

# FY 2024 ANNUAL REPORT



**CHINA AUTOMOTIVE SYSTEMS, INC.**



Based in Hubei Province, People's Republic of China, CHINA AUTOMOTIVE SYSTEMS, INC. is a leading supplier of power steering components and systems to the Chinese automotive industry and is exporting into the global market.

The company operates through eleven wholly-owned subsidiaries in China and America and seven Sino-foreign joint ventures in China.

- Henglong USA Corporation
- **Great Genesis Holdings Limited**
  - Shenyang Jinbei Henglong Automotive Steering System Co., Ltd.
  - **Hubei Henglong Automotive System Group Co., Ltd.**
    - Shashi Jiulong Power Steering Gears Co., Ltd.
    - Wuhu Henglong Automotive Steering System Co., Ltd.
    - Chongqing Henglong Hongyan Automotive System Co., Ltd.
    - CAAS Brazil's Imports And Trade In Automotive Parts Ltd.
    - Hubei Henglong Group Shanghai Automotive Electronics Research and Development Ltd.
    - Hubei Henglong & KYB Automobile Electric Steering System Co., Ltd.
    - Hyoseong (Wuhan) Motion Mechatronics System Co., Ltd.
    - Wuhu Hongrun New Material Co., Ltd.
    - Changchun Hualong Automotive Technology Co., Ltd.
    - Hubei Zhirong Automotive Technology Co., Ltd.
    - **Jingzhou Henglong Automotive Parts Co., Ltd.**
      - Jingzhou Henglong Automotive Technology (Testing) Center
  - **Wuhan Jielong Electric Power Steering Co., Ltd.**
    - Wuhan Chuguanjie Automotive Science and Technology Ltd.

*Dear Shareholder,*

The Chinese economy's rebound continued and accelerated in 2023, with GDP growth of 5.2%, a significant improvement from the 3% growth in the post-COVID year of 2022. Although this growth rate is below the historical average for China, it demonstrates the resilience of a large manufacturing economy amidst various challenges. The positive effects of this economic resurgence have been felt across multiple business sectors, notably the automobile industry, which saw an increased demand for new vehicles. We capitalized on this economic recovery and automobile revival by achieving record annual net sales of \$576.4 million in 2023.

The 2023 report by the China Association of Automobile Manufacturers (CAAM) presents a healthy picture of the automotive industry's growth, particularly in the New Energy Vehicles (NEV) sector. The 38.2% rise in NEV passenger market sales combined with NEV commercial vehicles sales up 32.3% year-over-year, reflected a strong shift towards more eco-friendly transportation. This trend is further underscored by the impressive 77.6% surge in NEV exports, indicating rising global demand for sustainable vehicles as environmental considerations become increasingly paramount in the global market. Overall passenger vehicle sales in China rose by 10.6% year-over-year and commercial vehicle sales increased by 22.1% year-over-year with truck market sales up 22.4% year-over-year and bus market sales rising by 20.5% year-over-year.

The fourth quarter of 2023 was noteworthy for us with a robust 23.6% increase in our net sales, amounting to \$159.2 million. This increase was primarily driven by the escalating demand for our high-value electric power steering (EPS) products. Concurrently, gross profits soared by 38.8% year-over-year, with the gross margin rising to 21.8%, up from 19.4% in the previous year's fourth quarter. Our gross profit upturn, coupled with reduced operating expenses, culminated in a substantial rise in operating income, while diluted earnings per share experienced a 157% boost, climbing to \$0.36 from the \$0.14 reported in the fourth quarter of 2022.

For 2023, our 8.8% sales increase was driven primarily by higher demand for Chinese passenger vehicles. Our growing portfolio of advanced EPS systems recorded sales growth of 24.6% to \$194.8 million and was a significant contributor to total sales. Traditional steering products also demonstrated resilience, achieving a steady 2.2% growth and contributing \$381.6 million to the overall sales figures. Wuhan Jielong, another subsidiary within our portfolio, achieved a 20.7% increase in sales, reaching \$112.1 million, thanks to heightened demand for steering columns.

Commercial vehicle sales remained stable, reflecting variable demand across different market segments. Overall, we successfully maintained our leading position in the Chinese steering market and demonstrated agility in navigating the global steering market. More importantly, we adapted to shifting demands and overcame various challenges to regain growth momentum.

Internationally, the Brazilian market registered continued growth with a 22.9% increase in sales, primarily driven by expanded business with Stellantis. Despite challenges such as an 8.5% decline in North American sales, attributed in part to the auto workers' strike, we began to see signs of recovery towards the end of the year. The market penetration of the European market is accelerating with customers such as Alfa Romeo, SCANIA AB and through our subsidiary, Sentient AB ("Sentient"), a Swedish automotive technology company which specializes in software development and hardware design to enhance vehicle motion control and autonomous driving.

Our financial results for 2023 showcased a remarkable year with a gross profit increase of \$20.4 million, marking a 24.5% increase from the prior year, to \$103.8 million. A pivotal factor in this growth has been the strategic shift in the product mix with EPS sales increasing to 33.8% of the total sales, a significant rise from 29.5% in 2022. Gross margin also achieved a notable improvement, rising to 18.0% from the previous year's 15.7%, partially due to the economies-of-scale realized from higher EPS production. Operational expenses have been better controlled, showing an 11.1% decrease, with research and development expenses declining by 19.1% as the focus transitioned from traditional product enhancements to more advanced steering systems. Operating income soared by 390.0% to \$39.2 million in 2023, and diluted earnings per share increased by 81.2% to \$1.25. These financial results underscored our Company's dynamic response to changing market demands and our dedication to efficiency and cost management, setting a solid foundation for sustained success moving forward.

At the year end of 2023, our cash and cash equivalents and short-term investments were \$134.1 million with working capital of \$180.3 million. Net cash flow from operating activities approximated \$20.0 million and cash paid to acquire property, plant and equipment and land use rights was \$2.8 million in 2023. We have adequate overall production capabilities for the near term although more equipment may be needed as sales of our new energy products are being ramped up.

Technological change in the automotive industry is at an unprecedented pace. The prioritization of innovative new products such as EPS, Advanced Driver Assistance

Systems (ADAS), and other products under development emphasizes our commitment to aligning with customer and end-user needs for the future. We work with our OEM customers and end users to create tailored solutions. For example, C-EPS, DP-EPS and R-EPS products are under development for our largest domestic customer, BYD Auto Co., which was the world's largest EV manufacturer in 2023. Among our other major customers are Zhejiang Geely Automobile Co., Ltd., Chery Automobile Co., Ltd., Chongqing Changan Automobile Co., Ltd., SAIC Motor Co., Ltd., FAW Group, Hubei Hongrun Intelligent System Co., Ltd., Stellantis N.V., Ford Motor Company and Mahindra & Mahindra Ltd. Other automobile OEMs and emerging technology companies entering the NEV space presented additional opportunities for new product development and sales growth. These new products can also expand our product portfolio which already includes integral rack and pinion power steering, high pressure power steering, automotive electronics, intelligent automotive technologies, automotive motors and electromechanical integrated systems, vehicle software and motion controls, high polymer materials. We are also developing new, cost-saving manufacturing processes.

The stability of demand for our traditional products, together with the sales growth of our EPS products, strengthened our robust market position. Our evolving ADAS product is set to revolutionize safety standards with features like autonomous emergency braking and forward-collision warning systems. These innovations, along with other ongoing new products under development, are poised to turbocharge our leading position in the global steering market. The tidal wave of lower-priced EVs by Chinese OEMs entering into a broader global consumer base offers more sales prospects for our products. The growth trends in the Chinese vehicle market, especially in the EV sector, where China leads in both manufacturing and exports, present significant opportunities for us. As a premier developer and producer of steering systems for Chinese-branded vehicles, these market dynamics offer promising avenues for growth and expansion.

*Sincerely,*

*Qizhou Wu*  
*CEO & Director*

# CHINA AUTOMOTIVE SYSTEMS, INC.

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## CAUTIONARY STATEMENT

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These statements relate to future events or the Company's future financial performance. The Company has attempted to identify forward-looking statements by terminology including "anticipates," "believes," "expects," "can," "continues," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "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 Annual Report or other reports or documents the Company files with the Securities and Exchange Commission, the "SEC," from time to time, which could cause actual results or outcomes to differ materially from those projected. Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Undue reliance should not be placed on these forward-looking statements which speak only as of the date hereof. The Company's expectations are as of the date this Form 10-K is filed, and the Company does not intend to update any of the forward-looking statements after the date this Annual Report on Form 10-K is filed to confirm these statements to actual results, unless required by law.

## PART I

### ITEM 1. BUSINESS.

#### COMPANY HISTORY

China Automotive Systems, Inc., "China Automotive" or the "Company," was incorporated in the State of Delaware on June 29, 1999. Through its subsidiary, Great Genesis Holdings Limited, "Genesis," a corporation organized under the laws of the Hong Kong Special Administrative Region, China, it owns interests in eight Sino-joint ventures and seven wholly-owned subsidiaries in the People's Republic of China, "China" or the "PRC," which manufacture power steering systems and/or related products for different segments of the automobile industry. Genesis also owns interests in a Brazil-based trading company, which engages mainly in the import and sales of automotive parts in Brazil.

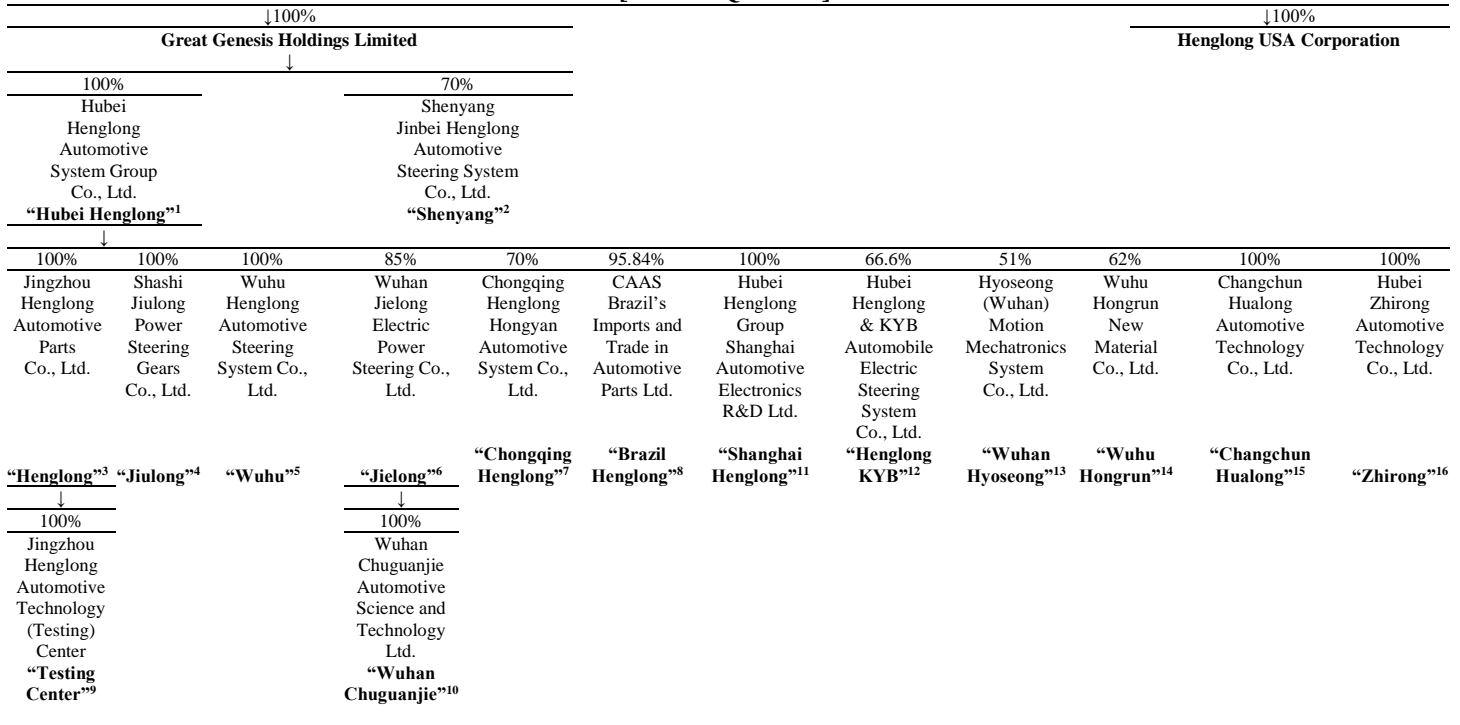
Henglong USA Corporation, "HLUSA," which was incorporated on January 8, 2007 in Troy, Michigan, is a wholly-owned subsidiary of the Company, and mainly engages in marketing of automotive parts in North America, and provides after sales service and research and development, "R&D", support.

Unless the context indicates otherwise, the Company uses the terms "the Company," "we," "our" and "us" to refer to China Automotive collectively on a consolidated basis.

#### BUSINESS OVERVIEW

The Company is a holding company and has no significant business operations or assets other than its interest in Genesis and HLUSA. Genesis mainly engages in the manufacture and sale of automotive systems and components through its controlled subsidiaries and the joint ventures, as described below. Set forth below is an organizational chart as at December 31, 2023.

**CHINA AUTOMOTIVE SYSTEMS, INC.**  
**[NASDAQ:CAAS]**



1. On March 7, 2007, Genesis established Hubei Henglong, formerly known as Jingzhou Hengsheng Automotive System Co., Ltd., its wholly-owned subsidiary, to engage in the production and sales of automotive steering systems. On July 8, 2012, Hubei Henglong changed its name to Hubei Henglong Automotive System Group Co., Ltd.
2. Shenyang was established in 2002 and focuses on power steering parts for light duty vehicles.
3. Henglong was established in 1997 and mainly engages in the production of rack and pinion power steering gears for cars and light-duty vehicles.
4. Jiulong was established in 1993 and mainly engages in the production of integral power steering gears for heavy-duty vehicles.
5. Wuhu was established in 2006 and mainly engages in the production and sales of automobile steering systems. In April 2021, the Company obtained an additional 22.67% equity in Wuhu for total consideration of RMB 6.9 million, equivalent to approximately \$1.1 million, from the other shareholder. The Company retained its controlling interest in Wuhu and the acquisition of the non-controlling interest was accounted for as an equity transaction.
6. Jielong was established in 2006 and mainly engages in the production and sales of automobile steering columns.
7. On February 21, 2012, Hubei Henglong and SAIC-IVECO Hongyan Company, “SAIC-IVECO,” established a Sino-foreign joint venture company, Chongqing Henglong, to design, develop and manufacture both hydraulic and electric power steering systems and parts.
8. On August 21, 2012, Brazil Henglong was established as a Sino-foreign joint venture company by Hubei Henglong and two Brazilian citizens, Ozias Gaia Da Silva and Ademir Dal’ Evedove. Brazil Henglong engages mainly in the import and sale of automotive parts in Brazil. In May 2017, the Company obtained an additional 15.84% equity interest in Brazil Henglong for nil consideration. The Company retained its controlling interest in Brazil Henglong and the acquisition of the non-controlling interest was accounted for as an equity transaction.
9. In December 2009, Henglong, a subsidiary of Genesis, formed Testing Center, which mainly engages in the research and development of new products.
10. In May 2014, together with Hubei Wanlong, Jielong formed a subsidiary, Wuhan Chuguanjie Automotive Science and Technology Ltd., “Wuhan Chuguanjie”, which mainly engages in research and development, manufacture and sales of automobile electronic systems and parts. Wuhan Chuguanjie is located in Wuhan, China.  
In May 2020, Wuhan Chuguanjie merged with another subsidiary, Universal Sensor Application Inc., “USAI”, which was established in 2005 and mainly engages in the production and sales of sensor modules.
11. In January 2015, Hubei Henglong formed Hubei Henglong Group Shanghai Automotive Electronics Research and Development Ltd., “Shanghai Henglong”, which mainly engages in the design and sale of automotive electronics.
12. In August 2018, Hubei Henglong and KYB (China) Investment Co., Ltd., “KYB”, established Hubei Henglong KYB Automobile Electric Steering System Co., Ltd., “Henglong KYB”, which mainly engages in design, manufacture, sales and after-sales service of automobile electronic systems. Hubei Henglong owns 66.6% of the shares of this entity and has consolidated it since its establishment.

13. In March 2019, Hubei Henglong and Hyoseong Electric Co., Ltd. established Hyoseong (Wuhan) Motion Mechatronics System Co., Ltd., “Wuhan Hyoseong”, which mainly engages in the design, manufacture and sales of automotive motors and electromechanical integrated systems. Hubei Henglong owns 51.0% of the shares of Wuhan Hyoseong and has consolidated it since its establishment.
14. In December 2019, Hubei Henglong formed Wuhu Hongrun New Material Co., Ltd., “Wuhu Hongrun”, which mainly engages in the development, manufacturing and sale of high polymer materials. Hubei Henglong owns 62.0% of the shares of Wuhu Hongrun and has consolidated it since its establishment.
15. In April 2020, Hubei Henglong acquired 100.0% of the equity interests of Changchun Hualong Automotive Technology Co., Ltd., “Changchun Hualong”, for total consideration of RMB 1.2 million, equivalent to approximately \$0.2 million from an entity controlled by Hanlin Chen. Before the acquisition, 52.1% of the shares of Changchun Hualong were ultimately owned by Hanlin Chen and 47.9% of the shares were owned by third parties. Changchun Hualong mainly engages in design and R&D of automotive parts.
16. In June 2023, Hubei Henglong contributed certain equipment and intangible assets to Hubei Zhirong Automotive Technology Co. Ltd., “Zhirong”, representing 100% of Zhirong’s paid-up capital. Zhirong mainly engages in inspection and testing of automotive products.

The Company has business relationships with more than sixty vehicle manufacturers, including BYD Auto Co., Ltd., Zhejiang Geely Automobile Co., Ltd., and Chery Automobile Co., Ltd., three of the largest privately owned car manufacturers in China, Chongqing Changan Automobile Co., Ltd., the largest state-owned car manufacturers in China, SAIC Motor Co., Ltd., FAW Group and others. All of them are our key customers. For overseas customers, the Company has supplied power steering gear to Stellantis N.V. since 2009 and to Ford Motor Company since 2016.

## **THE HOLDING FOREIGN COMPANIES ACCOUNTABLE ACT**

Pursuant to the Holding Foreign Companies Accountable Act, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares from being traded on a national securities exchange or in the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor. In April 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of the annual report on Form 10-K for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 10-K for the fiscal year ended December 31, 2023. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 10-K for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA and our securities may be delisted from Nasdaq as a result. Delisting of our securities would force holders of our securities to sell their securities. Further, we may be prohibited from listing our securities on another U.S. securities exchange. The market price of our securities could be adversely affected as a result of anticipated negative impacts of such legislative or executive actions upon, as well as negative investor sentiment toward, companies with significant operations in mainland China and Hong Kong that are listed in the United States, regardless of whether such actions are implemented and regardless of our actual operating performance. See “Item 1A. Risk Factors—Risks Related To Doing Business In China And Other Countries Besides The United States—The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the future may deprive our investors with the benefits of such inspections.” And “Item 1A. Risk Factors—Risks Related To Doing Business In China And Other Countries Besides The United States—Our shares may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the shares, or the threat of being delisted, may materially and adversely affect the value of your investment.”

## **OUR CORPORATE STRUCTURE**

The Company is not a PRC operating company but a Delaware holding company with operations primarily conducted through its wholly owned direct subsidiaries, Genesis and HLUSA, and its several indirect subsidiaries that are either wholly-owned or majority-owned by either Genesis or HLUSA. Our investors hold shares of common stock in China Automotive, the Delaware holding company.

We do not have or intend to set up any subsidiary or enter into any contractual arrangements to establish a variable interest entity structure with any entity in China.

Our holding company structure presents unique risks as our investors may never directly hold equity interests in our operating subsidiaries and will be dependent upon dividends and other distributions from our subsidiaries to finance our cash flow needs. Our ability to receive dividends and other contributions from our subsidiaries are significantly affected by regulations promulgated by Hong Kong and PRC authorities. Any change in the interpretation of existing rules and regulations or the promulgation of new rules and regulations may materially affect our operations and/or the value of our securities, including causing the value of our securities to significantly decline or become worthless. For a detailed description of the risks facing the Company associated with our structure, please refer to “Item 1A. Risk Factors – Risks Related to Doing Business in China and Other Countries Besides the United States.”

Currently, PRC laws and regulations do not prohibit direct foreign investment in our operating subsidiaries. Nonetheless, in light of the recent statements and regulatory actions by the PRC government, such as those related to the promulgation of regulations prohibiting foreign ownership of Chinese companies operating in certain industries, which are constantly evolving, and anti-monopoly concerns, we may be subject to the risks of uncertainty of any future actions of the PRC government in this regard, which would likely result in a material change in our operations, including our ability to continue our existing holding company structure, carry on our current business, accept foreign investments, and offer or continue to offer securities to our investors, and the resulting adverse change in value to our common stock. We may also be subject to penalties and sanctions imposed by the PRC regulatory agencies, including the China Securities Regulatory Commission, or CSRC, if we fail to comply with such rules and regulations, which would likely adversely affect the ability of the Company’s securities to continue to trade on Nasdaq, which would likely cause the value of our securities to significantly decline or become worthless.

There was no Chinese Communist Party official who sits on China Automotive’s board and that China Automotive’s certificate of incorporation and bylaws do not contain any charter of the Chinese Communist Party.

## **DOING BUSINESS IN CHINA**

As a result of our operations in China, the Chinese government may intervene in or exert influence over our operations at any time with little or no advanced notice, which could result in a material change in our operations and/or the value of our securities. For example, the Chinese government has recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding any industry that could adversely affect the business, financial condition and results of operations of our company.

Furthermore, the Chinese government has also recently indicated an intent to exert more oversight and control over securities offerings and other capital markets activities that are conducted outside of China and over foreign investment in China-based companies. Any such action, once taken by the Chinese government, could significantly limit or completely hinder our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline or in extreme cases, become worthless. Recently, the Chinese government initiated a series of regulatory actions and statements to regulate business operations in China, including enforcement actions against illegal activities in the securities market, enhancing supervision over China-based companies listed outside of China using the variable interest entity structure, adopting new measures to extend the scope of cybersecurity reviews, and expanding the efforts in anti-monopoly enforcement. For example, on July 6, 2021, the relevant PRC government authorities made public the Opinions on Intensifying Crack-Down on Illegal Securities Activities. These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. On November 14, 2021, the Cyberspace Administration of China, the “CAC”, released the draft Administrative Regulations on Cyber Data Security, the “Draft Cyber Data Security Regulations”, for public comments, which requires, among others, that a prior cybersecurity review should be required for listing abroad of data processors which process over one million users’ personal information, and the listing of data processors in Hong Kong which affects or may affect national security.

The Chinese government may further promulgate relevant laws, rules and regulations that may impose additional and significant obligations and liabilities on overseas listed Chinese companies regarding data security, cross-border data flow, anti-monopoly and unfair competition, and compliance with China’s securities laws. It is uncertain whether or how these new laws, rules and regulations and the interpretation and implementation thereof may affect us, but among other things, our ability to obtain external financing through the issuance of equity securities in the United States, Hong Kong or other markets could be negatively affected, and as a result, the trading prices of our securities could significantly decline or become worthless. For a detailed description of risks related to our doing business in China, see “Item 1A. Risk Factors - Risks Related To Doing Business In China And Other Countries Besides The United States.”

## PERMISSIONS REQUIRED FROM THE PRC AUTHORITIES FOR OUR OPERATIONS

We conduct our business primarily through our subsidiary Genesis, which owns interests in eight Sino-joint ventures and seven wholly owned subsidiaries in the PRC. Our operations in China are governed by PRC laws and regulations. As advised by our PRC counsel, Zhong Lun Law Firm, as of the date of this report, these entities have obtained the requisite licenses and permits from the PRC government authorities that are material for their business operations, including, among others, certain business licenses, approvals for the establishment of enterprises with foreign investment, approvals for overseas direct investment and environmental and occupational safety and health approvals. Given the uncertainties of interpretation and implementation of relevant laws and regulations and the enforcement practice by relevant government authorities, we may be required to obtain additional licenses, permits, filings or approvals for the functions and services of our platform in the future.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, which came into effect on March 31, 2023. On the same day, the CSRC also published a series of guidance and Q&As in connection with the implementation of the Trial Measures. The Trial Measures established (i) a list outlining the circumstances where a PRC domestic company is prohibited from offering and listing securities overseas (the “Trial Measures Negative List”) and (ii) a new filing-based regime to regulate overseas offerings and listings by PRC domestic companies. According to the Trial Measures, in connection with an overseas offering of securities, including shares, depository receipts, corporate bonds convertible into shares and other equity securities and listing by a PRC domestic company, either in a direct or indirect manner, the issuer must file certain documents with the CSRC (the “Trial Measures Filing Obligations”). An indirect offering and listing is determined by a set of quantifiable standards. For example, any overseas offering and listing by an issuer that meets both of the following standards will be deemed to be indirect: (i) 50% or more of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent accounting year is accounted for by PRC domestic companies, and (ii) the main parts of the issuer’s business activities are conducted in mainland China, or its main places of business are located in mainland China, or the senior managers in charge of its business operation and management are mostly Chinese citizens or domiciled in mainland China.

The Trial Measures provide the CSRC with the authority to warn, fine, and issue injunctions against PRC domestic companies, their controlling shareholders, advisors, and other responsible persons in connection with a listing or offering securities (collectively, the “Subject Entities”), as well as individuals directly responsible for these Subject Entities (the “Subject Individuals”). In cases of serious violation, the relevant responsible persons may be prohibited from entering the securities market by the CSRC and may be held criminally liable. For failure to comply with the Trial Measures Negative List or the Trial Measures Filing Obligations, or supply materially false or misleading statements in the filing and reporting required by the Trial Measures, PRC domestic companies and their controlling shareholders, if the controlling shareholders induced the PRC domestic companies’ failure to comply, severally, may face warnings, injunctions to comply, and fines between RMB 1.0 million and RMB 10.0 million. The Subject Individuals in these entities may severally, face warnings and fines between RMB 0.5 million and RMB 5.0 million. Advisors in listings or offerings of securities that failed to dutifully advise the PRC domestic companies and their controlling shareholders in complying with the Trial Measures and caused such failures to comply can face warnings and fines between RMB 0.5 million and RMB 5.0 million. The Subject Individuals of these advisor entities may, severally, face warnings and fines between RMB 0.2 million and RMB 2.0 million.

Because our shares have already listed on Nasdaq, we believe we will be deemed as an “Existing Issuer” pursuant to the Trial Measures and the implementation guidance and, accordingly, are not required to complete the filing procedures with the CSRC for our historical securities offering. Nevertheless, in the event that we conduct any securities issuance or offering in the future that would be captured by the Trial Measures, we will have to complete the filing procedures with the CSRC within three (3) business days following the closing of such securities issuance or offering.

Therefore, in connection with our business operations and issuance or offering of securities to foreign investors, under currently effective PRC laws, regulations, and rules, and taking the Trial Measures into account, as of the date of this annual report, we and our PRC subsidiaries (i) are not required to obtain permissions from, or complete the filing procedures with, the CSRC for our prior issuances and offerings of securities to foreign investors which were completed before the date of implementation of the Trial Measures, but are required to go through filing procedures with CSRC for our future issuances or offerings of securities (including shares, depository receipts, corporate bonds convertible into shares and other equity securities) to foreign investors if we meet certain conditions set forth in the Trial Measures to be considered as an indirect overseas offering and listing by a PRC domestic company, (ii) are not required to go through cybersecurity review by the CAC for our issuance or offering of securities to foreign investors, and (iii) are not required to obtain any prior permission or approval from any other PRC government authorities for our issuance or offering of securities to foreign investors. If we and our subsidiaries are deemed to be a critical information infrastructure operator, or CIIO, or a network platform operator, whose network product or service purchasing or data processing activities affect or may affect national security, we would be required to go through a cybersecurity review by the CAC. As of the date of this annual report, neither we nor any of our subsidiaries has been identified as a CIIO by any government authority, involved in any investigations or become subject to a cybersecurity review by the CAC based on the Cybersecurity Review Measures. However, there remains some uncertainty as to how relevant rules published

by the PRC government authorities will be interpreted or implemented, and our opinions summarized above are subject to any new laws, rules, and regulations or detailed implementations and interpretations in any form. We cannot assure you that the relevant PRC government authorities, including the CSRC and the CAC, would reach the same conclusion and hence, we may face regulatory actions or other sanctions from them. For more details, see “Item 1A. Risk Factors—Risks Relating to Doing Business in China — The PRC government has significant oversight over the conduct of the business of our PRC subsidiaries; such oversight could result in a material change in our operations and/or the value of our securities or could significantly limit our ability to offer or continue to offer securities and/or other securities to investors and cause the value of such securities to significantly decline.” and “Item 1A - Risk Factors — Risks Relating to Doing Business in China—The approval of and filing with the CSRC or other PRC government authorities may be required in connection with our offshore offerings under PRC law, and, if required, we cannot predict whether or for how long we will be able to obtain such approval or complete such filing.”

