China XD Plastics Co Ltd
Form 10-K
March 31, 2011
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

or

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

For the transition period from _____ to _____

Commission File No. 001-34546

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

Nevada	04-3836208
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
No. 9 Dalian North Road, Haping Road Centralized Industrial Park, Harbin Development Zone, Heilongjiang Province, P. R. China	150060
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (86) 451-8434-6600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.0001	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes £ No T

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes £ No T

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

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

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2010 was approximately $50,732,576.

As of March 21, 2011, there were 47,628,367 issued and outstanding shares of the issuer's common stock.

Documents incorporated by reference: None.

CHINA XD PLASTICS COMPANY LIMITED
FORM 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

Table of Contents

PART I

ITEM 1. BUSINESS.

Our History

China XD Plastics Company Limited ("China XD," "we," "us," and the "Company"), formerly known as NB Telecom, Inc ("NB Telecom"). was 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.

On December 24, 2008, NB Telecom acquired all of the outstanding capital stock of Favor Sea Limited ("Favor Sea BVI"), a British Virgin Islands corporation, whose assets, held through its subsidiaries, are 100% of the registered capital of Harbin Xinda Macromolecule Material Co., Ltd. ("Harbin Xinda"), a limited liability company established under the laws of the People's Republic of China ("China" or "PRC") and Harbin Xinda's wholly-owned subsidiary, Harbin Xinda Macromolecule Material Research Institute (the "Research Institute"). Harbin Xinda is a manufacturer and developer of modified plastics. Harbin Xinda is a high-tech company that was founded in September 2004 under the laws of the PRC with registered capital of 20 million RMB (USD$3 million).

In connection with the acquisition, the Company entered into an Agreement and Plan of Merger (the "Agreement") by and among the NB Telecom, Favor Sea BVI, and the shareholders of Favor Sea BVI including the principal shareholder, XD Engineering Plastics Company Limited ("XD Engineering"), a British Virgin Islands corporation. The Company acquired all of the outstanding capital stock of Favor Sea BVI. In connection with the acquisition, and in exchange for the outstanding stock of Favor Sea BVI, the shareholders of Favor Sea BVI received 50,367,778 shares of the common stock of the Company and 1,000,000 shares of convertible Series A preferred stock of the Company, and XD Engineering individually received 1,000,000 shares of Series B preferred stock of the Company (the "Merger"). Subsequent to the Merger and as a direct consequence, the name of the Company was changed to "China XD Plastics Company Limited" pursuant to Chapter 92A the Revised Nevada Statutes in connection with the Merger. The 50,367,778 shares of common stock were converted into 405,802 shares 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. The 1,000,000 shares of convertible Series A preferred stock of the Company are convertible into approximately 1:38.2 into 38,194,072 shares of the common stock of the Company. Assuming the conversion of the Series A preferred stock of the Company, the shareholders of Favor Sea BVI will own approximately 99% of the common stock of the Company.

Our Business

We are a leading producer of automotive modified plastics in China. Through our wholly-owned subsidiary, Harbin Xinda, we develop, manufacture, and distribute modified plastics, primarily for use in the production of automobile parts and components. We develop our products using our proprietary technology, which technology is derived from our wholly-owned research laboratory, Research Institute. The Research Institute is a professional macromolecular material R&D institute located in Heilongjiang Province that uses approximately 100 modules of professional equipment for research and development of macromolecular materials and has received 177 certifications from manufacturers in the automobile industry. The Research Institute team consists of 90 professionals and eight consultants, including one consultant who is a member of the China Academy of Sciences and the China Academy of Engineering and one consultant who is the chief scientist of Jilin University. As a result of the combination of our academic and technological expertise, we have a portfolio of 19 patents for which we have applications pending in China. Upon liquidation of the Research Institute in December 2010, its technology and R&D team were transferred to a newly established subsidiary, Harbin Xinda Macromolecule Material Research Center Company Limited (the

"Material Research Center").

