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China XD Plastics Co Ltd
Form 10-Q
August 06, 2015

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File Number: 000-53131

CHINA XD PLASTICS COMPANY LIMITED
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

04-3836208
(I.R.S. Employer Identification No.)

No. 9 Dalian North Road, Haping Road Centralized Industrial Park,
Harbin Development Zone, Heilongjiang Province, PRC 150060
(Address of principal executive offices) (Zip Code)

86-451-84346600
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

As of August 3, 2015, the registrant had 49,151,796 shares of common stock, par value US\$0.0001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2015 US\$	December 31, 2014 US\$
ASSETS		
Current assets:		
Cash and cash equivalents	52,702,280	45,456,612
Restricted cash	43,587,432	12,545,772
Time deposits	231,779,552	238,532,702
Accounts receivable, net	211,803,068	203,998,138
Amounts due from a related party	-	220,262
Inventories	287,072,414	249,797,244
Prepaid expenses and other current assets	9,384,107	11,253,828
Total current assets	836,328,853	761,804,558
Property, plant and equipment, net	315,022,041	318,324,600
Land use rights, net	18,707,621	11,896,542
Prepayments to equipment and construction suppliers	294,418,527	182,259,578
Other non-current assets	40,904,920	25,499,744
Total assets	1,505,381,962	1,299,785,022
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term bank loans, including current portion of long-term bank loans	217,468,948	99,735,422
Bills payable	50,561,363	43,389,928
Accounts payable	190,971,174	152,073,014
Amounts due to related parties	141,834	-
Income taxes payable	4,864,511	3,269,115
Accrued expenses and other current liabilities	25,534,299	24,484,583
Total current liabilities	489,542,129	322,952,062
Long-term bank loans, excluding current portion	130,407,653	174,274,446
Notes payable	148,750,658	148,617,057
Income taxes payable	18,460,593	14,025,825
Deferred income tax liabilities	15,797,125	16,951,551
Deferred income	28,972,444	-
Total liabilities	831,930,602	676,820,941
Redeemable Series D convertible preferred stock	97,576,465	97,576,465
Stockholders' equity:		
Series B preferred stock	100	100
Common stock, US\$0.0001 par value, 500,000,000 shares authorized, 49,182,284 shares and 49,172,796 shares issued, 49,161,284 shares and 49,151,796 shares outstanding as of June 30, 2015 and December 31, 2014, respectively	4,917	4,916

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Treasury stock, 21,000 shares at cost	(92,694) (92,694)
Additional paid-in capital	81,262,157	80,875,787	
Retained earnings	482,706,335	431,823,706	
Accumulated other comprehensive income	11,994,080	12,775,801	
Total stockholders' equity	575,874,895	525,387,616	
Commitments and contingencies	-	-	
Total liabilities, redeemable convertible preferred stock and stockholders' equity	1,505,381,962	1,299,785,022	

See accompanying notes to unaudited condensed consolidated financial statements.

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CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three-Month Period Ended		Six-Month Period Ended June	
	June 30,		30,	
	2015	2014	2015	2014
	US\$	US\$	US\$	US\$
Revenues	265,412,742	264,208,995	487,339,137	487,789,670
Cost of revenues	(213,919,846)	(211,909,052)	(387,203,965)	(388,841,389)
Gross profit	51,492,896	52,299,943	100,135,172	98,948,281
Selling expenses	(438,041)	(135,625)	(734,861)	(257,953)
General and administrative expenses	(6,592,032)	(4,553,144)	(11,556,790)	(8,349,508)
Research and development expenses	(6,659,310)	(13,355,881)	(12,473,173)	(21,986,615)
Total operating expenses	(13,689,383)	(18,044,650)	(24,764,824)	(30,594,076)
Operating income	37,803,513	34,255,293	75,370,348	68,354,205
Interest income	2,466,291	3,454,649	4,894,362	6,490,014
Interest expense	(11,038,295)	(11,614,261)	(21,667,648)	(20,194,238)
Foreign currency exchange gains (losses)	322,056	406,479	231,641	(72,711)
Gains (losses) on foreign currency forward contracts	305,825	(934,765)	660,344	(934,765)
Change in fair value of warrants liability	-	(906,006)	-	(1,068,745)
Government grant	4,814	12,974	4,814	1,324,213
Total non-operating expense, net	(7,939,309)	(9,580,930)	(15,876,487)	(14,456,232)
Income before income taxes	29,864,204	24,674,363	59,493,861	53,897,973
Income tax expense	(4,385,601)	(4,837,703)	(8,611,232)	(12,065,262)
Net income	25,478,603	19,836,660	50,882,629	41,832,711
Earnings per common share:				
Basic and diluted	0.39	0.30	0.77	0.64
Net Income	25,478,603	19,836,660	50,882,629	41,832,711
Other comprehensive income (loss)				
Foreign currency translation adjustment, net of nil income taxes	(616,961)	1,346,532	(781,721)	(12,842,203)
Comprehensive income	24,861,642	21,183,192	50,100,908	28,990,508

