

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.
Form 10-Q
November 15, 2010
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, 2010

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 000-04494

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-5661446
(I.R.S. Employer Identification No.)

Wenyang Town, Feicheng City, ShanDong, China
(Address of principal executive offices)

271603
(Zip Code)

(86) 538 3850 703
(Registrant's telephone number, including area code)

Indicate by check mark 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). Not Applicable.

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 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 Smaller reporting company

(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 9, 2010, there were outstanding 26,000,000 shares of the registrant's common stock, par value \$0.001 per share.

China Ruitai International Holdings, Inc.

FORM 10-Q

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PART I—FINANCIAL INFORMATION

The statements contained in this quarterly report on Form 10-Q, including under the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this quarterly report, include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding our or our management’s expectations, hopes, beliefs, intentions or strategies regarding the future. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “plan” and similar expressions may identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this quarterly report are based on our current expectations and beliefs concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. Unless the content otherwise requires, all references to “we,” “us,” the “Company” or “China Ruitai” in this Quarterly Report on Form 10-Q refers to China Ruitai International Holdings Co., Ltd.

ITEM 1. Financial Statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2010	December 31, 2009
	(unaudited)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 22,019,075	\$ 10,174,528
Restricted cash	16,766,400	33,054,466
Accounts receivable, net	8,086,338	4,098,729
Notes receivable	1,525,046	7,153,450
Advance to suppliers	1,215,389	1,649,685
Inventories	7,552,949	8,132,681
Other receivables	1,357,477	126,657
Total current assets	58,522,674	64,390,196
Property and equipment, net	13,982,838	13,204,825
Commercial leasing assets, net	36,919,327	36,710,934
Land use rights, net	5,020,311	4,988,817
Long-term investment	-	888,960
TOTAL ASSETS	\$ 114,445,150	\$ 120,183,732
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term bank loans	\$ 39,811,218	\$ 27,195,342
Accounts payable	7,420,710	6,175,266
Notes payable	25,748,400	50,020,476
Advance from customers	1,350,051	127,419
Due to related party- current portion	54,394	2,979,171
Income tax payable	6,371,495	5,277,239
Other payables	4,203,057	2,900,942
Loan from employees	1,539,733	1,476,292
Total current liabilities	86,499,058	96,152,147
Due to related party- long-term portion	-	1,986,114
Total Liabilities	86,499,058	98,138,261
COMMITMENTS AND CONTINGENCIES		
Equity:		
Common stock (\$.001 par value; 50,000,000 shares authorized, 26,000,000 shares issued and outstanding as of September 30, 2010 and December 31, 2009)	26,000	26,000
Additional paid-in capital	2,908,171	2,908,171
Statutory reserve	1,369,652	1,369,652
Retained earnings	21,416,192	16,179,230
Accumulated other comprehensive income	1,952,204	1,347,371

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Total Equity attributable to China Ruitai Shareholders	27,672,219	21,830,424
Noncontrolling interests	273,873	215,047
Total Equity	27,946,092	22,045,471
TOTAL LIABILITIES AND EQUITY	\$ 114,445,150	\$ 120,183,732

See notes to unaudited consolidated financial statements.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Income and Comprehensive Income

	Three months ended September 30,		Nine months ended September 30,	
	2010 (unaudited)	2009 (unaudited)	2010 (unaudited)	2009 (unaudited)
Sales	\$ 11,180,701	\$ 10,181,155	\$ 32,590,132	\$ 26,876,118
Cost of sales (note a)	7,590,381	6,864,455	22,742,820	17,347,059
Gross margin	3,590,320	3,316,700	9,847,312	9,529,059
Operating expenses				
General and administrative expenses	436,218	515,882	936,328	2,014,852
Selling expenses	432,914	317,260	1,322,299	1,051,231
Total operating expense	869,132	833,142	2,258,627	3,066,083
Income from operations	2,721,188	2,483,558	7,588,685	6,462,976
Other income/(expense)				
Interest income	267,465	751,983	834,077	1,676,899
Interest expense	(536,097)	(783,328)	(1,665,194)	(2,032,410)
Commercial leasing income	305,767	-	920,724	-
Cost of commercial leasing	(215,831)	-	(643,961)	-
Other income/(expense)	(9,812)	(20,275)	11,875	(189,323)
Income before income tax expense	2,532,680	2,431,938	7,046,206	5,918,142
Income tax expense	633,170	607,985	1,756,548	1,479,536
Net income before allocation to noncontrolling interests	1,899,510	1,823,953	5,289,658	4,438,606
Less: Net income attributable to noncontrolling interests	18,995	18,239	52,696	44,386
Net income attributable to China Ruitai	1,880,515	1,805,714	5,236,962	4,394,220
Other comprehensive income				
Net Income	1,899,510	1,823,953	5,289,658	4,438,606
Foreign currency translation adjustment	440,007	21,150	610,963	42,703
Comprehensive Income	\$ 2,339,517	\$ 1,845,103	\$ 5,900,621	\$ 4,481,309
Less: Comprehensive income attributable to noncontrolling interests	23,395	18,450	58,826	44,813
Comprehensive Income Attributable to China Ruitai	\$ 2,316,122	\$ 1,826,653	\$ 5,841,795	\$ 4,436,496
Earnings per share - Basic and diluted	\$ 0.07	\$ 0.07	\$ 0.20	\$ 0.17
Weighted average number of common shares outstanding - Basic and diluted	26,000,000	26,000,000	26,000,000	26,000,000

