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China XD Plastics Co Ltd  
Form 10-K  
March 15, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-34546

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

Nevada  
(State or other jurisdiction of incorporation or organization) 04-3836208  
(I.R.S. Employer Identification No.)

No. 9 Dalian North Road, Haping Road Centralized Industrial Park,  
Harbin Development Zone, 150060  
Heilongjiang Province, P. R. China  
(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

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

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2015 was approximately \$102,796,027

As of March 10, 2016, there were 49,406,191 shares of common stock, par value US\$0.0001 per share, outstanding.

Documents incorporated by reference: None.

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CHINA XD PLASTICS COMPANY LIMITED  
 FORM 10-K ANNUAL REPORT  
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

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## PART I

### ITEM 1. BUSINESS.

#### Our Business

China XD Plastics Company Limited ("China XD", "we", and the "Company", and "us" or "our" shall be interpreted accordingly) is one of the leading specialty chemical companies engaged in the research, development, manufacture and sale of modified plastics primarily for automotive applications in China and to a lesser extent, in Dubai, United Arab Emirates ("UAE"). Through our wholly-owned subsidiaries Heilongjiang Xinda Enterprise Group Company Limited ("HLJ Xinda Group") and AL Composites Materials FZE ("Dubai Composites"), we manufacture and sell polymer composite materials (a broader category including modified plastics), primarily for automotive applications. We develop our products using our proprietary technology through our wholly-owned research laboratory, Heilongjiang Xinda Enterprise Group Macromolecule Material Research Center Company Limited ("HLJ Xinda Group Material Research"). HLJ Xinda Group Material Research is a professional macromolecular material research and development institution and has 361 certifications from manufacturers in the automobile industry as of December 31, 2015. We are the only company certified as a National Enterprise Technology Center in modified plastics industry in Heilongjiang Province. Our research and development (the "R&D") team consists of 362 professionals and 11 consultants, including one consultant who is a member of the Chinese Academy of Engineering. As a result of the combination of our academic and technological expertise, we have a portfolio of 278 patents, 10 of which we have obtained the patent registration in China and the applications for the remaining 268 of which are pending in China as of December 31, 2015.

Modified plastics are 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 mechanical functionality, stability under light and heat, durability, flame resistance, and environmental friendliness. Our unique proprietary 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 oil-field equipment, mining equipment, vessel-propulsion systems and power station equipment.

China XD's primary end-market is the Chinese automotive industry that has been rapidly growing for the past few years where our modified plastics are used by our customers to fabricate the following auto components: 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 28 automobile brands manufactured in China, including leading brands such as AUDI, Mercedes Benz, BMW, Toyota, Buick, Chevrolet, Mazda, and VW Passat, Golf, and Jetta. As of December 31, 2015, 361 of HLJ Xinda Group's automotive-specific modified plastic products have been certified by one or more of the automobile manufacturers in China and are in commercial production. As of December 31, 2015, 144 of our products were in the process of product certification by automobile manufacturers. In addition, since the second quarter of 2014, the Company has developed and maintained its presence in the Republic of Korea (the "ROK") by selling to a ROK customer primarily higher-end PA66 and plastic alloy, which embarked our entry into the international market.

We operate three manufacturing bases in Harbin, Heilongjiang in the People's Republic of China (the "PRC"). In addition, we completed and started the trial production in the plant in Dubai, UAE with additional 2,500 metric tons ("Phase 1") targeting high-end products for the overseas markets. As of December 31, 2015, in domestic market, we had approximately 390,000 metric tons of production capacity across 84 automatic production lines utilizing German

twin-screw extruding systems, automatic weighing systems and Taiwanese conveyer systems. Prior to December 2012, we had approximately 255,000 metric tons of annual production capacity across 58 automatic production lines utilizing German twin-screw extruding systems, automatic weighing systems and Taiwan conveyer systems. In December 2012, we further expanded our third production base in Harbin with additional 135,000 metric tons of annual production capacity, bringing total installed production capacity in our three production bases to 390,000 metric tons with additional 30 new production lines. In December 2013, we broke ground on the construction of our fourth production base in Nanchong City, Sichuan Province, with additional 300,000 metric tons of annual production capacity, expecting to bring total domestic installed production capacity to 690,000 metric tons with additional 70 new production lines at the completion of the construction of our fourth production base. Sichuan Xinda Enterprise Group Co., Ltd. ("Sichuan Xinda") has supplied to its customers since 2013, backed by production capacity in our Harbin production base. To streamline the management in Sichuan, the Company completed a restructuring in July 2015 by merging its subsidiary in Nanchong City, the entire registered capital (US\$99.99 million) of which was owned by Xinda (Heilongjiang) Investment Co., Ltd, into Sichuan Xinda. The Company expects Sichuan facility to be completed around the middle of 2016. In order to meet the increasing demand from our customer in the ROK and to develop potential overseas markets, on January 25, 2015, AL Composites Materials FZE obtained a leased property of approximately 10,000 square meters from Jebel Ali Free Zone Authority ("JAFZA") in Dubai, UAE with constructed building comprising a warehouse, office and service block with lease term granted 15 years. The Company is planning to complete installing 75 production lines with additional 14,000 metric tons ("Phase 2") of annual production capacity in that property at the beginning of 2017, bringing total production capacity in Dubai to 16,500 metric tons.

## Our History

China XD, formerly known as NB Payphones Ltd. and NB Telecom, Inc., was originally incorporated under the laws of the state of Pennsylvania on November 16, 1999. On December 27, 2005, we migrated to the state of Nevada.

