

NB Telecom, Inc.
Form 8-K
December 31, 2008

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report: December 31, 2008

NB TELECOM, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or Other
Jurisdiction of
Incorporation)

333-134073
(Commission File
Number)

04-3836208
(IRS Employer
Identification No.)

**No. 9 Qinling Road, Yingbin Road Centralized Industrial Park
Harbin Development Zone, Heilongjiang, China**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

150078
(Zip Code)

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

106 May Drive, Saxonburg, Pennsylvania 16056 ..
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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- Item 1.01** **Entry into a Material Definitive Agreement**
- Item 2.01** **Completion of Acquisition of Assets**
- Item 3.02** **Unregistered Sale of Equity Securities**
- Item 3.03** **Material Modification to Rights of Security holders**
- Item 5.01** **Changes in Control of Registrant**
- Item 5.02** **Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers**

On December 24, 2008, NB Telecom, Inc. (the Company) acquired all of the outstanding capital stock of Favor Sea Limited, a British Virgin Islands corporation, through China XD Plastics Company Limited, a Nevada corporation (the Merger Sub) wholly owned by the Company. Favor Sea Limited is a holding company whose only asset, held through a subsidiary, is 100% of the registered capital of Harbin Xinda Macromolecule Material Co., Ltd. (Xinda), a limited liability company organized under the laws of the People's Republic of China (China or PRC). Xinda is engaged in the development, manufacture and marketing of modified plastics, primarily for use in the automotive industry. Xinda's offices and manufacturing facilities are located in China.

In connection with the acquisition, the following transactions took place:

The Merger Sub issued 10 shares of the common stock of the Merger Sub which constituted no more than 10% ownership interest in the Merger Sub and 1,000,000 shares of convertible Series A preferred stock of the Company to the shareholders of Favor Sea Limited, and also 1,000,000 shares of Series B preferred stock to XD. Engineering Plastics Company Limited, a British Virgin Islands corporation, the principal shareholder of Favor Sea Limited (XD), in exchange for the outstanding stock of Favor Sea Limited (the Share Exchange or Merger). The 10 shares of the common stock of the Merger Sub were converted into approximately 50,367,778 shares of the common stock of the Company prior to and approximately 405,928 post a reverse stock split of 124.1 for 1 pursuant to Nevada Revised Statutes Section 78.207 for both the total number of authorized shares of common stock and the total number of issued and outstanding shares of common stock (Reverse Split), and the 1,000,000 shares of convertible Series A preferred stock of the Company shall convert approximately 1:38.2 into 38,194,072 shares of the common stock of the Company after the completion of the Merger so that eventually the shareholders of Favor Sea Limited own approximately 99% of the common stock of the Company.

The record date for the Reverse Split is set for December 31, 2008. The record holders of the Company's common stock on the date of December 31, 2008 shall be subject to a 124.1:1 reverse split with fractional shares to be rounded up to one hundred round lot, with the round-up shares to be deducted from certain designated shareholders by the Company.

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Paul Kelly, Craig Burton and Leonard J. Battagha resigned from our Board of Directors effective December 31, 2008.

Jie Han, the Chairman of Xinda, was elected to serve on our Board of Directors. He will be appointed as the Chief Executive Officer and Chief Financial Officer of the Company.

Qingwei Ma and Junjie Ma were elected to serve on the Board. They will be appointed as officers of the Company.

As part of the Merger, the Company's name is changed from NB Telecom, Inc. to the Merger Sub's name China XD Plastics Company Limited. The Company is communicating with NASDAQ for the name change and trading symbol change on the OTC Bulletin Board.

As a result of these transactions, persons affiliated with Xinda now own securities that represent 99% of the equity in the Company. In addition, persons affiliated with Xinda will control the Board of Directors of the Company ten days after the notice pursuant to Rule 14f-1 is mailed to the shareholders of record.

New Management

Within the next few days, the Company will file with the Securities and Exchange Commission (SEC) and mail to its shareholders of record an information statement prepared in accordance with SEC Rule 14f-1, containing information about Jie Han, Qingwei Ma and Junjie Ma among other things. Ten days after the information statement is mailed to the shareholders of record, Jie Han, Qingwei Ma and Junjie Ma will take office on the Board. At that time, the executive officers and directors of the Company will be:

| <u>Name</u> | <u>Age</u> | <u>Positions with the Company</u> |
|-------------|------------|---|
| Jie Han | 43 | Chairman, Chief Executive Officer and Chief Financial Officer |
| Qingwei Ma | 34 | Director, Chief Operating Officer |
| Junjie Ma | 33 | Director, Head of Research Institute |

All directors hold office until the next annual meeting of our shareholders and until their successors have been elected and qualify. Officers serve at the pleasure of the Board of Directors.

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Jie Han. Mr. Han co-founded Xinda in 2004, and has been employed by Xinda since that time. In January 2008 Mr. Han was appointed Chairman and Chief Executive Officer of Xinda. Prior to organizing Xinda High-tech, which was founded in 2003, Mr. Han had been associated with the Harbin Xinda Nylon Factory, which he founded in 1985. With 24 years of experiences in the industry, Mr. Jie Han is an expert in the management and financial works dealing with the manufacture and distribution of modified plastic products. Mr. Han currently serves as an executive director of China Plastic Processing Industry Association and is also a director of the Heilongjiang Industry and Commerce Association. In addition, Mr. Han serves as a deputy to the Harbin Municipal People's Congress.

Qingwei Ma. Mr. Ma has been employed as General Manager of Xinda since it was founded in 2004. In 2008 he was promoted to Chief Operating Officer. Prior to joining Xinda, Mr. Ma was employed for six years by Harbin Xinda Nylon Factory as Manager of Quality Assurance, then as Manager of Research and Development, and finally as Production Manager. In 1997 Mr. Ma was awarded a bachelor's degree by the Northern China Technology University, where he specialized in the chemical engineering of high polymers. Mr. Ma has 11 years of experiences in the industry. He also published two articles in China's key journals in the areas of modified plastic industry. In 2001 Mr. Ma was selected as Harbin Quality Work Advanced Enterprise and Advanced Worker; in 2004 he was awarded the Heilongjiang First Professional Manager Qualification Certificate. One of his inventions, compound nano modified materials dedicated to the automobile bumper won the Science and Technology Progress Awards issued by Harbin Municipality.

Junjie Ma. Mr. Ma graduated from Beijing University of Science and Technology, majored in Polymer materials and engineering. He was a technician of Harbin Longjiang Electrical Plant from 1997 to 2004 and was a supervisor and manager of Harbin Xinda Macromolecule Material Inc. from 2004 to 2007. Since 2008, he was elected to be Head of Research Institute of Harbin Xinda Macromolecule Material Co., Ltd. Mr. Junjie Ma is a polymer materials engineers and has developed more than 120 plastic additives, modified plastics for automobiles and engineering plastics among which 50 products have been approved by auto enterprises. A number of products have been awarded as the National Torch Program projects, Spark Projects and Harbin City Important New Products project.

Principal Shareholders

Upon completion of the Share Exchange and post the reverse split, there will be approximately 39,000,000 shares of the Company's common stock issued and outstanding. In addition, there will be 1,000,000 shares of non-convertible Series B Convertible Preferred Stock issued and outstanding. The holders of the Series B Preferred Stock have voting power equivalent to 40% of the total voting power of all common stock holders of the Company.

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of December 31, 2008 by the following:

each shareholder who beneficially owns more than 5% of our common stock (on a fully-diluted basis);

Jie Han, our Chief Executive Officer

each of the members of the Board of Directors; and

all of our officers and directors as a group.

| Name and Address of Beneficial Owner(1) | Amount and Nature of Beneficial Ownership(2) | Percentage of Class |
|---|--|---------------------|
| Jie Han | 0(3) | |
| Qingwei Ma | 0 | |
| Junjie Ma | 0 | |
| All officers and directors as a group (3 persons) | 0(3) | |
| XD. Engineering Plastics Company Limited(4) P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola, British Virgin Islands | 32,462,600(3) | 83.23% |

- (1) Except as otherwise noted, each shareholder's address is c/o Harbin Xinda Macromolecule Material Co., Ltd., No. 9 Qinling Road, Yingbin Road Centralized Industrial Park, Harbin Development Zone, Heilongjiang Province, P.R. China.
- (2) Except as otherwise noted, all shares are owned of record and beneficially.
- (3) Jie Han and Qiuyao Piao, the sole shareholder of XD, are parties to an Option Agreement dated May 16, 2008. The agreement provides that Mr. Han may purchase XD from Ms. Piao for a nominal price if Xinda achieves certain revenue thresholds. Mr. Han may purchase 25% of XD if Xinda's revenues during the first three quarters of 2008 exceed \$40 million. He may purchase 14% of XD if Xinda's revenues during the first three quarters of 2009 exceed \$70 million. And he may purchase 61% of XD if Xinda's revenues during the first three quarters of 2010 exceed \$110 million.
- (4) Qiuyao Piao and Jie Han are the directors of XD. Qiuyao Piao is the chairwoman and Chief Executive Officer of XD. By agreement between them, only Ms. Piao has the authority to vote and dispose of the shares held by XD.

INFORMATION REGARDING THE ACQUIRED COMPANIES

Favor Sea Limited

Favor Sea Limited (Favor Sea) was organized under the laws of the British Virgin Islands on May 2, 2008. It has initiated no business activity. On August 11, 2008, Favor Sea acquired 100% of the outstanding shares of Hong Kong Engineering Plastics Company Limited, in exchange for debt. Those shares represent the only asset of Favor Sea.

Hong Kong Engineering Plastics Company Limited

Hong Kong Engineering Plastics Company Limited (HK Engineering Plastics) was organized under the laws of the Hong Kong Special Administrative Region on May 27, 2008. It has initiated no business activity. On July 28, 2008, HK Engineering Plastics acquired 100% of the registered capital of Harbin Xinda Macromolecule Material Co. That ownership interest represents the only asset of HK Engineering Plastics.

Harbin Xinda Macromolecule Material Co., Ltd.

Harbin Xinda Macromolecule Material Co. Ltd. (Xinda) is a high-tech company that was founded in September 2004 under the laws of the People's Republic of China with registered capital of 20 million RMB (US\$2,416,451). Xinda's executive offices and manufacturing facility are located at No. 9 Qinling Road, Yingbin Road Centralized Industrial Park, Harbin Development Zone, Heilongjiang Province, in northeast China. Xinda engages in the development, manufacture, and distribution of modified plastic, primarily for use in automobiles. The technology that has enabled us to become China's leading producer of automotive modified plastics is carried in our wholly-owned research laboratory, Harbin Xinda Macromolecule Material Research Institute (the Research Institute), a subsidiary established in 2007. The Research Institute has developed into a leader in research and development for China's macromolecular industry. The Research Institute is outfitted with more than 80 sets of testing, analytical and production equipment used to analyze the physical and mechanical properties of the heat resistances, durability, stability, and environmental performance exhibited by modified plastics.

Modified plastic is produced by changing the physical and/or chemical characteristics of ordinary resin materials. In order for plastics to be used in the automobile environment, they must satisfy certain physical criteria in terms of electro-magnetic characteristics, reaction to light and heat, durability, flame resistance, and mechanical functionality. Xinda's unique formulas and processing techniques enable us to produce low-cost high-quality modified plastic materials, which have been accepted by many of the major automobile manufacturers in China. In addition, we also provide specially engineered plastics and environment-friendly plastics for use in the assembly of equipment for oilfields, mining, ship power, power station equipment, and other industries.

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Xinda's primary market is the rapidly expanding Chinese automotive industry. In 2007 8.88 million automobiles were sold in China, which increased by 22% than previous year. It is estimated that the Chinese auto market will be growing by 15% annually in the coming years. Each automobile requires 100kg to 150 kg of modified plastic, which means that by 2010 the demand for modified plastic in the Chinese automobile industry will be approximately 1.2 million tons annually. Xinda's existing facility has an annual production capacity of 40,000 tons. If we complete the acquisition of an additional 19 production lines, discussed below, our annual capacity will reach 100,000 tons.

Our specialized plastics are utilized in the exterior and interior trim and in the functional components of more than 30 automobile brands manufactured in China, including Audi, Red Flag, Volkswagen and Mazda. At present, Xinda manufactures approximately 145 types of automobile-specific modified plastic products, 117 of which have been certified for use by one or more of the automobile manufacturers in China. The automotive applications for our plastics include exteriors (automobile bumpers, rear- and side- view mirrors, license plate), interiors (door panels, dashboard, steering wheel, glove compartment and safety belt components), and functional components (air conditioner casing, heating and ventilation casing, engine covers, and air ducts).

Our 145 products are organized into seven categories, based on their physical characteristics:

Modified Polypropylene:

COMPNIPIER: a form of modified polypropylene that exhibits high fluidity and impact resistance. These products are primarily used for the interior automobile parts, such as the inner panels, instrument panels, and box lids. 27 of these products have been certified for use in the Chinese auto industry.

COMPWIPER: a form of modified polypropylene that exhibits low-temperature-resistance and impact resistance. These products are primarily used for external automobile parts, such as the front and back bumpers and mudguards. 23 of these products have been certified for use in the Chinese auto industry.

COMPGOPER: a form of modified polypropylene that exhibits high-temperature-resistance and resistance to static. These products are used primarily for automobile functional components, such as the unit heater shells and air conditioner shells. 33 of these products have been certified for use in the Chinese auto industry.

Modified ABS:

MOALLOLY: a form of modified ABS (acrylonitrile butadiene styrene) plastic that exhibits high gloss, high rigidity, and size stability. These products are primarily used for automobile functional components, such as the heat dissipating grid and wheel covers. 6 of these products have been certified for use in the Chinese auto industry.

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Modified Nylon:

POLGPAMR: a form of modified nylon that exhibits high wear and heat resistance. These products are primarily used for automotive parts requiring high flame and heat resistance. 10 of these products have been certified for use in the Chinese auto industry.

Engineering Plastic

MOAMIOLY: a wear-resistant form of engineering plastic. These products are primarily used for the engine hood, intake manifold, and bearings. 7 of these products have been certified for use in the Chinese auto industry.

Alloy Plastic

BRBSPCL: a form of alloy plastic. These products are used primarily for the rearview mirror, grille, automotive electronics and other components. The products can also be used in computers, plasma TVs, mobile phones and other electronic and electrical consumer products. 7 of these products have been certified for use in the Chinese auto industry.

Environment-friendly Modified Plastic

POLGBSMR: an environment-friendly form of modified plastic, is used in automobiles with environmental standard requirements. 4 of these products have been certified for use in the Chinese auto industry.

Modified Plastic for Special Engineering

PEEK: a special engineering form of modified plastics that can be used in communication and transportation, electronic and electric appliance, machinery, medical equipment and analytical equipment. Xinda is developing products in this field based on the years' research findings. However, none of these products has been certified for use in the auto industry.

Physical Plant and Production

Our executive offices and production facilities are located in the Harbin Development Zone in the City of Harbin, which is the provincial capital of Heilongjiang Province in northeast China. Our facility has a total usable area of 7,359 square meters (79,212 square feet). The facility includes six buildings with one office building attached by one workshop, one workshop, one storage room, one transformer station, and two guard rooms, with a usable area of 7,359 square meters (79,212 square feet). All the company's properties are insured by China Pacific Property Insurances Co., Ltd.

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The land on which our facility is located measures 14,715 square meters (158,391 square feet). The land use right was issued to Xinda by the City of Harbin. The right will expire in 2053. Compliance with Chinese environmental regulations currently cost us 30,000 RMB (\$4,392) annually. However during 2008 we are engaged in a ground remediation project to comply with new regulations. The cost of the project in 2008 will be 10,180,000 RMB (\$1.5 million). As a result of the new regulations, our annual environmental compliance cost is expected to increase to 1,018,000 RMB (\$150,000).

The process of manufacturing modified plastic consists of modifying a standard plastic (polypropylene, ABS, PA6, PA66, etc.) by adding various agents and additives that will alter the physical and/or functional characteristics of the plastic. Catalysts are added that facilitate the desired chemical reactions, all of which occurs in a specially designed equipment. The resulting plastics are then extracted from the equipment by an extraction technique that is proprietary to Xinda. Further processing may involve additional blending, extrusion, cooling and cutting, homogenizing and packing, as needed to meet the customer's requirements.

In addition to its unique extraction technology, Xinda has developed its own techniques and equipment for many of the steps in the production process. Among the aspects of production for which Xinda has proprietary technology are product formulae, a technique for combining extruder screws, and certain stuffing techniques. With these unique formulas and techniques, our products can satisfy often clients standard requirements at a lower cost than competitive products.