See accompanying notes to unaudited condensed consolidated financial statements.

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six-Month Period Ended June 30,	
	2015	2014
	US\$	US\$
Cash flows from operating activities:		
Net cash provided by operating activities	71,660,883	61,291,114
Cash flows from investing activities:		
Proceeds from maturity of time deposits	237,499,197	259,984,756
Purchase of time deposits	(231,080,300)	(362,130,254)
Purchase of land use rights	(6,904,447)	-
Purchase of and deposits for property, plant and equipment	(119,535,975)	(86,442,465)
Net cash used in investing activities	(120,021,525)	(188,587,963)
Cash flows from financing activities:		
Proceeds from bank borrowings	323,407,459	422,150,363
Repayments of bank borrowings	(238,181,426)	(383,003,049)
Proceeds from issuance of the Notes	-	148,396,175
Payment of issuance costs of the Notes	-	(3,970,357)
Proceeds from the exercise of Series A investor warrants	-	596,740
Release of restricted cash as collateral for bank borrowings	-	3,243,383
Placement of restricted cash as collateral for bank borrowings	(29,729,123)	(20,595,485)
Net cash provided by financing activities	55,496,910	166,817,770
Effect of foreign currency exchange rate changes on cash and cash equivalents	109,400	(2,211,225)
Net increase in cash and cash equivalents	7,245,668	37,309,696
Cash and cash equivalents at beginning of period	45,456,612	95,545,904
Cash and cash equivalents at end of period	52,702,280	132,855,600
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	20,159,080	12,985,268
Income taxes paid	3,706,530	23,029,798
Non-cash investing and financing activities:		
Government grant related to construction in the form of repayment of bank loan on behalf of the Company by the government		11,267,062 -
Accrual for purchase of equipment and construction		295,893 564,103

See accompanying notes to unaudited condensed consolidated financial statements

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
 NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of presentation, significant concentrations and risks

(a) Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the United States Securities and Exchange Commission ("SEC"). The condensed consolidated balance sheet as of December 31, 2014 was derived from the audited consolidated financial statements of China XD Plastics Company Limited ("China XD") and subsidiaries (collectively, the "Company"). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated balance sheet of the Company as of December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, included in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2015.

In the opinion of the management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of June 30, 2015, the results of operations for the three-month and six-month periods ended June 30, 2015 and 2014, and the cash flows for the six-month periods ended June 30, 2015 and 2014, have been made.

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the recoverability of the carrying amounts of property, plant and equipment, the realizability of inventories, the useful lives of property, plant and equipment, the collectibility of accounts receivable, the fair values of stock-based compensation awards, and the accruals for tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(b) Significant concentrations and risks

Sales concentration

The Company sells its products primarily through approved distributors in the People's Republic of China (the "PRC"). To a lesser extent, the Company also sells its products to an overseas customer in the Republic of Korea (the "ROK"). The Company's sales are highly concentrated. Sales to distributors and end customer, which individually exceeded 10% of the Company's revenues for the three month and six months periods ended June 30, 2015 and 2014, are as follows:

	Three-Month Period Ended June 30,			
	2015		2014	
	US\$	%	US\$	%
Distributor A	47,121,285	17.8%	46,122,237	17.5%
Distributor B	38,766,823	14.6%	34,853,678	13.2%
Distributor C	32,232,229	12.1%	35,872,313	13.6%

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Distributor D	28,722,000	10.8%	36,194,327	13.7%
Distributor E	27,377,033	10.3%	22,881,624	8.7 %
Direct Customer F, located in ROK	29,139,000	11.0%	19,970,900	7.6 %
Total	203,358,370	76.6%	195,895,079	74.3%

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	Six-Month Period Ended June 30,			
	2015		2014	
	US\$	%	US\$	%
Distributor A	82,134,181	16.9%	82,477,849	16.9%
Distributor B	71,578,657	14.7%	67,433,893	13.8%
Distributor C	58,437,523	12.0%	68,405,706	14.0%
Distributor D	51,380,046	10.5%	69,391,812	14.2%
Distributor E	49,664,900	10.2%	42,212,473	8.7%
Direct Customer F, located in ROK	64,085,900	13.2%	19,970,900	4.1%
Total	377,281,207	77.5%	349,892,633	71.7%

The Company expects revenues from these distributors and the customer to continue to represent a substantial portion of its revenue in the future. Any factor adversely affecting the automobile industry in the PRC, electronic application industry in the ROK or the business operations of these customers will have a material effect on the Company's business, financial position and results of operations.

Purchase concentration of raw materials and equipment

The principal raw materials used for the Company's production of modified plastics products are plastic resins, such as polypropylene, ABS and nylon. Company purchased its raw materials through five and eight distributors, which individually exceeded 10% of the Company's total raw material purchases, accounted for approximately 71.8% and 81.1% of the Company's total raw materials purchases for the three-month periods ended June 30, 2015 and 2014, respectively, and 67.1% and 79.0% of the Company's total raw materials purchases for the six-month periods ended June 30, 2015 and 2014, respectively. Management believes that other suppliers could provide similar raw materials on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which would adversely affect the Company's business, financial position and results of operations.

The Company purchased equipment from two major equipment distributors, which accounted for 96.1% and 98.6% of the Company's total equipment purchases for the three-month periods ended June 30, 2015 and 2014, respectively, and accounted for 97.9% and 97.5% of the Company's total equipment purchases for the six-month periods ended June 30, 2015 and 2014. Management believes that other suppliers could provide similar equipment on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which would adversely affect the Company's business, financial position and results of operations. The majority owner of one of the major equipment distributors, that supplied approximately 3.4% and nil of the Company's total equipment purchases for the three-month periods ended June 30, 2015 and 2014, respectively, and 37.4% and 3.0% of the Company's total equipment purchases for the six-month periods ended June 30, 2015 and 2014, respectively, is also the majority owner of sales Distributor D presented above.

Cash concentration

Cash and cash equivalents, restricted cash and time deposits maintained at banks consist of the following:

	June 30, 2015 US\$	December 31, 2014 US\$
RMB denominated bank deposits with:		

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Financial Institutions in the PRC	353,954,158	311,377,750
Financial Institutions in Hong Kong Special Administrative Region ("Hong Kong SAR")	4,212	2,617
Financial Institution in Dubai, United Arab Emirates ("UAE")	8,183	170
U.S. dollar denominated bank deposits with:		
Financial Institution in the U.S.	195,624	770,704
Financial Institutions in the PRC	17,142	17,139
Financial Institution in Hong Kong SAR	323,962	1,366,224
Financial Institution in Macau Special Administrative Region ("Macau SAR")	4,104,707	47,868
Financial Institution in Dubai, UAE	4,870,136	481,179
Euro denominated bank deposits with:		
Financial institution in Hong Kong SAR	-	83,017
Financial institution in Dubai, UAE	3,091	3,355
HK dollar denominated bank deposits with:		
Financial institution in Hong Kong SAR	394	581
Dirham denominated bank deposits with:		
Financial institution in Dubai, UAE	14,562	112,815

The bank deposits with financial institutions in the PRC are insured by the government authority up to RMB500,000. The bank deposits with financial institutions in the HK SAR are insured by the government authority up to HK\$500,000. The bank deposits with financial institutions in the Macau SAR are insured by the government authority up to MOP\$500,000. The bank deposits with financial institutions in UAE are not insured by any government authority. To limit exposure to credit risk, the Company primarily places bank deposits with large financial institutions in the PRC, HK SAR and Macau SAR with acceptable credit rating.

