CHINA AUTOMOTIVE SYSTEMS INC
Form 10-K
June 28, 2011

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

FORM 10-K

(Mark One)
x ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2010

or

¨TRANSITION REPORT PURSUANT TO 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 Organization)	(I.R.S. Employer Identification No.)

No. 1 Henglong Road, Yu Qiao Development Zone Shashi District, Jing Zhou City Hubei Province, China	434000
(Address of Principal Executive Offices)	(Zip Code)

(86) 716-8329196
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock, $0.0001 par value	The Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act:

Title of Class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Yes ¨ No x

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2010, based upon the price of $17.60 that was the closing price of the common stock as reported on the NASDAQ Stock Market under the symbol "CAAS" on such date, was approximately $119,500,000.

The Company has 28,083,534 shares of Common Stock outstanding as of June 28, 2011.

CHINA AUTOMOTIVE SYSTEMS, INC.

FORM 10-K

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Cautionary Statement

This Annual Report on Form 10-K 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. statements are subject to certain risks and uncertainties, including the matters set forth in this 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-K is filed, and the Company does not intend to update any of the forward-looking statements after the date this Annual Report on Form 10-K is filed to confirm these statements to actual results, unless required by law.

PART I

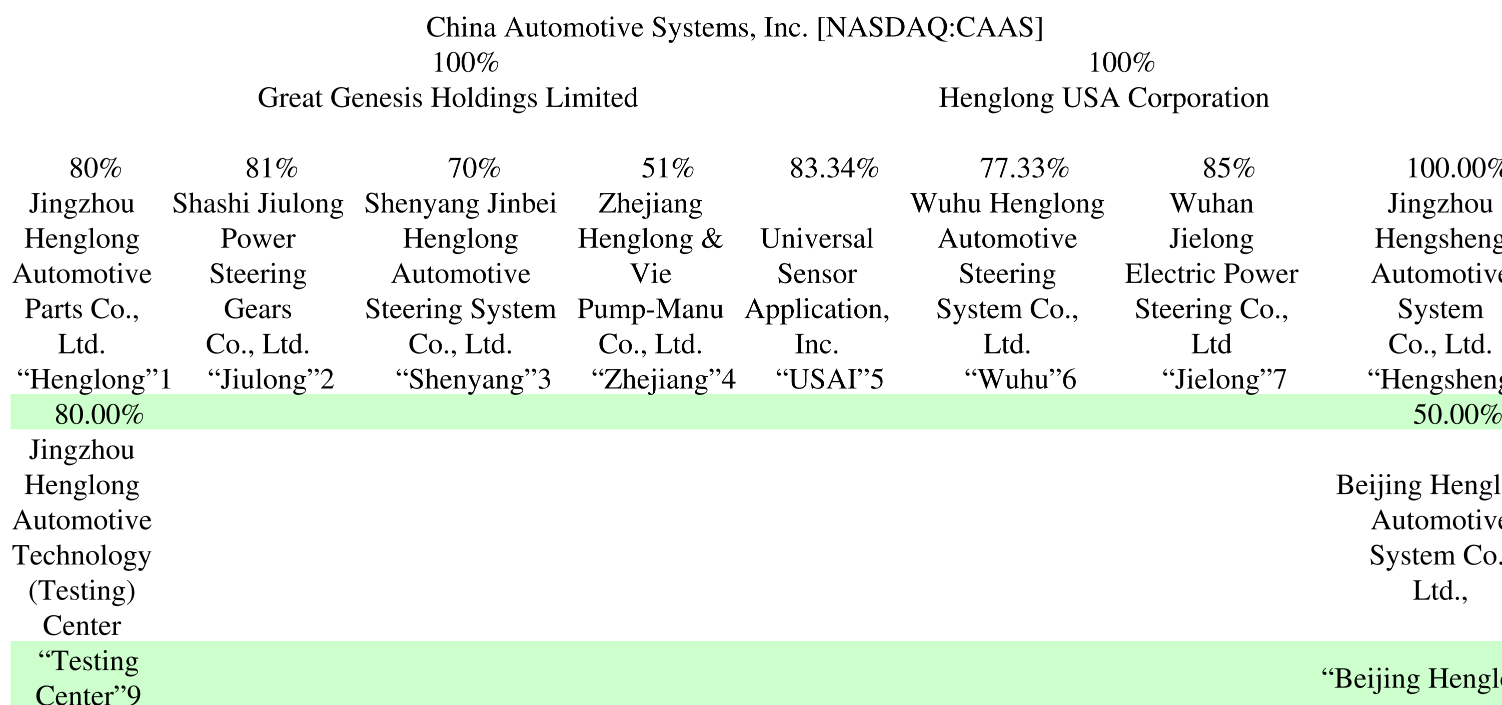
ITEM 1. BUSINESS.

Company History

China Automotive Systems, Inc., “China Automotive” or the “Company,” was incorporated in the State of Delaware on June 29, 1999 under the name Visions-In-Glass, Inc. On or around March 5, 2003, the Company acquired all of the issued and outstanding equity interests of Great Genesis Holdings Limited, “Genesis,” a corporation organized under the laws of the Hong Kong Special Administrative Region, China, by issuance of 20,914,250 shares of common stock to certain sellers. After the acquisition, the Company continued the operations of Genesis. On May 19, 2003, the Company changed its name from Visions-In-Glass, Inc. to China Automotive Systems, Inc. Presently, Genesis owns interests in eight Sino-joint ventures in the People’s Republic of China, “China” or the “PRC,” which manufacture power steering systems and/or related products for different segments of the automobile industry. Unless the context indicates otherwise, the Company uses the terms “the Company,” “we,” “our” and “us” to refer to Genesis and China Automotive collectively on a consolidated basis.

Business Overview

The Company is a holding company and has no significant business operations or assets other than its interest in Genesis. All operations are conducted through Genesis and Henglong USA, its wholly-owned subsidiaries (the abbreviated names of subsidiaries and joint ventures are defined in the organization chart below), as well as through seven Sino-foreign joint ventures in China, Henglong, Jiulong, Shenyang, Zhejiang, USAI, Wuhu and Jielong and a wholly-owned subsidiary in China, Hengsheng. All of these seven non-wholly owned joint ventures (Henglong, Jiulong, Shenyang, Zhejiang, USAI, Wuhu and Jielong) are under the Company’s control. The Testing Center is a wholly-owned subsidiary of Henglong, and Beijing Henglong is a joint venture formed by Hengsheng. Set forth below is an organizational chart as at December 31, 2010.



1. Henglong was established in 1997 and is mainly engaged in the production of rack and pinion power steering gear for cars and light duty vehicles. On March 31, 2008, the Company's wholly-owned subsidiary, Genesis, and Wiselink Holdings Limited, "Wiselink," both controlled by Hanlin Chen and his family, entered into an equity transfer agreement, the "Henglong Agreement," pursuant to which Wiselink transferred and assigned its 35.5% equity interest in Henglong, one of the Company's currently consolidated subsidiaries, to Genesis for a total consideration of $32,090,000. The Company now holds an 80% equity interest in Henglong. Under the terms of the Henglong Agreement, Genesis is deemed to be the owner of Henglong commencing from January 1, 2008. The Henglong acquisition is considered to be a business combination of companies under common control and is being accounted for as a pooling of interests.

2. Jiulong was established in 1993 and is mainly engaged in the production of integral power steering gear for heavy-duty vehicles.

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

4. Zhejiang was established in 2002 to focus on power steering pumps.

5. USAI was established in 2005 and is mainly engaged in the production and sales of sensor modules. In 2008, Genesis and Shanghai Hongxi Investment Inc., "Hongxi," the other shareholder of USAI, agreed to increase USAI's capital to $2,600,000 from $1,800,000. The increased capital was wholly funded by Genesis. Therefore, the capital contributed by Genesis in USAI increased to $2,166,900 from $1,366,900, accounting for 83.34% of the total capital; while the capital contributed by Hongxi remained unchanged, accounting for 16.66% of the total capital.

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

7. Jielong was established in 2006 and is mainly engaged in the production and sales of electric power steering gear, "EPS."

8. On March 7, 2007, Genesis established Hengsheng, its wholly-owned subsidiary, to engage in the production and sales of automotive steering systems. The registered capital of Hengsheng at the time of establishment was $10,000,000. On February 10, 2010, the registered capital of Hengsheng was increased to $16,000,000.

9. In December 2009, Henglong, a subsidiary of Genesis, formed the Testing Center, which is mainly engaged in the research and development of new products. The registered capital of the Testing Center is RMB 30,000,000, approximately equivalent to $4,393,544.

10. On January 24, 2010, Genesis entered into a joint venture contract with Beijing Hainachuan Auto Parts Co., Ltd., to establish Beijing Henglong as a joint venture company to design, develop and manufacture both hydraulic and electric power steering systems and parts. On September 16, 2010, both parties agreed to change the joint venture company's investor into Hengsheng from Genesis, and left the other terms of the joint venture contract unchanged. Under PRC laws, the establishment of Beijing Henglong and the effectiveness of the equity joint venture contract have been approved by Administration For Industry and Commerce in Beijing.

The Company has business relationships with more than sixty vehicle manufacturers, including FAW Group and Dongfeng Auto Group, two of the five largest automobile manufacturers in China; Shenyang Brilliance Jinbei Co., Ltd., the largest light vehicle manufacturer in China; Chery Automobile Co., Ltd, the largest state owned car manufacturer in China, and BYD Auto Co., Ltd and Zhejiang Geely Automobile Co., Ltd., the largest privately owned car manufacturers in China. From 2008, the Company has supplied power steering pumps and power steering gear to the Sino-Foreign joint ventures established by General Motors (GM), Citroen and Volkswagen. In 2009, the Company began to supply power steering gear to Chrysler North America.

Intellectual Property Rights

Intellectual Property rights, "IP," are important in helping the Company maintain its competitive position. Currently, the Company owns IP rights, including two trademarks covering automobile parts, "HL" and "JL," and more than eighty five patents registered in China covering power steering technology. The Company is in the process of integrating new advanced technologies such as electronic chips in power steering systems into its current production line and is pursuing aggressive strategies in technology to maintain a competitive edge within the automobile industry. In 2001, the Company signed a Ten-Year Licensing Agreement with Bishop Steering Technology Limited, a leader in automotive steering gear technology innovation which offers advanced technology for steering valves within the contract period. Before expiration, the Company plans to negotiate with Bishop Steering Technology Limited to renew the agreement. The Company does not anticipate that there will be a significant adverse impact if the Company fails to renew as the Company has already developed independent R&D capabilities in steering valves. In 2003, the Company signed a Technology Transfer Agreement with Nanyang Ind. Co. Ltd., a leading steering column maker, for the technology necessary for electronic power steering (EPS) systems. In addition, the Company established with Tsinghua University a steering systems research institute designed to develop Electronic Power Steering (EPS) and

Electronic Hydraulic Steering Systems (EHPS). In December 2009, the Company, through Henglong, a subsidiary of Genesis, formed Henglong Testing Center to engage in the research and development of new products, such as EPS, integral Rack and Pinion power steering and high pressure power steering, to optimize current products design and to develop new, cost-saving manufacturing processes.

Strategic Plan

The Company's short to medium term strategic plan is to focus on both domestic and international market expansion. To achieve this goal and higher profitability, the Company focuses on brand recognition, quality control, decreasing costs, research and development and strategic acquisitions. Set forth below are the Company's programs:

Brand Recognition. Under the Henglong and Jiulong brands, the Company offers four separate series of power steering sets and 310 models of power steering sets, steering columns, steering oil pumps and steering hoses.

Quality Control. The Henglong and Jiulong manufacturing facilities obtained the ISO/TS 16949 System Certification in January 2004, a well-recognized quality control system in the auto industry developed by TUVRheindland of Germany.

Decreasing Cost. By improving the Company's production ability and enhancing equipment management, optimizing the process and products structure, perfecting the supplier system and cutting production cost, the Company's goal is to achieve a more competitive profit margin.

Research and Development. By partnering with Bishop Steering Technology Limited, Nanyang Ind. Co. Ltd. and Tsinghua University for the development of advanced steering systems, the Company's objective is to gain increased market share in China.

International Expansion. The Company has entered into agreements with several international vehicle manufacturers and auto parts modules suppliers and carried on preliminary negotiations regarding future development projects.

Acquisitions. The Company is exploring opportunities to create long-term growth through new ventures or acquisitions of other auto component manufacturers. The Company will seek acquisition targets that fulfill the following criteria:

- companies that can be easily integrated into product manufacturing and corporate management;
- companies that have strong joint venture partners that would become major customers; and
- companies involved with power steering systems.

Customers

The Company's ten largest customers represented 77.4% of the Company's total sales for the year ended December 31, 2010. The following table sets forth information regarding the Company's ten largest customers.

Name of Major Customers	Percentage of Total Revenue in 2010	
Chery Automobile Co., Ltd	12.3	%
BYD Auto Co., Ltd	11.0	%
Dongfeng Auto Group Co., Ltd	8.8	%
Zhejiang Geely Holding Co., Ltd	8.5	%
Brilliance China Automotive Holdings Limited	8.3	%
Beiqi Foton Motor Co., Ltd.	8.3	%
China FAW Group Corporation	7.2	%
Great Wall Motor Company Limited	5.0	%
Chrysler Group LLC	4.5	%
Anhui Jianghuai Automobile Group	3.5	%
Total	77.4	%

The Company primarily sells its products to the above-mentioned original equipment manufacturing, "OEM," customers; it also has excellent relationships with them, including as their first-ranking supplier and developer for new product development for new models. While the Company intends to continue to focus on retaining and winning this business, it cannot ensure that it will succeed in doing so. It is difficult to keep these contracts as a result of severe price competition and customers' diversification of their supply base. The Company's business would be materially and adversely affected if it loses one or more of these major customers.

