

CHINA AUTOMOTIVE SYSTEMS INC
Form 10-K/A
June 24, 2011

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

FORM 10-K/A
Amendment No. 1

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2009

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
(State or Other Jurisdiction
of Incorporation or Organization)

33-0885775
(I.R.S. Employer
Identification No.)

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

434000
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, \$0.0001 par value

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

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

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

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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.

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. (Check one):

Large Accelerated Filer Accelerated Filer 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

Aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009, based upon the closing price of the common stock as reported on the NASDAQ Stock Market under the symbol "CAAS" on such date, was approximately \$25,348,004.

The Company has 28,083,534 shares of Common Stock outstanding as of June 24, 2011.

CHINA AUTOMOTIVE SYSTEMS, INC.

FORM 10-K/A

INDEX

	Page
Explanatory Note	3
PART I	
Item 1. Business	5
Item 1A. Risk Factors	11
Item 1B. Unresolved Staff Comments	17
Item 2. Properties	17
Item 3. Legal Proceedings	17
Item 4. Reserved	18
PART II	
Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6. Selected Financial Data	18
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 8. Financial Statements and Supplementary Data	32
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	34
Item 9A. Controls and Procedures	34
Item 9B. Other Information	36
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	36
Item 11. Executive Compensation	40
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	42
Item 13. Certain Relationships and Related Transactions, and Director Independence	42
Item 14. Principal Accounting Fees and Services	42
PART IV	
Item 15. Exhibits, Financial Statement Schedules	43
Signatures	45
Financial Statements	47

EXPLANATORY NOTE
Restatement of Consolidated Financial Statements

On March 17, 2011, China Automotive Systems, Inc. (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 arising from fair value adjustments and other changes to derivative liabilities since the first quarter of 2009. The Company has no evidence that the errors resulted from any fraud or intentional misconduct.

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”), which changed the accounting treatment of convertible notes effective January 1, 2009. Additionally, management has also identified accounting errors in accumulated depreciation, deferred tax assets and accrued payroll and its related cost. These flaws represented material weaknesses in the Company’s internal controls over financial reporting as of December 31, 2008 and 2009. Management identified the accounting errors in connection with the 2010 annual audit procedures undertaken by the Company’s newly engaged independent registered public accounting firm, PricewaterhouseCoopers Zhong Tian CPAs Limited Company.

The Company’s review was overseen by the audit committee of the board of directors of the Company (“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 fiscal 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.

As more fully described in Note 2 to the accompanying restated consolidated financial statements for the fiscal year ended December 31, 2009, the Company has restated its consolidated financial statements and the related disclosures for the fiscal year ended December 31, 2009, including restated comparative financial statements for 2008. Specifically, the Company has restated its consolidated balance sheets and the related consolidated statements of income, statements of changes in stockholders’ equity and statements of cash flows as of and for the year ended December 31, 2009, including restated comparative financial statements for 2008. The accompanying Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 has been updated to reflect the effects of the restatement.

In addition, the Company has also corrected other errors in its previously filed Annual Report on Form 10-K for the year ended December 31, 2009, including its consolidated financial statements, for matters related to the following previously reported items: cost of sales and sales expenses due to the reclassification of warranty expenses, accrued payroll and related costs, financial expenses and related liabilities related to the Convertible Notes, income tax and deferred tax assets. Also, retained earnings and non-controlling equity as at January 1, 2008 were increased by \$225,471 and \$7,801, respectively, as a result of adjustments to accumulated depreciation and deferred tax assets previously reported and accrued payroll and related costs.

The effect of the adjustments included a decrease of \$49,855,134 in net income attributable to parent company for the year ended December 31, 2009, including a decrease of \$43,698,892 resulting from loss on the change in fair value of derivative liabilities, a decrease of \$5,897,514 from adjustment to financial expenses related to the Convertible

Notes and a decrease of \$258,728 from adjustments to other items. For the year ended December 31, 2008, the effect of the adjustments included a decrease of \$2,191,111 in net income attributable to parent company, including a decrease of \$1,752,495 resulting from the increase in financial expenses related to the Convertible Notes, a decrease of \$201,365 from adjustments to the change in fair value of derivative liabilities and a decrease of \$237,251 from adjustments to other items.

The Company reassessed its evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2009 based on the framework established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As a result of that assessment, management identified control deficiencies that constituted material weaknesses and, accordingly, has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2009. For a description of the material weaknesses identified by management as a result of this review and management’s plan to remediate those material weaknesses, see “Part II—Item 9A—Controls and Procedures.”

Except as discussed above, the Company has not modified or updated disclosures presented in its annual report on Form 10-K for the period ended December 31, 2009 filed with the Securities and Exchange Commission on March 25, 2010 (the "Original Filing"), except as required to reflect the effects of the restatement. Accordingly, this amended annual report does not reflect events occurring after the Original Filing or modify or update those disclosures affected by subsequent events, except as specifically referenced herein. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the Original Filing. References to this "annual report on Form 10-K," this "annual report on Form 10-K/A" and this "amended annual report on Form 10-K/A" herein shall refer to the Original Filing as amended by this amended annual report on Form 10-K/A. The following items have been amended as a result of the restatement:

Part I	Item 1A.	Risk Factors
Part II	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations;
Part III	Item 8.	Financial Statements and Supplementary Data;
Part III	Item 9A.	Controls and Procedures; and
Part IV	Item 15.	Exhibits, Financial Statement Schedules.

Cautionary Statement

This Amendment No. 1 to the Annual Report on Form 10-K/A 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," "continue," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predict," "should" or "will" or the negative of these terms or other comparable terminology. Such statements are subject to certain risks and uncertainties, including the matters set forth in this 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/A is filed, and the Company does not intend to update any of the forward-looking statements after the date this amended Annual Report on Form 10-K/A 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.