On December 24, 2008, we acquired Favor Sea Limited ("Favor Sea (BVI)"), a British Virgin Islands corporation, which is the holding company for Harbin Xinda Macromolecule Material Co., Ltd. ("Harbin Xinda") and Harbin Xinda's wholly-owned subsidiary, Harbin Xinda Macromolecule Material Research Institute ("Research Institute"). Harbin Xinda is a high-tech manufacturer and developer of modified plastics, which was established in September 2004 under the laws of the PRC. In December 2010, our management determined that the Research Institute could not meet the Company's development needs, including meeting the criteria to be a National Enterprise Technology Center. As a result, the Research Institute was deregistered.

On June 11, 2010, Harbin Xinda established Harbin Xinda Macromolecule Material Engineering Center Co., Ltd. ("Xinda Engineering Center") to focus on research and development of high-end products such as engineering plastics, modified PA, alloy plastics and modified ABS. Xinda Engineering Center was deregistered in 2012 as part of our group restructuring.

On October 14, 2010, Harbin Xinda established Heilongjiang Xinda Software Development Company Limited ("Xinda Software") to develop software applications that provide certain standard and programmable technical services remotely.

On December 10, 2010, Harbin Xinda established Harbin Xinda Macromolecule Material Research Center Co., Ltd. ("Xinda Macromolecule Research Center") to focus on research and development of products such as modified PP and environment-friendly modified plastics. Xinda Macromolecule Research Center was deregistered in 2012 as part of our group restructuring.

On March 31, 2011, Harbin Xinda established a wholly-owned subsidiary, Harbin Xinda Macromolecule Material Testing Technical Co., Ltd. ("Xinda Testing"), to develop a nationally recognized testing laboratory and provide testing services of macromolecule materials, engineering plastics and other products.

In response to our rapid business expansion and in order to be eligible for beneficial tax policies for certain regions in China, we developed a group restructuring plan.

From August 2011 to December of 2012, Harbin Xinda established (i) Harbin Meiyuan Enterprise Management Service Company Limited ("Meiyuan Training") in Harbin to provide all year round training to both our existing and new employees, accommodate our customers and business partners as well as host industry conferences; and (ii) Heilongjiang Xinda Enterprise Group Technology Center Company Limited ("Xinda Group Technology Center") in Harbin to focus on long-term research and development projects.

HLJ Xinda Group, a wholly-owned subsidiary of Xinda HK Company Limited and the proposed direct parent company of all of our PRC-based operating subsidiaries after the group restructuring was established in December 2011. Harbin Xinda Plastics Material Research Center Company Limited ("Xinda Material Research Center") was established in December 2011 to focus on research and development of products close to commercialization phase.

Xinda Group Material Research was established in December 2012.





During the year ended December 31, 2013, following the overall reorganization plan, the Company completed the deregistration of Haikou New Materials, Haikou Technical Center and Haikou Software and merged Xinda Testing and Xinda Material Research Center into HLJ Xinda Group Material Research in 2013, whose major functions included technical support for our production bases, research and development of modified plastic products for applications in areas such as automotive, high-speed rail, aircraft and others, customer post-sales support, and collaboration with industry leading universities and institutions.

On March 19, 2013, Xinda Group established Sichuan Xinda, which subsequently established Sichuan Xinda Enterprise Group Meiyuan Training Center Co., Ltd. ("Sichuan Meiyuan"), Sichuan Xinda Enterprise Group Software Development Co., Ltd. ("Sichuan Software"), and Sichuan Xinda Enterprise Group Sales Co., Ltd ("Sichuan Sales") in April 2013, in order to expand our business in Southwest China.

On April 23, 2013, Xinda Holding (HK) Co, Ltd. ("Xinda Holding (HK)"), formerly known as Hong Kong Engineering Plastics Co., Ltd., set up Xinda (HK) International Trading Company Ltd ("Xinda (HK) Int'l Trading") for import and export business through Hong Kong.

On January 8, 2014, Xinda Holding (HK) set up Dubai Composites for international expansion business.

On March 5, 2014, Xinda Holding (HK) set up Xinda (HK) Trade Co., Ltd ("Xinda Trading") for import and export business through Hong Kong.

On June 17, 2014, Xinda Holding (HK) set up Xinda (Heilongjiang) Investment Co., Ltd. ("Heilongjiang Investment") for its domestic investment activities in PRC.

On August 1, 2014, Heilongjiang Investment set up Nanchong Xinda Composite Materials Co., Ltd ("Nanchong Composite Materials") in order to expand our business in Southwest China and other regions in its proximity.

On November 12, 2014, Heilongjiang Investment set up Heilongjiang Xinda Meiyuan Tennis Club Co., Ltd. ("Meiyuan Tennis Club") in order to replace the Meiyuan Training.

In July 2015, Nanchong Composite Materials merged into Sichuan Xinda as part of the efforts to streamline the Company's management in Sichuan.

On October 16, 2015, Xinda Holding (HK) set up Xinda CI (Beijing) Investment Holding Co., Ltd. ("Beijing Investment") in order to manage domestic companies in mainland China.

Corporate Structure

The corporate structure of the Company as of December 31, 2015 was as follows:

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## Our Industry

According to a research report prepared exclusively for the Company and issued by Frost & Sullivan in 2015, China is estimated to have consumed approximately 20.9 million Metric Tons ("MT") of modified plastic products in 2015, representing an increase of 11.9% compared to 2014. With China being the world's leading manufacturing center and with rising domestic individual consumption, we believe that demand for modified plastics from China will continue to increase in the foreseeable future. As shown in Figure 1, the market demand for modified plastics will reach 30.3 million MT in 2019, representing compound annual growth rates ("CAGR") of 9.8% and 9.7% by sales volume and revenues from 2015 to 2019. Currently, demand for our products is primarily driven by the Chinese automotive industry. In order for plastics to be used in automobile parts and components, they must satisfy specific physical criteria in terms of mechanical functionality, stability under light and heat, durability, flame resistance, and environmental friendliness. Modified plastics are usually found in interior materials, door panels, dashboards, mud flaps, chassis, bumpers, oil tanks, gas valves, grilles, unit heater shells, air conditioner shells, heat dissipating grids, wheel covers, and other components.