## **CASH FLOWS THROUGH OUR ORGANIZATION**

China Automotive is a holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries, particularly Genesis, which owns interests in eight Sino-joint ventures and seven wholly-owned subsidiaries in the PRC. As a result, although other means are available for us to obtain financing at the holding company level, China Automotive’s ability to pay dividends to the shareholders and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries. If any of our subsidiaries incurs debt on its own behalf, the instruments governing such debt may restrict its ability to pay dividends to China Automotive. In addition, our PRC subsidiaries are permitted to pay dividends to China Automotive only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Further, our PRC subsidiaries are required to make appropriations to certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies.

We may rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash and financing requirements, including the funds necessary to pay dividends and other cash distributions to our shareholders or to service any debt we may incur. If any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Under PRC laws and regulations, our PRC subsidiaries may pay dividends only out of their respective accumulated profits as determined in accordance with PRC accounting standards and regulations. In addition, a wholly foreign-owned enterprise is required to set aside at least 10% of its accumulated after-tax profits each year, if any, to fund a certain statutory reserve fund, until the aggregate amount of such fund reaches 50% of its registered capital. Such reserve funds cannot be distributed to us as dividends. At its discretion, a wholly foreign-owned enterprise may allocate a portion of its after-tax profits based on PRC accounting standards to an enterprise expansion fund, or a staff welfare and bonus fund. In addition, registered share capital and capital reserve accounts are also restricted from withdrawal in the PRC, up to the amount of net assets held in each operating subsidiary. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries, totaling RMB 499.8 million, RMB 504.7 million, RMB 508.8 million and RMB 514.0 million as of December 31, 2020, 2021, 2022 and 2023, respectively.

Under PRC law, China Automotive may provide funding to its PRC subsidiaries only through capital contributions or loans.

During the fiscal years ended December 31, 2020, 2021, 2022 and 2023, the Company received loans which were interest free from its subsidiaries in the aggregate amount of \$6.6 million, \$2.5 million, \$6.1 million and \$ 5.8 million, respectively, and no principal was repaid in such years.

Although the Company announced a special cash dividend of \$0.18 per common share to the Company’s shareholders of record as of the close of business on June 26, 2014, it does not anticipate paying any other 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 Company’s 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 Company’s board of directors deems relevant.

## **INTELLECTUAL PROPERTY RIGHTS**

Intellectual Property rights, “IP,” are important in helping the Company maintain its competitive position. Currently, the Company owns IP rights, including two trademarks covering automobile parts, “HL” and “JL,” and more than eighty-five patents registered in China covering power steering technology. The Company is in the process of integrating new advanced technologies such as electronic chips in power steering systems into its current production line and is pursuing aggressive strategies in technology to maintain a competitive edge within the automobile industry. In December 2009, the Company, through Henglong, formed Testing Center and cooperated with Nanyang Ind. Co. Ltd. and Tsinghua University to engage in the research and development of new products, such as Electric Power

Steering, “EPS”, integral rack and pinion power steering and high pressure power steering, to optimize current products design and to develop new, cost-saving manufacturing processes. In January 2015, Hubei Henglong formed Shanghai Henglong, which mainly engages in the design and sale of automotive electronics, to capture the market opportunities for EPS, which were included in traditional hydraulic power steering products by many automobile makers. In November 2017, Hubei Henglong formed Jingzhou Qingyan Intelligent Automotive Technology Research Institute Co., Ltd., “Jingzhou Qingyan”, which mainly engages in the research and development of intelligent automotive technology. In August 2018, Hubei Henglong established a non-wholly owned subsidiary, Hubei Henglong KYB Automobile Electric Steering System Co., Ltd., which mainly engages in design, manufacture, sales and after-sales service of automobile electronic systems. In March 2019, Hubei Henglong established a non-wholly owned subsidiary, Hyoseong (Wuhan) Motion Mechatronics System Co., Ltd., which mainly engages in the design, manufacture and sales of automotive motors and electromechanical integrated systems. In December 2019, Hubei Henglong formed Wuhu Hongrun New Material Co., Ltd., “Wuhu Hongrun”, which mainly engages in the development, manufacturing and sale of high polymer materials. In April 2020, Hubei Henglong acquired 100.0% of the equity interests of Changchun Hualong Automotive Technology Co. Ltd., “Changchun Hualong”, which mainly engages in the design and R&D of automotive parts. In April 2021, Hubei Henglong acquired 100.0% of the equity interests of Wuhu Henglong Automotive Steering Systems Co., Ltd., “Wuhu”, which mainly engages in the production and sales of automobile steering systems. Jingzhou Qingyan deregistered from the local business administration on June 22, 2022. In June 2023, Hubei Henglong contributed certain equipment and intangible assets to Hubei Zhirong Automotive Technology Co., Ltd., “Zhirong”, which mainly engages in inspection and testing of automotive products.

## 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, cost efficiency, research and development and strategic acquisitions. Set forth below are the Company’s programs:

- *Brand Recognition.* Under the brands of Henglong and Jiulong, the Company offers four separate series of power steering sets and 310 models of power steering sets, steering columns and steering hoses.
- *Quality Control.* The Henglong and Jiulong manufacturing facilities obtained the ISO/TS 16949 System Certification in January 2004, a well-recognized quality control system in the auto industry developed by TUV Rheinland of Germany.
- *Cost Efficiency.* 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.* The Company established Testing Center for the research and development of products and, by partnering with 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 meet the following criteria:
  - companies that can be easily integrated into product manufacturing and corporate management;
  - companies that have strong joint venture partners that would become major customers; and
  - companies involved with power steering systems.

## CUSTOMERS

The Company’s five largest customers represented 40.4% of the Company’s total sales for the year ended December 31, 2023. The following table sets forth information regarding the Company’s five largest customers.

Name of Major Customers	Percentage of Total Revenue in 2023
Stellantis N.V.	17.2 %
BYD Auto Co., Ltd.,	6.4 %
Hubei Hongrun Intelligent System Co., Ltd., “Hubei Hongrun”	6.1 %
Mahindra & Mahindra Ltd	5.5 %
Chery Automobile Co.,Ltd.	5.2 %
Total	40.4 %

The Company primarily sells its products to the above-mentioned customers, which, except for Hubei Hongrun, are original equipment manufacturing, “OEM”, customers; it also has excellent relationships with them, including serving as their first-rank supplier and developer for 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 doing business with the above-mentioned OEM customers 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 92 sales persons, which are divided into an OEM team, a sales service team and a working group dedicated to international business. These sales and marketing teams provide a constant interface with the Company’s key customers. They are located in all major vehicle producing regions to more effectively represent the Company’s customers’ interests within the Company’s organization, to promote their programs and to coordinate their strategies with the goal of enhancing overall service and satisfaction. The Company’s ability to support its customers is further enhanced by its broad presence in terms of sales offices, manufacturing facilities, engineering technology centers and joint ventures.

The Company’s sales and marketing organization and activities are designed to create overall awareness and consideration of, and therefore to increased 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 Stellantis N.V. 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. The Company has two distribution warehouses in the United States, which are located in Michigan and Texas, respectively. The warehouses deliver parts to customers every day.

## **EMPLOYEES AND FACILITIES**

As of December 31, 2023, the Company employed approximately 4,095 persons, including approximately:

- 1,109 by Henglong, including Testing Center formed by Henglong;
- 663 by Jiulong;
- 116 by Shenyang;
- 119 by Wuhu;
- 293 by Jielong;
- 140 by Wuhan Chuguanjie;
- 823 by Hubei Henglong;
- 21 by HLUSA;
- 6 by Chongqing Henglong;
- 79 by Brazil Henglong;
- 588 by Henglong KYB;
- 91 by Wuhan Hyoseong;
- 3 by Wuhu Hongrun;
- 21 by Changchun Hualong; and
- 23 by Zhirong

As of December 31, 2023, Henglong, Jiulong, Shenyang, Chongqing, Wuhan Chuguanjie, Hubei Henglong and Wuhu had a manufacturing and administration area of 111,211 square meters, 39,478 square meters, 35,354 square meters, 57,849 square meters, 53,675 square meters, 280,254 square meters and 83,705 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 one of the Company's main products, power steering gears, was approximately 9.8 million units and 8.1 million units in 2023 and 2022, 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 \$51.5 million was spent over the last three years to purchase professional-grade equipment and extend workshops.

## **RAW MATERIALS**

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

The Company's purchases from its ten largest suppliers represented in the aggregate 21.6% of all components and raw materials it purchased for the year ended December 31, 2023, and none of them provided more than 10% of total purchases.

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

## **RESEARCH AND DEVELOPMENT**

The Company owns the Testing Center, a Hubei Provincial-Level technical center, which has been approved by the Hubei Economic Commission. The center has a staff of about 243, including 139 engineers, primarily focusing on steering system R&D, tests, production process improvement and new material and production methodology application.

In addition, the Company has formed Shanghai Henglong to engage in the design and sale of automotive electronics, including key parts of EPS.

The Company believes that its engineering and technical expertise, together with its emphasis on continuing research and development, allow it to use the latest technologies, materials and processes to solve problems for its customers and to bring new, innovative products to market. The Company believes that continued research and development activities, including engineering, are critical to maintaining its pipeline of technologically advanced products. The Company has aggressively managed costs in other portions of its business in order to increase its total expenditures for research and development activities, including engineering, at approximately \$29.2 million and \$36.1 million for the years ended December 31, 2023 and 2022, respectively. In 2023 and 2022, the sales of such newly developed products accounted for about 33.8% and 29.5%, respectively, of total sales.

## **COMPETITION**

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

The Company's major competitors, including Shanghai ZF, Nexteer and First Auto FKS, "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. 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", the output and sales volume of passenger vehicles in 2023 was 26.1 million and 26.1 million units respectively, an increase of 9.7% and 10.6%, respectively, compared to 2022. The output and sales volume of commercial vehicles in 2023 was 4.0 million and 4.0 million units, respectively, an increase of 25.0% and 21.2%, respectively, compared to 2022. In 2023, the Company's sales of steering gears for passenger vehicles increased by 8.1% compared with 2022 and the sales of steering gears for commercial vehicles generally consistent with the year of 2022 in China.

## 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 the Company intends 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 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 the years ended December 31, 2023 and 2022, the Company did not make any material capital expenditures relating to environmental compliance.

## FINANCIAL INFORMATION AND GEOGRAPHIC AREAS

Financial information about sales and long-term assets by major geographic region can be found in Note 25, "Segment Reporting" to the consolidated financial statements in this Report. The following table summarizes the percentage of sales and total assets by major geographic regions:

Geographic region:	Net Sales		Long-term assets	
	Year Ended December 31, 2023	2022	As of December 31, 2023	2022
China	65.1	% 62.6	% 98.7	% 98.5
United States	19.3	25.5	0.5	0.6
Other foreign countries	15.6	11.9	0.8	0.9
Total consolidated	<u>100.0</u>	<u>% 100.0</u>	<u>100.0</u>	<u>% 100.0</u>

## WEBSITE ACCESS TO SEC FILINGS

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

The SEC maintains an Internet site that contains reports, proxy information and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is <http://www.sec.gov>.

## 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 Annual Report, 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*

*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 the last two years, the price of automobiles in China has generally declined. Additionally, the volume of automotive production in China has fluctuated from year to year, which gives rise to fluctuations in the demand for the Company's products. Therefore, any significant economic decline could result in a reduction in automotive production and sales by the Company's customers and could have a material adverse effect on the Company's results of operations. Moreover, if the prices of automobiles keep declining, the selling price of automotive parts also would decrease, which would result in lower revenues and profitability for the Company.

*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, 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.

*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 and affiliates. 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, 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.

*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. The Company's customers consider criteria including:

- 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.

***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, 2023, approximately 17.2%, 6.4%, 6.1%, 5.5% and 5.2% of the Company's sales were to Stellantis N.V., BYD Auto Co., Ltd., Hubei Hongrun, Mahindra & Mahindra Ltd and Chery Automobile Co., Ltd, the Company's five largest customers in 2023, respectively. In total, these five customers accounted for 40.4% of total sales in 2023. For the year ended December 31, 2022, approximately 20.2%, 6.2%, 5.9%, 5.3% and 5.2% of the Company's sales were to Stellantis N.V., Hubei Hongrun, Great Wall Motors, BYD Auto, and Chery Automobile Co., Ltd., the Company's five largest customers in 2022, respectively. In total, these five customers accounted for 42.8% of total sales in 2022. The loss of, or significant reduction in purchases by, one or more of these major customers could adversely affect the Company's business.

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

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

In November 2020, Intermediate People's Court of Shenyang, Liaoning province, China, accepted the bankruptcy reorganization application of one of our customers. As of December 31, 2023 and 2022, the Company had accounts and notes receivable with a total amount of RMB 46.9 million and RMB 46.8 million, equivalent to \$6.6 million and \$6.7 million, respectively, due from this customer and its subsidiaries, which receivables we were considered in significant doubt of collectability. The Company provided full allowance for these receivables as of December 31, 2022.

***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%–5% 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 operations.***

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 64.73% of its outstanding common stock and may have conflicts of interest with the Company's minority stockholders.***

As of December 31, 2023, members of the Company's management beneficially own approximately 64.73% of the outstanding shares of the Company's common stock. As a result, except for the related party transactions that require approval of the audit committee of the board of directors of the Company, these majority stockholders have control over decisions to enter into any corporate transaction, which could result in the approval of transactions that might not maximize overall stockholders' value. Additionally, these stockholders control the election of members of the Company's board, have the ability to appoint new members to the Company's management team and control the outcome of matters submitted to a vote of the holders of the Company's common stock. The interests of these majority stockholders may at times conflict with the interests of the Company's other stockholders. The Company regularly engages in transactions with entities controlled by one or more of its officers and directors, including those controlled by Mr. Hanlin Chen, the chairman of the board of directors of the Company and its controlling stockholder.

***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 December 31, 2023, approximately 35.27% 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.

***The Company is subject to penny stock regulations and restrictions.***

The SEC has adopted regulations which generally define so-called "penny stock" as an equity security that has a market price less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. As of December 31, 2023, the closing price for the Company's common stock was \$3.23. If the Company's stock is a "penny stock", it may become subject to Rule 15c-9 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the "Penny Stock Rule." This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and "accredited investors," generally, individuals with a net worth in excess of \$1.0 million or annual incomes exceeding \$0.2 million, or \$0.3 million together with their spouses. For transactions covered by Rule 15c-9, a broker-dealer must make a special suitability determination for

the purchaser and have received the purchaser's written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell the Company's securities and may affect the ability of purchasers to sell any of the Company's securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the SEC relating to the penny stock market. Disclosure also is required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that the Company's common stock will qualify for exemption from the Penny Stock Rule. In any event, even if the Company's common stock were exempt from the Penny Stock Rule, the Company would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock if the SEC finds that such a restriction would be in the public interest.

***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.

***Failure to 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.

If the Company fails to maintain the adequacy of its internal controls in the future, it will not be able to ensure that it can conclude on an ongoing basis that it has effective internal control over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls are necessary for the Company to produce reliable financial reports and are important to help prevent fraud. Any failure to 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 harm its business and negatively impact the trading price of its common stock. Furthermore, the Company may need to incur additional costs and use additional management and other resources in an effort to comply with Section 404 of the Sarbanes-Oxley Act and other requirements going forward.

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

Although the Company announced a special cash dividend of \$0.18 per common share to the Company's shareholders of record as of the close of business on June 26, 2014, it does not anticipate paying any other 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 Company's 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 Company's board of directors deems relevant.

***Techniques employed by short sellers may drive down the market price of the Company's common stock.***

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. As it is in the short seller's best interests for the price of the stock to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a stock short. These short attacks have, in the past, led to selling of shares in the market.

In the recent past, many public companies that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered around allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations and, in the interim, are subject to shareholder lawsuits and/or SEC enforcement actions.

It is not clear what effect such negative publicity would have on the Company, if any. If the Company were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, the Company could have to expend a significant amount of resources to investigate such allegations and/or defend itself. While the Company would strongly defend against any such short seller attacks, the Company may be constrained in the manner in which it can proceed against the relevant short seller by principles of freedom of speech, applicable state law or issues of commercial confidentiality. Such a situation could be costly and time-consuming, and could distract the Company's management from growing the Company. Even if such allegations are ultimately proven to be groundless, allegations against the Company could severely impact its business operations and stockholders' equity, and any investment in the Company's stock could be greatly reduced or rendered worthless.

***The Company's secured credit facilities contain certain financial covenants that it may not satisfy, which, if not satisfied, could result in the acceleration of the amounts due under the Company's secured credit facilities and the limitation of the Company's ability to borrow additional funds in the future.***

The agreements governing the Company's secured credit facilities subject it to various financial and other restrictive covenants with which the Company must comply on an ongoing or periodic basis. These covenants include, but are not limited to, restrictions on the utilization of the funds and the maintenance of certain financial ratios. If the Company violates any of these covenants, the Company's outstanding debt under the Company's secured credit facilities could become immediately due and payable, the Company's lenders could proceed against any collateral securing such indebtedness and the Company's ability to borrow additional funds in the future may be limited. Alternatively, the Company could be forced to refinance or renegotiate the terms and conditions of the Company's secured credit facilities, including the interest rates, financial and restrictive covenants and security requirements of the secured credit facilities, on terms that may be significantly less favorable to the Company.

***Our business operations have been materially and adversely affected by the outbreak of COVID-19 and may be affected by other pandemic outbreaks.***

The outbreak of COVID-19 emerged in Wuhan city, Hubei province, PRC, where the Company's headquarters are located, in December 2019. On January 23, 2020, the PRC government announced the lockdown of Wuhan city in an attempt to quarantine the city. Since then, other measures including travel restrictions have been imposed in other major cities in the PRC and throughout the world. On March 11, 2020, the World Health Organization (the "WHO") declared the outbreak of COVID-19 a pandemic, expanding its assessment of the threat beyond the global health emergency it had announced in January, 2020. As our headquarters are located in Wuhan, we closed our headquarters effective January 23, 2020 and reopened in late March 2020.

Any outbreak of such epidemic illness or other adverse public health developments in the PRC or elsewhere in the world may materially and adversely affect the global economy, our markets and our business.

Although the effects of COVID-19 are now largely under control, if similar pandemics were to occur and if such outbreaks are not effectively and timely controlled, our business operations and financial condition may be materially and adversely affected as a result of the deteriorating market outlook for automobile sales, the slowdown in regional and national economic growth, weakened liquidity and financial condition of our customers or other factors that we cannot foresee. Any of these factors and other factors beyond our control could have an adverse effect on the overall business environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

## **RISKS RELATED TO DOING BUSINESS IN CHINA AND OTHER COUNTRIES BESIDES THE UNITED STATES**

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

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

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

China's economy has experienced rapid growth, much of it due to the issuance of debt over the last few years. This debt-fueled economic growth has led to growth in the money supply, causing rising inflation. If prices for the Company's products rise at a rate that is insufficient to compensate for the rise in the cost of production, it may harm the Company's profitability. In order to control inflation, the Chinese government has imposed controls on bank credit, limits on loans and other restrictions on economic activities. Such policies have led to a slowing of economic growth. Additional measures could further slow economic activity in China, which could, in turn, materially increase the Company's costs while also reducing demand for the Company's products.

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

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

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

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

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

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

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

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

The Company's long-term business strategy relies on the expansion of its international sales outside China by targeting markets, such as the United States and Brazil. 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.

On September 17, 2012, the United States filed a trade case with the World Trade Organization, "WTO," against the PRC with respect to the PRC government's purported provision of subsidies to the automobile and automobile-parts enterprises in the PRC. If the WTO rules against China in this trade case, the cost of sales of the Company could increase due to the imposition of any tariff and/or the

Company's ability to export products to the United States could be limited, which could affect the Company's business and operating results.

In addition, under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the SEC has adopted additional disclosure requirements related to the source of certain "conflict minerals" for issuers for which such "conflict minerals" are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by that issuer. The metals covered by the rules include tin, tantalum, tungsten and gold, commonly referred to as "3TG." If these materials are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, the rules require a reasonable country of origin inquiry be conducted to determine if an issuer knows, or has reason to believe, that any of the minerals used in the production process may have originated from the Democratic Republic of the Congo or an adjoining country. In such a case, if an issuer were not able to determine that the minerals did not originate from a covered country or conclude that there is no reason to believe that the minerals used in the production process may have originated in a covered country, that issuer could be required to perform supply chain due diligence on members of its supply chain. Global supply chains can have multiple layers, thus the costs of complying with these new requirements could be substantial. These new requirements may also reduce the number of suppliers that provide conflict-free metals and may also affect a company's ability to obtain products in sufficient quantities or at competitive prices. If the Company was to source such 3TG minerals that are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, compliance costs with these rules and/or the unavailability of raw materials could have a material adverse effect on the Company's results of operations.

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

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

At various times during recent years, the United States and China have had disagreements over political and economic issues. Controversies may arise in the future between these two countries. Any political or trade controversies between the United States and China could adversely affect the market price of the Company's common stock and its ability to access U.S. capital markets. Political events, international trade disputes and other business interruptions could harm or disrupt international commerce and the global economy, and could have a material adverse effect on the Company, its customers and its other business partners.

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

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

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

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

the Company's ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

The Chinese government controls its foreign currency reserves through restrictions on imports and conversion of RMB into foreign currency. In July 2005, the Chinese government has adjusted its exchange rate policy from "Fixed Rate" to "Floating Rate". From July 2005 to December 2023, the exchange rate between the RMB and the U.S. dollar appreciated from RMB 1.00 to \$0.1215 to RMB 1.00 to \$0.1408. Any significant appreciation of the RMB is likely to decrease the income of export products and the cash flow of the Company.

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

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

***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. As of December 31, 2023, the Company has completed such SAFE registration and other related procedures according to PRC law. If the Company or its Chinese domestic directors or employees fail to comply with these regulations in the future, the Company or its Chinese domestic directors or employees may be subject to fines or other legal sanctions imposed by the SAFE or other Chinese government authorities.

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

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

***The recent state government interference into business activities of U.S.-listed Chinese companies may negatively impact our operations.***

Recently, the Chinese government announced that it would step up supervision of Chinese companies listed on foreign exchanges. China intends to improve regulation of cross-border data flows and security, crack down on illegal activity in the securities market and punish fraudulent securities issuance, market manipulation and insider trading. China will also check sources of funding for securities

investment and control leverage ratios. The Cyberspace Administration of China has also opened a cybersecurity probe into several U.S.-listed tech companies focusing on anti-monopoly, financial technology regulation and more recently, with the passage of the Data Security Law, how companies collect, store, process and transfer data. If the Chinese government's interference expands, our operations may be negatively impacted in a significant way, although, presently, there is no discernible immediate impact.

***The PCAOB had historically been unable to inspect our auditor in relation to their audit work performed for our financial statements and the inability of the PCAOB to conduct inspections of our auditor in the future may deprive our investors with the benefits of such inspections.***

Our auditor, the independent registered public accounting firm that issues the audit report included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance with the applicable professional standards. The auditor is located in mainland China, a jurisdiction where the PCAOB was historically unable to conduct inspections and investigations completely before 2022. As a result, we and investors in the shares were deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China in the past has made it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside of China that are subject to the PCAOB inspections. On December 16, 2021, the PCAOB issued the HFCAA Determination Report, according to which our auditor is subject to the determinations that the PCAOB is unable to inspect or investigate completely. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. However, if the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong, and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we and investors in our shares would be deprived of the benefits of such PCAOB inspections again, which could cause investors and potential investors in the shares to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

***Our shares may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China. The delisting of the shares, or the threat of their being delisted, may materially and adversely affect the value of your investment***

Pursuant to the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares from being traded on a national securities exchange or in the over-the-counter trading market in the United States.

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor was subject to that determination. In April 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 10-K for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 10-K for the fiscal year ended December 31, 2023.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 10-K for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or in the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. If our shares are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase our shares when you wish to do so, and the risk and uncertainty associated with delisting would have a negative impact on the price of our shares. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

***Proceedings instituted by the SEC against PRC affiliates of the "big four" accounting firms, including the Company's independent registered public accounting firm, could result in the Company's financial statements being determined to not be in compliance with the requirements of the Exchange Act.***

Starting in 2011, the Chinese affiliates of the “big four” accounting firms, including the Company’s independent registered public accounting firm, were affected by a conflict between U.S. and Chinese law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the PCAOB sought to obtain from the Chinese firms access to their audit work papers and related documents. However, the firms were advised and directed that under Chinese law, they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC.

In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the Chinese accounting firms, including the Company’s independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the accounting firms. The administrative law judge proposed penalties on the accounting firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioners had taken place, the accounting firms reached a settlement with the SEC. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents will normally be made to the CSRC. The accounting firms were to receive matching Section 106 requests, and were required to abide by a detailed set of procedures with respect to such requests, which in substance required them to facilitate production via the CSRC. If they failed to meet specified criteria, the SEC retained authority to impose a variety of additional remedial measures on the accounting firms depending on the nature of the failure.

Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. The Company cannot predict whether the SEC will further challenge the four China-based accounting firms’ compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions. If additional remedial measures are imposed on the Chinese affiliates of the “big four” accounting firms, including the Company’s independent registered public accounting firm, the Company could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

If the Company’s independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and the Company were unable to timely find another registered public accounting firm to audit and issue an opinion on the Company’s financial statements, the Company’s financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of the Company’s common stock from the Nasdaq Capital Market or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of the Company’s common stock in the United States.

***The non-U.S. activities of the Company’s non-U.S. subsidiaries may be subject to U.S. taxation.***

The majority of the Company’s subsidiaries are based in China and are subject to income taxes in the PRC. These China-based subsidiaries conduct substantially all of the Company’s operations, and generate most of the Company’s income in China. The Company is a Delaware corporation and is subject to income tax in the United States. New U.S. federal tax legislation, commonly referred to as the Tax Cuts and Jobs Act, the “U.S. Tax Reform”, was signed into law on December 22, 2017. The U.S. Tax Reform significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. Taxpayers may elect to pay the one-time transition tax over eight years, or in a single lump-sum payment.

Certain activities conducted in the PRC or other jurisdictions outside of the U.S. may give rise to U.S. corporate income tax. These taxes would be imposed on the Company when its subsidiaries that are controlled foreign corporations, “CFCs”, generate income that is subject to Subpart F of the U.S. Internal Revenue Code, or “Subpart F”. Passive income, such as rents, royalties, interest, dividends, and gain from disposal of the Company’s investments is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F is taxable in the U.S. at federal corporate income tax rates of up to 21% for taxable years beginning after December 31, 2017. Subpart F income is taxable to the Company, even if it is not distributed to the Company.

The U.S. Tax Reform also includes provisions for a new tax on global intangible low-taxed income, “GILTI”, effective for tax years of non-U.S. corporations beginning after December 31, 2017. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of CFCs, subject to the possible use of foreign tax credits and a deduction equal to 50 percent to offset the income tax liability, subject to some limitations.

***Information technology dependency and cyber security vulnerabilities could lead to reduced revenue, liability claims, or competitive harm.***

The Company is dependent on information technology systems and infrastructure, or “IT systems”, to conduct its business. The Company’s IT systems may be vulnerable to disruptions from human error, outdated applications, computer viruses, natural disasters, unauthorized access, cyber-attack and other similar disruptions. Any significant disruption, breakdown, intrusion, interruption or corruption of these systems or data breaches could cause the loss of data or intellectual property, equipment damage, downtime, and/or safety related issues and could have a material adverse effect on the Company’s business. The Company has, from time to time, experienced incidents related to its IT systems, and expect that such incidents will continue, including malware and computer virus outbreaks, unauthorized access, systems failures and disruptions. The Company has measures and defenses in place against such events, but the Company may not be able to prevent, immediately detect, or remediate all instances of such events. A material security breach or disruption of the Company’s IT systems could result in theft, unauthorized use, or publication of the Company’s intellectual property and/or confidential business information, harm the Company’s competitive position, disrupt the Company’s manufacturing, reduce the value of the Company’s investment in research and development and other strategic initiatives, impair the Company’s ability to access vendors and suppliers or otherwise adversely affect the Company’s business.

Additionally, the Company believes that utilities and other operators of critical infrastructure that serve the Company’s facilities face heightened security risks, including cyber-attack. In the event of such an attack, disruption in service from the Company’s utility providers could disrupt the Company’s manufacturing operations which rely on a continuous source of power, electrical, gas, etc.

***The Company’s business is subject to natural disasters, health epidemics and other catastrophic incidents.***

In addition to COVID-19, China has in the past experienced significant natural disasters, including earthquakes, extreme weather conditions, as well as health scares related to epidemic diseases, and any similar event could materially impact the Company’s business in the future. If a disaster or other disruption were to occur in the future that affects the regions where the Company operates its business, the Company’s operations could be materially and adversely affected due to loss of personnel and damage to property. Even if the Company is not directly affected, such a disaster or disruption could affect the operations or financial conditions of the Company’s customers, which could harm the Company’s results of operations.

