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CHINA AUTOMOTIVE SYSTEMS INC

Form 10QSB

August 19, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2003

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

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

Commission file number: 000-33123

China Automotive Systems, Inc.

-----  
(Exact name of small business issuer as specified in its charter)

Delaware

33-0885775

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification Number)

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

-----  
(Address of principal executive offices)

Issuer's telephone number: 0716-8324631

Visions-in-Glass, Inc.  
9521 21st Street SE  
Calgary, Alberta, Canada T2C 4B1

-----  
(Former name, former address and former fiscal year,  
if changed since last report.)

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

Yes  No

As of June 30, 2003, the Company had 22,015,000 shares of common stock issued and outstanding.

Documents incorporated by reference: None.

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CHINA AUTOMOTIVE SYSTEMS, INC.

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China Automotive Systems, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets

	June 30, 2003	December 31, 2002
	----- (Unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,734,000	\$ --
Pledged deposits	1,298,000	--
Accounts receivable, including \$1,295,000 due from related parties	25,430,000	--
Deposits, prepaids and other receivables, including \$2,078,000 due from related parties	8,116,000	--
Advance payments	6,057,000	--
Inventories	10,895,000	--
Total current assets	----- 59,530,000	----- --
Property, plant and equipment	18,891,000	--
Less: Accumulated depreciation	(4,209,000)	--
	----- 14,682,000	----- --
Equity investments in joint ventures	--	20,329,000
Intangible assets, net	1,787,000	--
Long-term investments	1,259,000	--
Other assets	64,000	--
Total assets	----- \$ 77,322,000	----- \$ 20,329,000

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China Automotive Systems, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets (continued)

	June 30, 2003	December 31, 2002
	----- (Unaudited)	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$ 8,434,000	\$ --
Accounts payable and accrued expenses, including \$291,000 due to related parties	25,235,000	--
Customer deposits	401,000	--
Other payables	1,965,000	--
Dividends payable	623,000	--
Taxation payable	4,779,000	--
Amounts due to shareholders/directors	--	14,826,000
	-----	-----
Total current liabilities	41,437,000	14,826,000
	-----	-----
Long-term liabilities	197,000	--
Minority interest	13,900,000	--
Stockholders' equity:		
Common stock, \$0.0001 par value - Authorized - 80,000,000 shares Issued and Outstanding - 22,015,000 shares at June 30, 2003 and 20,914,250 shares at December 31, 2002	2,000	2,000
Additional paid-in capital	19,712,000	193,000
Accumulated other comprehensive loss	(954,000)	--
Retained earnings - Appropriated	7,077,000	5,308,000
Unappropriated	1,608,000	--
	-----	-----
Total stockholders' equity	27,445,000	5,503,000
Less: Amounts due from shareholders/directors	(5,657,000)	--
	-----	-----
Net stockholders' equity	21,788,000	5,503,000
	-----	-----
Total liabilities and stockholders' equity	\$ 77,322,000	\$ 20,329,000
	=====	=====

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See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,	
	2003	2002
Net sales, including \$1,215,000 to related parties	\$ 12,358,000	\$ --
Cost of sales	6,684,000	--
Gross profit	5,674,000	--
Costs and expenses:		
Administrative, selling and general expenses	2,606,000	--
Depreciation and amortization	690,000	--
Total costs and expenses	3,296,000	--
Income from operations	2,378,000	--
Other income (expense):		
Equity income of joint ventures	--	1,397,000
Other non-operating income	123,000	--
Financial expenses	(64,000)	--
Other income (expense), net	59,000	1,397,000
Income before income taxes	2,437,000	1,397,000
Income taxes	533,000	--
Income before minority interest	1,904,000	1,397,000
Minority interest	1,278,000	--
Net income	\$ 626,000	\$ 1,397,000
Net income per common share -		
Basic	\$ 0.03	\$ 0.07
Diluted	\$ 0.03	\$ 0.07
Weighted average common shares outstanding -		

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Basic	22,015,000	20,914,250
Diluted	22,490,450	20,914,250

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2003	2002
Net sales, including \$2,015,000 to related parties	\$ 23,489,000	\$ --
Cost of sales	12,834,000	--
Gross profit	10,655,000	--
Costs and expenses:		
Administrative, selling and general expenses	3,936,000	--
Depreciation and amortization	1,009,000	--
Stock compensation	1,300,000	--
Total costs and expenses	6,245,000	--
Income from operations	4,410,000	--
Other income (expense):		
Equity income of joint ventures	--	1,875,000
Other non-operating income	248,000	--
Financial expenses	(123,000)	--
Other income (expense), net	125,000	1,875,000
Income before income taxes	4,535,000	1,875,000
Income taxes	980,000	--
Income before minority interest	3,555,000	1,875,000
Minority interest	2,737,000	--
Net income	\$ 818,000	\$ 1,875,000

