CHINA AUTOMOTIVE SYSTEMS INC
Form 10-Q
August 10, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended June 30, 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	**33-0885775**
(State or other jurisdiction of incorporation or	(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 August 10, 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. Suc 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 June 30,	
	2017	**2016**
Net product sales ($8,583 and $10,054 sold to related parties for the three months ended June 30, 2017 and 2016)	$ 117,660	$ 101,017
Cost of products sold ($6,283 and $6,168 purchased from related parties for the three months ended June 30, 2017 and 2016)	93,599	82,869
Gross profit	24,061	18,148
Gain on other sales	4,555	1,185
Less: Operating expenses		
Selling expenses	4,555	4,128
General and administrative expenses	5,283	3,942
Research and development expenses	7,707	5,987
Total operating expenses	17,545	14,057
Income from operations	11,071	5,276
Other income, net	152	1,219
Interest expense	(644)	(127)
Financial income, net	550	148
Income before income tax expenses and equity in earnings of affiliated companies	11,129	6,516
Less: Income taxes	2,186	1,196
Equity in (loss)/earnings of affiliated companies	(62)	195
Net income	8,881	5,515
Net (loss)/income attributable to non-controlling interests	(40)	151
Net income attributable to parent company’s common shareholders	$ 8,921	$ 5,364
Comprehensive income:		
Net income	$ 8,881	$ 5,515
Other comprehensive income:		
Foreign currency translation gain/(loss), net of tax	5,814	(7,946)
Comprehensive income/(loss)	14,695	(2,431)
Comprehensive income/(loss) attributable to non-controlling interests	155	(164)
Comprehensive income/(loss) attributable to parent company	$ 14,540	$ (2,267)

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

Basic –	$ 0.28	$ 0.17
Diluted-	$ 0.28	$ 0.17
Weighted average number of common shares outstanding		
Basic	31,644,004	32,085,822
Diluted	31,649,322	32,087,634

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

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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)

	Six Months Ended June 30,	
	2017	**2016**
Net product sales ($18,121 and $18,639 sold to related parties for the six months ended June 30, 2017 and 2016)	$ 236,968	$ 217,871
Cost of products sold ($13,646 and $13,043 purchased from related parties for the six months ended June 30, 2017 and 2016)	191,278	178,711
Gross profit	45,690	39,160
Gain on other sales	5,343	1,986
Less: Operating expenses		
Selling expenses	8,623	8,433
General and administrative expenses	9,637	8,257
Research and development expenses	14,472	12,126
Total operating expenses	32,732	28,816
Income from operations	18,301	12,330
Other (expense)/income, net	(102)	575
Interest expense	(875)	(323)
Financial income, net	882	470
Income before income tax expenses and equity in earnings of affiliated companies	18,206	13,052
Less: Income taxes	3,376	2,249
Equity in earnings of affiliated companies	(11)	257
Net income	14,819	11,060
Net income/(loss) attributable to non-controlling interests	184	(13)
Net income attributable to parent company’s common shareholders	$ 14,635	$ 11,073
Comprehensive income:		
Net income	$ 14,819	$ 11,060
Other comprehensive income:		
Foreign currency translation gain/(loss), net of tax	7,443	(6,296)
Comprehensive income	22,262	4,764
Comprehensive gain/(loss) attributable to non-controlling interests	433	(249)
Comprehensive income attributable to parent company	$ 21,829	$ 5,013
Net income attributable to parent company’s common shareholders per share		
Basic –	$ 0.46	$ 0.34
Diluted-	$ 0.46	$ 0.34
Weighted average number of common shares outstanding		
Basic	31,644,004	32,103,420
Diluted	31,649,615	32,105,611

