

CHINA AUTOMOTIVE SYSTEMS INC
Form 8-K/A
May 08, 2008

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

Form 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 3, 2008

China Automotive Systems, Inc.
(Exact Name of Registrant as Specified in its Charter)

| | | |
|---|--|--|
| Delaware (State or other jurisdiction of incorporation or organization) | 000-3123 (Commission File Number) | 33-0885775 (I.R.S. Employer Identification No.) |
|---|--|--|

No. 1 Henglong Road, Yu Qiao Development Zone
Shashi District, Jing Zhou City
Hubei Province
People's Republic of China
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code **(86) 27-5981 8527**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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EXPLANATORY NOTE

This Current Report on Form 8-K/A is being filed as an amendment to the Current Report on Form 8-K filed by China Automotive Systems, Inc (the “**Registrant**”) with the Securities and Exchange Commission on April 9, 2008 (the “**Initial Report**”), announcing the completion of the acquisition of an additional 35.5% equity interest in Jingzhou Henglong Automotive Parts Co., Ltd. (“**Jingzhou Henglong**”) by Great Genesis Holdings Limited, a wholly-owned subsidiary of the Registrant, and other parties. As a result of the acquisition, the Registrant now holds 80% of the equity interest in Jingzhou Henglong.

The information previously reported in the Initial Report is hereby incorporated by reference into this Form 8-K/A. This Current Report on Form 8-K/A is being filed solely to include the financial information required by Items 9.01(a) and 9.01(b) of Form 8-K, which was not available at the time of the earlier filing. Except as described in this Explanatory Note, no other information in the Initial Report is modified or amended hereby. Capitalized terms used herein and not otherwise defined shall have the respective meaning ascribed to them in the Initial Report.

Item 9.01 Financial Statements and Exhibits

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(a) Financial Statements of Business Acquired.

The Registrant has, for every period in which Jingzhou Henglong financial statements would otherwise be required to be presented, consolidated such statements in the Registrant’s own financial statements. Consequently, reference is made to the audited consolidated financial statements of the Registrant for the years ended December 31, 2006 and December 31, 2007, filed with the Registrant’s annual reports on Form 10-K filed on April 2, 2007 and March 25, 2008 respectively.

The pro forma effects of acquiring the additional minority interest described above are illustrated in the pro forma financial statements provided elsewhere in this Form 8-K/A.

(b) Pro Forma Financial Information.

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CHINA AUTOMOTIVE SYSTEMS, INC.

**INTRODUCTION TO UNAUDITED PRO FORMA
CONSOLIDATED FINANCIAL STATEMENTS**

On March 31, 2008, Wiselink Holdings Limited, “Wiselink”, Great Genesis Holdings Limited, “Great Genesis”, a wholly-owned subsidiary of China Automotive Systems, Inc., “the Company” and other parties entered into an equity transfer transaction, the “Acquisition”, documented by an Equity Transfer Agreement, the “Agreement”, pursuant to which Wiselink agreed to transfer and assign a 35.5% equity interest in Jingzhou Henglong Automotive Parts Co. Ltd., “Jingzhou Henglong” to Great Genesis for a total consideration of US\$32,090,000, the “Consideration”. As a result of the transaction, the Company will hold a 80% equity interest in Jingzhou Henglong.

Under the terms of the Agreement, the Consideration is to be paid as follows: US\$10,000,000 cash was paid by Great Genesis to Wiselink on April 30, 2008, and the balance of the purchase price (US\$22,090,000) is to be paid (assuming shareholder approval of the full stock issuance as noted below) by issuance of 3,023,542 shares of common stock of the Registrant, valued at US\$7.3060 per share determined as of January 22, 2008, in its capacity as the 100% parent company of Great Genesis.

The issuance of 1,170,000 shares of the 3,023,542 shares took place on April 22, 2008. The balance of the shares will be issued upon shareholder approval of the issuance as contemplated by the Agreement and the rules of the NASDAQ Stock Market. In the event that shareholder approval is not obtained, Great Genesis will issue Wiselink a subordinated non-interest bearing promissory note payable in three years in a principal amount based on 1,853,542 shares multiplied by the volume weighted average price per share of the Company’s common share calculated with respect to the twenty (20) days prior to the one year anniversary of the Agreement, but in no event greater than US\$13,541,978. The pro forma financial statements which follow assume that stockholder approval will be obtained.