Net income per common share -

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Basic	\$	0.04	\$	0.09
Diluted	\$	0.04	\$	0.09
Weighted average common shares outstanding -				
Basic		21,648,083		20,914,250
Diluted		21,971,592		20,914,250

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30,	
	2003	2002
	-----	-----
Net income	\$ 626,000	\$ 1,397,000
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	(951,000)	--
	-----	-----
Comprehensive income (loss)	\$ (325,000)	\$ 1,397,000
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2003	2002
	-----	-----
Net income	\$ 818,000	\$ 1,875,000
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	--	--
	-----	-----
Comprehensive income	\$ 818,000	\$ 1,875,000
	=====	=====



See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net income	\$ 818,000	\$ 1,875,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity income of joint ventures	--	(1,875,000)
Minority shareholders' interests	2,737,000	--
Issuance of warrants to consultants	1,300,000	--
Depreciation and amortization	1,009,000	--
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Pledged deposits	(833,000)	--
Accounts receivable	1,614,000	216,000
Inventories	(1,561,000)	--
Deposits, prepayments and other receivables	(8,339,000)	--
Increase (decrease) in:		
Accounts payable, accrued expenses, customer deposits and other payables	5,426,000	--
Taxation payable	(639,000)	--
Net cash provided by operating activities	1,532,000	216,000

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

	Six Months Ended June 30,	
	2003	2002
Cash flows from investing activities:		
Cash paid to acquire fixed assets and intangible assets	(1,044,000)	--
Long-term investments	--	(7,139,000)
	(1,044,000)	(7,139,000)
Net cash used in investing activities	(1,044,000)	(7,139,000)
Cash flows from financing activities:		
Proceeds from borrowings, net	4,811,000	--
Dividends paid	(2,822,000)	--
(Increase) decrease in amounts due from shareholders/directors	21,000	--
Increase (decrease) in amounts due to shareholders/directors	--	6,923,000
	2,010,000	6,923,000
Net cash provided by financing activities	2,010,000	6,923,000

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Effect of foreign currency exchange translation	68,000	--
Net increase (decrease) in cash and cash equivalents	2,566,000	--
Cash and cash equivalents - beginning of period, as a result of change from equity accounting to consolidation accounting effective January 1, 2003	5,168,000	--
	-----	-----
Cash and cash equivalents - end of period	\$ 7,734,000	\$ --
	=====	=====

See accompanying notes to condensed consolidated financial statements.

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China Automotive Systems, Inc. and Subsidiaries  
Notes to Condensed Consolidated Financial Statements (Unaudited)  
Three Months and Six Months Ended June 30, 2003 and 2002

### 1. Organization and Basis of Presentation

Organization - Effective March 5, 2003, Visions-In-Glass, Inc., a United States public company incorporated in the State of Delaware ("Visions"), entered into a Share Exchange Agreement to acquire 100% of the shareholder interest in Great Genesis Holding Limited, a company incorporated on January 3, 2003 under The Companies Ordinance in Hong Kong as a limited liability company ("Great Genesis"), as a result of which Great Genesis became a wholly-owned subsidiary of Visions. At the closing, the old directors and officers of Visions resigned, and new directors and officers were appointed. Visions subsequently changed its name to China Automotive Systems, Inc.

China Automotive Systems, Inc., including, when the context so requires, its subsidiaries and the subsidiaries' interests in the sino-foreign joint ventures described below, is referred to herein as the "Company". The Company, through its sino-foreign joint ventures described below, is engaged in the manufacture and sale of automotive components in the People's Republic of China (the "PRC" or "China").

Ji Long Enterprise Investment Limited was incorporated on October 8, 1992 under the Companies Ordinance in Hong Kong as a limited liability company ("Ji Long").

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Ji Long is an investment holding company. Effective March 4, 2003, all of the shareholders of Ji Long exchanged their 100% shareholder interest for a 100% shareholder interest in Great Genesis, as a result of which Ji Long became a wholly-owned subsidiary of Great Genesis.

In exchange for the acquisition of 100% of the shareholder interest in Great Genesis, the shareholders of Great Genesis were issued 20,914,250 shares of common stock of Visions. In addition, the shareholders of Great Genesis paid \$250,000 to the former officer, director and controlling shareholder of Visions for the cancellation of 17,424,750 shares of common stock (see Note 5), and have agreed to pay an additional \$70,000, subject to certain conditions.