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)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,473	$ 31,092
Pledged cash	34,468	30,799
Short-term investments	27,239	30,475
Accounts and notes receivable, net - unrelated parties	288,985	285,731
Accounts and notes receivable, net - related parties	18,459	20,984
Advance payments and others - unrelated parties	7,473	10,203
Advance payments and others - related parties	30,558	624
Inventories	65,470	68,050
Current deferred tax assets	7,652	7,946
Total current assets	516,777	485,904
Non-current assets:		
Long-term time deposits	6,790	865
Property, plant and equipment, net	108,646	101,478
Intangible assets, net	544	617
Other receivables, net - unrelated parties	2,212	2,252
Advance payment for property, plant and equipment - unrelated parties	13,961	14,506
Advance payment for property, plant and equipment - related parties	3,361	5,005
Long-term investments	17,552	16,431
Non-current deferred tax assets	4,241	4,641
Total assets	$ 674,084	$ 631,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Bank and government loans	$ 67,379	$ 40,820
Accounts and notes payable - unrelated parties	221,371	216,993
Accounts and notes payable - related parties	4,814	6,803
Customer deposits	699	700
Accrued payroll and related costs	7,128	6,971
Accrued expenses and other payables	34,598	35,882
Accrued pension costs	3,919	4,130
Taxes payable	5,397	11,674
Amounts due to shareholders/directors	324	312
Advances payable (current portion)	391	382
Current deferred tax liabilities	171	193
Total current liabilities	346,191	324,860

Long-term liabilities:		
Long-term bank loan	-	608
Advances payable	347	339
Total liabilities	$ 346,538	$ 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 June 30, 2017 and December 31, 2016, respectively	$ 3	$ 3
Additional paid-in capital	64,306	64,764
Retained earnings-		
Appropriated	10,673	10,549
Unappropriated	243,474	228,963
Accumulated other comprehensive income/(loss)	6,235	(892)
Treasury stock – 694,298 and 694,298 shares as of June 30, 2017 and December 31, 2016, respectively	(2,907)	(2,907)
Total parent company stockholders' equity	321,784	300,480
Non-controlling interests	5,762	5,412
Total stockholders' equity	327,546	305,892
Total liabilities and stockholders' equity	$ 674,084	$ 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)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 14,819	$ 11,060
Adjustments to reconcile net income from operations to net cash provided by operating activities:		
Depreciation and amortization	7,809	7,351
Increase in/(reversal of) provision for doubtful accounts	1,008	(49)
Inventory write downs	2,101	1,902
Deferred income taxes	971	(27)
Equity in earnings of affiliated companies	11	(257)
Gain on disposal of Fujian Qiaolong	-	(698)
Gain on fixed assets disposals	(2,202)	(14)
Changes in operating assets and liabilities		
(Increase) decrease in:		
Pledged cash	(2,881)	6,528
Accounts and notes receivable	6,570	(50,973)
Advance payments and others	1,241	(1,437)
Inventories	2,104	(5,956)
Increase (decrease) in:		
Accounts and notes payable	(2,932)	25,885
Customer deposits	(7)	(908)
Accrued payroll and related costs	(2)	152
Accrued expenses and other payables	(3,028)	456
Accrued pension costs	(307)	407
Taxes payable	(6,069)	276
Advance payable	-	(75)
Net cash provided by/(used in) operating activities	19,206	(6,377)
Cash flows from investing activities:		
Increase in other receivables	137	1,438
Proceeds from disposition of a subsidiary, net of cash disposed of $1,063	-	1,953
Cash received from property, plant and equipment sales	2,334	719
Payments to acquire property, plant and equipment (including $3,497and $4,603 paid to related parties for the six months ended June 30, 2017 and 2016, respectively)	(10,178)	(18,454)
Payments to acquire intangible assets	-	(60)
Purchase of short-term investments	(8,069)	(14,797)
Purchase of long-term time deposit	(5,836)	-
Proceeds from maturities of short-term investments	11,923	1,827

Investment under equity method	(730)	(3,013)
Loan to a related party	(29,044)	-
Net cash used in investing activities	(39,463)	(30,387)
Cash flows from financing activities:		
Proceeds from bank and government loans	59,088	11,541
Repayments of bank and government loans	(34,128)	(5,138)
Repurchases of common stock	-	(454)
Net cash provided by financing activities	24,960	5,949
Effects of exchange rate on cash and cash equivalents	678	(997)
Net increase/(decrease) in cash and cash equivalents	5,381	(31,812)
Cash and cash equivalents at beginning of period	31,092	69,676
Cash and cash equivalents at end of period	$ 36,473	$ 37,864

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:

	Six Months Ended June 30,	
	2017	**2016**
Cash paid for interest	$ 354	$ 180
Cash paid for income taxes	4,172	1,253

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

	Six Months Ended June 30,	
	2017	**2016**
Property, plant and equipment recorded during the period for which there previously were advance payments	$ 10,310	$ 7,580
Accounts payable for acquiring property, plant and equipment	709	845
Dividends payable to non-controlling interests	608	464

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 and Six Months Ended June 30, 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 June 30, 2017 and December 31, 2016.

