

China XD Plastics Co Ltd
Form 10-Q
November 09, 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 September 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 04-3836208
(State or other jurisdiction of incorporation or organization) (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

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to submit and post such files). Yes No

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 November 3, 2015, the registrant had 49,323,284 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

	September 30, 2015 US\$	December 31, 2014 US\$
ASSETS		
Current assets:		
Cash and cash equivalents	51,096,130	45,456,612
Restricted cash	44,173,850	12,545,772
Time deposits	192,346,947	238,532,702
Accounts receivable, net	246,557,049	203,998,138
Amounts due from a related party	-	220,262
Inventories	293,185,043	249,797,244
Prepaid expenses and other current assets	78,510,277	11,253,828
Total current assets	905,869,296	761,804,558
Property, plant and equipment, net	315,057,485	318,324,600
Land use rights, net	25,037,517	11,896,542
Prepayments to equipment and construction suppliers	288,059,709	182,259,578
Other non-current assets	30,699,136	25,499,744
Total assets	1,564,723,143	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	265,754,058	99,735,422
Bills payable	44,142,075	43,389,928
Accounts payable	221,909,111	152,073,014
Amounts due to related parties	319,681	-
Income taxes payable	4,155,317	3,269,115
Accrued expenses and other current liabilities	27,172,856	24,484,583
Total current liabilities	563,453,098	322,952,062
Long-term bank loans, excluding current portion	113,915,038	174,274,446
Notes payable	148,820,175	148,617,057
Income taxes payable	18,846,254	14,025,825
Deferred income tax liabilities	14,808,266	16,951,551
Deferred income	40,887,465	-
Total liabilities	900,730,296	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, 49,344,284 shares and 49,172,796 shares issued, 49,323,284 shares and 49,151,796 shares outstanding as of September 30, 2015 and December 31, 2014, respectively	4,932	4,916
Treasury stock, 21,000 shares at cost	(92,694)	(92,694)
Additional paid-in capital	81,499,400	80,875,787
Retained earnings	488,740,833	431,823,706

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Accumulated other comprehensive income (loss)	(3,736,189)	12,775,801
Total stockholders' equity	566,416,382	525,387,616
Commitments and contingencies	-	-
Total liabilities, redeemable convertible preferred stock and stockholders' equity	1,564,723,143	1,299,785,022

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2015	2014	2015	2014
	US\$	US\$	US\$	US\$
Revenues	239,101,063	315,746,209	726,440,200	803,535,879
Cost of revenues	(209,776,434)	(250,378,605)	(596,980,399)	(639,219,994)
Gross profit	29,324,629	65,367,604	129,459,801	164,315,885
Selling expenses	(356,417)	(177,287)	(1,091,278)	(435,240)
General and administrative expenses	(5,763,886)	(5,413,088)	(17,320,676)	(13,762,596)
Research and development expenses	(5,831,192)	(5,081,833)	(18,304,365)	(27,068,448)
Total operating expenses	(11,951,495)	(10,672,208)	(36,716,319)	(41,266,284)
Operating income	17,373,134	54,695,396	92,743,482	123,049,601
Interest income	1,956,630	2,058,843	6,850,992	8,548,857
Interest expense	(10,323,671)	(10,865,335)	(31,991,319)	(31,059,573)
Foreign currency exchange losses	(1,261,404)	(120,435)	(1,026,809)	(193,146)
Gains (losses) on foreign currency forward contracts	-	309,999	657,390	(624,766)
Change in fair value of warrants liability	-	1,594,936	-	526,191
Government grant	1,547,381	-	1,552,195	1,324,213
Total non-operating expense, net	(8,081,064)	(7,021,992)	(23,957,551)	(21,478,224)
Income before income taxes	9,292,070	47,673,404	68,785,931	101,571,377
Income tax expense	(3,257,572)	(4,515,418)	(11,868,804)	(16,580,680)
Net income	6,034,498	43,157,986	56,917,127	84,990,697
Earnings per common stock:				
Basic earnings per common stock	0.09	0.66	0.87	1.30
Diluted earnings per common stock	0.09	0.62	0.87	1.29
Net income	6,034,498	43,157,986	56,917,127	84,990,697
Other comprehensive income (loss)				
Foreign currency translation adjustment, net of nil income taxes	(15,730,269)	6,981,015	(16,511,990)	(5,861,188)
Comprehensive income (loss)	(9,695,771)	50,139,001	40,405,137	79,129,509