Figure 1: Analysis of Chinese Modified Plastics Market: Sales Volume and Revenue (China), 2009-2019E

According to Frost & Sullivan's report, the Chinese automotive modified plastics market has experienced rapid development from 2010 to 2013 with nearly a three-fold growth in terms of revenue and sales volume during this period. Due to the drop of crude oil price since the latter half of 2014, market price of modified plastics has experienced an obvious decrease, which undulates sales revenue of the market in 2015. However the overall revenue of Chinese modified plastics has kept stable increase as the fast growing sales volume in different downstream application fields. The market demand is projected to reach 20.9 million MT in 2015. As illustrated in Figure 2, the Chinese automotive modified plastics market is expected to sustain rapid increase in terms of sales volume and revenues with CAGR of 13.8% and 12.5% from 2015 to 2019, respectively. Approximately 31.5% of the automotive modified plastic consumed in 2014 was imported from outside of the PRC or manufactured by multinational and joint venture companies. We believe that the demand for automotive modified plastic in China will grow continuously due to the fast growing Chinese automotive market, the increasing use per unit of plastic content in automobiles 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 at highly competitive prices and close proximity to their customers. We believe that the following are the key drivers for the automotive modified plastic industry in China.

Figure 2: Analysis of Chinese Automotive Modified Plastics Market: Sales Volume and Revenue (China), 2009-2019E

Source: Frost & Sullivan

According to the statistics by the China Association of Automobile Manufacturers ("CAAM") in 2015 China's production volume of automobiles increased from 13.8 million units in 2009 to 24.5 million units in 2015. The market is expected to slow down after several years' rapid growth, though a comparatively high CAGR of 13.8% from 2014 to 2019, reaching 62.0 million units in 2019. China has exceeded the United States to become the world's largest auto market as measured by the number of automobiles sold. We believe the growth momentum in China's auto sales will remain strong over the next four years. The automotive industry in China is still in its infancy with passenger car ownership of 106 vehicles per 1,000 inhabitants in 2014, which is significantly below Europe's average of 793 and United States' average of 503 according to National Bureau of Statistics, US Department of Energy, Eurosta, Frost & Sullivan.

Figure 3: Overview of Chinese Macro Economy:

Vehicle Per 1,000 People Comparison (Units per 1,000 People), 2009-2019E

Source: National Bureau of Statistics, US Department of Energy, Eurosta, Frost and Sullivan

According to the National Bureau of Statistics, the total number of Chinese automobile parts has experienced a rapid growth because of the economic development and the incentive policies issued by the government. The number kept a booming trend all the way from 62,880.0 thousand units in 2009 to 144,750.0 thousand units in 2014, and is forecasted to hit a record of 244,264.0 thousand units by 2019, with a CAGR of 10.7% between 2015 and 2019 as shown in Figure 4.

Figure 4: Overview of Chinese Macro Economy: Growth of Automotive Parts, 2009-2018E

Source: National Bureau of Statistics, Frost and Sullivan

Rising personal income in China is one of the key drivers for the rapid growth of the Chinese automobile industry. As shown in Figure 5, China has shown strong economic growth with its GDP increasing from approximately RMB 34,562.9 billion in 2009 to RMB 69,238.0 billion in 2015, and is expected to sustain the steady growth from 2015 to 2019. Per Capita Consumption Expenditure of Urban Household also shows an optimistic picture with a total nominal increase of 62.8% between 2009 and 2014, and is forecasted to reach RMB 28,243.9 by the end of 2019. 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 source cheaper auto parts locally. Growing income and decreasing vehicle prices will continue to make car ownership more affordable for China's rising middle class.

Figure 5: Overview of Chinese Macro Economy: Growth of Nominal GDP and Per Capita Consumption Expenditure of Urban Household (China), [2009-2019E].

Source: National Bureau of Statistics, International Monetary Fund and Sullivan

#### Benefit and Increasing Use of Plastics in Automobiles

(1) Cost Reduction: The primary demand driver for modified automotive plastics arises out of the cost-reduction characteristics evidenced by the plastics material inclusion in the automobile manufacturing process. Modified plastics can deliver the same performance as metallic materials at approximately a tenth of the cost. In addition, modified plastics can substitute some kinds of more expensive engineering plastics. This benefit of modified plastics will become more significant with the increasing competition in automobile manufacturing industry to improve efficiency and reduce costs.

(2) Vehicle Emissions Reduction: Plastic components impact fuel efficiency by saving approximately 2.5 liters of fuel per kilograms ("kg") used (equivalent to 6 kg of CO<sub>2</sub> emissions) over the lifetime of the vehicle. Automobile manufacturers have been reducing vehicle weights in an attempt to reduce emissions and increase efficiencies. Modified plastics reduce the weight of components by 40% compared with traditional metallic materials.

(3) Performance and Safety Improvement: The development of advanced plastics applications lead to the improvement in performance through reducing the number and weight of the vehicle parts, causing the fuel consumption per vehicle to drop significantly. In addition, the lower net weight of the vehicles improves handling performance and thereby eliminates the likelihood of losing control in case of emergency stops. The involvement of modified plastics in automotive applications results in significant improvement of the safety features of the vehicle parts, like seat belts, air bags, and air bag containers in the recent years.

