for property, plant and equipment - unrelated parties	14,168	14,506
Advance payment for property, plant and equipment - related parties	2,326	5,005
Long-term investments	16,572	16,431
Non-current deferred tax assets	4,815	4,641
Total assets	\$ 660,691	\$ 631,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank and government loans	\$ 69,163	\$ 40,820
Accounts and notes payable - unrelated parties	217,194	216,993
Accounts and notes payable - related parties	5,893	6,803
Customer deposits	824	700
Accrued payroll and related costs	6,577	6,971
Accrued expenses and other payables	34,848	35,882
Accrued pension costs	3,907	4,130
Taxes payable	7,623	11,674
Amounts due to shareholders/directors	315	312
Advances payable (current portion)	384	382
Current deferred tax liabilities	163	193
Total current liabilities	346,891	324,860

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Long-term liabilities:		
Long-term bank loan	-	608
Advances payable	341	339
Total liabilities	\$ 347,232	\$ 325,807

Commitments and Contingencies (See Note 29)

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, 2017 and December 31, 2016, respectively	\$ 3	\$ 3
Additional paid-in capital	64,764	64,764
Retained earnings-		
Appropriated	10,549	10,549
Unappropriated	234,677	228,963
Accumulated other comprehensive income	683	(892)
Treasury stock – 694,298 and 694,298 shares as of March 31, 2017 and December 31, 2016, respectively	(2,907)	(2,907)
Total parent company stockholders' equity	307,769	300,480
Non-controlling interests	5,690	5,412
Total stockholders' equity	313,459	305,892
Total liabilities and stockholders' equity	\$ 660,691	\$ 631,699

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	2016
Cash flows from operating activities:		
Net income	\$ 5,938	\$ 5,545
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	4,189	3,805
Reversal of provision for doubtful accounts	(19)	(54)
Inventory write downs	813	1,414
Deferred income taxes	(63)	347
Equity in earnings of affiliated companies	(51)	(62)
(Gain)/loss on fixed assets disposals	17	(3)
Changes in operating assets and liabilities:		
(Increase)/decrease in:		
Pledged cash	(2,618)	8,089
Accounts and notes receivable	2,480	(23,347)
Advance payments and others	52	(3,145)
Inventories	(1,444)	(6,242)
Increase (decrease) in:		
Accounts and notes payable	(1,592)	12,495
Customer deposits	123	(26)
Accrued payroll and related costs	(431)	(172)
Accrued expenses and other payables	(1,467)	91
Accrued pension costs	(247)	265
Taxes payable	(3,318)	(1,362)
Net cash provided by/(used in) operating activities	2,362	(2,362)
Cash flows from investing activities:		
Increase in other receivables	20	94
Cash received from property, plant and equipment sales	26	515
Payments to acquire property, plant and equipment (including \$493 and \$3,464 paid to related parties for the three months ended March 31, 2017 and 2016, respectively)	(3,245)	(9,825)
Payments to acquire intangible assets	-	(3)
Purchase of short-term investments	-	(7,814)
Proceeds from maturities of short-term investments	2,433	553
Loan to a related party	(29,044)	-
Net cash used in investing activities	(29,810)	(16,480)
Cash flows from financing activities:		
Proceeds from bank and government loans	27,754	6,500

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Repayments of bank and government loans	(245)	(2,265)
Net cash provided by financing activities	27,509		4,235	
Effects of exchange rate on cash and cash equivalents	150		330	
Net increase/(decrease) in cash and cash equivalents	211		(14,277)
Cash and cash equivalents at beginning of period	31,092		69,676	
Cash and cash equivalents at end of period	\$ 31,303		\$ 55,399	

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 (continued)

(In thousands of USD unless otherwise indicated)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	Three Months Ended March 31,	
	2017	2016
Cash paid for interest	\$ 173	\$ 116
Cash paid for income taxes	325	719

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

	Three Months Ended March 31,	
	2017	2016
Property, plant and equipment recorded during the period for which there previously were advance payments	\$ 6,360	\$ 4,736
Accounts payable for acquiring property, plant and equipment	610	442

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, 2017 and 2016

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, 2017 and December 31, 2016.