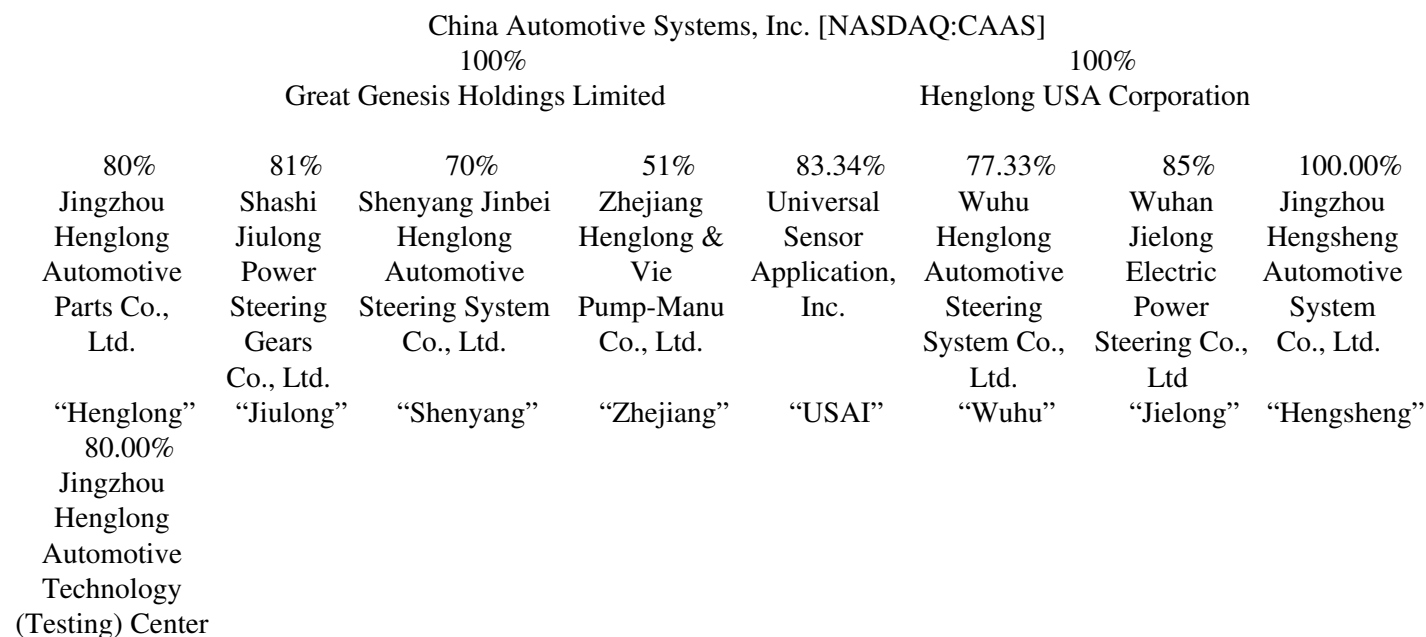
On or around March 5, 2003, the Company acquired all of the issued and outstanding equity interests of Great Genesis Holdings Limited, “Genesis”, a corporation organized under the laws of the Hong Kong Special Administrative Region, China, by issuance of 20,914,250 shares of common stock to certain sellers. After the acquisition, the Company continued the operations of Genesis. Presently, Genesis owns interests in eight Sino-joint ventures, which manufacture power steering systems and/or related products for different segments of the automobile industry in China.

On May 19, 2003, the Company changed its name from Visions-In-Glass, Inc. to China Automotive Systems, Inc.

Since December 17, 2009, Hanlin Chen, Qizhou Wu, Robert Tung, Bruce C. Richardson, Guangxun Xu, and William E. Thomson began serving their terms as members of the Company’s Board of Directors. The directors appointed Hanlin Chen as the chairman of the Board, Qizhou Wu as the Chief Executive Officer of the Company, and Jie Li as Chief Financial Officer.

BUSINESS OVERVIEW

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. The Company is a holding company and has no significant business operations or assets other than its interest in Genesis. Through Genesis, the Company manufactures power steering systems and other component parts for automobiles. All operations are conducted through seven Sino-foreign joint ventures in China and wholly-owned subsidiaries, Hengsheng and Henglong USA set forth below is an organizational chart as at December 31, 2009.



“Testing Center”

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

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 agreed to transfer and assign 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 Jingzhou Henglong.

In December 2009, Henglong, a subsidiary of Genesis, formed Jingzhou Henglong Automotive Technology (Testing) Center ("Testing Center"), which is mainly engaged in research and development of new products. The registered capital of Testing Center is RMB 30,000,000 (\$4,393,544 equivalent).

Under the terms of the Henglong Agreement, Genesis is deemed to be the owner of Jingzhou Henglong commencing from January 1, 2008. The Henglong acquisition is considered as a business combination of companies under common control and is being accounted for in a manner of pooling of interests.

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

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

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.

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

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

On March 7, 2007, Genesis established a wholly-owned subsidiary, Jingzhou Hengsheng Automotive System Co., Ltd, "Hengsheng", to engage in production and sales of automotive steering systems. The registered capital of Hengsheng is \$10,000,000.

The Company has business relations 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, Xi'an BYD Auto Co., Ltd and Zhejiang Geely Automobile Co., Ltd., the largest private owned car manufacturers. 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.

The Company currently owns two trademarks covering automobile parts and twelve Chinese patents 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. 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).

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 passed the ISO/TS 16949 System Certification in January 2004, a well-recognized quality control system in the auto industry developed by TUV Rheinland of Germany.

- Decrease 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 or oil pump.

CUSTOMERS

The Company's ten largest customers represent 80.2% of the Company's total sales for the year ended December 31, 2009. The following table sets forth information regarding the Company's ten largest customers.

Name of Major Customers	Percentage of Total Revenue in 2009	
BYD Auto Co., Ltd	14.8	%
Chery Automobile Co., Ltd	12.0	%
Beiqi Foton Motor Co., Ltd.	10.4	%
Zhejiang Geely Holding Co., Ltd	10.0	%
Brilliance China Automotive Holdings Limited	9.2	%
Dongfeng Auto Group Co., Ltd	7.8	%
China FAW Group Corporation	5.5	%
Great Wall Motor Company Limited	4.5	%
Chrysler Group LLC	3.8	%
Anhui Jianghuai Automobile Group	2.2	%
Total	80.2	%

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 105 sales persons, which are divided into an original equipment manufacturing, "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, 2009, the Company employed approximately 2,944 persons, including approximately 1,940 by Henglong and Jiulong, approximately 294 by Shenyang, approximately 293 by Zhejiang, approximately 38 by USAI, approximately 135 by Wuhu, approximately 202 by Hengsheng, and 5 by Henglong USA.