1

Modified plastic is produced by changing the physical and/or chemical characteristics of ordinary resin materials. In order for plastics to be used to produce automobile parts and components, they must satisfy certain physical criteria in terms of electro-magnetic characteristics, reaction to light and heat, durability, flame resistance, and mechanical functionality. Our unique formulas and processing techniques enable us to produce low-cost high-quality modified plastic materials, which have been certified by many of the major domestic and international automobile manufacturers in China. In addition, we also provide specially engineered plastics and environment-friendly plastics for use in oilfield equipments, mining equipments, vessel propulsion systems and power station equipments.

Harbin Xinda's primary market is the rapidly expanding Chinese automotive industry where our modified plastics are used to produce the following auto parts: exteriors (automobile bumpers, rearview and sideview mirrors, license plate parts), 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 specialized plastics are utilized in more than 60 automobile brands manufactured in China, including leading brands such as Audi, Red Flag, Volkswagen, and Mazda. At present, 177 of over 200 of Harbin Xinda's automotive-specific modified plastic products have been certified by one or more of the automobile manufacturers in China and are in commercial production. Our remaining products are currently in trial manufacturing periods.

Corporate Structure

The corporate structure of the Company as of December 31, 2010 is as follows:

Our Industry

According to a research report issued by the independent research firm Forward & Intelligent, China consumed approximately 5.3 million Metric Ton ("MT") of modified plastic products in 2010, representing an increase of 30% compared to 2009. With China being the world's manufacturing center and with rising domestic personal consumption, we believe that demand for modified plastics from China will continue to increase in the foreseeable future. It is estimated that the market demand for modified plastics has reached 6.1 million MT in 2011 and continues to grow at a rate of over 10% per year in the next five to ten years.

Currently, demand for our products primarily comes from the Chinese automotive industry. The use of modified plastics in the auto industry started in the 1950s. In order for plastics to be used in automobile parts and components, they must satisfy specific physical criteria in terms of electro-magnetic characteristics, reaction to light and heat, durability, flame resistance, and mechanical functionality. Modified plastics are usually found in interior materials, dashboards, mud flaps, chassis, bumpers, oil tanks, gas valves, and other components.

The demand for automotive modified plastics in China was approximately 1.2 million MT in 2009. Approximately 65% of the automotive modified plastic consumed in 2009 was imported. The demand for automotive plastics in China is expected to grow to 3.2 million MT in 2013, representing a Compound Annual Growth Rate, CAGR, of 27% from 2009. We believe that the demand for automotive modified plastic in China will grow rapidly due to the fast growing Chinese automotive market, increasing use of plastic in cars and favorable government incentives and regulations. Moreover, domestic producers will likely gain larger market share from imports as they are able to manufacture products with comparable quality and at highly competitive prices. We believe that the following are the key drivers for the automotive modified plastic industry in China:

Fast-Growing Chinese Auto Demand

According to the China Association of Automobile Manufacturers, Chinese automobile consumption has been growing at a CAGR of 22% over the last five years. In 2010, China sold about 18.1 million auto vehicles, representing a 33% growth over 2009. China has exceeded the United States to become the world's largest auto market. The vast majority of the vehicles sold are domestically manufactured in China. In 2010, imports only represented about 5% of the total vehicle sales in China.

Rising personal income in China is one of the key drivers for the rapid growth of the Chinese automobile industry. According to China National Bureau of Statistics, per capita urban household disposable income increased by a CAGR of 12% over the past 10 years, and per capita rural household disposable income rose by 10% per annum. Moreover, cars have become more affordable in China as local or joint venture automobile manufacturers continuously expand their production to achieve economies of scale to lower production cost and have increasingly sourced cheaper auto parts locally. Adjusted by price indices, the average domestic-made passenger car price dropped 30% since 2004. Growing income and lowering vehicle prices will continually make car ownership more affordable for China's rising middle class.

We believe the growth momentum in China's auto sales will remain strong over the next five years. The automotive industry in China is still in its infancy with passenger car ownership of 28 vehicles per 1,000 inhabitants in 2009, which is significantly below the developed countries' average of 445 and global average of 132 according to the Economist Intelligence Unit. According to a recent OECD study, China's vehicle sales could exceed 24 million units by 2015, representing an 81% increase from 2009.