The unaudited pro forma consolidated balance sheet as at December 31, 2007 and statement of operations for the years ended December 31, 2007 and 2006 include the historical consolidated statements of operations of the Registrant, giving effect to the Acquisition as if it had occurred on January 1, 2007 and 2006. This information is only a summary, and you should read it in conjunction with the Company’s historical consolidated financial statements and related notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in the annual reports, quarterly reports and other information on file with the Securities and Exchange Commission and the Company’s historical consolidated financial statements and related notes contained elsewhere in this Form 8-K/A.

The accompanying unaudited pro forma consolidated financial statements are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations in future periods.

CHINA AUTOMOTIVE SYSTEMS, INC.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2007

| | Historical statement | December 31, 2007 (Notes 4) | | Pro Forma |
|--|-------------------------|--------------------------------|-----------------|----------------|
| | | Pro Forma Adjustments | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 19,487,159 | (a) | \$ (10,000,000) | \$ 9,487,159 |
| Pledged cash deposits | 4,645,644 | | | 4,645,644 |
| Accounts and notes receivable, net | 82,022,643 | | | 82,022,643 |
| Prepayments & other receivables, net | 922,578 | | | 922,578 |
| Inventories | 20,193,286 | | | 20,193,286 |
| Total current assets | 127,271,310 | | (10,000,000) | 117,271,310 |
| Properties, plants & equipment, net | 46,585,041 | | | 46,585,041 |
| Intangible assets, net | 589,713 | | | 589,713 |
| Other receivables, net | 888,697 | | | 888,697 |
| Advance payment for properties, plant & equipment | 6,260,443 | | | 6,260,443 |
| Long-term investment | 73,973 | (a) | 32,090,000 | 73,973 |
| | | (b) | (32,090,000) | |
| Deferred income tax assets | 1,315,510 | | | 1,315,510 |
| Total assets | \$ 182,984,687 | | \$ (10,000,000) | \$ 172,984,687 |
| Current liabilities | | | | |
| Bank loans | \$ 13,972,603 | | \$ -- | \$ 13,972,603 |
| Accounts and notes payable | 47,530,383 | | | 47,530,383 |
| Customers deposits | 135,627 | | | 135,627 |
| Accrued payroll and related costs | 2,664,464 | | | 2,664,464 |
| Accrued expenses and other payables | 14,938,055 | (e) | (3,890,411) | 11,047,644 |
| Accrued pension costs | 3,622,729 | | | 3,622,729 |
| Taxes payable | 9,080,493 | | | 9,080,493 |
| Amounts due to shareholders/directors | 304,601 | | | 304,601 |
| Total current liabilities | 92,248,955 | | (3,890,411) | 88,358,544 |
| Advances payables | 334,600 | | | 334,600 |
| Total liabilities | 92,583,555 | | (3,890,411) | 88,693,144 |
| Minority interests | 23,166,270 | (b) | (4,615,029) | 13,652,651 |
| | | (c) | (4,700,967) | |
| | | (d) | (197,623) | |
| Stockholders' equity | | | | |
| Common stock | 2,396 | (a) | 302 | 2,698 |
| Additional paid-in capital | 30,125,951 | (a) | 22,089,698 | 24,740,678 |

| | | | | |
|--|----------------|-----|-----------------|----------------|
| | | (b) | (27,474,971) | |
| Retained earnings- | | | | |
| Appropriated | 7,525,777 | | | 7,525,777 |
| Unappropriated | 23,591,275 | (c) | 4,700,967 | 32,182,653 |
| | | (e) | 3,890,411 | |
| Accumulated other | | | | |
| comprehensive income | 5,989,463 | (d) | 197,623 | 6,187,086 |
| Total stockholders' equity | 67,234,862 | | 3,404,030 | 70,638,892 |
| Total liabilities and shareholders' equity | \$ 182,984,687 | | \$ (10,000,000) | \$ 172,984,687 |
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CHINA AUTOMOTIVE SYSTEMS, INC.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2007