The acquisition of Great Genesis by the Company was accounted for as a recapitalization of Great Genesis, pursuant to which the accounting basis of Great Genesis continued unchanged subsequent to the transaction date. Accordingly, the pre-transaction financial statements of Great Genesis are the historical financial statements of the Company.

Ji Long owns the following aggregate net interests in four sino-foreign joint ventures organized in the PRC as of and for the three months and six months ended June 30, 2003:

Name of Entity -----	Percentage Interest -----
Jingzhou Henglong Automotive Parts Co. Limited ("Henglong")	42.0%
Shashi Jiulong Power Steering Co. Limited ("Jiulong")	81.0%
Shenyang Jinbei Henglong Automotive Steering System Co. Limited ("Shenyang")	55.0%
Zhejiang Henglong & Vie Pump-Manu Co. Limited ("Zhejiang")	51.0%

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At December 31, 2002, the investors in Shenyang were Ji Long, Henglong, Shenyang Automotor Industry Investment Corporation and Shenyang Jinbei Automotor Industry Co., Ltd. On December 12, 2002, according to a decision made at the meeting of the board of directors, 30% of the stock rights in Shenyang held by Henglong were to be transferred to Ji Long, and 17% of the stock rights in Shenyang held by Shenyang Automotor Industry Investment Corporation were to be transferred to Shenyang Jinbei Automotor Industry Co., Ltd. On January 8, 2003, Ji Long and Henglong signed an agreement for the transfer of stock rights, which was approved by the applicable PRC authorities on May 22, 2003. As of December 31, 2002, the Company owned 25% of Shenyang directly and 12.6% of Shenyang indirectly through its ownership in Henglong, for a combined ownership of 37.6%. As of June 30, 2003, the Company owned 55.0% of Shenyang directly. The Company accounted for this increase in ownership in Shenyang commencing as of the effective date of January 1, 2003. The potential adjustment to the minority interest, if any, has not been determined nor recorded in these financial statements.

Basis of Presentation - For the three months and six months ended June 30, 2003, the accompanying condensed consolidated financial statements include the

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accounts of the Company and its majority-owned subsidiaries and sino-foreign joint ventures. For the three months and six months ended June 30, 2002, the accompanying condensed financial statements include the accounts of the Company, with the Company's investments in sino-foreign joint ventures accounted for under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

During early 2003, the Directors of the Company and all other joint venturers in the four sino-foreign joint ventures executed "Act in Concert" agreements, resulting in the Company having voting control in the four sino-foreign joint ventures. The Company is in the process of making application to the relevant PRC authorities for their approval to effect this change through amendments to the respective joint venture agreements. Consequently, effective January 1, 2003, the Company changed from equity accounting to consolidation accounting for its investments in sino-foreign joint ventures for the three months and six months ended June 30, 2003. Prior to January 1, 2003, the Company used the equity method pursuant to Emerging Issues Task Force Issue No. 96-16, which states that if a minority joint venture partner has the right to participate in management, the majority joint venture partner is required to account for its interest in the joint venture under the equity method of accounting.

During the three months ended June 30, 2003, a profitable production line was transferred from Henglong (a 42% owned subsidiary) to Jiulong (an 81% owned subsidiary). Jiulong sells the output of the production line to Henglong, which then sells the products to third parties. All intercompany profit is eliminated on consolidation.

The Company effected a 3.5 to 1 forward split of its outstanding shares of common stock during March 2003, prior to the transaction with Great Genesis described above. Unless otherwise indicated, all share and per share amounts presented herein have been adjusted to reflect the forward stock split.

**Foreign Currencies** - The Company maintains its books and records in Hong Kong Dollars ("HK Dollars"), its functional currency, and the joint ventures maintain their books and records in Renminbi ("RMB"), the currency of the PRC. Translation of amounts in United States dollars ("US\$") has been made at the single fixed rate of exchange of US\$1.00 to 7.8 HK Dollars and the translation of amounts in HK Dollars has been made at an approximate rate of 1 HK Dollar to 1.06 RMB.

Foreign currency transactions, in HK Dollars and RMB, are reflected using the temporal method. Under this method, all monetary items are translated into the functional currency at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at historical rates. Income and expenses are translated at the rate in effect on the transaction dates. Transaction gains and losses, if any, are included in the determination of net income (loss) for the period.

In translating the financial statements of the Company from its functional currency into its reporting currency in United States dollars, balance sheet accounts are translated using the closing exchange rate in effect at the balance sheet date and income and expense accounts are translated using an average exchange rate prevailing during the reporting period. Adjustments resulting from the translation, if any, are included in cumulative other comprehensive income in stockholders' equity.