Sales and Marketing

The Company's sales and marketing team has 130 sales persons, which are divided into an OEM team, a sales service team and a working group dedicated to international business. These sales and marketing teams provide a constant interface with the Company's key customers. They are located in all major vehicle producing regions to more

effectively represent the Company's customers' interests within the Company's organization, to promote their programs and to coordinate their strategies with the goal of enhancing overall service and satisfaction. The Company's ability to support its customers is further enhanced by its broad presence in terms of sales offices, manufacturing facilities, engineering technology centers and joint ventures.

The Company's sales and marketing organization and activities are designed to create overall awareness and consideration of, and therefore to increase sales of, the Company's modular systems and components. To achieve that objective, the Company organized delegations to visit the United States, Korea, India and Japan and has supplied power steering gear to Chrysler North America. Through these activities, the Company has generated potential business interest as a strong base for future development.

Distribution

The Company's distribution system covers all of China. The Company has established sales and service offices with certain significant customers to deal with matters related to such customers in a timely fashion. The Company also established distribution warehouses close to major customers to ensure timely deliveries. The Company maintains strict control over inventories. Each of these sales and service offices sends back to the Company through e-mail or fax information related to the inventory and customers' needs. The Company guarantees product delivery in 8 hours for those customers who are located within 200 km from the Company's distribution warehouses, and 24 hours for customers who are located outside of 200 km from the Company's distribution warehouses. Delivery time is a very important competitive factor in terms of customer decision making, together with quality, pricing and long-term relationships.

Employees and Facilities

As of December 31, 2010, the Company employed approximately 3,908 persons, including approximately 2,348 by Henglong and Jiulong, approximately 338 by Shenyang, approximately 336 by Zhejiang, approximately 52 by USAI, approximately 166 by Wuhu, approximately 268 by Hengsheng, and 5 by Henglong USA.

As of December 31, 2010, each of Henglong and Jiulong, Shenyang, Zhejiang, Wuhu, Jielong, and Hengsheng has a manufacturing and administration area of 278,092 square meters, 35,354 square meters, 32,000 square meters, 83,700 square meters, 79,920 square meters, and 170,520 square meters, respectively.

Hubei Province, which is home to Dongfeng, one of the largest automakers in China, provides an ample supply of inexpensive but skilled labor to automotive-related industries. The annual production of the Company's main product, power steering gear, was approximately 3,100,000 units and 2,200,000 units in 2010 and 2009 respectively. Although the production process continues to rely heavily on manual labor, the Company has invested substantially in high-level production machinery to improve capacity and production quality. Approximately $58 million was spent over the last three years to purchase professional-grade equipment and extend workshops—approximately 85% of which has been used in the production process as of December 31, 2010.

Raw Materials

The Company purchases various manufactured components and raw materials for use in its manufacturing processes. The principal components and raw materials the Company purchases include castings, finished sub-components, aluminum, steel, fabricated metal electronic parts and molded plastic parts. The most important raw material is steel. The Company enters into purchase agreements with local suppliers. The annual purchase plans are determined at the beginning of the calendar year but are subject to revision every three months as a result of customers' orders. A purchase order is made according to monthly production plans. This protects the Company from building up inventory when the orders from customers change.

The Company's purchases from its ten largest suppliers represented in the aggregate 26.2% of all components and raw materials it purchased for the year ended December 31, 2010, and none of them provided more than 10% of total purchases.

All components and raw materials are available from numerous sources. The Company has not, in recent years, experienced any significant shortages of manufactured components or raw materials and normally does not carry inventories of these items in excess of what is reasonably required to meet its production and shipping schedules.

Research and Development

In 2006, the Company signed a five-year consulting and licensing agreement with Bishop Steering Technology Ltd, one of the leading design firms in power steering systems. Bishop's technology in power steering systems is currently used by carmakers such as BMW and Mercedes Benz. Pursuant to the agreement, the Company has implemented the Bishop steering valve technology into the Henglong brand R&P power steering gear. Before expiration, the Company plans to negotiate with Bishop Steering Technology Limited to renew the agreement. The Company does not anticipate that there will be a significant adverse impact if the Company fails to renew as the Company has already developed independent R&D capabilities in steering valves.

The Company owns a Hubei Provincial-Level Technical Center, which has been approved by the Hubei Economic Commission. The center has a staff of about 290, including 24 senior engineers, 2 foreign experts and 200 engineers, primarily focused on steering system R&D, tests, production process improvement and new material and production methodology application.

In addition, the Company has partnered with Tsinghua University to establish a steering system research center, called Tsinghua Henglong Automobile Steering Research Institute, for the purposes of R&D and experimentation for Electronic Power Steering, "EPS."

The Company believes that its engineering and technical expertise, together with its emphasis on continuing research and development, allow it to use the latest technologies, materials and processes to solve problems for its customers and to bring new, innovative products to market. The Company believes that continued research and development activities, including engineering, are critical to maintaining its pipeline of technologically advanced products. The Company has aggressively managed costs in other portions of its business in order to increase its total expenditures for research and development activities, including engineering, at approximately $7,990,000, $2,560,000, and $2,260,000 for the years ended December 31, 2010, 2009, and 2008, respectively. The significant increase in 2010 is mainly due to the large expenditure in EPS R&D, because the Company believes demands for the new EPS products will increase significantly in the future. In 2010, the sales of newly developed products accounted for about 18% of total sales.

Competition

The automotive components industry is extremely competitive. Criteria for the Company's customers include quality, price/cost competitiveness, system and product performance, reliability and timeliness of delivery, new product and technology development capability, excellence and flexibility in operations, degree of global and local presence, effectiveness of customer service and overall management capability. The power steering system market is fragmented in China, and the Company has seven major competitors. Of these competitors, two are Sino-foreign joint ventures while the other five are state-owned. Like many competitive industries, there is pressure on downward selling prices.

The Company's major competitors, including Shanghai ZF and FKS, are component suppliers to specific automobile manufacturers. Shanghai ZF is the joint venture of SAIC and ZF Germany, which is an exclusive supplier to SAIC-Volkswagen and SAIC-GM. First Auto FKS is a joint venture between First Auto Group and Japan's Koyo Company and its main customer is FAW-Volkswagen Company.

While the Chinese government limits foreign ownership of auto assemblers to 50%, there is no analogous limitation in the automotive components industry. Thus, opportunities exist for foreign component suppliers to set up factories in China. These overseas competitors employ technology that may be more advanced and may have existing relationships with global automobile assemblers, but they are generally not as competitive as the Company in China in

terms of production cost and flexibility in meeting client requirements.

Chinese Automobile Industry

The Company is a supplier of automotive parts and most of its operations are located in China. An increase or decrease in the output and sales of Chinese vehicles could result in an increase or decrease of the Company's results of operations. According to the latest statistics from the China Association of Automobile Manufacturers, "CAAM," in 2010, the output and sales volume of vehicles in China have reached 18.26 million and 18.06 million units, respectively, an increase of 32.44% and 32.37% compared to 2009, driven by government stimulus measures including favorable tax rebates on fuel-efficient vehicles as well as subsidies for rural purchases. The output and sales volume of passenger vehicles have reached 13.90 million and 13.76 million units respectively, with an increase of 33.83% and 33.17% compared to 2009. The output and sales volume of commercial vehicles have reached 4.36 million and 4.30 million units, respectively, an increase of 28.19% and 29.90% compared to 2009. Accordingly, the Company's sales of steering gear for passenger vehicles, commercial vehicles and steering pumps in 2010 increased by 37.2%, 43.8% and 0.4%, respectively, compared with the year 2009.

Industry analysts expect market growth to slow in 2011 now that incentives have expired. In addition, some PRC cities, like Beijing, have introduced policies to limit the number of cars purchased each month to deal with gridlocked streets, which we expect to have a longer-term impact on the development of the automobile industry in China.

Despite these challenges, management believes that the continuing development of the highway system will have a significant positive long-term impact on the manufacture and sale of private automobiles in the PRC. Statistics from the Ministry of Communications show that 213,000 kilometers of highway and 8,980 kilometers of expressway were built in 2010. Total highways and expressways in the PRC now amount to 3,984,000 kilometers and 74,000 kilometers, respectively.

Environmental Compliance

The Company is subject to the requirements of U.S. federal, state, local and non-U.S., including China's, environmental and occupational safety and health laws and regulations. These include laws regulating air emissions, water discharge and waste management. The Company has an environmental management structure designed to facilitate and support its compliance with these requirements globally. Although it is the Company's intent to comply with all such requirements and regulations, it cannot provide assurance that it is at all times in compliance. The Company has made and will continue to make capital and other expenditures to comply with environmental requirements, although such expenditures were not material during the past two years. Environmental requirements are complex, change frequently and have tended to become more stringent over time. Accordingly, the Company cannot assure that environmental requirements will not change or become more stringent over time or that its eventual environmental cleanup costs and liabilities will not be material.

During 2010, the Company did not make any material capital expenditures relating to environmental compliance.

Financial Information and Geographic Areas

Financial information about sales and long-term assets by major geographic region can be found in Note 36, "Segment Information." The following table summarizes the percentage of sales and total assets by major geographic regions:

	Net Sales Year Ended December 31			Long-term Assets Year Ended December 31	
	2010	2009	2008	2010	2009
Geographic region:					
United States	5.0 %	2.4 %	0.3 %	0.02 %	0.05 %
China	95.0 %	97.6 %	99.7 %	99.98 %	99.95 %
Total	100 %	100 %	100 %	100 %	100 %

Website Access to SEC Filings

The Company files electronically with (or furnishes to) the SEC its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports pursuant to Section 13(a) of the Securities Exchange Act of 1934. The Company makes available free of charge on its web site (www.caasauto.com) all such reports as soon as reasonably practicable after they are filed.

The SEC maintains an Internet site that contains reports, proxy information and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is http://www.sec.gov. The materials are also available at the SEC's Public Reference Room, located at 100 F Street, Washington, D.C. 20549. The public may obtain information through the public reference room by calling the SEC at 1-800-SEC-0330.

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ITEM 1A. RISK FACTORS.

Any investment in the Company's securities involves a high degree of risk. You should carefully consider the risks described below, together with the information contained elsewhere in this prospectus, before you make a decision to invest in the Company. The Company's business, financial conditions and results of operations could be materially and adversely affected by many risk factors. Because of these risk factors, actual results might differ significantly from those projected in any forward-looking statements. Factors that might cause such differences include, among others, the following:

Risks Related to the Company's Business and Industry

Because the Company is a holding company with substantially all of its operations conducted through its subsidiaries, its performance will be affected by the performance of its subsidiaries.

The Company almost has no operations independent of those of Genesis and its subsidiaries, and the Company's principal assets are its investments in Genesis and its subsidiaries. As a result, the Company is dependent upon the performance of Genesis and its subsidiaries and will be subject to the financial, business and other factors affecting Genesis as well as general economic and financial conditions. As substantially all of the Company's operations are and will be conducted through its subsidiaries, the Company will be dependent on the cash flow of its subsidiaries to meet its obligations.

Because virtually all of the Company's assets are and will be held by operating subsidiaries, the claims of the Company's stockholders will be structurally subordinate to all existing and future liabilities and obligations, and trade payables of such subsidiaries. In the event of the Company's bankruptcy, liquidation or reorganization, its assets and those of its subsidiaries will be available to satisfy the claims of the Company's stockholders only after all of its and its subsidiaries' liabilities and obligations have been paid in full.

The Senior Convertible Notes are the Company's unsecured obligations, but are not obligations of its subsidiaries. In addition, the subsidiaries' secured bank loans and notes payable are senior to the Senior Convertible Notes.

With the automobile parts markets being highly competitive and many of the Company's competitors having greater resources than it does, the Company may not be able to compete successfully.

The automobile parts industry is a highly competitive business. Criteria for the Company's customers include:

- quality;
- price/cost competitiveness;
- system and product performance;
- reliability and timeliness of delivery;
- new product and technology development capability;
- excellence and flexibility in operations;
- degree of global and local presence;

- effectiveness of customer service; and
- overall management capability.

The Company's competitors include independent suppliers of parts, as well as suppliers formed by spin-offs from the Company's customers, who are becoming more aggressive in selling parts to other vehicle manufacturers. Depending on the particular product, the number of the Company's competitors varies significantly. Many of the Company's competitors have substantially greater revenues and financial resources than it does, as well as stronger brand names, consumer recognition, business relationships with vehicle manufacturers, and geographic presence than it has. The Company may not be able to compete favorably and increased competition may substantially harm its business, business prospects and results of operations.

Internationally, the Company faces different market dynamics and competition. The Company may not be as successful as its competitors in generating revenues in international markets due to the lack of recognition of its products or other factors. Developing product recognition overseas is expensive and time-consuming and the Company's international expansion efforts may be more costly and less profitable than it expects. If the Company is not successful in its target markets, its sales could decline, its margins could be negatively impacted and it could lose market share, any of which could materially harm the Company's business, results of operations and profitability.