| | Historical statement | For the year ended December, 31 2007 (Notes 4) | | | Pro Forma |
|--|-------------------------|---|-------------|----|----------------|
| | | Pro Forma Adjustments | | | |
| Product sales | \$ 133,597,003 | \$ | - | \$ | \$ 133,597,003 |
| Cost of product sold | 88,273,955 | | | | 88,273,955 |
| Gross profit | 45,323,048 | | | | 45,323,048 |
| Add: gain on other sales | 554,150 | | | | 554,150 |
| Less: operating expenses | | | | | |
| Selling expenses | 9,674,476 | | | | 9,674,476 |
| General and administrative expenses | 9,026,717 | | | | 9,026,717 |
| R & D expenses | 1,666,274 | | | | 1,666,274 |
| Depreciation and amortization | 4,243,930 | | | | 4,243,930 |
| Total operating expenses | 24,611,397 | | | | 24,611,397 |
| Income from operations | 21,265,801 | | | | 21,265,801 |
| Other income, net | 38,462 | | | | 38,462 |
| Financial (expenses) | (566,986) | | | | (566,986) |
| Income before income taxes | 20,737,277 | | | | 20,737,277 |
| Less: income taxes | 2,231,032 | | | | 2,231,032 |
| Income before minority interests | 18,506,245 | | - | | 18,506,245 |
| Less: minority interests | 9,646,339 | (c) | (4,700,967) | | 4,945,372 |
| Net income | \$ 8,859,906 | \$ | 4,700,967 | \$ | \$ 13,560,873 |
| Net income per common share - Basic and diluted | \$ 0.37 | | | \$ | 0.50 |
| Weighted average number of common shares outstanding- | | | | | |
| Basic | 23,954,370 | (a) | 3,023,542 | | 26,977,912 |
| Diluted | 23,958,705 | (a) | 3,023,543 | | 26,982,248 |

CHINA AUTOMOTIVE SYSTEMS, INC.**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS**
Year Ended December 31, 2006

| | Historical statement | For the year ended December, 31 2006 (Notes 4) Pro Forma Adjustment | | Pro Forma |
|---|-------------------------|---|-------------|---------------|
| Product sales | \$ 95,766,439 | \$ | -- | \$ 95,766,439 |
| Cost of product sold | 62,856,625 | | | 62,856,625 |
| | | | | -- |
| Gross profit | 32,909,814 | | | 32,909,814 |
| Add: gain on other sales | 279,216 | | | 279,216 |
| Less: operating expenses | | | | |
| Selling expenses | 7,772,068 | | | 7,772,068 |
| General and administrative expenses | 7,810,187 | | | 7,810,187 |
| R & D expenses | 1,066,050 | | | 1,066,050 |
| Depreciation and amortization | 3,776,003 | | | 3,776,003 |
| Total operating expenses | 20,424,308 | | | 20,424,308 |
| Income from operations | 12,764,722 | | | 12,764,722 |
| Other income, net | 94,257 | | | 94,257 |
| Financial (expenses) | (832,844) | | | (832,844) |
| Income before income taxes | 12,026,135 | | | 12,026,135 |
| Less: income taxes | 1,669,081 | | | 1,669,081 |
| Income before minority interests | 10,357,054 | | - | 10,357,054 |
| Less: minority interests | 5,545,350 | (c) | (2,737,159) | 2,808,191 |
| Net income | \$ 4,811,704 | \$ | 2,737,159 | \$ 7,548,863 |
| Net income per common share | | | | |
| Basic and diluted | \$ 0.21 | | | \$ 0.29 |
| Weighted average number of common shares outstanding- | | | | |
| Basic | 23,198,113 | (a) | 3,023,542 | 26,221,655 |
| Diluted | 23,210,675 | (a) | 3,023,542 | 26,234,217 |

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

The accompanying unaudited pro forma consolidated financial statements were prepared by the management to give effect to the proposed Acquisition based on the available information, using assumptions that we believe are reasonable. The Acquisition is more fully described in Note 2 and the basis of the assumptions are described in Note 3. The Acquisition is being presented in these unaudited pro forma consolidated financial statements.