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The RMB is not readily convertible into United States dollars or other foreign currencies. The foreign exchange rate between the United States dollar and the RMB is approximately 1 RMB to US\$0.1205, since inception through June 30, 2003. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate or at any other rate.

Comments - The accompanying interim condensed consolidated financial statements are unaudited, but in the opinion of management of the Company, contain all adjustments, which include normal recurring adjustments, necessary to present fairly the financial position at June 30, 2003, the results of operations for the three months and six months ended June 30, 2003 and 2002, and cash flows for the six months ended June 30, 2003 and 2002. The consolidated balance sheet as of December 31, 2002 is derived from the Company's audited financial statements.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading. For further information, refer to the financial statements and the notes thereto included in the Company's Current Report on Form 8-K/A dated May 19, 2003, as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The results of operations for the three months and six months ended June 30, 2003 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2003.

Income Per Share - Basic income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted income per share is calculated assuming the issuance of common shares, if dilutive, resulting from the exercise of warrants. The Company had potentially dilutive securities consisting of warrants to purchase 550,375 shares of common stock outstanding at June 30, 2003.

Stock-Based Compensation - The Company may periodically issue shares of common stock for services rendered or for financing costs. Such shares are valued based on the market price on the transaction date.

The Company may periodically issue stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs.

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation", which establishes a fair value method of accounting for stock-based compensation plans.

The provisions of SFAS No. 123 allow companies to either record an expense in the financial statements to reflect the estimated fair value of stock options or warrants to employees, or to continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", but to disclose on an annual basis the pro forma effect on

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net income (loss) and net income (loss) per common share had the fair value of the stock options and warrants been recorded in the financial statements. SFAS No. 123 was amended by SFAS No. 148, which now requires companies to disclose in interim financial statements the pro forma effect on net income (loss) and net income (loss) per common share of the estimated fair market value of stock options or warrants issued to employees. The Company has elected to continue to account for stock-based compensation plans utilizing the intrinsic value method. Accordingly, compensation cost for stock options and warrants is measured as the excess, if any, of the fair market price of the Company's common stock at the date of grant above the amount an employee must pay to acquire the common stock.

In accordance with SFAS No. 123, the cost of stock options and warrants issued to non-employees is measured at the grant date based on the fair value of the award. The fair value of the stock-based award is determined using the Black-Scholes option pricing model. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive benefit, which is generally the vesting period.

### 2. Certain Significant Risks and Uncertainties

The Company is subject to the consideration and risks of operating in the People's Republic of China (the "PRC"). These include risks associated with the political and economic environment, foreign currency exchange and the legal system in the PRC.

The economy of PRC differs significantly from the economies of the "western" industrialized nations in such respects as structure, level of development, gross national product, growth rate, capital reinvestment, resource allocation, self-sufficiency, rate of inflation and balance of payments position, among others. Only recently has the PRC government encouraged substantial private economic activities. The Chinese economy has experienced significant growth in the past several years, but such growth has been uneven among various sectors of the economy and geographic regions. Actions by the PRC government to control inflation have significantly restrained economic expansion in the recent past. Similar actions by the PRC government in the future could have a significant adverse effect on economic conditions in PRC.

Many laws and regulations dealing with economic matters in general and foreign investment in particular have been enacted in the PRC. However, the PRC still does not have a comprehensive system of laws, and enforcement of existing laws may be uncertain and sporadic.

Any devaluation of the Renminbi (RMB) against the United States dollar would consequently have adverse effects on the Company's financial performance and asset values when measured in terms of the United States dollar. Should the RMB significantly devalue against the United States dollar, such devaluation could have a material adverse effect on the Company's earnings and the foreign currency equivalent of such earnings. The Company does not hedge its RMB - United States dollar exchange rate exposure.

On January 1, 1994, the PRC government introduced a single rate of exchange as quoted daily by the People's Bank of China (the "Unified Exchange Rate"). No representation is made that the RMB amounts have been, or could be, converted into US\$ at that rate. This quotation of exchange rates does not imply free convertibility of RMB to other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rate quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment

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application form together with suppliers' invoices, shipping documents and signed contracts.

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### 3. Inventories

Inventories at June 30, 2003 (unaudited) consisted of the following:

Raw materials	\$ 2,383,000
Work-in-process	1,210,000
Finished goods	7,302,000
	-----
	\$ 10,895,000
	=====

### 4. Amounts Due From and Due to Shareholders/Directors

During the six months ended June 30, 2003, amounts due to shareholders/directors, including accrued dividends, aggregating approximately \$17,167,000 were cancelled. This transaction was accounted for as a contribution to capital.