The cyclical nature of automotive production and sales could result in a reduction in automotive sales, which could adversely affect the Company's business and results of operations.

The Company's business relies on automotive vehicle production and sales by its customers, which are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences and the price and availability of gasoline. They also can be affected by labor relations issues, regulatory requirements, and other factors. In addition, in the last two years, the price of automobiles in China has generally declined. Additionally, the volume of automotive production in China has fluctuated from year to year, which gives rise to fluctuations in the demand for the Company's products. Therefore, any significant economic decline could result in a reduction in automotive production and sales by the Company's customers and could have a material adverse effect on the Company's results of operations. Moreover, if the prices of automobiles do not remain low, then demand for automobile parts could fall and result in lower revenues and profitability.

Increasing costs for manufactured components and raw materials may adversely affect the Company's profitability.

The Company uses a broad range of manufactured components and raw materials in its products, including castings, electronic components, finished sub-components, molded plastic parts, fabricated metal, aluminum and steel, and resins. Because it may be difficult to pass increased prices for these items on to the Company's customers, a significant increase in the prices of the Company's components and materials could materially increase the Company's operating costs and adversely affect its profit margins and profitability.

Pricing pressure by automobile manufacturers on their suppliers may adversely affect the Company's business and results of operations.

Recently, pricing pressure from automobile manufacturers has been prevalent in the automotive parts industry in China. Virtually all vehicle manufacturers seek price reductions each year. Although the Company has tried to reduce costs and resist price reductions, these reductions have impacted the Company's sales and profit margins. If the Company cannot offset continued price reductions through improved operating efficiencies and reduced expenditures, price reductions will have a material adverse effect on the Company's results of operations.

The Company's business, revenues and profitability would be materially and adversely affected if it loses any of its large customers.

For the year ended December 31, 2010, approximately 12.3% of the Company's sales were to Chery Automobile Co., Ltd, approximately 11.0% were to BYD Auto Co., Ltd, approximately 8.8% were to Dongfeng Auto Group Co., Ltd, and approximately 8.5% were to Zhejiang Geely Holding Co., Ltd, the Company's four largest customers. In total, these four largest customers accounted for 40.6% of the total sales. The loss of, or significant reduction in purchases by, one or more of these major customers could adversely affect the Company's business.

The Company may not be able to collect receivables incurred by customers.

Although the Company currently sells its products on credit, the Company's ability to receive payment for its products depends on the continued creditworthiness of its customers. The Company's customer base may change if its sales increase because of the Company's expanded capacity. If the Company is not able to collect its receivables, its revenues and profitability will be adversely affected.

The Company may be subject to product liability and warranty and recall claims, which may increase the costs of doing business and adversely affect the Company's financial condition and liquidity.

The Company may be exposed to product liability and warranty claims if its products actually or allegedly fail to perform as expected or the use of its products results, or is alleged to result, in bodily injury and/or property damage. The Company started to pay some of its customers' increased after-sales service expenses due to consumer rights protection policies of "recall" issued by the Chinese government in 2004, such as the recalling flawed vehicles policy. Beginning in 2004, automobile manufacturers unilaterally required their suppliers to pay a "3-R Guarantees" service charge for repair, replacement and refund in an amount of about 2%–6% of the total amount of parts supplied. Accordingly, the Company has experienced and will continue to experience higher after sales service expenses. Product liability, warranty and recall costs may have a material adverse effect on the Company's financial condition.

The Company is subject to environmental and safety regulations, which may increase the Company's compliance costs and may adversely affect its results of operation.

The Company is subject to the requirements of environmental and occupational safety and health laws and regulations in China. The Company cannot provide assurance that it has been or will be at all times in full compliance with all of these requirements, or that it will not incur material costs or liabilities in connection with these requirements. Additionally, these regulations may change in a manner that could have a material adverse effect on the Company's business, results of operations and financial condition. The capital requirements and other expenditures that may be necessary to comply with environmental requirements could increase and become a material expense of doing business.

Non-performance by the Company's suppliers may adversely affect its operations by delaying delivery or causing delivery failures, which may negatively affect demand, sales and profitability.

The Company purchases various types of equipment, raw materials and manufactured component parts from its suppliers. The Company would be materially and adversely affected by the failure of its suppliers to perform as expected. The Company could experience delivery delays or failures caused by production issues or delivery of non-conforming products if its suppliers fail to perform, and it also faces these risks in the event any of its suppliers becomes insolvent or bankrupt.

The Company's business and growth may suffer if it fails to attract and retain key personnel.

The Company's ability to operate its business and implement its strategies effectively depends on the efforts of its executive officers and other key employees. The Company depends on the continued contributions of its senior management and other key personnel. The Company's future success also depends on its ability to identify, attract and retain highly skilled technical staff, particularly engineers and other employees with mechanics and electronics expertise, and managerial, finance and marketing personnel. The Company does not maintain a key person life insurance policy on Mr. Hanlin Chen or Mr. Qizhou Wu. The loss of the services of any of the Company's key employees or the failure to attract or retain other qualified personnel could substantially harm the Company's business.

The Company's management controls approximately 70.95% of its outstanding common stock and may have conflicts of interest with the Company's minority stockholders.

As of June 28, 2011, members of the Company's management beneficially own approximately 70.95% of the outstanding shares of the Company's common stock. As a result, these majority stockholders have control over decisions to enter into any corporate transaction and have the ability to prevent any transaction that requires the approval of stockholders, which could result in the approval of transactions that might not maximize overall

stockholders' value. Additionally, these stockholders control the election of members of the Company's board, have the ability to appoint new members to the Company's management team and control the outcome of matters submitted to a vote of the holders of the Company's common stock. The interests of these majority stockholders may at times conflict with the interests of the Company's other stockholders. The Henglong Transaction was a transaction involving the Company and a counterparty controlled by Mr. Hanlin Chen, the Company's Chairman and controlling stockholder. The Company regularly engages in transactions with entities controlled by one or more of its officers and directors.

Covenants contained in the Securities Purchase Agreement and the Senior Convertible Notes restrict the Company's operating flexibility.

In connection with the Convertible Notes, the Company entered into a series of binding covenants and contractual provisions that limits the Company's operating flexibility. For example, the Securities Purchase Agreement prohibits the Company from paying cash dividends on common stock without the approval of the holders of the Senior Convertible Notes. Also, if the Weighted Average Price (WAP) for twenty (20) consecutive trading days is less than $3.187, the Convertible Notes holders shall have the right, in their sole discretion, to require that the Company redeem all or any portion of the Convertible Notes. The portion of this Convertible Notes subject to redemption in connection with the share price change of the underlying common stock will be redeemed by the Company in cash at a price equal to the sum of the conversion amount being redeemed and the Other Make Whole Amount as mentioned below in Note 13. Also, upon the consummation of a change of control as defined in the Convertible Notes agreements, the Convertible Notes holders may require the Company to redeem all or any portion of the Convertible Notes. These binding covenants and contractual provisions limit the Company's ability to declare or pay dividends, issue other notes or debt, issue certain types of securities, engage in certain types of intercompany loans or enter into other types of fundamental transactions. These restrictions could limit the Company's ability to operate and may harm the equity interest of shareholders.

There is a limited public float of the Company's common stock, which can result in the Company's stock price being volatile and prevent the realization of a profit on resale of the Company's common stock or derivative securities.

There is a limited public float of the Company's common stock. As of June 28, 2011, approximately 29.05% of the Company's outstanding common stock is considered part of the public float. The term "public float" refers to shares freely and actively tradable on the NASDAQ Capital Market and not owned by officers, directors or affiliates, as such term is defined under the Securities Act. As a result of the limited public float and the limited trading volume on some days, the market price of the Company's common stock can be volatile, and relatively small changes in the demand for or supply of the Company's common stock can have a disproportionate effect on the market price for its common stock. This stock price volatility could prevent a security holder seeking to sell the Company's common stock or derivative securities from being able to sell them at or above the price at which the stock or derivative securities were bought, or at a price which a fully liquid market would report.

Provisions in the Company's certificate of incorporation and bylaws and the General Corporation Law of Delaware may discourage a takeover attempt.

Provisions in the Company's certificate of incorporation and bylaws and the General Corporation Law of Delaware, the state in which it is organized, could make it difficult for a third party to acquire the Company, even if doing so might be beneficial to the Company's stockholders. Provisions of the Company's certificate of incorporation and bylaws impose various procedural and other requirements, which could make it difficult for stockholders to effect certain corporate actions and possibly prevent transactions that would maximize stockholders' value.

The need to complete a restatement of certain previously issued historical financials could result in securities class action suits against the Company and/or delisting from the Nasdaq Stock Market.

On March 17, 2011, the Company announced that it had identified historical accounting errors relating to the accounting treatment of the Company's convertible notes issued on February 15, 2008, the "Convertible Notes." The accounting errors have resulted in the misstatement of certain charges since the first quarter of 2009. The Company undertook a review to determine the total amount of the errors and the accounting periods in which the errors occurred. The Company's review was overseen by the audit committee of the board of directors of the Company, the "Audit Committee", with the assistance of management and accounting consultants engaged by management. The Audit

Committee concluded on March 12, 2011 that the Company's previously issued audited consolidated financial statements as of and for the year ended December 31, 2009, and related auditors' report, and unaudited interim consolidated financial statements as of and for the quarterly periods ended March 31, June 30 and September 30, 2010 should no longer be relied upon because of these errors in the financial statements. The Company's board of directors agreed with the Audit Committee's conclusions. After analyzing the size and timing of the errors, the Company determined that, in the aggregate, the errors were material and would require the Company to restate certain of its previously issued financial statements.

The need to complete these restatements may subject the Company to additional risk from securities class action suits against the Company. In addition, as the process of restating the historical forms has delayed the filing of the Company's annual report on Form 10-K for the year ended December 31, 2010 and the quarterly report on Form 10-Q for the three-month period ended March 31, 2011, the Company is currently not in Compliance with the Nasdaq Listing Rules, which require that a listed company be current in its filing with the U.S. Securities and Exchange Commission. If the Company is not able to regain compliance with Nasdaq Listing Rules, the Company may be delisted from the Nasdaq Stock Market, "Nasdaq." If the company were to be sued and/or delisted fromNasdaq, shareholder value will be negatively impacted.

Failure to achieve and maintain effective internal control over financial reporting could have a material adverse effect on the Company's business, results of operations and the trading price of its shares.

The Company is subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, the "SEC," as required by Section 404 of the Sarbanes-Oxley Act of 2002, has adopted rules requiring public companies to include a report of management in its annual report that contains an assessment by management of the effectiveness of such company's internal control over financial reporting. In addition, beginning with the year ended December 31, 2007, an independent registered public accounting firm for an accelerated filer must attest to and report on the effectiveness of the company's internal control over financial reporting.

The Company's management has conducted an evaluation of the effectiveness of its internal control over financial reporting and concluded that the Company's internal control over financial reporting was not effective as of December 31, 2010 and material weaknesses were noted because: (i) the Company did not have sufficient personnel with appropriate levels of accounting knowledge and experience to address complex U.S. GAAP accounting issues, and to prepare and review financial statements and related disclosures under U.S. GAAP; and (ii) the Company did not have formalized closing procedures and adequate period-end review procedures to ensure a) proper preparation of the period-end financial statement closing entries and b) consistency of application of accounting policies and completeness and accuracy of the financial statement disclosures. If the Company fails to maintain the effectiveness or fails to remediate the deficiencies of its internal control over financial reporting, the Company may not be able to conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act.

Effective internal controls are necessary for the Company to produce reliable financial reports. For the deficiencies identified in this fiscal year, the Company's management team is evaluating remediation measures that can be undertaken to address these material weaknesses and will continue such evaluation so that it may institute a comprehensive remediation plan in order to maintain effective internal control over financial reporting. Any failure to achieve and maintain effective internal control over financial reporting could result in the loss of investor confidence in the reliability of the Company's financial statements, which in turn could negatively impact the trading price of the Company's shares. Furthermore, the Company may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

The Company does not pay cash dividends on its common stock.

The Company has never paid common stock cash dividends and does not anticipate doing so in the foreseeable future. In addition, the Securities Purchase Agreement prohibits the Company from paying cash dividends on common stock without the approval of the holders of the Senior Convertible Notes.

Risks Related to Doing Business in China and Other Countries Besides the United States

Inflation in China could negatively affect the Company's profitability and growth.

China's economy has experienced rapid growth. Rapid economic growth could lead to growth in the money supply and rising inflation. If prices for the Company's products rise at a rate that is insufficient to compensate for the rise in the cost of supplies, it may harm the Company's profitability. In order to control inflation in the past, the Chinese government has imposed controls on bank credit, limits on loans for fixed assets and restrictions on state bank lending. Such policies can lead to a slowing of economic growth. Rises in interest rates by the central bank would likely slow economic activity in China which could, in turn, materially increase the Company's costs and also reduce demand for the Company's products.

The Chinese government's macroeconomic policies could have a negative effect on the Company's business and results of operations.