***The recent government interference into business activities of U.S.-listed Chinese companies may negatively impact our operations.***

Recently, certain PRC regulatory authorities issued Opinions on Strictly Cracking Down on Illegal Securities Activities, which were available to the public on July 6, 2021, which further emphasized their goal to strengthen the cross-border regulatory collaboration, to improve relevant laws and regulations on data security, cross-border data transmission, and confidential information management, and provided that efforts will be made to revise the regulations on strengthening the confidentiality and file management relating to the offering and listing of securities overseas, to implement the responsibility on information security of overseas listed companies, and to strengthen the standardized management of cross-border information provision mechanisms and procedures. However, these opinions are newly issued, and there were no further explanations or detailed rules or regulations with respect to such opinions, and there are still uncertainties regarding the interpretation and implementation of these opinions. China intends to improve regulation of cross-border data flows and security, crack down on illegal activity in the securities market and punish fraudulent securities issuance, market manipulation and insider trading. China will also check sources of funding for securities investment and control leverage ratios. The Cyberspace Administration of China has also opened a cyber security probe into several U.S.-listed tech companies focusing on anti-monopoly, financial technology regulation and more recently, with the passage of the Data Security Law, how companies collect, store, process and transfer data. If the Chinese government’s interference expands, our operations may be negatively impacted in a significant way, although, presently, there is no discernible immediate impact.

***If the Company becomes directly subject to the recent scrutiny, criticism and negative publicity involving U.S.-listed Chinese companies, we may have to expend significant resources to investigate and resolve the matters. Any unfavorable results from the investigations could harm our business operations and our reputation.***

Recently, U.S. public companies that have substantially all of their operations in China have been subjects of intense scrutiny, criticism and negative publicity by investors, financial commentators and regulatory agencies, such as the SEC. Much of the scrutiny, criticism and negative publicity has centered on financial and accounting irregularities, lack of effective internal control over financial reporting, inadequate corporate governance and ineffective implementation thereof and, in many cases, allegations of fraud. As a result of enhanced scrutiny, criticism and negative publicity, the publicly traded stocks of many U.S.-listed Chinese companies have sharply decreased in value and, in some cases, have become virtually worthless or illiquid. Many of these companies are now subject to shareholder lawsuits and SEC enforcement actions and are conducting internal and external investigations into the allegations. It is not clear what effects the sector-wide investigations will have on the Company. If the Company becomes a subject of any unfavorable allegations, whether such

allegations are proven to be true or untrue, the Company will have to expend significant resources to investigate such allegations and defend the Company. If such allegations were not proven to be baseless, the Company would be severely hampered and the price of the stock of the Company could decline substantially. If such allegations were proven to be groundless, the investigation might have significantly distracted the attention of the Company's management.

***Because a majority of our operations are in China, our business is subject to the complex and rapidly evolving laws and regulations there. The Chinese government may exercise significant oversight and discretion over the conduct of our business and may intervene in or influence our operations at any time, which could result in a material change in our operations and/or the value of our securities.***

As a business operating in China, we are subject to the laws and regulations of the PRC, which can be complex and which evolve rapidly. The PRC government has the power to exercise significant oversight and discretion over the conduct of our business, and the regulations to which we are subject may change rapidly and with little notice to us or our shareholders. As a result, there remain uncertainties regarding the application, interpretation, and enforcement of new and existing laws and regulations in the PRC. Compliance with the complex and evolving PRC laws, regulations, and regulatory statements may be costly, and such compliance or any associated inquiries or investigations or any other government actions may:

- Delay or impede our development,
- Result in negative publicity or increase our operating costs,
- Require significant management time and attention, and
- Subject us to remedies, administrative penalties and even criminal liabilities that may harm our business, including fines assessed for our current or historical operations, or demands or orders that we modify or even cease our business practices.

The promulgation of new laws or regulations, or the new interpretation of existing laws and regulations, that restrict or otherwise unfavorably impact the ability or manner in which we conduct our business and could require us to change certain aspects of our business to ensure compliance, could decrease demand for our products, reduce revenues, increase costs, require us to obtain more licenses, permits, approvals or certificates, or subject us to additional liabilities. To the extent any new or more stringent measures are required to be implemented, our business, financial condition and results of operations could be adversely affected as well as materially decrease the value of our securities.

***The PRC government has significant oversight over the conduct of the business of our PRC subsidiaries; such oversight could result in a material change in our operations and/or the value of our securities or could significantly limit our ability to offer or continue to offer securities and/or other securities to investors and cause the value of such securities to significantly decline.***

The PRC government has significant oversight over the conduct of the business of our PRC subsidiaries and may intervene or influence our operations in mainland China, which may potentially result in a material adverse effect on our operations. The PRC government has recently published new policies that significantly affect certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding our industry that could adversely affect our business, financial condition and results of operations.

On December 24, 2021, the China Securities Regulatory Commission, the "CSRC", released the Provisions of the State Council on the Administration of Domestic Companies Offering Securities for Overseas Listing (Revision Draft for Comments), the "Draft Provisions", and the Administrative Measures for the Filing of Domestic Companies Seeking Overseas Securities Offering and Listing (the Filing Measures, or collectively, the Draft Overseas Listing Regulations) for public comment. The Draft Provisions provide for a general filing regulatory framework, and the Filing Measures set out more detailed terms and procedures of the filing requirements. Pursuant to the Draft Overseas Listing Regulations, domestic companies that apply for direct offerings and listings in an overseas market or an indirect offerings and listings in the name of an offshore entity are required to, among others, file and report to the CSRC, if: (i) the total assets, net assets, revenues or profits of the PRC operating entity of the issuer in the most recent accounting year account for more than 50% of the corresponding figure in the issuer's audited consolidated financial statements for the same period and (2) the senior managers in charge of business operation and management of the issuer are mostly PRC citizens or have habitual residence in the PRC, and its main places of business are located in the PRC or main business activities are conducted in the PRC. Based on our global assets, operations and management outside of the PRC, we believe that we would be subject to the Draft Overseas Listing Regulations if we were to conduct an offering in the future in the United States.

According to questions and answers published by the CSRC on December 24, 2021, the record-filing requirement would be imposed starting from the new listing and new financing activities and the sufficient transition period would be given for the existing public companies offering their securities on overseas stock exchanges before the effectiveness of these regulations. If we are deemed to be subject to the Draft Overseas Listing Regulations and we fail to complete the filing procedures with the CSRC for any of our follow-on

offerings in an overseas stock market, such as Nasdaq, or fall within any of the circumstances where our follow-on offering is prohibited by the State Council, our offering application may be discontinued and we may be subject to penalties, sanctions and fines imposed by the CSRC and relevant departments of the State Council. In severe circumstances, the business of our PRC subsidiaries may be suspended and their business qualifications and licenses may be revoked. However, uncertainties exist regarding the interpretation of the Draft Overseas Listing Regulations, as well as interpretation of the final form of these regulations and implementation thereof after promulgation.

Recently, the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council jointly issued the Opinions on Intensifying Crack Down on Illegal Securities Activities, which call for strengthened regulation over illegal securities activities and supervision on overseas listings by China-based companies and propose to take effective measures, such as promoting the development of relevant regulatory systems to deal with the risks and incidents faced by China-based overseas-listed companies. The PRC government has indicated that it may exert more control or influence over offerings of securities conducted overseas. If the PRC authorities attempt to exercise such control or influence through regulation over our PRC subsidiaries, we could be required to restructure our operations to comply with such regulations or potentially cease operations in the PRC entirely, which could adversely affect our business, results of operations and financial condition. Moreover, any such action could significantly limit our ability to offer or continue to offer securities to investors and cause the value of such securities to significantly decline.

Currently, these statements and regulatory actions have had no impact on our daily business operations, the ability to accept foreign investments and list our securities on a U.S. or other foreign exchange. Since these statements and regulatory actions are new, it is highly uncertain how soon legislative or administrative regulation making bodies will respond and what existing or new laws or regulations or detailed implementations and interpretations will be modified or promulgated, if any, and the potential impact such modified or new laws and regulations will have on our daily business operations, the ability to accept foreign investments and list our securities on a U.S., Hong Kong, or other stock exchange.

***The approval of, or filing or other procedures with, the CSRC or other Chinese regulatory authorities may be required in connection with issuing our equity securities to foreign investors under Chinese law, and, if required, we cannot predict whether we will be able, or how long it will take us, to obtain such approval or complete such filing or other procedures. We are also required to obtain business licenses from Chinese authorities in connection with our general business activities currently conducted in China.***

On July 6, 2021, the General Office of the Communist Party of China Central Committee and the State Council jointly promulgated the Opinions on Intensifying Crack Down on Illegal Securities Activities, pursuant to which Chinese regulators are required to accelerate rulemaking related to the overseas issuance and listing of securities, and update the existing laws and regulations related to data security, cross-border data flow, and administration of classified information. As there are still uncertainties regarding the interpretation and implementation of such regulatory guidance, we cannot assure investors that we will be able to comply with new regulatory requirements relating to our future overseas capital-raising activities and we may become subject to more stringent requirements with respect to matters including data privacy and cross-border investigation and enforcement of legal claims.

On February 17, 2023, the CSRC promulgated the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies, or the Trial Measures, which will come into effect on March 31, 2023. On the same day, the CSRC also published a series of guidelines and Q&As in connection with the implementation of the Trial Measures. The Trial Measures established (i) a list outlining the circumstances where a PRC domestic company is prohibited from offering and listing securities overseas, the “Trial Measures Negative List”, and (ii) a new filing-based regime to regulate overseas offerings and listings by PRC domestic companies. According to the Trial Measures, in connection with an overseas offering of securities, including shares, depository receipts, corporate bonds convertible into shares and other equity securities, and listing by a PRC domestic company, either in a direct or indirect manner, the issuer must file certain documents with the CSRC, the “Trial Measures Filing Obligations”. An indirect offering and listing is determined by a set of quantifiable standards. For example, any overseas offering and listing by an issuer that meets both of the following standards will be deemed to be indirect: (i) 50% or more of the issuer’s operating revenue, total profit, total assets or net assets as documented in its audited consolidated financial statements for the most recent accounting year is accounted for by PRC domestic companies, and (ii) the main parts of the issuer’s business activities are conducted in mainland China, or its main places of business are located in mainland China, or the senior managers in charge of its business operation and management are mostly Chinese citizens or domiciled in mainland China.

The Trial Measures provide the CSRC with the authority to warn, fine, and issue injunctions against PRC domestic companies, their controlling shareholders, and their advisors in connection with a listing or offering securities, collectively, the “Subject Entities”, as well as individuals directly responsible for these Subject Entities, the “Subject Individuals”. For failure to comply with the Trial Measures Negative List or the Trial Measures Filing Obligations, or supply materially false or misleading statements in the filing and reporting required by the Trial Measures, PRC domestic companies and their controlling shareholders, if the controlling shareholders induced the PRC domestic companies’ failure to comply, severally, may face warnings, injunctions to comply, and fines between RMB 1.0 million and RMB 10.0 million. The Subject Individuals in these entities may severally, face warnings and fines between RMB 0.5 million and

RMB 5.0 million. Advisors in listings or offerings of securities that failed to dutifully advise the PRC domestic companies and their controlling shareholders in complying with the Trial Measures and caused such failures to comply can face warnings and fines between RMB 0.5 million and RMB 5.0 million. The Subject Individuals of these advisor entities may, severally, face warnings and fines between RMB 0.2 million and RMB 2.0 million.

Because our shares are already listed on Nasdaq, we believe will be deemed as an “Existing Issuer” pursuant to the Trial Measures and, accordingly, are not required to complete the filing procedures with the CSRC for our previous securities offerings. Nevertheless, in the event that we conduct any securities issuance or offering in the future that would be captured by the Trial Measures after they come into effect, we will have to complete the filing procedures with the CSRC within three (3) business days following the closing of such securities issuance or offering.

Therefore, in connection with our business operations and the issuance or offering of securities to foreign investors, under currently effective PRC laws, regulations, and rules and taking the Trial Measures into account, as of the date of this annual report, we, our PRC subsidiaries, (i) are not required to obtain permissions from or complete the filing procedures with the CSRC for our historical issuance or offering of securities to foreign investors which has been completed before the date of implementation of the Trial Measures, but are required to go through filing procedures with CSRC for our future issuance or offering of securities, including shares, depository receipts, corporate bonds convertible into shares and other equity securities, to foreign investors if we meet certain conditions set forth in the Trial Measures to be considered as an indirect overseas offering and listing by a PRC domestic company, (ii) are not required to go through cybersecurity review by the CAC for our issuance or offering of securities to foreign investors, and (iii) are not required to obtain any prior permission or approval from any other PRC government authorities for our issuance or offering of securities to foreign investors. If we and our subsidiaries are deemed to be a critical information infrastructure operator, or CIIO, or a network platform operator, whose network product or service purchasing or data processing activities affect or may affect national security, we would be required to go through a cybersecurity review by the CAC.

As of the date of this annual report, neither we nor any of our subsidiaries has been identified as a CIIO by any government authority, involved in any investigations or become subject to a cybersecurity review by the CAC based on the Cybersecurity Review Measures. However, there might remain some uncertainty as to how relevant rules published by the PRC government authorities will be interpreted or implemented, and our opinions summarized above are subject to any new laws, rules, and regulations or detailed implementations and interpretations in any form. We cannot assure you that relevant PRC government authorities, including the CSRC and the CAC, would reach the same conclusion and hence, we may face regulatory actions or other sanctions from them.

***The PRC government has significant oversight and discretion over the conduct of the business operations of our PRC subsidiaries or to exert control over any offering of securities conducted overseas and/or foreign investment in China-based issuers, and may intervene with or influence our operations, may limit or completely hinder our ability to offer or continue to offer securities to investors, and may cause the value of such securities to significantly decline or be worthless, as the government deems appropriate to further regulatory, political and societal goals.***

The PRC government may intervene or influence the operations of our PRC subsidiaries at any time with little to no advanced notice, which could result in a material change in our operations and/or the value of our securities. For example, the PRC government recently published new policies that significantly affected certain industries such as the education and internet industries, and we cannot rule out the possibility that it will in the future release regulations or policies regarding any industry that could adversely affect the business, financial condition and results of operations of our company. For example, on December 28, 2021, the Cyberspace Administration of China, the “CAC”, adopted rules mandating that an issuer who is a “critical information infrastructure operator” or a “data processing operator” as defined therein and who possesses personal information of more than one million users, and intends to have its securities listed for trading in a foreign country must complete a cybersecurity review by the CAC. Alternatively, relevant governmental authorities in the PRC may initiate cyber security review if such governmental authorities determine an operator’s cyber products or services, data processing or potential listing in a foreign country affect or may affect national security. The rules became effective on February 15, 2022. Moreover, on July 7, 2022, the CAC promulgated the Measures for the Security Assessment of Cross-border Data Transmission, which will come into effect on September 1, 2022, and will regulate the security assessment on the cross-border data transfer by data processor of important data and personal information collected and generated during operations within the PRC. According to these measures, personal data processors will be subject to security assessment conducted by the Cyberspace Administration of China prior to any cross-border transfer of data if the transfer involves (i) important data; (ii) personal information transferred overseas by operators of critical information infrastructure or a data processor that has processed personal data of more than one million persons; (iii) personal information transferred overseas by a data processor that has already provided personal data of 100,000 persons or sensitive personal data of 10,000 persons overseas since January 1 of the prior year; or (iv) other circumstances as requested by the Cyberspace Administration of China.

The new CAC rules do not appear to apply to the Company or its subsidiaries at this time. As advised by our PRC counsel, Zhong Lun Law Firm, as of the date of this report, (i) the Company does not hold personal information of over one million users; (ii) the Company

and its subsidiaries have not been informed by any PRC governmental authority of any requirement that it file for a cybersecurity review; (iii) data processed in the Company's business does not have a bearing on national security and may not be classified as core or important data by the PRC governmental authorities; and (iv) none of the Company and its subsidiaries provides any important data, personal information or sensitive personal data outside the territory of PRC, therefore, the Company believes it is not required to pass cybersecurity review of CAC. If the Chinese government's interference expands, our operations may be negatively impacted in a significant way, although, presently, there is no discernible immediate impact.

***Uncertainties with respect to the PRC legal system, including uncertainties regarding the enforcement of laws, and sudden or unexpected changes in policies, laws and regulations in China could adversely affect us.***

Our operations in China are governed by the PRC laws and regulations. We may be adversely affected by the complexity, uncertainties and changes in PRC laws and regulations regarding foreign investment and manufacturing, which could have a material adverse effect on our business and our ability to operate our business in China.

For example, two draft regulations relating to overseas offerings by domestic companies of equity shares, depository receipts, convertible corporate bonds, or other equity-like securities, and overseas listing of the securities for trading — namely the Provisions of the State Council on the Administration of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) and the Administrative Measures for the Filing of Overseas Securities Offering and Listing by Domestic Companies (Draft for Comments) — were recently released in December 2021 for public comments. Pursuant to such draft regulations, a filing-based regulatory system would be implemented covering both direct and indirect overseas offering and listing, among which, (i) if an issuer listed in other overseas markets after overseas offerings, the issuer shall submit to the CSRC filing documents within three working days after such application is submitted; (ii) if an issuer issues overseas listed securities after listing abroad and issues such securities aiming at purchasing assets, the issuer shall submit to the CSRC filing documents within three working days after the issue is completed, however, if the assets purchased are domestic assets, the filing procedure shall be performed within three working days from the date of the first announcement of the transaction; and (iii) if the significant events, such as change of control and delisting, occur after the issuer's overseas listing, it should report the details to CSRC within three working days from the date of occurrence. Uncertainties exist regarding the final form of these regulations as well as the interpretation and implementation thereof after promulgation. If those two rules were adopted in the current form, we may be required to file documents regarding the events listed in the regulations with the CRSC before or after the events occurred.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Any administrative and court proceedings in China may be protracted, resulting in substantial costs and diversion of resources and management attention. Since PRC administrative and court authorities have some discretion in interpreting and implementing statutory provisions and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy, than in more developed legal systems. These uncertainties may impede our ability to enforce contracts in China and could materially and adversely affect our business and results of operations.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis, or at all, and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. Such unpredictability towards our contractual, property and procedural rights could adversely affect our business, and impede our ability to continue our operations and proceed with our future business plans.

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

Most of the Company's assets are located in China, nine 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 recognition and enforcement of foreign judgments are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between China and the country where the judgment is made or on principles of reciprocity between jurisdictions. China does not have any treaties or other forms of reciprocity with the United States that provide for the reciprocal recognition and enforcement of foreign judgments. In addition, according to the PRC Civil Procedures Law, the PRC courts will not enforce a foreign judgment against us or our director and officers if they decide that the judgment violates the basic principles of PRC laws or national sovereignty, security or public interest. As a result, it is uncertain whether and on what basis a PRC court would enforce a judgment rendered by a court in the United States.

## ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not Applicable

## ITEM 1C. CYBERSECURITY.

We recognize the importance of developing, implementing, and maintaining robust cybersecurity measures to safeguard our information systems and protect the confidentiality, integrity, and availability of our data. We have established policies and processes for assessing, identifying, and managing material risk from cybersecurity threats. We assess risks arising from cybersecurity threats against our information systems that may result in adverse effects on our information systems or any information residing therein. We conduct periodic assessments to identify such cybersecurity threats.

Following these risk assessments, we evaluate whether and how to re-design, implement, and maintain reasonable safeguards to mitigate identified risks and reasonably address any identified gaps in existing safeguards. Our IT leadership reports to our Chief Executive Officer (CEO) periodically and on an as-needed basis to manage our risk assessment and mitigation process. We monitor and test our safeguards and regularly conduct training for our employees on these safeguards, in collaboration with human resources, IT, and management. We are committed to promoting a company-wide culture of cybersecurity risk management.

We have not encountered cybersecurity risks, threats or incidents that have materially affected or are reasonably likely to materially affect the Company, our business strategy, results of operations, or financial condition during the financial year ended December 31, 2023.

Our board of directors as a whole has overall responsibility for monitoring and assessing strategic risk exposure. Our board of directors administers its cybersecurity risk oversight function directly as a whole. Our CEO and our executive management team are responsible for briefing our board on cybersecurity risks on a regular basis. Our cybersecurity coordinator is responsible for assessing and managing our material risks from cybersecurity threats, in close collaboration with our IT team, and briefs our senior management and CEO on cybersecurity risks and policies. This ensures that the senior management are kept abreast of the cybersecurity posture and potential risks faced by the Company.

## ITEM 2. PROPERTIES.

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

Name of Entity	Product	Total Area (sq.m.)	Building Area (sq.m.)	Original Cost of Equipment	Site
Henglong	Automotive Parts	97,818	20,226	\$ 64,293	Jingzhou City, Hubei Province
		13,393	13,707	\$ —	Wuhan City, Hubei Province
Jiulong	Power Steering Gear	39,478	24,734	\$ 44,802	Jingzhou City, Hubei Province
Shenyang	Automotive Steering Gear	35,354	18,041	\$ 8,865	Shenyang City, Liaoning Province
Chongqing	Power Steering Gear	57,849	22,812	\$ 3,544	Chongqing City
Jielong <sup>(1)</sup>	Electric Power Steering	—	—	\$ 7,449	Jingzhou City, Hubei Province
Wuhan					
Chuguanjie	Electric Power Steering	53,675	44,054	\$ 5,472	Wuhan City, Hubei Province
Henglong KYB					
<sup>(1)</sup>	Automotive Steering Gear	—	—	\$ 16,121	Jingzhou City, Hubei Province
Hubei Henglong	Automotive Steering Gear	280,254	78,833	\$ 92,493	Jingzhou City, Hubei Province
Wuhu	Automotive Steering Gear	83,705	27,288	\$ 7,550	Wuhu City, Anhui Province
Wuhu Hongrun <sup>(1)</sup>	High Polymer Materials	—	—	\$ 1,158	Wuhu City, Anhui Province
Total		<u>661,526</u>	<u>249,695</u>	<u>\$ 251,747</u>	

- (1) Jielong, Henglong KYB and Wuhu Hongrun do not own land use rights or buildings by themselves. They rent buildings from Jiulong, Hubei Henglong and Wuhu, respectively.

The Company is not involved in investments in real estate or interests in real estate, real estate mortgages, and 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 and no director, officer or affiliate of the Company, or owner of record of more than five percent of the securities of the Company, or any associate of any such director, officer or security holder is a party adverse to the Company or has a material interest adverse to the Company in reference to pending litigation.

### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

## **PART II**

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

The Company's common stock is traded on the Nasdaq Capital Market under the symbol "CAAS".

#### **ISSUER PURCHASES OF EQUITY SECURITIES**

On December 5, 2018, the Board of Directors of the Company approved a share repurchase program under which the Company was permitted to repurchase up to \$5.0 million of its common stock from time to time in the open market at prevailing market prices or in privately negotiated transactions through December 4, 2019. The Company has extended the program to December 4, 2020. During the year ended December 31, 2019, under the repurchase program, the Company repurchased 452,559 shares of the Company's common stock for cash consideration of \$1.0 million on the open market. During the year ended December 31, 2020, there were no shares of common stock repurchased under such program.

On August 13, 2020, the Board of Directors of the Company approved a share repurchase program under which the Company is permitted to repurchase up to \$5.0 million of its common stock from time to time in the open market at prevailing market prices not to exceed \$3.50 per share through August 12, 2021. During the year ended December 31, 2022, the Company repurchased 322,269 of the shares that were authorized to be repurchased under the program. On March 29, 2022, the Board of Directors of the Company approved a share repurchase program under which the Company was permitted to repurchase up to \$5.0 million of its common stock from time to time in the open market at prevailing market prices not to exceed \$4.00 per share through March 30, 2023. During the year ended December 31, 2023, there were no shares of common stock repurchased under such program.

#### **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 December 31, 2023, there were 32,338,302 shares of the Company's common stock (including 2,152,600 shares of the Company's treasury stock) issued and the Company had approximately 60 stockholders of record.

#### **DIVIDENDS**

The Company 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 Company's 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 Company's board of directors deems relevant.

#### **SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS**

The securities authorized for issuance under equity compensation plans on December 31, 2023 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	\$ 6.26	1,541,150

The stock option plan was approved at the Annual Meeting of Stockholders held on June 28, 2005 and extended for ten years at the Annual Meeting of Stockholders held on September 16, 2014. The maximum common shares for issuance under the plan are 2,200,000. The term of the plan was extended to June 27, 2025.

## ITEM 6. RESERVED

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

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

### 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." Genesis, a company incorporated on January 3, 2003 under the Companies Ordinance of 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. Furthermore, the Company owns the following aggregate net interests in the subsidiaries incorporated in the PRC and Brazil as of December 31, 2023 and 2022.

Name of Entity	Aggregate Net Interest	
	December 31, 2023	December 31, 2022
Henglong	100.00 %	100.00 %
Jiulong	100.00 %	100.00 %
Shenyang	70.00 %	70.00 %
Wuhu	100.00 %	100.00 %
Jielong	85.00 %	85.00 %
Hubei Henglong	100.00 %	100.00 %
Testing Center	100.00 %	100.00 %
Chongqing Henglong	70.00 %	70.00 %
Brazil Henglong	95.84 %	95.84 %
Wuhan Chuguanjie	85.00 %	85.00 %
Shanghai Henglong	100.00 %	100.00 %
Henglong KYB	66.60 %	66.60 %
Wuhan Hyoseong	51.00 %	51.00 %
Wuhu Hongrun	62.00 %	62.00 %
Changchun Hualong	100.00 %	100.00 %
Zhirong	100.00 %	— %

### RESULTS OF OPERATIONS

Selected highlights from our operations (in thousands of U.S. dollars):

	2023	2022	Change	Change%
Net product sales	\$ 576,354	\$ 529,551	\$ 46,803	8.8 %
Cost of products sold	472,603	446,157	26,446	5.9
Net gain on other sales	5,788	3,696	2,092	56.6
Selling expenses	15,610	16,910	(1,300)	(7.7)
General and administrative expenses	25,503	26,120	(617)	(2.4)
Research and development expenses	29,181	36,109	(6,928)	(19.2)
Other income, net	5,345	5,782	(437)	(7.6)
Interest expense	1,021	1,450	(429)	(29.6)
Financial income, net	(4,666)	(10,753)	6,087	(56.6)
Income taxes	5,137	3,082	2,055	66.7
Net income	42,738	22,343	20,395	91.3
Net income attributable to non-controlling interest	5,050	1,132	3,918	346.1
Net income attributable to parent company's common shareholders	37,658	21,181	16,447	77.8 %

### *Net Product Sales and Cost of Products Sold*

For the years ended December 31, 2023 and 2022, net sales and cost of sales are summarized as follows (figures are in thousands of USD):

	Net Sales				Cost of sales			
	2023	2022	Change		2023	2022	Change	
Henglong	\$ 271,501	\$ 246,594	\$ 24,907	10.1 %	\$ 245,733	\$ 225,682	\$ 20,051	8.9 %
Jiulong	69,926	70,113	(187)	(0.3)	58,120	61,924	(3,804)	(6.1)
Wuhu	37,851	42,243	(4,392)	(10.4)	36,542	39,069	(2,527)	(6.5)
Hubei Henglong	115,883	126,652	(10,769)	(8.5)	98,210	109,842	(11,632)	(10.6)
Henglong KYB	147,989	121,139	26,850	22.2	127,713	106,621	21,092	19.8
Brazil Henglong	48,255	39,280	8,975	22.8	39,690	34,265	5,425	15.8
Other Entities	112,131	92,913	19,218	20.7	90,491	73,582	16,909	23.0
Total segment	803,536	738,934	64,602	8.7	696,499	650,985	45,514	7.0
Eliminations	(227,182)	(209,383)	(17,799)	8.5	(223,896)	(204,828)	(19,068)	9.3
Total	576,354	529,551	46,803	8.8 %	472,603	446,157	26,446	5.9 %

### *Net Product Sales*

Net product sales were \$576.4 million for the year ended December 31, 2023, as compared to \$529.6 million for the year ended December 31, 2022, representing an increase of \$46.8 million, or 8.8%, mainly due to the Company's increased sales of electric power steerings, "EPS".

Net sales of traditional steering products were \$381.6 million for the year ended December 31, 2023, compared to \$373.3 million for 2022, representing an increase of \$ 8.3 million, or 2.2%. Net sales of EPS were \$194.8 million for the year ended December 31, 2023, compared to \$156.3 million for 2022, representing an increase of \$38.5 million, or 24.6%. As a percentage of net sales, the sales of EPS were 33.8% for the year ended December 31, 2023, compared to 29.5% for 2022.

The increase in net product sales was mainly due to the offsetting effects of the increase in sales volume of passenger vehicles and decline in demand of commercial vehicles.