	Percentage Interest			
Name of Entity	**June 30, 2017**		**December 31, 2016**	
Shashi Jiulong Power Steering Gears Co., Ltd., “Jiulong”[1]	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., “USAI”[4]	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”[6]	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	%

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]	95.84	%	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. 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.
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.
13. 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 and six months ended June 30, 2017 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2017.

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 January 2017, the FASB issued ASU 2017-04: Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the Board eliminated Step 2 from the goodwill impairment test. Under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity should apply the amendments in this Update on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. ASU 2017-05 is designed to provide guidance on how to recognize gain and losses on sales, including partial sales, of nonfinancial assets to noncustomers. ASU 2017-05 is effective beginning January 1, 2018. Early adoption is permitted but the standard is required to be adopted concurrently with ASU 2014-09. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In May 2017, the FASB issued guidance within ASU 2017-09: Scope of Modification Accounting. The amendments in ASU 2017-09 to Topic 718, Compensation - Stock Compensation, provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity should account for the effects of a modification unless all of the following conditions are met: the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments should be applied prospectively to an award modified on or after the adoption date. The amendments are effective for annual periods, and interim periods within those annual periods, beginning after December 31, 2017. Early adoption is permitted, including adoption in any interim period. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

(c) Significant Accounting Policies

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, 2016.

3. Short-term investments

Short-term investments comprise time deposits with terms of three months or more which are due 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.

As of June 30, 2017, the Company had pledged short-term investments of RMB 43.9 million, equivalent to approximately $6.5 million, to secure standby letters of credit under HSBC Bank and China CITIC Bank (Note 13). 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 June 30, 2017 and December 31, 2016 are summarized as follows (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Accounts receivable - unrelated parties	$ 147,556	$ 154,403
Notes receivable - unrelated parties (1) (2)	142,572	132,409
Total accounts and notes receivable- unrelated parties	290,128	286,812
Less: allowance for doubtful accounts - unrelated parties	(1,143)	(1,081)
Accounts and notes receivable, net - unrelated parties	288,985	285,731
Accounts and notes receivable, net - related parties	18,459	20,984
Accounts and notes receivable, net	$ 307,444	$ 306,715

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

(2) As of June 30, 2017, the Company collateralized its notes receivable in an amount of RMB 247.5 million, equivalent to approximately $36.5 million, as security for the credit facilities with banks in China and the Chinese government, including RMB 158.5 million, equivalent to approximately $23.4 million, in favor of Industrial and Commercial Bank of China, Jingzhou Branch, “ICBC Jingzhou”, for the purpose of obtaining the Henglong Standby Letter of Credit (as defined in Note 13), which is used as security for the non-revolving credit facility in the amount of $23.4 million provided by Industrial and Commercial Bank of China (Macau) Limited, “ICBC Macau”, RMB 10.0 million, equivalent to approximately $1.5 million, as security in favor of the Chinese government for the low interest government loan (See Note 13), and RMB 79.0 million, equivalent to approximately $11.7 million, in favor of China CITIC Bank, Wuhan Branch, “CITIC Wuhan”, for the purpose of obtaining the Henglong Standby Letter of Credit(as defined in Note 13), which was used to obtain the facility of Taishin Bank in the amount of $10.0 million(See Note 13).