As of December 31, 2009, 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, 320,000 square meters, 83,700 square meters, 105,735 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 2,200,000 units and 1,290,000 units in 2009 and 2008 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 \$43.6 million was spent over the last three years on professional-grade equipment and workshops — approximately 87% of which has been used in the production process as of December 31, 2009.

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, electronic parts, molded plastic parts, finished sub-components, fabricated metal, aluminum and steel. 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 represent in the aggregate 26.4% of all components and raw materials it purchased for the year ended December 31, 2009, and none of them providing 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

The Company has a ten-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.

The Company owns a Hubei Provincial-Level Technical Center, which has been approved by the Hubei Economic Commission. The center has a staff of 211, including 13 senior engineers, 2 foreign experts and 102 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 maintain its total expenditures for research and development activities, including engineering, at approximately \$2,560,000, \$2,260,000, and \$1,700,000 for the years ended December 31, 2009, 2008, and 2007, respectively. In 2009, the sales of newly developed products accounted for about 26.7% 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 downward pressure on 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 2009, the output and sales volume of vehicles in China have reached 13,791,000 and 13,645,000 units respectively, with an increase of 48.3% and 46.2% compared to 2008. The output and sales volume of passenger vehicles have reached 10,384,000 and 10,331,000 units respectively, with an increase of 54.1% and 52.9% compared to 2008. The output and sales volume of commercial vehicles have reached 3,407,200 and 3,313,500 units respectively, with an increase of 33.0% and 28.4% compared to 2008. Accordingly, the Company's sales of steering gear for passenger vehicles and commercial vehicles and steering pumps in 2009 increased by 60.4%, 46.8% and 57.7% compared with the year 2008.

To bolster auto consumption in China, the government continued a series of stimulus measures including a reduction in purchase taxes of 25% on smaller cars, scrapping some road fees and granting subsidies for farmers who trade in their polluting vehicles for more fuel-efficient ones.

CHINESE ECONOMY

Management believes that the most important factor in understanding the Chinese automobile industry is the country's rapid economic growth. During 2008, Chinese economic growth slowed down, as it suffered from the global financial crisis since the third quarter of 2008. In early 2009, a series of economic stimulation policies were issued by the Chinese Government, which rapidly reversed the great drop on economic growth. According to data from the State Statistical Bureau, Chinese economic growth reached 8.7% in 2009. With incentives provided by Government action, management believes that the investment by Chinese enterprises and consumption by Chinese residents will continue to increase relatively rapidly in 2010.

Management believes that the continued investment and consumption growth will have a favorable effect on the sales of commercial vehicles and passenger vehicles.

HIGHWAY DEVELOPMENT

Management believes that the continuing development of the highway system will have a significant positive impact on the manufacture and sale of private automobiles. Statistics from the Ministry of Communications show that 980,000 kilometers of highway and 4,719 kilometers of expressway were developed in 2009. Total highways and expressways now amount to 3,771,000 kilometers and 65,020 kilometers, respectively.

DOING BUSINESS IN CHINA

CHINESE LEGAL SYSTEM

The practical effect of the Chinese legal system on the Company's business operations in China can be viewed from two separate but intertwined considerations. First, as a matter of substantive law, the Foreign Invested Enterprise Laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate articles and contracts to Foreign Invested Enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are not qualitatively different from the general corporation laws of other countries. Similarly, the Chinese accounting laws mandate accounting practices, which are not consistent with US Generally Accepted Accounting Principles. The Chinese accounting laws require that an annual "statutory audit" be performed in accordance with Chinese accounting standards and that the books of account of Foreign Invested Enterprises be maintained in accordance with Chinese accounting laws. Article 14 of the People's Republic of China Wholly Foreign-Owned Enterprise Law requires a Wholly Foreign-Owned Enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities. Otherwise, there is risk that its business license will be revoked.

Second, while the enforcement of substantive rights may appear less clear than those in the United States, the Foreign Invested Enterprises and Wholly Foreign-Owned Enterprises are Chinese registered companies which enjoy the same status as other Chinese registered companies in business dispute resolution. Because the terms of the Company's various Articles of Association provide that all business disputes pertaining to Foreign Invested Enterprises will be resolved by the Arbitration Institute of the Stockholm Chamber of Commerce in Stockholm, Sweden applying Chinese substantive law, the Chinese minority partner in the Company's joint venture companies will not assume any advantageous position regarding such disputes. Any award rendered by this arbitration tribunal is, by the express terms of the various Articles of Association, enforceable in accordance with the "United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958)." Therefore, as a practical matter, although no assurances can be given, the Chinese legal infrastructure, while different from its United States counterpart, should not present any significant impediment to the operation of Foreign Invested Enterprises.

ECONOMIC REFORM ISSUES

Although the Chinese Government owns the majority of productive assets in China, in the past several years the Government has implemented economic reform measures that emphasize decentralization and encourage private economic activity. Because these economic reform measures may be inconsistent or ineffectual, there is no assurance that:

- The Company will be able to capitalize on economic reforms;
- The Chinese Government will continue its pursuit of economic reform policies;
- The economic policies, even if pursued, will be successful;
- Economic policies will not be significantly altered from time to time; and

- Business operations in China will not become subject to the risk of nationalization.

Negative impact resulting from economic reform policies or nationalization could result in a total investment loss in the Company's common stock.

Since 1979, the Chinese Government has reformed its economic system. Because many reforms are unprecedented or experimental, they are expected to be refined and readjusted. Other political, economic and social factors, such as political changes, changes in the rates of economic growth, unemployment or inflation, or disparities in per capita wealth between regions within China, could lead to further readjustment of the reform measures. This refining and readjustment process may negatively affect the Company's operations.