Further analysis is as follows:

- Henglong mainly engages in providing passenger vehicle steering systems. Net sales for Henglong were \$ 271.5 million for the year ended December 31, 2023, compared with \$246.6 million for the year ended December 31, 2022, representing an increase of \$ 24.9 million, or 10.1%. The increase was mainly due to the increase in sales volume of products used in passenger vehicles.
- Jiulong mainly engages in providing commercial vehicle steering systems. Net sales for Jiulong were \$69.9 million for the year ended December 31, 2023, which is generally consistent with \$70.1 million for the year ended December 31, 2022.
- Wuhu mainly engages in providing vehicle steering systems to Chery Automobile Co., Ltd., "Chery", one of the major automotive manufacturers in China. Net sales for Wuhu were \$37.9 million for the year ended December 31, 2023, compared

with \$42.2 million for the year ended December 31, 2022, representing a decrease of \$4.3 million, or 10.2%. The decrease was mainly due to the decrease sales volume of products used in passenger vehicles from Chery.

- Hubei Henglong mainly engages in providing vehicle steering systems to Stellantis N.V. and Ford. Net sales for Hubei Henglong were \$115.9 million for the year ended December 31, 2023, compared with \$126.7 million for the year ended December 31, 2022 representing a decrease of \$10.8 million, or 8.5%. The decrease was mainly due to the decrease in sales volume of products used in passenger vehicles from Ford.
- Henglong KYB mainly engages in providing passenger EPS products. Net sales for Henglong KYB were \$148.0 million for the year ended December 31, 2023, compared with \$121.1 million for the year ended December 31, 2022, representing an increase of \$26.9 million, or 22.2%. The increase was mainly due to the increase in sales volume of EPS products used in passenger vehicles.
- Brazil Henglong mainly provides steering systems to Fiat in Brazil. Net product sales for Brazil Henglong were \$48.3 million for the year ended December 31, 2023, compared to \$39.3 million for the year ended December 31, 2022, representing an increase of \$9.0 million, or 22.9%. The increase was mainly due to the increase in demand of Fiat in Brazil.
- Net product sales for other entities were \$112.1 million for the year ended December 31, 2023, compared with \$92.9 million for the year ended December 31, 2022, representing an increase of \$19.2 million, or 20.7%. The increase was mainly due to the increases in sales volume from Wuhan Jielong.

### Cost of Products Sold

For the year ended December 31, 2023, the cost of sales was \$472.6 million, compared with \$446.1 million for the year ended December 31, 2022, representing an increase of \$ 26.5 million, or 5.9%. The increase in cost of sales was mainly due to the increase in sales volume and increase in unit cost. Further analysis is as follows:

- Cost of sales for Henglong was \$245.7 million for the year ended December 31, 2023, compared to \$225.7 million for the year ended December 31, 2022, representing an increase of \$20.0 million, or 8.9%. The increase was mainly due to the increase in sales volumes and the increase in unit cost.
- Cost of sales for Jiulong was \$58.1 million for the year ended December 31, 2023, compared to \$61.9 million for the year ended December 31, 2022, representing a decrease of \$3.8 million, or 6.1%. The decrease was mainly due to the decrease in sales volumes and the offsetting of the increase in unit cost.
- Cost of sales for Wuhu was \$36.5 million for the year ended December 31, 2023, compared to \$39.1 million for the year ended December 31, 2022, representing a decrease of \$2.6 million, or 6.6%. The decrease was mainly due to the decrease in sales volumes and the offsetting of the increase in unit cost.
- Cost of sales for Hubei Henglong was \$98.2 million for the year ended December 31, 2023, compared with \$109.8 million for the year ended December 31, 2022, representing a decrease of \$11.6 million, or 10.6%. The decrease was mainly due to the decrease in sales volumes.
- Cost of sales for Henglong KYB was \$127.7 million for the year ended December 31, 2023, compared to \$106.6 million for the year ended December 31, 2022, representing an increase of \$21.1 million, or 19.8%. The increase was mainly due to the increase in sales volumes and the increase in unit cost.
- Cost of products sold for Brazil Henglong was \$39.7 million for the year ended December 31, 2023, compared to \$34.3 million for the year ended December 31, 2022, representing an increase of \$5.4 million, or 15.7%. The increase was mainly due to the increase in sales volumes.

Cost of products sold for other entities was \$90.5 million for the year ended December 31, 2023, compared to \$73.6 million for the year ended December 31, 2022, representing an increase of \$16.9 million, or 23.0%.

Gross margin was 18.0% for the year ended December 31, 2023, compared to 15.7% for the year ended December 31, 2022, representing an increase of 2.3%. The increase was mainly due to a change in our product mix for the year ended December 31, 2023.

### ***Net Gain on Other Sales***

Net gain on other sales mainly consisted of rental income, gain on disposal of property, plant and equipment and R&D revenue. For the year ended December 31, 2023, gain on other sales amounted to \$5.8 million, compared to \$3.7 million for the year ended December 31, 2022, representing an increase of \$2.1 million, or 56.8%, which was mainly due to an increase of R&D revenue.

### ***Selling Expenses***

For the years ended December 31, 2023 and 2022, selling expenses are summarized as follows (figures are in thousands of USD):

	<b>Year Ended December 31,</b>		<b>Increase/(Decrease)</b>	<b>Percentage</b>
	<b>2023</b>	<b>2022</b>		
Transportation expense	\$ 5,705	\$ 6,523	\$ (818)	(12.5)%
Marketing and office expense	3,526	3,679	(153)	(4.2)
Salaries and wages	3,249	3,582	(333)	(9.3)
Warehousing and inventory handling expenses	2,508	2,495	13	0.5
Other expense	622	631	(9)	(1.4)
<b>Total</b>	<b>\$ 15,610</b>	<b>\$ 16,910</b>	<b>\$ (1,300)</b>	<b>(7.7)%</b>

Selling expenses were \$15.6 million for the year ended December 31, 2023, compared to \$16.9 million for the year ended December 31, 2022, representing a decrease of \$1.3 million, or 7.7%, which was mainly due to a decrease in transportation expense.

### ***General and Administrative Expenses***

For the years ended December 31, 2023 and 2022, general and administrative expenses are summarized as follows (figures are in thousands of USD):

	<b>Year Ended December 31,</b>		<b>Increase/(Decrease)</b>	<b>Percentage</b>
	<b>2023</b>	<b>2022</b>		
Salaries and wages	\$ 11,216	\$ 10,141	\$ 1,075	10.6 %
Allowances for credit losses	1,564	4,456	(2,892)	(64.9)
Office expense	4,121	3,118	1,003	32.2
Labor insurance expense	2,199	2,128	71	3.3
Depreciation and amortization expense	1,928	1,798	130	7.2
Listing expenses <sup>(1)</sup>	1,303	1,464	(161)	(11.0)
Property and other taxes	1,597	1,238	359	29.0
Maintenance and repair expenses	1,012	1,183	(171)	(14.5)
Other expense	563	594	(31)	(5.2)
<b>Total</b>	<b>\$ 25,503</b>	<b>\$ 26,120</b>	<b>\$ (617)</b>	<b>(2.4)%</b>

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

General and administrative expenses were \$25.5 million for the year ended December 31, 2023, as compared to \$26.1 million for the year ended December 31, 2022, representing a decrease of \$0.6 million, or 2.3%, which was mainly due to the decrease of allowances for credit losses.

### ***Research and Development Expenses***

Research and development expenses, “R&D” expenses, were \$29.2 million for the year ended December 31, 2023 as compared to \$36.1 million for the year ended December 31, 2022, representing a decrease of \$6.9 million, or 19.1%, which was mainly due to the decreased R&D activities for new projects of the traditional products.

### ***Other Income, Net***

Other income, net was \$5.3 million for the year ended December 31, 2023, which is stable compared to \$5.8 million for the year ended December 31, 2022.

### ***Interest Expense***

Interest expense was \$1.0 million for the year ended December 31, 2023, as compared to interest expense of \$1.5 million for the year ended December 31, 2022, representing a decrease of \$0.5 million, which is mainly due to the decrease in borrowing rates.

### ***Financial Income, net***

Financial income, net was \$4.7 million for the year ended December 31, 2023, as compared to \$10.8 million for the year ended December 31, 2022, representing a decrease in financial expense of \$6.1 million, which was primarily due to the decrease in the foreign exchange gains contributed by the foreign exchange volatility in 2023.

## ***Income Taxes***

Income tax expense was \$5.1 million for the year ended December 31, 2023, as compared to \$3.1 million for the year ended December 31, 2022, representing an increase of \$2.0 million, which is mainly due to the increase in GILTI tax expenses.

## ***Net Income Attributable to Non-controlling Interests***

Net income attributable to non-controlling interests amounted to \$5.1 million for the year ended December 31, 2023, compared to \$1.1 million for the year ended December 31, 2022, representing an increase in net income attributable to non-controlling interests of \$4.0 million.

## ***Net Income Attributable to Parent Company's Common Shareholders***

Net income attributable to parent company's common shareholders was \$37.7 million for the year ended December 31, 2023, compared to \$21.2 million for the year ended December 31, 2022, representing an increase in net income attributable to parent company's common shareholders of \$16.5 million.

## **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' acceptances, issuances of capital stock and notes and internally generated cash. As of December 31, 2023, the Company had cash and cash equivalents and short-term investments of \$125.7 million, compared with \$134.1 million as of December 31, 2022, representing a decrease of \$ 8.4 million.

The Company had working capital, total current assets less total current liabilities, of \$180.3 million as of December 31, 2023, compared with \$156.5 million as of December 31, 2022, representing an increase of \$23.8 million, or 15.2%.

Except for the expected distribution of dividends from the Company's PRC subsidiaries to the Company in order to fund the payment of the one-time transition tax due to the U.S. Tax Reform, the Company intends to indefinitely reinvest the funds in subsidiaries established in the PRC.

The pandemic of COVID-19 has had certain impacts on our cash flow for the year of 2023 with potential continuing impacts on subsequent periods. However, based on our liquidity assessment, we believe that our current cash position, cash flow from operations and proceeds from our financing activities will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for the foreseeable future and for at least 12 months subsequent to the filing of this annual report.

### **Capital Source**

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

The Company had short-term loans of \$48.0 million, long-term loans of \$1.2 million (See Note 10) and bankers' acceptance notes payable of \$98.2 million as of December 31, 2023.

The Company currently expects to be able to obtain similar bank loans, i.e., RMB loans, and bankers' acceptance facilities in the future if it can provide adequate mortgage security following the termination of the above-mentioned agreements, see the table under "Bank Arrangements" below for more information. 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. Due to a depreciation of assets, the value of the mortgages securing the above-mentioned bank loans and banker's acceptances is expected to be reduced by approximately \$16.9 million over the next 12 months. If the Company wishes to maintain the same amount of bank loans and banker's acceptances in the future, it may be required by the banks to provide additional mortgages of \$16.9 million as of the maturity date of such line of credit agreements, see the table under "Bank Arrangements" below for more information. The Company can still obtain lines of credit with a reduction of \$10.1 million, which is 59.8%, the mortgage ratio, of \$16.9 million, if it cannot provide additional mortgages. The Company expects that the reduction in bank loans will not have a material adverse effect on its liquidity.

## Bank Facilities

As of December 31, 2023, the principal outstanding under the Company's credit facilities and lines of credit was as follows (figures are in thousands of USD).

	<b>Bank</b>	<b>Due Date</b>	<b>Amount Available</b> <sup>(3)</sup>	<b>Amount Used</b> <sup>(4)</sup>	<b>Assessed Mortgage Value</b> <sup>(5)</sup>
1. Comprehensive credit facilities	China CITIC Bank <sup>(2)</sup>	Sep-2024	82,596	35,274	23,185
2. Comprehensive credit facilities	China CITIC Bank <sup>(1)(2)</sup>	Jan-2024	2,823	9,657	—
3. Comprehensive credit facilities	Shanghai Pudong Development Bank <sup>(2)</sup>	Sep-2024	28,238	15,901	20,156
4. Comprehensive credit facilities	Hubei Bank <sup>(1)(2)</sup>	Mar-2024	24,002	4,956	29,255
5. Comprehensive credit facilities	Chongqing Bank	Apr-2025	988	778	988
6. Comprehensive credit facilities	China Constitution Bank	Sep-2025	2,824	—	2,965
7. Comprehensive credit facilities	China Merchants Bank <sup>(2)</sup>	Jun-2024	14,119	1,355	—
8. Comprehensive credit facilities	China Merchants Bank <sup>(2)</sup>	Jun-2024	4,236	672	—
9. Comprehensive credit facilities	Bank of China <sup>(2)</sup>	Sep-2024	7,059	1,412	—
10. Comprehensive credit facilities	Bank of China <sup>(2)</sup>	Sep-2024	7,059	—	—
11. Comprehensive credit facilities	Bank of China	Jun-2024	706	706	706
12. Comprehensive credit facilities	Hankou Bank <sup>(1)(2)</sup>	Mar-2024	14,119	—	—
13. Comprehensive credit facilities	Huishang Bank <sup>(2)</sup>	Oct-2024	2,824	1,130	—
14. Comprehensive credit facilities	China Everbright Bank	Dec-2025	4,236	2,730	4,236
<b>Total</b>			<b>\$ 195,829</b>	<b>\$ 74,571</b>	<b>\$ 81,491</b>

(1) The facility has expired. The Company is currently in the process of negotiating with the bank to renew the credit facilities.

(2) The comprehensive credit facilities with China CITIC Bank are guaranteed by Henglong and Hubei Henglong in addition to the above pledged assets. The comprehensive credit facilities with Shanghai Pudong Development Bank are guaranteed by Henglong and Hubei Henglong in addition to the above pledged assets. The comprehensive credit facilities with Hubei Bank are guaranteed by Chen Hanlin in addition to the above pledged assets. The comprehensive credit facilities with China Merchants Bank are guaranteed by Hubei Henglong, Wuhan Chuguanjie and Chen Hanlin. The comprehensive credit facilities with Bank of China are guaranteed by Hubei Henglong. The comprehensive credit facilities with Hankou Bank are guaranteed by Hubei Henglong. The comprehensive credit facilities with Huishang Bank are guaranteed by Hubei Henglong. The comprehensive credit facilities with China Everbright Bank are guaranteed by Hubei Henglong in addition to the above pledged assets.

(3) "Amount available" is used for the drawdown of bank loans and issuance of bank notes at the Company's discretion. If the Company elects to utilize the facility by issuance of bank notes, additional collateral is requested to be pledged to the bank.

(4) "Amount used" represents the credit facilities used by the Company for the purpose of bank loans, notes payable or derivatives during the facility contract period. The loans or notes payable under the credit facilities will remain outstanding regardless of the expiration of the relevant credit facilities until the separate loans or notes payable expire. The amount used includes bank loans of \$25.8 million, notes payable of \$47.4 million and derivatives of \$1.4 million as of December 31, 2023.

(5) In order to obtain lines of credit, the Company needs to pledge certain assets to banks. As of December 31, 2023, the pledged assets included property, plant and equipment and land use rights with an aggregate assessed value of \$136.3 million.

The Company may request the banks to issue notes payable or bank loans within its credit line using a 365-day revolving line.

The Company renewed its existing short-term loans and borrowed new loans during 2023 at annual interest rates ranging from 0.70% to 7.44%, and the Company's loan terms range from 2 months to 36 months. The large spread in interest rates was due to the different lenders. Pursuant to the comprehensive credit line arrangement, the Company pledged and guaranteed:

1. Land use rights and buildings with an assessed value of approximately \$27.0 million as security for its comprehensive credit facility with China CITIC Bank Wuhan Branch.
2. Land use rights and buildings with an assessed value of approximately \$15.5 million as security for its revolving comprehensive credit facility with Shanghai Pudong Development Bank.
3. Equipment with an assessed value of approximately \$73.1 million as security for its revolving comprehensive credit facility with Hubei Bank.
4. Buildings with an assessed value of approximately \$1.8 million as security for its comprehensive credit facility with Chongqing Bank
5. Land use rights and buildings with an assessed value of approximately \$6.4 million as security for its revolving comprehensive credit facility with China Constitution Bank.
6. Land use rights and buildings with an assessed value of approximately \$8.9 million as security for its revolving comprehensive credit facility with China Everbright Bank.
7. Buildings with an assessed value of approximately \$3.6 million as security for its comprehensive credit facility with Bank of China.

### **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 (being less than three months in length).

	(in thousands of USD)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 Years
Loans including interest payable	\$ 49,555	\$ 48,205	\$ 1,350	\$ —	\$ —
Notes payable <sup>(1)</sup>	98,172	98,172	—	—	—
Taxes payable and withholding tax liabilities due to U.S. Tax Reform (See Note 20)	15,805	7,024	8,781	—	—
Obligation for investment contract <sup>(2)</sup>	2,965	—	2,965	—	—
Other contractual purchase commitments, including service agreements	23,866	20,498	3,368	—	—
<b>Total</b>	<b>\$ 190,363</b>	<b>\$ 173,899</b>	<b>\$ 16,464</b>	<b>\$ —</b>	<b>\$ —</b>

(1) Notes payable do not bear interest.

(2) In June 2023, Hubei Henglong entered into an agreement with other parties to establish a limited partnership, Suzhou Mingzhi Intelligent Manufacturing Industry Investment Fund L.P., "Suzhou Mingzhi". As of December 31, 2023, Hubei Henglong has paid RMB 9.0 million, equivalent to approximately \$1.3 million, representing 19.74% of Suzhou Mingzhi's equity. As a limited partner, Hubei Henglong has more than virtually no influence over Suzhou Mingzhi's operating and financial policies. The investment is accounted for using the equity method. According to the agreement, the remaining consideration of RMB 21.0 million, equivalent to approximately \$3.0 million, will be paid in 2025.

### **Short-term Loans and Long-term Loans**

The Company must use the loans for the purpose described and repay the principal outstanding on the specified date in the table. If it fails to do so, it will be charged additional 30% to 100% penalty interest.

The Company had complied with such financial covenants as of December 31, 2023.

### **Notes Payable**

The following table summarizes the contract information of issuing notes payable between the banks and the Company as of December 31, 2023 (figures are in thousands of USD):

<b>Purpose</b>	<b>Term (Month)</b>	<b>Due Date</b>	<b>Amount Payable on Due Date</b>
Working Capital <sup>(1)</sup>	6	Jan-2024	12,516
Working Capital <sup>(1)</sup>	6	Feb-2024	14,194
Working Capital <sup>(1)</sup>	6	Mar-2024	13,270
Working Capital	6	Apr-2024	18,734
Working Capital	6	May-2024	17,857
Working Capital	6	Jun-2024	21,601
<b>Total</b>			<b>\$ 98,172</b>

(1) The notes payable were repaid in full on their respective due dates.

The Company must use notes payable for the purpose described in the table. If it fails to do so, 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 a sufficient amount of cash 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 an additional 50% penalty interest. The Company complied with such financial covenants as of December 31, 2023, and management believes it will continue to comply with them.

### Cash flows

#### *(a) Operating Activities*

Net cash provided by operating activities for the year ended December 31, 2023 was \$19.9 million, compared to net cash provided by operating activities of \$48.0 million for the year ended December 31, 2022, representing a decrease in net cash inflows by \$28.1 million, which was mainly due to the offsetting impact of (1) the increase in net income excluding non-cash items by \$9.3 million, (2) the decrease in the cash outflows from movements of inventory by \$3.7 million, (3) the decrease in the cash inflows from movements of accounts and notes receivable by \$13.8 million, (4) the decrease in the cash inflows from movements of accounts and notes payable by \$5.2 million, and (5) a combination of other factors contributing a decrease of cash inflows by \$22.1 million, including the decrease in the cash outflows from movements of taxes payable by \$9.8 million.

#### *(b) Investing Activities*

Net cash used in investing activities for the year ended December 31, 2023 was \$28.6 million, as compared to net cash used by investing activities of \$32.7 million in 2022, representing a decrease in cash outflows by \$4.1 million, which was mainly due to the net effect of (1) a decrease in purchase of short-term investments and long-term time deposits of \$11.7 million, (2) a decrease in proceeds from maturities of short-term investments \$11.9 million, (3) a combination of other factors contributing to a decrease of cash inflows by \$4.3 million, including a decrease in the payment to acquire property, plant and equipment by \$1.3 million, and a decrease in cash prepaid for investment under equity method by \$5.1 million.

#### *(c) Financing Activities*

Net cash provided in financing activities for the year ended December 31, 2023 was \$6.8 million, compared net cash used in financing activities of \$1.6 million for 2022, representing an increase in inflows by \$8.4 million, which was mainly due to the net effect of (1) an increase in proceeds from bank and government loans by \$12.9 million, and (2) an increase in repayment of bank loans and government loans by \$11.5 million, (3) a combination of other factors contributed an increase of cash inflows by \$7.0 million.

### **OFF-BALANCE SHEET ARRANGEMENTS**

On December 31, 2023 and 2022, the Company did not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements.

### **SUBSEQUENT EVENTS**

None.

### **INFLATION AND CURRENCY MATTERS**

China's economy has experienced rapid growth recently, mostly through the issuance of debt. Debt-induced economic growth can lead to growth in the money supply and rising inflation. If prices for the Company's products rise at a rate that is insufficient to compensate

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

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 2023, the Company mainly supplied products to North America and settled in cash in U.S. dollars. As a result, appreciation or currency fluctuation of the RMB against the U.S. dollar would increase the cost of export products, and 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 December 2022 to December 2023, the exchange rate between RMB and U.S. dollar appreciated from RMB1.00 to \$0.1436 to RMB1.00 to \$0.1412. The depreciation of the RMB may continue. Significant depreciation of the RMB is likely to decrease the Company's income generated from China.

## RECENT ACCOUNTING PRONOUNCEMENTS

Information regarding new accounting pronouncements is included in Note 2 to the Consolidated Financial Statements.

## 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 dates of the financial statements and the reported amount of revenues and expenses during the reporting periods. 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. OEMs 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"> <li>• OEM sourcing</li> <li>• OEM policy decisions regarding warranty claims</li> </ul>
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.	The Company reviews the recoverability of certain of its assets based on projections of anticipated future cash flows.	<ul style="list-style-type: none"> <li>• Future sales estimates</li> <li>• Customer preferences and decisions</li> </ul>
Accounts and notes receivable	Allowance for credit losses	The Company is required, from time to time, to review the credit of customers and make timely provision of allowance for credit losses.	The Company estimates the collectability of the receivables based on the future cash flows using historical experiences.	<ul style="list-style-type: none"> <li>• Customer credit</li> </ul>

Inventory	Provision for inventory impairment	The Company is required, from time to time, to review the turnover of inventory based on projections of anticipated future cash flows, including provision of inventory impairment for over market price and undesirable inventories.	The Company estimates cash flows using internal budgets based on recent sales data, independent automotive production volume estimates and customer commitments.	<ul style="list-style-type: none"> <li>• Future production estimates</li> <li>• Customer preferences and decisions</li> </ul>
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 carry-forward period, tax planning opportunities and other relevant considerations.	<ul style="list-style-type: none"> <li>• Tax law changes</li> <li>• Variances in future projected profitability, including by taxing entity</li> </ul>

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates. For purposes of specific risk analysis, the Company uses sensitivity analysis to determine the effects that market risk exposures may have.

### FOREIGN CURRENCY RISK

The Company's reporting currency is the U.S. dollar and the majority of its revenues will be settled in RMB and U.S. dollars. The Company's currency exchange rate risks come primarily from the sales of products to international customers. Most of the Company's assets are denominated in RMB except for part of cash and accounts receivable. As a result, the Company is exposed to foreign exchange risk as its revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB.

The value of the RMB fluctuates and is affected by, among other things, changes in China's political and economic conditions. In addition, the RMB is not readily convertible into U.S. dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rate quoted by the People's Bank of China. The conversion of RMB into foreign currencies such as the U.S. dollar has been generally based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. On December 31, 2023 and 2022, the exchange rates of RMB against U.S. dollar were RMB 1.00 to \$0.1412 and RMB 1.00 to \$0.1436, respectively. Any significant future depreciation of the RMB is likely to decrease the Company's profits generated from overseas.

In order to mitigate the currency exchange rate risk, the Company and its international customers established a price negotiation mechanism that provides that, if the currency exchange rate fluctuation is more than 8% since the last price negotiation, the Company and the customers would adjust the prices for future sales. Normally the adjustment to future sales prices would reflect half of the impact from the change in exchange rate.

### CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company does not require collateral or other security to support client receivables since most of its customers are large, well-established companies. The Company's credit risk is also mitigated because its customers are all selected enterprises supported by the local government. One customer, Stellantis N.V., accounted for more than 10% (17.2%) of the Company's consolidated revenues in 2023. The Company maintains an allowance for doubtful accounts for any potential credit losses related to its trade receivables. The Company does not use foreign exchange contracts to hedge the risk in receivables denominated in foreign currencies and the Company does not hold or issue derivative financial instruments for trading or speculative purposes.

### INTEREST RATE RISK

The Company's exposure to changes in interest rates results primarily from its credit facility borrowings. As of December 31, 2023, the Company had nil of outstanding indebtedness, which is subject to interest rate fluctuations.

The Company's level of outstanding indebtedness fluctuates from time to time and may result in additional payable.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

- (a) The financial statements required by this item begin on page 52.
- (b) Selected quarterly financial data for the past two years are summarized in the following table (figures are in thousands of USD, except those for items headed “Basic” and “Diluted”):

	Quarterly Results of Operations							
	First		Second		Third		Fourth	
	2023	2022	2023	2022	2023	2022	2023	2022
Net sales	\$ 142,243	\$ 136,396	\$ 137,410	\$ 127,161	\$ 137,541	\$ 137,207	\$ 159,160	\$ 128,787
Gross profit	21,618	14,734	22,718	22,711	24,757	20,918	34,658	25,031
Income/(loss) from operations	7,744	(1,538)	7,789	7,200	10,153	4,887	13,559	(2,598)
Net income	7,883	149	11,468	9,935	11,244	8,007	12,143	4,252
Net income/(loss) attributable to non-controlling interest	1,055	200	995	500	1,749	529	1,251	(97)
Net income/(loss) attributable to parent company’s common shareholders	6,820	(59)	10,466	9,428	9,488	7,470	10,884	4,342
Net income/(loss) attributable to parent company’s common shareholders per share-								
Basic	\$ 0.23	\$ —	\$ 0.35	\$ 0.31	\$ 0.31	\$ 0.24	\$ 0.36	\$ 0.14
Diluted	\$ 0.23	\$ —	\$ 0.35	\$ 0.31	\$ 0.31	\$ 0.24	\$ 0.36	\$ 0.14

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

### ITEM 9A. CONTROLS AND PROCEDURES.

#### Evaluation of Disclosure Controls and Procedures

The Company’s management, under the supervision and with the participation of its chief executive officer and chief financial officer, Messrs. Wu Qizhou and Li Jie, respectively, evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2023, the end of the period covered by this Report. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports, such as this Form 10-K, that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on that evaluation, Messrs. Wu and Li concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2023.

#### Management’s Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting.

Internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, is a process designed by, or under the supervision of, the chief executive officer and chief financial officer and effected by the board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external reporting purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

- a. pertain to the maintenance of records that, in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company’s assets;
- b. provide reasonable assurance that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with generally accepted accounting principles, and that the Company’s receipts and expenditures are being made only in accordance with appropriate authorization of the Company’s management and board of directors; and
- c. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the consolidated financial statements.

In making its assessment of internal control over financial reporting, management, under the supervision and with the participation of the chief executive officer and chief financial officer, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control—Integrated Framework (2013).”

Management has assessed the effectiveness of internal control over financial reporting as of December 31, 2023 and determined that internal control over financial reporting was effective as of December 31, 2023.

This report does not include an auditors’ report on the effectiveness of internal control over financial reporting due to SEC rules that exempt smaller reporting companies such as China Automotive from providing such a report.

### **Inherent Limitations on Effectiveness of Controls**

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the three months ended December 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION.**

### **Rule 10b5-1 Trading Plan**

On June 1, 2023, Wiselink Holding Limited and UBS Financial Services Inc. entered a Trading Plan for the purpose of selling, in accordance with Rule 10b5-1(c)(1) of the Securities Exchange Act of 1934, as amended, shares of common stock of the Company.

Trading Schedule A (For sale of Long, Restricted or Control Stock)

Order A#	Order Entry Date	Number of shares to be sold	Type of order: Limited price(s) or Market	Duration of order (day, GTC)	Order cancel Date	Acquisition Date	Nature of Acquisition
1	First Available	282,100	\$ 5.00	GTC	August 30, 2024	April 22, 2008	Equity exchange

## **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.**

We were identified by the SEC pursuant to Section 104(i)(2)(A) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7214(i)(2)(A)) as having retained, for the preparation of the audit report on its financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2021, a registered public accounting firm that has a branch or office that is located in a foreign jurisdiction and that the PCAOB had then determined it was unable to inspect or investigate completely because of a position taken by an authority in the foreign jurisdiction, which determination was vacated by the PCAOB on December 15, 2022. We hereby confirm that we are not owned or

controlled by any governmental entity in such foreign jurisdiction. We are not a party to any material contracts with such a foreign governmental party, and there is no such foreign government representative on the Company's board of directors.