Name of Entity	Percentage Interest		
	March 31, 2017	December 31, 2016	
Shashi Jiulong Power Steering Gears Co., Ltd., “Jiulong ^b ”	100.00 %	100.00	%
Jingzhou Henglong Automotive Parts Co., Ltd., “Henglong ² ”	100.00 %	100.00	%
Shenyang Jinbei Henglong Automotive Steering System Co., Ltd., “Shenyang ³ ”	70.00 %	70.00	%
Universal Sensor Application Inc., “USA ^f ”	83.34 %	83.34	%
Wuhan Jielong Electric Power Steering Co., Ltd., “Jielong ⁵ ”	85.00 %	85.00	%
Wuhu Henglong Automotive Steering System Co., Ltd., “Wuhu ^f ”	77.33 %	77.33	%
Hubei Henglong Automotive System Group Co., Ltd., “Hubei Henglong ⁷ ”	100.00 %	100.00	%
Jingzhou Henglong Automotive Technology (Testing) Center, “Testing Center ⁸ ”	100.00 %	100.00	%

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Beijing Hainachun Henglong Automotive Steering System Co., Ltd., “Beijing Henglong ⁹ ”	50.00	%	50.00	%
Chongqing Henglong Hongyan Automotive System Co., Ltd., “Chongqing Henglong ¹⁰ ”	70.00	%	70.00	%
CAAS Brazil’s Imports and Trade In Automotive Parts Ltd., “Brazil Henglong ¹¹ ”	80.00	%	80.00	%
Fujian Qiaolong Special Purpose Vehicle Co., Ltd., “Fujian Qiaolong ¹² ”	0.00	%	0.00	%
Wuhan Chuguanjie Automotive Science and Technology Ltd., “Wuhan Chuguanjie ¹³ ”	85.00	%	85.00	%
Hubei Henglong Group Shanghai Automotive Electronics Research and Development Ltd., “Shanghai Henglong ¹⁴ ”	100.00	%	100.00	%

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 the Testing Center, which mainly engages in the research and development of new products.

9. Beijing Henglong was established in 2010 and mainly engages in the design, development and manufacture of both hydraulic and electric power steering systems and parts. According to the joint venture agreement, the Company does not have voting control of Beijing Henglong. Therefore, the Company's consolidated financial statements do not include Beijing Henglong, and such investment is accounted for using the equity accounting method.

10. 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.

11. 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.

12. In the second quarter of 2014, the Company acquired a 51.0% ownership interest in Fujian Qiaolong Special Purpose Vehicle Co., Ltd., "Fujian Qiaolong", a special purpose vehicle manufacturer and dealer with automobile repacking qualifications, based in Fujian, China. Fujian Qiaolong mainly manufactures and distributes drainage and rescue vehicles with mass flow, drainage vehicles with vertical downhole operation, crawler-type mobile pump stations, high-altitude water supply and discharge drainage vehicles, long-range control crawler-type mobile pump stations and other vehicles. On April 17, 2016, Hubei Henglong entered into a share purchase agreement, the "Share Purchase Agreement", with Longyan Huanyu Emergency Equipment Technology Co., Ltd., "Longyan Huanyu". Pursuant to the Share Purchase Agreement, Hubei Henglong transferred its 51% equity interests in Fujian Qiaolong to Longyan Huanyu for total consideration of RMB 20.0 million, equivalent to \$3.0 million, in the second quarter of 2016. The Company recognized a gain on disposal of Fujian Qiaolong of \$0.7 million, which is included in other income in the consolidated statement of operations and comprehensive income for the

year ended December 31, 2016.

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.

14. 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.

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, 2016.

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, 2016 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 2016 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, 2017 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2017.