

China XD Plastics Co Ltd
Form 10-Q
August 05, 2016

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, 2016

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, 2016, the registrant had 49,406,191 shares of common stock, par value US\$0.0001 per share, outstanding.

TABLE OF CONTENTS	PAGE
PART I. FINANCIAL INFORMATION	2
Item 1. Financial Statements	2
Unaudited Condensed Consolidated Balance Sheets	2
Unaudited Condensed Consolidated Statements of Comprehensive Income	3
Unaudited Condensed Consolidated Statements of Cash Flows	4
Notes to the Unaudited Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	31
Item 4. Controls and Procedures	31
PART II. OTHER INFORMATION	32
Item 1. Legal Proceedings	32
Item 1A. Risk Factors	32
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 3. Defaults Upon Senior Securities	32
Item 4. Mine Safety Disclosures	32
Item 5. Exhibits	32
Signatures	33

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2016 US\$	December 31, 2015 US\$
ASSETS		
Current assets:		
Cash and cash equivalents	57,980,914	119,928,485
Restricted cash	64,502,724	50,852,327
Time deposits	282,452,648	237,626,806
Accounts receivable, net	200,490,313	234,542,739
Amounts due from a related party	-	244,836
Inventories	421,961,166	294,665,195
Prepaid expenses and other current assets	51,054,446	15,675,848
Total current assets	1,078,442,211	953,536,236
Property, plant and equipment, net	810,183,747	571,746,507
Land use rights, net	23,809,904	24,506,837
Prepayments to equipment and construction suppliers	14,415,697	183,226,006
Other non-current assets	12,677,399	18,966,622
Total assets	1,939,528,958	1,751,982,208
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term bank loans, including current portion of long-term bank loans	422,158,665	284,339,089
Bills payable	47,029,799	33,522,287
Accounts payable	195,336,669	257,417,000
Amounts due to related parties	131,394	8,439
Income taxes payable	2,989,790	6,881,946
Notes payable	146,231,067	-
Accrued expenses and other current liabilities	223,664,783	140,988,712
Total current liabilities	1,037,542,167	723,157,473
Long-term bank loans, excluding current portion	81,672,771	107,481,709
Notes payable	-	145,634,996
Deferred income	71,254,125	62,039,050
Other non-current liabilities	41,767,586	38,046,917
Total liabilities	1,232,236,649	1,076,360,145
Redeemable Series D convertible preferred stock (redemption amount of US\$197,775,400 and US\$184,461,800 as of June 30, 2016 and December 31, 2015)	97,576,465	97,576,465
Stockholders' equity:		
Series B preferred stock	100	100

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Common stock, US\$0.0001 par value, 500,000,000 shares authorized, 49,427,191 shares and 49,344,284 shares issued, 49,406,191 shares and 49,323,284 shares outstanding as of June 30, 2016 and December 31, 2015, respectively	4,941	4,933
Treasury stock, 21,000 shares at cost	(92,694) (92,694)
Additional paid-in capital	82,390,348	81,919,932
Retained earnings	560,269,109	515,555,985
Accumulated other comprehensive loss	(32,855,960) (19,342,658)
Total stockholders' equity	609,715,844	578,045,598
Commitments and contingencies	-	-
Total liabilities, redeemable convertible preferred stock and stockholders' equity	1,939,528,958	1,751,982,208

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Revenues	277,139,662	265,412,742	492,169,820	487,339,137
Cost of revenues	(216,795,181)	(213,919,846)	(397,011,688)	(387,203,965)
Gross profit	60,344,481	51,492,896	95,158,132	100,135,172
Selling expenses	(382,038)	(438,041)	(667,174)	(734,861)
General and administrative expenses	(6,596,023)	(6,592,032)	(11,665,697)	(11,556,790)
Research and development expenses	(5,906,719)	(6,659,310)	(10,816,286)	(12,473,173)
Total operating expenses	(12,884,780)	(13,689,383)	(23,149,157)	(24,764,824)
Operating income	47,459,701	37,803,513	72,008,975	75,370,348
Interest income	1,615,728	2,466,291	3,229,991	4,894,362
Interest expense	(10,628,222)	(11,038,295)	(21,532,881)	(21,667,648)
Foreign currency exchange gains (losses)	(56,091)	322,056	371,574	231,641
Gains on foreign currency forward contracts	-	305,825	-	660,344
Government grant	218,286	4,814	426,719	4,814
Total non-operating expense, net	(8,850,299)	(7,939,309)	(17,504,597)	(15,876,487)
Income before income taxes	38,609,402	29,864,204	54,504,378	59,493,861
Income tax expense	(5,253,628)	(4,385,601)	(9,791,254)	(8,611,232)
Net income	33,355,774	25,478,603	44,713,124	50,882,629
Earnings per common share:				
Basic and diluted	0.51	0.39	0.68	0.77
Net Income	33,355,774	25,478,603	44,713,124	50,882,629
Other comprehensive loss				
Foreign currency translation adjustment, net of nil income taxes	(18,440,326)	(616,961)	(13,513,302)	(781,721)
Comprehensive income	14,915,448	24,861,642	31,199,822	50,100,908

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,	
	2016	2015
	US\$	US\$
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	(93,887,642)	71,660,883
Cash flows from investing activities:		
Proceeds from maturity of time deposits	236,818,725	237,499,197
Purchase of time deposits	(286,909,102)	(231,080,300)
Purchase of land use rights	-	(6,904,447)
Purchase of and deposits for property, plant and equipment	(40,022,079)	(119,535,975)
Government grant related to the construction of Sichuan plant	8,809,473	-
Net cash used in investing activities	(81,302,983)	(120,021,525)
Cash flows from financing activities:		
Proceeds from bank borrowings	399,343,916	323,407,459
Repayments of bank borrowings	(280,843,603)	(238,181,426)
Release of restricted cash as collateral for bank borrowings	28,378,420	-
Placement of restricted cash as collateral for bank borrowings	(32,492,262)	(29,729,123)
Net cash provided by financing activities	114,386,471	55,496,910
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1,143,417)	109,400
Net increase (decrease) in cash and cash equivalents	(61,947,571)	7,245,668
Cash and cash equivalents at beginning of period	119,928,485	45,456,612
Cash and cash equivalents at end of period	57,980,914	52,702,280
Supplemental disclosure of cash flow information:		
Interest paid, net of capitalized interest	20,737,714	20,159,080
Income taxes paid	10,654,265	3,706,530
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 included in accrued expenses and other current liabilities	88,224,035	295,893

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, 2015 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, 2015, 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 15, 2016.

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, 2016, the results of operations for the three-month and six-month periods ended June 30, 2016 and 2015, and the cash flows for the six-month periods ended June 30, 2016 and 2015, have been made.

The preparation of condensed 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 condensed 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 collectability 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 overseas customers 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-month periods ended June 30, 2016 and 2015, are as follows:

	Three-Month Period Ended June 30,			
	2016		2015	
	US\$	%	US\$	%
Distributor A, located in PRC	39,632,852	14.3%	47,121,285	17.8%
Distributor B, located in PRC	31,669,861			