As of December 31, 2016, the Company collateralized its notes receivable in an amount of RMB 249.9 million, equivalent to approximately $36.0 million, as security for the credit facilities with banks in China and the Chinese government, including RMB 224.6 million, equivalent to approximately $32.4 million, in favor of Industrial and Commercial Bank of China, Jingzhou Branch, “ICBC Jingzhou”, for the purpose of obtaining the Henglong Standby Letter of Credit (as defined in Note 13), which is used as security for the non-revolving credit facility in the amount of $30.0 million provided by Industrial and Commercial Bank of China (Macau) Limited, “ICBC Macau”, and RMB 25.2 million, equivalent to approximately $3.6 million, as security in favor of the Chinese government for the low-interest government loan (See Note 13).

5. Advance payments and others

The Company’s advance payments and others as of June 30, 2017 and December 31, 2016 consisted of the following:

	June 30, 2017	December 31, 2016
Advance payments and others - unrelated parties	$ 8,523	$ 10,203
Less: allowance for doubtful accounts – unrelated parties	(1,050)	-
Advance payments and others, net – unrelated parties	7,473	10,203
Advance payments and others - related parties [1]	30,558	624
Total advance payments and others	38,031	10,827

(1) 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 $28.8 million) to Henglong Real Estate, one of the Company's related parties, through an independent financial institution by way of an entrusted loan. The term of the loan is one year and the annual interest rate is 6.35%.

(2) Provision for the doubtful accounts amounted to $1.1 million and nil for the six months ended June 30, 2017 and 2016, respectively.

6. Inventories

The Company’s inventories as of June 30, 2017 and December 31, 2016 consisted of the following (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Raw materials	$ 16,069	$ 15,007
Work in process	13,299	10,852
Finished goods	36,102	42,191
Total	$ 65,470	$ 68,050

Provision for inventories amounted to $2.1 million and $1.9 million for the six months ended June 30, 2017 and 2016, respectively.

7. Other receivables, net

The Company’s other receivables as of June 30, 2017 and December 31, 2016 are summarized as follows (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Other receivables - unrelated parties (1)	$ 889	$ 738
Other receivables - employee housing loans (2)	1,388	1,577
Less: allowance for doubtful accounts - unrelated parties	(65)	(63)
Other receivables, net - unrelated parties	$ 2,212	$ 2,252

	June 30, 2017	December 31, 2016
Other receivables - related parties (1)	$ 565	$ 559
Less: allowance for doubtful accounts - related parties	(565)	(559)
Other receivables, net - related parties	$ -	$ -

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

(2) On May 28, 2014, the board of directors of the Company approved a loan program under which the Company will lend an aggregate of up to RMB 50.0 million, equivalent to approximately $7.4 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 time deposits

Long-term time deposits are time deposits with maturities of longer than one year. Time deposits with original maturities of longer than one year but due within the next 12 months are included in short-term investments. As of June 30, 2017 and December 31, 2016, short-term investments include $4.8 million and $4.8 million, respectively, of time deposits with original maturities of longer than one year but due within the next 12 months.

As of June 30, 2017 and December 31, 2016, the Company had pledged long-term time deposits of RMB 6.0 million (equivalent to approximately $0.9 million) to secure loans under the credit facility issued by ICBC Brazil. The use of the pledged long-term time deposits is restricted (See Note 13).

9. Long-term investments

On January 24, 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 June 30, 2017 and December 31, 2016, the Company had $4.0 million and $3.8 million, respectively, of net equity in Beijing Henglong.

On September 22, 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 $7.2 million, in the Suzhou Venture Fund in three installments. As of June 30, 2017, Hubei Henglong has completed a capital contribution of RMB 40.0 million, equivalent to approximately $5.9 million, representing 11.8% 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 June 30, 2017 and December 31, 2016, the Company had $6.0 million and $5.3 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 June 30, 2017, Hubei Henglong has completed a capital contribution of RMB 48.0 million, equivalent to approximately $7.1 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 June 30, 2017 and December 31, 2016, the Company had $6.9 million and $6.8 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 June 30, 2017, the Company had $0.3 million of net equity in Chongqing Jinghua.

The Company's consolidated financial statements reflect the net loss of non-consolidated affiliates of $0.01 million and net income of non-consolidated affiliates of $0.3 million for the six months ended June 30, 2017 and 2016, respectively.