(4) New Applications: Plastics reduce the number of the required parts used in automobile manufacturing and introduce new design possibilities. Conventional materials struggle to compete against this open innovation platform associated with the plastics industry. In addition, the performance benefits associated with plastic materials continue to create a competitive advantage for the plastics industry.

(5) Increasing Use of Plastics per Vehicle: Weight of modified plastics per vehicle in China continually increased from 2008 to 2012, and is forecasted to reach 169.8 kg by the end of 2017, with a growth rate of 40.2% as shown in Figure 6. Although the weight of modified plastics per vehicle in China will still be less than that in North America and Europe, the highest growth rate indicates the huge potential for market growth. In 2012, plastic use in China is estimated to be about 128.6 kg per vehicle, whereas models imported from Europe contain on average as much as 219 kg per vehicle. In addition, the Chinese government's goals regarding electric and hybrid vehicles may also push the market further as weight concerns are more important for these vehicles than for traditional passenger cars.



Figure 6: Comparison of Weight of Modified Plastics per Vehicle in China, North America, and Europe, 2008, 2012, 2017E

Source: Frost & Sullivan, American Chemistry Council's Plastics Industry Producers' Statistics Group

#### Increasing Substitution of Imports

Though China's automotive plastic market has been dominated by foreign or joint venture ("JV") companies, Chinese suppliers are continually gaining market share. It is estimated that automotive plastics imported and manufactured by multinational and JV companies accounted for 31.5% of the total China automotive plastic supply in 2014, decreasing from 35.4% in 2010 according to a report by Frost & Sullivan. Compared to foreign competitors including JV companies, local manufacturers can largely benefit from the lower cost and geographical convenience in China and their product sales can be customized with time-efficient after sales services and technical supports. As the local production capacity of both domestic and foreign companies has been expanding, share of imports and multiple national companies is expected to decrease to 21.5% by the end of 2019, while the share of domestic manufacturers is forecast to rise to 78.5% in 2019 as they expand at a greater rate than MNC and JV in China.

The financial crisis beginning in 2008 and the European debt crisis beginning in 2011 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. JV manufacturers based in China in automotive plastics sector have been slow to invest and expand in China.

#### Favorable National Government Policies

In the past decade, 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 is expected that the 13th Five-Year Plan to be launched in 2016 is likely to include favorable policies toward advanced technologies in developing new materials, aviation and space.

It was stated in the "Outline of China's Twelfth Five-year Plan (2011)" that new functional materials, advanced structural materials, common base materials, fiber of high performance and its compounded material are key development directions of new material industry.

It was stated in the "Catalogue for Guidance on Adjustment of Industrial Structure (2011)" promulgated by the National Development and Reform Commission on March 27, 2011, that the country is currently promoting the development of production equipment of polycarbonate by the use of non-phosgene method, with annual output of 60000t/year and above, production of engineering plastic including liquid crystalline polymer (LCP) and development and application of bleeding modification and alloying; development and production of water – absorbed resin, conductible resin and biodegradable polymers; development and production of new polyamide including nylon 11, nylon 1414 and nylon 46, nylon with long carbon chain and heat resistant nylon.

It was stated in the "Guidance on Key Areas of Industrialization of High Technology with Current Priority in Development (2011)" 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 June 23, 2011 that modified technologies applied to general plastics, including new engineering plastics and plastic alloy, new special engineering plastics, fire resistant modified plastics, and modified technology of general plastics, 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.

Determining the detailed standards for average fuel consumption for passenger car manufacturers: 1) In 2015 average fuel consumption for passenger car reach 0.069L per kilometer; 2) In 2020 average fuel consumption for passenger car reach 0.05L per kilometer. It will accelerate the automobile lightweight progress.

In addition, with the Chinese government strongly encouraging the production of more fuel-efficient and environmentally friendly vehicles, as one means to help resolve the nation's worsening air pollution problem, especially in big cities, opportunities abound for suppliers of plastics materials and auto components.

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

#### Tightening Trend and Local Government Policies

Despite the favorable national government policies as set forth above, in the past couple of years, the Chinese government has implemented certain measures to control the pace of economic growth and discontinued certain stimulus measures implemented to deal with the recent global financial crisis, including incentives for consumers to purchase automobiles.

Since 2011, in order to resolve the extreme traffic congestion, Beijing government has been implementing a vehicle purchase quota policy, which limits the maximum vehicles sold in Beijing per month to 20,000. Other cities which have begun to show signs of traffic congestion have also begun to implement similar measures to control traffic congestion, including the limited automobile licenses policy implemented in Shanghai and Tianjin and the imposition of congestion charges in Shenzhen. The termination of nation-wide preferential policies can negatively affect consumer demand for new vehicles, and local restrictive measures over automobile purchases in major cities may result in the reduction in the sale of vehicles nationwide.



## 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, our products include eleven categories: Modified Polypropylene (PP), Modified Acrylonitrile Butadiene Styrene (ABS), Modified Polyamide 66 (PA66), Modified Polyamide 6 (PA6), Modified Polyoxymethylenes (POM), Modified Polyphenylene Oxide (PPO), Plastic Alloy, Modified Polyphenylene Sulfide (PPS), Modified Polyimide (PI), Modified Polylactic acid (PLA) and Poly Ether Ether Ketone (PEEK).