Over the last few years, China's economy has registered a high growth rate. Recently, there have been indications that the rate of inflation has increased. In response, the Chinese Government recently has taken measures to curb the excessively expansive economy. These measures included implementation of a unitary and well-managed floating exchange rate system based on market supply and demand for the exchange rates of Renminbi, restrictions on the availability of domestic credit, reduction of the purchasing capability of its citizens, and centralization of the approval process for purchases of certain limited foreign products. These austerity measures alone may not succeed in slowing down the economy's excessive expansion or control inflation, and may result in severe dislocations in the Chinese economy. The Chinese Government may adopt additional measures to further combat inflation, including the establishment of freezes or restraints on certain projects or markets.

To date reforms to China's economic system have not adversely affected the Company's operations and are not expected to adversely affect the Company's operations in the foreseeable future; however, there can be no assurance that reforms to China's economic system will continue or that the Company will not be adversely affected by changes in China's political, economic, and social conditions and by changes in policies of the Chinese Government, such as changes in laws and regulations, measures which may be introduced to control inflation, changes in the rate or method of taxation, imposition of additional restrictions on currency conversion and remittance abroad, reduction in tariff protection and other import restrictions.

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 2009, the Company did not make any material capital expenditures relating to environmental compliance.

WEB SITE ACCESS TO SEC FILINGS

The Company files electronically with the SEC its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) of the Securities Exchange Act of 1934. 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.

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 Company's secured commercial debt is 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. As a result, 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. Any significant economic decline that results in a reduction in automotive production and sales by the Company's customers would 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, 2009, approximately 14.8% of the Company's sales were to BYD Auto Co., Ltd, approximately 12.0% were to Chery Automobile Co., Ltd, approximately 10.4% were to Beiqi Foton Motor Co., Ltd, and approximately 10.0% were to Zhejiang Geely Holding Co., Ltd, the Company's four largest customers. 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 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 1% - 4% 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 75.3% of its outstanding common stock and may have conflicts of interest with the Company's minority stockholders.

As of February 27, 2010, members of the Company's management beneficially own approximately 75.3% 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 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.

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. 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, 2009 and material weaknesses were noted due to: 1) not having 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 2) not having 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.

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 February 27, 2010, approximately 24.7% 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 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

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 outside the United States and in China, 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 Chinese 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 US 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 US dollar relative to other currencies impacts the Company's revenues, cost of revenues and operating margins and results 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 US 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.

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 recently 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.

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. Some of these measures benefit the overall economy of China, but may have a negative effect on the Company.

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

The Company receives substantially most of its revenues in Renminbi, the currency of China. 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 Renminbi 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 July 2008, the exchange rate between RMB and US dollars has experienced a big fluctuation, for RMB 1.00 to US\$0.1205 and RMB 1.00 to US\$0.1462, respectively. Since August 2008, the exchange rate has been stable, and was approximately at RMB 1.00 to US\$0.1464. There can be no assurance that the exchange rate will remain stable. The Renminbi could appreciate against the US dollar. The Company's financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi in which its earnings and obligations are denominated. In particular, an appreciation of the Renminbi is likely to increase the costs of export products and decrease the Company's cash flow.

Because the Chinese legal system is not fully developed, the Company and its securityholders' 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 eleven 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.

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 to fifty years long-term rights to use the lands and buildings.

Name of Entity	Product	Total Area (M ²)	Building Area (M ²)	Original Cost of Equipment	Site
Henglong	Automotive Parts	225,221	20,226	\$ 32,085,220	Jingzhou City, Hubei Province
		13,393	13,707	-	Wuhan City, Hubei Province
Jiulong	Power Steering Gear	39,478	23,728	18,907,019	Jingzhou City, Hubei Province
Shenyang	Automotive Steering Gear	35,354	5,625	3,835,851	Shenyang City, Liaoning Province
Zhejiang	Steering Pumps	100,000	32,000	7,162,455	Zhuji City, Zhejiang Province
USAI	Sensor Modular	-	-	717,454	Wuhan City, Hubei Province
Wuhu		83,700	12,600	1,888,650	

	Automotive Steering Gear				Wuhu City, Anhui Province
Jielong	Electric Power Steering	105,735	-	1,063,098	Wuhan City, Hubei Province
Hengsheng	Automotive Steering Gear	170,520	26,000	5,799,143	Jingzhou City, Hubei Province
Total		773,401	133,886	\$ 71,458,890	

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, 5%, 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. RESERVED

PART II

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

(a) 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 2009 and 2008 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			
	2009		2008	
	High	Low	High	Low
First Quarter	\$ 3.94	\$ 2.30	\$ 7.98	\$ 4.40
Second Quarter	6.64	3.35	7.45	4.85
Third Quarter	9.90	5.14	6.69	3.88
Fourth Quarter	\$ 22.49	\$ 8.00	\$ 4.20	\$ 2.01

(b) 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 February 27, 2010, there were 27,046,244 shares of the Company's common stock outstanding and the Company had approximately 76 stockholders of record.

(c) 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.

(d) SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The securities authorized for issuance under equity compensation plans at December 31, 2009 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	\$ 3.62	1,766,150

The stock option plan was approved in 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.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

18

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

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial position and operating results during the periods included in the accompanying consolidated financial statements, as well as information relating to the plans of its current management. This report includes forward-looking statements. 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," "continue," "could," "estimates," "intends," "may," "plans," "potential," "predict," "should" or "will" or the terms or other comparable terminology. Such 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 undertakes no obligation to update these forward-looking statements. The Company's expectations are as of the date this Form 10-K/A is filed, and the Company does not intend to update any of the forward-looking statements after the date this amended Annual Report on Form 10-K/A is filed to confirm these statements to actual results, unless required by law.

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/A.

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 eight Sino-foreign joint ventures organized in the PRC as of December 31, 2009 and 2008.