Amounts due from shareholders/directors aggregated \$5,657,000 at June 30, 2003. These amounts do not bear interest and have no specific repayment terms. Accordingly, such amounts have been shown as a reduction of stockholders' equity in the accompanying condensed consolidated balance sheet at June 30, 2003.

### 5. Stockholders' Equity

During March 2003, in conjunction with the transaction with Great Genesis described at Note 1, the Company effected a 3.5 to 1 forward split of its outstanding shares of common stock, thus increasing the 5,293,000 shares of common stock outstanding at that time to 18,525,500 shares, of which 17,424,750 shares were then returned to the Company and cancelled.

During March 2003, in conjunction with the transaction with Great Genesis described at Note 1, the Company issued common stock purchase warrants to three consultants to acquire an aggregate of 550,375 shares of common stock, exercisable for a period of one year at \$1.20 per share. The aggregate fair value of these warrants, calculated pursuant to the Black-Scholes option pricing model, was estimated to be \$1,300,000, which was charged to operations during the six months ended June 30, 2003.

### 6. Income Taxes

The Company's sino-foreign joint ventures are subject to income taxes based on income arising in or derived from the People's Republic of China, generally at an effective tax rate of 15%.

### 7. Significant Concentrations and Related Party Transactions



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The Company grants credit to its customers, generally on an open account basis. The Company's customers are all located in the PRC. Two customers accounted for approximately 38% of the Company's net sales for the three months and six months ended June 30, 2003, with one customer accounting for approximately 12% and the other customer approximately 26% of total sales. At June 30, 2003, approximately 19% of accounts receivable were from trade transactions with the aforementioned two customers.

During the three months and six months ended June 30, 2003, sales to related parties aggregated \$1,215,000 and \$2,015,000, respectively.

During the three months and six months ended June 30, 2003, purchases from related parties aggregated \$1,225,000 and \$1,607,000, respectively.

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### 8. Summary Condensed Statements of Operations

For the three months and six months ended June 30, 2002, the Company's condensed financial statements included the Company's investments in sino-foreign joint ventures accounted for under the equity method of accounting.

Condensed unaudited financial information with respect to these sino-foreign joint ventures for 2002 is presented below.

	Three Months Ended June 30, 2002	Six Months Ended June 30, 2002
	-----	-----
Net sales	\$ 10,280,000	\$ 15,125,000
Cost of sales	5,427,000	7,758,000
Administrative, selling and general expenses	482,000	1,710,000
Other income (expense)	(603,000)	(608,000)
Financial expenses	48,000	80,000
Income taxes	557,000	744,000
Minority interest	1,766,000	2,350,000
	-----	-----
Net income	\$ 1,397,000	\$ 1,875,000
	=====	=====

### 9. Recent Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". SFAS No. 143 addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company adopted SFAS No. 143 effective January 1, 2003. The adoption of SFAS No. 143 did not have a significant effect on the Company's financial statement presentation or disclosures.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". SFAS No. 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require

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that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS No. 145 related to classification of debt extinguishments are effective for fiscal years beginning after May 15, 2002. Earlier application is encouraged. The adoption of SFAS No. 145 did not have a significant effect on the Company's financial statement presentation or disclosures.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Such costs covered by SFAS No. 146 include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 replaces the previous accounting guidance provided by the EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a significant effect on the Company's financial statement presentation or disclosures.

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In October 2002, the FASB issued SFAS No. 147, "Acquisitions of Certain Financial Institutions, Except Transactions Between or More Mutual Enterprises". The Company does not expect that SFAS No. 147 will have any effect on its financial statement presentation or disclosures.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 did not have a significant effect on the Company's financial statement presentation or disclosures.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS No. 149 amends and clarifies under what circumstances a contract with initial investments meets the characteristics of a derivative and when a derivative contains a financing component. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003. The Company does not expect that the adoption of SFAS No. 149 will have a significant effect on the Company's financial statement presentation or disclosures.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 is to be

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implemented by reporting the cumulative effect of a change in accounting principle for financial instruments created before the issuance date of SFAS No. 150 and still existing at the beginning of the interim period of adoption. Restatement is not permitted. The Company does not expect that the adoption of SFAS No. 150 will have a significant effect on the Company's financial statement presentation or disclosures.

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### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995:

This Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2003 contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, including statements that include the words "believes", "expects", "anticipates", or similar expressions. These forward-looking statements include, but are not limited to, statements concerning the Company's expectations regarding its working capital requirements, financing requirements, business prospects, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2003 involve known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to differ materially from those expressed in or implied by the forward-looking statements contained herein.

