China XD Plastics Co Ltd
Form 10-K/A
May 05, 2010

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

FORM 10-K/A
(Amendment No. 1)

x ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 2009

or

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 333-134073

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

Nevada (State or other jurisdiction of incorporation or organization)	04-3836208 (I.R.S. Employer Identification No.)
No. 9 Qinling Road, Yingbin Road Centralized Industrial Park, Harbin Development Zone, Heilongjiang, P.R. China (Address of principal executive offices)	150078 (Zip Code)

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

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: Common Stock, par value $0.0001

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1934. Yes oNo x

Indicate by checkmark whether the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Exchange Act. Yes oNo x

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 x No o

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 o No x

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. o

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 o	Accelerated filer o
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2009 is approximately $19,871,383.

As of April 8, 2010, there were 44,007,589 issued and outstanding shares of the issuer's common stock.

EXPLANATORY NOTE

This Amendment No. 1 to China XD Plastics Company Lmited's (the "Company") Annual Report on Form 10−K for the year ended December 31, 2009 is being made to provide the reissued Report of Independent Registered Public Accounting Firm from the Company's predecessor auditor, Bagell Josephs, Levine & Company, LLC and the Report of Independent Registered Accounting Firm of the Company's current auditor, Moore Stephens Hong Kong. This Form 10-K/A also corrects the reference error made in Part III, Item 15—Exhibits, Financial Statement Schedules. No other information included in the original Form 10−K is amended hereby. For convenience and ease of reference, the Company is filing the Annual Report in its entirety with applicable changes. Unless otherwise stated, all information contained in this amendment is as of April 14, 2010, the filing date of the original Annual Report. Except as stated herein, this Form 10−K/A does not reflect events or transactions occurring after such filing date or modify or update those disclosures in the Annual Report that may have been affected by events or transactions occurring subsequent to such filing date. No information in the Annual Report other than as set forth above is amended hereby. Currently dated certifications from our Chief Executive Officer and our Chief Financial Officer have been included as exhibits to this amendment.

CHINA XD PLASTICS COMPANY LIMITED
FORM 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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Financial Statements

As used herein, "China XD," "we," "us," "our" and the "Company" refers to China XD Plastics Company Limited.

PART I

ITEM 1. BUSINESS.

China XD Plastics Company Limited ("China XD Plastics"), 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$2,416,451). Harbin Xinda's executive offices and manufacturing facilities are located at No. 9 Qinling Road, Yingbin Road Centralized Industrial Park and No. 9 Dalian North Road, Haping Road Centralized Industrial Park, Harbin Development Zone, Heilongjiang Province, in northeast China. Harbin Xinda engages in the development, manufacture, and distribution of modified plastic, primarily for use in automobiles. The technology that has enabled Harbin Xinda to become China's leading producer of automotive modified plastics derives from our wholly-owned research laboratory, 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.

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.

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. Harbin 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.

Harbin Xinda's primary market is the rapidly expanding Chinese automotive industry. In 2009, 13.6 million automobiles were sold in China, which increased by 44.7% from the previous year. It is estimated that the Chinese auto market will grow by 15% annually in the coming years. Each automobile requires 100 kg to 150 kg of modified plastic, which means that by 2010 the demand for modified plastic in the Chinese automobile industry will be approximately 1.6 million tons annually. Harbin Xinda's existing facility has an annual production capacity of 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, 145 of 263 Harbin Xinda's automotive-specific modified plastic products 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 products are organized into seven categories, based on their physical characteristics:

Modified Polypropylene:

- COMPNIPER: 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. 45 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. 25 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. 38 of these products have been certified for use in the Chinese auto industry.

Modified ABS:

- MOALLOLY: a form of modified ABS (acrylonitrile butadiene styreme) 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. 7 of these products have been certified for use in the Chinese auto industry.

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. 9 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. 6 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. 5 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 plastic that can be used in communication and transportation, electronic and electric appliance, machinery, medical equipment and analytical equipment. Harbin Xinda is developing products in this field based on years of research findings. However, none of these products have been certified for use in the auto industry.