Furthermore, in August 2022, the PCAOB signed a Statement of Protocol with the CSRC and the Ministry of Finance of the People's Republic of China, taking the first step toward opening access for the PCAOB to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong. PCAOB staff members conducted on-site inspections and investigations from September to November 2022, and in December 2022, the PCAOB announced that it has secured complete access to inspect and investigate registered public accounting firms headquartered in mainland China and Hong Kong and confirmed that until such time as the PCAOB issues any new determination, there are no Commission-Identified Issuers at risk of having their securities subject to a trading prohibition under the HFCAA. For this reason, we do not expect to be identified as a Commission - Identified Issuer under the HFCAA after we file this annual report on Form 10 - K for the fiscal year ended December 31, 2023.

For further information, see Item 1. Business and Item 1A. Risk Factors - Risks Related To Doing Business In China And Other Countries Besides The United States.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The following table and text set forth the names and ages of all directors and executive officers of the Company as of December 31, 2023. The Board of Directors is comprised of only one class. All of the directors will serve until the next annual meeting of stockholders and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal. Also provided herein are brief descriptions of the business experience of each director and executive officer during the past five years and an indication of directorships held by each director in other companies subject to the reporting requirements under the federal securities laws.

Name	Age	Position(s)
Hanlin Chen	66	Chairman of the Board
Tong Kooi Teo	67	Director
Guangxun Xu	73	Director
Heng Henry Lu	58	Director
Qizhou Wu	59	Chief Executive Officer and Director
Jie Li	54	Chief Financial Officer
Andy Tse	53	Senior Vice President
Haimian Cai	60	Vice President
Henry Chen	33	Vice President

### BIOGRAPHIES OF DIRECTORS AND EXECUTIVE OFFICERS

#### *Directors*

**Hanlin Chen** has served as the chairman of the board of directors and an executive officer since March 2003. From 1993 to 1997, Mr. Chen was the general manager of Shashi Jiulong Power Steering Gears Co., Ltd. Since 1997, he has been the chairman of the Board of Henglong Automotive Parts, Ltd. Mr. Hanlin Chen is the brother-in-law of the Company's senior vice president, Mr. Andy Tse.

**Qizhou Wu** has served as a director since March 2003 and as the chief executive officer of the Company since September 2007. He served as chief operating officer from 2003 to 2007. He was the executive general manager of Shashi Jiulong Power Steering Gears Co., Ltd. from 1993 to 1999 and the general manager of Henglong Automotive Parts Co., Ltd. from 1999 to 2002. Mr. Wu graduated from Tsinghua University in Beijing with a Master's degree in automobile engineering.

**Heng Henry Lu** has served as an independent director of the Company since July 2019. He is a member of the audit committee, the nominating committee and the compensation committee of the Board of Directors. He has been an adviser to NBS Group since February 2016. Dr. Lu was a partner of SVC China from 2012 to 2014 and Chief Representative of William Blair & Company, L.L.C., Shanghai Representative Office from 2006 to 2011. Prior to that, Dr. Lu was with McKinsey & Company advising global and domestic companies on their growth and financial strategies. Dr. Lu received a Doctor of Philosophy from Columbia University in 1997 and a Master of Business Administration from University of Chicago Business School in 2000.

**Tong Kooi Teo** has served as an independent director of the Company since July 2019. He is the chairman of the compensation committee, and a member of the audit committee and the nominating committee of the Board of Directors. He is the Chief Executive Officer of DPS Corporate Advisory Company Limited, Beijing, China, a member of Head International Group, China since March 2018. He is independent non-executive director of UOB Kay Hian Securities Sdn Bhd since February 2023. He is also Non-Executive Director of Guocoland (China) Limited since February 2018. He was the Managing Director of Guoco Investment (China) Ltd., Hong Kong from 2014 to 2018, after serving as the Group Managing Director of Guocoland (China) Ltd. from 2012 to 2014. Prior to that, Mr. Teo was the Chief Executive Officer (China and Vietnam Operations) of WCT Holdings Bhd, Malaysia from 2011 to 2012. He was the Chief Executive Officer of Hong Leong Asia Ltd (HLA), which is listed on the Singapore Stock Exchange from 2004 to 2010. From 2003 to

2004, Mr. Teo was the Managing Director of Tasek Corporation Bhd, Malaysia, which was listed on the Kuala Lumpur Stock Exchange. From 1994 to 2002, Mr. Teo was General Manager of Corporate Banking Division and Chief Operating Officer of Hong Leong Bank Malaysia. From 1989 to 1994, Mr. Teo was with Deutsche Bank Malaysia where his last held position was Head of Corporate Banking.

**Guangxun Xu** has served as an independent director of the Company since December 2009. He is the chairman of both the audit committee and the nominating committee, and a member of the compensation committee. Mr. Xu has been the Chief Representative of NASDAQ in China and a managing director of the NASDAQ Stock Market International, Asia for over ten (10) years. With a professional career in the finance field spanning over thirty (30) years, Mr. Xu's practice focuses on providing package services on U.S. and U.K. listings, advising on and arranging for private placements, PIPEs, IPOs, pre-IPO restructuring, M&A, corporate and project finance, corporate governance, post-IPO IR compliance and risk control.

### *Executive Officers*

**Jie Li** has served as the chief financial officer since September 2007. Prior to that position he served as the corporate secretary from December 2004. Prior to joining the Company in September 2003, Mr. Li was the assistant president of Jingzhou Jiulong Industrial Inc. from 1999 to 2003 and the general manager of Jingzhou Tianxin Investment Management Co. Ltd. from 2002 to 2003. Mr. Li has a Bachelor's degree from the University of Science and Technology of China. He also completed his graduate studies in economics and business management at the Hubei Administration Institute.

**Andy Tse** has served as a senior vice president of the Company since March 2003. He has also served as chairman of the board of Shenyang. He was the vice GM of Jiulong from 1993 to 1997 and the vice GM of Henglong. Mr. Tse has over 10 years of experience in automotive parts sales and strategic development. Mr. Tse has an MBA from the China People University. He is brother-in-law to Hanlin Chen.

**Haimian Cai** was an independent director of the Company from September 2003 to December 2009, and also a member of the Company's Audit, Compensation and Nominating Committees. Dr. Cai is a technical specialist in the automotive industry. Prior to that, Dr. Cai was a staff engineer in ITT Automotive Inc. Dr. Cai has written more than fifteen technical papers and co-authored a technical book regarding the Powder Metallurgy industry for automotive application. Dr. Cai has more than ten patents including pending patents. Dr. Cai holds a B.S. Degree in Automotive Engineering from Tsinghua University and a M.S. and Ph. D. in manufacturing engineering from Worcester Polytechnic Institute. Since December 2009, Mr. Cai has not served as independent director and a member of the Company's Audit Committee, Compensation and Nominating Committees, because he was nominated as vice president of the Company.

**Henry Chen** has served as a vice president of the Company since August 2022. Prior to that position he served in Hubei Henglong as the executive vice president from February 2022 to August 2022, the assistant to president from January 2021 to January 2022 and the European regional business director from July 2017 to January 2021. Mr. Chen was the investment manager of Suzhou Qingyan Capiatal from June 2016 to June 2017. Mr. Chen holds a B.S. Degree in History and Political Science and a M.S. in Global History from University of Warwick. He is the son of Hanlin Chen.

## **BOARD COMPOSITION AND COMMITTEES**

### *Audit Committee and Independent Directors*

The Company has a standing Audit Committee of the Board of Directors established in accordance with Section 3(a)(58)(A) of the Exchange Act, as amended. The Audit Committee is operated under a written charter. The Audit Committee consists of the following individuals, all of whom the Company considers to be independent, as defined under the SEC's rules and regulations and the Nasdaq's definition of independence: Mr. Tong Kooi Teo, Mr. Guangxun Xu and Mr. Heng Henry Lu. Mr. Guangxun Xu is the Chairman of the Audit Committee. The Board has determined that Mr. Guangxun Xu is the audit committee financial expert, as defined in Item 407(d)(5) of Regulation S-K, serving on the Company's Audit Committee.

### *Compensation Committee*

The Company has a standing Compensation Committee of the Board of Directors. The Compensation Committee is responsible for determining compensation for the Company's executive officers. Three of the Company's independent directors, as defined under the SEC's rules and regulations and the Nasdaq's definition of independence, Mr. Tong Kooi Teo, Mr. Guangxun Xu and Mr. Heng Henry Lu serve on the Compensation Committee. Mr. Tong Kooi Teo is the Chairman of the Compensation Committee. The Board has determined that all members of the Compensation Committee are independent directors under the rules of the Nasdaq Stock Market, as applicable. The Compensation Committee administers the Company's benefit plans, reviews and administers all compensation arrangements for executive officers, and establishes and reviews general policies relating to the compensation and benefits of the

Company's officers and employees. The Compensation Committee operates under a written charter that is made available on the Company's website, [www.caasauto.com](http://www.caasauto.com).

The Company's Compensation Committee is empowered to review and approve the annual compensation and compensation procedures for the executive officers of the Company. The primary goals of the Compensation Committee of the Company's Board of Directors with respect to executive compensation are to attract and retain the most talented and dedicated executives possible and to align executives' incentives with stockholder value creation. The Compensation Committee evaluates individual executive performance with a goal of setting compensation at levels the committee believes are comparable with executives in other companies of similar size and stage of development operating in similar industry while taking into account the Company's relative performance and its strategic goals.

The Company has not retained a compensation consultant to review its policies and procedures with respect to executive compensation. The Company conducts an annual review of the aggregate level of its executive compensation, as well as the mix of elements used to compensate its executive officers. The Company compares compensation levels with amounts currently being paid to executives in its industry and most importantly with local practices in China. The Company is satisfied that its compensation levels are competitive with local conditions.

### ***Nominating Committee***

The Company has a standing Nominating Committee of the Board of Directors. Director candidates are nominated by the Nominating Committee. The Nominating Committee will consider candidates based upon their business and financial experience, personal characteristics, and expertise that are complementary to the background and experience of other Board members, willingness to devote the required amount of time to carry out the duties and responsibilities of Board membership, willingness to objectively appraise management performance, and any such other qualifications the Nominating Committee deems necessary to ascertain the candidates' ability to serve on the Board. The Nominating Committee will not consider nominee recommendations from security holders, other than the recommendations received from a security holder or group of security holders that beneficially owned more than 5 percent of the Company's outstanding common stock for at least one year as of the date the recommendation is made. Three of the Company's independent directors, as defined under the SEC's rules and regulations and the Nasdaq's definition of independence, Mr. Tong Kooi Teo, Mr. Guangxun Xu and Mr. Heng Henry Lu, serve on the Nominating Committee. Mr. Xu is the Chairman of the Nominating Committee.

### ***Stockholder Communications***

Stockholders interested in communicating directly with the Board of Directors, or individual directors, may email the Company's independent director Mr. Guangxun Xu at [guangxunxu@hotmail.com](mailto:guangxunxu@hotmail.com). Mr. Xu will review all such correspondence and will regularly forward to the board of directors of the Company copies of all such correspondence that deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. Directors may at any time review all of the correspondence received that is addressed to members of the board of directors of the Company and request copies of such correspondence. Concerns relating to accounting, internal controls or auditing matters will immediately be brought to the attention of the Audit Committee and handled in accordance with procedures established by the Audit Committee with respect to such matters.

### ***Family Relationships***

Mr. Hanlin Chen and Mr. Andy Tse are brothers-in-law.

Mr. Hanlin Chen and Mr. Henry Chen are father and son.

### ***Code of Ethics and Conduct***

The Board of Directors has adopted a Code of Ethics and Conduct which is applicable to all officers, directors and employees. The Code of Ethics and Conduct was filed as an exhibit to the Form 10-K for the year ended December 31, 2009, which was filed with the Securities and Exchange Commission on March 25, 2010.

### ***Delinquent Section 16(a) Reports***

Based solely on the Company's review of the Section 16(a) reports that have been filed by or on behalf of its officers, directors and persons who own more than 10% of a registered class of the Company's equity securities, we believe that all such persons complied on a timely basis with all Section 16(a) filing requirements during the fiscal year ended December 31, 2023.

## ITEM 11. EXECUTIVE COMPENSATION.

### COMPENSATION DISCUSSION AND ANALYSIS

In 2003, the Board of Directors established a Compensation Committee consisting only of independent Board members, which is responsible for setting the Company's policies regarding compensation and benefits and administering the Company's benefit plans. At the end of fiscal year 2023, the Compensation Committee consisted of Mr. Tong Kooi Teo, Mr. Guangxun Xu and Mr. Heng Henry Lu. The members of the Compensation Committee approved the amount and form of compensation paid to executive officers of the Company and set the Company's compensation policies and procedures during these periods.

The primary goals of the Company's compensation committee with respect to executive compensation are to attract and retain highly talented and dedicated executives and to align executives' incentives with stockholder value creation.

The Compensation Committee will conduct an annual review of the aggregate level of the Company's executive compensation, as well as the mix of elements used to compensate the Company's executive officers. The Company compares compensation levels with amounts currently being paid to executives at similar companies in the same area and the same industry. Most importantly, the Company compares compensation levels with local practices in China. The Company believes that its compensation levels are competitive with local conditions.

#### *Compensation Recovery Policy*

The Company's compensation recovery policy, the "Compensation Recovery Policy", was adopted effective October 10, 2023, in accordance with SEC requirements and the Nasdaq listing standards. The Compensation Recovery Policy authorizes the Company to recover, or "clawback," certain incentive compensation erroneously awarded predicated upon achieving financial results and the financial results are subsequently subject to an accounting restatement.

#### *Elements of Compensation*

The Company's executive compensation consists of the following elements:

##### Base Salary

In determining the amount of base salaries for our named executive officers, "Named Executive Officers", the Compensation Committee strives to establish base salaries that are similar to those paid by other companies to executives in similar positions and with similar responsibilities. Base salaries are adjusted from time to time to realign salaries with market levels after considering individual responsibilities, performance and experience. The Compensation Committee established a salary structure to determine base salaries and is responsible for initially setting executive officer compensation in employment arrangements with each individual. The base salary amounts are intended to reflect the Company's philosophy that the base salary should attract experienced individuals who will contribute to the success of the Company's business goals and represent cash compensation that is commensurate with the compensation of individuals at similarly situated companies.

The Company's Board of Directors and Compensation Committee have approved the current salaries for executives: RMB 2.2 million (equivalent to approximately \$0.31 million) for the Chairman, RMB 1.4 million (equivalent to approximately \$0.2 million) for the CEO and RMB 0.9 million (equivalent to approximately \$0.12 million) individually for each other officer in 2023.

##### Performance Bonus

- a. Grantees: Mr. Hanlin Chen, Mr. Qizhou Wu, Mr. Andy Tse, Mr. Henry Chen and Mr. Jie Li.
- b. Conditions: based on the Company's consolidated financial statements, (i) the year over year growth rate of sales for 2023 must be 5% or higher; or (ii) the year over year growth rate of sales for 2023 must be 10% or higher.
- c. Bonus: If condition (i) is satisfied, 25% of each officer's annual salary in 2023. If condition (ii) is satisfied, 50% of each officer's annual salary in 2023.

The Company accrued 25% of the annual salary as performance bonus for each Named Executive Officer in 2023 as the Company reached the above condition (i).

##### Stock Option Awards

The stock options plan proposed by management, which aims to incentivize and retain core employees, to meet employees' benefits, the Company's long term operating goals and stockholder benefits, was approved at the Annual Meeting of Stockholders held on June 28, 2005, and extended for ten years at the Annual Meeting of Stockholders held on September 16, 2014. The maximum common shares available for issuance under the plan is 2,200,000. The term of the plan was extended to June 27, 2025.

There were no stock options granted to management in 2023.

### Other Compensation

Other than the base salary for the Company's Named Executive Officers, the performance bonus and the stock option awards referred to above, the Company does not have any other benefits and perquisites for its Named Executive Officers. However, the Compensation Committee in its discretion may provide benefits and perquisites to these executive officers if it deems advisable to do so.

### **Compensation Tables**

#### Executive Officers

The compensation that Named Executive Officers received for their services for fiscal years 2023 and 2022 were as follows (figures are in thousands of USD):

<u>Name and principal position</u>	<u>Year</u>	<u>Salary (1)</u>	<u>Bonus (2)</u>	<u>Option Awards (3)</u>	<u>Total</u>
Hanlin Chen (Chairman)	2023	\$ 306	\$ 77	\$ —	\$ 383
	2022	\$ 321	\$ 80	\$ —	\$ 401
Qizhou Wu (CEO)	2023	\$ 204	\$ 51	\$ —	\$ 255
	2022	\$ 214	\$ 53	\$ —	\$ 267
Jie Li (CFO)	2023	\$ 122	\$ 31	\$ —	\$ 153
	2022	\$ 128	\$ 32	\$ —	\$ 160
Haimian Cai (Vice President)	2023	\$ 387	\$ —	\$ —	\$ 387
	2022	\$ 383	\$ —	\$ —	\$ 383

(1) Salary – Please refer to Base Salary disclosed under “Elements of compensation” section above for further details.

(2) Bonus – Please refer to Performance Bonus disclosed under “Elements of compensation” section above for further details.

(3) Option Awards – Please refer to Stock Option Awards disclosed under “Elements of compensation” section above for further details.

#### Compensation for Directors

Based on the number of the board of directors' service years, workload and performance, the Company decides on their pay. The management believes that the pay for the members of the Board of Directors was appropriate as of December 31, 2023. The compensation that directors received for serving on the Board of Directors for fiscal year 2023 was as follows (figures are in thousands of USD):

<u>Name</u>	<u>Fees earned or paid in cash</u>	<u>Option awards <sup>(1)</sup></u>	<u>Total</u>
Tong Kooi Teo	\$ 32	\$ —	\$ 32
Guangxun Xu	\$ 59	\$ —	\$ 59
Heng Henry Lu	\$ 32	\$ —	\$ 32

(1) The company did not grant option awards to directors in 2023.

The cost of the above-mentioned compensation paid to directors was measured based on investment, operating, technology, and consulting services they provided. All other directors did not receive compensation for their service on the Board of Directors.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

As used in this section, the term beneficial ownership with respect to a security is defined by Rule 13d-3 under the Securities Exchange Act of 1934, as amended, as consisting of sole or shared voting power, including the power to vote or direct the vote, and/or sole or shared investment power, including the power to dispose of or direct the disposition of, with respect to the security through any contract, arrangement, understanding, relationship or otherwise, subject to community property laws where applicable. The percentage ownership is based on 30,185,702 shares of common stock outstanding at December 31, 2023 (exclusive of 2,152,600 shares of treasury stock).

Name/Title	Total Number of Shares	Percentage Ownership
Hanlin Chen, Chairman <sup>(1)</sup>	17,323,670	57.39 %
Qizhou Wu, CEO and Director	1,537,524	5.09 %
Guangxun Xu, Director	—	— %
Tong Kooi Teo, Director	—	— %
Heng Henry Lu, Director	—	— %
Haimian Cai, VP	50,000	0.17 %
Jie Li, CFO <sup>(2)</sup>	97,031	0.32 %
Tse Andy, Sr. VP	531,682	1.76 %
Henry Chen, VP	—	— %
All Directors and Executive Officers (9 persons)	19,539,907	64.73 %

- (1) Includes (i) 13,322,547 shares of common stock beneficially owned by Mr. Hanlin Chen; (ii) 1,502,925 shares of common stock beneficially owned by Ms. Li Ping Xie, Mr. Hanlin Chen's wife; and (iii) 2,498,198 shares of common stock beneficially owned by Wiselink Holdings Limited, a company controlled by Mr. Hanlin Chen. According to the resolution of the Board of Directors of Wiselink dated November 28, 2023, Wiselink transferred 525,344 shares of its restricted shares of China Automotive Systems, Ltd., to a number of transferees.
- (2) Includes 50,000 shares held as nominee for Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd. On October 13, 2014, the Company issued 4,078,000 of its common shares in a private placement to nominee holders of Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd. for the acquisition of the 19.0% and 20.0% equity interest in Jiulong and Henglong held by Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd., respectively. All of the nominee holders of Jingzhou Jiulong Machinery and Electronic Manufacturing Co., Ltd. are unrelated parties except for Mr. Jie Li (CFO).

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

For the information required by Item 13 please refer to Note 2 (Basis of Presentation and Significant Accounting Policies—Certain Relationships and Related Transactions) and Note 23 (Related Party Transactions) to the consolidated financial statements in this Report.

The Company's Audit Committee's charter provides that one of its responsibilities is to review and approve related party transactions defined as those transactions required to be disclosed under Item 404 of Regulation S-K of the rules and regulations under the Exchange Act. The Company has a formal written set of policies and procedures for the review, approval or ratification of related party transactions. Where a related party transaction is identified, the Audit Committee reviews and, where appropriate, approves the transaction based on whether it believes that the transaction is at arm's length and contains terms that are no less favorable than what the Company could have obtained from an unaffiliated third party.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table sets forth the aggregate fees for professional audit services rendered by PricewaterhouseCoopers Zhong Tian LLP for the audit of the Company's annual financial statements and other services provided in the fiscal years 2023 and 2022. The Audit Committee has approved the following fees (figures are in thousands of USD):

	Fiscal Year Ended	
	2023	2022
Audit Fees	\$ 724	\$ 731
Other Fees	44	—
Total Fees	\$ 768	\$ 731

## **AUDIT COMMITTEE'S PRE-APPROVAL POLICY**

During the fiscal years ended December 31, 2023 and 2022, the Audit Committee of the Board of Directors adopted policies and procedures for the pre-approval of all audit and non-audit services to be provided by the Company's independent auditor and for the prohibition of certain services from being provided by the independent auditor. The Company may not engage the Company's independent auditor to render any audit or non-audit service unless the service is approved in advance by the Audit Committee or the engagement to render the service is entered into pursuant to the Audit Committee's pre-approval policies and procedures. On an annual basis, the Audit Committee may pre-approve services that are expected to be provided to the Company by the independent auditor during the fiscal year. At the time such pre-approval is granted, the Audit Committee specifies the pre-approved services and establishes a monetary limit with respect to each particular pre-approved service, which limit may not be exceeded without obtaining further pre-approval under the policy. For any pre-approval, the Audit Committee considers whether such services are consistent with the rules of the Securities and Exchange Commission on auditor independence.

## PART IV

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of China Automotive Systems, Inc.

#### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of China Automotive Systems, Inc. and its subsidiaries (the “Company”) as of December 31, 2023 and 2022, and the related consolidated statements of income or loss, of comprehensive income or loss, of changes in stockholders’ equity and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### *Critical Audit Matters*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### *Assessment of the recoverability of deferred tax assets*

As described in Notes 2 and 9 to the consolidated financial statements, as of December 31, 2023, the Company’s deferred tax assets were \$8.9 million. Deferred tax assets and liabilities are recognized for the future tax consequences, which is attributable to operating loss and tax credit carryforwards and for differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, by applying enacted statutory rates applicable to future years. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized. The valuation allowance is based on management’s estimates of future taxable profits and application of relevant income tax law.

The principal considerations for our determination that performing procedures relating to the assessment of the recoverability of deferred tax assets is a critical audit matter are (i) the significant judgment by management when assessing the recoverability of deferred tax

assets and a high degree of estimation uncertainty related to the estimates of future taxable profits; and (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to management's estimates of future taxable profits related to the recoverability of deferred tax assets.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's assessment of recoverability of deferred tax assets, including controls over the estimates of future taxable profits. These procedures also included, among others, evaluating the reasonableness of management's estimates of future taxable profits used to assess the recoverability of the deferred tax assets by (i) considering the results of a retrospective comparison of the estimates of future taxable profits in prior year to actual results in the current year; (ii) comparison of revenue growth rate, gross margin and profit margin in the estimates of future taxable profits to historical results and industry trends; (iii) performing sensitivity analyses of significant assumptions to evaluate the changes in the estimates of future taxable profits; and (iv) comparing whether the estimates of future taxable profits was consistent with evidence obtained in other areas of the audit.

***PricewaterhouseCoopers Zhong Tian LLP***

Shanghai, the People's Republic of China

March 28, 2024

We have served as the Company's auditor since 2010.

**China Automotive Systems, Inc. and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands of USD, except share and per share amounts)

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 114,660	\$ 121,216
Pledged cash	40,534	37,735
Short-term investments	11,084	12,861
Accounts and notes receivable, net - unrelated parties (Allowance for credit losses of \$15,599 and \$14,359, respectively)	261,237	214,308
Accounts and notes receivable, net - related parties (Allowance for credit losses of \$1,404 and \$1,763, respectively)	8,169	10,016
Advance payments and others, net - unrelated parties (Allowance for credit losses of \$22 and \$115, respectively)	14,008	10,907
Advance payments and others - related parties	1,991	1,439
Inventories	112,392	112,236
Total current assets	564,075	520,718
Non-current assets:		
Property, plant and equipment, net	101,359	106,606
Land use rights, net	9,233	9,555
Intangible assets, net	3,865	1,273
Operating lease assets	278	477
Long-term time deposits	8,647	—
Other receivables, net (Allowance for credit losses of \$49 and \$50, respectively)	598	46
Advance payment for property, plant and equipment - unrelated parties	3,554	6,331
Advance payment for property, plant and equipment - related parties	5,759	1,884
Long-term investments	60,173	59,810
Deferred tax assets	8,899	7,652
Total assets	\$ 766,440	\$ 714,352
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term bank loans	\$ 48,005	\$ 45,671
Accounts and notes payable - unrelated parties	240,739	218,412
Accounts and notes payable - related parties	12,839	16,695
Customer deposits	8,633	5,654
Accrued payroll and related costs	11,282	11,628
Accrued expenses and other payables	44,771	48,311
Taxes payable	17,267	17,598
Operating lease liabilities - current portion	203	226
Total current liabilities	383,739	364,195
Long-term liabilities:		
Advances payable	282	2,144
Operating lease liabilities - non-current portion	52	255
Long-term loans	1,221	528
Deferred tax liabilities	3,943	4,010
Long-term taxes payable	8,781	15,805
Total liabilities	398,018	386,937
Commitments and Contingencies (Note 24)		
Mezzanine equity:		
Redeemable non-controlling interests	613	582
Stockholders' Equity		
Common stock, \$0.0001 par value - Authorized - 80,000,000 shares Issued – 32,338,302 and 32,338,302 shares at December 31, 2023 and 2022, respectively	3	3
Additional paid-in capital	63,731	63,731
Retained earnings-		

Appropriated	11,851	11,851
Unappropriated	284,832	247,174
Accumulated other comprehensive income	(8,258)	(3,413)
Treasury stock – 2,152,600 and 2,152,600 shares at December 31, 2023 and 2022, respectively	(7,695)	(7,695)
Total parent company stockholders' equity	344,464	311,651
Non-controlling interests	23,345	15,182
Total stockholders' equity	367,809	326,833
Total liabilities, mezzanine equity and stockholders' equity	\$ 766,440	\$ 714,352

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

*China Automotive Systems, Inc. and Subsidiaries*  
**CONSOLIDATED STATEMENTS OF INCOME OR LOSS**  
*(In thousands of USD, except share and per share amounts)*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Net product sales (\$47,514 and \$44,282 sold to related parties for the years ended December 31, 2023 and 2022)	\$ 576,354	\$ 529,551
Cost of products sold (\$27,288 and \$28,810 purchased from related parties for the years ended December 31, 2023 and 2022)	472,603	446,157
Gross profit	103,751	83,394
Net gain on other sales	5,788	3,696
Operating expenses:		
Selling expenses	15,610	16,910
General and administrative expenses	25,503	26,120
Research and development expenses	29,181	36,109
Total operating expenses	70,294	79,139
Operating income	39,245	7,951
Other income, net	5,345	5,782
Interest expense	(1,021)	(1,450)
Financial income, net	4,666	10,753
Income before income tax expenses and equity in earnings of affiliated companies	48,235	23,036
Less: Income taxes	5,137	3,082
Add: Equity in (loss)/earnings of affiliated companies	(360)	2,389
Net income	42,738	22,343
Net income attributable to non-controlling interest	5,050	1,132
Accretion to redemption value of redeemable non-controlling interests	(30)	(30)
Net income attributable to parent company's common shareholders	37,658	21,181
Net income attributable to parent company's common shareholders per share -		
Basic	\$ 1.25	\$ 0.69
Diluted	\$ 1.25	\$ 0.69
Weighted average number of common shares outstanding -		
Basic	30,185,702	30,639,102
Diluted	30,189,421	30,641,274

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

*China Automotive Systems, Inc. and Subsidiaries*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS**  
(In thousands of USD unless otherwise indicated)