#### General Overview:

Effective March 5, 2003, Visions-In-Glass, Inc., a United States public company incorporated in the State of Delaware ("Visions"), entered into a Share Exchange Agreement to acquire 100% of the shareholder interest in Great Genesis Holding Limited, a company incorporated on January 3, 2003 under The Companies Ordinance in Hong Kong as a limited liability company ("Great Genesis"), as a result of which Great Genesis became a wholly-owned subsidiary of Visions. At the closing, the old directors and officers of Visions resigned, and new directors and officers were appointed. Visions subsequently changed its name to China Automotive Systems, Inc.

China Automotive Systems, Inc., including, when the context so requires, its subsidiaries and the subsidiaries' interests in the sino-foreign joint ventures described below, is referred to herein as the "Company". The Company, through its sino-foreign joint ventures described below, is engaged in the manufacture and sale of automotive components in the People's Republic of China (the "PRC" or "China").

Ji Long Enterprise Investment Limited was incorporated on October 8, 1992 under the Companies Ordinance in Hong Kong as a limited liability company ("Ji Long"). Ji Long is an investment holding company. Effective March 4, 2003, all of the shareholders of Ji Long exchanged their 100% shareholder interest for a 100%

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shareholder interest in Great Genesis, as a result of which Ji Long became a wholly-owned subsidiary of Great Genesis.

In exchange for the acquisition of 100% of the shareholder interest in Great Genesis, the shareholders of Great Genesis were issued 20,914,250 shares of common stock of Visions. In addition, the shareholders of Great Genesis paid \$250,000 to the former officer, director and controlling shareholder of Visions for the cancellation of 17,424,750 shares of common stock, and have agreed to pay an additional \$70,000, subject to certain conditions.

The acquisition of Great Genesis by the Company was accounted for as a recapitalization of Great Genesis, pursuant to which the accounting basis of Great Genesis continued unchanged subsequent to the transaction date. Accordingly, the pre-transaction financial statements of Great Genesis are the historical financial statements of the Company.

Ji Long owns the following aggregate net interests in four sino-foreign joint ventures organized in the PRC as of and for the three months and six months ended June 30, 2003:

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Name of Entity -----	Percentage Interest -----
Jingzhou Henglong Automotive Parts Co. Limited ("Henglong")	42.0%
Shashi Jiulong Power Steering Co. Limited ("Jiulong")	81.0%
Shenyang Jinbei Henglong Automotive Steering System Co. Limited ("Shenyang")	55.0%
Zhejiang Henglong & Vie Pump-Manu Co. Limited ("Zhejiang")	51.0%

At December 31, 2002, the investors in Shenyang were Ji Long, Henglong, Shenyang Automotor Industry Investment Corporation and Shenyang Jinbei Automotor Industry Co., Ltd. On December 12, 2002, according to a decision made at the meeting of the board of directors, 30% of the stock rights in Shenyang held by Henglong were to be transferred to Ji Long, and 17% of the stock rights in Shenyang held by Shenyang Automotor Industry Investment Corporation were to be transferred to Shenyang Jinbei Automotor Industry Co., Ltd. On January 8, 2003, Ji Long and Henglong signed an agreement for the transfer of stock rights, which was approved by the applicable PRC authorities on May 22, 2003. As of December 31, 2002, the Company owned 25% of Shenyang directly and 12.6% of Shenyang indirectly through its ownership in Henglong, for a combined ownership of 37.6%. As of June 30, 2003, the Company owned 55.0% of Shenyang directly. The Company accounted for this increase in ownership in Shenyang commencing as of the effective date of January 1, 2003. The potential adjustment to the minority interest, if any, has not been determined nor recorded in these financial statements.

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For the three months and six months ended June 30, 2003, the accompanying condensed consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries and sino-foreign joint ventures. For the three months and six months ended June 30, 2002, the accompanying condensed financial statements include the accounts of the Company, with the Company's investments in sino-foreign joint ventures recorded under the equity method of accounting. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

During early 2003, the Directors of the Company and all other joint venturers in the four sino-foreign joint ventures executed "Act in Concert" agreements, resulting in the Company having voting control in the four sino-foreign joint ventures. The Company is in the process of making application to the relevant PRC authorities for their approval to effect this change through amendments to the respective joint venture agreements. Consequently, effective January 1, 2003, the Company changed from equity accounting to consolidation accounting for its investments in sino-foreign joint ventures for the three months and six months ended June 30, 2003. Prior to January 1, 2003, the Company used the equity method pursuant to Emerging Issues Task Force Issue No. 96-16, which states that if a minority joint venture partner has the right to participate in management, the majority joint venture partner is required to account for its interest in the joint venture under the equity method of accounting.