The Chinese government has implemented various measures from time to time to control the rate of economic growth in the PRC. Some of these measures may have a negative effect on the Company over the short or long term. Recently, to cope with high inflation and economic imbalances, the Chinese government has tightened monetary policy and implemented floating exchange rate policy. In addition, in order to alleviate some of the effects of unbalanced growth and social discontent, the Chinese government has enacted a series of social programs and anti-inflationary measures. These, in turn, have increased the costs on the financial and manufacturing sectors, without having alleviated the effects of high inflation and economic imbalances. The Chinese government's macroeconomic policies, even if effected properly, may significantly slow down China's economy or cause great social unrest, all of which would have a negative effect on the Company's business and results of operations.

The economic, political and social conditions in China could affect the Company's business.

Most of the Company's business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The economy of China has been transitioning from a planned economy to a more market-oriented economy. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the Chinese government.

In addition, the Chinese government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Therefore, the Chinese government's involvement in the economy could adversely affect the Company's business operations, results of operations and/or financial condition.

Because the Company's operations are mostly located outside of the United States and are subject to Chinese laws, any change of Chinese laws may adversely affect its business.

Most of the Company's operations are in the PRC, which exposes it to risks, such as exchange controls and currency restrictions, currency fluctuations and devaluations, changes in local economic conditions, changes in Chinese laws and regulations, exposure to possible expropriation or other PRC government actions, and unsettled political conditions. These factors may have a material adverse effect on the Company's operations or on its business, results of operations and financial condition.

The Company's international expansion plans subject it to risks inherent in doing business internationally.

The Company's long-term business strategy relies on the expansion of its international sales outside China by targeting markets, such as the United States. Risks affecting the Company's international expansion include challenges caused by distance, language and cultural differences, conflicting and changing laws and regulations, foreign laws, international import and export legislation, trading and investment policies, foreign currency fluctuations, the burdens of complying with a wide variety of laws and regulations, protectionist laws and business practices that favor local businesses in some countries, foreign tax consequences, higher costs associated with doing business internationally, restrictions on the export or import of technology, difficulties in staffing and managing international operations, trade and tariff restrictions, and variations in tariffs, quotas, taxes and other market barriers. These risks could harm the Company's international expansion efforts, which could in turn materially and adversely affect its business, operating

results and financial condition.

The Company faces risks associated with currency exchange rate fluctuations; any adverse fluctuation may adversely affect its operating margins.

Although the Company is incorporated in the State of Delaware, in the United States, the majority of its current revenues are in Chinese currency. Conducting business in currencies other than U.S. dollars subjects the Company to fluctuations in currency exchange rates that could have a negative impact on its reported operating results. Fluctuations in the value of the U.S. dollar relative to other currencies impact the Company’s revenues, cost of revenues and operating margins and result in foreign currency translation gains and losses. Historically, the Company has not engaged in exchange rate hedging activities. Although the Company may implement hedging strategies to mitigate this risk, these strategies may not eliminate its exposure to foreign exchange rate fluctuations and involve costs and risks of their own, such as ongoing management time and expertise requirements, external costs to implement the strategy and potential accounting implications.

If relations between the United States and China worsen, the Company’s stock price may decrease and the Company may have difficulty accessing the U.S. capital markets.

At various times during recent years, the United States and China have had disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversies between the United States and China could adversely affect the market price of the Company’s common stock and its ability to access U.S. capital markets.

The Chinese government could change its policies toward private enterprise, which could adversely affect the Company’s business.

The Company’s business is subject to political and economic uncertainties in China and may be adversely affected by China’s political, economic and social developments. Over the past several years, the Chinese government has pursued economic reform policies including the encouragement of private economic activity and greater economic decentralization. The Chinese government may not continue to pursue these policies or may alter them to the Company’s detriment from time to time. Changes in policies, laws and regulations, or in their interpretation or the imposition of confiscatory taxation, restrictions on currency conversion, restrictions or prohibitions on dividend payments to stockholders, devaluations of currency or the nationalization or other expropriation of private enterprises could have a material adverse effect on the Company’s business. Nationalization or expropriation could result in the total loss of the Company’s investment in China.

Government control of currency conversion and future movements in exchange rates may adversely affect the Company’s operations and financial results.

The Company receives most of its revenues in Chinese Renminbi (RMB). A portion of such revenues will be converted into other currencies to meet the Company’s foreign currency obligations. Foreign exchange transactions under the Company’s capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange in China. These limitations could affect the Company’s ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

The Chinese government controls its foreign currency reserves through restrictions on imports and conversion of RMB into foreign currency. In July 2005, the Chinese government has adjusted its exchange rate policy from “Fixed Rate” to “Floating Rate.” During July 2005 to December 2010, the exchange rate between the RMB and the U.S. dollar has appreciated from RMB 1.00 to US$0.1205 to RMB 1.00 to US$0.1510. The Company believes that this significant appreciation will continue for the near future. Significant appreciation of the RMB is likely to decrease the

income of export products and decrease the Company's cash flow.

Because the Chinese legal system is not fully developed, the Company and its security holders' legal protections may be limited.

The Chinese legal system is based on written statutes and their interpretation by the Supreme People's Court. Although the Chinese government introduced new laws and regulations to modernize its business, securities and tax systems on January 1, 1994, China does not yet possess a comprehensive body of business law. Because Chinese laws and regulations are relatively new, interpretation, implementation and enforcement of these laws and regulations involve uncertainties and inconsistencies and it may be difficult to enforce contracts. In addition, as the Chinese legal system develops, changes in such laws and regulations, their interpretation or their enforcement may have a material adverse effect on the Company's business operations. Moreover, interpretative case law does not have the same precedential value in China as in the United States, so legal compliance in China may be more difficult or expensive.

It may be difficult to serve the Company with legal process or enforce judgments against its management or the Company.

Most of the Company's assets are located in China and twelve of its directors and officers are non-residents of the United States, and all or substantial portions of the assets of such non-residents are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon such persons to originate an action in the United States. Moreover, there is uncertainty that the courts of China would enforce judgments of U.S. courts against the Company, its directors or officers based on the civil liability provisions of the securities laws of the United States or any state, or an original action brought in China based upon the securities laws of the United States or any state.

The Company may be subject to fines and legal sanctions imposed by State Administration of Foreign Exchange (SAFE) or other Chinese government authorities if it or its Chinese directors or employees fail to comply with recent Chinese regulations relating to employee share options or shares granted by offshore listed companies to Chinese domestic individuals.

On December 25, 2006, the People's Bank of China, or PBOC, issued the Administration Measures on Individual Foreign Exchange Control, and the corresponding Implementation Rules were issued by SAFE on January 5, 2007. Both of these regulations became effective on February 1, 2007. According to these regulations, all foreign exchange matters relating to employee stock holding plans, share option plans or similar plans with Chinese domestic individuals' participation require approval from the SAFE or its authorized branch. On March 28, 2007, the SAFE issued the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. Under the Stock Option Rule, Chinese domestic individuals who are granted share options or shares by an offshore listed company are required, through a Chinese agent or Chinese subsidiary of the offshore listed company, to register with the SAFE and complete certain other procedures. As the Company is an offshore listed company, its Chinese domestic directors and employees who may be granted share options or shares shall become subject to the Stock Option Rule. Under the Stock Option Rule, employees stock holding plans, share option plans or similar plans of offshore listed companies with Chinese domestic individuals' participation must be filed with the SAFE. After the Chinese domestic directors or employees exercise their options, they must apply for the amendment to the registration with the SAFE. The Company is reviewing the procedures for such SAFE registration. If the Company or its Chinese domestic directors or employees fail to comply with these regulations, the Company or its Chinese domestic directors or employees may be subject to fines or other legal sanctions imposed by the SAFE or other Chinese government authorities.

Capital outflow policies in China may hamper the Company's ability to declare and pay dividends to its stockholders.

China has adopted currency and capital transfer regulations. These regulations may require the Company to comply with complex regulations for the movement of capital. Although the Company's management believes that it will be in compliance with these regulations, should these regulations or the interpretation of them by courts or regulatory agencies change, the Company may not be able to pay dividends to its stockholders outside of China. In addition, under current Chinese law, the Company's joint-ventures and wholly-owned enterprise in China must retain a reserve equal to 10% of its net income after taxes, not to exceed 50% of its registered capital. Accordingly, this reserve will not be available to be distributed as dividends to the Company's stockholders. The Company presently does not intend to pay dividends for the foreseeable future. The Company's board of directors intends to follow a policy of retaining all of its earnings to finance the development and execution of its strategy and the expansion of its business.

The Company may face severe operating environment during times of economic recession.

The sales volume of the Company's core products is largely influenced by the demand for its customers' end products which are mostly sold in the Chinese markets. Future economic crises, either within China or without, may lead to a drastic drop in demand for the Company's products.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable.

ITEM 2. PROPERTIES.

The Company's headquarters are located at No. 1 Henglong Road, Yu Qiao Development Zone, Shashi District, Jing Zhou City Hubei Province, the PRC. Set forth below are the manufacturing facilities operated by each joint venture. The Company has forty-five to fifty years long-term rights to use the lands and buildings.

Name of Entity	Product	Total Area (M2)	Building Area (M2)	Original Cost of Equipment	Site
Henglong	Automotive Parts	225,221	20,226	$ 32,550,000	Jingzhou City, Hubei Province
		13,393	13,707	$ -	Wuhan City, Hubei Province
Jiulong	Power Steering Gear	39,478	23,728	$ 23,950,000	Jingzhou City, Hubei Province
Shenyang	Automotive Steering Gear	35,354	5,625	$ 4,120,000	Shenyang City, Liaoning Province
Zhejiang	Steering Pumps	32,000	20,000	$ 10,560,000	Zhuji City, Zhejiang Province
Jielong	Electric Power Steering	79,920	-	$ 5,500,000	Wuhan City, Hubei Province
USAI	Sensor Modular	-	-	$ 880,000	Wuhan City, Hubei Province
Hengsheng	Automotive Steering Gear	170,520	26,000	$ 11,490,000	Jingzhou City, Hubei Province
Wuhu	Automotive Steering Gear	83,700	12,600	$ 2,120,000	Wuhu City, Anhui Province
Total		679,586	121,886	$ 91,170,000	

The Company is not involved in investments in (i) real estate or interests in real estate, (ii) real estate mortgages, and (iii) securities of or interests in persons primarily engaged in real estate activities, as all of its land rights are used for production purposes.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to any pending or to the best of the Company's knowledge, any threatened legal proceedings. No director, officer or affiliate of the Company, or owner of record of more than five percent of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to the Company in reference to pending litigation.

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Prices of Common Stock

The Company's common stock has been traded on the NASDAQ Capital Market under the symbol "CAAS." The high and low bid intra-day prices of the common stock in 2010 and 2009 were reported on NASDAQ for the time periods indicated on the table below. Accordingly, the table below contains the high and low bid closing prices of the common stock as reported on the NASDAQ for the time periods indicated.

	Price Range			
	2010		2009	
	High	Low	High	Low
First Quarter	$27.17	$14.18	$3.94	$2.30
Second Quarter	$25.15	$14.60	$6.64	$3.35
Third Quarter	$20.70	$13.60	$9.90	$5.14
Fourth Quarter	$17.98	$13.10	$22.49	$8.00

Stockholders

The Company's common shares are issued in registered form. Securities Transfer Corporation in Frisco, Texas is the registrar and transfer agent for the Company's common stock. As of June 28, 2011, there were 28,083,534 shares of the Company's common stock outstanding and the Company had approximately 63 stockholders of record.

Dividends

The Company has never declared or paid any cash dividends on its common stock and it does not anticipate paying any cash dividends in the foreseeable future. The Company currently intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay cash dividends will be at the discretion of the Board of Directors and will be based upon the Company's financial condition, operating results, capital requirements, plans for expansion, restrictions imposed by any financing arrangements and any other factors that the Board of Directors deems relevant.

Securities Authorized For Issuance Under Equity Compensation Plans

The securities authorized for issuance under equity compensation plans at December 31, 2010 are as follows:

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	2,200,000	$ 4.97	1,743,650

The stock option plan was approved at the 2004 Annual Meeting of Stockholders, and the maximum common shares for issuance under this plan are 2,200,000 with a term of 10 years.

Performance Graph

Company Stock Performance

The information contained below shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, the “Exchange Act,” whether made before or after the date hereof and irrespective of any general incorporation language in any such filing (except to the extent that the Company specifically incorporates this information by reference) and shall not otherwise be deemed “soliciting material” or “filed” with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act (except to the extent that the Company specifically requests that this information be treated as soliciting material or specifically incorporate this information by reference).

The following graph shows a five-year comparison of the cumulative total stockholder return on the Company's common stock as compared to the cumulative total return of two other indexes: a custom composite index ("Peer Group"), and the Standard & Poor's 500 Composite Stock Price Index. The companies included in the Peer Group are: SORL Auto Parts, Inc., China Yuchai International Limited, Standard Motor Products Inc. and Dorman Products, Inc. These comparisons assume an initial investment of $100 and the reinvestment of dividends.

	As of December 31,					
	2005	2006	2007	2008	2009	2010
CAAS	$100	$187	$116	$51	$280	$204
S&P 500 1	$100	$116	$122	$77	$97	$112
Peer Group	$100	$118	$122	$65	$154	$307
Peer + CAAS	$100	$130	$121	$62	$176	$289

1 Data Source: Standard & Poor's

The graph and other information furnished in the section titled "Share Performance" under this Part II, Item 5 of this Form 10-K shall not be deemed to be "soliciting" material or to be "filed" with the Securities and Exchange Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended.