Our products are organized into eleven product groups, based on their physical characteristics, as set forth below:

Product Group	Number of Products Certified	Characteristics	Automotive or Other Application
Modified Polyamide 66 (PA66)	34	Abrasive resistance, self-lubrication, high strength, high temperature resistance, and flame resistance	Roof handles, door knobs, transmission connection plates, fan shrouds, glovebox assemblies, engine hoods, stents baffle blocks, trajectory, fasteners, etc.
Modified Polyamide 6 (PA6)	32	High temperature resistance, weather resistance, high strength	Inner door knobs, door knobs, hand shanks, transmission connection plates, visor bases, etc.
Plastic Alloy	110	High impact resistance, high temperature resistance, flame resistance, platable	Instrument panels, instrument frames, shields, automotive center stacks, speaker covers, grids, fog light shells, battery bases, seat armrests, luggage holders, etc.
Modified Polypropylene (PP)	160	Non-toxic, odorless, low density, insulated, and low moisture uptake	Instrument panels, inner panels, columns, bumpers, air conditioner shells, door knobs, mudguards, etc.
Modified Acrylonitrile butadiene styrene (ABS)	22	High rigidity, low density, rigidity toughness balance, slow burn, and corrosion resistance	Heat dissipating grids, steering wheel shells, cup holders, seal banks, instrument panels, inner door knobs, wheel covers, etc.
Polyoxymethylenes (POM)	1	High strength, low moisture uptake, size stability, high glass, high temperature resistance, fatigue resistance	Heater fans, signal lamps switches, gas reseior covers, door knobs, hand shanks, fuel pumps, dynamic valves, accelerator pedals, rampetior elements, etc.
Polyphenylene Oxide (PPO)	1	High rigidity, flame retardant, abrasive resistance, pollution resistance, high temperature resistance	Battery plants, lamp holder insulation parts, anti freezer grids, booms, instrument panels, window frames, tool cabinet covers, handwheel boxes, heater holders, heater baffles, cooling system connections, pump strainer nets, ammeler frameworks, reaview, etc.

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Modified Polyphenylene Sulfide (PPS)	1	High temperature resistance, corrosion resistance, radiation resistance, flame resistance, size stability	Air bleed control valves, pneumatic signal conditioners, sparks plug wire insulation covers, tachometer sensor covers, electrical pumps, fuel pump impellers and covers, air cylinder covers, water pump impellers, etc.
Modified Polylactic Acid (PLA)	-	Reproducible, good biological compatibility and totally degraded	Glove box handle, seat cover, rearview mirror shell, etc.

Modified Polyimide (PI)	-	Flame resistance, high strength, high temperature resistance, corrosion resistance	Compressor blade, piston ring, sealing washer, bushing, gear, brake block, etc.
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	361		

\*PEEK is primarily used in applications that are unrelated to automotive applications, which does not require certifications and is 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 54.4% of our total raw materials purchased by volume are sourced from overseas petrochemical enterprises and 45.6% from domestic petrochemical enterprises during the year ended December 31, 2015.

The Company has one-year renewable contracts with its major suppliers, which are distributors of petrochemical enterprises. Because the raw materials used in our products are primarily petroleum products, the rise or fall in oil prices directly affects the cost of the raw materials. We attempt to mitigate the increase or decrease in our raw materials prices by appropriately raising or lowering the price for our products to pass the cost or savings 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 major suppliers. During the year ended December 31, 2015, the Company purchased approximately 80% of the Company's raw materials from seven major suppliers. 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 these suppliers, we believe we would still have adequate sources of raw materials from other petrochemical distributors without material impact on the cost of our products.

### Research and Development

HLJ Xinda Group and Sichuan Xinda were organized to provide us with ongoing additions to our technology through advanced development methods, which represent the key to our competitive strength and success. Our goal is to utilize our state-of-the-art methods, equipment and our technical expertise to produce plastics of the highest quality that are cost-efficient for our customers. Toward this end, we have staffed Xinda Material Research Center and HLJ Xinda Group with 46 employees who have Ph.D. and/or Master's degrees, 284 employees who have Bachelor's degrees, and 25 employees with Associate Bachelor's degrees. In addition, we have 11 consultants, including one consultant who is a member of the Chinese Academy of Engineering. On average, our employees have been working 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 HLJ Xinda Group Material Research, we have cooperated with a number of the leading technology institutions in China. Besides providing specialized research and development skills, these relationships help us formulate cutting-edge research programs aimed at developing new technologies and applications in plastics engineering.

In addition, Dubai Composites focuses on more advanced research and development in high-end applications relative to our research and development efforts in China.

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

Shanyi Du: Member of Chinese Academy of Engineering, Professor of Harbin Institute of Technology

Xiabin Jing: Postdoctoral Advisor and Researcher of Changchun Institute of Applied Chemistry of the Chinese Academy of Sciences

Huixuan Zhang: President of Changchun University of Technology

Baohua Guo: Director of Tsinghua University Laboratory of Polymer

Kai Zheng: Secretary General of China Engineering Plastics Industry Association

Aimin Zhang: Professor of the State Key Laboratory of Polymer Materials Engineering Polymer Research Institute of Sichuan University

Chifei Wu: Professor of East China University of Science and Technology

Chao Bi: Associate Professor of School of Mechanical and Electrical Engineering of Beijing University of Chemical Technology

Tiejun Ge: Professor of Shenyang Chemical University

Yuezhen Bin: Professor of Dalian University of Technology

Su Cheng: Associate Professor of Harbin University of Science and Technology

We host our annual seminar on the Development of the Macromolecule Materials Industry since 2008, during which we bring prominent industry-leading consultants to meet with our R&D staff. The annual seminar gives industry experts an opportunity to review and evaluate the Company's R&D initiatives in terms of technology advancement on the backdrop of government policies which support development of the modified plastics industry. During the seminar, industry experts assess the progress of the Company's R&D projects for the current year, and then evaluate the Company's R&D projects for the next year. Projects are reviewed in terms of overall strategy, alignment with government policies, market opportunities, efficient utilization of R&D and technical feasibility.