Our facilities have been certified under the following international qualifications criteria: ISO9001: 2000 quality management system certification and ISO/TS16949: 2002 international auto parts industry quality systems certification. The government of China has designated Xinda as a National Torch Project and a National Spark Plan Project, and has given Xinda the Most Valuable High Tech in China award. Xinda is an executive member of the Council of the Chinese Automobile Parts Association, a member of the Chinese Modified Plastics Professional Committee, and a member of the Chinese Plastics Engineering Committee.

Asset Purchase Agreement

With the acceleration of the localization of China auto parts industry and the rapid increase of sales of special modified plastics for automobiles, it is estimated that the demand of special modified plastics for automobiles will increase from 0.728 million tons in 2006 to 1.20 million tons in 2010. Because of this, Xinda's production capacity of automotive special modified plastics cannot meet with customers' increasing order demand, and Xinda decides to achieve 0.1 million tons of special modified plastics for automobiles by 2010 through the form of acquiring all Xinda High-tech's assets which is used to produce modified plastics for automobiles. Xinda and Xinda High-tech entered into an Assets Purchase Agreement on September 20, 2008.

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Pursuant to the Assets Purchase Agreement, Xinda will purchase 6 buildings including office building, 19 full automatic production lines and related lands and subsidiary facilities. Xinda High-tech sold all facilities to Xinda at the price of 240 million RMB (\$35 million). Xinda will pay all funds before the end of September, 2009.

Raw Materials

The principal raw materials used for the production of the Company's products are plastic resins such as polypropylene, ABS and nylon. Nearly 60% of these raw materials come from overseas petrochemical enterprises, and 40% from domestic petrochemical enterprises. All of our contracts for raw materials are one-year renewable contracts.

Polypropylene is a chemical compound manufactured from petroleum.

Acrylonitrile Butadiene Styrene (ABS), is a common thermoplastic used to make light, rigid, molded products such as automotive body parts and wheel covers.

Nylon is a thermoplastic silky material.

Currently we have adequate access to these raw materials by dealing with major suppliers in the industry. Xinda has one-year renewable contracts with each of suppliers. Because the raw materials are mostly petroleum products, the rise of oil price will directly affect the cost for the raw materials. However, in that event, we should be able to pass the cost to our customers by raising the price for our products.

Because raw materials constitute a substantial part of the cost of our products, we seek to reduce the cost of raw materials by dealing with two major suppliers: Dalian Free Trade Zone Mankeri International Trade Co., Ltd. (Mankeri), and Dalian Lanhai International Trade Co., Ltd. During the nine months ended on September 30, 2008, Xinda purchased approximately 70% of its raw materials from Mankeri and 20% from Dalian Lanhai International Trade Co., Ltd. In 2007 we purchased 86% of our raw materials from Mankeri, and 80% in 2006. By dealing with these major suppliers, Xinda obtains reduced prices for raw materials, and thus reduces the cost of our products. If we were unable to purchase from Mankeri, we would still have adequate sources of raw materials from other petrochemical dealers, but the cost would increase by 1-2%.

Intellectual Property

Our Research Institute, Xinda Macromolecule Material Research Institute, was organized to provide us with ongoing additions to our technology, which represents the key to our competitive success. Our goal is to utilize state-of-the-art methods and equipment to produce plastics of the highest quality that are cost-efficient for our customers. Toward this end, we have staffed the Research Institute with 38 researcher employees, over 90% of whom have advanced degrees or specialized undergraduate training.

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To supplement the efforts of our Research Institute, we have developed cooperative research programs with a number of the leading technology centers in China, including the Changchun Institute of Applied Chemistry of the Chinese Academy of Science, the Beijing Chemical Engineering Institute, the Harbin Institute of Technology, the Northeast Forestry University, Jilin University, and the Korea HEP Institute. Besides providing specialized research and development skills, these relationships help us to formulate cutting edge research programs aimed at addressing developing issues in plastics engineering.

All our significant research and development activities are overseen by the members of our Scientific Advisory Board, which we have assembled from among the leaders in China's chemical engineering industry. Currently, the members of the Scientific Advisory Board are:

Jin Yong: The member of the Chinese Academy of Engineering, director of the Research Institute of Chemical Engineering Science and Technology at Tsinghua University.

Wu Zhongwen: Director of the Research Institute of Special Plastics Engineering of Jilin University.

Zheng Kai: Secretary General of China's Plastics Engineering Industry Association.

Huang Yudong: Dean of the Chemical Engineering Department at Harbin Industrial University

Li Bin: Dean of the Science Department at Eastern Forest Industry University.

Xing Yuqing: Director of the Teaching and Research Section of the Chemical Engineering Department at Harbin Industrial University

Jiang Zhenhua: Director of the Engineering Research Center of the Special Plastics Engineering Education Department of Jilin University

As a result of our collection of academic and technological expertise, we have a portfolio of 10 patents for which we have applications pending in China.

| No. | Patent Name | Patent Application No. | Application Date and Status |
|-----|---|------------------------|-----------------------------|
| 1 | Measures for efficient recycling and circulating usage of waste and old plastics | 200510010540.90 | 2005.11.15 Pending |
| 2 | Special engineering plastics dedicated to military industry products | 200510010543.20 | 2005.11.15 Pending |
| 3 | Special materials for wall tubes of polyethylene winding structure of tube inbuilt technology without opening tank lid | 200510010541.30 | 2005.11.15 Pending |
| 4 | Stuffing master batch material dedicated to polypropylene resin | 200510010542.80 | 2005.11.15 Pending |
| 5 | Special materials for air inflow manifold of automobile engine | 200710072563.10 | 2007.7.25 Pending |
| 6 | High-lustre low shrinkage ratio nano polypropylene modified compound and its manufacturing methods | 200510010539.60 | 2005.11.15 Pending |
| 7 | Strengthened toughened aging resistant polypropylene/nano calcium carbonate compound material and its manufacturing methods | 200510010538.10 | 2005.11.15 Pending |
| 8 | Green inflaming-retardant ABS alloy | 200610009836.30 | 2006.03.21 Pending |
| 9 | Compound nano special materials dedicated to automobile bumper | 200510010066.x | 2005.06.06 Pending |
| 10 | High-performance special polypropylene materials dedicated to automobile | 200610009837.80 | 2006.3.21 Pending |

Trademark

We own the trademarks for our graphic logo and Chinese characters of (Xinda), which we use in packaging our products and marketing ourselves. Currently the two trademarks are under the application for Company's name change due to the change of our name from Harbin Xinda Macromolecule Material Inc. to Harbin Xinda Macromolecule Material Co., Ltd.

Marketing

Currently Xinda's sales network covers the northeastern and eastern regions of China. Xinda has two sales branches: one in Changchun City where the largest portion of the automobile manufacturing industry in China is located, and the other in Ningbo City in the eastern part of China where the second largest portion of such industry known as Shanghai Region is located. Xinda has a sales team of 18 persons, each with more than three years of sales experiences. In 2007, 93% of our sales were derived from the northeastern market, with continuing expansion into the northern and eastern regions of China.

Xinda sells directly to its customers or indirectly through sales agents. Xinda rates potential customers based on its Customer Estimation Management System. For those customers who can make payment within our collection period, Xinda sells products directly to them, and provides full after-sale services. These customers are usually the major automobile manufacturers who have certified our products. For potential customers who may not be able to make payment within our collection period, we assign a local sales agent to market to them.

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We enter into Sales Agency Agreements with local agents in areas where large automobile manufacturers are located. The sales agents are responsible for developing the markets for our products and collecting payments from our customers. In distributing our products during the agency period, the agents are required to use Xinda's product certificate, brand and package standards set by us. They must also reimburse us the amount of payment that the customers fail to make within our collection period. After the termination of the agency relationship, the customers developed by the agents are proprietary to Xinda.

During the past three years, the Company has sold most of its products in the three northeastern provinces of China: Heilongjiang, Jilin, and Liaoning. We expect to develop more customers in the cities and provinces located in the Eastern part of China, such as Shanghai and Zhejiang Province.

No single customer accounted for more than 10% of our sales during the nine months ended on September 30, 2008, or during 2007 or 2006.

Competition

Currently Xinda's primary Chinese competitor in the automobile industry is a large industrial company named Guangzhou Kingfa Science & Technology Co., Ltd. (Guangzhou Kingfa). Guangzhou Kingfa entered the market in 2006 and its facilities with a manufacturing capacity of 100,000 tons are under construction. Guangzhou Kingfa has much larger financial resources than Xinda. Currently, however, it has fewer certified products and sells less modified plastic to the automobile industry than Xinda.

The Chinese auto market is dominated, however, by modified plastic manufactured overseas or in factories controlled by foreign companies. Almost 60% of the modified plastic used in Chinese automobiles is manufactured by non-Chinese fabricators, primarily manufacturers from Germany, the Netherlands and Japan. Although Xinda and its Chinese competitors compare very favourably with these foreign competitors in terms of price, service and delivery times, the lack of production capacity in the Chinese modified plastics industry has allowed the foreign competition to remain dominant in that industry.

Employees

Xinda's operations are organized into seven operational departments such as technologies, sales, supply, R&D and finance. There are currently 296 full-time employees, including 94 in manufacturing, 38 in R&D, 32 in management, 13 in financial department, 18 in sales, purchasing and marketing and 132 in other departments.

Risk Factors

You should carefully consider the risks described below before buying our common stock. If any of the risks described below were realized, that event could cause the trading price of our common stock to decline, and you could lose all or part of your investment.

Risks related to doing business in China

Our business operations are conducted entirely in China. Because China's economy and its laws, regulations and policies are different from those typically found in the west and are continually changing, we will face risks including those summarized below.

China is a developing nation governed by a one-party government and may be more susceptible to political, economic, and social upheaval than other nations.

China is a developing country governed by a one-party government. China is also a country with an extremely large population, widening income gaps between rich and poor and between urban and rural residents, minority ethnic and religious populations, and growing access to information about the different social, economic, and political systems to be found in other countries. China has also experienced extremely rapid economic growth over the last decade, and its legal and regulatory systems have changed rapidly to accommodate this growth. These conditions make China unique and may make it susceptible to major structural changes. Such changes could include a reversal of China's movement to encourage private economic activity, labor disruptions or other organized protests, nationalization of private businesses, internal conflicts between the police or military and the citizenry, and international political or military conflict. If any of these events were to occur, it could shut down China's economy and cause us to temporarily or permanently cease operations.

The PRC's laws, regulations and policies, and changes to them, may limit our ability to operate profitably or prevent us from operating at all.

Our stores and distribution centers, as well as our suppliers and the agricultural producers on whom they depend, are located in China. The PRC government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy, including the production, distribution and sale of our merchandise. In particular, we are subject to regulation by local and national branches of the Ministries of Commerce and Transportation, as well as the General Administration of Quality Supervision, the State Administration of Foreign Exchange, and other regulatory bodies. In order to operate under PRC law, we require valid licenses, certificates and permits, which must be renewed from time to time. If we were to fail to obtain the necessary renewals for any reason, including sudden or unexplained changes in local regulatory practice, we could be required to shut down all or part of our operations temporarily or permanently.

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Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to agriculture, taxation, land use rights and other matters. Such changes could be made at the national or local level and in the form of: farm subsidies; corporate tax rates; employee benefits; leaseholder or land-use rights; enforceability of contracts; intellectual property; or retail pricing. The effects of such changes on our business cannot be predicted but could be significant.

All of our assets are located in China. So any dividends or proceeds from liquidation are subject to the approval of the relevant Chinese government agencies.

Our assets are located inside China. Under the laws governing FIEs in China, dividend distribution and liquidation are allowed but subject to special procedures under the relevant laws and rules. Any dividend payment will be subject to the decision of the board of directors and subject to foreign exchange rules governing such repatriation. Any liquidation is subject to both the relevant government agency's approval and supervision as well the foreign exchange control. This may generate additional risk for our investors in case of dividend payment or liquidation.

Because our funds are held in banks which do not provide insurance, the failure of any bank in which we deposit our funds could affect our ability to continue in business.

Banks and other financial institutions in the People's Republic of China do not provide insurance for funds held on deposit. As a result, in the event of a bank failure, we may not have access to funds on deposit. Depending upon the amount of money we maintain in a bank that fails, our inability to have access to our cash could impair our operations, and, if we are not able to access funds to pay our suppliers, employees and other creditors, we may be unable to continue in business.

Anti-inflation measures may be ineffective or harm our ability to do business in China.

In recent years, the PRC government has instituted anti-inflationary measures to curb the risk of an overheated economy characterized by debilitating inflation. These measures have included devaluations of the renminbi, restrictions on the availability of domestic credit, and limited re-centralization of the approval process for some international transactions. These austerity measures may not succeed in slowing down the economy's excessive expansion or control inflation, or they may slow the economy below a healthy growth rate and lead to economic stagnation or recession; in the worst-case scenario, the measures could slow the economy without curbing inflation. The PRC government could adopt additional measures to further combat inflation, including the establishment of price freezes or moratoriums certain projects or transactions. Such measures could harm the economy generally and hurt our business by limiting the income of our customers available to purchase our merchandise, by forcing us to lower our profit margins, and by limiting our ability to obtain credit or other financing to pursue our expansion plans or maintain our business.

Governmental control of currency conversions may affect the value of your investment.

All of our revenue is earned in renminbi, and any future restrictions on currency conversions may limit our ability to use revenue generated in renminbi to make dividend or other payments in U.S. dollars. Although the PRC government introduced regulations in 1996 to allow greater convertibility of the renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises like us may buy, sell or remit foreign currencies only after providing valid commercial documents at a PRC banks specifically authorized to conduct foreign-exchange business.

In addition, conversion of renminbi for capital account items, including direct investment and loans, is subject to governmental approval in the PRC, and companies are required to open and maintain separate foreign-exchange accounts for capital account items. There is no guarantee that PRC regulatory authorities will not impose additional restrictions on the convertibility of the renminbi. Such restrictions could prevent us from distributing dividends and thereby reduce the value of our stock.

The fluctuation of the exchange rate of the renminbi against the dollar could reduce the value of your investment.

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and renminbi. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into renminbi for our operations, appreciation of the renminbi against the U.S. Dollar could reduce the value in renminbi of our funds. Conversely, if we decide to convert our renminbi into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes and the U.S. dollar appreciates against the renminbi, the U.S. dollar equivalent of our earnings from The Company, our subsidiary in China, would be reduced. In addition, the depreciation of significant U.S. Dollar-denominated assets could result in a charge to our income statement and a reduction in the value of these assets.

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On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the renminbi to the U.S. Dollar. Under the new policy, the renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an appreciation of the renminbi against the U.S. dollar of approximately 12% as of the date of this report. While the international reaction to the renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the renminbi against the U.S. Dollar.

We receive all of our revenues in renminbi. The PRC government imposes controls on the convertibility of renminbi into foreign currencies and, in certain cases, the remittance of currency out of the China. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends, or otherwise satisfy foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from the transaction, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange (SAFE) by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where renminbi are to be converted into foreign currency and remitted out of the PRC to pay capital expenses, such as the repayment of bank loans denominated in foreign currencies.

The PRC government could also restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay certain expenses as they come due.

Recently-modified SAFE regulations may restrict our ability to remit profits out of China as dividends.

SAFE Regulations regarding offshore financing activities by PRC residents have recently undergone a number of changes which may increase the administrative burdens we face. The failure of our stockholders who are PRC residents to make any required applications and filings pursuant to these regulations may prevent us from being able to distribute profits and could expose us and our PRC-resident stockholders to liability under PRC law.

SAFE issued a public notice (the October Notice), effective as of November 1, 2005, and implementation rules in May 2007, which require registration with SAFE by the PRC-resident stockholders of any foreign holding company of a PRC entity. These regulations apply to our stockholders who are PRC residents. In the absence of such registration, the PRC entity cannot remit any of its profits out of the PRC as dividends or otherwise.

In the event that our PRC-resident stockholders have not followed the procedures required under the October Notice and its implementation rules, we could lose the ability to remit monies outside of the PRC and would therefore be unable to pay dividends or make other distributions, and we could face liability for evasion of foreign-exchange regulations. Such consequences could affect our good standing under PRC regulations and our ability to operate in the PRC, and could therefore diminish the value of your investment.

China's legal and judicial system may not adequately protect our business and operations and the rights of foreign investors.

China's legal and judicial system may negatively impact foreign investors. In 1982, the National People's Congress amended the Constitution of China to authorize foreign investment and guarantee the lawful rights and interests of foreign investors in the China. However, the China's system of laws is not yet comprehensive. The legal and judicial systems in the China are still rudimentary, and enforcement of existing laws is inconsistent. Many judges in the China lack the depth of legal training and experience that would be expected of a judge in a more developed country. Because the China judiciary is relatively inexperienced in enforcing the laws that do exist, anticipation of judicial decision-making is more uncertain than would be expected in a more developed country. It may be impossible to obtain swift and equitable enforcement of laws that do exist, or to obtain enforcement of the judgment of one court by a court of another jurisdiction. The China's legal system is based on civil law, or written statutes; a decision by one judge does not set a legal precedent that must be followed by judges in other cases. In addition, the interpretation of Chinese laws may vary to reflect domestic political changes.