ITEM 6. SELECTED FINANCIAL DATA.

The selected consolidated statement of income (loss) and cash flows data for the years ended December 31, 2010, 2009 and 2008 and the selected balance sheet data as of December 31, 2010 and 2009 are derived from the Company's audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated financial data for the years ended December 31, 2007 and 2006 and the selected balance sheet data as of December 31, 2008, 2007 and 2006 are derived from the Company's audited consolidated financial statements not included in this Annual Report.

The following selected historical financial information should be read in conjunction with the Company's consolidated financial statements and related notes and the information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	2006	2007	2008 As Restated	2009 As Restated	2010
Statement of income (loss) data:					
Net sales	$ 95,766,439	$ 133,597,003	$ 163,179,286	$ 255,597,553	$ 345,925,182
Gross profit	32,909,814	45,323,048	41,470,073	61,742,626	80,302,710
Operating expenses	20,424,308	24,611,397	25,207,560	25,648,736	27,384,338
Income from operations	12,026,135	20,737,277	16,996,576	36,932,395	54,047,404
Net income (loss) attributable to parent company	$ 4,811,704	$ 8,859,906	$ 10,244,130	$ (26,440,871)	$ 51,738,113
Earnings (loss) per share					
— basic	$ 0.21	0.37	0.35	(0.98)	1.65
— diluted	$ 0.21	0.37	0.35	(0.98)	1.10
Statement of Cash flows data:					
Net cash flows provided by operating activities	$ 7,969,150	$ 11,324,473	$ 16,373,966	$ 34,956,534	$ 38,552,161
Net cash flows used in investing activities	$ (1,219,103)	$ (13,159,277)	$ (22,356,060)	$ (17,335,687)	$ (32,596,741)
Net cash flows provided by/used in financing activities	$ 7,470,971	$ (7,429,025)	$ 21,981,953	$ (11,290,625)	$ (1,394,578)

	December 31,				
	2006	2007	2008 As Restated	2009 As Restated	2010
Balance sheet data:					
Cash and cash equivalents	$27,418,500	$19,487,159	$37,113,375	$43,480,176	$49,424,979
Total assets	152,108,538	182,984,687	231,888,141	314,382,572	405,215,361
Total liabilities	75,615,581	92,583,555	129,252,311	232,529,179	256,975,570
Total stockholders' equity	$76,492,957	$90,401,132	$102,635,830	$81,853,393	$148,239,791

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the related notes thereto and other financial information contained elsewhere in this Form 10-K.

General Overview

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, engages in the manufacture and sales of automotive systems and components in the People's Republic of China, the "PRC" or "China," as described below.

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

Henglong USA Corporation, "HLUSA," which was 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 ten Sino-foreign joint ventures organized in the PRC as of December 31, 2010, 2009 and 2008.

	Aggregate Net Interest					
Name of Entity	2010		2009		2008	
Jingzhou Henglong Automotive Parts Co., Ltd., "Henglong"1	80.00	%	80.00	%	80.00	%
Shashi Jiulong Power Steering Gears Co., Ltd., "Jiulong"2	81.00	%	81.00	%	81.00	%
Shenyang Jinbei Henglong Automotive Steering System Co., Ltd., "Shenyang"3	70.00	%	70.00	%	70.00	%
Zhejiang Henglong & Vie Pump-Manu Co., Ltd., "Zhejiang"4	51.00	%	51.00	%	51.00	%
Universal Sensor Application Inc., "USAI"5	83.34	%	83.34	%	83.34	%
Wuhu HengLong Auto Steering System Co., Ltd., "Wuhu"6	77.33	%	77.33	%	77.33	%
Wuhan Jielong Electric Power Steering Co., Ltd., "Jielong"7	85.00	%	85.00	%	85.00	%
Jingzhou Hengsheng Automotive System Co., Ltd, "Hengsheng"8	100.00	%	100.00	%	100.00	%
Jingzhou Henglong Automotive Technology (Testing) Center, "Testing Center"9	80.00	%	80.00	%	—	
Beijing Hainachun HengLong Automotive Steering System Co., Ltd, "Beijing HengLong"10	50.00	%	—		—	

1. Henglong was established in 1997 and is mainly engaged in the production of rack and pinion power steering gear for cars and light duty vehicles. On March 31, 2008, the Company's wholly-owned subsidiary, Genesis, and Wiselink Holdings Limited, "Wiselink," both controlled by Hanlin Chen and his family, entered into an equity transfer agreement, the "Henglong Agreement," pursuant to which Wiselink transferred and assigned its 35.5% equity interest in Henglong, one of the Company's currently consolidated subsidiaries, to Genesis for a total consideration of $32,090,000. The Company now holds an 80% equity interest in Henglong. Under the terms of the Henglong Agreement, Genesis is deemed to be the owner of Henglong commencing from January 1, 2008. The Henglong acquisition is considered to be a business combination of companies under common control and is being accounted for as a pooling of interests.

2. Jiulong was established in 1993 and is mainly engaged in the production of integral power steering gear for heavy-duty vehicles.

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

4. Zhejiang was established in 2002 to focus on power steering pumps.

5. USAI was established in 2005 and is mainly engaged in the production and sales of sensor modules. In 2008, Genesis and Shanghai Hongxi Investment Inc., "Hongxi," the other shareholder of USAI, agreed to increase USAI's capital to $2,600,000 from $1,800,000. The increased capital was wholly funded by Genesis. Therefore, the capital contributed by Genesis in USAI increased to $2,166,900 from $1,366,900, accounting for 83.34% of the total capital; while the capital contributed by Hongxi remained unchanged, accounting for 16.66% of the total capital.

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

7. Jielong was established in 2006 and is mainly engaged in the production and sales of electric power steering gear, "EPS."

8. On March 7, 2007, Genesis established Hengsheng, its wholly-owned subsidiary, to engage in the production and sales of automotive steering systems. The registered capital of Hengsheng at the time of establishment was $10,000,000. On February 10, 2010, the registered capital of Hengsheng was increased to $16,000,000.

9. In December 2009, Henglong, a subsidiary of Genesis, formed the Testing Center, which is mainly engaged in the research and development of new products. The registered capital of the Testing Center is RMB 30,000,000, approximately equivalent to $4,393,544.

10. On January 24, 2010, Genesis entered into a joint venture contract with Beijing Hainachuan Auto Parts Co., Ltd., to establish Beijing Henglong as a joint venture company to design, develop and manufacture both hydraulic and electric power steering systems and parts. On September 16, 2010, both parties agreed to change the joint venture company's investor into Hengsheng from Genesis, and left the other terms of the joint venture contract unchanged. Under PRC laws, the establishment of Beijing Henglong and the effectiveness of the equity joint venture contract have been approved by Administration For Industry and Commerce in Beijing.

RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

On March 17, 2011, the Company announced that it had identified historical accounting errors relating to the accounting treatment of the Company's Convertible Notes. The accounting errors have resulted in the misstatement of certain charges arising from fair value adjustments and other changes to derivative liabilities since the first quarter of 2009. The Company undertook a review to determine the total amount of the errors and the accounting periods in which the errors occurred. The Company's review determined that the errors resulted from the Company's failure to properly apply the requirements of Accounting Standard Codification (ASC) 815 ("ASC 815"), with respect to the conversion feature embedded in the convertible notes, effective January 1, 2009. Additionally, management has also identified accounting errors in accumulated depreciation and deferred tax assets reported and accrued payroll and related costs. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. After analyzing the size and timing of the errors, the Company determined that, in the aggregate, the errors were material and would require the Company to restate certain of its previously issued financial statements, including its previously issued audited consolidated financial statements as of and for the fiscal year ended December 31, 2009, including restated comparative financial

statements for 2008, and related auditors' report, and unaudited interim consolidated financial statements as of and for the quarterly periods ended March 31, June 30 and September 30, 2010.

The effects of the restatement on selected income statement line items for the years ended December 31, 2009 and 2008, are as follows:

	Increase/(Decrease) in income statement line items	
	2009	2008
Cost of Sales	$ 10,925,094	$ 5,788,628
Gross profit	(10,925,094)	(5,788,628)
Selling expenses	(10,192,837)	(5,861,783)
Financial income (expenses)	(5,897,514)	(1,752,495)
Gain on change in fair value of derivative	(43,698,892)	(201,365)
Income before income taxes	(50,328,663)	(1,880,705)
Income taxes	(390,462)	269,953
Net income attributable to parent company	(49,855,134)	(2,191,111)
Income per share – basic	(1.85)	(0.13)
Income per share – diluted	$ (1.76)	$ (0.11)

Results of Operations

2010 Versus 2009 (As Restated) Comparative

Net Sales and Cost of Sales

For the years ended December 31, 2010 and 2009, net sales and cost of sales are summarized as follows:

	Net Sales				Cost of sales			
	2010	2009	Change		2010	2009 As Restated	Change	
Henglong	$ 197,226,807	$ 153,459,876	$ 43,766,931	28.5%	$ 150,622,578	$ 112,141,910	$ 38,480,668	34.3%
Jiulong	92,095,265	61,613,116	30,482,149	49.5	80,664,101	53,368,639	27,295,462	51.1
Shenyang	39,691,553	32,492,844	7,198,709	22.2	33,644,820	27,051,979	6,592,841	24.4
Zhejiang	26,193,095	24,193,366	1,999,729	8.3	18,630,742	18,926,080	(295,338)	-1.6
Wuhu	33,057,878	26,496,148	6,561,730	24.8	31,330,114	25,769,456	5,560,658	21.6
Other Sectors	45,799,726	10,806,533	34,993,193	323.8	39,855,606	7,955,758	31,899,848	401.0
Eliminations	(88,139,142)	(53,464,330)	(34,674,812)	64.9	(89,125,489)	(51,358,895)	(37,766,594)	73.5
Total	$ 345,925,182	$ 255,597,553	$ 90,327,629	35.3%	$ 265,622,472	$ 193,854,927	$ 71,767,545	37.0%

Net Sales

Net sales were $345,925,182 for the year ended December 31, 2010, compared with $255,597,553 for the year ended December 31, 2009, an increase of $90,327,629, or 35.3%, mainly due to the increases in the income of Chinese residents and significant government investment, including incentives to buyers, leading to an increase in demand of passenger vehicles and commercial vehicles, and the resultant increase in the Company's sales of steering gear and pumps. Further analysis is as follows:

Net sales for Henglong was $197,226,807 for the year ended December 31, 2010, compared with $153,469,876 for the year ended December 31, 2009, representing an increase of $43,766,931, or 28.5%. Net sales increase was mainly

due to increased sale volumes with a sales increase of $56,708,725, the impact from the decrease in sales price of $15,532,900 and the effect of foreign currency translation with a sales increase of $2,591,106.

Net sales for Jiulong was $92,095,265 for the year ended December 31, 2010, compared with $61,613,116 for the year ended December 31, 2009, representing an increase of $30,482,149, or 49.5%. The net sales increase was mainly due to increased sale volumes with a sales increase of $25,273,955, the impact from the increase in sales price of $4,159,962 and the effect of foreign currency translation with a sales increase of $1,048,232.

Net sales for Shenyang was $39,691,553 for the year ended December 31, 2010, compared with $32,492,844 for the year ended December 31, 2009, representing an increase of $7,198,709, or 22.2%. The net sales increase was mainly due to increased sale volumes with a sales increase of $8,770,764, the impact from the decrease in sales price of $2,077,612, and the effect of foreign currency translation with a sales increase of $505,557.

Net sales for Zhejiang was $26,193,095 for the year ended December 31, 2010, compared with $24,193,366 for the year ended December 31, 2009, representing an increase of $1,999,729, or 8.3%. The net sales increase was mainly due to decreased sale volumes with a sales decrease of $233,616, the impact from the increase in sales price of $1,875,753 and the effect of foreign currency translation with a sales increase of $357,592.

Net sales for Wuhu was $33,057,878 for the year ended December 31, 2010, compared with $26,496,148 for the year ended December 31, 2009, representing an increase of $6,561,730, or 24.8%. The net sales increase was mainly due to increased sale volumes with a sales increase of $7,006,394, the impact from the decrease in sales price of $878,314 and the effect of foreign currency translation with a sales increase of $433,650.

Net sales for Other Sectors was $45,799,726 for the year ended December 31, 2010, compared with $10,806,533 for the year ended December 31, 2009, representing an increase of $34,993,193 or 323.8%. The net sales increased mainly due to the development of new market, such as the US market and electronic power steering market. For the U.S. market, net sales were $16,950,000 in 2010, compared with $6,430,000 in 2009, representing an increase of $10,520,000. For the new products in the China market, net sales were $28,850,000 in 2010, compared with $4,380,000 in 2009, representing an increase of $24,470,000.

Cost of Sales

For the year ended December 31, 2010, the cost of sales was $265,622,472, compared with $193,854,927 for the same period of 2009, an increase of $71,767,545, or 37.0%, mainly due to the increase of sales. Further analysis is as follows:

Cost of sales for Henglong was $150,622,578 for the year ended December 31, 2010, compared with $112,141,910 for the year ended December 31, 2009, representing an increase of $38,480,668, or 34.3%. The cost of sales increase was mainly due to increased sale volumes with a cost of sales increase of $40,349,480, decreased unit price with a cost of sales decrease of $3,808,979, and the effect of foreign currency translation with a cost increase of $1,940,167.