10. Property, plant and equipment, net

The Company's property, plant and equipment as of June 30, 2017 and December 31, 2016 are summarized as follows (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Land use rights and buildings	$ 48,256	$ 47,448
Machinery and equipment	144,148	134,361
Electronic equipment	5,438	4,979
Motor vehicles	4,542	4,395
Construction in progress	30,763	24,890
Total amount of property, plant and equipment	233,147	216,073
Less: Accumulated depreciation (1)	(124,501)	(114,595)
Total amount of property, plant and equipment, net (2)(3)	$ 108,646	$ 101,478

(1) As of June 30, 2017 and December 31, 2016, the Company pledged property, plant and equipment with a net book value of approximately $27.0 million and $28.5 million, respectively as security for its comprehensive credit facilities with banks in China.

(2) Depreciation charges were $3.6 million and $3.5 million for the three months ended June 30, 2017 and 2016, respectively, and $7.7 million and $7.1 million for the six months ended June 30, 2017 and 2016, respectively.

(3) Interest costs capitalized for the three months ended June 30, 2017 and 2016, were $0.2 million and $0.1 million, respectively, and $0.3 million and $0.2 million were capitalized for the six months ended June 30, 2017 and 2016, respectively.

11. Intangible assets

The Company's intangible assets as of June 30, 2017 and December 31, 2016 are summarized as follows (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Costs:		
Patent technology	$ 2,034	$ 1,986
Management software license	1,194	1,165

Total intangible assets		3,228		3,151
Less: Amortization [1]		(2,684)		(2,534)
Total intangible assets, net	$	544	$	617

(1) Amortization expenses were $0.1 million and $0.1 million for the three months ended June 30, 2017 and 2016, respectively, and $0.1 million and $0.2 million for the six months ended June 30, 2017 and 2016, respectively.

12. 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 June 30, 2017 and December 31, 2016 are as follows (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Losses carry forward (U.S.) (1)	$ 6,188	$ 6,216
Losses carry forward (Non-U.S.) (1)	2,367	2,887
Product warranties and other reserves	4,646	4,766
Property, plant and equipment	4,453	4,204
Share-based compensation	247	247
Bonus accrual	187	231
Other accruals	1,432	1,551
Deductible temporary difference related to revenue recognition	96	191
Others	1,291	1,206
Total deferred tax assets, net	20,907	21,499
Less: Valuation allowance	(9,014)	(8,912)
Total deferred tax assets, net of valuation allowance (2)	$ 11,893	$ 12,587

(1) 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. However, as of June 30, 2017, the valuation allowance was $9.0 million, including $6.4 million allowance for the Company's deferred tax assets in the United States and $2.6 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.

(2) Approximately $4.2 million and $4.6 million of net deferred income tax assets as of June 30, 2017 and December 31, 2016, respectively, are included in non-current deferred tax assets in the accompanying condensed unaudited consolidated balance sheets. The remaining $7.7 million and $6.6 million of net deferred income tax assets as of June 30, 2017 and December 31, 2016, respectively, are included in current deferred tax assets.

13. Bank and government loans

Loans consist of the following as of June 30, 2017 and December 31, 2016 (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Short-term bank loans (1)	$ 2,214	$ 2,162
Short-term bank loans (2) (3) (4) (5)	35,478	35,054
Short-term bank loans (6)	28,211	-
Short-term government loan (7)	1,476	3,604
Bank and government loans	$ 67,379	$ 40,820

(1) These loans are secured by property, plant and equipment of the Company and are repayable within one year (See Note 10). As of June 30, 2017 and December 31, 2016, the weighted average interest rate was 5.2% and 5.2% per annum, respectively. Interest is to be paid monthly or quarterly on the twentieth day of the applicable month or quarter and the principal repayment is at maturity.

(2) On May 18, 2012, the Company entered into a credit facility agreement, the “Credit Agreement,” with ICBC Macau to obtain a non-revolving credit facility in the amount of $30.0 million, the “Credit Facility”. The Credit Facility would have expired on November 3, 2012 unless the Company drew down the line of credit in full prior to such expiration date, and the maturity date for the loan drawdown was the earlier of (i) 18 months from the 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 Credit Facility is calculated based on a three-month LIBOR plus 2.25% per annum, subject to the availability of funds and fluctuation at ICBC Macau’s discretion. The 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 Credit Facility, the Company was required to provide ICBC Macau with the Henglong Standby Letter of Credit for a total amount of not less than $31.6 million if the Credit Facility is fully drawn.