As a matter of substantive law, the foreign-invested enterprise laws provide significant protection from government interference. In addition, these laws guarantee the full enjoyment of the benefits of corporate articles and contracts to foreign-invested enterprise participants. These laws, however, do impose standards concerning corporate formation and governance, which are qualitatively different from the general corporation laws of the United States. Similarly, the PRC accounting laws mandate accounting practices that are not consistent with U.S. generally accepted accounting principles. PRC accounting laws require that an annual statutory audit be performed in accordance with PRC accounting standards and that the books of account of foreign-invested enterprises are maintained in accordance with Chinese accounting laws. Article 14 of the PRC Wholly Foreign-Owned Enterprise Law requires a wholly foreign-owned enterprise to submit certain periodic fiscal reports and statements to designated financial and tax authorities, at the risk of business license revocation. Our subsidiary, Harbin Xinda Macromolecule Material Co, Ltd., is a wholly foreign-owned enterprise and is subject to these regulations.

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As a matter of enforcement, although the enforcement of substantive rights may appear less clear than in the U.S., foreign-invested enterprises and wholly foreign-owned enterprises are PRC-registered companies, which enjoy the same status as other PRC-registered companies in business-to-business dispute resolution. Because the Articles of Association of the Company do not specify a method for the resolution of business disputes, the Company and other parties involved in any business dispute are free to proceed either in the Chinese courts or, if they are in agreement, through arbitration. Under PRC law, any award rendered by an arbitration tribunal is enforceable in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Therefore, PRC laws relating to business-to-business dispute resolution should not work to the disadvantage of foreign-invested enterprises such as the Company.

However, the PRC laws and regulations governing our current business operations are sometimes vague and uncertain. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business and the enforcement and performance of our arrangements with suppliers in the event of the imposition of statutory liens, death, bankruptcy and criminal proceedings. We and any future subsidiaries are considered foreign persons or foreign-invested enterprises under PRC laws, and as a result, we are required to comply with PRC laws and regulations. These laws and regulations are sometimes vague and may be subject to future changes, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our business.

In addition, some of our present and future executive officers and directors, most notably Mr. Jie Han, may be residents of the PRC and not of the United States, and substantially all the assets of these persons are located outside the United States. As a result, it could be difficult for investors to effect service of process in the United States, or to enforce a judgment obtained in the United States against us or any of these persons.

Risks related to our business

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a limited operating history. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early-stage companies in evolving markets such as China. Some of these risks and uncertainties relate to our ability to:

- offer new products to attract and retain a larger customer base;
- increase awareness of our brand and continue to develop customer loyalty;
- respond to competitive market conditions;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business; and
- attract, retain and motivate qualified personnel

Because we are a relatively new company, we may not be experienced enough to address all the risks in our business or in our expansion. If we are unsuccessful in addressing any of these risks and uncertainties, our business may be materially and adversely affected.

We expect to incur costs related to our planned expansion and growth into new plants and ventures which may not prove to be profitable. Moreover, any delays in our expansion plans could cause our profits to decline and jeopardize our business.

We anticipate that our proposed expansion of our plants may include the construction of new or additional facilities. Our cost estimates and projected completion dates for construction of new production facilities may change significantly as the projects progress. In addition, our projects will entail significant construction risks, including shortages of materials or skilled labor, unforeseen environmental or engineering problems, weather interferences and unanticipated cost increases, any of which could have a material adverse effect on the projects and could delay their scheduled openings. A delay in scheduled openings will delay our receipt of increased sales revenues, which, when coupled with the increased costs and expenses of our expansion, could cause a decline in our profits.

Our plans to finance, develop, and expand our facilities will be subject to the many risks inherent in the rapid expansion of a high growth business enterprise, including unanticipated design, construction, regulatory and operating problems, and the significant risks commonly associated with implementing a marketing strategy in changing and expanding markets. These projects may not become operational within their estimated time frames and budgets as projected at the time the Company enters into a particular agreement, or at all. In addition, the Company may develop projects as joint ventures in an effort to reduce its financial commitment to individual projects. The significant expenditures required to expand our production plants may not ultimately result in increased profits.

Our business and operations are growing rapid. If we fail to effectively manage our operation, our business and operating results could be harmed.

To date we have experienced, and continue to experience, rapid growth in our operations. This has placed, and will continue to place, significant demands on our management, and on our operational and financial infrastructure. If we do not effectively manage our operations, the quality of our products and services will suffer, which would negatively affect our operating results. If the necessary funding can be obtained, we will be able to improve our operational, financial and management controls and our reporting systems and procedures. The complexity of this undertaking means that we are likely to face many challenges, some of which are not yet foreseeable. Problems may occur with our raw material acquisition, with the roll-out of efficient manufacturing processes, and with our ability to sell our products to our customers. If we are not able to obtain the necessary funding and operate efficiently, our business plan may fall short of its goals, and our ability to manage our growth could be hurt.

The capital investments that we plan may result in dilution of the equity of our present shareholders.

We have entered into an Asset Purchase Agreement that contemplates that we will pay approximately \$35 million to acquire additional production assets, in order to increase our production capacity from 40,000 tons to 100,000 tons. We intend to raise a large portion of the necessary funds by selling equity in our company. At present we have no commitment from any source for those funds. We cannot determine, therefore, the terms on which we will be able to raise the necessary funds. It is possible that we will be required to dilute the value of our current shareholders' equity in order to obtain the funds. If, however, we are unable to raise the necessary funds, our growth will be limited, as will our ability to compete effectively.

We operate in a highly competitive marketplace, which could adversely affect our sales and financial condition.

We compete on the basis of quality, price, product availability and security of supply, product development and customer service. Some competitors are larger than us in certain markets and may have greater financial resources that allow them to be in a better position to withstand changes in the industry. Our competitors may introduce new products based on more competitive alternative technologies that may be causing us to lose customers which would result in a decline in our sales volume and earnings. Our customers demand high quality and low cost products and services. The cost and availability of energy and strategic raw materials may continue to deteriorate domestically while improving in the international market, thus advantaging our foreign competition. Any such change in the global market could adversely impact the demand for our products. Competition could cause us to lose market share and certain lines of business, or increase expenditures or reduce pricing, each of which would have an adverse effect on our results of operations, cash flows and financial condition.

Related party transactions may pose risks to our inventory.

Currently the Company has an Asset Purchase Agreement with Mr. Han s, the Company s Chairman and CEO, wife to acquire certain production assets at below historical cost value. There may be occasions in which additional related party transactions may take place. Even the Company will do its utmost to minimize such transactions and conduct such transactions in the best interest of its public shareholders, there may exist serious conflict of interest and damage to the public shareholders. Such conflict of interest and potential harm to public shareholders and investors interest may negatively impact on the value of the Company.

An inability to protect our intellectual property rights could reduce the value of our products, services and brand.

Our unique technologies and techniques are important assets for us. We have applied to the Chinese government for intellectual property right protection for some of the technologies that we own. However, this legal effort may sometimes not be sufficient or effective, due to the lack of effective legal enforcement in China. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. In addition, since protection of our intellectual property rights is costly and time consuming, any unauthorized use of our to-be-patented technologies could increase our cost of business and eventually harm our operating results. Moreover, since we only registered intellectual property rights for our technologies in China, our technologies may not be well protected in other countries in which our products may be sold in the future.

An increase in raw material prices could increase Xinda s costs and decrease its profits.

Changes in the cost of raw materials could significantly affect Xinda s business. Since cost for raw materials constitute a substantial part of our product price, increase in the cost of raw materials will decrease our profit margin. Although we may offset such deduction of our profit by increasing the price for our products, unforeseeable events in the market may occur to prevent the effectiveness of this method. We also rely on one major supplier to provide such raw materials. Failure to maintain business relationship with this one major supplier may make the raw materials inaccessible, and thus hurt our operation result.

Our performance and planned growth depend on raw material supply and related costs .

We rely on Mr. Jie Han, Our Chairman and Chief Executive Officer, for the management of our business, and the loss of his services could significantly harm our business and prospects.

We depend, to a large extent, on the abilities and participation of our current management team, but have a particular reliance upon Mr. Jie Han, our Chairman and Chief Executive Officer and President, for the direction of our business. The loss of the services of Mr. Han for any reason could have a material adverse effect on our business and prospects. We cannot assure you that the services of Mr. Han will continue to be available to us, or that we will be able to find a suitable replacement for Mr. Han. We have entered into an employment contract with Mr. Han, but that agreement does not guarantee Mr. Han's continuing to manage the Company. We do not have key man insurance on Mr. Han, and if he were to die and we were unable to replace him for a prolonged period of time, we could be unable to carry out our long-term business plan, and our future prospects for growth, and our business, could be harmed.

Difficulties with hiring, employee training and other labor issues could disrupt our operations.

We may not be able to successfully hire and train new team members or integrate those team members into the programs and policies of the Company. Any such difficulties would reduce our operating efficiency and increase our costs of operations.

Increased environmental regulation in China could increase our costs of operation.

Certain processes utilized in the production of modified plastics result in toxic by-products. To date, the Chinese government has imposed only limited regulation on the production of these by-products, and enforcement of the regulations has been sparse. Recently, however, there is a substantial increase in focus on the Chinese environment, which has inspired considerable new regulation. Because Xinda plans to export plastics to the U.S. and Europe in coming years, Xinda has developed sufficient safeguards in its manufacturing processes to assure compliance with the environmental regulations imposed by European and U.S. regulators. This compliance regimen brings us into compliance with all Chinese environmental regulations. Additional regulation, however, could increase our cost of doing business, which would impair our profitability.

We may have difficulty establishing adequate management and financial controls in China.

The People's Republic of China has only recently begun to adopt the management and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management and financial controls that are expected of a United States public company. If we cannot establish such controls, we may experience difficulty in collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards.

We may incur significant costs to ensure compliance with U.S. corporate governance and accounting requirements.

We may incur significant costs associated with our public company reporting requirements, costs associated with newly applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, and other rules implemented by the Securities and Exchange Commission. We expect all of these applicable rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors, on committees of our board of directors or as executive officers.

As a public company, we are required to comply with rules and regulations of the SEC, including expanded disclosure, accelerated reporting requirements and more complex accounting rules. This will continue to require additional cost management resources. We will need to continue to implement additional finance and accounting systems, procedures and controls as we grow to satisfy these reporting requirements. In addition, we may need to hire additional legal and accounting staff with appropriate experience and technical knowledge, and we cannot assure you that if additional staffing is necessary that we will be able to do so in a timely fashion. If we are unable to complete the required annual assessment as to the adequacy of our internal reporting or if our independent registered public accounting firm is unable to provide us with a qualified report as to the effectiveness of our internal controls over financial reporting in the future, we could incur significant costs to become compliant.

We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel or hire qualified personnel, we may not be able to grow effectively.

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization. Our continued ability to compete effectively depends on our ability to attract new technology developers and to retain and motivate our existing contractors.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

The Company is not likely to hold annual shareholder meetings in the next few years.

Management does not expect to hold annual meetings of shareholders in the next few years, due to the expense involved. The current members of the Board of Directors were appointed to that position by the previous directors. If other directors are added to the Board in the future, it is likely that the current directors will appoint them. As a result, the shareholders of the Company will have no effective means of exercising control over the operations of the Company.

Risks related to an investment in our common stock

Our Chief Executive Officer has a large degree of control on us through his position and stock ownership and his interests may differ from other stockholders.

Our Chief Executive Officer, Mr. Jie Han has option on XD's shares. As a result, Mr. Han will be able to influence the outcome of stockholder votes on various matters, including the election of directors and extraordinary corporate transactions such as business combinations. Mr. Han's interests may differ from that of other stockholders.

Risks related to Series B Preferred Stock.

There are now 1,000,000 Series B Preferred Stock issued to XD with 40% of the total voting power of the Company's common stock put together and other consent rights on mergers and acquisitions, significant acquisition or disposition of assets and change of control, among others. This gives XD significant voting power. Such voting power may enable XD to block actions that may benefit the common stockholders thus reduce the value of their holdings.

We do not intend to pay cash dividends in the foreseeable future.

We currently intend to retain all future earnings for use in the operation and expansion of our business. We do not intend to pay any cash dividends in the foreseeable future but will review this policy as circumstances dictate. Should we decide in the future to do so, as a holding company, our ability to pay dividends and meet other obligations depends upon the receipt of dividends or other payments from our operating subsidiaries based in the PRC. Our operating subsidiaries, from time to time, may be subject to restrictions on its ability to make distributions to us, including restrictions on the conversion of local currency into U.S. dollars or other hard currency and other regulatory restrictions. See Risks related to doing business in the People's Republic of China above.

There is currently a very limited trading market for our common stock.

Because we were formerly a shell company, our bid and ask quotations have not regularly appeared on the OTC Bulletin Board for any extended period of time. There is a limited trading market for our common stock and our common stock may never be included for trading on any stock exchange or through any other quotation system, including the NASDAQ Stock Market. You may not be able to sell your shares due to the absence of an established trading market.

Our common stock is subject to the Penny Stock Regulations.

Our common stock is, and will continue to be subject to the SEC's penny stock rules to the extent that the price remains less than \$5.00. Those rules, which require delivery of a schedule explaining the penny stock market and the associated risks before any sale, may further limit your ability to sell your shares.

The SEC has adopted regulations which generally define penny stock to be an equity security that has a market price of less than \$5.00 per share. Our common stock, when and if a trading market develops, may fall within the definition of penny stock and subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000, or annual incomes exceeding \$200,000 or \$300,000, together with their spouse).

For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's prior written consent to the transaction. Additionally, for any transaction, other than exempt transactions, involving a penny stock, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the Commission relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the penny stock rules may restrict the ability of broker-dealers to sell our common stock and may affect the ability of investors to sell their common stock in the secondary market.

Our common stock is illiquid and subject to price volatility unrelated to our operations.

The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of other companies in the same industry, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

A large number of shares of common stock will be issuable for future sale which will dilute the ownership percentage of our current holders of common stock. The availability for public resale of those shares may depress our stock price.

Also as a result, there will be a significant number of new shares of common stock on the market in addition to the current public float. Sales of substantial amounts of common stock, or the perception that such sales could occur, and the existence of warrants to purchase shares of common stock at prices that may be below the then current market price of the common stock, could adversely affect the market price of our common stock and could impair our ability to raise capital through the sale of our equity securities.

Enforcement against us or our directors and officers may be difficult.

Because our principal assets are located outside of the U.S. and some or all our directors and officers, both present and future, reside outside of the U.S., it may be difficult for you to enforce your rights based on U.S. federal securities laws against us and our officers and some directors or to enforce a U.S. court judgment against us or them in the PRC.

In addition, our operating company is located in the PRC and substantially all of its assets are located outside of the U.S. It may therefore be difficult for investors in the U.S. to enforce their legal rights based on the civil liability provisions of the U.S. Federal securities laws against us in the courts of either the U.S. or the PRC and, even if civil judgments are obtained in U.S. courts, to enforce such judgments in PRC courts. Further, it is unclear if extradition treaties now in effect between the U.S. and the PRC would permit effective enforcement against us or our officers and directors of criminal penalties under the U.S. Federal securities laws or otherwise.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

We were originally incorporated as NB Payphones Ltd. under the laws of the state of Pennsylvania on November 16, 1999. On December 27, 2005, we migrated our state of organization to the state of Nevada and effective March 23, 2006, our name changed to NB Telecom, Inc.

On December 24, 2008, we acquired all of the outstanding capital stock of Favor Sea Limited, a British Virgin Islands corporation, through China XD Plastics Company Limited, a Nevada corporation (the Merger Sub) wholly owned by the Company. Favor Sea Limited is a holding company whose only asset, held through a subsidiary, is 100% of the registered capital of Harbin Xinda Macromolecule Material Co., Ltd. (Xinda).

Xinda is a manufacturer and developer of modified plastics. We believe that Xinda is one of the primary automotive plastics manufacturers in the PRC, developing and producing made-to-order modified plastics and providing after-sales services to such automotive brands as Audi, Red Flag, VW Golf, and Mazda6. Founded in September 2004, we currently operate 31 manufacturing lines with a total production capacity of up to 100,000 tons.