(note a: The cost of sales includes steam purchased from a related party but the precise amount could not reasonably be determined, for detail, please refer to footnote 11)

See notes to unaudited consolidated financial statements.

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

	Nine months ended September 30,	
	2010	2009
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income before allocation to noncontrolling interests	\$ 5,289,658	\$ 4,438,606
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operation activities		
Depreciation	1,777,706	967,838
Amortization of land use rights	84,395	80,328
Stock based compensation	-	165,978
Changes in operating assets and liabilities:		
Restricted cash	16,769,400	(1,057,036)
Accounts receivable	(3,823,581)	(1,916,865)
Notes receivable	5,696,019	-
Advance to suppliers	464,893	-
Inventories	757,691	1,497,306
Other receivables	(1,206,514)	(885,615)
Accounts payable	1,081,040	343,116
Notes payable	(25,007,000)	11,691,617
Advance from customers	1,198,451	(237,184)
Income tax payable	953,241	970,622
Other payables	1,212,374	(2,507)
Net cash provided by operating activities	5,247,773	16,056,204
Cash flows from investing activities:		
Purchase of property and equipment	(1,593,008)	(1,282,358)
Net cash used in investing activities	(1,593,008)	(1,282,358)
Cash flows from financing activities:		
Proceeds from bank loans	37,648,774	5,115,079
Repayment of bank loans	(25,880,774)	-
Repayment in amount due to a related party	(4,046,323)	(14,820,016)
Proceeds from loans from employees	28,215	(88,694)
Net cash provided by/ (used in) financing activities	7,749,892	(9,793,631)
Effect of exchange rate fluctuation on cash and cash equivalents	439,890	16,239
Net increase in cash and cash equivalents	11,404,657	4,980,215
Cash and cash equivalents- beginning of period	10,174,528	5,319,456
Cash and cash equivalents-end of period	22,019,075	10,315,910
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	\$ 1,665,194	\$ 2,038,052

Cash paid for income tax	\$	803,069	\$	515,767
Supplemental disclosure of noncash investing and financing activities:				
Repayment in amount due to related party by transferring out long-term investment at cost (see Note 9)	\$	888,960	\$	-
Collection in amount due from related party by receiving the ownership in real estate property at fair value (see Note 8)	\$	-	\$	36,710,934

See notes to unaudited consolidated financial statements

CHINA RUITAI INTERNATIONAL HOLDINGS CO., LTD. AND SUBSIDIARIES
Notes to Unaudited Consolidated Financial Statements

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

China Ruitai International Holdings Co., Ltd. (“China Ruitai” or the “Company”) was initially organized under the laws of the State of Delaware on November 15, 1955 as Inland Mineral Resources Corp. The Company subsequently changed its name to Parker-Levitt Corporation, and in 1997 changed its name to Commercial Property Corporation, and in 2006 changed its name to Shandong Ruitai Chemical Co., Ltd. On March 12, 2007, the Company changed its name to China Ruitai International Holdings Co., Ltd. On February 26, 2007, the Company changed its fiscal year end from October 31 to December 31.

On August 29, 2007, the Company entered into a Share Exchange Agreement with Pacific Capital Group Co., Ltd., (“Pacific Capital Group”), a corporation incorporated under the laws of the Republic of Vanuatu, and the stockholders of Pacific Capital Group (the “Stockholders”). Pursuant to the Share Exchange Agreement, the Stockholders agreed to transfer all of the issued and outstanding shares of common stock in Pacific Capital Group to the Company in exchange for the issuance of an aggregate of 22,645,348 shares of the Company’s common stock to the Stockholders, thereby causing Pacific Capital Group to become a wholly-owned subsidiary of the Company and TaiAn RuiTai Cellulose Co., Ltd. (“TaiAn Ruitai”), Pacific Capital Group’s majority-owned operating subsidiary, a Chinese limited liability company, to become a majority owned subsidiary of the Company. The parties closed the share exchange contemplated by the Share Exchange Agreement on November 8, 2007.