Name of Entity	Percentage Interest	
	2009	2008
Jingzhou Henglong Automotive Parts Co., Ltd., "Henglong"	80.00%	80.00%
Shashi Jiulong Power Steering Gears Co., Ltd., "Jiulong"	81.00%	81.00%
Shenyang Jinbei Henglong Automotive Steering System Co., Ltd., "Shenyang"	70.00%	70.00%
Zhejiang Henglong & Vie Pump-Manu Co., Ltd., "Zhejiang"	51.00%	51.00%
Universal Sensor Application Inc., "USAI"	83.34%	83.34%
Wuhan Jielong Electric Power Steering Co., Ltd., "Jielong"	85.00%	85.00%
Wuhu HengLong Auto Steering System Co., Ltd., "Wuhu"	77.33%	77.33%
Jingzhou Hengsheng Automotive System Co., Ltd, "Hengsheng"	100.00%	100.00%

Jingzhou Henglong Automotive Technology (Testing) Center, "Testing Center"	80.00%	-
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Jiulong was established in 1993 and is mainly engaged in the production of integral power steering gear for heavy-duty vehicles.

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, 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 Jingzhou Henglong.

In December 2009, Henglong, a subsidiary of Genesis, formed Jingzhou Henglong Automotive Technology (Testing) Center, ("Testing Center"), which is mainly engaged in research and development of new products. The registered capital of Testing Center is RMB 30,000,000 (\$4,393,544 equivalent).

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 as a business combination of companies under common control and is being accounted for in a manner of pooling of interests.

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

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

USAI was established in 2005 and is mainly engaged in 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.

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

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

Hengsheng was established in 2007 and is mainly engaged in production and sales of automobile steering systems.

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: 2009 (AS RESTATED) VERSUS 2008 (AS RESTATED)

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	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	68.1%	68.1%
Jiulong	61,613,116	42,708,266	18,904,850	44.3	53,368,639	36,518,790	16,849,849	46.1	46.1
Shenyang	32,492,844	25,007,497	7,485,347	29.9	27,051,979	20,745,291	6,306,688	30.4	30.4
Zhejiang	24,193,366	15,778,456	8,414,910	53.3	18,926,080	11,532,146	7,393,934	64.1	64.1
Wuhu	26,496,148	19,953,632	6,542,516	32.8	25,769,456	19,564,043	6,205,413	31.7	31.7
Other									
Sectors	10,806,533	901,474	9,905,059	1098.8	7,955,758	271,271	7,684,487	2832.8	2832.8
Other(1)	(53,464,330)	(34,161,694)	(19,302,636)	56.5	(51,358,895)	(33,635,458)	(17,723,437)	52.7	52.7
Total	\$ 255,597,553	\$ 163,179,286	\$ 92,418,267	56.6%	\$ 193,854,927	\$ 121,709,213	\$ 72,145,714	59.3%	59.3%

(1) Other includes activity not allocated to the product sectors and elimination of inter-sector transactions.

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 the sales of passenger vehicles and commercial vehicles, and the resultant increase in the Company's sales of steering gear and pumps; the Company has raised the technological contents in, and production efficiency of, its products as a result of technological improvement to its production lines, allowing the Company to reduce costs and, correspondingly, its sales prices which led to increased sales volumes.

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, decreased sales price with a sales decrease 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, increased sales price with a sales increase 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, decreased sales price with a sales decrease 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 decreased sales price with a sales decrease 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 decreased sales price with a sales decrease 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%. 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.

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 increased sales.

Gross margin was 24.2% for the year ended December 31, 2009, a decrease of 1.3% 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 was \$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		Increase (Decrease)	Percentage
	2009	2008		
	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 strengthening the 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 expenses	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%

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 and provision for bad debts expenses.

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 specific identification method. The decrease in provision for bad debts in 2009 was mainly due to domestic automobile manufacturers beginning to recover from the financial crisis in 2008 under the support of a series of government policies, and improving their financial situation, and paying the Company under their credit terms, thus decreasing the accounts receivable that exceed the credit terms.

For the year ended December 31, 2009, depreciation and amortization expenses excluded from that recorded under cost of sales were \$2,955,159, compared to \$5,846,290 for the year ended December 31, 2008, a decrease of \$2,891,131, or 49.5%, as a result of the full depreciation of certain fixed assets of the Company.

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 in more 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 net sales from materials and others, and a decrease of operating income of \$441,178, or 1.8%, as a result of increased operating expenses.

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 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, 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 2006 and 2007, the Company had used this special loan to improve technologically its production line in order to enlarge capability and enhance quality. The expansion project was completed and new facilities were put into use at the end of 2007 and 2008, respectively.

The Chinese Government also provided incentives to foreign investors for setting up technologically advanced enterprises in China. During 2008, Genesis, a foreign investor, has received \$802,331 for re-investment in Jiulong and Henglong with profit distribution because these two entities were technologically advanced enterprises entitled to such subsidies.

Since such government subsidy is similar to an investment income, the Company has 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 expense. 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 accrued approximately \$3,900,000 of remaining discount on Convertible Notes immediately and accrued an additional \$520,000 of interest expenses (see note 14).

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 gain on change in fair value of the derivatives 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 from the change in fair value of the compound embedded derivatives in the convertible notes payable.

During the year ended December 31, 2008, the gain on change in fair value of the derivatives resulted from 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 Notes 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 on the Convertible Note payable.

During the year ended December 31, 2008, as the conversion option was not bifurcated, the only derivative liabilities were warrants liabilities. The significant decrease in the fair value of warrants liabilities was due to a reduced remaining term and the fact that the stock price (\$3.39) of the Company on the report date was much lower than the warrants exercise price (see note 16).

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 tax 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., (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 US 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 8, which is incorporated herein by reference.

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 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 of 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 \$10,224,130 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, 2009, the Company had cash and cash equivalents of \$43,480,176, compared to \$37,113,375 as of December 31, 2008, an increase of \$6,366,801, or 17.2%.

The Company had working capital of \$12,486,023 as of December 31, 2009, compared to \$41,805,919 as of December 31, 2008, a decrease of \$29,319,896, or 70.1%, mainly because of an increase of operating results by \$14,796,662, and a decrease of loss on change in fair value of derivative by \$43,074,327, offset by increase in payables, including liabilities associated with the convertible notes.

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 documents to repay such facilities within one year. On the condition that the Company can provide adequate mortgage security and has not violated the terms of its 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 \$5,125,802 and bankers' acceptances of \$38,041,602 as of December 31, 2009.