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Net income	\$ 42,738	\$ 22,343
Other comprehensive income:		
Foreign currency translation loss	(5,191)	(29,934)
Comprehensive income/(loss)	37,547	(7,591)
Comprehensive income/(loss) attributable to non-controlling interest	4,704	(672)
Accretion to redemption value of redeemable non-controlling interest	(30)	(30)
Comprehensive income/(loss) attributable to parent company	<u>\$ 32,813</u>	<u>\$ (6,949)</u>

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

*China Automotive Systems, Inc. and Subsidiaries*  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(In thousands of USD, except share and per share amounts)

	<b>2023</b>	<b>2022</b>
<b>Common Stock</b>		
Balance at January 1, 2023 and 2022 - 32,338,302 and 32,338,302 shares, respectively	\$ 3	\$ 3
Balance at December 31, 2023 and 2022 - 32,338,302 and 32,338,302 shares, respectively	<u>\$ 3</u>	<u>\$ 3</u>
<b>Additional Paid-in Capital</b>		
Balance at January 1	\$ 63,731	\$ 63,731
Balance at December 31	<u>\$ 63,731</u>	<u>\$ 63,731</u>
<b>Retained Earnings - Appropriated</b>		
Balance at January 1	\$ 11,851	\$ 11,481
Appropriation of retained earnings	—	370
Balance at December 31	<u>\$ 11,851</u>	<u>\$ 11,851</u>
<b>Unappropriated</b>		
Balance at January 1	\$ 247,174	\$ 226,363
Net income attributable to parent company	37,688	21,211
Accretion of redeemable non-controlling interests	(30)	(30)
Appropriation of retained earnings	—	(370)
Balance at December 31	<u>\$ 284,832</u>	<u>\$ 247,174</u>
<b>Accumulated Other Comprehensive (Loss)/Income</b>		
Balance at January 1	\$ (3,413)	\$ 24,717
Net foreign currency translation adjustment attributable to parent company	(4,845)	(28,130)
Balance at December 31	<u>\$ (8,258)</u>	<u>\$ (3,413)</u>
<b>Treasury Stock</b>		
Balance at January 1, 2023 and 2022 -2,152,600 and 1,486,526 shares, respectively	\$ (7,695)	\$ (5,261)
Repurchase of common stock in 2023 and 2022 -nil and 666,074 shares, respectively	—	(2,434)
Balance at December 31, 2023 and 2022 - 2,152,600 and 2,152,600 shares, respectively	<u>\$ (7,695)</u>	<u>\$ (7,695)</u>
Total parent company stockholders' equity	<u>\$ 344,464</u>	<u>\$ 311,651</u>
<b>Non-controlling Interest</b>		
Balance at January 1	\$ 15,182	\$ 15,854
Net foreign currency translation adjustment attributable to non-controlling interest	(346)	(1,804)
Net income attributable to non-controlling interest	5,050	1,132

Contribution by non-controlling shareholder of Wuhan Hyoseong	3,459	—
Balance at December 31	\$ 23,345	\$ 15,182
Total stockholders' equity	\$ 367,809	\$ 326,833

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

**China Automotive Systems, Inc. and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(In thousands of USD unless otherwise indicated)*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 42,738	\$ 22,343
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,708	25,173
Deferred income taxes	(1,319)	1,243
Allowance for credit losses	1,564	4,404
Impairment loss on prepayment for investment in Hefei Senye (See Note 18)	—	2,676
Equity in (loss)/earnings of affiliates	360	(2,389)
Impairment loss on property, plant and equipment	794	—
(Gain)/loss on disposal of fixed assets	(3)	58
(Increase)/decrease in:		
Accounts and notes receivable	(50,699)	(36,935)
Advance payments and others	(3,881)	(41)
Inventories	(1,654)	(5,368)
Other receivables	(556)	—
Increase/(decrease) in:		
Accounts and notes payable	22,024	27,271
Customer deposits	3,091	3,580
Accrued payroll and related costs	77	1,628
Accrued expenses and other payables	(2,667)	1,158
Taxes payable	(6,835)	2,925
Advances payable	(1,836)	297
Net cash provided by operating activities	<u>19,906</u>	<u>48,023</u>
<b>Cash flows from investing activities:</b>		
Purchase of short-term investments and long-term time deposits	(68,550)	(80,244)
Proceeds from maturities of short-term investments	63,240	75,144
Decrease/(increase) in demand loans and employee housing loans included in other receivables	—	292
Loan to a related party	—	(146)
Cash received from property, plant and equipment sales	2,790	1,514
Cash paid to acquire property, plant and equipment and land use right (including \$5,336 and \$3,445 paid to related parties for the years ended December 31, 2023 and 2022, respectively)	(18,235)	(20,296)
Cash paid to acquire intangible assets	(3,445)	(188)
Cash received from long-term investment	3,292	3,986
Investment under equity method	(7,729)	(12,802)
Net cash used in investing activities	<u>(28,637)</u>	<u>(32,740)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from bank loans	64,776	51,898
Repayment of bank loans and government loans	(61,437)	(49,917)
Repurchase of common shares	—	(2,434)
Repayments of the borrowing under sale and leaseback transaction	—	(1,130)
Cash received from capital contributions by a non-controlling interest holder	3,459	—
Net cash provided by/(used in) financing activities	<u>6,798</u>	<u>(1,583)</u>

Cash and cash equivalents affected by foreign currency	(1,824)	(14,248)
Net decrease in cash and cash equivalents	(3,757)	(548)
Cash, cash equivalents and pledged cash at beginning of year	158,951	159,499
Cash, cash equivalents and pledged cash at end of year	\$ 155,194	\$ 158,951

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

*China Automotive Systems, Inc. and Subsidiaries*  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
*(In thousands of USD unless otherwise indicated)*

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Cash paid for interest	\$ 1,145	\$ 1,492
Cash paid for income taxes	\$ 7,965	\$ 4,044

SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:

Non-cash investing activities:

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Property, plant and equipment recorded during the year which previously were advance payments	\$ 2,699	\$ 2,473
Change in accounts payable for acquiring property, plant and equipment	\$ 960	\$ 985

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Supplemental disclosure of acquisition of operating lease assets	\$ 278	\$ 477

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

China Automotive Systems, Inc., “China Automotive,” was incorporated in the State of Delaware on June 29, 1999 under the name of Visions-In-Glass, Inc. China Automotive, including, when the context so requires, its subsidiaries, is referred to herein as the “Company.” The Company is primarily engaged in the manufacture and sale of automotive systems and components, as described below.

Great Genesis Holdings Limited, a company incorporated on January 3, 2003 under the Companies Ordinance of Hong Kong as a limited liability company, “Genesis,” 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, “R&D”, support.

The Company owns interests in the following subsidiaries incorporated in the PRC and Brazil as of December 31, 2023 and 2022.

Name of Entity	Percentage Interest	
	December 31, 2023	December 31, 2022
Shashi Jiulong Power Steering Gears Co., Ltd., “Jiulong” <sup>1</sup>	100.00 %	100.00 %
Jingzhou Henglong Automotive Parts Co., Ltd., “Henglong” <sup>2</sup>	100.00 %	100.00 %
Shenyang Jinbei Henglong Automotive Steering System Co., Ltd., “Shenyang” <sup>3</sup>	70.00 %	70.00 %
Wuhan Jielong Electric Power Steering Co., Ltd., “Jielong” <sup>4</sup>	85.00 %	85.00 %
Wuhu Henglong Automotive Steering System Co., Ltd., “Wuhu” <sup>5</sup>	100.00 %	100.00 %
Hubei Henglong Automotive System Group Co., Ltd., “Hubei Henglong” <sup>6</sup>	100.00 %	100.00 %
Jingzhou Henglong Automotive Technology (Testing) Center, “Testing Center” <sup>7</sup>	100.00 %	100.00 %
Chongqing Henglong Hongyan Automotive System Co., Ltd., “Chongqing Henglong” <sup>8</sup>	70.00 %	70.00 %
CAAS Brazil’s Imports and Trade In Automotive Parts Ltd., “Brazil Henglong” <sup>9</sup>	95.84 %	95.84 %
Wuhan Chuguanjie Automotive Science and Technology Ltd., “Wuhan Chuguanjie” <sup>10</sup>	85.00 %	85.00 %
Hubei Henglong Group Shanghai Automotive Electronics Research and Development Ltd., “Shanghai Henglong” <sup>11</sup>	100.00 %	100.00 %
Hubei Henglong & KYB Automobile Electric Steering System Co., Ltd., “Henglong KYB” <sup>12</sup>	66.60 %	66.60 %
Hyoseong (Wuhan) Motion Mechatronics System Co., Ltd., “Wuhan Hyoseong” <sup>13</sup>	51.00 %	51.00 %
Wuhu Hongrun New Material Co., Ltd., “Wuhu Hongrun” <sup>14</sup>	62.00 %	62.00 %
Changchun Hualong Automotive Technology Co., Ltd., “Changchun Hualong” <sup>15</sup>	100.00 %	100.00 %
Hubei Zhirong Automotive Technology Co., Ltd., “Zhirong” <sup>16</sup>	100.00 %	— %

- (1) Jiulong was established in 1993 and mainly engages in the production of integral power steering gears for heavy-duty vehicles.
- (2) Henglong was established in 1997 and mainly engages in the production of rack and pinion power steering gears for cars and light duty vehicles.
- (3) Shenyang was established in 2002 and focuses on power steering parts for light duty vehicles.
- (4) Jielong was established in 2006 and mainly engages in the production and sales of automobile steering columns.
- (5) Wuhu was established in 2006 and mainly engages in the production and sales of automobile steering systems. In April 2021, the Company obtained an additional 22.67% equity interest in Wuhu for total consideration of RMB 6.9 million, equivalent to approximately \$1.1 million, from the other shareholder. The Company retained its controlling interest in Wuhu and the acquisition of the non-controlling interest was accounted for as an equity transaction.
- (6) On March 7, 2007, Genesis established Hubei Henglong, formerly known as Jingzhou Hengsheng Automotive System Co., Ltd., its wholly-owned subsidiary, to engage in the production and sales of automotive steering systems. On July 8, 2012, Hubei Henglong changed its name to Hubei Henglong Automotive System Group Co., Ltd.

- (7) In December 2009, Henglong, a subsidiary of Genesis, formed the Testing Center, which mainly engages in the research and development of new products.
- (8) On February 21, 2012, Hubei Henglong and SAIC-IVECO Hongyan Company, “SAIC-IVECO,” established a Sino-foreign joint venture company, Chongqing Henglong, to design, develop and manufacture both hydraulic and electric power steering systems and parts.
- (9) On August 21, 2012, Brazil Henglong was established as a Sino-foreign joint venture company by Hubei Henglong and two Brazilian citizens, Ozias Gaia Da Silva and Ademir Dal’ Evedove. Brazil Henglong engages mainly in the import and sales of automotive parts in Brazil. In May 2017, the Company obtained an additional 15.84% equity interest in Brazil Henglong for nil consideration. The Company retained its controlling interest in Brazil Henglong and the acquisition of the non-controlling interest was accounted for as an equity transaction.
- (10) In May 2014, together with Hubei Wanlong, Jielong formed a subsidiary, Wuhan Chuguanjie Automotive Science and Technology Ltd., “Wuhan Chuguanjie”, which mainly engages in research and development, manufacture and sales of automobile electronic systems and parts. Wuhan Chuguanjie is located in Wuhan, China.
- (11) In January 2015, Hubei Henglong formed Hubei Henglong Group Shanghai Automotive Electronics Research and Development Ltd., “Shanghai Henglong”, which mainly engages in the design and sale of automotive electronics.
- (12) In August 2018, Hubei Henglong and KYB (China) Investment Co., Ltd. (“KYB”) established Hubei Henglong KYB Automobile Electric Steering System Co., Ltd. (“Henglong KYB”), which mainly engages in design, manufacture, sales and after-sales service of automobile electronic systems. Hubei Henglong owns 66.6% of the shares of this entity and has consolidated it since its establishment.
- (13) In March 2019, Hubei Henglong and Hyoseong Electric Co., Ltd. established Hyoseong (Wuhan) Motion Mechatronics System Co., Ltd. (“Wuhan Hyoseong”), which mainly engages in the design, manufacture and sales of automotive motors and electromechanical integrated systems. Hubei Henglong owns 51.0% of the shares of Wuhan Hyoseong and has consolidated it since its establishment.
- (14) In December 2019, Hubei Henglong formed Wuhu Hongrun New Material Co., Ltd., “Wuhu Hongrun”, which mainly engages in the development, manufacturing and sale of high polymer materials. Hubei Henglong owns 62.0% of the shares of Wuhu Hongrun and has consolidated it since its establishment.
- (15) In April 2020, Hubei Henglong acquired 100.0% of the equity interests of Changchun Hualong Automotive Technology Co., Ltd., “Changchun Hualong”, for total consideration of RMB 1.2 million, equivalent to approximately \$0.2 million from an entity controlled by Hanlin Chen. Before the acquisition, 52.1% of the shares of Changchun Hualong were ultimately owned by Hanlin Chen and 47.9% of the shares were owned by third parties. Changchun Hualong mainly engages in design and R&D of automotive parts.
- (16) In June 2023, Hubei Henglong contributed certain equipment and intangible assets to Hubei Zhirong Automotive Technology Co., Ltd., “Zhirong”, Representing 100% of Zhirong’s paid-up capital. Zhirong mainly engages in inspection and testing of automotive products.

## 2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation - For the years ended December 31, 2023 and 2022, the consolidated financial statements include the accounts of the Company and its subsidiaries, which are described in Note 1. Significant inter-company balances and transactions have been eliminated upon consolidation. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America.

Shenyang was formed in 2002, with 70% owned and controlled by the Company, and 30% owned by Shenyang Automotive Industry Investment Corporation, “JB Investment.” The highest authority of Shenyang is its board of directors, which is comprised of seven directors, four of whom, 57%, are appointed by the Company, and three of whom, 43%, are appointed by JB Investment. As for day-to-day operating matters, approval by more than two-thirds of the members of such board of directors, 67%, is required. The chairman of such board of directors is appointed by the Company. In March 2003, the Company and Jinbei entered into an act-in-concert agreement, under which the directors appointed by Jinbei agree to act in concert with the directors appointed by the Company. As a result, the Company obtained control of Shenyang in March 2003. The general manager of Shenyang is appointed by the Company.

Jielong was formed in April 2006. On December 31, 2023, 85% of Jielong was owned by the Company, and 15% of Jielong was owned by Hubei Wanlong. The highest authority of Jielong is its board of directors, which is comprised of three directors, two of whom, 67%, are appointed by the Company, and one of whom, 33%, is appointed by Hubei Wanlong. As for day-to-day operating matters, approval by at least two-thirds of the members of such board of directors is required. Both the chairman of such board of directors and the general manager of Jielong are appointed by the Company.

Chongqing Henglong was formed in 2012, with 70% owned by the Company and 30% owned by SAIC-IVECO. The highest authority of the Chongqing Henglong is its board of directors, which is comprised of five directors, three of whom, 60%, are appointed by the Company, and two of whom, 40%, are appointed by SAIC-IVECO. As for day-to-day operating matters, approval by at least two-thirds of the members of such board of directors is required. In February 2012, the Company and SAIC-IVECO entered into an “Act in Concert” agreement. According to the agreement, the directors appointed by SAIC-IVECO agreed to execute the “Act in Concert” agreement with the directors designated by the Company, resulting in the Company having voting control of Chongqing Henglong. The chairman of such board of directors and the general manager of Chongqing Henglong are both appointed by the Company.

Brazil Henglong was formed in 2012, with 80% owned by the Company and 20% owned by Mr. Ozias Gaia Da Silva and Mr. Ademir Dal’ Evedove. In May 2017, the Company obtained an additional 15.84% equity interest in Brazil Henglong for nil consideration. The Company retained its controlling interest in Brazil Henglong and the acquisition of the non-controlling interest was accounted for as an equity transaction. After the acquisition, the Company owns 95.84% of Brazil Henglong’s shares. The highest authority of Brazil Henglong is its board of directors. In making operational decision, approval by voting rights representing at least 3/4 of the capital, 75%, is required and 95.84% of voting rights were owned by the Company. The chairman of such board of directors is appointed by the Company. The general manager is Mr. Ozias Gaia Da Silva.

Wuhan Chuguanjie was formed in 2014, with 85% owned by the Company and 15% owned by Hubei Wanlong. The highest authority of Wuhan Chuguanjie is its board of directors, which is comprised of three directors, two of whom, 67%, are appointed by the Company, and one of whom, 33%, is appointed by Hubei Wanlong. As for day-to-day operating matters, approval by at least two-thirds of the members of such board of directors is required. Both of the chairman of such board of directors and the general manager of Chuguanjie are appointed by the Company.

Henglong KYB was formed in 2018, with 66.6% owned by the Company and 33.4% owned by KYB. The highest authority of Henglong KYB is its board of directors, which is comprised of five directors, three of whom are appointed by the Company, and two of whom are appointed by KYB. As for day-to-day operating matters, approval by at least three-fifths of the members of such board of directors is required. The chairman of such board of directors is appointed by the Company and the general manager is appointed by KYB.

Wuhan Hyoseong was formed in 2019, with 51% owned by the Company and 49% owned by Hyoseong. The highest authority of Wuhan Hyoseong is its board of directors, which is comprised of five directors, three of whom are appointed by the Company, and two of whom are appointed by Hyoseong. As for day-to-day operating matters, approval by at least three-fifths of the members of such board of directors is required. The chairman of such board of directors is appointed by the Company and the vice chairman is appointed by Wuhan Hyoseong.

Wuhu Hongrun was formed in 2019, with 62% owned by the Company and 38% owned by the other two parties. The highest authority of Wuhu Hongrun is its board of directors, which is comprised of five directors. The directors are elected by the general meeting of shareholders. As for day-to-day operating matters, approval by at least three-fifths of the members of such board of directors is required. The chairman and the general management are appointed by the board of directors.

*Use of Estimates* - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The Company is of the opinion that the significant estimates related to valuation of long term assets and investment, the realizable value of accounts receivable and inventories, the accrual of warranty obligations and the recoverability of deferred tax assets. Actual results could differ from those estimates.

*Cash and Cash Equivalents* - Cash and cash equivalents include all highly-liquid investments with an original maturity of three months or less at the date of purchase.

*Pledged Cash* - Pledged as collateral for the Company’s notes payable and restricted to use. The Company regularly pays some of its suppliers by bank notes. The Company has to deposit a cash deposit, equivalent to 0%-100% of the face value of the relevant bank note, in order to obtain the bank note.

*Short-term Investments* - Short-term investments are comprised of time deposits with original terms of three months to one year and wealth management financial products maturing within one year. The carrying values of time deposits approximate fair value because of their short-term maturities. The interest earned is recognized in the consolidated statements of income or loss over the contractual term of the deposits. The wealth management financial products are measured at fair value and classified as Level 3 within the fair value measurement hierarchy. Changes in the fair value are reflected in other income in the consolidated statements of income or loss.

*Current Expected Credit Losses* - The Company adopted ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC Topic 326”) and other related ASUs. The Company’s accounts and notes receivable, advance payments and other receivables are within the scope of ASC Topic 326. The Company has identified the relevant risk characteristics of its customers and the related receivables, and other receivables which include type of the products the Company provides, nature of the customers or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, the Company considers the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include customer demographics, payment terms offered in the normal course of business to customers, and industry-specific factors that could impact the Company’s receivables. Additionally, external data and macroeconomic factors are also considered.

For the year ended December 31, 2023 and 2022, the Company recorded \$1.1 million and \$4.5 million expected credit loss expense in general and administrative expenses, respectively. As of December 31, 2023, the expected credit loss provision for the current and non-current assets were \$17.2 million and nil, respectively.

*Inventories* - Inventories are stated at the lower of cost and net realizable value. Cost is calculated on the moving-average basis and includes all costs to acquire and other costs to bring the inventories to their present location and condition. The Company evaluates the net realizable value of its inventories on a regular basis and records a provision for loss to reduce the computed moving-average cost if it exceeds the net realizable value.

*Advance Payments* - These amounts represent advances to acquire various assets to be utilized in the future in the Company’s normal business operations, such as machine equipment, raw materials and technology. Such amounts are paid according to their respective contract terms. Advance payment for machinery and equipment is classified as advance payment for property, plant and equipment in the consolidated balance sheet and advance payment of raw materials and technology are classified as prepayments for purchase of raw materials and others in the consolidated balance sheet.

*Property, Plant and Equipment* – Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized; minor replacements and maintenance and repairs are charged to operations. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets as follows:

<b>Category</b>	<b>Estimated Useful Life (Years)</b>
Buildings	25
Machinery and equipment	6-13
Electronic equipment	4
Motor vehicles	8

*Land use rights* - Land use rights represent acquisition costs to purchase land use rights from the PRC government, which are evidenced by property certificates. The periods of these purchased land use rights are either 45 years or 50 years. The Company classifies land use rights as long-term assets on the balance sheet and cash outflows related to acquisition of land use rights as investing activities.

Land use rights are carried at cost less accumulated amortization and impairment losses, if any. Amortization is computed using the straight-line method over the term specified in the land use right certificate for 45 years or 50 years, as applicable. Amortization expenses of land use rights were \$0.3 million and \$0.3 million for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the Company had pledged land use rights with a net book value of approximately \$4.8 million and \$5.1 million, respectively, as security for its comprehensive credit facilities with banks in China.

*Construction in Progress* – Construction in progress, which represents buildings under construction and plant and equipment pending installation, are stated at cost. Cost includes construction and acquisitions, and interest charges arising from borrowings used to finance assets during the period of construction or installation and testing. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for their intended commercial use.

Gains or losses on disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the relevant asset, and are recognized in the consolidated statements of income or loss on the date of disposal.

*Interest Costs Capitalized* - Interest costs incurred in connection with borrowings for the acquisition, construction or installation of property, plant and equipment are capitalized and depreciated as part of the asset’s total cost when the respective asset is placed into service. Interest costs capitalized for the years ended December 31, 2023 and 2022, were \$0.3 million and \$0.2 million, respectively.

*Intangible Assets* - Intangible assets, representing patents and technical know-how acquired, are stated at cost less accumulated amortization and impairment losses. Amortization is calculated on the straight-line method over the estimated useful life of 5 to 15 years.

*Long-Lived Assets* - The Company has adopted the provisions of *ASC Topic 360*, “Accounting for the Impairment or Disposal of Long-Lived Assets.” Property, plant and equipment and definite life intangible assets are reviewed periodically for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. If required, an impairment loss is recognized as the difference between the carrying value and the fair value of the assets.

In assessing long-lived assets for impairment, management considered the Company’s product line portfolio, customers and related commercial agreements, and other factors in grouping assets and liabilities at the lowest level for which identifiable cash flows are largely independent. The Company considers projected future undiscounted cash flows, trends and other factors in its assessment of whether impairment conditions exist. Whilst the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such factors as future automotive production volumes, customer pricing, economics and productivity and cost saving initiatives, could significantly affect its estimates. In determining fair value of long-lived assets, management uses appraisals, management estimates or discounted cash flow calculations.

*Long-term Investments* – The Company’s long-term investments include investments in corporations and investments in limited partnerships. Investments in corporations which the Company has the ability to exert significant influence are accounted for using the equity method. Investments in limited partnerships which the Company has more than virtually no influence are accounted for using the equity method. The limited partnerships accounted for its investments at fair value that were classified under Level 1, in the fair value hierarchy, for those whose shares were listed and actively traded on stock exchange. The fair value of the limited partnerships’ Level 2 investments were determined using recent market transaction price or buy-back price. The fair value of the limited partnerships’ Level 3 investments were determined using valuation techniques based on market approach or income approach with unobservable inputs, which required significant judgment made by management with respect to the assumptions and estimates. For the investments made close to the period end, their initial investment amount were deemed approximate to their fair value. As of December 31, 2023, certain investments funds are approaching the end of their investment term and actively sought for exit with their investees or potential buyers. The investments in limited partnerships were accounted for substantially under level 1 or level 2 or level 3 as at December 31, 2023.

The Company continually reviews its investment to determine whether a decline in fair value below the carrying value is other than temporary. The primary factors the Company considers in its determination are the length of time that the fair value of the investment is below the Company’s carrying value and the financial condition, operating performance and near-term prospects of the investee. In addition, the Company considers the reason for the decline in fair value, including general market conditions, industry-specific or investee-specific reasons, changes in valuation subsequent to the balance sheet date and the Company’s intent and ability to hold the investment for a period of time sufficient to allow for a recovery in fair value. If the decline in fair value is deemed to be other than temporary, the carrying value of the security is written down to fair value.

*Revenue Recognition* - The Company has adopted *ASC Topic 606* “Revenue from Contracts with Customers”. Products sales to customers are made pursuant to master agreements entered into between the Company and its customers that provide for transfer of both title and risk of loss upon the Company’s delivery to the location specified in the contracts. The Company’s sales arrangements generally do not contain variable considerations and are short-term in nature. A period of credit term is granted to the customers after the delivery and before making payment. The Company recognizes revenue at a point in time based on management’s evaluation of when the customer obtains control of the products. Revenue is recognized when all performance obligations under the terms of a contract with the customer are satisfied and control of the product has been transferred to the customer. Sales of goods do not include multiple product and/or service elements.

Revenue is measured as the amount of consideration management expects the Company to receive in exchange for transferring goods pursuant to the contracts. Value-added tax that the Company collects concurrent with revenue-producing activities is excluded from revenue. Incidental contract costs that are not material in the context of the delivery of goods and services are recognized as expense.

At the time revenue is recognized, allowances are recorded, with the related reduction to revenue, for estimated price discounts based upon historical experience and related terms of customer arrangements. Where the Company has offered product warranties, the Company also establishes liabilities for estimated warranty costs based upon historical experience and specific warranty provisions. Warranty liabilities are adjusted when experience indicates the expected outcome will differ from initial estimates of the liability.

The Company accounts for shipping and handling fees as a fulfillment cost since control of the products is usually transferred to the customer after the delivery.

*Revenue Disaggregation*

Revenue disaggregation under the segment reporting standard is measured on the same basis as under the revenue standard. Management has concluded that the disaggregation level is the same under both the revenue standard and the segment reporting standard, and does not repeat the disaggregation of revenue under both standards.

#### *Contract Assets and Liabilities*

Contract assets, such as costs to obtain or fulfill contracts, are an insignificant component of the Company's revenue recognition process. The majority of the Company's cost of fulfillment as a manufacturer of products is classified as inventory, fixed assets and intangible assets, which are accounted for under the respective guidance for those asset types. Other costs of contract fulfillment are immaterial due to the nature of the Company's products and their respective manufacturing processes.

Contract liabilities are mainly customer deposits.

#### *Customer Deposits*

As of December 31, 2023 and 2022, the Company has customer deposits of \$8.6 million and \$5.7 million, respectively. During the year ended December 31, 2023, \$9.0 million was received and \$6.1 million (including \$2.7 million from the beginning balance of customer deposits) was recognized as net product sales revenue. During the year ended December 31, 2022, \$10.2 million was received and \$6.9 million (including \$2.4 million from the beginning balance of customer deposits) was recognized as net product sales revenue. Customer deposits represent non-refundable cash deposits for customers to secure rights to an amount of products produced by the Company under supply agreements. When the products are shipped to customers, the Company will recognize revenue and bill the customers to reduce the amount of the customer deposit liability.

#### *Practical Expedient and Exemptions*

The Company does not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

The Company does not adjust the promised amount of consideration for the effects of a significant financing component since the Company expects, at contract inception, that the period between when the Company transfers promised goods to the customers and when the customers pay for the goods will be less than one year.

*Government Subsidies* - The Company's PRC based subsidiaries received government subsidies according to related policy from local government. For the subsidies for which the Chinese government has specified their purpose, such as product development and renewal of production facilities, the Company recorded specific purpose subsidies as advances payable when received. Upon government acceptance of the related project development or assets acquisition, the specific purpose subsidies are recognized to reduce related R&D expenses or cost of acquired assets. The Company recognized the subsidies that do not have specific purpose as other income upon receipt.

*Sales Taxes* - The Company is subject to value added tax, "VAT." The applicable VAT tax rate is 13% for products sold in the PRC. Products exported overseas are exempted from VAT. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold less VAT paid on purchases made with the relevant supporting invoices. VAT is collected from customers by the Company on behalf of the PRC tax authorities and is therefore not charged to the consolidated statements of income or loss.

*Uncertain Tax Positions* - In order to assess uncertain tax positions, the Company applies a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement. As of December 31, 2023 and 2022, the Company has no uncertain tax positions.

*Product Warranties* - The Company provides for the estimated cost of product warranties when the products are sold. Such estimates of product warranties were based on, among other things, historical experience, product changes, material expenses, service and transportation expenses arising from the manufactured product. Estimates will be adjusted on the basis of actual claims and circumstances.