Increasing Use of Plastic in Automobiles

Modified plastics are increasingly being used in automobiles due to their light weight, low cost, corrosion resistance, and flexibility for processing and coloring. In an effort to control carbon emissions and lower fuel consumption, automakers are increasingly replacing metal parts with modified plastics. On average, plastic parts are 30%-50% lighter than their metal counterparts and such weight reduction can improve fuel efficiency. Plastic parts are also less expensive than metal parts and easier to customize to meet automakers' specific needs.

Due to these advantages, we believe that automakers are attempting to increase plastic use in vehicles globally. The plastic applications in cars have been extended from auto interiors and exteriors to certain functional parts, such as the multi-functional bracket, dashboard, engine skid plate, air intake manifold system, and other components. Some leading automakers have even started to use modified plastics to produce the car body. The global average use of plastic per vehicle increased from 50-60kg in the 1970s, to 105 kg in 2000, and is currently approximately 150kg. In Germany, plastic use on average represents 15% of the vehicle weight; in Japan, the US and Europe, the percentage is approximately 13%. In China, plastic use is estimated to be about 100kg per vehicle, representing 8% of the vehicle weight. We believe China's plastic use in vehicles remains relatively low, which represents a significant opportunity for modified plastics players to increase penetration in the China market.

Increasing Substitution of Imports

Though China's automotive plastic market is dominated by foreign or joint venture players, Chinese suppliers are continually gaining market share. It is estimated that imported automotive plastics accounted for 65% of the total China automotive plastic supply in 2009, decreasing from 69% in 2004. Compared to foreign rivals, local manufacturers can deeply benefit from the low labor cost and geographical convenience in China and their product sales can be customized with time-efficient after sales services. As local players continue to invest in research and development, enhance product quality and improve management skills, we believe that domestic production of automotive plastic will continuously replace imported plastics and gain more market share in China going forward.

The financial crisis beginning in 2008 forced global automakers and suppliers to concentrate on their cost structure and pricing mechanisms. Many automakers accelerated cost reduction initiatives. Moving manufacturing operations to, and sourcing raw materials from low cost regions have emerged as key measures to save costs. With its huge consumer market, low labor costs and high-quality manufacturing and logistics infrastructure, China is a location favored by global auto and component makers who source parts and components not only for their local operations in China but also for their global operations. As a result, we believe that China's local plastic suppliers will benefit from such global outsourcing trends and increasingly become a good substitute for expensive imported plastic products.

Favorable Government Policies

The Chinese government has adopted a number of policies and initiatives intended to encourage the development of the Chinese modified plastics industry and stimulate the growth of the Chinese automobile industry.

Since 2000, modified plastics, including engineering plastics, have been categorized as a prioritized industrialization area by a series of government guidelines or development plans. Some of these policies include:

- It was stated in the "Catalogue for Guidance on Adjustment of Industrial Structure (2005)" promulgated by the National Development and Reform Commission on December 2, 2005, that the country is currently promoting the development of modified plastic subsectors, including the production composite materials, functional polymers, engineering plastics and new plastic alloys.

- It was stated in the "Guidance on Key Areas of Industrialization of High Technology with Current Priority in Development (2007)" jointly promulgated by the National Development and Reform Commission, the Ministry of Science and Technology, the Ministry of Commerce and the State Intellectual Property Office on January 23, 2007 that modified technologies applied to general plastics, including PP, PE, ABS, PS, PVC, are currently prioritized areas to develop and industrialize in China's macromolecule materials sector.

- A series of modified plastics technologies have been listed in the "National Support for Key High-tech Fields" as stated in the Circular on the Issuance of the Administrative Measure for the Recognition of High-tech Enterprise jointly promulgated by the Ministry of Science and Technology, Ministry of Finance, the State Administration of

Taxation in April 2008. These technologies include special engineering plastics, macromolecular compound or new synthetic modified, etc.

- It was stated in the “Heilongjiang New Materials Industry Development Planning” promulgated by Heilongjiang Province in November 2009 that modified high-performance plastics and engineering plastics are listed as the top development priorities; modified plastics are the focus of the new materials development in China.

We believe that the above government measures and programs will continue to accelerate automotive sales and the demand for automotive modified plastics in China.