Cost of sales for Jiulong was $80,664,101 for the year ended December 31, 2010, compared with $53,368,639 for the year ended December 31, 2009, representing an increase of $27,295,462, or 51.1%. The cost of sales increase was mainly due to increased sales volumes with a cost of sales increase of $21,512,660, increased unit price with a cost of sales increase of $4,859,034, and the effect of foreign currency translation with a cost increase of $923,768.

Cost of sales for Shenyang was $33,644,820 for the year ended December 31, 2010, compared with $27,051,979 for the year ended December 31, 2009, representing an increase of $6,592,841, or 24.4%. The cost of sales increase was mainly due to increased sales volumes with a cost of sales increase of $7,257,738, decreased unit price with a cost of sales decrease of $1,086,994, and the effect of foreign currency translation with a cost increase of $422,097.

Cost of sales for Zhejiang was $18,630,742 for the year ended December 31, 2010, compared with $18,926,080 for the year ended December 31, 2009, representing a decrease of $295,338, or 1.6%. The cost of sales decrease was mainly due to decreased sales volumes with a cost of sales decrease of $188,586, decreased unit price with a cost of sales decrease of $394,748, and the effect of foreign currency translation with a cost increase of $287,996.

Cost of sales for Wuhu was $31,330,114 for the year ended December 31, 2010, compared with $25,769,456 for the year ended December 31, 2009, representing an increase of $5,560,658, or 21.6%. The cost of sales increase was mainly due to increased sales volumes with a cost of sales increase of $6,846,269, decreased unit price with a cost of sales decrease of $1,718,865, and the effect of foreign currency translation with a cost increase of $433,254.

Cost of sales for Other Sectors was $39,855,606 for the year ended December 31, 2010, compared with $7,955,758 for the year ended December 31, 2009, representing an increase of $31,899,848, or 401.0%, mainly due to the sales volume increase.

Gross margin was 23.2% for the year ended December 31, 2010, a 1 percentage point decrease from 24.2% for the same period of 2009, primarily due to declines in sales price in excess of unit cost reductions.

Gain on Other Sales

Gain on other sales consisted of net amount retained from sales of materials and other assets. For the year ended December 31, 2010, gain on other sales were $1,129,032, compared to $838,505 for the year ended December 31, 2009, an increase of $290,527, or 34.6%, due to increased sales of materials.

Selling Expenses

For the years ended December 31, 2010 and 2009, selling expenses are summarized as follows:

	Years Ended December 31			
	2010	2009 As Restated	Increase (Decrease)	Percentage
Salaries and wages	$ 2,247,519	$ 2,563,384	$ (315,865)	-12.3%
Office expense	1,129,348	841,748	287,600	34.2
Transportation expense	4,690,313	3,703,818	986,495	26.6
Rent expense	1,085,128	699,206	385,922	55.2
Other expense	211,567	84,384	127,183	150.7
Total	$ 9,363,875	$ 7,892,540	$ 1,471,335	18.6%

Selling expenses were $9,363,875 for the year ended December 31, 2010, compared to $7,892,540 for 2009, an increase of $1,471,335, or 18.6%. Items that increased in 2010 compared to 2009 were office expenses, transportation expense, rent expenses, and other expense. The major item that decreased was salaries and wages.

The increase in office expenses was due to increased sales, which led to increases in office supplies, travel expenses and meeting expenses.

The increase in transportation expense was due to increased sales and a rise in the price of oil, which led to increases in domestic transportation prices.

The increase in rent expense was due to increased sale volumes, which led to increases in the area of product warehouses in different places.

The salaries of salesmen, including bonuses for meeting sales target, were indexed with their sales performance. During 2010, revenue increased by 35.3% over the last year, compared with the increase of 56.6% in 2009, a decrease of 21.3 percentage points. As the salesmen did not meet their target, correspondingly their salaries decreased.

General and Administrative Expenses

For the years ended December 31, 2010 and 2009, general and administrative expenses are summarized as follows:

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	Years Ended December 31			
	2010	2009	Increase (Decrease)	Percentage
Salaries and wages	$ 4,681,335	$ 4,623,631	$ 57,704	1.2%
Labor insurance expenses	2,086,319	2,123,071	(36,752)	-1.7
Maintenance and repair expenses	679,858	1,214,160	(534,302)	-44.0
Taxes	1,179,092	1,120,948	58,144	5.2
Provision/(income) for bad debts	(2,558,818)	120,483	(2,679,301)	-2223.8
Office expense	958,542	1,189,475	(230,933)	-19.4
Depreciation and amortization expense	691,721	2,955,159	(2,263,438)	-76.6
Listing expenses1	1,939,774	1,589,236	350,538	22.1
Others expenses	371,388	258,863	112,525	43.5
Total	$ 10,029,211	$ 15,195,026	$ (5,165,815)	-34.0%

1 Listing expenses consisted of the costs associated with legal, accounting and auditing fees for operating a public company. The expenses also included share-based compensation expense for options granted to members of the audit committee.

General and administrative expenses were $10,029,211 for the year ended December 31, 2010, compared to $15,195,026 for the year ended December 31, 2009, a decrease of $5,165,815, or 34.0%.

The expense items that significantly increased in 2010 compared to 2009 were listing expenses and other expenses. The expense items that significantly decreased in 2010 compared to 2009 were provision for bad debt expenses, maintenance and repair expenses, office expenses and depreciation and amortization expense.

The increase of listing expenses was mainly due to the increase of auditing expenses. The increase in professional fees was mainly due to increased cost in the requirement of compliance with being a publicly listed entity and the need to evaluate the Company's internal control over financial reporting.

The increase of other expenses was primarily due to expansion of the scale of operation, and increases of the costs associated with legal, insurance, and accounting service.

The Company recorded provision for bad debts based on specific identification methods. The decrease in provision for bad debts in 2010 was mainly due to further improvement of OEMs' financial positions resulting from the Chinese government's continuous stimulation measures on the automobile industry, such as subsidies to rural area consumers and fuel efficient car buyers and reduction in purchase taxes. As a result, the Company collected about $2,600,000 of accounts receivable in 2010, which was not expected to be collectible in prior years and bad debts provision has been provided for. As a result, the provision for bad debts was negative.

The decrease of maintenance and repair expenses was mainly due to certain office facilities having maintenance and repair last year and none this year, thus the maintenance of office facilities and repair were reduced in 2010.

The decrease of depreciation and amortization expense was mainly due to certain fixed assets of the Company not needing to be depreciated in 2010 as they have been fully depreciated.

Research and Development Expenses

Research and development expenses, "R & D" expenses, were $7,991,252 for the year ended December 31, 2010, compared to $2,561,170 for the year ended December 31, 2009, an increase of $5,430,084, or 212.0%.

The global automotive parts industry is highly competitive; winning and maintaining new business requires suppliers to rapidly produce new and innovative products on a cost-competitive basis. In 2010, foreign OEMs significantly increased their demand for Electronic Steering Gear, “EPS”, but the related technology in China is still in the research and development and testing stage. In order to market “EPS” quickly, the Company invested more in the R&D of “EPS” in 2010, including focusing the Company’s senior technicians and advanced manufacture equipment on “EPS,” establishing the “EPS” trail-production department, introducing technology expectations and purchasing advanced technology and test equipment. At present, the Company has developed several types of “EPS” that apply to small-engine cars, and has supplied some quantity of “EPS.”

Income from Operations

Income from operations was $54,047,404 for the year ended December 31, 2010, compared to $36,932,395 for the year ended December 31, 2009, an increase of $17,115,009, or 46.3%, mainly consisting of an increase of $18,560,084, or 30.1%, in gross profit, an increase of $290,527, or 34.6%, in gain on other sales, such as raw materials, and an increase of operating expenses of $1,735,602, or 6.8%.

Other Income, Net

Other income was $543,242 for the year ended December 31, 2010, compared to $94,534 for the year ended December 31, 2009, an increase of $448,708, or 474.7%, primarily as a result of increased government subsidies.

The Company’s government subsidies consisted of interest subsidy and investment subsidy. Interest subsidy is the refund by the Chinese government of interest charged by banks to companies which are entitled to such subsidies. Investment subsidy is subsidy to encourage foreign investors to set up technologically advanced enterprises in China.

During the year ended December 31, 2009, the Company received $94,534 for interest subsidy, and no investment subsidy. During the year ended December 31, 2010, the Company’s received $311,291 for interest subsidy, and $231,951 for investment subsidy.

Interest subsidies apply only to loan interest related to production facilities expansion. During 2008 and 2009, the Company had used the special loans to improve different products’ production lines technologically in order to enlarge production capability and enhance quality. The expansion projects were completed and new facilities were put into use at the end of 2009 and 2010, respectively.

The Chinese government also provided incentives to foreign investors for setting up technologically advanced enterprises in China. Henglong, a subsidiary of the Company, has received $231,951 of government subsidies because it is a technologically advanced enterprise.

Financial Expenses

Financial expenses were $3,360,837 for the year ended December 31, 2010, compared to financial expenses of $7,883,714 for 2009, a decrease of $4,522,877, or 57.4%, primarily as a result of a decrease in interest expense related to the Convertible Notes. Convertible Notes holders are entitled to require the Company to redeem all or any portion of the Convertible Notes in cash, if the weighted average price, “WAP,” is less than $3.187 for twenty (20) consecutive trading days at any time following February 15, 2009. In March 2009, due to a default on the WAP under the aforesaid contractual provision, the “WAP Default,” the Company accreted $3,900,000 of the remaining discount on the Convertible Notes immediately and accrued an additional $520,000 of interest expenses for WAP Default. Please see Note 13 to the Consolidated Financial Statements under Item 15 of this Annual Report for more details.

Gain (Loss) on Change in Fair Value of Derivatives

During the year ended December 31, 2010, the gain on change in fair value of the derivatives embedded in the Convertible Notes was $20,171,698, as compared to a loss of $43,074,327 for the year ended December 31, 2009, an increase of $63,246,025. The derivative liability was marked to market each period.

During the year ended December 31, 2009, the increase of loss on change in fair value of derivatives was primarily due to the increase in the intrinsic value of the embedded conversion feature in the Convertible Notes as a result of the increase in the market price of the Company’s common stock which rose from $3.39 at the beginning of 2009 to

$18.71 at December 31, 2009. Upon the adoption of ASC 815-10 on January 1, 2009, the Company is required to bifurcate the embedded conversion feature of the Convertible Note payable as a derivative liability.

During the year ended December 31, 2010, the Company's common stock market price dropped to $13.62 from $18.71 at the beginning of the year, which significantly decreased the intrinsic value of the embedded conversion option of the Convertible Notes. As a result, the fair value of compound derivative liabilities decreased significantly and correspondingly, the gain on change in fair value of derivatives increased. Please see Note 14 to the Consolidated Financial Statements under Item 15 of this Annual Report for more details.

Income (Loss) before Income Taxes

Income before income taxes was $71,401,507 for the year ended December 31, 2010, compared to a loss of $13,931,112 for the year ended December 31, 2009, an increase of $85,332,619, consisting of increased income from operations of $17,115,009, increased other income of $448,708, decreased finance expenses of $4,522,877, and increased gain on change in fair value of derivative of $63,246,025.

Income taxes

Income tax expense was $8,484,205 for the year ended December 31, 2010, compared to $4,720,013 for the year ended December 31, 2009, an increase of $3,764,192, mainly because of: (1) an increase in income before income tax in the PRC market that was not offset by losses before income tax in the U.S. market and the Company made a provision for deferred income tax assets in the U.S. (see Note 10); (2) while there was a gain before income tax in the U.S. for the year ended December 31, 2010 (and loss for the year ended December 31, 2009) mainly due to a change in the fair value of convertible notes, the Company cannot recognize such gain as a deferred income tax as if it was a permanent change; and (3) a decrease of foreign government tax return. For a full reconciliation of the Company's effective tax rate to the U.S. federal statutory rate of 35% and further explanation of the Company's provision for taxes, see Note 29 to the consolidated financial statements in Item 15.

Net income

Net income was $62,917,302 for the year ended December 31, 2010, compared to a loss of $18,651,125 for the year ended December 31, 2009, an increase of $81,568,427, consisting of increased income before income taxes of $85,332,619, and an increase of income tax expenses of $3,764,192.

Net Income Attributable to Noncontrolling Interests

The Company recorded net income attributable to noncontrolling interests of $11,179,189 for the year ended December 31, 2010, compared to $7,789,746 for the year ended December 31, 2009, an increase of $3,389,443, or 43.5%.

The Company owns different equity interests in eight Sino-foreign joint ventures, through which it conducts its operations. All the operating results of these eight Foreign Investment Enterprises were consolidated in the Company's financial statements as of December 31, 2010 and 2009. The Company records the net income attributable to noncontrolling interests of the respective Sino-foreign joint ventures for each period.

In 2010, net income attributable to noncontrolling interests increased compared to 2009, primarily resulting from increased net income of joint ventures.

Net Income Attributable to Parent Company

Net income attributable to parent company was $51,738,113 for the year ended December 31, 2010, compared to a loss attributable to parent company of $26,440,871 for the year ended December 31, 2009, an increase of

$78,178,984, consisting of increased net income of $81,568,427, and an increased net income attributable to noncontrolling interests of $3,389,443.