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 \$7,965,902. If the Company wishes to obtain the same amount of bank loans and banker's acceptance bills, it will have to provide \$7,965,902 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 \$3,712,000, which is 46.6% (the mortgage rates) of \$7,965,902, 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 14 of the financial statement), convertible notes may be required to be repaid in cash on or prior to their maturity. For example, Convertible Note 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 turmoil, 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 Note holders. On March 27, 2009, the Company received a letter dated March 26, 2009 via fax from YA Global, one of the Convertible Note 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.

(a) Bank arrangements

As of December 31, 2009, the principal outstanding under the Company's credit facilities and lines of credit was as follows:

	Bank	Due Date	Amount Available	Amount Borrowed
Comprehensive credit facilities	Bank of China	Dec-10	\$ 8,054,831	\$ 6,639,393
Comprehensive credit facilities	China Construction Bank	Oct-10	8,787,089	4,384,757
Comprehensive credit facilities	CITIC Industrial Bank	Jul-10	12,079,757	12,079,757
Comprehensive credit facilities	Shanghai Pudong Development Bank	Oct-10	6,590,317	-
Comprehensive credit facilities	Jingzhou Commercial Bank	Oct-10	9,519,346	8,281,685
Comprehensive credit facilities	Industrial and Commercial Bank of China	Sep-10	2,929,030	342,697
Comprehensive credit facilities	Bank of Communications Co., Ltd	Sep-10	3,392,502	3,392,502
Comprehensive credit facilities	Guangdong Development Bank	Oct-10	4,393,544	1,991,740
Comprehensive credit facilities	China Merchants Bank Co. Ltd	Sep-10	6,054,873	6,054,873
Total			\$ 61,801,289	\$ 43,167,404

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 2009 at annual interest rates of 4.86% to 5.31%, and maturity terms of six to twelve months. Pursuant to the refinancing arrangement, the Company pledged \$40,137,786 of equipment, land use rights and buildings as security for its comprehensive credit facility with the Bank of China; pledged \$13,510,237 of land use rights and buildings as security for its comprehensive credit facility with Shanghai Pudong Development Bank; pledged \$16,644,445 of land use rights and equipment as security for its revolving comprehensive credit facility with Jingzhou Commercial Bank; pledged \$2,642,704 of land use rights and buildings as security for its comprehensive credit facility with Industrial and Commercial Bank of China; pledged \$13,475,528 of accounts receivable, land use rights and buildings as security for its comprehensive credit facility with China Construction Bank; pledged \$17,505,961 of land use rights, notes receivable and buildings as security for its comprehensive credit facility with China CITIC Bank; pledged \$5,390,941 of land use rights and buildings as security for its comprehensive credit facility with China Merchants Bank; pledged \$6,499,795 of land use rights and buildings as security for its comprehensive credit facility with Bank of Communications Co., Ltd.; and pledged \$1,991,740 of

accounts receivable as security for its comprehensive credit facility with Guangdong Development Bank.

(b) Financing from investors:

On February 15, 2008, the Company sold \$30,000,000 and \$5,000,000 convertible notes to Lehman Brothers Commercial Corporation Asia Limited, LBCCA, and YA Global Investments, L.P., YA Global, respectively, with a scheduled maturity date of February 15, 2013 and an initial conversion price for conversion into the Company's common stock of \$8.8527 per share.

On April 15, 2009, the Company paid YA Global \$5,041,667 to redeem 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.

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.

	Total	Payment Due Dates			More than 5 Years
		Less than 1 year	1-3 years	3-5 years	
Short-term bank loan	\$ 5,125,802	\$ 5,125,802	\$ -	\$ -	\$ -
Notes payable	38,041,602	38,041,602	-	-	-
Convertible notes payable	30,000,000	30,000,000	-	-	-
Interest and make-whole on Convertible Notes	5,750,000	5,750,000	-	-	-
Other contractual purchase commitments, including information technology	10,788,625	10,006,373	782,252	-	-
Total	\$ 89,706,029	\$ 88,923,777	\$ 782,252	\$ -	\$ -

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, 2009.

Bank	Purpose	Borrowing Date	Borrowing Term (Year)	Annual Percentage Rate	Date of Interest Payment	Date of Payment	Amount Payable on Due Date
Bank of China	Working Capital	10-Nov-09	1	5.31 %	Pay monthly	10-Nov-10	\$ 2,196,772
China Merchants Bank	Working Capital	5-May-09	1	5.31 %	Pay monthly	5-Apr-10	2,196,772
Guangdong Development Bank	Working Capital	18-Sep-09	0.5	4.86 %	Pay monthly	24-Mar-10	732,258
	Total						\$ 5,125,802

The Company must use the loans for the purpose described in the table. If the Company fails, it will be charged a penalty interest at 100% of the specified loan rate. The Company has to pay interest at the interest rate described in the table on the 20th of each month. If the Company fails, it will be charged a compounded interest at the specified rate. The Company has to repay the principal outstanding on the specified date in the table. If it fails, it will be charged a penalty interest at 50% of the specified loan rate. Management believes that the Company had complied with such financial covenants as of December 31, 2009, and will continue to comply with them.

The following table summarizes the contract information of issuing notes payable between the banks and the Company as of December 31, 2009:

Purpose	Term (Month)	Due Date	Amount Payable on Due Date
Working Capital	3-6	Jan-10	\$ 3,727,058
Working Capital	3-6	Feb-10	5,822,912
Working Capital	3-6	Mar-10	6,133,827
Working Capital	3-6	Apr-10	5,592,757
Working Capital	3-6	May-10	6,802,671
Working Capital	3-6	Jun-10	9,962,377
Total			\$ 38,041,602

The Company must use the notes payable for the purpose described in the table. If it fails, the banks will no longer issue the notes payable, and it may have an adverse effect on the Company's liquidity and capital resources. The Company has to deposit sufficient cash in the designated account of the bank on the due date of notes payable for payment to the suppliers. If the bank has advanced payment for the Company, it will be charged a penalty interest at 150% of the specified loan rate. Management believes that the Company had complied with such financial covenants as of December 31, 2009, and will continue to comply with them.