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 50% of these raw materials come from overseas petrochemical enterprises, and 50% 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. Harbin Xinda has one-year renewable contracts with its major 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 ("Dalian Lanhai"). During the year ended on December 31, 2009, Harbin Xinda purchased approximately 48.4% of its raw materials from Mankeri and 49.7% from Dalian Lanhai. In 2008 we purchased 65.6% of our raw materials from Mankeri, and 29.5% from Dalian Lanhai . By dealing with these major suppliers, Harbin Xinda obtains reduced prices for raw materials, and thus reduces the cost of our products. If we were unable to purchase from Mankeri or Dalian Lanhai, we would still have adequate sources of raw materials from other petrochemical dealers at similar cost.

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 77 researcher employees, over 90% of whom have advanced degrees or specialized undergraduate training.

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 Changchu University of Technology. 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:

- 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.

- Zhang Huixuan: Vice Principal of Changchun University of Technology.

- 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 Institute of Technology.

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

Patents

As a result of our collection of academic and technological expertise, we have a portfolio of 11 patents for which we have applications pending in China which are set forth in the following table.

No.	Patent Name	Patent Application No.	Application Date and Status
1.	Measures for efficient recycling and circulating usage of waste and old plastics	200510010540.9	November 15, 2005, pending
2.	Special engineering plastics dedicated to military industry products	200510010543.2	November 15, 2005, pending
3.	Special materials for wall tubes of polyethylene winding structure of tube inbuilt technology without opening tank lid	200510010541.3	November 15, 2005, pending
4.	Stuffing master batch material dedicated to polypropylene resin	200510010542.8	November 15, 2005, pending
5.	Special materials for air inflow manifold of automobile engine	200710072563.1	July 25, 2007, pending
6.	High-luster low shrinkage ratio nano polypropylene modified compound and its manufacturing methods	200510010539.6	November 15, 2005, pending
7.	Strengthened toughened aging resistant polypropylene/nano calcium carbonate compound material and its manufacturing methods	200510010538.1	November 15, 2005, pending
8.	Green inflaming-retardant ABS alloy	200610009836.3	March 21, 2006, pending
9.	Compound nano special materials dedicated to automobile bumper	200510010066.x	June 6, 2005, pending
10.	High-performance special polypropylene materials dedicated to automobile	200610009837.8	March 21, 2006, pending
11.		200910071782.7	

Carbon fibre reinforced nylon composites for centralizer in the application of oil field	April 15, 2009, 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.

Marketing

Currently Harbin Xinda’s sales network mainly covers the northeastern region of China. In 2009 and 2008, approximately 80% and 91% of our sales were derived from the northeastern market, with continuing expansion into the northern and eastern regions of China.

Harbin Xinda sells directly to its customers or indirectly through its distributors and provides full after-sale services to all customers. These customers are usually the major automobile parts manufacturers who relies on our product certifications granted by major automobile manufacturers.

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 Harbin 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 Harbin Xinda.

Sales to one major distributor accounted for approximately 83% and 81% of the Company's sales for the years ended December 31, 2009 and 2008, respectively.

During the past three years, the Company has sold most of its products in the three northeastern provinces of China: Heilongjiang, Jilin, and Liaoning. In addition, the Company has supplied to customers in Northern part of China, including Beijing, Tianjin, and Hebei province in 2009. We expect to develop more customers in the cities and provinces located in the Northern and Eastern part of China, such as Shanghai and Zhejiang Province.

No single customer accounted for more than 10% of our sales during the years ended on December 31, 2009 or 2008.

Competition

Currently Harbin 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 have a manufacturing capacity of 100,000 tons. Guangzhou Kingfa has much larger financial resources than Harbin Xinda. Currently, however, it has fewer certified products and sells less modified plastic to the automobile industry than Harbin 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 Harbin Xinda and its Chinese competitors compare very favorably 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