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2009 (As Restated) Versus 2008 (As Restated) Comparative

Net Sales and Cost of Sales

For the years ended December 31, 2009 and 2008, net sales and cost of sales are summarized as follows:

	Net Sales				Cost of sales			
	2009	2008	Change		2009 As Restated	2008 As Restated	Change	
Henglong	$ 153,459,876	$ 92,991,655	$ 60,468,221	65.0%	$ 112,141,910	$ 66,713,130	$ 45,428,780	68
Jiulong	61,613,116	42,708,266	18,904,850	44.3	53,368,639	36,518,790	16,849,849	46
Shenyang	32,492,844	25,007,497	7,485,347	29.9	27,051,979	20,745,291	6,306,688	30
Zhejiang	24,193,366	15,778,456	8,414,910	53.3	18,926,080	11,532,146	7,393,934	64
Wuhu	26,496,148	19,953,632	6,542,516	32.8	25,769,456	19,564,043	6,205,413	31
Other Sectors	10,806,533	901,474	9,905,059	1098.8	7,955,758	271,271	7,684,487	2832
Eliminations	(53,464,330)	(34,161,694)	(19,302,636)	56.5	(51,358,895)	(33,635,458)	(17,723,437)	52
Total	$ 255,597,553	$ 163,179,286	$ 92,418,267	56.6%	$ 193,854,927	$ 121,709,213	$ 72,145,714	59

Net Sales

Net sales were $255,597,553 for the year ended December 31, 2009, compared with $163,179,286 for the year ended December 31, 2008, an increase of $92,418,267, or 56.6%, mainly due to the increases in the income of Chinese residents and significant government investment leading to an increase in demand of passenger vehicles and commercial vehicles, and the resultant increase in the Company's sales of steering gear and pumps. Further analysis as follows:

Net sales for Henglong was $153,459,876 for the year ended December 31, 2009, compared with $92,991,655 for the year ended December 31, 2008, representing an increase of $60,468,221, or 65.0%. The net sales increase was mainly due to increased sale volumes with a sales increase of $69,715,775, the impact from the decrease in sales price of $9,947,637, and the effect of foreign currency translation with a sales increase of $700,083.

Net sales for Jiulong was $61,613,116 for the year ended December 31, 2009, compared with $42,708,266 for the year ended December 31, 2008, representing an increase of $18,904,850, or 44.3%. The net sales increase was mainly due to increased sale volumes with a sales increase of $18,404,951, the impact from the increase in sales price of $130,078, and the effect of foreign currency translation with a sales increase of $369,821.

Net sales for Shenyang was $32,492,844 for the year ended December 31, 2009, compared with $25,007,497 for the year ended December 31, 2008, representing an increase of $7,485,347, or 29.9%. The net sales increase was mainly due to increased sale volumes with a sales increase of $8,377,434, the impact from the decrease in sales price of $1,080,739, and the effect of foreign currency translation with a sales increase of $188,652.

Net sales for Zhejiang was $24,193,366 for the year ended December 31, 2009, compared with $15,778,456 for the year ended December 31, 2008, representing an increase of $8,414,910, or 53.3%. The net sales increase was mainly due to increased sale volumes with a sales increase of $10,805,036 and the impact from the decrease in sales price of $2,509,713 and the effect of foreign currency translation with a sales increase of $119,587.

Net sales for Wuhu was $26,496,148 for the year ended December 31, 2009, compared with $19,953,632 for the year ended December 31, 2008, representing an increase of $6,542,516, or 32.8%. The net sales increase was mainly due

to increased sale volumes with a sales increase of $7,529,848 and the impact from the decrease in sales price of $1,316,608 and the effect of foreign currency translation with a sales increase of $329,276.

Net sales for Other Sectors was $10,806,533 for the year ended December 31, 2009, compared with $901,474 for the year ended December 31, 2008, representing an increase of $9,905,059 or 1,098.8%. The net sales increased mainly due to the development of new market. For the U.S. market, net sales for Other Sectors was $6,430,000 in 2009, compared with $490,000 in 2008, representing an increase of $5,940,000 for the China market, net sales for Other Sectors was $4,380,000 in 2009, compared with $410,000 in 2008, representing an increase of $3,970,000.

Cost of Sales

For the year ended December 31, 2009, the cost of sales was $193,854,927, compared with $121,709,213 for the same period of 2008, an increase of $72,145,714, or 59.3%, mainly due to the increase of sales. Further analysis as follows:

Cost of sales for Henglong was $112,141,910 for the year ended December 31, 2009, compared with $66,713,130 for the year ended December 31, 2008, representing an increase of $45,428,780, or 68.1%. The cost of sales increase was mainly due to increased sale volumes with a cost of sales increase of $49,863,805, decreased unit price with a cost of sales decrease of $4,926,540, and the effect of foreign currency translation with a cost increase of $491,515.

Cost of sales for Jiulong was $53,368,639 for the year ended December 31, 2009, compared with $36,518,790 for the year ended December 31, 2008, representing an increase of $16,849,849, or 46.1%. The cost of sales increase was mainly due to increased sales volumes with a cost of sales increase of $16,694,668, decreased unit price with a cost of sales decrease of $149,951, and the effect of foreign currency translation with a cost increase of $305,132.

Cost of sales for Shenyang was $27,051,979 for the year ended December 31, 2009, compared with $20,745,291 for the year ended December 31, 2008, representing an increase of $6,306,688, or 30.4%. The cost of sales increase was mainly due to increased sales volumes with a cost of sales increase of $7,220,078, decreased unit price with a cost of sales decrease of $1,067,236, and the effect of foreign currency translation with a cost increase of $153,846.

Cost of sales for Zhejiang was $18,926,080 for the year ended December 31, 2009, compared with $11,532,146 for the year ended December 31, 2008, representing an increase of $7,393,934, or 64.1%. The cost of sales increase was mainly due to increased sales volumes with a cost of sales increase of $8,039,211, decreased unit price with a cost of sales decrease of $726,987, and the effect of foreign currency translation with a cost increase of $81,710.

Cost of sales for Wuhu was $25,769,456 for the year ended December 31, 2009, compared with $19,564,043 for the year ended December 31, 2008, representing an increase of $6,205,413, or 31.7%. The cost of sales increase was mainly due to increased sales volumes with a cost of sales increase of $6,879,711, decreased unit price with a cost of sales decrease of $714,992, and the effect of foreign currency translation with a cost increase of $40,694.

Cost of sales for Other Sectors was $7,955,758 for the year ended December 31, 2009, compared with $271,271 for the year ended December 31, 2008, representing an increase of $7,684,487, or 2832.8%. The cost of sales increase was mainly due to an increase in sales.

Gross margin was 24.2% for the year ended December 31, 2009, a 1.2% decrease from 25.4% for the same period of 2008, primarily due to declines in unit cost in excess of sales price reductions.

Gain on Other Sales

Gain on other sales consisted of net amount retained from sales of materials and other assets. For the year ended December 31, 2009, gain on other sales were $838,505, compared to $734,063 for the year ended December 31, 2008, an increase of $104,442, or 14.2%, due to increased sales of materials.

Selling Expenses

For the years ended December 31, 2009 and 2008, selling expenses are summarized as follows:

	Years Ended December 31			
	2009	2008	Increase (Decrease)	Percentage
	As Restated	As Restated		
Salaries and wages	$ 2,563,384	$ 1,413,708	$ 1,149,676	81.3%
Office expense	841,748	861,838	(20,090)	-2.3
Transportation expense	3,703,818	2,158,793	1,545,025	71.6
Rent expense	699,206	384,167	315,039	82.0
Other expense	84,384	189,372	(104,988)	-55.4
Total	$ 7,892,540	$ 5,007,878	$ 2,884,662	57.6%

Selling expenses were $7,892,540 for the year ended December 31, 2009, compared to $5,007,878 for 2008, an increase of $2,884,662, or 57.6%. Major items that increased greatly in 2009 compared to 2008 were salaries and wages, transportation expense, and rent expenses. The major item that decreased greatly was other expenses.

The salaries of salesmen were indexed with their selling performance. During 2009, sales had a 56.6% increase over 2008, correspondingly increasing the salaries of salesmen.

The increase in transportation expense was due to increased sales and a rise in the price of oil, which led to increases in domestic transportation prices.

The increase in rent expense was due to increased marketing activities, which led to increases in the area of product warehouses and offices in different places.

The decrease in other expenses was mainly due to the Company's strengthening its control of material consumption in the marketing activities in 2009.

General and Administrative Expenses

For the years ended December 31, 2009 and 2008, general and administrative expenses are summarized as follows:

	Years Ended December 31			
	2009	2008	Increase (Decrease)	Percentage
Salaries and wages	$ 4,623,631	$ 4,105,613	$ 518,018	12.6%
Labor insurance expenses	2,123,071	1,667,287	455,784	27.3
Maintenance and repair expenses	1,214,160	1,268,055	(53,895)	-4.3
Taxes	1,120,948	690,918	430,030	62.2
Provision for bad debts	120,483	989,584	(869,101)	-87.8
Office expense	1,189,475	1,403,241	(213,766)	-15.2
Depreciation and amortization expense	2,955,159	5,846,290	(2,891,131)	-49.5
Listing expenses1	1,589,236	1,624,161	(34,925)	-2.2
Others expenses	258,863	348,641	(89,778)	-25.8
Total	$ 15,195,026	$ 17,943,790	$ (2,748,764)	-15.3%

1 Listing expenses consisted of the costs associated with legal, accounting and auditing fees for operating a public company.

General and administrative expenses were $15,195,026 for the year ended December 31, 2009, compared to $17,943,790 for the year ended December 31, 2008, a decrease of $2,748,764, or 15.3%.

The expense items that significantly increased in 2009 compared to 2008 were salaries and wages, labor insurance expenses, and tax expenses. The expense items that significantly decreased were office expenses, provision for bad debts expenses and depreciation and amortization expense.

The increased salaries and wages were due to increased staff and performance bonuses resulting from enlarged business size and improved earnings.

The Company's labor insurance expenses were pension, medicare, injury insurance, unemployment insurance, and housing fund expenses. The increase in labor insurance expenses for 2009 was a result of an increase in the number of employees.

The Company's tax expense was property tax such as land use right, housing property tax, vehicle and vessel usage license plate tax. The increase in tax expense was a result of an increase in the property usage of the Company.

The decrease in office expenses has resulted from the control of such expenses by the Company's management in 2009.

The Company recorded provision for bad debts based on aging of accounts receivable, and then specific identification methods. The decrease in provision for bad debts in 2009 was mainly due to certain domestic automobile manufacturers having begun to recover from the financial crisis in 2008 under the support of a series of government policies and having improved their financial conditions, thus, the provision for bad debts provided in 2009 was decreased compared with the year of 2008.

The decrease in depreciation and amortization expense was mainly due to certain fixed assets of the Company not needing to be depreciated in 2009 as they have been fully depreciated.

Research and Development Expenses

Research and development expenses were $2,561,170 for the year ended December 31, 2009, compared to $2,255,892 for the year ended December 31, 2008, an increase of $305,278, or 13.5%.

The global automotive parts industry is highly competitive; winning and maintaining new business requires suppliers to rapidly produce new and innovative products on a cost-competitive basis. In order to maintain the Company's competitiveness, the Company needs to invest more in R&D expenses. In 2009, the Company not only developed new products for foreign OEMs, but also increased R&D expenses for power steering gear for domestic OEMs.

Income from Operations

Income from operations was $36,932,395 for the year ended December 31, 2009, compared to $16,996,576 for the year ended December 31, 2008, an increase of $19,935,819, or 117.3%, mainly consisting of an increase of $20,272,553, or 48.9%, in gross profit, an increase of $104,442, or 14.2%, in gain on other sales, and an increase of operating expenses of $441,176, or 1.8%.

Other Income

Other income was $94,534 for the year ended December 31, 2009, compared to $1,067,309 for the year ended December 31, 2008, a decrease of $972,775, or 91.1%, primarily as a result of decreased government subsidies.

The Company's government subsidies consisted of interest subsidy and investment subsidy. Interest subsidy is the refund from the Chinese government of interest charged by banks to companies which are entitled to such subsidies. Investment subsidy is the subsidy to encourage foreign investors to set up technologically advanced enterprises in China.

During the year ended December 31, 2009, the Company received $94,534 for interest subsidy, and no investment subsidy. During the year ended December 31, 2008, the Company's received $264,978 for interest subsidy, and $802,331 for investment subsidy.

Interest subsidies apply only to loan interest related to production facilities expansion. During 2007 and 2008, the Company had used special loans to improve different product lines in order to enlarge production capability and enhance quality. The expansion projects were completed and new facilities were put into use at the end of 2008 and 2009, respectively.

The Chinese government also provided incentives to foreign investors for setting up technologically advanced enterprises in China. Genesis, a foreign investor, has reinvested in Jiulong and Henglong with its profit distribution. Because these two entities were technologically advanced enterprises entitled to such subsidies, therefore, Genesis received $802,331 of investment subsidy in 2008.

Since such government subsidy was similar to an investment income, the Company recorded it as other income.