Results of Operations

The following table sets forth information from our statements of operations for the years ended December 31, 2007 and 2006 and the nine months ended September 30, 2008 and 2007, in dollars and as a percentage of sales:

| | Nine Months Ended September 30, | | The Year Ended December 31, | |
|----------------------|---------------------------------|---------------|-----------------------------|---------------|
| | 2008 | 2007 | 2007 | 2006 |
| Net sales | \$ 55,802,003 | \$ 20,098,712 | \$ 34,177,415 | \$ 13,415,434 |
| Cost of sales | 41,880,768 | 15,925,484 | 27,829,973 | 10,604,429 |
| Gross profit | 13,921,235 | 4,173,228 | 6,347,442 | 2,811,005 |
| Operating expenses | 1,901,830 | 321,310 | 724,935 | 557,845 |
| Operating income | 12,019,405 | 3,851,918 | 5,622,507 | 2,253,160 |
| Other income | 25,665 | 6,598 | (197,252) | 25,999 |
| Interest expense | 481,875 | 117,939 | 152,684 | 95,854 |
| Net income | 11,437,903 | 3,668,432 | 5,272,570 | 2,183,375 |
| Comprehensive income | 12,468,983 | 3,905,631 | 5,755,502 | 2,279,284 |

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Nine Months Ended September 30, 2008 compared to Nine Months Ended September 30, 2007

Net sales

During the nine months ended September 30, 2008 we had net sales of \$ 55,802,003 as compared to net sales of \$20,098,712 during the nine months ended September 30, 2007, an increase of \$35,703,291, or 178%. The increase was largely a result of our increased and expanded sale to the existing and new customers in 2008.

Cost of sales & gross margin

During the nine months ended September 30, 2008, our cost of sales was \$41,880,768, as compared to cost of sales of \$15,925,484 during the nine months ended September 30, 2007, an increase of \$25,955,284, or 163%. The percentage of our increase in cost of sales was slightly less than that of the increase in sales. As a result, our gross margin increased from 21% during the nine months ended September 30, 2007 as compared to 25% during nine months ended September 30, 2008. The increase in our gross margin was mainly attributed to the decreasing oil price in 2008 so we were able to purchase our raw materials at a lower price.

Operating income and expense

Operating expenses, which consist of selling, general and administrative expenses, and research and development expenses, totaled \$1,901,830 during nine months ended September 30, 2008 as compared to \$321,310 during the nine months ended September 30, 2007. Selling expenses increased from \$29,040 during the nine months ended September 30, 2007 to \$241,823 during the nine months ended September 30, 2008. The increase of the selling expenses was in proportion to the increase in overall sales. General and administrative expense increased from \$199,831 during the nine months ended September 30, 2007 to \$1,102,261 during the nine months ended September 30, 2008. The increase in general and administrative expense was mainly due to increase in our payroll and administrative costs. Research and development expenses increased from \$92,439 to \$557,746 due to the expansion of the Harbin Xinda Macromolecule Material Research Institute, the subsidiary of the company. Overall, our operating income was \$12,019,405 during the nine months ended September 30, 2008, as compared to \$3,851,918 during the nine months ended September 30, 2007.

Other income

During the nine months ended September 30, 2008, we had other income of \$25,665, as compared with \$6,598 during the nine months ended September 30, 2007. The increase in other income was due to the sale of our unused materials in 2008.

Interest expense

Interest expense increased by \$363,936 from \$117,939 during the nine months ended September 30, 2007 to \$481,875 for the same period in 2008. The increase interest expense resulted from the sizable increase in our loans and notes payable during 2008, as we borrowed to fund the rapid growth in our sales and the development of our manufacturing facility.

Net Income

As a result of the factors described above, we had net income of \$11,437,903 during the nine months ended September 30, 2008, as compared with \$3,668,432 during the nine months ended September 30, 2007. The increase in net income was mainly attributed to our increase in sales.

Comprehensive Income

Our business operates primarily in Chinese Renminbi (RMB), but we report our results in U.S. Dollars. The conversion of our accounts from RMB to U.S. Dollars results in translation adjustments. As a result of a currency translation adjustment, our comprehensive income was \$12,468,983 during the nine months ended September 30, 2008, as compared with \$3,905,631 during the nine months ended September 30, 2007. The increase is due to significant currency exchange fluctuation of Chinese RMB to US Dollar for the periods.

Liquidity and Capital Resources

As of September 30, 2008, we had \$2,167,016 in cash and cash equivalents, compared to \$8,157,419 on September 30, 2007. There was a net decrease in cash and cash equivalent of \$5,990,403 for the nine months ended September 30, 2008. The net decrease in cash and cash equivalents for the period was mainly due to the increase in working capital and advance payments made to our suppliers.

Operations

Cash used in operating activities totaled \$9,487,060 for the nine months ended September 30, 2008 as compared to \$20,830,030 provided by operating activities for the nine months ended September 30, 2007. Decrease in our cash provided by operations is due to our increased account receivable, other receivables, inventory and advances to suppliers, which accounted for \$25,561,004 of cash used in operating activities, compared with \$672,845 of cash used for the same period of the previous year. As we saw the increased prices of raw materials at the beginning of the year, we paid more to suppliers to secure the supplies.

Investments

Cash used in investing activities was \$ 4,993,288 for the nine months ended September 30, 2008 as compared to \$6,153,163 for the nine months ended September 30, 2007. Decrease of cash used in investing activities is due to decrease of loan made to related party, which accounted for \$6,205,635 of cash used in investing activities for the period in previous year, compared with \$110,228 collection of loan for the same period of this year.

Financing

Cash provided by financing activities totaled \$16,513,064 for the nine months ended September 30, 2008 as compared to \$6,982,124 used in financing activities for the nine months ended September 30, 2007. Increase in cash provided by financing activities is due to the increased proceeds from short term loan and decrease of payment to bank acceptance note payable, which accounted for \$15,893,064 of cash provided by financing activities, compared with \$6,982,124 of cash used in the same period of the previous year.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net sales

During the year ended December 31, 2007, we had net sales of \$34.2 million, as compared with net sales of \$13.42 million during the year ended December 31, 2006, an increase of approximately \$20.8 million, or 155% due to our increased and expanded sale to the existing and new customers in 2007.

Cost of sales & gross margin

During the year ended December 31, 2007, we had cost of sales of \$27.8 million, as compared with cost of sales of \$10.6 million, an increase of approximately \$17.2 million, or 162%, reflecting the increase in net sales. The gross profit rose to \$6.3million, or a 125% increase during the year ended December 31, 2007 compared with the year ended December 31, 2006. Our gross margin decreased from 21.0% during the year ended December 31, 2006 to 18.6% during the year ended December 31, 2007. The decrease was mainly attributed to the increase in price of our raw materials.

Operating Expenses

Our operating expenses were \$724,935 during the year ended December 31, 2007, compared with \$557,845 during the year ended December 31, 2006, an increase of \$167,090, or approximately 29.95%. The increase in operating expenses was principally due to the increased depreciation expenses and payroll expenses. Selling expenses increased from \$121,403 during the year ended December 31, 2006 to \$131,772 during the year ended December 31, 2007, due to our increase in sales. General and administrative expenses increased modestly, from \$341,645 during the year ended December 31, 2006 to \$403,834 the year ended December 31, 2007, reflecting the increased salary expense and depreciation expense. Research and development expenses were increased during the year ended December 31, 2006 to the year ended December 31, 2007. As a result, our operating income increased to \$5,622,507 during the year ended December 31, 2007 from \$2,253,160 during the year ended December 31, 2006.

Interest Expense

Interest expense increased \$56,830 from \$95,854 during the year ended December 31, 2006 to \$152,684 for the year ended December 31, 2007. The increase interest expense resulted from the increase in our loans and notes payable during 2007, as we borrowed to fund the rapid growth in our sales and the development of our manufacturing facility.

Net Income

As a result of the factors described above, we had net income of \$5,272,570 during the year ended December 31, 2007, compared with \$2,183,375 during the year ended December 31, 2006.

Comprehensive Income

As a result of a currency translation adjustment, our comprehensive income was \$5,755,502 during the year ended December 31, 2007, compared with \$2,279,284 during the year ended December 31, 2006. The change is due to the significant currency exchange fluctuation.

Liquidity and Capital Resources

As of December 31, 2007, we had only \$87,455 in cash and cash equivalents, compared to \$328,492 on December 31, 2006. There was a net decrease in cash and cash equivalent of \$241,037 for the year ended December 31, 2007. The net decrease in cash and cash equivalents for the period was mainly due to the increase in working capital and advance payments made to our suppliers.

Operations

For the year ended December 31, 2007, our operations generated cash in the total amount of \$1,914,644, as opposed to \$6,217,922 used in operating activities for the year ended December 31, 2006. Increase in our cash liquidity is due to our significant decreased amounts in account receivable, other receivables, restricted and cash, which accounted for only \$445,679 of cash used in operating activities, compared with \$8,160,567 of cash used for the same period of 2006.

Investments

Cash used in investing activities was \$4,249,292 for the year ended December 31, 2007 as compared to only \$861,623 for the year ended December 31, 2006. We have invested heavily in purchases of new production equipments, which accounted for all of the cash used in investing activities, compared with only \$867,819 for the same period of 2006.

Financing

For the year ended December 31, 2007, we have financed a total amount of \$1,890,656 from the bank loans as compared to \$7,294,095 provided by financing activities for the year ended December 31, 2006. Decrease in cash provided by financing activities is due to the increased payment to short term loans and decrease of proceeds from bank acceptance note payable.

Off-Balance Sheet Arrangements

Neither Favor Sea, HK Engineering Plastics, nor Xinda has any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on their financial condition or results of operations.

Executive Compensation

Information regarding the compensation paid to the executive officers of the Company during the past three fiscal years is set forth in Part III, Item 11 of the Company's Annual Report on Form 10-K/A (Amendment No. 1), which was filed with the Securities and Exchange Commission on December 17, 2008. None of the individuals who served as officers of the Company during the past three fiscal years will remain an officer or director of the Company after the Share Exchange.

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The table below itemizes the compensation paid to Jie Han by Xinda for services during the three fiscal years since Harbin Xinda was organized. There was no officer of Harbin Xinda whose salary and bonus for services rendered during the year ended December 31, 2008 exceeded \$100,000.

| | <u>Fiscal Year</u> | <u>Salary</u> | <u>Other Compensation</u> |
|---------|--------------------|---------------|---------------------------|
| Jie Han | 2008 | \$ 87,000 | |
| Jie Han | 2007 | 0 | |
| Jie Han | 2006 | 0 | |

Employment Agreements

All of our officers and directors serve on an at-will basis.

Related Party Transactions

Jie Han, our Chief Executive Officer, is affiliated with two companies that have engaged in transactions with Xinda during the past two years. Mr. Han has used these two companies as a source of raw materials and equipment financing for Xinda, in order to reduce Xinda's working capital expenses.

Harbin Xinda High-Tech Co., Ltd. (Xinda High-Tech) was founded by incumbent president of Xinda, Mr. Jie Han, in July 2003. Xinda High-Tech is mainly engaged in production of electrical wire and wire harness and transactions of plastic materials. Mr. Jie Han transferred 89.29% shares he held in Xinda High-Tech to his wife Mrs. Limei Sun. However, High-Tech does not manufacture modified plastics in competition with Xinda. Xinda has engaged in transactions with Xinda High-Tech since 2007. The relationship has three aspects: an Asset Purchase Agreement, a lease contract and certain product purchases.

On September 20, 2008, Xinda signed the Asset Purchase Agreement with Xinda High-Tech that was discussed in the Business section of this Report. The Asset Purchase Agreement provides that Xinda will purchase from Xinda High-Tech six buildings, 19 assembly lines, and the related land use right. The buildings were recently built by Xinda High-Tech; the assembly lines were recently purchased by Xinda High-Tech, and have never been used.

Xinda High-Tech made the purchase for the benefit of Xinda because Xinda High-Tech is eligible to receive low-cost government financing that is not available to Xinda.

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At the beginning of 2008, Mr. Han decided that Xinda should lease the plant and facilities of Xinda High-Tech's newly-built automotive modified plastics production base. The parties entered into a lease contract for premises located at No. 9, Dalian North Road, Haping Road Centralized Industrial Park, Harbin Development Zone, Heilongjiang Province, China, with an area of 23,893.53 square meters. The lease term was from May 1, 2008 to April 30, 2011. The lease payment was 2 million RMB per year.

In September 2008, as a result of the adjustment of Chinese industrial policy, the influence of international financial situation and the credit squeeze policy of the financial institutions, Xinda High-Tech's lending bank requires Xinda High-Tech to pay all the due loans by the end of 2009. If Xinda High-Tech defaults, the bank will consider foreclosure based on the negotiation results of the parties. Considering Xinda's overall business interest, Mr. Han decided that Xinda should purchase from Xinda High-Tech all assets related to the production of automotive modified plastics.

The purchase price paid by Xinda to Xinda High-Tech will be 240 million RMB (currently, USD\$35,139,092). Payment of 50 million RMB by Xinda is due at the end of December 2008; the remaining 190 million is due at the end of September 2009. If Xinda is unable to make the payment scheduled for the end of 2008, the parties expect that the due date will be extended. However, Xinda will be responsible for any accumulated interests related to such past due payments. Xinda High-Tech also agreed not to engage in the relevant production and sales in competition of Xinda's major business.

Xinda High-Tech paid 265 million RMB (USD\$38 million) to purchase the equipments and facilities for the production of automotive modified plastics. The purchase price of Xinda is RMB 240 million, which is 10% lower than the assets' original history cost. By using acquisition to expand production capacity, Xinda has realized its sales plan two years earlier than constructing the plant itself. The acquisition also saves the costs increased by price inflation. Due to the increased value of China's property and land usage, the assets have great potential of increasing in value.

From time to time, Xinda and Xinda High-Tech have provided working capital to each other. At the end of June 2008 Xinda owed \$82,518 to Xinda High-Tech by reason of such working capital loans. The loans are unsecured and bear no interest. At the end of September 2008, Xinda has paid off all the loans to Xinda High-Tech.

During the nine months ended September 30, 2008, Xinda purchased raw materials from Xinda High-Tech for a purchase price of \$1,063,008. Such raw materials are used to test the new equipments Xinda High-Tech recently purchased. The purchase price represents the cost incurred by Xinda High-Tech for the goods.

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Heilongjiang Xinda Hyundai Engineering Plastics Co. Ltd (Heilongjiang Xinda Hyundai). Heilongjiang Xinda Hyundai Engineering Plastics Co. Ltd. is a company owned 25% by Hyundai Engineering Plastics Co, Ltd, and 75% by Xinda High-Tech. Since its organization, Heilongjiang Xinda Hyundai has no operations other than the sale of small amounts of raw materials for the plastics. In October of 2008, the Board approved the resolution to liquidate the company. Under this circumstance, Heilongjiang Xinda Hyundai agreed to sell its raw materials to Xinda at their purchase prices. During 2007 Xinda paid \$440,554 to Hyundai Engineering Plastics Co, Ltd. for these raw materials, and during the first nine months of 2008 Xinda paid \$963,082 to the same company. The purchase prices represent the cost incurred by Hyundai Engineering Plastics Co, Ltd. for the raw materials.

Other than the aforesaid relationships, none of our officers or directors has engaged in any transaction during the past fiscal year or the current fiscal year that had a transaction value in excess of \$60,000.

For risks associated with the related-party transactions, please see Risk Factors at page 14.

Description of Securities

The Board of Directors of the Company is authorized to issue:

100,000,000 shares of Common Stock, \$.001 par value per share, of which 49,632,222 shares were outstanding before the Merger; 10,000,000 shares of Series A Convertible Preferred Stock, of which 1,000,000 shares was issued and will be converted into 38,194,072 shares of the common stock of the Company after the Company conducts an amendment to its charter to increase the authorized shares of the Company's common stock to allow such conversion after the Merger (the Company will also amend its charter to increase the authorized shares of the preferred stock to 50,000,000); and 1,000,000 shares of Series B Preferred Stock which were issued and outstanding during the Merger.

Common Stock. Holders of the Company are entitled to one vote for each share in the election of directors and in all other matters to be voted on by the stockholders. There is no cumulative voting in the election of directors. Holders of Common Stock are entitled to receive such dividends as may be declared from time to time by the Board of Directors with respect to the Common Stock out of funds legally available therefor and, in the event of liquidation, dissolution or winding up of the Company, to share rateably in all assets remaining after payment of liabilities. The holders of Common Stock have no pre-emptive or conversion rights and are not subject to further calls or assessments. There are no redemption or sinking fund provisions applicable to the Common Stock.

Preferred Stock. The Board of Directors of the Company is authorized to designate the preferred stock in classes, and to determine the rights, privileges and limitations of the shares in each class.