We have been certified as a National Level Enterprise Technology Center, the only institution certified as such in the modified plastics industry in Heilongjiang. This certification makes us eligible for participation of issuing modified plastics industry standards, certain tax and tariff relief for scientific research and development, certain funding designated for National Enterprise Technology Center and municipal subsidies and Postdoctoral and Academy Member Workstation in Heilongjiang Province.

Our research and development expenses were US\$21,061,345, US\$29,434,680 and US\$21,258,549 during the years ended December 31, 2015, 2014 and 2013, respectively.



## Intellectual Property

## Patents

As a result of our collection of academic and technological expertise, we have 10 approved patents and 268 pending patent applications in China, as set forth in the following table:

No	Patent Name	Application No	Date	Status
1	A sprayed directly material used in car bumper	200810051570.8	December 10, 2008	Approved
2	Supercritical fluid rapid diffusion synthesis of nano calcium carbonate enhanced microcrystalline polypropylene composites	200910073402.3	December 11, 2009	Approved
3	A method for automotive interior low odor, low VOC, high performance polypropylene composites	201010258937.0	August 20, 2010	Approved
4	A high heat-resistant PC/ASA alloy material and its preparation method	201010508149.2	October 15, 2010	Approved
5	A preparation method of polylactic acid used in auto dashboard	201110035716.1	February 11, 2011	Approved
6	A rapid detection method of the tensile property of modified PP used in auto specially by non-standard situation	201110094454.6	April 15, 2011	Approved
7	A high-powered aircraft tail composite material and its preparation process	201110196209.6	July 12, 2011	Approved
8	A preparation method of polypropylene resin foam particles with supercritical CO <sub>2</sub> act	201110230302.4	August 12, 2011	Approved
9	A high toughness, low warpage and high-mobility PET/PBT/PC alloy reinforced by glass fiber and its preparation method	201110235189.9	August 17, 2011	Approved
10	A high impact and high heat-resistant flame retardant ABS composite material reinforce by glass fiber and its preparation process	201110268625.2	September 13, 2011	Approved
11	A high notched impact PA/ASA alloy material and its preparation method	201010230061.9	July 19, 2010	Pending
12	A method for automotive interior matte, anti-scratch modified polypropylene composites	201010230064.2	July 19, 2010	Pending
13	A high impact and high flow PC/ASA alloy material and its preparation method	201010258950.6	August 20, 2010	Pending
14	Nano-ZnO filled with modified PEEK film and its preparation method	201010258955.9		Pending

August 20,  
2010

- |    |   |                |                    |         |
|----|---|----------------|--------------------|---------|
| 15 | A lower mold shrinkage ratio method of calcium carbonate / polypropylene nanocomposites                     | 201010230088.8 | September 15, 2010 | Pending |
| 16 | A preparation method of SiO <sub>2</sub> /CaCO <sub>3</sub> nano-composite particles modified polypropylene | 201010282042.0 | September 15, 2010 | Pending |

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17	An anti-aging, anti-yellowing, low odor polypropylene composite material and its preparation method	201010508177.4	October 15, 2010	Pending
18	A alloy material of high-impact, high-brightness ASA	201010543439.0	November 15, 2010	Pending
19	A high heat-resistant and high wear-resistant PEEX composite material and its preparation process	201110347338.0	January 10, 2011	Pending
20	A preparation process of high weathering color ASA resin	201110347336.1	February 11, 2011	Pending
21	A preparation method of the thermoplastic elastomers PP with high mobility and high resistance of deformation	201110035725.0	February 11, 2011	Pending
22	A preparation method of polymer composites with high toughness	201110035736.9	February 11, 2011	Pending
23	A special material of cooling grille with high heat resistance and high weather resistance	201110094466.9	April 15, 2011	Pending
24	A preparation process of ABS alloy with high impact performance and high heat resistance	201110122586.5	May 12, 2011	Pending
25	A preparation process of centralized control method used in plastic production line	201110122566.8	May 12, 2011	Pending
26	A preparation method of easily dispersed and easily processed polypropylene composite material	201110158511.2	June 14, 2011	Pending
27	A preparation method of high heat-resistant and high rigid PLA composite material reinforced by fully biodegradable natural fiber	201110158512.7	June 14, 2011	Pending
28	A preparation process of the premixed screening system	201110158488.7	June 14, 2011	Pending
29	A rapid detection method of the impact property of modified plastics used in automobile specially	201110158528.8	June 14, 2011	Pending
30	A high impact PA6 composite material with core-shell toughening and its preparation method	201110196226.X	July 13, 2011	Pending
31	A preparation method of the plastic production line with high performance and high homogeneity	201110233488.9	August 16, 2011	Pending
32	A preparation method of polylactic acid used composite material modified by hydroxyapatite with supercritical water act	201110268687.3	September 13, 2011	Pending
33		201110347320.0		Pending

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	A polypropylene composite material used in battery tank of new source of energy automobile and its preparation method		November 7, 2011	
34	A high toughness, low warpage and low mold temperature PET/PA6 alloy reinforced by glass fiber and preparation method	201110347339.5	November 7, 2011	Pending
35	A preparation method of glass fiber reinforced polyether ether ketone with high strength and high heat resistance	201110399890.4	December 5, 2011	Pending