Our Products

Modified plastic is processed by adding chemical agents to basic plastics to generate or improve certain physical and/or chemical characteristics of plastic, such as heat resistance, hardness, tensile strength, wear resistance, and flame resistance. Based on the type of materials, modified plastics include modified common plastics, such as polypropylene (PP), acrylonitrile butadiene styrene (ABS), modified engineering plastics, such as polyamides (PA or nylon), and specialty engineering plastics.

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

Product Group	Brand Name	Number of Products Certified	Characteristics	Automotive or Other Application
Modified PP	COMPNIPER	50	High fluidity and impact resistance	Interior parts, such as inner panels, instrument panels and box lids
	COMPWIPER	28	Resistance to low temperature and impact	External parts, such as front and back bumpers and mudguards
	COMPGOPER	45	Resistance to high temperature and static	Functional components, such as unit heater shells and air conditioner shells
Modified ABS	MOALLOLY	10	High gloss, high rigidity and size stability	Functional components such as heat dissipating grids and wheel covers
Modified Nylon	POLGPAMR	17	High wear and heat resistance	Parts requiring high flame and heat resistance
Engineering Plastics	MOAMIOLY	9	Heat resistance and wear resistance	Engine hoods, intake manifold and bearings
Alloy Plastic	BRBSPCL	10	Combines two different plastics, such as PP and ABS	Rearview mirrors, grilles, automotive electronics and other components. Products can also be used in computers, plasma TVs and mobile phones
Environmentally friendly plastics	POLGBSMR	8	Environmentally-friendly features such as low odor and low carbon emission	Used in automobiles meeting environmental standard requirements
Modified Plastic for Special Engineering	PEEK	N/A *	Excellent mechanical and chemical resistance and temperature tolerance	Used in communications and transport, electronics and electrical appliances, machinery, medical and analytical equipment.

Total	177

* PEEK is primarily used in applications that are unrelated to automotive applications, which do not require certifications and are in the product development stage.

Raw Materials

The principal raw materials used for the production of our modified plastic products are plastic resins such as polypropylene, ABS and nylon. Polypropylene is a chemical compound manufactured from petroleum. 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. Approximately 50% of our raw materials are sourced from overseas petrochemical enterprises and 50% from domestic petrochemical enterprises.

Harbin Xinda has one-year renewable contracts with its major suppliers. Because the raw materials used in our products are primarily petroleum products, the rise in oil prices directly affects the cost of the raw materials. We attempt to mitigate the increase in our raw materials prices by appropriately raising the price for our products to pass the cost to our customers as part of our pricing policy.

Because raw materials constitute a substantial part of the cost of our products, we seek to reduce costs by dealing with three major suppliers: Dalian Free Trade Zone Mankeri International Trade Co., Ltd. ("Mankeri"), Dalian Lanhai International Trade Co., Ltd ("Dalian Lanhai") and Shenyang Yuanhong Plastics Co., Ltd. ("Shenyang Yuanhong"). During the year ended December 31, 2010, Harbin Xinda purchased approximately 47.6% of its raw materials from Mankeri, approximately 48.0% from Dalian Lanhai and approximately 4.1% of its raw materials from Shenyang Yuanhong. In 2009, Harbin Xinda purchased approximately 48.4% of its raw materials from Mankeri, and approximately 49.7% from Dalian Lanhai. By dealing in large quantities with these major suppliers, we obtain reduced prices for raw materials, therefore reducing the cost of our products. If we were unable to purchase from Mankeri, Dalian Lanhai or Shenyang Yuanhong, we believe we would still have adequate sources of raw materials from other petrochemical dealers at similar cost.

Research and Development

The Material Research Center was organized to provide us with ongoing additions to our technology through advanced development methods, which represents the key to our competitive strength and success. Our goal is to utilize our state-of-the-art methods and equipments to produce plastics of the highest quality that are cost-efficient for our customers. Toward this end, we have staffed the Research Center with 46 employees who have Ph.D. and Master's degrees and 44 employees who have Bachelor's degrees. On average, our employees have been employed in our industry for more than three years, and our key R&D employees have on average more than 10 years of experience in our industry.

To supplement the efforts of our Material Research Center, we have developed cooperative research programs with a number of the leading technology institutions in China. Besides providing specialized research and development skills, these relationships help us to formulate cutting edge research programs aimed at developing new technologies and applications 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:

- 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.