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Series A Convertible Preferred Stockholders of the Company are not entitled to voting rights in any and all matters including the election of directors. Holders of Series A Convertible Preferred Stock are not entitled to receive any such dividends as may be declared from time to time by the Board of Directors with respect to the Common Stock of the Company. In the event of liquidation, dissolution or winding up of the Company, holders of Series A Convertible Preferred Stock shall be entitled to share ratably, prior and in preference to any distribution of any of the assets of the Company to the holders of Common Stock and any other series of Preferred Stock ranking junior to the Series A Convertible Preferred Stock, in all assets remaining after payment of liabilities. The holders of Series A Convertible Preferred Stock shall be subject to, upon the successful increase of the total authorized shares of Common Stock of the Company, the automatic conversion of such Series A Convertible Preferred Stock into fully paid and nonassessable shares of Common Stock of the Company at the approximate ratio of one for thirty-nine shares of the Common Stock of the Company so that all 1,000,000 shares of Convertible Series A Preferred Stock shall convert into 38,194,072 shares of Common Stock of the Company.

Series B Preferred Stockholders of the Company are entitled to one vote for each share in the election of directors and in all other matters to be voted on by the stockholders. There is no cumulative voting in the election of directors. The one million shares of Series B Preferred Stock shall have an aggregate voting power of 40% of the combined voting power of the entire Company's shares, Common Stock and Preferred Stock as long as the Company is in existence. Holders of Series B Preferred Stock are not entitled to receive such dividends as may be declared from time to time by the Board of Directors with respect to the Common Stock. In the event of liquidation, dissolution or winding up of the Company, holders of Series B Preferred Stock shall be entitled to share ratably, prior and in preference to any distribution of any of the assets of the Company to the holders of Common Stock and any other series of Series B Preferred Stock ranking junior to the Series B Preferred Stock, in all assets remaining after payment of liabilities. The holders of Preferred B Stock have no pre-emptive or conversion rights and are not subject to further calls or assessments.

Market Price and Dividends on Common Equity and Other Shareholder Matters

Information regarding the market price of the Company's common equity, payment of dividends, and other shareholder matters is set forth in is set forth in Part III, Item 11 of the Company's Annual Report on Form 10-K/A (Amendment No. 1), which was filed with the Securities and Exchange Commission on December 17, 2008.

Legal Proceedings

Neither the Company nor Favor Sea Limited, HK Engineering Plastics, or Xinda, is party to any material legal proceedings.

Material Modification to Rights of Security holders

Pursuant to the Agreement and Plan of Merger and pursuant to Nevada Revised Statutes Section 78.209, the Company has set December 31, 2008 as the effective record date for a reverse split of 124.1 for 1 to reduce the total number of issued and outstanding shares of common stock. The total authorized shares of common stock will be reduced proportionately accordingly as well. As a result, the total numbers of shares of common stock of the Company held by its shareholders are all proportionately reduced together with the total authorized share of the Company's common stock, leaving your proportionate holdings substantially the same. Such a reverse split is necessary to allow the merger with Favor Sea Limited to happen.

Pursuant to the Agreement and Plan of Merger, the Company will issue 1,000,000 shares of convertible Series A preferred stock of the Company to the shareholders of Favor Sea Limited, and 1,000,000 shares of Series B preferred stock to XD in exchange for the outstanding stock of Favor Sea Limited. The 1,000,000 shares of convertible Series A preferred stock of the Company will convert approximately 1:38.2 into 38,194,072 shares of the common stock of the Company after the completion of the Merger so that eventually the shareholders of Favor Sea Limited own approximately 99% of the common stock of the Company.

The 1,000,000 shares of Series B Preferred Stock will have an aggregate voting power of 40% of the combined voting power of the entire Company's shares, common stock and preferred stock as long as the Company is in existence. Without the vote or consent of the holders of at least a majority of the shares of Series B Preferred Stock then outstanding, the Company may not (i) authorize, create or issue, or increase the authorized number of shares of, any class or series of capital stock ranking prior to or on a parity with the Series B Preferred Stock, (ii) authorize, create or issue any class or series of common stock of the Company other than the common stock, (iii) authorize any reclassification of the Series B Preferred Stock, (iv) authorize, create or issue any securities convertible into or exercisable for capital stock prohibited by (i) or (ii), (v) amend the designation certificate of the Series B Preferred Stock, or (vi) enter into any merger or reorganization, or disposal of assets involving 20% of the total capitalization of the Company.

The record holders of the Company's common stock on the date of December 31, 2008 will have their fractional shares or shares numbering below one hundred shares post the reverse split to be rounded up to one hundred shares, with the round-up shares to be deducted from certain designated shareholders by the Company. Any holders of the Company's common stock after the date of December 31, 2008 will not be eligible for the round-up shares.

Changes in and Disagreements with Accountants

On December 31, 2008, the Company changed its principal independent accountants. On such date, Robison, Hill & Co. was dismissed from serving as the Company's principal independent accountants and the Company retained Bagell Josephs Levine & Company, LLC as its principal independent accountants. The decision to change accountants was approved by the Company's Board of Directors on December 31, 2008.

The dismissal of Robison, Hill & Co.

Robison, Hill & Co. was the independent registered public accounting firm for the Company from December 31, 2004 to December 31, 2008. None of Robison, Hill & Co.'s reports on the Company's financial statements from December 31, 2004 to December 31, 2008, (a) contained an adverse opinion or disclaimer of opinion, (b) was modified as to uncertainty other than mentioned below, audit scope, or accounting principles, or (c) contained any disagreements on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Robison, Hill & Co., would have caused it to make reference to the subject matter of the disagreements in connection with its reports. None of the reportable events set forth in Item 304(a)(1)(ii) of Regulation S-K occurred during the period in which Robison, Hill & Co. served as the Company's principal independent accountants.

In accordance with Item 304(a)(3), the Company has provided Robison, Hill & Co. with a copy of this disclosure and has requested that Robison, Hill & Co. furnish it with a letter addressed to the U.S. Securities and Exchange Commission stating whether it agrees with the above statements, and if not, stating the respects in which it does not agree. A copy of the letter from Robison, Hill & Co. addressed to the Securities and Exchange Commission dated December 31, 2008 is filed as Exhibit 16.1 to this 8-K Report.

The Engagement of Bagell Josephs Levine & Company, LLC

Prior to December 31, 2008, the date that Bagell Josephs Levine & Company, LLC was retained as the principal independent accountants of the Company:

- (1) The Company did not consult Bagell Josephs Levine & Company, LLC regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on Company's financial statements;
- (2) Neither a written report nor oral advice was provided to the Company by Bagell Josephs Levine & Company, LLC that they concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; and

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(3) The Company did not consult Bagell Josephs Levine & Company, LLC regarding any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or any of the reportable events set forth in Item 304(a)(1)(iv) of Regulation S-K.

Item 9.01 Financial Statements and Exhibits

Financial Statements

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| Audited Financial Statements of Harbin Xinda Macromolecule Material Co., Ltd. for the years ended December 31, 2007 and 2006 | F-19 |
| NB Telecom Inc. Unaudited pro forma's | F-36 |

Exhibits

- 10.1 Agreement and Plan of Merger dated December 24, 2008 among the Company and the shareholders of Favor Sea Limited.
- 10.2 Designation Certificate of Series A Preferred Stock
- 10.3 Designation Certificate of Series B Preferred Stock
- 10.4 Asset Purchase Agreement dated September 20, 2008 between Harbin Xinda Macromolecule Material Co., Ltd. and Harbin Xinda High-Tech Co., Ltd.
- 16.1 Letter, dated December 31, 2008, from Robison, Hill & Co. to the Securities and Exchange Commission.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: December 31, 2008

NB TELECOM, INC.

By: /s/ Jie Han

Name: Jie Han

Title: Chief Executive Officer

FAVOR SEA LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008 (UNAUDITED)

FAVOR SEA LIMITED

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| Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (Unaudited) | F-4 |
| Notes to Consolidated Financial Statements (Unaudited) | F-5 - F-18 |

**FAVOR SEA LIMITED
CONSOLIDATED BALANCE SHEETS**

| | September 30, 2008 (Unaudited) | December 31, 2007 (Audited) |
|---|---|--|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,167,016 | \$ 87,455 |
| Restricted Cash | 4,388,872 | 5,428,673 |
| Short Term Investment | | |
| Notes Receivable | 831,522 | |
| Accounts receivable - net of allowance for bad debts of \$100,148 and \$93,219, respectively | 16,623,310 | 5,117,840 |
| Other receivables | 3,420,543 | 128,658 |
| Inventory | 10,786,227 | 5,587,862 |
| Prepaid expenses | | 21,393 |
| Due from related parties | | 105,537 |
| Advances to suppliers | 8,973,700 | 1,746,063 |
| | | |
| Total current assets | 47,191,190 | 18,223,481 |
| | | |
| Property, plant and equipment, net | 12,641,860 | 7,533,619 |
| | | |
| Other assets: | | |
| Intangible assets, net | 250,271 | 236,867 |
| | | |
| Total other assets | 250,271 | 236,867 |
| | | |
| Total Assets | \$ 60,083,321 | \$ 25,993,967 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short Term Loan | \$ 21,797,081 | \$ 1,370,877 |
| Notes Payable | 9,867,597 | 12,886,245 |
| Accounts payable | 1,560,312 | 647,436 |
| Other payable | 3,175,438 | 31,861 |
| Accrued expenses | 709,652 | 43,940 |
| Tax payable | 145,320 | 1,454,745 |
| Due to shareholders | 620,000 | |
| Deferred revenue | 273,115 | 93,040 |
| | | |
| Total current liabilities | 38,148,515 | 16,528,144 |
| | | |
| Shareholders' equity | | |
| Common Stock, \$1 par value, 50,000 shares authorized, 40,000 shares issued outstanding as of September 30, 2008 and December 31, 2007 | 40,000 | 40,000 |
| Additional Paid-in-Capital | 2,443,066 | 2,443,066 |

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| | September 30, 2008 (Unaudited) | December 31, 2007 (Audited) |
|---|--------------------------------------|-----------------------------------|
| Retained earnings | 17,801,554 | 6,363,651 |
| Accumulated other comprehensive income | 1,650,186 | 619,106 |
| Total shareholders' equity | 21,934,806 | 9,465,823 |
| Total Liabilities And Shareholders' Equity | \$ 60,083,321 | \$ 25,993,967 |

The accompanying notes are an integral part of these financial statements

F-1

FAVOR SEA LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

| | Nine Months Ended September 30, | | Three Months Ended September 30, | |
|---|---------------------------------|---------------------|----------------------------------|---------------------|
| | 2008 (Unaudited) | 2007 (Unaudited) | 2008 (Unaudited) | 2007 (Unaudited) |
| Sales | \$ 55,802,003 | \$ 20,098,712 | \$ 22,324,847 | \$ 7,201,818 |
| Cost of sales | (41,880,768) | (15,925,484) | (16,555,094) | (6,203,812) |
| Gross profit | 13,921,235 | 4,173,228 | 5,769,753 | 998,006 |
| Operating Expenses | | | | |
| Research and development expenses | 557,746 | 92,439 | 237,106 | 71,446 |
| Selling expenses | 241,823 | 29,040 | 194,029 | 6,874 |
| General and Administrative expenses | 1,102,261 | 199,831 | 656,322 | 15,788 |
| Total Operating Expenses | 1,901,830 | 321,310 | 1,087,457 | 94,108 |
| Operating Income | 12,019,405 | 3,851,918 | 4,682,296 | 903,898 |
| Other Income (expenses) | | | | |
| Interest Income (expenses) | (481,875) | (117,939) | (318,608) | (17,614) |
| Other Income/Subsidy Income | 25,665 | 6,598 | 485 | 120 |
| Other expense | (100,881) | (72,145) | (100,881) | (18,717) |
| Total Other income(expense) | (557,091) | (183,486) | (419,004) | (36,211) |
| Income before income taxes | 11,462,314 | 3,668,432 | 4,263,292 | 867,687 |
| Provision for income taxes | 24,411 | | 18,182 | |
| Net Income | \$ 11,437,903 | \$ 3,668,432 | \$ 4,245,110 | \$ 867,687 |
| Other Comprehensive Income | | | | |
| Foreign Currency Translation Adjustment | 1,031,080 | 237,199 | 220,337 | 104,329 |
| Comprehensive Income | \$ 12,468,983 | \$ 3,905,631 | \$ 4,465,447 | \$ 972,016 |
| Basic and Diluted Income per common share | | | | |
| Basic | \$ 285.95 | \$ 91.71 | \$ 106.13 | \$ 21.69 |
| Diluted | \$ 285.95 | \$ 91.71 | \$ 106.13 | \$ 21.69 |
| Weighted average common share outstanding | | | | |
| Basic | 40,000 | 40,000 | 40,000 | 40,000 |
| Diluted | 40,000 | 40,000 | 40,000 | 40,000 |

The accompanying notes are an integral part of these financial statements

FAVOR SEA LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(UNAUDITED)

| | <u>Common Stock</u> | <u>Additional Paid-in-Capital</u> | <u>Retained Earnings</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Total</u> |
|--|---------------------|---------------------------------------|------------------------------|---|----------------------|
| Balance at December 31, 2006 | 40,000 | 2,443,066 | 1,091,081 | 136,174 | 3,710,322 |
| Net income for the period | | | 3,668,432 | | 3,668,432 |
| Foreign currency translation adjustments | | | | 237,199 | 237,199 |
| Balance at September 30, 2007 | <u>\$ 40,000</u> | <u>\$ 2,443,066</u> | <u>\$ 4,759,513</u> | <u>\$ 373,373</u> | <u>\$ 7,615,952</u> |
| Balance at December 31, 2007 | \$ 40,000 | \$ 2,443,066 | \$ 6,363,651 | \$ 619,106 | \$ 9,465,823 |
| Net income for the period | | | 11,437,903 | | 11,437,903 |
| Foreign currency translation adjustments | | | | 1,031,080 | 1,031,080 |
| Balance at September 30, 2008 | <u>\$ 40,000</u> | <u>\$ 2,443,066</u> | <u>\$ 17,801,554</u> | <u>\$ 1,650,186</u> | <u>\$ 21,934,806</u> |

The accompanying notes are an integral part of these financial statements

FAVOR SEA LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

| | For the nine months ended September 30, | |
|--|--|--------------|
| | 2008 | 2007 |
| Cash flows from operating activities | | |
| Net income | \$ 11,437,903 | \$ 3,668,432 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation & amortization | 685,860 | 243,750 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in - | | |
| Restricted cash | 1,403,171 | 2,949,458 |
| Accounts receivable and other receivables | (14,010,629) | 2,729,157 |
| Tax Receivable | | 4,335 |
| Inventory | (4,649,965) | (3,573,750) |
| Prepaid expenses | 22,344 | 20,366 |
| Notes receivables | (804,096) | 5,220 |
| Advances to suppliers | (6,900,409) | 171,748 |
| Increase (decrease) in - | | |
| Accounts payable and other payable | 3,894,526 | 6,552,340 |
| Accrued expenses | 644,019 | 29,121 |
| Tax payable | (1,378,125) | 260,050 |
| Due to owners | | (21,395) |
| Deferred revenue | 168,341 | 7,791,198 |
| | (9,487,060) | 20,830,030 |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (5,103,516) | (52,472) |
| Loan to related party | 110,228 | (6,153,163) |
| | (4,993,288) | (6,205,635) |
| Cash flows from financing activities | | |
| Proceeds from Short Term Loan | 19,758,944 | 391,521 |
| Proceeds from Shareholder Loan | 620,000 | |
| Repayment of bank acceptance notes payable | (3,865,880) | (7,373,645) |
| | 16,513,064 | (6,982,124) |
| Effect of exchange rate changes on cash and cash equivalents | 46,845 | 186,656 |
| Net increase in cash and cash equivalents | 2,079,561 | 7,828,927 |
| Cash and cash equivalents, beginning of period | 87,455 | 328,492 |
| Cash and cash equivalents, end of period | \$ 2,167,016 | \$ 8,157,419 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$ 457,982 | \$ 157,240 |
| Income taxes paid | \$ | \$ |

For the nine months ended
September 30,

The accompanying notes are an integral part of these financial statements

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FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 1. ORGANIZATION AND BASIS OF PRESENTATION

Favor Sea Limited (the Company or Favor Sea) was incorporated under the laws of the British Virgin Islands on May 2, 2008.

On August 11, 2008, Favor Sea acquired 100% interest of Hong Kong Engineering Plastics Company Limited (HK Engineering Plastics), a Limited Liability Company organized under the laws of the Hong Kong Special Administration Region on May 27, 2008.

HK Engineering Plastics owns 100% interest of Harbin Xinda Macromolecule Material Co., Ltd (Harbin Xinda), a company incorporated in the People s Republic of China on September 23, 2004.

The transactions were accounted for under purchase method. Since the Company and HK Engineering Plastics are all under common control of a same majority shareholder, the consolidation of the Company has been accounted for at historical cost and prepared on the basis as if the aforementioned contractual arrangements with Favor Sea and HK Plastics Engineering had become effective as of the beginning of the first period presented in the accompanying consolidated financial statements.