For the years ended December 31, 2023 and 2022, the warranties activities were as follows (figures are in thousands of USD):

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Balance at the beginning of year	\$ 32,435	\$ 36,572
Additions during the year	11,309	10,941
Settlement within the year	(12,676)	(11,877)
Foreign currency translation loss	(628)	(3,201)
Balance at end of year	<u>\$ 30,440</u>	<u>\$ 32,435</u>

*Pension* - Most of the operations and employees of the Company are located in China. The Company records pension costs and various employment benefits in accordance with the relevant Chinese social security laws, which is approximately at a total of 35% and 35% of base salary for the years ended December 31, 2023 and 2022, respectively. Base salary levels are the average salary determined by the local governments. For employees in overseas countries, mainly U.S. and Brazil, the Company records pension costs and various employment benefits in accordance with the relevant overseas social security regulations, which is approximately at a total of 26% and 26% of base salary for the years ended December 31, 2023 and 2022, respectively.

*Concentration of Credit Risk* - Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of trade accounts receivable.

In 2023, the Company's five largest customers accounted for 40.4% of the Company's consolidated sales, with one customer accounting for more than 10% of consolidated sales (i.e., 17.2% of consolidated sales, which comprised a total of \$99.0 million in sales included in the Hubei Henglong segment (Note 25)).

In 2022, the Company's five largest customers accounted for 42.8% of the Company's consolidated sales, with one customer accounting for more than 10% of consolidated sales (i.e., 20.2% of consolidated sales, which comprised a total of \$106.9 million in sales included in the Hubei Henglong segment (Note 25)).

At December 31, 2023 and 2022, approximately 7.3% and 8.0% of accounts receivable were from trade transactions with the aforementioned customer (accounting for more than 10% of consolidated sales).

The Company performs ongoing credit evaluations with respect to the financial condition of its debtors, but does not require collateral. It records a provision for doubtful accounts to cover probable credit losses. Management reviews and adjusts this allowance periodically based on historical experience, current economic conditions, supportable forecasts of future economic conditions and other factors for evaluation of the collectability of outstanding accounts receivable.

*Income Taxes* - Current income taxes are provided on the basis of net income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, in accordance with the regulations of the relevant tax jurisdictions. The Company accounts for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences, which is attributable to operating loss and tax credit carryforwards and for differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, by applying enacted statutory rates applicable to future years. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. The effect on deferred taxes of a change in tax rates is recognized in income in the period enacted. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of, the deferred tax assets will not be realized. The valuation allowance is based on management's estimates of future taxable profits and application of relevant income tax law. The Company applies ASC 740, "Income Taxes", which clarifies the accounting for uncertainty in income taxes recognized in the Company's consolidated financial statements and prescribes a more likely than not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods, and income tax disclosures.

If the amount of the Company's taxable income or income tax liability is a determinant of the amount of a grant, the grant is treated as a reduction of the income tax provision in the year the grant is realized.

*Gain on other sales* - Gain on other sales mainly consists of rental income, gain on disposal of intangible assets and property, plant and equipment and technical services revenue.

*Research and Development Costs* - Research and development costs are expensed as incurred.

*Advertising, Shipping and Handling Costs* – Advertising, shipping and handling costs are expensed as incurred and recorded in selling expenses. Transportation relating to sales of \$5.7 million and \$6.5 million were included in selling expenses for the years ended December 31, 2023 and 2022, respectively.

*Leases* – The Company adopted ASU 2016-02, Leases, and other related ASUs (collectively, “ASC 842”). The Company determines if an arrangement is a lease upon inception. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an asset includes the right to obtain substantially all of the economic benefits of the underlying asset and the right to direct how and for what purpose the asset is used. The Company’s major plants and buildings are self-owned and limited temporary small offices were rented. For leases with a term of 12 months or less, the Company makes an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The Company recognizes lease expenses for such leases on a straight-line basis over the lease term. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The discount rate used to calculate present value is the Company’s incremental borrowing rate or, if available, the rate implicit in the lease. The Company determines the incremental borrowing rate for each lease based primarily on the lease term and the economic environment of the applicable country or region. The discount rate used by the Company for its operating lease was 4.75%. As of December 31, 2023, the weighted average remaining lease term was 1.3 years. The Company did not have finance lease arrangements as of December 31, 2023.

*Income Per Share* - Basic income per share is computed by dividing net income attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities, including convertible note holders, if any, based on their participating rights. Diluted income per share is calculated by dividing net income attributable to ordinary shareholders, as adjusted for the effects on income of participating securities as if they were dilutive ordinary shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of ordinary shares issuable upon the conversion of the convertible notes using the if-converted method, and shares issuable upon the exercise of stock options and warrants for the purchase of ordinary shares using the treasury stock method. Ordinary equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be antidilutive.

*Comprehensive Income* – ASC Topic 220 establishes standards for the reporting and display of comprehensive income, its components and accumulated balances in a full set of general purpose financial statements. ASC Topic 220 defines comprehensive income to include all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities.

*Fair Value Measurements* – For purposes of fair value measurements, the Company applies the applicable provisions of ASC 820 “Fair Value Measurements and Disclosures.” Accordingly, fair value for the Company’s financial accounting and reporting purposes represents the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the designated measurement date. With an objective to increase consistency and comparability in fair value measurements and related disclosures, the Financial Accounting Standard Board established the fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels.

Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available. As at December 31, 2023 and 2022, the Company did not have any fair value assets and liabilities classified as Level 1.

Level 2 Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. As at December 31, 2023 and 2022, the Company did not have any fair value assets and liabilities classified as Level 2.

Level 3 Inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

As at December 31, 2023 and 2022, wealth management financial products with amounts of \$11.1 million and \$12.9 million, respectively, were classified as Level 3.

The Company's financial instruments consist principally of cash and cash equivalents, pledged cash, time deposits, accounts and notes receivable, accounts and notes payable, advance payment or payable, other receivable or payable, accrued expenses and bank loans. As of December 31, 2023 and 2022, the respective carrying values of all financial instruments approximated fair value because any changes in fair value, after considering the discount rate, are immaterial.

*Segment Reporting* - Based on the criteria established by ASC 280 "Segment Reporting," the Company currently operates and manages its business by product sectors and each of them is a reportable segment. The Company's chief operating decision-maker, "CODM", is the chief executive officer. The CODM reviews operating results to make decisions about allocating resources for the Company and assessing performance of its segments. Since most of the revenue generated of the Company and assets held by the Company are in PRC while others are generated and held in other countries, information by geographic region is also presented.

*Stock-Based Compensation* - The Company may issue stock options to employees and stock options or warrants to non-employees in non-capital raising transactions for services and for financing costs. The Company has adopted *ASC Topic 718*, "Accounting for Stock-Based Compensation," which establishes a fair value based method of accounting for stock-based compensation plans. In accordance with ASC Topic 718, the cost of stock options and warrants issued to employees and non-employees is measured on the grant date based on the fair value. The fair value is determined using the Black-Scholes option pricing model. The resulting amount is charged to expense on the straight-line basis over the period in which the Company expects to receive the benefit, which is generally the vesting period.

*Foreign Currencies* - China Automotive, the parent company, and HLUSA maintain their books and records in United States Dollars, "USD," which is their functional currency. The Company's subsidiaries based in the PRC and Genesis maintain their books and records in Renminbi, "RMB," which is their functional currency. The Company's subsidiary based in Brazil maintains its books and records in Brazilian reais, "BRL," which is its functional currency. In accordance with ASC Topic 830, "FASB Accounting Standards Codification", foreign currency transactions denominated in currencies other than the functional currency are remeasured into the functional currency at the rate of exchange prevailing at the balance sheet date for monetary items. Nonmonetary items are remeasured at historical rates. Income and expenses are remeasured at the rate in effect on the transaction dates. Transaction gains and losses, if any, are included in the determination of net income for the period.

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

#### *Certain Relationships and Related Transactions*

The following are the related parties of the Company. The Company or the major shareholders of the Company directly or indirectly have interests in these related parties:

- Wiselink Holding Limited, "**Wiselink**"
- Xiamen Joylon Co., Ltd., "**Xiamen Joylon**"
- Shanghai Tianxiang Automotive Parts Co., Ltd., "**Shanghai Tianxiang**"
- Jiangling Tongchuang Machining Co., Ltd., "**Jiangling Tongchuang**"
- Shanghai Hongxi Investment Inc, "**Hongxi**"
- Hubei Wiselink Equipment Manufacturing Co., Ltd., "**Hubei Wiselink**"
- Jingzhou Derun Agricultural S&T Development Co., Ltd., "**Jingzhou Derun**"
- Jingzhou Tongying Alloys Materials Co., Ltd., "**Jingzhou Tongying**"
- Wuhan Dida Information S&T Development Co., Ltd., "**Wuhan Dida**"
- Hubei Wanlong Investment Co., Ltd., "**Hubei Wanlong**"
- Jingzhou Yude Machining Co., Ltd., "**Jingzhou Yude**"
- Honghu Changrun Automotive Parts Co., Ltd., "**Honghu Changrun**"
- Jingzhou Henglong Real Estate Co., Ltd., "**Henglong Real Estate**"
- Xiamen Joylon Automotive Parts Co., Ltd., "**Xiamen Automotive Parts**"
- Jingzhou Jiulong Material Co., Ltd., "**Jiulong Material**"
- Wuhan Tongkai Automobile Motor Co., Ltd., "**Wuhan Tongkai**"

- Jingzhou Natural Astaxanthin Inc, “**Jingzhou Astaxanthin**”
- Hubei Asta Biotech Inc., “**Hubei Asta**”
- Shanghai Yifu Automotive Electronics Technology Co., Ltd., “**Shanghai Yifu**”
- Suzhou Qingyan Venture Capital Fund L.P., “**Suzhou Qingyan**”
- Chongqing Qingyan Venture Capital Fund L.P., “**Chongqing Qingyan**”
- Chongqing Jinghua Automotive Intelligent Manufacturing Technology Research Co., Ltd., “**Chongqing Jinghua**”
- Hubei Hongrun Intelligent System Co.,Ltd., “**Hubei Hongrun**”
- Jingzhou WiseDawn Electric Car Co., Ltd., “**Jingzhou WiseDawn**”
- Hubei Tongrun Automotive Parts Industry Development Co., Ltd., “**Hubei Tongrun**”
- Hubei Qingyan Venture Capital Fund L.P., “**Hubei Qingyan**”
- Hubei Henglongtianyu Pipe system Co.,Ltd., “**Henglong Tianyu**”
- Wuhan Ewinlink Intelligent System Co., Ltd., “**Ewinlink**”
- Hubei HLTW Automotive Lightweight Co.,Ltd., “**Hubei HLTW**”
- Hubei Jinlv New Energy Battery Technology Co., Ltd., “**Hubei Jinlv**”
- Hubei Yiling Intelligent Technology Co., Ltd., “**Hubei Yiling**”
- Sentient AB
- Suzhou Sentient Automotive Technology Co., Ltd., “**Suzhou Sentient**”
- Suzhou Qingshan Zhiyuan Venture Capital Fund L.P., “**Suzhou Qingshan**”
- Suzhou Mingzhi Intelligent Manufacturing Industry Investment Fund L.P., “**Suzhou Mingzhi**”

Principal policies of the Company in connection with transactions with related parties are as follows:

*Products Sold to Related Parties* – The Company sold products to related parties at fair market prices and granted them credit of three to four months. These transactions were consummated under similar terms as the Company’s other customers.

*Materials Purchased from Related Parties* – The Company purchased materials from related parties at fair market prices, and also received from them credit of three to four months. These transactions were consummated under similar terms as the Company’s other suppliers’.

*Equipment and Production Technology Purchased from Related Parties* - The Company purchased equipment and production technology from related parties at fair market prices, or reasonable cost-plus pricing if fair market prices are not available. The Company sometimes was required to pay in advance based on the purchase agreement, because equipment manufacturing and technology development normally requires a long period. These transactions are consummated under similar terms as the Company’s other suppliers’.

*Short-term Loans Extended to Related Parties* - The Company provides short-term loans to related parties and assists the borrowing entities in addressing certain cash flow needs. In general, the Company charges interest by referencing to the prevailing borrowing interest rates published by PBOC.

### ***Recent Accounting Pronouncements***

In November 2023, the FASB issued Accounting Standards Update 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (“ASU 2023-07”). ASU 2023-07 improves segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 is effective for annual periods beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted and application should be applied retrospectively, unless it is impracticable to do so. We are currently assessing the potential impact of adopting ASU 2023-07 on our consolidated financial statements.

In December 2023, the FASB issued Accounting Standards Update 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures (“ASU 2023-09”). ASU 2023-09 enhances the transparency and decision usefulness of income tax disclosures. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. Early adoption is permitted and application may be applied prospectively or retrospectively. We are currently assessing the potential impact of adopting ASU 2023-09 on our consolidated financial statements.

### 3. Accounts and Notes Receivable

The Company's accounts receivable on December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Accounts receivable - unrelated parties	\$ 164,231	\$ 139,533
Notes receivable - unrelated parties <sup>(1)</sup>	112,605	89,134
Total accounts and notes receivable - unrelated parties	276,836	228,667
Less: allowance for doubtful accounts - unrelated parties	(15,599)	(14,359)
Accounts and notes receivable, net - unrelated parties	261,237	214,308
Accounts and notes receivable - related parties	9,573	11,779
Less: allowance for doubtful accounts - related parties	(1,404)	(1,763)
Accounts and notes receivable, net - related parties	8,169	10,016
Accounts and notes receivable, net	<u>\$ 269,406</u>	<u>\$ 224,324</u>

(1) Notes receivable represents accounts receivable in the form of bills of exchange whose acceptances and settlements are handled by banks.

As of December 31, 2023 and 2022, the Company pledged its notes receivable in amounts of \$11.5 million and \$13.7 million, respectively, as collateral for banks to endorse the payment of the Company's notes payable to the noteholder upon maturity (See Note 11).

The activity in the Company's allowance for doubtful accounts of accounts receivable during the years ended December 31, 2023 and 2022, is summarized as follows (figures are in thousands of USD):

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Balance at beginning of year	\$ 16,122	\$ 12,859
Amounts provided during the year	2,002	5,371
Amounts reversed of collection during the year	(463)	(967)
Writing off uncollectible account receivables	(410)	—
Foreign currency translation	(248)	(1,141)
Balance at end of year	<u>\$ 17,003</u>	<u>\$ 16,122</u>

### 4. Advance Payments and Others

The Company's advance payments and others as of December 31, 2023 and 2022, consisted of the following:

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Input VAT	\$ 8,957	\$ 4,283
Prepayments for purchase of raw materials	3,206	3,942
Prepayment for R&D service	1,553	748
Prepaid income tax	948	1,287
Employee advances	448	713
Prepayment for share repurchase program	9	754
Others	900	734
Total advance payments and others	16,021	12,461
Less: Allowance for doubtful accounts	(22)	(115)
Advance payments and others, net	<u>\$ 15,999</u>	<u>\$ 12,346</u>

### 5. Inventories

The Company's inventories at December 31, 2023 and 2022, consisted of the following (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Finished goods	\$ 62,760	\$ 71,371
Raw materials	28,505	24,502
Work in process	17,123	16,001
Cost of R&D service	4,004	362
Balance at end of year	<u>\$ 112,392</u>	<u>\$ 112,236</u>

The Company recorded \$4.8 million and \$4.7 million of inventory write-down to cost of product sold for the years ended December 31, 2023 and 2022, respectively.

## 6. Property, Plant and Equipment

The Company's property, plant and equipment at December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Costs:		
Machinery and equipment	\$ 241,761	\$ 239,385
Buildings	64,390	64,928
Electronic equipment	5,804	6,242
Motor vehicles	4,587	4,308
Construction in progress	11,821	8,238
Gross Total	<u>328,363</u>	<u>323,101</u>
Less: Accumulated depreciation	(226,436)	(216,495)
Less: Impairment	(568)	—
Balance at end of year	<u>\$ 101,359</u>	<u>\$ 106,606</u>

Depreciation charges for the years ended December 31, 2023 and 2022, were \$17.2 million and \$24.2 million, respectively.

As of December 31, 2023 and 2022, the Company pledged property, plant and equipment and land use right with net book value of approximately \$43.3 million and \$51.6 million, respectively, as security for its comprehensive credit facilities with banks in China.

## 7. Intangible Assets

The Company's intangible assets at December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Costs:		
Management software license	\$ 7,055	\$ 3,756
Patent technology	2,340	2,266
Total intangible assets - at cost	9,395	6,022
Less: Accumulated amortization	(5,530)	(4,749)
Balance at end of year, net	<u>\$ 3,865</u>	<u>\$ 1,273</u>

Amortization expenses were \$1.0 million and \$0.6 million for the years ended December 31, 2023 and 2022, respectively.

	<b>Estimated Amortization Expenses (in thousands of USD)</b>				
	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
Amortization expenses	<u>\$ 1,006</u>	<u>\$ 892</u>	<u>\$ 778</u>	<u>\$ 734</u>	<u>\$ 429</u>

## 8. Long-term Investments

The Company's long-term investments on December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	December 31,	
	2023	2022
<i>Limited Partnerships:</i>		
Chongqing Venture Fund <sup>(1)</sup>	\$ 13,158	\$ 14,435
Hubei Venture Fund <sup>(2)</sup>	12,217	11,738
Suzhou Qingshan <sup>(3)</sup>	8,409	4,179
Suzhou Venture Fund <sup>(4)</sup>	3,387	5,473
Suzhou Mingzhi <sup>(5)</sup>	1,261	—
Subtotal - Investments in limited partnerships	<u>38,432</u>	<u>35,825</u>
<i>Corporations:</i>		
Sentient AB <sup>(6)</sup>	20,417	21,831
Henglong Tianyu	793	774
Chongqing Jinghua	—	695
Jiangsu Intelligent	531	685
Subtotal - Investments in corporations	<u>21,741</u>	<u>23,985</u>
Total	<u>\$ 60,173</u>	<u>\$ 59,810</u>

- (1) In May 2016, Hubei Henglong entered into an agreement with other parties to establish a limited partnership, the “Chongqing Venture Fund”. As of December 31, 2023, Hubei Henglong owned 18.5% of Chongqing Venture Fund’s equity. As a limited partner, Hubei Henglong has more than virtually no influence over the Chongqing Venture Fund’s operating and financial policies. The investment is accounted for using the equity method. The Company’s proportionate share of Chongqing Venture Fund’s net loss for the year ended December 31, 2023 was \$0.5 million, recorded as equity in earning of affiliated company, and the Company also recorded \$0.6 million in distributions from the fund. There was no impairment on this investment during the year ended December 31, 2023.
- (2) In March 2018, Hubei Henglong entered into an agreement with other parties to establish a limited partnership, the “Hubei Venture Fund”. As of December 31, 2023, Hubei Henglong owned 28.5% of Hubei Venture Fund’s equity. As a limited partner, Hubei Henglong has more than virtually no influence over the Hubei Venture Fund’s operating and financial policies. The investment is accounted for using the equity method. The Company’s proportionate share of Hubei Venture Fund’s net earnings for the year ended December 31, 2023 was \$1.2 million, recorded as equity in earning of affiliated company, and the Company also recorded \$0.5 million in distributions from the fund. There was no impairment on this investment during the year ended December 31, 2023.
- (3) In January 2022, Hubei Henglong entered into an agreement with other parties to establish a limited partnership, Suzhou Qingshan Zhiyuan Venture Capital Fund L.P., “Suzhou Qingshan”. As of December 31, 2023, Hubei Henglong owned 22.56% of Suzhou Qingshan’s equity. As a limited partner, Hubei Henglong has more than virtually no influence over Suzhou Qingshan’s operating and financial policies. The investment is accounted for using the equity method. The Company’s proportionate share of Suzhou Qingshan Venture Fund’s net earnings for the year ended December 31, 2023 was \$0.1 million, recorded as equity in earning of affiliated company. There was no impairment on this investment during the year ended December 31, 2023.
- (4) In September 2014, Hubei Henglong entered into an agreement with other parties to establish a limited partnership, the “Suzhou Venture Fund”. As of December 31, Hubei Henglong owned 12.5% of the Suzhou Venture Fund’s equity. As a limited partner, Hubei Henglong has more than virtually no influence over the Suzhou Venture Fund’s operating and financial policies. The investment is accounted for using the equity method. The Company’s proportionate share of Suzhou Venture Fund’s net earnings for the year ended December 31, 2023 was \$0.2 million, recorded as equity in earning of affiliated company, and the Company also recorded \$2.2 million in distributions from the fund. There was no impairment on this investment during the year ended December 31, 2023.
- (5) In June 2023, Hubei Henglong entered into an agreement with other parties to establish a limited partnership, Suzhou Mingzhi Intelligent Manufacturing Industry Investment Fund L.P., “Suzhou Mingzhi”. As of December 31, 2023, Hubei Henglong has paid RMB 9.0 million, equivalent to approximately \$1.2 million, representing 19.74% of Suzhou Mingzhi’s equity. As a limited partner, Hubei Henglong has more than virtually no influence over Suzhou Mingzhi’s operating and financial policies. The investment is accounted for using the equity method.
- (6) In June 2021, Hubei Henglong entered into a share purchase agreement with Jingzhou WiseDawn Electric Car Co., Ltd., “Jingzhou WiseDawn”, a related party controlled by the Company’s controlling shareholder, Mr. Chen Hanlin. In accordance with the agreement, CAAS would purchase 200 shares, representing 40% of Sentient AB’s share capital, from Jingzhou WiseDawn for total consideration of RMB 155.2 million, equivalent to approximately \$24.5 million. The transaction was completed in March 2022. Pursuant to the share purchase agreement, the Company has the right to appoint two directors to the board of directors, so it can exercise significant influence over Sentient AB. Therefore, the investment is accounted for using the equity method. As of December

31, 2023, the Company has paid the total consideration. The company's proportionate share of Sentient AB's net loss for the year ended December 31, 2023 was \$1.1 million. There was no impairment on this investment during the year ended December 31, 2023.

The Company summarizes the condensed financial information of the Company's equity method investments as a group below (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Revenue	\$ 4,872	\$ 5,628
Gross profit	(951)	1,294
Income from continuing operations	(2,038)	6,451
Net income	\$ (2,039)	\$ 6,430

## 9. Deferred Income Tax Assets and Liabilities

The components of deferred tax assets and liabilities at December 31, 2023 and 2022, were as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Losses carryforward (U.S.) <sup>(1)</sup>	\$ —	\$ 349
Losses carryforward (Non-U.S.) <sup>(1)</sup>	7,967	11,371
Product warranties and other reserves	8,198	8,525
Property, plant and equipment	7,510	7,506
Bonus accrual	222	252
Other accruals	1,869	2,163
Deductible temporary difference related to revenue recognition	1,248	1,294
Others	3,215	2,175
Total deferred tax assets	30,229	33,635
Less: Valuation allowance <sup>(1)</sup>	(18,981)	(23,270)
Total deferred tax assets, net of valuation allowance	<u>11,248</u>	<u>10,365</u>
Deferred withholding tax for dividend distribution from PRC subsidiaries (Note 20)	3,943	4,010
Other taxable temporary differences	2,349	2,713
Total deferred tax liabilities	<u>\$ 6,292</u>	<u>\$ 6,723</u>

(1) As of December 31, 2023, the net operating loss carry-forward for the Hong Kong entity for income tax purposes, amounting to \$1.7 million, are available to reduce future years' taxable income. These carry-forwards will not expire if not utilized, and the Company may carry the losses forward indefinitely. Net operating losses for China entities can be carried forward for 5 years to offset taxable income except for entities that qualify as a High & New Technology Enterprise, for which the net operating loss can be carried forward for 10 years. Therefore, as of December 31, 2023, the Company had net operating tax loss carry-forwards in PRC entities amounting to \$2.4 million and \$3.9 million which will expire from 2024 to 2033 and from 2024 to 2028, respectively, if not used.

However, as of December 31, 2023, valuation allowance was \$19.0 million, including \$0.1 million allowance for the Company's deferred tax assets in the United States and \$18.9 million allowance for the Company's non-U.S. deferred tax assets primarily in China. Based on the Company's current operations, management believes that certain deferred tax assets in non-U.S. regions are not likely to be realized in the future.

The deferred tax assets and liabilities are classified in the consolidated balance sheets as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Deferred tax assets	\$ 8,899	\$ 7,652
Deferred tax liabilities	\$ 3,943	\$ 4,010

The activity in the Company's valuation allowance for deferred tax assets during the years ended December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Balance at beginning of year	\$ 23,270	\$ 22,788
Amounts provided for during the year	589	5,058
Amounts used during the year	(4,511)	(2,721)
Foreign currency translation	(367)	(1,855)
Balance at end of year	<u>\$ 18,981</u>	<u>\$ 23,270</u>

## 10. Bank Loans

Loans consist of the following as of December 31, 2023 and 2022 (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Short-term bank loans <sup>(1)(2)</sup>	\$ 48,005	\$ 45,671
Long-term loans <sup>(2)</sup>	1,221	528
Total bank loans	<u>\$ 49,226</u>	<u>\$ 46,199</u>

- The Company entered into credit facility agreements with various banks, which were secured by property, plant and equipment and land use rights of the Company. The total credit facility amount was \$195.8 million and \$148.3 million, respectively, as of December 31, 2023 and 2022. As of December 31, 2023 and 2022, the Company has drawn down loans with an aggregate amount of \$49.2 million and \$46.2 million, respectively. The weighted average interest rate was 2.6% and 2.9%, respectively.
- The Company borrowed a total of RMB 5.2 million from Chongqing Bank loans from April 2022 to July 2023, equivalent to approximately \$0.7 million. These loans are due for repayment from March to April 2025 with an interest rate of 3.6% per annum. In accordance with the loan agreement, the Company should repay the principal of RMB 100,000, equivalent to approximately \$14,119, every six months starting on April 2022. The principal that will be repaid in 2024 is reclassified to short-term bank loans.

The Company must use the loans for the purpose specified in the borrowing agreement. If it fails to do so, it may be charged penalty interest or triggered early repayment. The Company complied with such financial covenants as of December 31, 2023.

## 11. Accounts and Notes Payable

The Company's accounts and notes payable at December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Accounts payable - unrelated parties	\$ 147,712	\$ 133,882
Notes payable - unrelated parties <sup>(1)</sup>	93,027	84,530
Accounts and notes payable - unrelated parties	240,739	218,412
Accounts and notes payable - related parties	12,839	16,695
Balance at end of year	<u>\$ 253,578</u>	<u>\$ 235,107</u>

- Notes payable represent payables in the form of notes issued by the bank. As of December 31, 2023 and 2022, the Company has pledged cash of \$39.3 million and \$37.6 million, and also has pledged notes receivable of \$11.5 million and \$13.7 million, respectively, as collateral for banks to endorse the payment of the Company's notes payable to the noteholder upon maturity. The Company entered into credit facility agreements with various banks, which were secured by property, plant and equipment and land use rights of the Company. As of December 31, 2023 and 2022, the Company has used \$47.4 million and \$39.6 million of its credit facility, respectively, for issuing bank notes.

## 12. Accrued Expenses and Other Payables

The Company's accrued expenses and other payables at December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Accrued expenses	\$ 10,464	\$ 9,652
Warranty reserves (See Note 2)	30,440	32,435
Payable for the investment in Sentient AB (See Note 8)	—	2,043
Payables for overseas transportation and custom clearance	400	294
Dividends payable to holders of non-controlling interests	424	431
Accrued interest	—	465
Other payables	3,043	2,991
Balance at end of year	<u>\$ 44,771</u>	<u>\$ 48,311</u>

### 13. Taxes Payable

The Company's taxes payable on December 31, 2023 and 2022, are summarized as follows (figures are in thousands of USD):

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Value-added tax payable	\$ 3,104	\$ 3,470
Tariffs payable	3,548	7,061
Long-term taxes payable - current portion <sup>(1)</sup>	7,024	5,270
Income tax payable	2,293	680
Other tax payable	1,298	1,117
Short-term taxes payable	<u>\$ 17,267</u>	<u>\$ 17,598</u>

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Long-term taxes payable	\$ 15,805	\$ 21,075
Less: Long-term taxes payable - current portion <sup>(1)</sup>	(7,024)	(5,270)
Long-term taxes payable <sup>(1)</sup>	<u>\$ 8,781</u>	<u>\$ 15,805</u>

(1) A one-time transition tax of \$35.6 million was recognized in the three months ended December 31, 2017 that represented management's estimate of the amount of U.S. corporate income tax based on the deemed repatriation to the United States of the Company's share of previously deferred earnings of certain non-U.S. subsidiaries of the Company mandated by the U.S. Tax Reform. The Company elected to pay the one-time transition tax over eight years commencing in April 2018. During the years ended December 31, 2023 and 2022, \$5.3 million and \$2.8 million, respectively, were paid by the Company. See Note 20 for more details about the U.S. Tax Reform.

### 14. Redeemable non-controlling interests

In September 2020, one of the Company's subsidiaries issued shares to Hubei Venture Fund amounting to \$0.7 million. The shares will be transferred to the Company and the other shareholder of the subsidiary on pro rata basis at the holder's option if the subsidiary fails to complete a qualified IPO in a pre-agreed period of time after their issuance with a transfer price of par plus 6% per year. \$0.5 million of the shares are subject to purchase by the Company and are therefore accounted for as redeemable non-controlling interests in mezzanine equity and are accreted to the redemption value over the period starting from the issuance date.