Pacific Capital Group was incorporated on November 23, 2006 under the laws of the Republic of Vanuatu as a holding company, for the purposes of seeking and consummating a merger or acquisition with a business entity. On April 26, 2007, following the approval by the relevant governmental authorities in the People’s Republic of China (the “PRC”), Pacific Capital Group acquired a 99% ownership interest in TaiAn Ruitai, which was formed in the PRC on November 10, 1999 with registered capital of \$2,391,840. As a result of the transaction, TaiAn Ruitai became a 99% majority-owned subsidiary of Pacific Capital Group.

TaiAn Ruitai is the only one of these affiliated companies that is engaged in business operations. China RuiTai and Pacific Capital Group are holding companies, whose business is to hold an equity ownership interest in TaiAn Ruitai. TaiAn Ruitai is engaged in the production, sales, and exportation of deeply processed chemicals, with a primary focus on non-ionic cellulose ether products. TaiAn Ruitai’s assets exist solely in the PRC, and its revenues are derived from its operations therein.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated interim financial information as of September 30, 2010 and for the three and nine-month periods ended September 30, 2010 and 2009 have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures, which are normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. The interim financial information should be read in conjunction with the Financial Statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the Company's consolidated financial position as of September 30, 2010, its consolidated results of operations for the three and nine-month periods ended September 30, 2010 and 2009 and its cash flows for the nine-month periods ended September 30, 2010 and 2009, as applicable, have been made. The interim results of operations are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Principle of consolidation

The accompanying consolidated financial statements include China Ruitai International Co., Ltd., Pacific Capital Group Co., Ltd. and TaiAn RuiTai Cellulose Co., Ltd. All inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. Management evaluates the estimates on an ongoing basis, including those related to accounts receivable and useful lives of property and equipment, fair values of warrant to purchase our common stock, and income taxes. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Recently issued accounting pronouncements

In April 2010, the FASB issued ASU 2010-13, Compensation-Stock Compensation (Topic 718): Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades - a consensus of the FASB Emerging Issues Task Force. The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Earlier application is permitted. The Company does not expect the provisions of ASU 2010-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

In May 2010, the FASB issued ASU 2010-19, Foreign Currency (Topic 830): Foreign Currency Issues: Multiple Foreign Currency Exchange Rates. The amendments in this Update are effective as of the announcement date of March 18, 2010. The Company does not expect the provisions of ASU 2010-19 to have a material effect on the financial position, results of operations or cash flows of the Company.

After May 2010, FASB issued several ASUs-ASU-20 through ASU-26, which do not require adoption until a future date are not expected to have a material impact on the consolidated financial statement upon adoption.

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable are recognized and carried at original sales amounts less an allowance for uncollectible accounts, as needed. Accounts receivable as of September 30, 2010 and December 31, 2009 was:

	September 30, 2010	December 31, 2009
	(Unaudited)	
Accounts receivable	\$ 9,696,656	\$ 5,705,298
Less: Allowance for doubtful accounts	(1,610,318)	(1,606,569)
	\$ 8,086,338	\$ 4,098,729

Allowance for doubtful accounts movement for nine months ended September 30, 2010:

	December 31, 2009	Provision	Recovery	Write-off	September 30, 2010
Allowance for doubtful accounts	\$ (1,606,569)	\$ (143,458)	\$ 139,709	\$ -	\$ (1,610,318)

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4. NOTES RECEIVABLE

Notes receivables of \$1,525,046 as of September 30, 2010 and \$7,153,450 as of December 31, 2009 represents bank acceptance notes the Company received from customers for sales of products. The notes have maturity durations of 3 to 6 months, bear no interest and are accepted by banks.

5. INVENTORIES

Inventories on September 30, 2010 and December 31, 2009 consisted of the following:

	September 30, 2010 (Unaudited)	December 31, 2009
Raw materials	\$ 2,775,465	\$ 2,467,368
Work in progress	1,662,506	931,629
Finished goods	3,114,978	4,733,684
	\$ 7,552,949	\$ 8,132,681

6. PROPERTY AND EQUIPMENT, NET

Property and equipment as of September 30, 2010 and December 31, 2009 consisted of the following:

	September 30, 2010 (Unaudited)	December 31, 2009
Buildings	\$ 8,984,756	\$ 8,296,979
Machinery and equipment	11,345,893	9,653,846
Office equipment and furniture	86,047	76,589
Motor vehicles	476,012	465,069
Less: Accumulated depreciation	(6,912,975)	(5,626,814)
Construction in progress		