On May 22, 2012, the Company drew down the full amount of $30.0 million under the Credit Facility and provided the Henglong Standby Letter of Credit for an amount of $31.6 million in favor of ICBC Macau. The Henglong Standby Letter of Credit issued by ICBC Jingzhou is collateralized by Henglong’s notes receivable of RMB 207.1 million, equivalent to approximately $32.6 million. The Company also paid an arrangement fee of $0.1 million to ICBC Macau and $0.1 million to ICBC Jingzhou. The original maturity date of the Credit Facility was May 22, 2013 and was extended to May 12, 2017. The interest rate of the Credit Facility under the extended term is three-month LIBOR plus 0.7% per annum. Except for the above, all other terms and conditions as stipulated in the Credit Agreement remained unchanged. As of December 31, 2016, the interest rate of the Credit Facility was 1.7% per annum.

On April 20, 2017, the Company entered into a credit facility agreement, the "Credit Agreement," with ICBC Macau to obtain a non-revolving credit facility in the amount of $20.0 million, the "Credit Facility". The 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 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 Credit Facility, the Company was required to provide ICBC Macau with the Henglong Standby Letter of Credit for a total amount of not less than $23.4 million if the Credit Facility is fully drawn.

On May 5, 2017, the Company drew down the full amount of $20.0 million under the Credit Facility and provided the Henglong Standby Letter of Credit for an amount of $23.4 million in favor of ICBC Macau. The Henglong Standby Letter of Credit issued by ICBC Jingzhou is collateralized by Henglong's notes receivable of RMB 158.5 million, equivalent to approximately $23.4 million. The Company also paid an arrangement fee of $0.04 million to ICBC Jingzhou. The maturity date of the Credit Facility is May 12, 2018.

(3) On April 25, 2017, Great Genesis entered into a credit facility agreement, the "Taishin Bank Credit Facility", with Taishin Bank to obtain a non-revolving credit facility in the amount of $10.0 million. The Taishin Bank Credit Facility will expire on April 25, 2018 and 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 the Standby Letter of Credit for a total amount of not less than $10.0 million if the Taishin Bank Credit Facility is fully drawn. On April 28, 2017, Great Genesis drew down the full amount of $9.9 million under the Taishin Bank Credit Facility and provided the Henglong Standby Letter of Credit for an amount of $10.0 million in favor of Taishin Bank. Henglong's 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 79.0 million, equivalent to approximately $11.7 million.

(4) On July 16, 2014, Great Genesis entered into a credit facility agreement with HSBC HK to obtain a non-revolving credit facility in the amount of $5.0 million, the "HSBC Credit Facility". The HSBC Credit Facility expired on July 1, 2015 and had an annual interest rate of 1.7%. Interest was paid on the twentieth day of each month and the principal repayment was at maturity. As security for the HSBC Credit Facility, the Company's subsidiary Hubei Henglong was required to provide HSBC HK with the Standby Letter of Credit for a total amount of not less than $5.4 million if the HSBC Credit Facility was fully drawn.

On July 22, 2014, Great Genesis drew down a loan amounting to $5.0 million provided by HSBC HK and Hubei Henglong provided a Standby Letter of Credit for an amount of $5.4 million in favor of HSBC HK. Hubei Henglong's Standby Letter of Credit was issued by HSBC Bank (China) Company Limited Wuhan branch and is collateralized by long-term time deposits of Hubei Henglong of RMB 33.0 million, equivalent to approximately $4.8 million.

On July 7, 2016, HSBC HK agreed to extend the maturity date of the HSBC Credit Facility to July 1, 2017. Hubei Henglong provided a Standby Letter of Credit in an amount of $5.1 million in favor of HSBC HK. The Standby Letter of Credit was issued by HSBC Bank (China) Company Limited Wuhan branch and was collateralized by short-term time deposits of Hubei Henglong of RMB 36.0 million, equivalent to approximately $5.2 million. The interest rate of the HSBC Credit Facility under the extended term was revised as three-month LIBOR plus 0.8% per annum, i.e. 1.95% per annum. Except for the above, all other terms and conditions as stipulated in the Credit Agreement remained unchanged.