For the years ended December 31, 2023 and 2022, the Company recognized accretion of \$0.03 million and \$0.03 million to the redemption value of the shares over the period starting from the issuance date with a corresponding reduction to retained earnings.

## 15. Stock Options

The stock option plan was approved at the Annual Meeting of Stockholders held on June 28, 2005 and extended to June 27, 2025 at the Annual Meeting of Stockholders held on September 16, 2014. The maximum common shares available for issuance under this plan is 2,200,000. The stock incentive plan provides for the issuance, to the Company's officers, directors, management and employees who served over three years or have given outstanding performance, of options to purchase shares of the Company's common stock. The Company has issued 658,850 stock options under this plan as of December 31, 2023.

Under the aforementioned plan, the stock options granted will have an exercise price equal to the closing price of the Company's common stock traded on NASDAQ one day before the date of grant, and will expire two to five years after the grant date. Except for the 298,850 options granted to management in December 2008, which became exercisable on a ratable basis over the vesting period (3 years), the options were exercisable immediately on the grant dates. Stock options will be settled in shares of the Company's common stock upon exercise and are recorded in the Company's consolidated balance sheets under the caption "Additional paid-in capital." As of December 31, 2023, the Company has sufficient unissued registered common stock for settlement of the stock incentive plan mentioned above.

The fair value of stock options was determined at the date of grant using the Black-Scholes option pricing model. The Black-Scholes option model requires management to make various estimates and assumptions, including expected term, expected volatility, risk-free rate, and dividend yield. The expected term represents the period of time that stock-based compensation awards granted are expected to be outstanding and is estimated based on considerations including the vesting period, contractual term and anticipated employee exercise patterns. Expected volatility is based on the historical volatility of the Company's stock. The risk-free rate is based on the U.S. Treasury yield curve in relation to the contractual life of stock-based compensation instruments. The dividend yield assumption is based on historical patterns and future expectations for the Company dividends.

The activities of stock options are summarized as follows, including granted, exercised and forfeited.

	Shares	Weighted-Average Exercise Price	Weighted-Average Contractual Term (years)
Outstanding - January 1, 2022	37,500	\$ 5.24	5
Expired	(7,500)	5.04	5
Outstanding - December 31, 2022	30,000	\$ 5.29	5
Expired	(7,500)	2.37	5
Outstanding - December 31, 2023	22,500	\$ 6.26	5

The following is a summary of the range of exercise prices for stock options that are outstanding and exercisable at December 31, 2023:

Exercise Prices	Outstanding Stock Options	Weighted Average Remaining Life	Weighted Average Exercise Price	Number of Stock Options Exercisable
\$6.26	22,500	2.00	\$ 6.26	22,500

As of December 31, 2023 and 2022, the total intrinsic value of the Company's stock options that were exercisable were nil.

During the years ended December 31, 2023 and 2022, no stock options were exercised.

No stock options were granted during the year ended December 31, 2023 and 2022.

## 16. Retained Earnings

Pursuant to the relevant PRC laws, the profits distribution of the Company's subsidiaries, which are based on their PRC statutory financial statements, are available for distribution in the form of cash dividends after these subsidiaries have paid all relevant PRC tax liabilities, provided for losses in previous years, and made appropriations to statutory surplus at 10% of their respective after-tax profits each year. When the statutory surplus reserve reaches 50% of the registered capital of a company, no additional reserve is required. For the years ended December 31, 2023 and 2022, the subsidiaries in China appropriated statutory reserves of nil and \$0.4 million, respectively.

## 17. Treasury Stock

Treasury stock represents shares repurchased by the Company that are no longer outstanding and are held by the Company. Treasury stock is accounted for under the cost method. On December 5, 2018, the Board of Directors of the Company approved a share repurchase program under which the Company was permitted to repurchase up to \$5.0 million of its common stock from time to time in the open market at prevailing market prices not to exceed \$4.00 per share through December 4, 2019. The Board of Directors of the Company approved the extension of such program to December 4, 2020. On August 13, 2020, the Board of Directors of the Company approved a share repurchase program under which the Company is permitted to repurchase up to \$5.0 million of its common stock from time to time in the open market at prevailing market prices not to exceed \$3.50 per share through August 12, 2021. On March 29, 2022, the Board of Directors of the Company approved a share repurchase program under which the Company is permitted to repurchase up to \$5.0 million of its common stock from time to time in the open market at prevailing market prices not to exceed \$4.00 per share through March 30, 2023. For the years ended December 31, 2023 and 2022, the Company repurchased nil and 666,074 shares of the Company for aggregate cash consideration of nil and \$2.4 million, respectively, on the open market.

The repurchased shares are not cancelled and are presented as “treasury stock” on the balance sheet.

## 18. Other Income, Net

During the years ended December 31, 2023 and 2022, the Company recorded other income which is summarized as follows (figures are in thousands of USD):

	Year Ended December 31,	
	2023	2022
Government subsidy	\$ 3,777	\$ 6,270
Investment income	1,465	1,912
Charity donation	103	140
Provision for impairment of prepayment for investment in Hefei Senye <sup>(1)</sup>	—	(2,540)
Total other income, net	<u>\$ 5,345</u>	<u>\$ 5,782</u>

(1) In November 2019, Hubei Henglong entered into an agreement with other parties and committed to purchase 70% of the shares of Hefei Senye Light Plastic Technology Co., Ltd. for total consideration of RMB 33.6 million, equivalent to approximately \$4.8 million. As of December 31, 2022, Hubei Henglong has paid RMB 18.0 million, equivalent to approximately \$2.6 million, which was reported in other non-current assets as the transaction had not been consummated. The Company recognized full provision for impairment regarding this prepayment of RMB 18.0 million in 2022 as the probability of recoverability of this prepayment became substantially reduced.

## 19. Financial Income, net

During the years ended December 31, 2023 and 2022, the Company recorded financial income net which is summarized as follows (figures are in thousands of USD):

	Year Ended December 31,	
	2023	2022
Foreign exchange income, net	\$ 3,355	\$ 9,833
Interest income	1,524	1,247
Bank fees	(213)	(327)
Total financial income, net	<u>\$ 4,666</u>	<u>\$ 10,753</u>

## 20. Income Taxes

### PRC Corporate Income Tax

The Company's subsidiaries registered in the PRC are subject to national and local income taxes within the PRC at the applicable tax rate of 25% on the taxable income as reported in their PRC statutory financial statements in accordance with the relevant income tax laws applicable to foreign invested enterprise, unless preferential tax treatment is granted by local tax authorities. If the enterprise meets

certain preferential terms according to the China income tax law, such as assessment as a “High & New Technology Enterprise” by the government, then, the enterprise will be subject to enterprise income tax at a rate of 15%.

Pursuant to the New China Income Tax Law and the Implementing Rules, “New CIT”, which became effective as of January 1, 2008, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise to its foreign investors will be subject to a 10% withholding tax if the foreign investors are considered as non-resident enterprises without any establishment or place within China or if the dividends payable have no connection with the establishment or place of the foreign investors within China, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

Genesis, the Company’s wholly-owned subsidiary and the direct holder of the equity interests in the Company’s subsidiaries in China, is incorporated in Hong Kong. According to the Mainland China and Hong Kong Taxation Arrangement, dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong would be subject to withholding tax at a rate of 10% if Genesis could not obtain the Hong Kong tax resident certificate from the Hong Kong Inland Revenue Department. If Genesis obtains the Hong Kong tax resident certificate, owns directly at least 25% of the shares of the foreign invested enterprise and is qualified as the beneficial owner, it could benefit from a lower rate of 5%.

According to PRC tax regulation, the Company should withhold income taxes for the profits distributed from the PRC subsidiaries to Genesis, the subsidiaries’ holding company incorporated in Hong Kong. For the profits that the PRC subsidiaries intended to distribute to Genesis, the Company accrues the withholding income tax as deferred tax liabilities. As of December 31, 2023 and 2022, the Company has recognized deferred tax liabilities of \$3.9 million and \$4.0 million for the undistributed profits of \$39.4 million and \$40.2 million, respectively, which are expected to be distributed to Genesis in the future. The Company intended to re-invest the remaining undistributed profits generated from the PRC subsidiaries in those subsidiaries indefinitely. As of December 31, 2023 and 2022, the Company still has undistributed earnings of approximately \$302.1 million and \$270.4 million, respectively, from investment in the PRC subsidiaries that are considered indefinitely reinvested. Had the undistributed earnings been distributed to Genesis and not indefinitely reinvested, the tax provision as of December 31, 2023 and 2022, of approximately \$30.2 million and \$27.0 million, respectively, would have been recorded. Such undistributed profits will be reinvested in Genesis and not further distributed to the parent company incorporated in the United States going forward.

In 2023, Henglong, Jiulong, Hubei Henglong, Wuhan Chuguanjie and Wuhu were granted the title of “High & New Technology Enterprise”, and based on the PRC income tax law, they were subject to enterprise income tax at a rate of 15% from 2023 to 2025.

In 2022, Shenyang and Jielong were granted the title of “High & New Technology Enterprise”, and based on the PRC income tax law, they are subject to enterprise income tax at a rate of 15% from 2022 to 2024.

In 2021, Henglong KYB was granted the title of “High & New Technology Enterprise” and based on the PRC income tax law, it is subject to enterprise income tax at a rate of 15% from 2021 to 2023. The Company estimated the applied tax rate in 2024 to be 15% as it is probable that it will pass reassessment in 2024 and continue to qualify as “High & New Technology Enterprise”

According to the New CIT, Shanghai Henglong, Testing Center, Wuhan Hyoseong, Changchun Hualong, Chongqing, Wuhu Hongrun and Zhirong are subject to income tax at a rate of 25%.

#### Brazil Corporate Income Tax

Based on Brazilian income tax laws, Brazil Henglong is subject to income tax at a uniform rate of 24%, and a resident legal person is subject to additional tax at a rate of 10% for the part of taxable income over BRL 0.24 million, equivalent to approximately \$ 0.05 million. The Company recognized income tax expenses of \$2.2 million in Brazil for the year ended December 31, 2023 and \$0.7 million for the year ended December 31, 2022.

#### Hong Kong Corporate Income Tax

The profits tax rate of Hong Kong is 16.5%. No provision for Hong Kong tax is made as Genesis is an investment holding company, and had no assessable income in Hong Kong for the years ended December 31, 2023 and 2022.

#### U.S. Corporate Income Tax

The Company is a Delaware corporation that is subject to U.S. corporate income tax on its taxable income at a rate of up to 21% for taxable years beginning after December 31, 2017 and U.S. corporate income tax on its taxable income of up to 35% for prior tax years.

Recent U.S. federal tax legislation, commonly referred to as the Tax Cuts and Jobs Act, the “U.S. Tax Reform”, was signed into law on December 22, 2017. The U.S. Tax Reform significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time transition tax on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. Taxpayers may elect to pay the one-time transition tax over eight years, or in a single lump sum.

The U.S. Tax Reform also includes provisions for a new tax on GILTI effective for tax years of foreign corporations beginning after December 31, 2017. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of controlled foreign corporations, “CFCs”, subject to the possible use of foreign tax credits and a deduction equal to 50 percent to offset the income tax liability, subject to some limitations.

To the extent that portions of the Company’s U.S. taxable income, such as Subpart F income or GILTI, are determined to be from sources outside of the U.S., subject to certain limitations, the Company may be able to claim foreign tax credits to offset its U.S. income tax liabilities. If dividends that the Company receives from its subsidiaries are determined to be from sources outside of the U.S., subject to certain limitations, the Company will generally not be required to pay U.S. corporate income tax on those dividends. Any liabilities for U.S. corporate income tax will be accrued in the Company’s consolidated statements of comprehensive income and estimated tax payments will be made when required by U.S. law.

#### One-Time Transition Tax Related to U.S. Tax Reform

In 2017, the Company recognized a one-time transition tax of \$35.6 million that represented management’s estimate of the amount of U.S. corporate income tax based on the deemed repatriation to the United States of the Company’s share of previously deferred earnings of certain non-U.S. subsidiaries of the Company mandated by the U.S. Tax Reform. The Company elected to pay the one-time transition tax over eight years commencing in April 2018. According to the 2017 U.S. federal income tax return of the Company filed in October 2018, the one-time transition tax was updated to \$35.1 million. The Company made a true-up adjustment of \$0.5 million in 2018.

The provision for income taxes was calculated as follows (figures are in thousands of USD):

	<u>Year Ended December 31,</u>	
	<u>2023</u>	<u>2022</u>
Tax rate	21 %	21 %
Income before income taxes	\$ 48,235	\$ 23,036
Income tax at federal statutory tax rate	10,129	4,838
Tax benefit of super deduction of R&D expense <sup>(1)</sup>	(5,674)	(7,089)
Effect of differences in foreign tax rate	1,669	599
Change in provision on valuation allowance for deferred income tax - U.S.	(349)	(2,458)
Change in provision on valuation allowance for deferred income tax - Non-U.S.	(3,573)	4,595
GILTI inclusion	3,228	—
Other differences	(293)	2,597
Total income tax expense	<u>\$ 5,137</u>	<u>\$ 3,082</u>

(1) According to a new tax incentives policy promulgated by the State Tax Bureau of the PRC and effective from March 2021 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 100% of their research and development expenses in determining their taxable income for the year.

The Company is subject to tax examination in the United States and China. The Company’s tax years for 2019 through 2023 are still open for examination in China. The Company’s tax years for 2014 through 2023 are still open for examination in the United States.

#### *Uncertain Tax Positions*

The Company did not have any uncertain tax positions for the years ended December 31, 2023 and 2022.

## 21. Income Per Share

Basic net income per share is computed using the weighted average number of the common shares outstanding during the year.

For diluted income per share, the Company uses the treasury stock method for options, assuming the issuance of common shares, if dilutive, resulting from the exercise of options.

The calculations of basic and diluted income per share attributable to the parent company were (figures are in thousands of USD):

	Year Ended December 31,	
	2023	2022
Numerator:		
Net income attributable to the parent company's common shareholders - Basic and Diluted	\$ 37,658	\$ 21,181
Denominator:		
Weighted average ordinary shares outstanding - Basic	30,185,702	30,639,102
Dilutive effects of stock options	3,719	2,172
Denominator for dilutive income per share - Diluted	30,189,421	30,641,274
Net income per share attributable to the parent company's common shareholders		
Basic	1.25	0.69
Diluted	1.25	0.69

As of December 31, 2023 and 2022, the exercise prices for 22,500 outstanding stock options were above the weighted average market price of the Company's common stock during the year ended December 31, 2023 and 2022, respectively. Therefore, these stock options were excluded from the calculation of the diluted income per share for the corresponding periods presented.

## 22. Significant Concentrations

A significant portion of the Company's business is conducted in China where the currency is the RMB. Regulations in China permit foreign owned entities to freely convert the RMB into foreign currency for transactions that fall under the "current account", which includes trade related receipts and payments, interest and dividends. Accordingly, the Company's Chinese subsidiaries may use RMB to purchase foreign exchange for settlement of such "current account" transactions without pre-approval.

China Automotive, the parent company, may depend on Genesis and HLUSA dividend payments, which are generated from their subsidiaries in China, "China-based Subsidiaries," after they receive payments from the China-based Subsidiaries. Regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Under PRC law China-based Subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their general reserves until the cumulative amount reaches 50% of their paid-in capital. These reserves are not distributable as cash dividends, or as loans or advances. These foreign-invested enterprises may also allocate a portion of their after-tax profits, at the discretion of their boards of directors, to their staff welfare and bonus funds. Any amounts so allocated may not be distributed and, accordingly, would not be available for distribution to Genesis and HLUSA.

The PRC government also imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currencies out of China, the China-based Subsidiaries may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currencies. If China Automotive is unable to receive dividend payments from its subsidiaries and China-based subsidiaries, China Automotive may be unable to effectively finance its operations or pay dividends on its shares.

Transactions other than those that fall under the "current account" and that involve conversion of RMB into foreign currency are classified as "capital account" transactions; examples of "capital account" transactions include repatriations of investment by or loans to foreign owners, or direct equity investments in a foreign entity by a China domiciled entity. "Capital account" transactions require prior approval from China's State Administration of Foreign Exchange, or SAFE, or its provincial branch to convert a remittance into a foreign currency, such as U.S. Dollars, and transmit the foreign currency outside of China.

This system could be changed at any time and any such change may affect the ability of the Company or its subsidiaries in China to repatriate capital or profits, if any, outside China. Furthermore, SAFE has a significant degree of administrative discretion in implementing the laws and has used this discretion to limit convertibility of current account payments out of China. Whether as a result of a deterioration in the Chinese balance of payments, a shift in the Chinese macroeconomic prospects or any number of other reasons, China could impose additional restrictions on capital remittances abroad. As a result of these and other restrictions under the laws and

regulations of the People's Republic of China, or the PRC, the Company's China subsidiaries are restricted in their ability to transfer a portion of their net assets to the parent. The Company has no assurance that the relevant Chinese governmental authorities in the future will not limit further or eliminate the ability of the Company's Chinese subsidiaries to purchase foreign currencies and transfer such funds to the Company to meet its liquidity or other business needs. Any inability to access funds in China, if and when needed for use by the Company outside of China, could have a material and adverse effect on the Company's liquidity and its business.

### 23. Related Party Transactions

Related party transactions during the years ended December 31, 2023 and 2022, are as shown below (figures are in thousands of USD):

#### *Merchandise Sold to Related Parties*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Hubei Hongrun	\$ 33,829	\$ 32,489
Jingzhou Yude	11,390	8,778
Xiamen Automotive Parts	1,733	2,468
Other related parties	562	547
<b>Total</b>	<b>\$ 47,514</b>	<b>\$ 44,282</b>

#### *Rental Income Obtained from Related Parties*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Jingzhou Tongying	\$ 154	\$ 152
Wuhan Tongkai	130	166
Hubei Hongrun	—	137
Other related parties	16	4
<b>Total</b>	<b>\$ 300</b>	<b>\$ 459</b>

#### *Materials Sold to Related Parties*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Jingzhou Yude	\$ 965	\$ 728
Honghu Changrun	610	749
Jingzhou Tongying	354	547
Jiangling Tongchuang	65	603
Other related parties	56	157
<b>Total</b>	<b>\$ 2,050</b>	<b>\$ 2,784</b>

#### *Materials Purchased from Related Parties*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Jingzhou Tongying	\$ 12,033	\$ 12,152
Wuhan Tongkai	8,311	9,974
Jiangling Tongchuang	3,390	3,238
Honghu Changrun	2,396	2,467
Henglong Tianyu	557	611
Hubei Wiselink	528	310
Hubei Yiling	57	30
Other related parties	16	28
<b>Total</b>	<b>\$ 27,288</b>	<b>\$ 28,810</b>

*Technology and Services Provided by Related Parties (recorded in R&D Expenses)*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Suzhou Sentient	\$ 925	\$ 607
Hubei Yiling	278	234
Hubei Wiselink	100	—
Sentient AB	—	462
<b>Total</b>	<b>\$ 1,303</b>	<b>\$ 1,303</b>

*Property, Plant and Equipment Purchased from Related Parties*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Hubei Wiselink	\$ 2,451	\$ 2,336
Henglong Real Estate	1,886	—
Hubei Yiling	87	48
<b>Total</b>	<b>\$ 4,424</b>	<b>\$ 2,384</b>

*Equity interest purchase from related parties*

	<b>Year Ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Jingzhou Wisedawn	\$ —	\$ 23,618

As of December 31, 2023 and 2022, accounts receivable, accounts payable and advance payments between the Company and related parties are as shown below (figures are in thousands of USD):

*Accounts and Notes Receivable from Related Parties*

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Hubei Hongrun	\$ 4,352	\$ 6,192
Jingzhou Yude	3,067	3,094
Xiamen Automotive Parts	1,042	1,311
Xiamen Joylon	801	815
Other related parties	311	367
Total accounts and notes receivable - related parties	9,573	11,779
Less: allowance for doubtful accounts - related parties	(1,404)	(1,763)
<b>Accounts and notes receivable, net - related parties</b>	<b>\$ 8,169</b>	<b>\$ 10,016</b>

*Accounts and Notes Payable to Related Parties*

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Wuhan Tongkai	\$ 4,524	\$ 7,173
Jingzhou Tongying	3,708	3,827
Hubei Wiselink	2,675	3,687
Henglong Tianyu	751	1,209
Honghu Changrun	743	692
Jiangling Tongchuang	371	45
Other related parties	67	62
<b>Total</b>	<b>\$ 12,839</b>	<b>\$ 16,695</b>

*Advance Payments for Property, Plant and Equipment to Related Parties*

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Hubei Wiselink	\$ 3,609	\$ 1,618
Henglong Real Estate	2,150	224
Hubei Hongrun	—	42
Total	<u>\$ 5,759</u>	<u>\$ 1,884</u>

*Advance Payments and Others to Related Parties*

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Suzhou Sentient	\$ 1,553	\$ 632
Hubei Tongrun	151	49
Hubei Asta	105	84
Hubei Wiselink	82	54
Jiangling Tongchuang	—	401
Other related parties	100	219
Total	<u>\$ 1,991</u>	<u>\$ 1,439</u>

As of December 31, 2023, Hanlin Chen, our chairman, owns 57.39% of the common stock of the Company and has the effective power to control the vote on substantially all significant matters without the approval of other stockholders.

## 24. Commitments and Contingencies

### a. Legal proceedings

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

### b. Commitments

In addition to bank loans, notes payables, the related interest and other payables, the following table summarizes the Company's non-cancelable commitments and contingencies as of December 31, 2023 (figures are in thousands of USD):

	<b>Payment Obligations by Period</b>				
	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>Thereafter</b>	<b>Total</b>
Obligations for investment contracts <sup>(1)</sup>	\$ —	\$ 2,965	\$ —	\$ —	\$ 2,965
Obligations for purchasing and services	20,498	3,368	—	—	23,866
Total	<u>\$ 20,498</u>	<u>\$ 6,333</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 26,831</u>

(1) In June 2023, Hubei Henglong entered into an agreement with other parties to establish a limited partnership, Suzhou Mingzhi Intelligent Manufacturing Industry Investment Fund L.P., "Suzhou Mingzhi". As of December 31, 2023, Hubei Henglong has paid RMB 9.0 million, equivalent to approximately \$1.3 million, representing 19.74% of Suzhou Mingzhi's equity. As a limited partner, Hubei Henglong has more than virtually no influence over Suzhou Mingzhi's operating and financial policies. The investment is accounted for using the equity method. According to the agreement, the remaining consideration of RMB 21.0 million, equivalent to approximately \$3.0 million, will be paid in 2025.

## 25. Segment Reporting

The accounting policies of the product sectors are the same as those described in the summary of significant accounting policies except that the disaggregated financial results for the product sectors have been prepared using a management approach, which is consistent with the basis and manner in which management internally disaggregates financial information for the purposes of assisting them in

making internal operating decisions. Generally, the Company evaluates performance based on stand-alone product sector operating income and accounts for inter segment sales and transfers as if the sales or transfers were to third parties, at current market prices.

As of December 31, 2023, the Company had 15 product sectors, six of which were principal profit makers and were reported as separate sectors and engaged in the production and sales of power steering, Henglong, Jiulong, Wuhu, Henglong KYB, Hubei Henglong and Brazil Henglong, and one holding company (Genesis). The other nine sectors were engaged in the development, manufacturing and sale of high polymer materials (Wuhu Hongrun), power steering parts (Shenyang), R&D services (Changchun Hualong), automobile steering columns (Jielong), provision of after-sales and R&D services (HLUSA), production and sale of power steering (Chongqing Henglong), manufacture and sales of automobile electronic systems and parts (Wuhan Chuguanjie), manufacture and sales of automotive motors and electromechanical integrated systems (Wuhan Hyoseong) and inspection and testing of automotive products (Zhiron).

As of December 31, 2022, the Company had 15 product sectors, six of which were principal profit makers and were reported as separate sectors and engaged in the production and sales of power steering, Henglong, Jiulong, Wuhu, Henglong KYB and Hubei Henglong, and one holding company (Genesis). The other nine sectors were engaged in the development, manufacturing and sale of high polymer materials (Wuhu Hongrun), power steering parts (Shenyang), R&D services (Changchun Hualong), automobile steering columns (Jielong), provision of after-sales and R&D services (HLUSA), production and sale of power steering (Chongqing Henglong), trade (Brazil Henglong), manufacture and sales of automobile electronic systems and parts (Wuhan Chuguanjie), research and development of intelligent automotive technology (Jingzhou Qingyan) and manufacture and sales of automotive motors and electromechanical integrated systems (Wuhan Hyoseong).

The Company's product sector information is as follows (figures are in thousands of USD):

	Net Sales		Net Income/(Loss)	
	Year Ended December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Henglong	\$ 271,501	\$ 246,594	\$ 12,196	\$ 785
Jiulong	69,926	70,113	5,735	227
Wuhu	37,851	42,243	(979)	(215)
Hubei Henglong	115,883	126,652	8,527	9,588
Henglong KYB	147,989	121,139	13,205	4,564
Brazil Henglong	48,255	39,280	5,297	3,390
Other Entities	112,131	92,913	5,119	5,455
Total Segments	803,536	738,934	49,100	23,794
Corporate	—	—	(4,432)	(534)
Eliminations	(227,182)	(209,383)	(1,930)	(917)
Total consolidated	\$ 576,354	\$ 529,551	\$ 42,738	\$ 22,343

	Depreciation and Amortization		Capital Expenditures	
	Year Ended December 31,		Year Ended December 31,	
	2023	2022	2023	2022
Henglong	\$ 4,033	\$ 7,285	\$ 5,060	\$ 5,908
Jiulong	1,656	2,156	1,353	1,102
Wuhu	583	713	1,454	203
Hubei Henglong	7,072	9,542	14,407	5,635
Henglong KYB	1,952	1,867	5,141	6,133
Brazil Henglong	397	196	192	869
Other Entities	2,985	3,375	6,139	3,408
Total Segments	18,678	25,134	33,746	23,258
Corporate	30	39	—	—
Eliminations	—	—	(12,066)	(2,774)
Total consolidated	\$ 18,708	\$ 25,173	\$ 21,680	\$ 20,484

	<b>Total Assets</b>	
	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Henglong	\$ 275,749	\$ 248,927
Jiulong	56,452	62,075
Wuhu	40,337	38,579
Hubei Henglong	401,212	392,482
Henglong KYB	125,330	107,045
Brazil Henglong	26,543	20,326
Other Entities	143,582	122,790
Total Segments	1,069,205	992,224
Corporate	52,157	58,767
Eliminations	(354,922)	(336,639)
Total consolidated	<u>\$ 766,440</u>	<u>\$ 714,352</u>

Financial information segregated by geographic region is as follows (figures are in thousands of USD):

Geographic region:	<b>Net Sales <sup>(1)</sup></b>		<b>Long-term assets <sup>(2)</sup></b>	
	<b>Year Ended December 31,</b>		<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
China	\$ 374,929	\$ 331,589	\$ 127,751	\$ 123,062
United States	111,456	135,149	655	726
Other foreign countries	89,969	62,813	1,022	1,111
Total consolidated	<u>\$ 576,354</u>	<u>\$ 529,551</u>	<u>\$ 129,428 <sup>(2)</sup></u>	<u>\$ 124,899 <sup>(2)</sup></u>

(1) Revenue is attributed to each country based on location of customers.

(2) Pursuant to ASC 280-10-50-41, the deferred tax assets of \$8.9 million and \$7.7 million and the intangible assets of \$3.9 million and \$1.3 million were excluded from long-term assets as of December 31, 2023 and 2022, respectively.

## Investor Information

### Corporate Headquarters

CHINA AUTOMOTIVE SYSTEMS, INC.  
D8 Henglong Building  
Optics Valley Software Park  
No. 1 Guanshan Avenue, **Wuhan City**  
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People's Republic of China  
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### Board of Directors

HANLIN CHEN  
Chairman  
QIZHOU WU  
Director, Chief Executive Officer  
GUANGXUN XU  
Independent Non-executive Director  
HENG HENRY LU  
Independent Non-executive Director  
TONG KOOI TEO  
Independent Non-executive Director

### Executive Officers

QIZHOU WU  
Chief Executive Officer  
JIE LI  
Chief Financial Officer  
ANDY YIU WONG TSE  
Senior Vice President  
HENRY CHEN  
Vice President  
HAIMIAN CAI  
Vice President

### Annual Meeting

The Annual Meeting of China Automotive Systems stockholders will be held on August 30, 2023 (Wednesday) at 9 am local time at the Second Floor Meeting Room, D8 Henglong Building in Optics Valley Software Park, Guanshan First Road, Wuhan City, Hubei Province, PRC, and the Company will set up a conference room on August 29, 2023 at 9 pm at Henglong USA Corporation, 2546 Elliott Drive, Troy, Michigan, U.S. for the Company's US shareholders to participate via WebEx connection.

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