Financial Expenses

Financial expenses were $7,883,714 for the year ended December 31, 2009, compared to financial expenses of $3,048,713 for 2008, an increase of $4,835,001, or 158.6%, primarily as a result of an increase in interest expenses for discount of Convertible Notes. In 2009, due to the Company's WAP Default, the Convertible Notes can be call upon anytime to redeem the convertible notes, thus, the Company accreted $3,900,000 of remaining discount of Convertible Notes immediately and accrued an additional $520,000 of interest expenses for WAP Default. Please see Note 13 in the Notes to the Consolidated Financial Statements under Item 15 of this Annual Report for more details.

Gain (Loss) on Change in Fair Value of Derivative

During the year ended December 31, 2009, the loss on change in fair value of the derivatives embedded in the Convertible Notes was $43,074,327, as compared to a gain of $796,649 for the year ended December 31, 2008, a decrease of $43,870,976.

During the year ended December 31, 2009, the loss on change in fair value of the derivatives resulted form the change in fair value of embedded conversion option in the Convertible Notes payable.

During the year ended December 31, 2008, the gain on change in fair value of the derivatives resulted form the change in fair value of warrants liabilities.

During the year ended December 31, 2009, the increase in loss on change in fair value of derivatives was primarily due to the increase in the intrinsic value of the embedded conversion feature in the Convertible Note payable as a result of the increase in the market price of the Company's common stock which rose from $3.39 at the beginning of 2009 to $18.71 at December 31, 2009. Upon the adoption of ASC 815 on January 1, 2009, the Company is required to bifurcate the embedded conversion feature of the Convertible Note payable.

During the year ended December 31, 2008, conversion option was not included in the Company's Convertible Notes embedded in derivatives liabilities. The only derivative liabilities were warrants liabilities. The significant decrease in the fair value of warrants liabilities was due to a reduction of the remaining terms of the contract and the fact that the stock price ($3.39) of the Company on the reported date being far below the exercise price.

Income (Loss) Before Income Taxes

Loss before income taxes was $13,931,112 for the year ended December 31, 2009, compared to income before income taxes of $15,811,821 for the year ended December 31, 2008, a decrease of $29,742,933, or 188.1%, consisting of increased income from operations of $19,935,819, decreased other income of $972,775, increased finance expenses of $4,835,001, and increased loss on change in fair value of derivative of $43,870,976.

Income Taxes

Income tax expense was $4,720,013 for the year ended December 31, 2009, compared to $455,830 for the year ended December 31, 2008, an increase of $4,264,183, mainly because of: (1) an increase in income before income tax in the PRC market that was not offset by losses before income tax in the U.S. market and the Company made a provision for deferred income tax assets in the U.S. (see Note 10); (2) while there was a loss before income tax in the U.S. mainly due to a change in the fair value of convertible notes, the Company cannot recognize such loss as a deferred income tax asset or a tax benefit as if it was a permanent change; and (3) a decrease of foreign government tax return. For a full reconciliation of the Company's effective tax rate to the U.S. federal statutory rate of 35% and further explanation of the Company's provision for taxes, see Note 29 to the consolidated financial statements in Item 15.

Net Income

Net loss was $18,651,125 for the year ended December 31, 2009, compared to net income of $15,355,991 for the year ended December 31, 2008, a decrease of $34,007,116, consisting of decreased income before income taxes of $29,742,933, and an increase of $4,264,183 due to increased income tax expenses.

Net Income Attributable to Noncontrolling Interests

The Company recorded net income attributable to noncontrolling interests of $7,789,746 for the year ended December 31, 2009, compared to $5,111,861 for the year ended December 31, 2008, an increase of $2,677,885, or 52.4%.

The Company owns different equity interests in eight Sino-foreign joint ventures, through which it conducts its operations. All the operating results of these eight Foreign Investment Enterprises were consolidated in the Company's financial statements as of December 31, 2009 and 2008. The Company records the net income attributable to noncontrolling interests of the respective Sino-foreign joint ventures for each period.

In 2009, net income attributable to noncontrolling interests has increased compared to 2008, primarily resulting from increased net income from Sino-foreign joint ventures.

Net Income Attributable to Parent Company

Net loss attributable to parent company was $26,440,871 for the year ended December 31, 2009, compared to net income attributable to parent company of $10,244,130 for the year ended December 31, 2008, a decrease of $36,685,001, consisting of decreased net income of $34,007,116, and an increased net income attributable to noncontrolling interests of $2,677,885.

Liquidity and Capital Resources

Capital Resources and Use of Cash

The Company has historically financed its liquidity requirements from a variety of sources, including short-term borrowings under bank credit agreements, bankers' acceptance, issuances of capital stock and internally generated cash. As of December 31, 2010, the Company had cash and cash equivalents of $49,424,979, compared to $43,480,176 and $37,113,375 as of December 31, 2009 and 2008, an increase of $5,944,803 and $6,366,801, respectively.

The Company had working capital of $54,191,797 as of December 31, 2010, compared to $12,486,023 as of December 31, 2009, an increase of $41,705,774, mainly due to increased profits of operation and decreased compound derivative liabilities.

Capital Source

The Company's capital source is multifaceted, such as bank loans and banker's acceptance bill facilities. In financing activities and operation activities, the Company's banks require the Company to sign lines of credit agreement and repay such facilities within one year. On the condition that the Company can provide adequate mortgage security and has not violated the terms of the line of credit agreement, such one year facilities can be extended for another year.

The Company had bank loans maturing in less than one year of $6,794,812 and bankers' acceptances of $52,790,874 as of December 31, 2010.

The Company currently expects to be able to obtain similar bank loans and bankers' acceptance bills in the future if it can provide adequate mortgage security following the termination of the above mentioned agreements (See the table in section (a) Bank loan). If the Company is not able to do so, it will have to refinance such debt as it becomes due or repay that debt to the extent it has cash available from operations or from the proceeds of additional issuances of capital stock. Owing to depreciation, the value of the mortgages securing the above-mentioned bank loans and banker's acceptance bills will be devalued by approximately $10,900,000. If the Company wishes to obtain the same amount of bank loans and banker's acceptance bills, it will have to provide $10,900,000 additional mortgages as of the maturity date of such agreements (See the table in section (a) Bank loan). The Company still can obtain a reduced line of credit with a reduction of $7,000,000, which is 64.9% (the mortgage rates) of $10,900,000, if it cannot provide additional mortgages. The Company expects that the reduction of bank loans will not have a material adverse effect on its liquidity.

On February 15, 2008, the Company issued $35,000,000 of Convertible Notes to Lehman Brothers Commercial Corporation Asia Limited, LBCCA, and YA Global Investments, L.P., YA Global, maturing in 5 years. According to the terms of the Senior Convertible Notes (as described in Note 13 of the financial statements), Convertible Notes may

be required to be repaid in cash on or prior to their maturity. For example, Convertible Notes holders are entitled to require the Company redeem all or any portion of the Convertible Notes in cash, if the Weighted Average Price (WAP) for twenty (20) consecutive trading days is less than $3.187 at any time following February 15, 2009, the "WAP Default," by delivering written redemption notice to the Company within five (5) business days after the receipt of the Company's notice of the WAP Default.

As a result of the 2008 and 2009 worldwide financial crisis, the Company's stock's WAP for twenty (20) consecutive trading days ended on March 16, 2009 was below $3.187. On March 17, 2009, the Company delivered two WAP Default notices to the Convertible Notes holders. On March 27, 2009, the Company received a letter dated March 26, 2009 via fax from YA Global, one of the Convertible Notes holders, electing to require the Company to redeem all the three Convertible Notes it held in the total principal amount of $5,000,000, together with interest, late charges, if any, and the Other Make Whole Amount as defined in Section 5(d) of the Convertible Notes. After negotiation, on April 15, 2009, the Company paid YA Global $5,041,667 for the total principal amount ($5,000,000), together with interest and late charges. YA Global has waived its entitlement to the Other Make Whole Amount.

Following the WAP Default notices, the Company received a letter from the provisional liquidator acting on behalf of LBCCA, the "LBCCA Liquidator," requesting that it be granted an extension until April 24, 2009 to consider its rights under the Convertible Notes. The Company granted an extension to April 15, 2009. The LBCCA Liquidator requested another extension to April 24, 2009. On April 24, 2009, LBCCA's lawyers sent three Holder Redemption Notices via fax electing to redeem the entire outstanding principal of $30,000,000, together with interest, late charges, if any, and the Other Make Whole Amount, to be paid on July 23, 2009. The Company discussed settlement with the LBCCA Liquidator, and on or about July 22, 2009, the Company and the LBCCA Liquidator agreed to extend the applicable holder mandatory redemption date for two months to September 23, 2009 to give more time to the Company and the LBCCA Liquidator to pursue settlement discussion. The Company received a letter dated September 22, 2009 from the LBCCA Liquidator stating that upon the Company's acceptance of the revocation, all holder redemption notices dated April 24, 2009 shall be immediately revoked as if they were never issued, and the letter and the revocation did not purport to amend, restate or supplement any other terms and conditions under the three Notes and Securities Purchase Agreement dated 1 February 2008 between the Company and the LBCCA Liquidator. The Company accepted such revocation on September 23, 2009.

The Company's ability to redeem the Convertible Notes and meet its payment obligations depends on its cash position and its ability to refinance or generate significant cash flow, which is subject to general economic, financial and competition factors and other factors beyond the Company's control. The Company cannot assure you that it has sufficient funds available or will be able to obtain sufficient funds to meet its payment obligations under the Convertible Notes, and the Company's redemption of the Convertible Notes would result in a material adverse effect on its liquidity and capital resources, business, results of operations or financial condition.

Bank Arrangements

As of December 31, 2010, the principal outstanding under the Company's credit facilities and lines of credit was as follows:

	Bank	Due Date	Amount available	Amount used
Comprehensive credit facilities	Bank of China	Dec-11	$ 7,700,787	$ —
Comprehensive credit facilities	China Construction Bank	Oct-12	12,079,665	5,616,138
Comprehensive credit facilities	CITIC Industrial Bank	Aug-11	15,099,582	14,621,668
Comprehensive credit facilities	Shanghai Pudong Development Bank	Nov-11	15,099,582	9,737,116
Comprehensive credit facilities	Jingzhou Commercial Bank	Dec -11	15,099,582	5,132,952
Comprehensive credit facilities	Industrial and Commercial Bank of China	Mar-11	12,079,665	3,874,553
Comprehensive credit facilities	Hua Xia Bank	Dec-11	7,549,791	6,039,833
Comprehensive credit facilities	Guangdong Development Bank	Jun-11	12,532,653	6,039,833
Comprehensive credit facilities1	China Everbright Bank	Aug-11	4,529,875	8,523,593
Total			$ 101,771,182	$ 59,585,686

1 The amount available for use is increased to the amount of cash pledged with the bank.

The Company may request the banks to issue notes payable or bank loans within its credit line using a 364-day revolving line.

The Company refinanced its short-term debt during early 2010 at annual interest rates of 5.31% to 5.96%, and maturity terms of six to twelve months. Pursuant to the comprehensive credit line arrangement, the Company pledged equipment with an assessed value of $30,700,000, land use rights and buildings as security for its comprehensive credit facility with the Bank of China; pledged land use rights and buildings with an assessed value of $12,200,000 as security for its comprehensive credit facility with Shanghai Pudong Development Bank; pledged land use rights and equipment with an assessed value of $23,700,000 as security for its revolving comprehensive credit facility with Jingzhou Commercial Bank; pledged land use rights and buildings with an assessed value of $3,100,000,and accounts receivables with an assessed value of $1,500,000 as security for its comprehensive credit facility with Industrial and Commercial Bank of China; pledged land use rights ,buildings and equipment with an assessed value of $30,500,000 as security for its comprehensive credit facility with China Construction Bank; pledged land use rights and buildings with an assessed value of $14,600,000 as security for its comprehensive credit facility with China CITIC Bank; pledged land use rights and buildings with an assessed value of $7,700,000 as security for its comprehensive credit facility with China Everbright Bank; pledged accounts receivables with an assessed value of $6,000,000 as security for its comprehensive credit facility with Guangdong Development Bank; "Henglong," a subsidiary of the Company, its comprehensive credit facility with Hua Xia Bank was secured by "Jiulong," another subsidiary of the Company.

Cash Requirements

The following table summarizes the Company's expected cash outflows resulting from financial contracts and commitments. The Company has not included information on its recurring purchases of materials for use in its manufacturing operations. These amounts are generally consistent from year to year, closely reflecting the Company's levels of production, and are not long-term in nature, which are less than three months.

	Payment Due Dates				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 Years
Short-term bank loan	$ 6,794,812	$ 6,794,812	$ —	$ —	$ —
Notes payable	52,790,874	52,790,874	—	—	—
Convertible Notes payable	30,000,000	30,000,000	—	—	—
Interest, including make-whole amount on convertible notes1	7,406,000	7,406,000	—		
Other contractual purchase commitments, including information technology	15,480,128	13,802,597	1,677,531	—	—
Total	$ 112,471,814	$ 110,794,283	$ 1,677,531	$ —	$ —

1 Interest, including make-whole amount on convertible notes, is computed based on the contractual rate as per the convertible note agreement.

Short-term Bank Loans

The following table summarizes the contract information of short-term borrowings between the banks and the Company as of December 31, 2010.

Bank	Purpose	Borrowing Date	Borrowing Term (Year)	Annual Percentage Rate	Date of Interest Payment	Date of Maturity Payment	Amount Payable on Due Date

China Construction Bank	Working Capital	Jun 17, 10	1	5.31%	Pay monthly