The Company has not had any transactions or operations of its own as of today. Instead, all of its operations were carried out through its indirectly owned subsidiary, Harbin Xinda. Harbin Xinda is primarily engaged in the business of research development, manufacture, distribution of modified and engineering plastic pellets used in automotive parts through its manufacturing facility and its wholly owned research laboratory, Harbin Xinda Macromolecule Research Institute (the Research Institute), a separate entity established in 2007.

The Company s consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements of the Company include the accounts of Favor Sea, HK Plastics Engineering, Harbin Xinda and Research Institute. All significant inter-company balances and transactions are eliminated in consolidation.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting year. Significant estimates, required by management, include the recoverability of long-lived assets and the valuation of inventories. Actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statement of cash flow, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivables consist primarily of receivables resulting from sales of products, and are stated at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. The allowance is calculated based upon the evaluation and the level of past due accounts and the relationship with and the economic status of the customers. The allowance for uncollectible amounts for the nine months ended September 30, 2008 was \$100,148, and \$93,219 for the year ended December 31, 2007.

Inventory

Inventory is composed of raw materials and packing materials for manufacturing, work in process, and finished goods. Inventory is valued at the lower of cost or market with cost determined on the weighted average method. Management compares the cost of inventory with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. No allowance for inventory is considered necessary for the nine months ended September 30, 2008 and 2007.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment

Property and equipment are stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and locations for its intended use. Depreciation is calculated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|------------|
| Buildings and improvements | 39 years |
| Machinery, equipment and automobiles | 5-10 years |

Expenditures for maintenance and repairs are charged to expense as incurred. Additions, renewals and betterments are capitalized.

Advance to suppliers

Advance to suppliers represent the payments made and recorded in advance for goods and services received. The Company makes advances to raw materials purchased from certain agents overseas, which account for 60% of raw materials needed. In order to maintain a long-term relationship with the vendors, the Company frequently needs to make advances from one and half month to three months ahead. The advances to suppliers were \$8,973,700 as of September 30, 2008 and \$1,746,063 as of December 31, 2007.

Impairment of long-lived assets

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the assets. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. No impairment loss is recorded for the nine months ended September 30, 2008 and 2007.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Company accounts for income tax under the provisions of SFAS No.109 Accounting for Income Taxes, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the events that have been included in the financial statements or tax returns. Deferred income taxes are recognized for all significant temporary differences between tax and financial statements bases of assets and liabilities. Valuation allowances are established against net deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. There are no deferred tax amounts at the nine months ended September 30, 2008 and 2007.

Revenue recognition

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exists and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue.

Research and development expenses

Research and development expenses are costs associated with developing the Company's intellectual property. Research and development costs are expensed as incurred. The costs of equipments that are acquired or constructed for research and development activities and have alternative future uses are classified as plant and equipment and depreciated over their estimated useful lives. The research and development expense for the nine months ended September 30, 2008 and 2007 was \$557,746 and \$92,439, respectively.

Earnings per share

Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There are no such additional common shares available for dilution purposes for the nine months ended September 30, 2008 and 2007.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable and other receivables. The Company does not require collateral or other security to support these receivables. The Company conducts periodic reviews of its clients' financial condition and customer payment practices to minimize collection risk on accounts receivable.

Risks and uncertainties

The operations of the Company are located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

Fair value of financial instruments

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses, taxes payable, notes payable and other loans payable approximate fair value due to the short-term nature of these items. The carrying amounts of short-term loans from bank approximate the fair value based on the Company's expected borrowing rate for debt with similar remaining maturities and comparable risk.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The Company's functional currency is the Renminbi (RMB). For financial reporting purposes, RMB has been translated into United States dollars (USD) as the reporting currency. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the reporting period. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as Accumulated other comprehensive income. Gains and losses resulting from foreign currency translations are included in accumulated other comprehensive income. There is no significant fluctuation in exchange rate for the conversion of RMB to USD after the balance sheet date.

Recent accounting pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 159 (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of FAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective in the first quarter of fiscal 2009. The Company is evaluating the impact that this statement will have on its consolidated financial statements.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities (FSP EITF 07-3), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. The Company has adopted FSP EITF 07-3 and expensed the research and development as it incurred.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of Accounting Research Bulletin No. 51 (SFAS 160), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2007. The Company has not determined the effect that the application of SFAS 160 will have on its consolidated financial statements.

In December 2007, Statement of Financial Accounting Standards No. 141(R), *Business Combinations*, was issued. SFAS No. 141R replaces SFAS No. 141, *Business Combinations*. SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces SFAS 141's cost-allocation process, which required the cost of acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS 141R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141R). SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2007. An entity may not apply it before that date. The Company is currently evaluating the impact that adopting SFAS No. 141R will have on its financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133, which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective beginning January 1, 2009. We are currently assessing the potential impact that adoption of SFAS No. 161 may have on our financial statements.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2008, the FASB issued FASB Staff Position on Emerging Issues Task Force Issue 03-6, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of FSP EITF 03-6-1. Early application is not permitted. Management is currently evaluating the impact FSP EITF 03-6-1 will have on the Company's EPS calculations.

Note 3. RESTRICTED CASH

For the nine months ended September 30, 2008, the Company had restricted cash of \$4,388,872. The Company's lenders require the Company to maintain with the lending banks a cash balance of a minimum 40% -50% of the balance of the notes payable (see Note 10) as collateral for the company's obligations to the lenders.

Note. 4 INVENTORY

The inventory consists of the following:

| | September 30, 2008 | As of | December 31, 2007 |
|------------------|--------------------|-------|-------------------|
| Raw materials | \$ 1,120,582 | | \$ 665,270 |
| Packing supplies | 30,690 | | 16,131 |
| Work-in-process | 71,130 | | 53,428 |
| Finished goods | 9,563,825 | | 4,853,033 |
| Total | \$ 10,786,227 | | \$ 5,587,862 |

No allowance for inventory was made for the nine months ended September 30, 2008.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 5. PROPERTY, PLANT AND EQUIPMENT, NET

The detail of property, plant and equipment is as follows:

| | September 30, 2008 | As of December 31, 2007 |
|---|----------------------|----------------------------|
| Machinery & equipment | \$ 10,044,194 | \$ 5,920,295 |
| Automobiles | 122,444 | 52,679 |
| Plant & Buildings | 2,385,015 | 2,220,000 |
| Total | 12,551,653 | 8,192,974 |
| Less: accumulated depreciation | (1,409,648) | (659,355) |
| Construction in progress | 1,499,855 | |
| Property, plant and equipment, net | \$ 12,641,860 | \$ 7,533,619 |

Depreciation expense for nine months ended September 30, 2008 and 2007 was \$681,775 and \$240,026, respectively.

Note 6. INTANGIBLE ASSET

Intangible asset consists of land use right only. All land in the People's Republic of China is government owned and cannot be sold to any individual or company. Instead, the government grants the user a Land use right (the Right) to use the land. The Company has the right to use the land for 48 years and amortized the Right on a straight-line basis over 48 years. The land use right was originally acquired in May 2005 for the amount of \$226,281.

Net intangible assets at September 30, 2008 and December 31, 2007 were as follows:

| | September 30, 2008 | As of December 31, 2007 |
|--------------------------------|--------------------|----------------------------|
| Land use right | \$ 268,948 | \$ 250,340 |
| Less: Accumulated amortization | (18,677) | (13,473) |
| Total | \$ 250,271 | \$ 236,867 |

Amortization expense for nine months ended September 30, 2008 and 2007 was \$4,085 and \$3,724, respectively.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 7. OTHER RECEIVABLES

Other receivables represent cash advances to employees, sales representatives and other outside parties for normal business purposes. Other receivables for nine months ended September 30, 2008 amounted to \$ 3,420,543.

Note 8. RELATED PARTY TRANSACTIONS

Amounts due to (from) directors/affiliates are as follows:

| | <u>September 30, 2008</u> | <i>As of</i> | <u>December 31, 2007</u> |
|--------------|---------------------------|--------------|--------------------------|
| Piao Qiuyao | \$ 620,000 | | \$ |
| Ma Qingwei | | | (19,172) |
| Han Jie | | | (86,365) |
| Total | \$ 620,000 | | \$ (105,537) |

The Company also has sales and purchase with its affiliated companies. The detail is as follows:

| | <u>For the nine months ended</u> | |
|--|----------------------------------|---------------------------|
| | <u>September 30, 2008</u> | <u>September 30, 2007</u> |
| Purchase from | | |
| Harbin Xinda Hi-tech Co, Ltd | \$ 1,063,008 | \$ 19,423 |
| Heilongjiang Xinda Hyundai Engineering Plastics Co, Ltd. | 963,082 | 179,401 |
| Sales to | | |
| Harbin Xinda Hi-tech Co., Ltd | 69,842 | 131,091 |

Ms Piao, Qiuyao owns 100% of the Company indirectly via XD Engineering Plastic Company Ltd, the solely shareholder of the Company incorporated in British Virgin Island. Harbin Xinda Hi-Tech Co. Ltd and Heilongjiang Xinda Hyundai Engineering Plastics Co. Ltd. are affiliate companies owned by the relative of the Mr. Han Jie, who was the major shareholder of Harbin Xinda before the ownership transferred to HK Engineering Plastics. Mr. Ma Qingwei is the Chief Operating Officer of the Harbin Xinda and Mr. Han Jie is- the Chief Executive Officer of Harbin Xinda.

On May 1, 2008, Harbin Xinda entered into an operating lease for operating space expiring on April 30, 2011, with Harbin Xinda High-Tech Co., Ltd. Harbin Xinda is subject to annual lease obligation of RMB 2,000,000 (approximately \$286,000 at date of signing). The annual payment should be made by the 15th working day of December each year.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 9. SHORT TERM LOANS

The short-term loans include the following:

| | September 30, 2008 | As of December 31, 2007 |
|--|--------------------|----------------------------|
| a) Loan payable to Harbin Bank one year term from 12/04/07 to 12/03/08, a fixed interest rate of 0.79% per month, | \$ 1,472,776 | \$ 1,370,877 |
| b) Loan payable to Harbin Bank one year term from 2/22/2008 to 2/21/2009 a fixed interest rate of 0.81% per month, | 4,418,327 | |
| c) Loan payable to Harbin Bank three-month term from 8/25/08 to 11/30/08, a fixed interest rate of 0.71% per month, | 4,418,327 | |
| d) Loan payable to Harbin Bank one-month term from 9/12/2008 to 10/11/2008 a fixed interest rate of 0.71% per month, | 441,833 | |
| e) Loan payable to Harbin Bank one-month term from 9/26/2008 to 10/25/2008 a fixed interest rate of 0.67% per month, | 736,388 | |
| f) Loan payable to Anhui Yiyang Metal Materials Co., Ltd. six-month term from 5/27/2008 to 11/26/2008, bears no interest | 4,418,327 | |
| g) Loan payable to Anhui Yiyang Metal Materials Co., Ltd. six-month term from 4/30/2008 to 10/29/2008, bears no interest | 5,891,103 | |
| Total | \$ 21,797,081 | \$ 1,370,877 |

Interest expense for the above short term loans was \$561,359 and \$157,240 for nine months ended September 30, 2008 and 2007, respectively.

Note 10. NOTES PAYABLE

As of September 30, 2008, the Company has bank acceptance notes payable in the amount of \$9,867,597. The notes are guaranteed to be paid by the banks and usually for a short-term period of three to six months. The Company is required to maintain cash deposits at a minimum 40%-50% of the total balance of the notes payable with the banks, in order to ensure future credit availability.

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 11. INCOME TAXES

(a) Corporation income tax (CIT)

The Company is governed by the Income Tax Law of the People's Republic of China concerning the private-run enterprises, which are generally subject to tax at a new statutory rate of 25% and were, until January 2008, subject to tax at a statutory rate of 33% (30% state income tax plus 3% local income tax) on income reported in the statutory financial statements after appropriate tax adjustments.

On March 16, 2007, the National People's Congress of China approved the Corporate Income Tax Law of the People's Republic of China (the New CIT Law), which is effective from January 1, 2008. Under the new law, the corporate income tax rate applicable to all Companies, including both domestic and foreign-invested companies, will be 25%, replacing the current applicable tax rate of 33%. However, pending the detailed implementation rulings from the tax authorities, we believe that some of the tax concession granted to eligible companies prior to the new CIT laws will be grand fathered.

The Company is located in a special economic development zone and is recognized as a high technology company by the Chinese government. Therefore, it is entitled to a full exemption of special 15% CIT for two years from January 1, 2006 through December 31, 2007 and 50% reduction in CIT for three years at a favorable tax rate of 7.5% from January 1, 2008 to December 31, 2010. The income tax expense of \$24,411 for the nine months ended September 30, 2008 is attributed to the net income of \$285,105 derived from Harbin Xinda. The majority of the net income for the period was from the Research Institute, which is a separate entity and whose income is exempt from the income tax under the current law of China. The net effect on earnings per share had the income tax been applied would decrease earnings per share from \$285.95 to \$216.05 for the nine months ended September 30, 2008 and \$106.13 to \$81.18 for the three months ended September 30, 2008.

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FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 11. INCOME TAXES (Continued)**(a) Corporation income tax (CIT) (Continued)**

The following table reconciles the statutory rates to the Company's effective tax rate for the nine months ended September 30, 2008 and 2007.

| | For the Nine months Ended September 30, | |
|--------------------------------|--|-------------|
| | 2008 | 2007 |
| China Income tax | 25.00% | 33.00% |
| Tax exemption | (24.8%) | (33%) |
| Total provision for income tax | 0.20% | 0.00% |

(b) Value added tax (VAT)

Enterprises or individuals who sell commodities, engage in repair and maintenance or import or export goods in the PRC are subject to a value added tax in accordance with the PRC laws. The value added tax standard rate is 17% of the gross sales price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on the sales of the finished products. The Company has a VAT tax payable of \$15,656 as of September 30, 2008.

Note 12. STOCKHOLDERS EQUITY

Favor Sea Limited (the Company or Favor Sea) was incorporated under the laws of the British Virgin Islands, with 50,000 shares of common stock authorized at par value of US\$1.00.

As of September 30, 2008, there were 40,000 shares of common stock issued and outstanding.

Note 13. MAJOR CUSTOMERS AND SUPPLIERS

Two major customers accounted for approximately 9.17% of the net revenue for the nine months ended September 30, 2008, with each customer individually accounting for 4.78%, and 4.39%, respectively. At September 30, 2008, the total receivable balance due from these two customers was \$1,414,828, representing 8.46% of total accounts receivable.

Four major customers accounted for 20.37% of the net revenue for the nine months ended September 30, 2007, with each customer individually accounted for 6.08%, 5.30%, 5.09%,

FAVOR SEA LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Note 13. MAJOR CUSTOMERS AND SUPPLIERS (continued)

and 3.91%, respectively. At September 30, 2007, the total receivable balance due from these four customers was \$1,842,777, representing 23.35% of total accounts receivable.

Two major vendors provided approximately 90.59% of the Company's purchases of raw materials for the period ended September 30, 2008, with each vendor individually accounting for 70.48% and 20.11%, respectively. The Company had total account payable balance due to the second largest vendor of \$223,809, representing 20.61% of total accounts payable, and advance to the largest vendor of \$8,540,730 at September 30, 2008.

One vendor provided 87.47% of the Company's purchase of raw materials for the nine months ended September 30, 2007. The Company's advance to this vendor was \$7,013,788 at September 30, 2007, accounting for 98.68% of total advances to suppliers.

Note 14. COMMITMENTS AND CONTINGENCY

a) Renewal of short term loan with Anhui Yiyang Metal Materials Co., Ltd.

On October 31, 2008, the Company renewed the contract with Anhui Yiyang Metal Materials Co., Ltd., an unaffiliated partner for the amount of RMB70,000,000 (approximately US\$10.2 million). The term is from November 1, 2008 from October 31, 2009, at interest rate at 30% above variable interest of one year term published by Bank of China. The Company is required to pay quarterly interest expenses starting from January 1, 2009.

b) Asset Acquisition Agreement with High-Tech

On September 20, 2008, Harbin Xinda Macromolecule Material Co., Ltd (Harbin Xinda , Buyer) signed an agreement (Agreement) with Harbin Xinda High-Tech Co., Ltd. (Xinda High-Tech , Seller), an affiliated company owned by the relative of Mr. Han Jie, the Chairman and CEO of the Harbin Xinda to acquire all of the assets of Xinda High-Tech, including plant buildings, land use rights, machinery and equipments for a total amount of RMB240,000,000 (approximately US\$35.1 million). Harbin Xinda was required to make two installment payments of the full purchase price, a total of RMB50,000,000 (approximately \$7.2 million) by the end of December 31, 2008 and remaining RMB190,000,000 (approximately \$27.5 million) by the end of September 30, 2009. Through this purchase, Harbin Xinda is expected to significantly increase its production and expand its operations.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD

FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Harbin Xinda Macromolecule Material Co., Ltd

We have audited the accompanying consolidated balance sheets of Harbin Xinda Macromolecule Material Co., Ltd as of December 31, 2007 and 2006 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years ended December 31, 2007 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards established by the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harbin Xinda Macromolecule Material Co., Ltd as of December 31, 2007 and 2006 and the results of its operations, changes in shareholders' equity, and cash flows for the years ended December 31, 2007 and 2006 in conformity with accounting principles generally accepted in the United States of America.