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36	A high toughness of polycarbonate blends material and its preparation method	201110319832.6	December 20, 2011	Pending
37	A high-strength carbon fiber reinforced polyether ether ketone composite material and its preparation method	201210114931.5	April 20, 2012	Pending
38	A high-impact, green flame retardant PC/ABS alloy material and its preparation process	201210122281.9	April 25, 2012	Pending
39	A preparation method for heat-resistant and easy processing of natural fiber reinforced polylactic acid composites	201210147444.9	May 14, 2012	Pending
40	High performance halogen-free flame-retardant PC/ABS composite material and its preparation method	201210201826.5	June 19, 2012	Pending
41	A high temperature conductive PPO/PA6 alloy material and its preparation method	201210241856.9	July 13, 2012	Pending
42	High-performance, green flame retardant reinforced PA66 composites technology	201210260160.0	July 26, 2012	Pending
43	A preparation method of high encapsulation efficiency and stable release polylactic lysozyme drug microsphere	201210295154.9	August 20, 2012	Pending
44	An antistatic LSOH flame retardant PC/ABS alloy material and its preparation method	201210296750.9	August 20, 2012	Pending
45	A Supercritical carbon dioxide reactor pressure method for preparing polypropylene foamed material	201210298694.2	August 22, 2012	Pending
46	A free primer and sprayed directly on the bumper composites	201210306240.5	August 27, 2012	Pending
47	An antimicrobial, dust suppression, halogen-free flame retardant ABS and its preparation process	201210305824.0	August 27, 2012	Pending
48	A preparation methods of ultra-hydrophobic microporous polymer film	201210358122.9	September 25, 2012	Pending
49	An extrusion grade sisal fiber reinforced polypropylene composite material and its preparation process	201210357867.3	September 25, 2012	Pending
50	A flame-retardant glass fiber reinforced PA66 and its preparation method	201210370558.X	September 25, 2012	Pending
51	A long glass fiber reinforced polypropylene material and its preparation method	201210362626.8	September 26, 2012	Pending

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52	A modified Kevlar fiber reinforced PA66 material and its preparation method	201210369747.5	September 29, 2012	Pending
53	The chest protected belts	201220526299.0	October 15, 2012	Pending
54	A non-asbestos and non-metal materials brake pads composite material and its preparation method	201210395921.3	October 18, 2012	Pending
55	A high toughness wear-resistant fiberglass /PA6 composites for rail transit fasteners	201210396122.8	October 18, 2012	Pending

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56	A glass fiber reinforced poly (ethylene terephthalate)/polycarbonate alloy	201210403197.4	October 22, 2012	Pending
57	A wear-resistant, anti-static, flame retardant ultra-high molecular weight polyethylene composite material	201210402814.9	October 22, 2012	Pending
58	A high impact, high heat-resistant PC/PBT alloy material and its preparation process	201210403095.2	October 22, 2012	Pending
59	A continuous aramid fiber reinforced POM materials and preparation methods	201210411967.X	October 25, 2012	Pending
60	Graphene/polymer conductive composites	201210411231.2	October 25, 2012	Pending
61	A production method of antimicrobial, hydrophilic polypropylene particle	201210411680.7	October 25, 2012	Pending
62	A glass fiber, SiO <sub>2</sub> enhanced toughening polyphenylene sulfide material and its preparation method	201210439116.6	November 7, 2012	Pending
63	An alcohol solution PA66 material special for intake manifold and its preparation method	201210442251.6	November 8, 2012	Pending
64	An environmentally friendly self- aromatic polypropylene material and its preparation process	201210457403.X	November 15, 2012	Pending
65	A mechanical strength polypropylene power lithium battery separator and its preparation method	201210472283.0	November 21, 2012	Pending
66	A multilayer hot pressing method for preparing hydroxyapatite / polylactide composite	201210474211.X	November 21, 2012	Pending
67	Preparation of a glass fiber reinforced nylon 66/nylon 6 Composites	201310185041.8	May 20, 2013	Pending
68	An environmentally friendly foam polypropylene material and preparation method	201310185228.8	May 20, 2013	Pending
69	An ramie fiber reinforced polypropylene composite material and its preparation process	201310185514.4	May 20, 2013	Pending
70	A high mobility of polyvinyl alcohol/lignin WPC	201310203047.3	May 28, 2013	Pending
71	A preparation method of reinforced, flame-retardant ABS material	201310367420.9	August 22, 2013	Pending
72	A applied to electrostatic spraying PPO/PA6 alloy material and its preparation method	201310367459.0	August 22, 2013	Pending

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73	One kind of aramid pulp-reinforced PA66 composite material and preparation method	201310367404.X	August 22, 2013	Pending
74	Preparation of a high-performance fiber-reinforced polyphenylene sulfide composites	201310372289.5	August 24, 2013	Pending

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75	One kind of anti-alcohol solution, low warpage reinforced nylon66 composite material and preparation method	201310372282.3	August 24, 2013	Pending
76	A high-gloss, free paint, scratch-resistant alloy material and preparation method	201310372789.9	August 26, 2013	Pending
77	A method for preparing an enhanced flame retardant rigid polyurethane composites	201310467797.1	October 10, 2013	Pending
78	A MARINE with wear-resistant ultra high molecular weight polyethylene composites	201310468060.1	October 10, 2013	Pending
79	Preparation method of impact-resistant strain of modified polylactic acid material	201310468059.9	October 10, 2013	Pending
80	A method for preparing low temperature resistance, scratch-resistant zipper jacket compound for cars	201310468076.2	October 10, 2013	Pending
81	A free spray paint bumper with modified material and preparation method	201310468057.X	October 10, 2013	Pending
82	An environmentally friendly fire-retardant, high-performance EVA composite material and preparation method	201310467812.2	October 10, 2013	Pending
83	A direct line of long glass fiber reinforced thermoplastic composite material and its preparation method	201010471859.6	October 12, 2013	Pending
84	A toughening wear-resistant alloy material and preparation method	201310556261.7	November 12, 2013	Pending
85	A high resistance temperature reinforced polyamide 6 material and preparation method	201310556569.1	November 12, 2013	Pending
86	Preparation of an aircraft engine surrounding high temperature polyimide composites	201310555389.1	November 12, 2013	Pending
87	Preparation of a high strength of continuous glass fiber reinforced nylon 6 material	201310555451.7	November 12, 2013	Pending
88	A highly weather-resistant polypropylene self-luminous material and preparation method	201310555483.7	November 12, 2013	Pending
89	A polypropylene foam material and preparation method	201310559024.6	November 13, 2013	Pending
90	One kind of aramid fiber / polyimide composite material and preparation method	201310559294.7	November 13, 2013	Pending