The Company had approximately \$10,788,625 of capital commitment as of December 31, 2009, arising from equipment purchases for expanding production capacity. The Company intends to pay \$10,006,373 in 2010 using its working capital. Management believes that it will not have a material adverse effect on the Company's liquidity.

Cash flows:

(a) Operating activities

Net cash generated from operations during the year ended December 31, 2009 was \$34,956,534, compared with \$16,373,965 for the year of 2008, an increase of \$18,582,569, primarily due to increased income from operations.

During the year ended December 31, 2009, the most important factor of cash outflow of operation activities is increased accounts receivables, notes receivables, and pledged cash deposits.

First, cash outflow caused by the increased accounts receivable was about \$44,000,000, mainly due to increased sales in 2009 than in 2008. The credit terms on sale of goods between customers and the Company generally range from 3 - 4 months, which resulted in increased accounts receivable as sales increased. This is a normal capital circulation and the Company believes that it will not have a material adverse effect on future cash flows. Second, cash outflow caused by increased notes receivable was about \$15,000,000, mainly due to the Company having sufficient working capital, thus having less notes receivable discounted during this period. Since the notes receivable were based on bank credit standing, they may turn into cash any time the Company elects. Therefore, the increase of notes receivable will not have a material adverse effect on the Company's future operating activities. Third, increased pledged cash deposits caused cash outflow of \$6,000,000. In order to save interest expenses, the Company arranged interest free banker's acceptance bill facilities with various banks to facilitate purchasing activities to pay purchase expenditure. Such banker's acceptance bill facilities required 30%-40% pledged rate for cash deposits, which led to an increased pledged cash deposits for increased purchase expenditure in 2009 than 2008.

(b) Investing activities:

The Company expended net cash of \$17,335,687 in investment activities during the year ended December 31, 2009, as compared to \$22,356,060 during the year of 2008, a decrease of \$5,020,373, as a result of the following factors:

First, as in 2008, the Company invested cash for equipment purchases and building facilities to expand production to meet market needs. Cash used for equipment purchases and building facilities in 2009 and 2008 were \$17,498,957 and \$12,245,383, respectively.

Second, the Company acquired a 35.5% equity interest in Henglong, one of the Company's Joint-Ventures in 2008, while there was no such investing activity in 2009.

On March 31, 2008, the Company's wholly-owned subsidiary, Genesis and Wiselink, both controlled by Hanlin Chen and his family, entered into an equity transfer 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 Agreement, the Consideration was paid as follows: \$10,000,000 cash was paid by Genesis to Wiselink on April 30, 2008, and the balance of the purchase price, \$22,090,000, was paid by issuance of 3,023,542 shares of common stock of the Company, in its capacity as the 100% parent company of Genesis.

(c) Financing activities

During the year ended December 31, 2009, the Company expended net cash of \$11,290,625 in financing activities, compared to obtaining net cash of \$21,981,953 through financing activities for the same period of 2008, a decrease of \$33,272,578 as a result of the following factors:

During the year ended December 31, 2008, the Company sold \$30,000,000 and \$5,000,000 of convertible notes to Lehman Brothers Commercial Corporation Asia Limited, and YA Global Investments, L.P., respectively. During the same period in 2009, there is no such financing activity.

The Company repaid YA Global \$5,000,000 for its convertible notes upon its request during the year ended December 31, 2009.

During the year 2009 and 2008, the Company had sufficient working capital from its operating activities. To save interest expenses, the Company repaid bank loans of \$2,196,367 and \$7,567,697 during the year 2009 and 2008, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

At December 31, 2009 and 2008, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

COMMITMENTS AND CONTINGENCIES

The following table summarizes the Company's contractual payment obligations and commitments as of December 31, 2009:

	Payment Obligations by Period						Total
	2010	2011	2012	2013	Thereafter		
Obligations for service agreements	\$ 110,000	\$ 110,000	\$ —	\$ —	\$ —	\$ —	220,000
Obligations for purchasing agreements	9,896,373	672,252	—	—	—	—	10,568,625
Interest and make-whole on Convertible Notes	5,751,270	—	—	—	—	—	5,751,270
Total	\$ 15,757,643	\$ 782,252	\$ —	\$ —	\$ —	\$ —	\$ 16,539,895

SUBSEQUENT EVENTS

On January 24, 2010, Genesis entered into a sino-foreign equity joint venture contract with Beijing Hainachuan Auto Parts Co., Ltd., to establish a sino-foreign joint venture company, Beijing Henglong Automotive System Co., Ltd. "Beijing Henglong", to design, develop and manufacture both hydraulic and electric power steering systems and parts. Under PRC laws, the establishment of Beijing Henglong and the effectiveness of the equity joint venture contract are subject to the approval by the local Ministry of Commerce and the registration of the same with the local Administration of Industries and Commerce in Beijing. The Company expects that the approval and registration will be obtained and completed within 2 months from the date of the equity joint venture contract.

Due to the continued increase of market demand for its products, the Company decided to expand its production capacity. On February 24, 2010, the Board of Directors of the Company decided to increase the registered capital of Hengsheng, one of the Company's subsidiaries, to \$16,000,000 from \$10,000,000. The additional investment will be used for expansion of plant and purchase of machinery and equipment and will be funded by the Company's working capital balances. As of the date of this report, the additional investment has been injected into Hengsheng.

INFLATION AND CURRENCY MATTERS

In the most recent decade, the Chinese economy has experienced periods of rapid economic growth as well as relatively high rates of inflation, which in turn has resulted in the periodic adoption by the Chinese Government of various corrective measures designed to regulate growth and contain inflation.

Foreign operations are subject to certain risks inherent in conducting business abroad, including price and currency exchange controls, and fluctuations in the relative value of currencies. During 2009, the Company has supplied products to North America and settled in cash in US dollars. As a result, appreciation or currency fluctuation of the RMB against the US\$ would increase the cost of export products, thus adversely affect the Company's financial performance.