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine-Month Period Ended September 30,	
	2015	2014
	US\$	US\$
Cash flows from operating activities:		
Net cash provided by operating activities	1,388,960	64,066,706
Cash flows from investing activities:		
Proceeds from maturity of time deposits	346,827,273	530,549,654
Purchase of time deposits	(306,089,846)	(475,702,678)
Purchases of land use right	(13,888,542)	(64,433,870)
Government grant related to the construction of Sichuan plant (note 12)	1,632,986	-
Prepayment for purchase of property, plant and equipment	(130,141,806)	(211,215,764)
Net cash used in investing activities	(101,659,935)	(220,802,658)
Cash flows from financing activities:		
Proceeds from bank borrowings	422,179,682	574,971,049
Repayments of bank borrowings	(280,822,310)	(580,584,760)
Release of restricted cash	-	7,501,176
Placement of restricted cash as collateral for bank borrowings	(33,270,497)	(20,597,823)
Proceeds from the exercise of Series A investor warrants	-	596,740
Proceeds from issuance of the Notes	-	148,396,175
Payment of issuance costs of the Notes	-	(4,693,152)
Net cash provided by financing activities	108,086,875	125,589,405
Effect of foreign currency exchange rate changes on cash and cash equivalents	(2,176,382)	(1,688,677)
Net increase (decrease) in cash and cash equivalents	5,639,518	(32,835,224)
Cash and cash equivalents at beginning of period	45,456,612	95,545,904
Cash and cash equivalents at end of period	51,096,130	62,710,680
Supplemental disclosure of cash flow information:		
Interest paid	35,698,872	27,770,246
Income taxes paid	7,378,544	26,287,989
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 (note 12)	31,421,155	-
Government grant related to the construction of Sichuan plant in the form of restricted cash (note 12)	7,879,497	-
Accrual for purchase of equipment and construction	4,020,089	565,027

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 September 30, 2015, the results of operations for the three-month and nine-month periods ended September 30, 2015 and 2014, and the cash flows for the nine-month periods ended September 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 nine-month periods ended September 30, 2015 and 2014, are as follows:

	Three-Month Period Ended September 30,			
	2015		2014	
	US\$	%	US\$	%
Distributor A	47,064,784	20%	47,591,686	15%
Distributor B	35,836,733	15%	35,451,116	11%

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Distributor C	32,860,363	14 %	35,788,387	11 %
Distributor D	30,305,169	13 %	33,419,979	11 %
Distributor E	26,810,505	11 %	28,144,454	9 %
Direct Customer F, located in the ROK	7,294,500	3 %	59,332,290	19 %
Total	180,172,054	76 %	239,727,912	76 %

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	Nine-Month Period Ended September 30,			
	2015		2014	
	US\$	%	US\$	%
Distributor A	129,198,965	18 %	130,069,535	16 %
Distributor B	107,415,390	15 %	102,885,009	13 %
Distributor C	91,297,886	13 %	104,194,093	13 %
Distributor D	81,685,215	11 %	102,811,791	13 %
Distributor E	76,475,405	11 %	70,356,927	9 %
Direct Customer F, located in the ROK	71,380,400	10 %	79,303,190	10 %
Total	557,453,261	78 %	589,620,545	74 %

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 seven and eight distributors, which individually exceeded 10% of the Company's total raw material purchases, accounted for approximately 88.3% and 68.1% of the Company's total raw materials purchases for the three-month periods ended September 30, 2015 and 2014, respectively, and 86.7% and 76.1% of the Company's total raw materials purchases for the nine-month periods ended September 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 96.0% and 88.7% of the Company's total equipment purchases for the three-month periods ended September 30, 2015 and 2014, respectively, and accounted for 97.2% and 99.8% of the Company's total equipment purchases for the nine-month periods ended September 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 nil and 67.8% of the Company's total equipment purchases for the three-month periods ended September 30, 2015 and 30.8% and 67.8% of the Company's total equipment purchases for the nine-month periods ended September 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:

	September 30, 2015	December 31, 2014
	US\$	US\$
RMB denominated bank deposits with:		
Financial Institutions in the PRC	311,739,268	311,377,750
Financial Institutions in Hong Kong Special Administrative Region ("Hong Kong SAR")	4,050	2,617

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Financial Institution in Dubai, United Arab Emirates ("UAE")	3,507	170
U.S. dollar denominated bank deposits with:		
Financial Institution in the U.S.	81,450	770,704
Financial Institutions in the PRC	17,143	17,139
Financial Institution in Hong Kong SAR	65,523	1,366,224
Financial Institution in Macau Special Administrative Region ("Macau SAR")	41,909	47,868
Financial Institution in Dubai, UAE	696,046	481,179
Euro denominated bank deposits with:		
Financial institution in Hong Kong SAR	-	83,017
Financial institution in Dubai, UAE	3,098	3,355
HK dollar denominated bank deposits with:		
Financial institution in Hong Kong SAR	365	581
Dirham denominated bank deposits with:		
Financial institution in Dubai, UAE	80,515	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, Macau SAR and Dubai, UAE 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\$11,473,299 and US\$11,868,855 as of September 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 September 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.