During the three months ended June 30, 2003, a profitable production line was transferred from Henglong (a 42% owned subsidiary) to Jiulong (an 81% owned subsidiary). Jiulong sells the output of the production line to Henglong, which then sells the products to third parties. All intercompany profit is eliminated on consolidation.

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### Critical Accounting Policies:

The Company prepared its condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's condensed consolidated financial statements.

### Accounts Receivable:

Revenue from the sale of products is recognized when the significant risks and rewards of ownership have been transferred to the customer. No revenue is recognized if there are significant uncertainties regarding collection of the consideration due, associated costs or the possible return of goods.

In order to determine the value of the Company's accounts receivable, the

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Company records a provision for doubtful accounts to cover probable credit losses. Management reviews and adjusts this allowance periodically based on historical experience and its evaluation of the collectibility of outstanding accounts receivable.

### Inventories:

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a moving-average basis and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The Company evaluates the net realizable value of its inventories on a regular basis and reduces the computed moving-average cost if it exceeds the net realizable value.

### Income Taxes:

The Company records a tax provision to reflect the expected tax payable on taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

### Impairment of Long-Lived Assets:

The Company's long-lived assets consist of property and equipment and certain intangible assets. In assessing the impairment of such assets, the Company periodically makes assumptions regarding the estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates or the related assumptions indicate that the carrying amount may not be recoverable, the Company records impairment charges for these assets at such time.

### Results of Operations:

The Company's sino-foreign joint ventures are presented on a consolidated basis for the three months and six months ended June 30, 2003, as compared to the equity method of accounting for the three months and six months ended June 30, 2002. Accordingly, the results of operations for the three months and six months ended June 30, 2003 are not comparable to the three months and six months ended June 30, 2002.

### Three Months Ended June 30, 2003 and 2002:

Net Sales. Net sales were \$12,358,000 for the three months ended June 30, 2003.

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Gross Profit. Gross profit was \$5,674,000 or 45.9% of net sales for the three months ended June 30, 2003.

Administrative, Selling and General Expenses. Administrative, selling and general expenses were \$2,606,000 for the three months ended June 30, 2003.

Depreciation and Amortization. Depreciation and amortization was \$690,000 for the three months ended June 30, 2003.

Income From Operations. Income from operations was \$2,378,000 for the three months ended June 30, 2003.

Equity Income of Joint Ventures. The Company recorded equity income of joint ventures aggregating \$1,397,000 for the three months ended June 30, 2002,

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reflecting the Company's aggregate proportionate share of the earnings of its sino-foreign joint ventures based on the equity method of accounting.

Other Non-Operating Income. Other non-operating income was \$123,000 for the three months ended June 30, 2003.

Financial Expenses. Financial expenses were \$64,000 for the three months ended June 30, 2003.

Income Before Income Taxes. Income before income taxes was \$2,437,000 for the three months ended June 30, 2003, as compared to \$1,397,000 for the three months ended June 30, 2002.

Income Taxes. Income taxes were \$533,000 for the three months ended June 30, 2003.

Income Before Minority Interest. Income before minority interest was \$1,904,000 for the three months ended June 30, 2003, as compared to \$1,397,000 for the three months ended June 30, 2002.

Minority Interest. The Company recorded the minority interests' aggregate share in each sino-foreign joint venture's earnings aggregating \$1,278,000 for the three months ended June 30, 2003.

Net Income. Net income was \$626,000 for the three months ended June 30, 2003, as compared to \$1,397,000 for the three months ended June 30, 2002.

Six Months Ended June 30, 2003 and 2002:

Net Sales. Net sales were \$23,489,000 for the six months ended June 30, 2003.

Gross Profit. Gross profit was \$10,655,000 or 45.4% of net sales for the six months ended June 30, 2003.

Administrative, Selling and General Expenses. Administrative, selling and general expenses were \$3,936,000 for the six months ended June 30, 2003.

Depreciation and Amortization. Depreciation and amortization was \$1,009,000 for the six months ended June 30, 2003.

Stock Compensation. During March 2003, in conjunction with the transaction with Great Genesis described above, the Company issued common stock purchase warrants to three consultants to acquire an aggregate of 550,375 shares of common stock, exercisable for a period of one year at \$1.20 per share. The aggregate fair value of these warrants, calculated pursuant to the Black-Scholes option pricing model, was estimated to be \$1,300,000, which was charged to operations during the six months ended June 30, 2003.