In July 2005, the Chinese Government adjusted its exchange rate policy from “Fixed Rate” to “Floating Rate”. During July 2005 to July 2008, the exchange rate between RMB and US dollars experienced a big fluctuation, for RMB 1.00 to US\$0.1205 and RMB 1.00 to US\$0.1462, respectively. Since August 2008, the exchange rate has maintained stable, and was approximately at RMB 1.00 to US\$0.1464. There can be no assurance that the exchange rate will remain stable. The Renminbi could appreciate against the US dollar. The Company’s financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi in which the Company’s earnings and obligations are denominated. In particular, an appreciation of the Renminbi is likely to increase the cost of export products, thus decrease the Company’s cash flow.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 4 to the accompanying Consolidated Financial Statements under Item 15 of this amended Annual Report on Form 10-K/A for a discussion of recent accounting pronouncements.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

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

The Company considers an accounting estimate to be critical if:

- It requires the Company to make assumptions about matters that were uncertain at the time it was making the estimate, and
- Changes in the estimate or different estimates that the Company could have selected would have had a material impact on the Company’s financial condition or results of operations.

The table below presents information about the nature and rationale for the Company critical accounting estimates:

Balance Sheet Caption	Critical Estimate Item	Nature of Estimates Required	Assumptions/Approaches Used	Key Factors
Accrued liabilities and other long-term liabilities	Warranty obligations	Estimating warranty requires the Company to forecast the resolution of existing claims and expected future claims on products sold. VMs are increasingly seeking to hold suppliers responsible for product warranties, which may impact the Company’s exposure to these costs.	The Company bases its estimate on historical trends of units sold and payment amounts, combined with its current understanding of the status of existing claims and discussions with its customers.	<ul style="list-style-type: none"> • VM (Vehicle Manufacturer) sourcing • VM policy decisions regarding warranty claims *VM

Property, plant and equipment, intangible assets and other long-term assets

Valuation of long-lived assets and investments

The Company is required from time-to-time to review the recoverability of certain of its assets based on projections of anticipated future cash flows, including future profitability assessments of various product lines.

The Company estimates cash flows using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments.

- Future Production estimates
- Customer preferences and decisions

Accounts and notes receivables	Provision for doubtful accounts and notes receivable	Estimating the provision for doubtful accounts and notes receivable require the Company to analyze and monitor each customer's credit standing and financial condition regularly. The Company grants credit to its customers, generally on an open account basis. It will have material adverse effect on the Company's cost disclosure if such assessment were improper.	The Company grants credit to its customers for three to four months based on each customer's current credit standing and financial data. The Company assesses allowance on an individual customer basis, under normal circumstances; the Company does not record any provision for doubtful accounts for those accounts receivable amounts which were in credit terms. For those receivables out of credit terms, certain proportional provision, namely 25% to 100%, will be recorded based on respective overdue terms.	<ul style="list-style-type: none"> • Customers' credit standing and financial condition
Deferred income taxes	Recoverability of deferred tax assets	The Company is required to estimate whether recoverability of its deferred tax assets is more likely than not based on forecasts of taxable earnings in the related tax jurisdiction.	The Company uses historical and projected future operating results, based upon approved business plans, including a review of the eligible carryforward period, tax planning opportunities and other relevant considerations.	<ul style="list-style-type: none"> • Tax law changes • Variances in future projected profitability, including by taxing entity
Convertible notes payable, discount of convertible note payable, warrant liabilities, compound derivative liabilities	Warrant liabilities and compound derivative liabilities	The Company is required to estimate the fair value of warrant liabilities and compound derivative liabilities at conception and completion of each reporting period	The Company uses Black-Scholes option pricing model to determine fair value of warrant; uses Monte Carlo simulation ("MCS") valuation techniques to determine fair value of compound derivative liabilities	<ul style="list-style-type: none"> • Volatility • Risk-free rate • interest market risk • Credit risk • Redemption activities before maturity

In addition, there are other items within the Company's financial statements that require estimation, but are not as critical as those discussed above. These include the allowance for reserves for excess and obsolete inventory. Although not significant in recent years, changes in estimates used in these and other items could have a significant effect on the Company's consolidated financial statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

(a) FINANCIAL STATEMENTS

The following financial statements are set forth at the end hereof.

1. Report of Independent Auditors
2. Consolidated Balance Sheets as of December 31, 2009 and 2008
3. Consolidated Statements of Income/(Loss) for the years ended December 31, 2009 and 2008
4. Consolidated Statements of Comprehensive Income/(Loss) for the years ended December 31, 2009 and 2008

32

5. Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2009 and 2008
6. Consolidated Statements of Cash Flows for the years ended December 31, 2009 and 2008
7. Notes to Consolidated Financial Statements

(b) Selected quarterly financial data for the past two years are summarized in the following table:

	Quarterly Results of Operations							
	First		Second		Third		Fourth	
	2009	2008	2009	2008	2009	2008	2009	2008
	As Restated	As Restated	As Restated	As Restated	As Restated	As Restated	As Restated	As Restated
Net Sales	\$ 44,697,446	\$ 41,467,043	\$ 62,484,279	\$ 46,508,340	\$ 64,654,369	\$ 36,936,755	\$ 83,761,459	\$ 38,761,459
Gross Profit	10,903,345	10,923,526	16,305,928	12,956,177	15,485,743	8,635,975	19,047,610	8,635,975
Operating Income	7,092,507	6,784,664	11,660,281	5,477,887	9,654,436	3,697,416	8,525,170	1,715,636
Net Income	1,901,559	6,012,133	9,925,476	5,150,211	(8,023,843)	3,125,371	(22,454,317)	1,715,636
Net income attributable to noncontrolling interest	1,383,697	1,750,247	2,653,651	1,685,003	2,036,762	983,480	1,715,636	
Net income attributable to Parent company	517,862	4,261,886	7,271,825	3,465,208	(10,060,605)	2,141,891	(24,169,953)	
Earnings Per Share attributable to Parent company								
Basic	\$ 0.02	\$ 0.16	\$ 0.23	\$ 0.12	\$ (0.37)	\$ 0.07	\$ (0.89)	\$ (0.89)
Diluted	\$ 0.02	\$ 0.16	\$ 0.23	\$ 0.12				