Short-term bank deposits that are pledged as collateral for short-term bank borrowings are reported as restricted cash and amounted to US\$16,998,759 and nil as of September 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\$15,701,792 and nil as of September 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\$17,271,971 and US\$17,728,782 as of September 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.

Long term bank deposits in the amount of US\$7,852,575 were restricted relating to the government grant as of September 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.

Note 2 - Accounts receivable

Accounts receivable consists of the following:

	September 30, 2015 US\$	December 31, 2014 US\$
Accounts receivable	246,598,556	204,108,050
Allowance for doubtful accounts	(41,507)	(109,912)
Accounts receivable, net	246,557,049	203,998,138

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As of September 30, 2015 and December 31, 2014, the accounts receivable balances also include notes receivable in the amount of US\$1,678,162 and US\$921,907, respectively. As of September 30, 2015 and December 31, 2014, US\$21,872,185 and US\$50,473,063 of accounts receivable are pledged for the short-term bank loans, respectively.

The following table provides an analysis of the aging of accounts receivable as of September 30, 2015 and December 31, 2014:

	September 30, 2015 US\$	December 31, 2014 US\$
Aging:		
– current	203,597,503	203,760,775
– 1-3 months past due	29,191,994	208,482
– 4-6 months past due	13,767,552	-
– 7-12 months past due	-	5,560
– greater than one year past due	41,507	133,233
Total accounts receivable	246,598,556	204,108,050

Management concludes that no additional provision is necessary for overdue balances, taking into consideration the historical collection experience, customer specific facts and current economic conditions.

There was a reversal of provision of accounts receivable in the amount of US\$68,405 for the three-month and nine-month periods ended September 30, 2015 while no accrual of additional provision or write-off of accounts receivable for the three-month and nine-month periods ended September 30, 2014.

Note 3 - Inventories

Inventories consist of the following:

	September 30, 2015 US\$	December 31, 2014 US\$
Raw materials	265,215,482	241,853,814
Work in progress	134,623	207,181
Finished goods	27,834,938	7,736,249
Total inventories	293,185,043	249,797,244

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

Note 4 – Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	September 30, 2015 US\$	December 31, 2014 US\$
Receivables due from a customer in the ROK (i)	69,368,889	-
Advances to suppliers	306,624	168,614
Value added taxes receivables	2,825,971	6,407,547
Interest receivable	3,524,070	3,351,672
Others (ii)	2,484,723	1,325,995
Total prepaid expenses and other current assets	78,510,277	11,253,828

(i) As of September 30, 2015, receivables due from a customer in the ROK represents the amount the Company paid to purchase raw materials on behalf of the customer in the ROK.

(ii) Others mainly include prepaid interest expenses and staff advances.

Note 5 – Property, plant and equipment, net

Property, plant and equipment consist of the following:

	September 30, 2015 US\$	December 31, 2014 US\$
Machinery, equipment and furniture	258,626,545	209,509,700
Motor vehicles	1,967,484	1,854,985
Workshops and buildings	77,532,030	79,009,346
Construction in progress	60,923,832	93,970,716
Total property, plant and equipment	399,049,891	384,344,747
Less accumulated depreciation	(83,992,406)	(66,020,147)
Property, plant and equipment, net	315,057,485	318,324,600

All of the property, plant and equipment, net as of September 30, 2015 and December 31, 2014 were located in the PRC, except for US\$292.1 million and US\$0.7 million of property, plant and equipment, net, were located in Dubai, UAE. For the three-month and nine-month periods ended September 30, 2015, the Company capitalized nil and US\$168,306 interest costs as a component of the cost of construction in progress, respectively. Depreciation expense on property, plant and equipment was allocated to the following expense items:

	Three-Month Period Ended September 30, 2015 2014 US\$ US\$	
Cost of revenues	5,878,813	4,965,194
General and administrative expenses	383,260	205,585
Research and development expenses	951,540	553,350
Selling expense	2,392	-
Total depreciation expense	7,216,005	5,724,129
	Nine-Month Period Ended September 30, 2015 2014 US\$ US\$	
Cost of revenues	16,184,391	14,474,009
General and administrative expenses	1,161,523	827,368
Research and development expenses	2,648,341	1,513,322
Selling expense	2,615	-
Total depreciation expense	19,996,870	16,814,699

Note 6 - Prepayments to equipment and construction suppliers

	September 30, 2015 US\$	December 31, 2014 US\$
Jiamu (i)	200,569,445	182,259,578
Peaceful (ii)	85,718,400	-
Others	1,771,864	-
Total Prepayments to equipment and construction suppliers	288,059,709	182,259,578

In December 2013, the Company entered into an equipment purchase contract with Harbin Jiamu Import & Export Trading Co., Ltd ("Jiamu Trading") for a total consideration of RMB1,629.3 million (equivalent to US\$255.8 million) to purchase 70 production lines and RMB89.7 million (equivalent to US\$14.1 million) to purchase testing equipment. In August 2015, the Company signed a supplemental contract with Harbin Jiamu Science and Technology Co., Ltd. (together with Jiamu Trading as "Jiamu") to purchase equipment in the amount of RMB16.3 million (equivalent to US\$2.6 million). As of September 30, 2015 and December 31, 2014, the Company has paid RMB1,277.4 million (equivalent to US\$200.6 million) and RMB1,130.9 million (equivalent to US\$182.3 million) for production lines and testing equipment, respectively.

- (ii) On January 5, 2015, AL Composites Materials FZE ("AL Composites") entered into an equipment purchase contract with Peaceful Treasure Limited ("Peaceful") for a total consideration of US\$271.2 million to purchase certain production and testing equipment. Pursuant to the contract with Peaceful, the Company has paid US\$85.7 million as prepayments as of September 30, 2015.

Note 7 – Fair value measurement

Short-term financial instruments, including cash and cash equivalents, restricted cash, time deposits, accounts receivable, receivables due from a customer in the ROK, short-term bank loans, bills payable, accounts payable, amounts due to related parties, income taxes payable and accrued expenses and other current liabilities - carrying amounts approximate fair values because of the short maturity of these instruments.

Long-term bank loans - fair value is based on the amount of future cash flows associated with each loan discounted at the Company's current borrowing rate for similar debt instruments of comparable terms. The carrying value of the long-term bank loans approximate their fair values as the long-term bank loans carry interest rates which approximate rates currently offered by the Company's banks for similar debt instruments of comparable maturities.

Notes payable - fair values of the Company's notes payable are estimated based on quoted market prices which are categorized as Level 1 measurement in the fair value hierarchy. As of September 30, 2015, the carrying amount and estimated fair value of the notes payable were US\$148,820,175 and US\$125,157,000, respectively.

Derivative assets on foreign currency forward contract fair value is determined using a discount cash flow model, which discounts the difference between the forward contract exchange rate from the quoted curve and the contract rate multiplied by the notional amounts. It considers the following significant inputs: risk-free rate and foreign exchange rate.

Note 8 – Borrowings

(1) Current

	September 30, 2015 US\$	December 31, 2014 US\$
Unsecured loans	102,689,717	47,223,028
Secured loans by accounts receivable	17,271,971	40,292,686
Secured loans by restricted cash (i)	39,100,000	-
Current portion of long-term bank loans (note (2))	106,692,370	12,219,708
Total short-term loans, including current portion of long-term bank loans	265,754,058	99,735,422

As of September 30, 2015 and December 31, 2014, the Company's short-term bank loans bear a weighted average interest rate of 4.0% and 5.7% per annum, respectively. All short-term bank loans mature at various times within one year and contain no renewal terms.

In January 2015, the Company obtained a one-year secured loan of US\$12.0 million from HSBC Middle East at an (i) annual interest rate of three-month LIBOR (0.3266% as of September 30, 2015) plus 1.8%. These loans were secured by restricted cash of RMB16.5 million (equivalent to US\$2.6 million) by the HSBC Bank in Harbin, China.

In February 2015, the Company obtained a one-year secured loan of US\$16.6 million from HSBC Middle East at an annual interest rate of three-month LIBOR (0.3266% as of September 30, 2015) plus 1.8%. These loans were secured by restricted cash of RMB22.8 million (equivalent to US\$3.6 million) by the HSBC Bank in Harbin, China.