/S/ Bagell Josephs, Levine & Company, LLC

Bagell Josephs, Levine & Company, LLC
Marlton, New Jersey
April 15, 2008

F-19

HARBIN XINDA MICROMOLECULE MATERIAL CO., LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

| | <u>2007</u> | <u>2006</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 87,455 | \$ 328,492 |
| Cash and cash equivalents - Restricted | 5,428,673 | 4,869,235 |
| Accounts receivable - net of allowance for bad debts of \$93,219 and \$- 0 - respectively | 5,117,840 | 1,095,790 |
| Other receivable | 128,658 | 4,358,699 |
| Tax receivable | | 4,256 |
| Inventory | 5,587,862 | 4,600,451 |
| Prepaid expenses | 21,393 | 19,997 |
| Due from related parties | 105,537 | 1,956,398 |
| Advances to suppliers | 1,746,063 | 168,630 |
| | <hr/> | <hr/> |
| Total current assets | 18,223,481 | 17,401,948 |
| | <hr/> | <hr/> |
| Property, plant and equipment, net | 7,533,619 | 3,166,507 |
| | <hr/> | <hr/> |
| Other asset: | | |
| Intangible asset, net of amortization | 236,867 | 226,278 |
| | <hr/> | <hr/> |
| Total other asset | 236,867 | 226,278 |
| | <hr/> | <hr/> |
| Total Assets | \$ 25,993,967 | \$ 20,794,733 |
| | <hr/> <hr/> | <hr/> <hr/> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short Term Loans | \$ 1,370,877 | \$ 2,562,755 |
| Notes Payable | 12,886,245 | 11,532,400 |
| Accounts payable | 647,436 | 1,566,033 |
| Other payable | 31,861 | 1,300,844 |
| Accrued expenses | 43,940 | 22,161 |
| Tax payable | 1,454,745 | |
| Deferred revenue | 93,040 | 100,219 |
| | <hr/> | <hr/> |
| Total current liabilities | 16,528,144 | 17,084,412 |
| | <hr/> | <hr/> |
| Shareholders equity | | |
| Capital Contribution | 2,416,451 | 2,416,451 |
| Additional Paid-in-Capital | 66,615 | 66,615 |
| Retained earnings | 6,363,651 | 1,091,081 |
| Accumulated other comprehensive income | 619,106 | 136,174 |
| | <hr/> | <hr/> |
| Total shareholders equity | 9,465,823 | 3,710,321 |
| | <hr/> | <hr/> |
| Total Liabilities And Shareholders Equity | \$ 25,993,967 | \$ 20,794,733 |
| | <hr/> <hr/> | <hr/> <hr/> |

The accompanying notes are an integral part of these financial statements

HARBIN XINDA MICROMOLECULE MATERIAL CO., LTD.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

| | <u>2007</u> | <u>2006</u> |
|---|---------------------|---------------------|
| Sales | \$ 34,177,415 | \$ 13,415,434 |
| Cost of sales | 27,829,973 | 10,604,429 |
| Gross profit | <u>6,347,442</u> | <u>2,811,005</u> |
| Operating Expenses | | |
| Research and development expenses | 189,329 | 94,797 |
| Selling expenses | 131,772 | 121,403 |
| General and administrative expenses | 403,834 | 341,645 |
| Total Operating Expenses | <u>724,935</u> | <u>557,845</u> |
| Operating Income | <u>5,622,507</u> | <u>2,253,160</u> |
| Other Income (expenses) | | |
| Investment Income | | 70 |
| Interest Income (expenses) | (152,684) | (95,854) |
| Other Income/Subsidy Income | 10,434 | 65,224 |
| Other expenses | (207,687) | (39,225) |
| Total Other income(expense) | <u>(349,937)</u> | <u>(69,785)</u> |
| Income before income taxes | 5,272,570 | 2,183,375 |
| Provision for income taxes | | |
| Net Income | \$ 5,272,570 | \$ 2,183,375 |
| Other Comprehensive Income | | |
| Foreign Currency Translation Adjustment | \$ 482,932 | 95,909 |
| Comprehensive Income | <u>\$ 5,755,502</u> | <u>\$ 2,279,284</u> |
| Basic and Diluted Income per common share | | |
| Basic | <u>\$ 0.26</u> | <u>\$ 0.11</u> |
| Diluted | <u>\$ 0.26</u> | <u>\$ 0.11</u> |
| Weighted average common share outstanding | | |
| Basic | <u>20,000,000</u> | <u>20,000,000</u> |
| Diluted | <u>20,000,000</u> | <u>20,000,000</u> |

The accompanying notes are an integral part of these financial statements

HARBIN XINDA MICROMOLECULE MATERIAL CO., LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY F
OR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | Capital | Additional Paid-in-Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|--|--------------|-------------------------------|----------------------|---|--------------|
| Balance at December 31, 2005 | \$ 2,416,451 | \$ 66,615 | \$ (1,092,294) | \$ 40,265 | \$ 1,431,037 |
| Net income for the year | | | 2,183,375 | | 2,183,375 |
| Foreign currency translation adjustments | | | | 95,909 | 95,909 |
| Balance at December 31, 2006 | 2,416,451 | 66,615 | 1,091,081 | 136,174 | 3,710,321 |
| Net income for the year | | | 5,272,570 | | 5,272,570 |
| Foreign currency translation adjustments | | | | 482,932 | 482,932 |
| Balance at December 31, 2007 | \$ 2,416,451 | \$ 66,615 | \$ 6,363,651 | \$ 619,106 | \$ 9,465,823 |

The accompanying notes are an integral part of these financial statements

HARBIN XINDA MICROMOLECULE MATERIAL CO., LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

| | 2007 | 2006 |
|---|--------------|--------------|
| Cash flows from operating activities | | |
| Net income | \$ 5,272,570 | \$ 2,183,375 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation & amortization | 280,925 | 254,854 |
| Bad Debts | 89,424 | |
| Gain on disposal of fixed assets | (3,774) | |
| Changes in assets and liabilities: | | |
| (Increase) decrease in - | | |
| Restricted cash | (559,438) | (3,630,109) |
| Accounts receivable and other receivables | 113,759 | (4,530,458) |
| Tax Receivable | 4,255 | 11,482 |
| Inventories | (987,411) | (4,107,551) |
| Prepaid expenses | | (2,696) |
| Advances to suppliers | (1,577,433) | 2,839,569 |
| Increase (decrease) in - | | |
| Accounts payable and other payable | (2,187,580) | 723,141 |
| Accrued expenses | 21,778 | 19,345 |
| Tax payable | 1,454,745 | (554) |
| Deferred revenue | (7,176) | 21,680 |
| | 1,914,644 | (6,217,922) |
| Cash flows from investing activities | | |
| Purchase of fixed assets | (4,393,949) | (867,819) |
| Proceeds from sale of fixed assets | 144,657 | |
| Decrease in Short Term Investment | | 6,196 |
| | (4,249,292) | (861,623) |
| Cash flows from financing activities | | |
| Proceeds (payments) from (to) Short Term Loans | (1,315,063) | 250,862 |
| Proceeds from bank acceptance notes payable | 1,354,858 | 9,049,021 |
| Collections (payments) on due to related parties | 1,850,861 | (2,005,788) |
| | 1,890,656 | 7,294,095 |
| Effect of exchange rate changes on cash and cash equivalents | 202,955 | 72,923 |
| Net increase in cash and cash equivalents | (241,037) | 287,473 |
| Cash and cash equivalents, beginning of year | 328,492 | 41,019 |
| Cash and cash equivalents, end of year | \$ 87,455 | \$ 328,492 |
| Supplemental disclosures of cash flow information: | | |
| Interest paid | \$ 212,926 | \$ 123,922 |

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| | 2007 | 2006 |
|-------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |
| Income taxes paid | \$ | \$ |
| | <u> </u> | <u> </u> |

The accompanying notes are an integral part of these financial statements

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Harbin Xinda Macromolecule Material Co., Ltd (the "Company" or "Harbin Xinda") was incorporated in Harbin, Heilongjiang Province, China on September 23, 2004.

The Company is primarily engaged in the business of research development, manufacture, distribution of modified and engineering plastic pellets used in automotive parts through its manufacturing facility and its wholly owned research laboratory, Harbin Xinda Macromolecule Research Institute (the Research Institute), a separate entity established in 2007.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). The accompanying consolidated financial statements reflect necessary adjustments not recorded in the books of account of the Company to present them in conformity with US GAAP.

Principles of consolidation

The consolidated financial statements of the Company include the accounts of Harbin Xinda and its wholly owned subsidiary, Harbin Xinda Macromolecule Research Institute. All significant inter-company balances and transactions are eliminated in consolidation.

Use of estimates

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting year. Significant estimates, required by management, include the recoverability of long-lived assets and the valuation of inventories. Actual results could differ from those estimates.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For purposes of the statement of cash flow, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivables consist primarily of receivables resulting from sales of products, and are stated at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. The allowance is calculated based upon the evaluation and the level of past due accounts and the relationship with and the economic status of the customers. The allowance for uncollectible amounts for the years ended December 31, 2007 and 2006 was \$93,219 and \$ 0 -, respectively.

Inventory

Inventory is composed of raw materials and packing materials for manufacturing, work in process, and finished goods. Inventory is valued at the lower of cost or market with cost determined on the weighted average method. Management compares the cost of inventory with the market value and an allowance is made for writing down the inventory to its market value, if lower than cost. No allowance for inventory is considered necessary for the years ended December 31, 2007 and 2006.

Property and equipment

Property and equipment are stated at cost. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and locations for its intended use. Depreciation is calculated using the straight-line method over the following useful lives:

| | |
|--------------------------------------|------------|
| Buildings and improvements | 39 years |
| Machinery, equipment and automobiles | 5-10 years |

Expenditures for maintenance and repairs are charged to expense as incurred. Additions, renewals and betterments are capitalized.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advance to suppliers

Advance to suppliers represent the payments made and recorded in advance for goods and services received. The Company makes advances to raw materials purchased from certain vendors overseas, which account for 60% of raw materials needed. In order to maintain a long-term relationship with the vendors, the Company frequently needs to make advances from one and half month to three months ahead. The advances to suppliers were \$1,746,063 and \$168,630 as of December 31, 2007 and 2006, respectively.

Deferred revenue

Revenue from the sale of goods or services is recognized at the time that goods are delivered or services are rendered. Receipts in advance for goods to be delivered or services to be rendered in a subsequent period are carried forward as deferred revenue.

Impairment of long-lived assets

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. No impairment loss is recorded for the years ended December 31, 2007 and 2006.

Income taxes

The Company accounts for income tax under the provisions of SFAS No.109 "Accounting for Income Taxes", which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of the events that have been included in the financial statements or tax returns. Deferred income taxes are recognized for all significant temporary differences between tax and financial statements bases of assets and liabilities. Valuation allowances are established against net deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. There are no deferred tax amounts at December 31, 2007 and 2006.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Company utilizes the accrual method of accounting. In accordance with the provisions of Staff Accounting Bulletin (SAB) 104, sales revenue is recognized when products are shipped and payments of the customers and collection are reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as deferred revenue.

Research and development expenses

Research and development expenses are costs associated with developing the Company's intellectual property. Research and development costs are expensed as incurred. The costs of equipments that are acquired or constructed for research and development activities and have alternative future uses are classified as plant and equipment and depreciated over their estimated useful lives. The research and development expense for the years ended December 31, 2007 and 2006 was \$189,329 and \$94,797, respectively.

Earnings per share

Basic earnings per share are computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. There are no such additional common shares available for dilution purposes as of December 31, 2007 and 2006.

Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of accounts receivable and other receivables. The Company does not require collateral or other security to support these receivables. The Company conducts periodic reviews of its clients' financial condition and customer payment practices to minimize collection risk on accounts receivable.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risks and uncertainties

The operations of the Company are located in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, as well as by the general state of the PRC economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

Fair value of financial instruments

The carrying amounts of certain financial instruments, including cash and cash equivalents, accounts receivable, other receivables, accounts payable, accrued expenses, taxes payable, notes payable and other loans payable approximate fair value due to the short-term nature of these items. The carrying amounts of short-term loans from bank approximate the fair value based on the Company's expected borrowing rate for debt with similar remaining maturities and comparable risk.

Foreign currency translation

The Company's functional currency is the Renminbi (RMB). For financial reporting purposes, RMB has been translated into United States dollars (USD) as the reporting currency. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange prevailing during the reporting period. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as Accumulated other comprehensive income. Gains and losses resulting from foreign currency translations are included in accumulated other comprehensive income. There is no significant fluctuation in exchange rate for the conversion of RMB to USD after the balance sheet date.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent accounting pronouncements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, where fair value is the relevant measurement attribute. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The management of the Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (FAS 159). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of FAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective in the first quarter of fiscal 2009. The Company is evaluating the impact that this statement will have on its consolidated financial statements.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities (FSP EITF 07-3), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. The Company has adopted FSP EITF 07-3 and expensed the research and development as it incurred.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 (SFAS 160), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2007.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company has not determined the effect that the application of SFAS 160 will have on its consolidated financial statements.

In December 2007, Statement of Financial Accounting Standards No. 141(R), *Business Combinations*, was issued. SFAS No. 141R replaces SFAS No. 141, *Business Combinations*. SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces SFAS 141's cost-allocation process, which required the cost of acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS 141R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141R). SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2007. An entity may not apply it before that date. The Company is currently evaluating the impact that adopting SFAS No. 141R will have on its financial statements.

Note 3. RESTRICTED CASH

As of December 31, 2007 and 2006, the Company has restricted cash of \$5,428,673 and \$4,869,235 respectively. The Company's lenders require the Company to maintain with the lending banks a cash balance of a minimum 40% -50% of the balance of the notes payable (see Note 10) as collateral for the Company's obligations to the lenders. The Company earns interest at a variable rate per month on these restricted cash. The interest income earned was \$ 60,240 and \$ 28,067 for the years ended December 31, 2007 and 2006, respectively.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 4. INVENTORY

The inventory consists of the following:

| | As of December 31, | |
|------------------|--------------------|--------------|
| | 2007 | 2006 |
| Raw materials | \$ 665,270 | \$ 241,459 |
| Packing supplies | 16,131 | |
| Work-in-process | 53,428 | |
| Finished goods | 4,853,033 | 4,358,992 |
| | \$ 5,587,862 | \$ 4,600,451 |
| Total | \$ 5,587,862 | \$ 4,600,451 |

No allowance for inventory was made for the years ended December 31, 2007 and 2006.

Note 5. PROPERTY, PLANT AND EQUIPMENT, NET

The detail of property, plant and equipment is as follows:

| | As of December 31, | |
|------------------------------------|--------------------|--------------|
| | 2007 | 2006 |
| Machinery & equipment | \$ 5,920,295 | \$ 1,459,544 |
| Automobiles | 52,679 | 84,746 |
| Plant & Buildings | 2,220,000 | 2,075,066 |
| | 8,192,974 | 3,619,356 |
| Total | 8,192,974 | 3,619,356 |
| Less: accumulated depreciation | (659,355) | (452,849) |
| | \$ 7,533,619 | \$ 3,166,507 |
| Property, plant and equipment, net | \$ 7,533,619 | \$ 3,166,507 |

Depreciation expense for the years ended December 31, 2007 and 2006 was \$ 275,922 and \$250,082, respectively.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 6. INTANGIBLE ASSET

Intangible asset consists of land use right only. All land in the People's Republic of China is government owned and cannot be sold to any individual or company. Instead, the government grants the user a Land use right (the Right) to use the land. The Company has the right to use the land for 48 years and amortized the Right on a straight-line basis over 48 years. The land use right was originally acquired in May 2005 for the amount of \$226,281.

Net intangible assets at December 31, 2007 and 2006 were as follows:

| | As of December 31, | |
|--------------------------------|---------------------------|-------------------|
| | 2007 | 2006 |
| Land use right | \$ 250,340 | \$ 233,997 |
| Less: Accumulated amortization | (13,473) | (7,719) |
| Total | \$ 236,867 | \$ 226,278 |

Amortization expense for the years ended December 31, 2007 and 2006 amounted to \$5,003 and \$4,772, respectively.