Cash deposits in bank that are restricted as to withdrawal or usage for up to 12 months are reported as restricted cash in the condensed consolidated balance sheets and excluded from cash in the condensed consolidated statements of cash flows. Cash deposits that are restricted for period beyond 12 months from the balance sheet date are included in other non-current assets in the condensed consolidated balance sheets.

Short-term bank deposits that are pledged as collateral for bills payable relating to purchases of raw materials are reported as restricted cash and amounted to US\$13,768,349 and US\$11,868,855 as of June 30, 2015 and December 31, 2014, respectively. Upon maturity and repayment of the bills payable, which is generally within 6 months, the cash becomes available for use by the Company. Short-term bank deposits that are pledged as collateral for letter of credit relating to purchases of raw materials are reported as restricted cash and amounted to nil and US\$676,917 as of June 30, 2015 and December 31, 2014, respectively. The cash will be available for use by the Company 90 days from the issuance of the letter of credit. The cash flows from the pledged bank deposits, which relate to purchases of raw materials, are reported within cash flows from operating activities in the condensed consolidated statements of cash flows.

Cash deposits in the amount of US\$17,744,510 were restricted relating to the government grant as of June 30, 2015 (note 12), and included in other non-current assets. The cash flows from the pledged bank deposits, which relate to government grant for construction of assets, are reported within cash flows from investing activities in the condensed consolidated statements of cash flows.

Short-term bank deposits that are pledged as collateral for short-term bank borrowings are reported as restricted cash and amounted to US\$13,723,281 and nil as of June 30, 2015 and December 31, 2014, respectively. Short-term bank deposits that are pledged as collateral for long-term bank borrowings are reported as restricted cash and amounted to US\$16,095,802 and nil as of June 30, 2015 and December 31, 2014, respectively. Long-term bank deposits that are pledged as collateral for issuance of letter of guarantee are reported as other non-current assets and amounted to US\$17,705,382 and US\$17,728,782 as of June 30, 2015 and December 31, 2014, respectively. The cash flows from such bank deposits are reported within cash flows from financing activities in the condensed consolidated statements of cash flows.

Note 2 - Accounts receivable

Accounts receivable consists of the following:

	June 30, 2015 US\$	December 31, 2014 US\$
Accounts receivable	211,912,835	204,108,050
Allowance for doubtful accounts	(109,767)	(109,912)

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Accounts receivable, net 211,803,068 203,998,138

As of June 30, 2015 and December 31, 2014, the accounts receivable balances also include notes receivable in the amount of US\$1,472,406 and US\$921,907, respectively. As of June 30, 2015 and December 31, 2014, nil and US\$50,473,063 of accounts receivable are pledged for the short-term bank loans, respectively.

There was no accrual of additional provision or write-off of accounts receivable for the three-month and six-month periods ended June 30, 2015 and 2014.

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Note 3 - Inventories

Inventories consist of the following:

	June 30, 2015	December 31, 2014
	US\$	US\$
Raw materials	256,203,379	241,853,814
Work in progress	226,881	207,181
Finished goods	30,642,154	7,736,249
Total inventories	287,072,414	249,797,244

There were no write down of inventories for the three-month and six-month periods ended June 30, 2015 and 2014.

Note 4 – Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	June 30, 2015	December 31, 2014
	US\$	US\$
Advances to suppliers	247,022	168,614
Value added taxes receivables	2,283,841	6,407,547
Interest receivable	3,438,119	3,351,672
Others	3,415,125	1,325,995
Total prepaid expenses and other current assets	9,384,107	11,253,828

Others mainly include prepaid interest expenses and staff advances.

Note 5 – Property, plant and equipment, net

Property, plant and equipment consist of the following:

	June 30, 2015	December 31, 2014
	US\$	US\$
Machinery, equipment and furniture	263,516,693	209,509,700