In June 2015, the Company obtained a one-year secured loan of US\$7.0 million from Bank of China Luxembourg Branch at an annual interest rate of one-year LIBOR (0.8549% as of September 30, 2015) plus 0.8%. These loans were secured by restricted cash of RMB45.9 million (equivalent to US\$7.2 million) by the Bank of China in Harbin,

China.

In July 2015, the Company obtained a one-year secured loan of US\$3.5 million from Bank of China Luxemburg Branch at an annual interest rate of one-year LIBOR (0.8549% as of September 30, 2015) plus 0.75%. These loans were secured by restricted cash of RMB23.0 million (equivalent to US\$3.6 million) by the Bank of China in Harbin, China.

(2)Non-current

	September 30, 2015 US\$	December 31, 2014 US\$
Secured loans	83,164,800	70,000,000
Unsecured loans	137,442,608	116,494,154
Less: current portion	106,692,370	12,219,708
Total long-term bank loans, excluding current portion	113,915,038	174,274,446

During March and April 2014, the Company obtained two 15-month unsecured loans of RMB50 million at an interest rate of 6.15% per annum from the Bank of Heilongjiang. The Company repaid these loans in advance by the end of March 2015.

On December 11, 2014, the Company obtained a two-year unsecured loan of RMB199 million (equivalent to US\$31.2 million) from Bank of Communication at an annual interest rate of 6.60%.

On December 16, 2014, the Company obtained a one and a half-year unsecured loan of US\$76.4 million from Bank of China Macau Branch at an interest of three-month LIBOR (0.3266% as of September 30, 2015) plus 1.7%. The interest rate is reset every three months.

On June 12, 2014, the Company obtained a three-year secured loan of US\$70 million from Bank of China Paris Branch at interest rate of 3-month LIBOR (0.3266% as of September 30, 2015). The loan is secured by restricted cash of RMB 110 million (equivalent to US\$17.3 million). The Company has repaid US\$2 million on June 9, 2015.

On January 23, 2015, the Company obtained a two-year unsecured loan of RMB100 million (equivalent to US\$15.7million) at an annual interest rate of 6.0% from Agriculture Bank of China.

On January 27, 2015, the Company obtained a one and half year secured loan of US\$15.2 million from Bank of China Macau Branch, at an interest rate of three-month LIBOR (0.3266% as of September 30, 2015) plus 1.5%. The interest rate is reset every three months. The loan is secured by restricted cash of RMB100 million (equivalent to US\$15.7 million).

On April 22, 2015, the Company obtained a two-year unsecured loan of RMB40 million (equivalent to US\$6.3 million) at an annual interest rate of 5.75% from Agriculture Bank of China.

On July 30, 2015, the Company obtained a thirteen-month unsecured loan of RMB50 million (equivalent to US\$7.9 million) at an annual interest rate of 5.25% from Harbin Longjiang Bank.

As of September 30, 2015, the Company had total lines of credit of RMB3,906.9 million (equivalent to US\$613.5 million). As of September 30, 2015, the Company has unused lines of credit of RMB1,222.0 million (equivalent to US\$192.0 million) with remaining terms less than 12 months and RMB267.0 million (equivalent to US\$41.9 million) with remaining terms beyond 12 months.

Certain lines of credit contain financial covenants such as total stockholders' equity, debt asset ratio, current ratio, contingent liability ratio and net profit. As of September 30, 2015, the Company has met these financial covenants.

Note 9 – Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	September 30, 2015 US\$	December 31, 2014 US\$
Payables for purchase of property, plant and equipment	9,283,669	7,234,607
Accrued freight expenses	2,381,239	1,688,431
Accrued interest expenses	5,840,701	9,031,741
Deferred income	3,268,152	-
Others	6,399,095	6,529,804
Total accrued expenses and other current liabilities	27,172,856	24,484,583

Others mainly represent accrued payroll and employee benefits, non-income taxes payables and other accrued miscellaneous operating expenses.

Note 10 – Related party transactions

The Company entered into related party transactions with Harbin Xinda High-Tech Co., Ltd. ("Xinda High-Tech"), an entity controlled by the wife of Mr. Han, the chief executive officer and controlling stockholder of the Company, and Mr. Han's son. The significant related party transactions are summarized as follows:

	Three-Month Period Ended September 30, 2015 2014 US\$ US\$		Nine-Month Period Ended September 30, 2015 2014 US\$ US\$	
Costs and expenses resulting from transactions with related parties:				
Rental expenses for plant and office spaces	194,871	197,910	555,585	583,449

The related party balances are summarized as follows:

	September 30, 2015 US\$	December 31, 2014
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