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Income From Operations. Income from operations was \$4,410,000 for the six months ended June 30, 2003. Excluding the non-cash charge of \$1,300,000 related to the issuance of warrants in March 2003, income from operations would have been \$5,710,000 for the six months ended June 30, 2003.

Equity Income of Joint Ventures. The Company recorded equity income of joint ventures aggregating \$1,875,000 for the six months ended June 30, 2002, reflecting the Company's aggregate proportionate share of the earnings of its sino-foreign joint ventures based on the equity method of accounting.

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Other Non-Operating Income. Other non-operating income was \$248,000 for the six months ended June 30, 2003.

Financial Expenses. Financial expenses were \$123,000 for the six months ended June 30, 2003.

Income Before Income Taxes. Income before income taxes was \$4,535,000 for the six months ended June 30, 2003, as compared to \$1,875,000 for the six months ended June 30, 2002. Excluding the non-cash charge of \$1,300,000 related to the issuance of warrants in March 2003, income from operations would have been \$5,835,000 for the six months ended June 30, 2003.

Income Taxes. Income taxes were \$980,000 for the six months ended June 30, 2003.

Income Before Minority Interest. Income before minority interest was \$3,555,000 for the six months ended June 30, 2003, as compared to \$1,875,000 for the six months ended June 30, 2002. Excluding the non-cash charge of \$1,300,000 relating to the issuance of warrants in March 2003, income before minority interest would have been \$4,855,000 for the six months ended June 30, 2003.

Minority Interest. The Company recorded the minority interests' aggregate share in each sino-foreign joint venture's earnings aggregating \$2,737,000 for the six months ended June 30, 2003.

Net Income. Net income was \$818,000 for the six months ended June 30, 2003, as compared to \$1,875,000 for the six months ended June 30, 2002.

Financial Condition - June 30, 2003:

Liquidity and Capital Resources:

Operating. The Company's operations provided cash of \$1,532,000 for the six months ended June 30, 2003. At June 30, 2003, cash and cash equivalents were \$7,734,000. Working capital was \$18,093,000 at June 30, 2003, reflecting a current ratio of 1.29:1.

The Company anticipates that its working capital resources are adequate to fund anticipated costs and expenses through the remainder of the year ending December 31, 2003.

Investing. During the six months ended June 30, 2003, the Company expended \$1,044,000 to acquire fixed assets and intangible assets. During the six months ended June 30, 2002, the Company expended \$7,139,000 to fund investments in sino-foreign joint ventures.

Financing. During the six months ended June 30, 2003, the Company generated \$2,010,000 from financing activities, consisting of the proceeds from borrowings of \$4,811,000 and a net increase in amounts due from shareholders/directors of \$21,000, offset in part by dividends paid of \$2,822,000. During the six months ended June 30, 2002, the Company's directors/shareholders advanced \$6,923,000 to fund the operations of the Company.

During the six months ended June 30, 2003, amounts due to shareholders/directors, including accrued dividends, aggregating approximately \$17,167,000 were cancelled. This transaction was accounted for as a contribution to capital.



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Amounts due from shareholders/directors aggregated \$5,657,000 at June 30, 2003. These amounts do not bear interest and have no specific repayment terms. Accordingly, such amounts have been shown as a reduction of stockholders' equity in the accompanying condensed consolidated balance sheet at June 30, 2003.

### ITEM 3. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act of 1934 is accumulated and communicated to management, including its principal executive and financial officers, as appropriate, to allow timely decisions regarding required disclosure.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its principal executive and financial officers, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the fiscal quarter. Based upon and as of the date of that evaluation, the Company's principal executive and financial officers concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act of 1934 is recorded, processed, summarized and reported as and when required.

#### (b) Changes in Internal Controls

There were no changes in the Company's internal controls or in other factors that could have significantly affected those controls subsequent to the date of the Company's most recent evaluation.

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## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

#### (b) Reports on Form 8-K

Three Months Ended June 30, 2003:

The Company filed a Current Report on Form 8-K on May 8, 2003 to report a change in independent accountants.

The Company filed a Current Report on Form 8-K/A on May 19, 2003 to provide the audited financial statements of Great Genesis Holding Limited.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA AUTOMOTIVE SYSTEMS, INC.

-----  
(Registrant)

DATE: August 18, 2003

By: /s/ HANLIN CHEN

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Hanlin Chen  
Chief Executive Officer  
and President

DATE: August 18, 2003

By: /s/ DAMING HU

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Daming Hu  
Chief Financial Officer

INDEX TO EXHIBITS

Exhibit Number -----	Description of Document -----
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Hanlin Chen
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 - Daming Hu
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