(5)

On April 1, 2016, Brazil Henglong entered into a credit facility agreement with HSBC Brazil to obtain a credit facility in the amount of $0.1 million, the “HSBC Brazil Credit Facility”. The HSBC Brazil Credit Facility will expire on October 27, 2017. As security for the HSBC Credit Facility, the Company’s subsidiary Hubei Henglong was required to provide HSBC Brazil with the Standby Letter of Credit for a total amount of $0.1 million if the HSBC Brazil Credit Facility is fully drawn.

On May 6, 2016, Brazil Henglong drew down a loan amounting to $0.1 million provided by HSBC Brazil. The loan will mature on October 9, 2017 and has an annual interest rate of 8.2%. The principal and interest are paid each month. Hubei Henglong provided a Standby Letter of Credit for an amount of $0.1 million in favor of HSBC Brazil. Hubei Henglong’s Standby Letter of Credit was issued by China CITIC Bank Wuhan branch and is collateralized by short-term investments of Hubei Henglong of RMB 0.5 million, equivalent to approximately $0.1 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 will expire 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 is fully drawn.

On August 26, 2016, Brazil Henglong drew down a loan amounting to $0.6 million provided by Bank of China (Brazil). The loan will mature on January 15, 2018 and has an annual interest rate of 3.9%. Interest is paid semiannually and the principal repayment is 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 is collateralized by long-term time deposits of Hubei Henglong of RMB 6.0 million, equivalent to approximately $0.9 million.

(6) On September 26, 2016, Henglong entered into a credit facility agreement with China CITIC Bank to obtain credit facilities in the amount of $25.5 million, the “Henglong CITIC Credit Facility”. The Henglong CITIC Credit Facility will expire 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 $4.7 million, $4.7 million and $4.4 million, respectively. The loans will mature on February 5, 6 and 7, 2018, respectively. The annual interest rate of the loans is 4.99%. The principal and interest will be paid at maturity.

On September 26, 2016, Hubei Henglong entered into a credit facility agreement with China CITIC Bank to obtain credit facilities in the amount of $15.0 million, the “Hubei Henglong CITIC Credit Facility”. The Hubei Henglong CITIC Credit Facility will expire 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 $4.2 million, $ 4.2 million and $5.5 million, respectively. The loans will mature on February 2, 8 and 9, 2018, respectively. The annual interest rate of the loans is 5.0%. The principal and interest will be paid at maturity.

(7) On April 21, 2017, the Company received an interest-free Chinese government loan of RMB 10.0 million, equivalent to approximately $1.5 million, which will mature on December 8, 2017. Jiulong pledged RMB 10.0 million, equivalent to approximately $1.5 million, of notes receivable as security for the Chinese government loan (See Note 4).

14. Accounts and notes payable

The Company’s accounts and notes payable as of June 30, 2017 and December 31, 2016 are summarized as follows (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Accounts payable - unrelated parties	$ 134,325	$ 138,053
Notes payable - unrelated parties [1]	87,046	78,940
Accounts and notes payable - unrelated parties	221,371	216,993
Accounts payable - related parties	4,814	6,803
Balance at end of period	$ 226,185	$ 223,796

(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.

15. Accrued expenses and other payables

The Company's accrued expenses and other payables as of June 30, 2017 and December 31, 2016 are summarized as follows (figures are in thousands of USD):

	June 30, 2017	December 31, 2016
Accrued expenses	$ 7,520	$ 8,605
Accrued interest	577	88
Dividends payable to holders of non-controlling interests(3)	608	-
Other payables	1,995	964
Warranty reserves (1) (2)	23,898	26,225
Total	$ 34,598	$ 35,882

(1) 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.

(2) In January 2017, the Company initiated two recalls related to the Company's products. The Company has accrued anticipated costs for handling the recalls amounting to $5.0 million in warranty reserves for the year ended December 31, 2016.

(3) In accordance with the resolution of the Board of Directors of Shenyang, in the