Note 7. OTHER RECEIVABLES

Other receivables represent cash advances to employees or sales representatives for normal business purposes. Other receivables for the years ended December 31, 2007 and 2006 were \$ 128,658 and \$4,358,699 respectively. The decrease in 2007 was due to collection on cash advance.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 8. RELATED PARTY TRANSACTIONS

Amounts due to (from) directors/affiliates are as follows:

| | As of December 31, | |
|-----------------------------|--------------------|--------------|
| | 2007 | 2006 |
| Harbin Xinda Hi-tech Co.Ltd | \$ | \$ 1,613,763 |
| Ma Qingwei | 19,172 | 317,383 |
| Sun Limei | | 46,258 |
| Han Jie | 86,365 | |
| Zhang Dawei | | (769) |
| Sun Libin | | (20,237) |
| | \$ 105,537 | \$ 1,956,398 |
| Total | \$ 105,537 | \$ 1,956,398 |

Amounts due are unsecured, non-interest bearing and due upon demand.

Harbin Xinda Hi-Tech Co. Ltd and Heilongjiang Xinda Hyundai Engineering Plastics Co. are affiliate companies owned by the relative of the majority shareholder. Mr. Ma Qingwei is the Chief Operating Officer of the Company and owns 25% of the Company. Mr. Han Jie is the Chief Executive Officer of the Company and he owns 75% of the Company.

The Company also has sales and purchase with its affiliated companies. The detail is as follows:

| | As of December 31, | |
|---|--------------------|----------|
| | 2007 | 2006 |
| Purchase from Xinda Hi-tech Co, Ltd | \$ | \$ 5,999 |
| Purchase from Hyundai Engineering Plastics Co, Ltd. | 440,554 | 408,517 |
| Sales to Xinda Hi-tech Co., Ltd | 163,072 | |

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 9. SHORT TERM LOANS

The short-term loans include the following:

| | Balance at December 31, | |
|--|-------------------------|--------------|
| | 2007 | 2006 |
| a) Loan payable to Harbin Commerical Bank one year term from 12/04/07 to 12/03/08, a fixed interest rate of 0.79% per month, | \$ 1,370,877 | \$ |
| b) Loan payable to Harbin Commerical Bank one year term from 11/22/2006 to 11/21/2007, a fixed interest rate of 0.66% per month, | | 1,281,378 |
| b) Loan payable to Harbin Commerical Bank one year term from 12/26/2006 to 11/30/2007, a fixed interest rate of 0.66% per month, | | 1,281,377 |
| Total | \$ 1,370,877 | \$ 2,562,755 |

Interest expense paid for the above short term loans totaled \$ 212,926 and \$ 123,922 for the years ended December 31, 2007 and 2006, respectively.

Note 10. NOTES PAYABLE

As of December 31, 2007 and 2006, the Company has bank acceptance notes payable in the amount of \$12,886,245 and \$11,532,400, respectively. The notes are guaranteed to be paid by the banks and usually for a short-term period of 3 to 6 months. The Company is required to maintain cash deposits at a minimum 40%-50% of the total balance of the notes payable with the banks, in order to ensure future credit availability.

Note 11. INCOME TAXES**(a) Corporation income tax (CIT)**

The Company is governed by the Income Tax Law of the People's Republic of China concerning the private-run enterprises, which are generally subject to tax at a new statutory rate of 25% and were, until January 2008, subject to tax at a statutory rate of 33% (30% state income tax plus 3% local income tax) on income reported in the statutory financial statements after appropriate tax adjustments.

HARBIN XINDA MACROMOLECULE MATERIAL CO., LTD
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

Note 11. INCOME TAXES (Continued)

(a) Corporation income tax (CIT) (Continued)

The Company is located in a special economic development zone and is recognized as a high technology company by the Chinese government. Therefore, it is entitled to a full exemption of special 15% CIT for two years from January 1, 2006 through December 31, 2007 and 50% reduction in CIT for three years at a favorable tax rate of 7.5% from 2007 to 2010.

On March 16, 2007, the National People's Congress of China approved the Corporate Income Tax Law of the People's Republic of China (the New CIT Law), which is effective from January 1, 2008. Under the new law, the corporate income tax rate applicable to all Companies, including both domestic and foreign-invested companies, will be 25%, replacing the current applicable tax rate of 33%. However, pending the detailed implementation rulings from the tax authorities, we believe that some of the tax concession granted to eligible companies prior to the new CIT laws will be grand fathered.

The estimated tax savings for the years ended December 31, 2007 and 2006 would have the net effect on earnings per share had the income tax been applied, leading to earnings per share reduced from \$0.26 to \$0.22 in 2007 and \$0.11 to \$0.09 in 2006.

(b) Value added tax (VAT)

Enterprises or individuals who sell commodities, engage in repair and maintenance or import or export goods in the PRC are subject to a value added tax in accordance with the PRC laws. The value added tax standard rate is 17% of the gross sales price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on the sales of the finished products. The Company has a VAT tax payable of \$1,391,331 as of December 31, 2007 and a VAT tax receivable of \$6,087 as of December 31, 2006.

Note 12. STOCKHOLDERS EQUITY

The Company's registered capital is RMB 20,000,000, equivalent of \$2,416,451, contributed by the two main stockholders of the Company. The industry practice in PRC does not require the issuance of stock certificates to the shareholders, nor a third party transfer agent to maintain the records. For the purpose of financial reporting, the Company elected to designate one (1) common share for each RMB contributed. Accordingly, there were total 20,000,000 shares issued and outstanding for the years ended December 31, 2007 and 2006.

NB TELECOM, INC
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NB TELECOM, INC

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FINANCIAL STATEMENTS

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NB TELECOM, INC
INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

On December 24, 2008, NB Telecom, Inc (the Parent), China XD Plastics Company Limited, a Nevada Corporation wholly-owned by the Parent (the Merger Sub), signed a Share Exchange Agreement with Favor Sea Limited (Favor Sea) and shareholders of Favor Sea, whereby, the Merger Sub agrees to acquire all of the issued and outstanding capital stock of Favor Sea and then merge with and into the Parent at the same date. Favor Sea became a wholly-owned subsidiary of the Parent upon which the Merger Sub shall no longer exist, and Parent 's name will change to the Merger Sub 's name, pursuant to section 92A.180 of the Nevada Statutes.

In exchange, the Merger Sub issued to the shareholders of Favor Sea: (i)10 shares of its common stock, which shall be converted into approximately 50,367,778 shares of the Parent common stock prior to and approximately 405,928 post reserve-split at a ratio of 124.1 to 1; (ii)1,000,000 shares of convertible Series A preferred stock which shall convert approximately at a ratio of 1 to 38.2 into 38,194,072 shares of Parent common stock so that eventually the shareholders of Favor Sea shall own approximately 99% of Parent common stock outstanding upon the completion of the Merger; (iii) 1,000,000 shares of Series B preferred stock. Immediately after the Merger and the reserve stock split, the Parent shall conduct an amendment to its charter to increase the authorized shares of Parent common stock to 500,000,000 to allow such conversion of preferred stock into Parent common stock. The Parent will also amend its charter to increase the authorized shares of its preferred stock to 50,000,000.

Immediately before and in conjunction with the consummation of the Merger, the Parent will spin off all of assets and liabilities to Sotech, Inc., a Georgia corporation so the only material assets of the Parent following the Spin-off will be the ownership of the Merger Sub.

Favor Sea owns 100% of its subsidiaries, Favor Sea (US) Limited, a New York corporation, Hong Kong Engineering Plastics Company Limited, a corporation established and existing in China, which in turn owns 100% ownership interest in Harbin Xinda Macromolecule Material Co., Ltd., a limited liability company established and existing in China.

The acquisition will be accounted for as a reverse merger under the purchase method of accounting since there was a change of control. Accordingly, Favor Sea will be treated as the continuing entity for accounting purposes.

NB TELECOM, INC
INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The accompanying unaudited pro forma condensed consolidated balance sheet has been presented with consolidated subsidiaries at September 30, 2008. The unaudited pro forma condensed consolidated statement of income for the nine months ended September 30, 2008 and for the year ended December 31, 2007 has been presented as if the acquisition had occurred January 1, 2007.

The unaudited pro forma condensed consolidated statements do not necessarily represent the actual results that would have been achieved had the companies been combined at the beginning of the year, nor may they be indicative of future operations. These unaudited pro forma condensed financial statements should be read in conjunction with the companies' respective historical financial statements and notes included thereto.

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NB TELECOM, INC
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2008

| | NB TELECOM, INC | FAVOR SEA LIMITED | Adjustments | Notes | (1) Pro Forma |
|---|-----------------------|----------------------|-------------|-------|----------------------|
| ASSETS | | | | | |
| Current Assets | | | | | |
| Cash and cash equivalents | \$ | \$ 2,167,016 | | | \$ 2,167,016 |
| Restricted Cash | | 4,388,872 | | | 4,388,872 |
| Commissions and sales receivable, net | 5,553) | | (5,553) | a | |
| Notes Receivable | | 831,522 | | | 831,522 |
| Accounts receivable - net of allowance for bad debts of \$100,148 and \$93,219, respectively | | 16,623,310 | | | 16,623,310 |
| Other receivables | | 3,420,543 | | | 3,420,543 |
| Inventories | 324 | 10,786,227 | (324) | a | 10,786,227 |
| Advances to suppliers | | 8,973,700 | | | 8,973,700 |
| Total current assets | 5,877 | 47,191,190 | | | 47,191,190 |
| Property and Equipment, Net | | 12,641,860 | | | 12,641,860 |
| Other assets: | | | | | |
| Intangible asset, net | | 250,271 | | | 250,271 |
| Total other assets | | 250,27 | | | 250,271 |
| TOTAL ASSETS | \$ 5,877 | \$ 60,083,321 | | | \$ 60,083,321 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | | | | |
| Current Liabilities | | | | | |
| Short Term Loan | \$ | \$ 21,797,081 | | | \$ 21,797,081 |
| Notes Payable | 119,214 | 9,867,597 | (119,214) | a | 9,867,597 |
| Accounts payable | 190,588 | 1,560,312 | (190,588) | a | 1,560,312 |
| Other payable | 2,166 | 3,175,438 | (2,166) | a | 3,175,438 |
| Accrued expenses | | 709,652 | | | 709,652 |
| Tax payable | | 145,320 | | | 145,320 |
| Due to shareholders | | 620,000 | | | 620,000 |
| Deferred revenue | | 273,115 | | | 273,115 |
| Total current liabilities | 311,968 | 38,148,515 | | | 38,148,515 |
| STOCKHOLDERS' EQUITY (DEFICIT) | | | | | |
| Common Stock, .0001 par value 100,000,000 shares authorized, 49,632,222 shares issued and outstanding at September 30, 2008 | 4,963 | | | | 4,963 |
| Common Stock, \$1 par value, 50,000 shares authorized, 40,000 shares issued and outstanding as of September 30, 2008 | | 40,000 | (40,000) | b | |
| Additional paid-in capital | 501,474 | 2,443,066 | (466,437) | a,b | 2,478,103 |

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| | NB TELECOM, INC | FAVOR SEA LIMITED | Adjustments | Notes | (1) Pro Forma |
|---|--------------------------------|------------------------------|--------------------|--------------|------------------------------|
| Accumulated other comprehensive income | | 1,650,186 | | | 1,650,186 |
| Retained earnings | (812,528) | 17,801,554 | 812,528 | a,b | 17,801,554 |
| Total stockholders' equity (deficit) | (306,091) | 21,934,806 | | | 21,934,806 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 5,877 | \$ 60,083,321 | | | \$ 60,083,321 |

(1) Represents reverse acquisition showing the assets and liabilities of Favor Sea Only

See Notes to unaudited Pro forma condensed consolidated financial statements

NB TELECOM, INC
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR NINE MONTHS ENDED SEPTEMBER 30, 2008

| | NB TELECOM, INC | FAVOR SEA LIMITED | Adjustments | Notes | Pro Forma |
|---|-----------------------|----------------------|-------------|-------|---------------|
| REVENUES | \$ 9,522 | \$ 55,802,003 | \$ (9,522) | a | \$ 55,802,003 |
| COST OF GOODS SOLD | 10,329 | 41,880,768 | (10,329) | a | 41,880,768 |
| GROSS PROFIT | (807) | 13,921,235 | | | 13,921,235 |
| OPERATING EXPENSES | | | | | |
| Research and development expense | | 557,746 | | | 557,746 |
| Selling expense | | 241,823 | | | 241,823 |
| General and administrative expenses | 7,506 | 1,102,261 | (7,506) | a | 1,102,261 |
| Total operating expense | 7,506 | 1,901,830 | | | 1,901,830 |
| NET INCOME (LOSS) FROM OPERATIONS | (8,313) | 12,019,405 | | | 12,019,405 |
| OTHER INCOME (EXPENSE) | | | | | |
| Interest income (expense) | (13,805) | (481,875) | 13,805 | a | (481,875) |
| Other income | | 25,665 | | | 25,665 |
| Other expense | | (100,881) | | | (100,881) |
| Total other income and (expense) | (13,805) | (557,091) | | | (557,091) |
| NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST | (22,118) | 11,462,314 | | | 11,462,314 |
| PROVISION FOR INCOME TAX | | 24,411 | | | 24,411 |
| NET INCOME (LOSS) APPLICABLE TO COMMON SHARES | \$ (22,118) | \$ 11,437,903 | | | \$ 11,437,903 |
| OTHER COMPREHENSIVE INCOME | | 1,031,080 | | | 1,031,080 |
| COMPREHENSIVE INCOME | \$ (22,118) | \$ 12,468,983 | | | \$ 12,468,983 |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE | \$ (0.00) | \$ 285.95 | \$ (285.70) | b | \$ 0.25 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES | 49,632,222 | 40,000 | | | 49,632,222 |

See Notes to unaudited Pro forma condensed consolidated financial statements

NB TELECOM, INC
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007

| | NB TELECOM, INC | FAVOR SEA LIMITED | Adjustments | Notes | Pro Forma |
|---|-----------------------|----------------------|-------------|-------|---------------|
| REVENUES | \$ 71,291 | \$ 34,177,415 | \$ (71,291) | a | \$ 34,177,415 |
| COST OF GOODS SOLD | 63,570 | 27,829,973 | (63,570) | a | 27,829,973 |
| GROSS PROFIT | 7,721 | 6,347,442 | | | 6,347,442 |
| OPERATING EXPENSES | | | | | |
| Research and development expense | | 189,329 | | | 189,329 |
| Selling expense | | 131,772 | | | 131,772 |
| General and administrative expenses | 97,884 | 403,834 | (97,884) | a | 403,834 |
| Total operating expense | 97,884 | 724,935 | | | 724,935 |
| NET INCOME (LOSS) FROM OPERATIONS | (90,163) | 5,622,507 | | | 5,622,507 |
| OTHER INCOME (EXPENSE) | | | | | |
| Interest income (expense) | (23,185) | (152,684) | 23,185 | a | (152,684) |
| Other income | 6,160 | 10,434 | (6,160) | a | 10,434 |
| Other expense | (2,398) | (207,687) | 2,398 | a | (207,687) |
| Total other income and (expense) | (19,423) | (349,937) | | | (349,937) |
| NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST | (109,586) | 5,272,570 | | | 5,272,570 |
| PROVISION FOR INCOME TAX | 735 | | (735) | a | |
| NET INCOME (LOSS) APPLICABLE TO COMMON SHARES | \$ (110,321) | \$ 5,272,570 | | | \$ 5,272,570 |
| OTHER COMPREHENSIVE INCOME | | 482,932 | | | 482,932 |
| COMPREHENSIVE INCOME | \$ (110,321) | \$ 5,755,502 | | | \$ 5,755,502 |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE | \$ (0.00) | \$ 131.81 | (131.70) | b | \$ 0.12 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES | 49,632,222 | 40,000 | | | 49,632,222 |

See Notes to unaudited Pro forma condensed consolidated financial statements

NB TELECOM, INC

**NOTES TO THE UNAUDITED PRO FORMA CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

The following unaudited pro forma adjustments are included in the accompanying unaudited pro forma condensed consolidated balance sheet as of September 30, 2008 and the unaudited pro forma condensed consolidated statement of income for the nine months ended September 30, 2008 and for the year ended December 31, 2007 to reflect the acquisition of Favor Sea by the Merger Sub and the Parent:

- a. To record the spin-off of the Parent's assets and liabilities prior to the reverse acquisition;
- b. These adjustments reflect the recapitalization as a result of the transactions related to the share exchange.