The unaudited pro forma consolidated financial statements were prepared with reference to the following:

- (a) the audited consolidated financial statements of the Company as of December 31, 2007; and
- (b) the audited consolidated financial statements of the Company as of December 31, 2006.

The unaudited pro forma consolidated financial statements were prepared in accordance with the United States Generally Accepted Accounting Principles, "GAAP" and should be read in conjunction with the foregoing financial statements and notes hereto.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the financial position and results of operations of the Company had the Acquisition and related transactions and other pro forma adjustments been effected on the dates indicated. Further, the unaudited pro forma consolidated financial statements are not necessarily indicative of the financial position and results of operations that may be obtained in the future.

2. The Acquisition

On March 31, 2008, the Company's wholly-owned subsidiary, Great Genesis and Wiselink, both controlled by Hanlin Chen and his family, entered into an equity transfer agreement, pursuant to which Wiselink agreed to transfer and assign its 35.5% equity interest in Jingzhou Henglong, one of the Company's currently consolidated subsidiaries, to Great Genesis for a total consideration of US\$32,090,000.

Under the terms of the Agreement, the Consideration is paid as follows: US\$10,000,000 cash was paid by Great Genesis to Wiselink on April 30, 2008, and the balance of the purchase price (US\$22,090,000) is to be paid by issuance of 3,023,542 shares of common stock of the Company, valued at US\$7.3060 per share determined as of January 22, 2008, in its capacity as the 100% parent company of Great Genesis. The payment of 1,853,542 shares of the 3,023,542 shares is dependent upon shareholder approval, which will be sought at the Company's upcoming Annual General Meeting. If approval is not obtained, Great Genesis will issue Wiselink a subordinated non-interest bearing promissory note payable in three years in a principal amount based on 1,853,542 shares multiplied by the volume weighted average price per share of the Company's common share calculated with respect to the twenty (20) days prior to the one year anniversary of the Agreement, but in no event greater than US\$13,541,978, as described elsewhere in the Form 8-K/A to which these pro forma statements are an exhibit. Under the terms of the Agreement, Great Genesis is deemed to be the owner of the equity concerned commencing from January 1, 2008. The Acquisition is considered as a business combination of companies under common control and is being accounted for in a manner of pooling-of-interests.

3. Pro forma assumptions

The unaudited pro forma consolidated financial statements incorporated the following pro forma assumptions:

The equity transfer transaction was completed on either January 1, 2007 or January 1, 2006. As of the closing date, US\$10,000,000 cash was paid by Great Genesis to the shareholders of Wiselink, 3,023,542 shares of common stock of the Company was issued, at par value of \$0.0001 per share. The value of the shares issued was valued at US\$7.3060 per share.

4. Pro forma adjustments

The unaudited pro forma consolidated financial statements include the following adjustments:

- (a) To record the investment in 35.5% equity interests in Jingzhou Henglong of US\$32,090,000 by way of cash payment of US\$10,000,000 by Great Genesis to the shareholders of Wiselink, and the issuance of 3,023,542 shares of common stock, par value of \$0.0001 per share, of the Company for the balance of the consideration. The value of the shares issued was valued at US\$7.3060 per share. The difference between the issuance price and par value has been credited into additional paid-in capital. As of January 1, 2007, \$22,089,698 have been credited into additional paid-in capital.
- (b) To record the elimination of the investment in 35.5% equity interest in Jingzhou Henglong of US\$32,090,000 and the associated minority interests of \$4,625,029 as at January 1, 2007. The difference between investment cost and minority interests \$27,474,971 has been debited into additional paid-in capital, as at January 1, 2007.
- (c) To record the reduction of net income shared by the minority shareholder, Wiselink, of \$4,700,967 and \$2,737,159 for the years ended December 31, 2007 and 2006, respectively, as a result of the Acquisition.
- (d) To record the reduction of the other comprehensive income shared by the minority shareholder, Wiselink, by \$197,623 for the year ended December 31, 2007, as a result of the Acquisition.
- (e) To record the reduction of dividends shared by the minority shareholder, Wiselink, of \$3,890,411 for the year ended December 31, 2007, as a result of the Acquisition.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

China Automotive Systems, Inc.
(Registrant)

Date: May 8, 2008

By: /s/ Hanlin Chen

Hanlin Chen
Chairman