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91	An alloy NiMoB modified talc enhanced Bumper material and its preparation method	201310559588.X	November 13, 2013	Pending
92	Method for preparing porous polymer composite superhydrophobic films	201310559589.4	November 13, 2013	Pending
93	A silicone toughening polyphenylene sulfide material and its preparation method	201310560625.9	November 13, 2013	Pending

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94	A high toughness, wear-resistant rail fasteners with glass/nylon 6 Composites	201310646768.1	December 6, 2013	Pending
95	A high-gloss, avoid spraying PTT/PMMA rearview mirror Compound and its production process	201310652729.2	December 6, 2013	Pending
96	A keyboard and mouse with anti-bacterial perspiration modified plastics and its preparation method	201310676101.6	December 13, 2013	Pending
97	A high-strength lightweight hollow glass microspheres toughening PP material and preparation method	201310721731.0	December 25, 2013	Pending
98	a method for producing a heatproof polyimide composite used for aircraft engine periphery	201410144739.X	April 12, 2014	Pending
99	Preparation method of a special fiber reinforced skis	201410144740.2	April 12, 2014	Pending
100	A 2D carbon fiber heating cloth	201410144738.5	April 12, 2014	Pending
101	A kind of thermoplastic carbon fiber prepreg and its preparation method.	201410145300.9	April 14, 2014	Pending
102	The preparation method of a kind of special fiber cable oil and gas exploration	201410146070.8	April 14, 2014	Pending
103	a method for preparing super toughened polylactic acid base composite material	201410145345.6	April 14, 2014	Pending
104	Preparation method of a glass fiber reinforced polylactic acid base composite material	201410145388.4	April 14, 2014	Pending
105	Oil and gas exploration prepared by weaving method of special fiber cable	201410205870.2	May 16, 2014	Pending
106	A high toughness flame retardant PLA/PC alloy	201410206092.9	May 16, 2014	Pending
107	Preparation method of PBO fiber reinforced skis	201410205670.7	May 16, 2014	Pending
108	A thermosetting carbon fiber prepreg and its preparation method	201410205668.X	May 16, 2014	Pending
109	A method for producing a heatproof polyimide composite	201410205669.4	May 16, 2014	Pending
110	High thermal conductivity high heat resistance carbon fiber heating cloth	201410262691.2	June 13, 2014	Pending
111	An advantage of specially coupling treated carbon fibers reinforced PEEK	201410262651.8	June 13, 2014	Pending

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112	A high dimensional stability excellent abrasion resistance PEEK valve composite	201410262638.2	June 13, 2014	Pending
113	The preparation method of a high-strength PEEK composites	201410262746.X	June 13, 2014	Pending
114	Preparation of low temperature resistance special fiber reinforced skis	201410262850.9	June 14, 2014	Pending

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115	The preparation method of a kind of long glass fiber reinforced polypropylene	201410264159.4	June 16, 2014	Pending
116	A Method for preparing high performance PEEK/long glass fiber composites	201410263606.4	June 16, 2014	Pending
117	A kind of high thermal conductive composite fiber cloth	201410326610.0	July 10, 2014	Pending
118	Preparation of one kind of ultra light and thin fiber reinforced skids	201410326799.3	July 10, 2014	Pending
119	A preparation method of jute fiber reinforced polypropylene	201410326831.8	July 10, 2014	Pending
120	A method for producing a polyimide composite	201410326840.7	July 10, 2014	Pending
121	Preparation of Carbon Fiber Reinforced PI Composite Material	201410326641.6	July 10, 2014	Pending
122	Preparation of a high tensile strength of PEEK composites	201410326616.8	July 10, 2014	Pending
123	The preparation method of glass fiber reinforced polypropylene	201410365812.6	July 29, 2014	Pending
124	The preparation method of large tow carbon fiber cable	201410363355.7	July 29, 2014	Pending
125	A toughening polylactic acid and its preparation method	201410362495.2	July 29, 2014	Pending
126	A high transparent heat-proof polylactic acid based composite material of the preparation method	201410413616.1	August 21, 2014	Pending
127	A preparation method of PEAK modified epoxy resin system/carbon fiber cable	201410413361.9	August 21, 2014	Pending
128	The preparation of a high-strength ,high-temperature polyimide composites	201410413832.6	August 21, 2014	Pending
129	A high-heat-resistant, excellent in abrasion resistance sheet composite PEEK valve	201410413379.9	August 21, 2014	Pending
130	Toughened prepreg of carbon fiber and its preparation method	201410418312.4	August 25, 2014	Pending
131	A preparation method of poly(lactic acid)/starch composite foams	201410489544.9	September 22, 2014	Pending
132	Preparation of PI composite material by coupling agent treated glass fiber	201410481809.0	September 22, 2014	Pending
133	New type of composite carbon fiber heating cloth	201410481306.3	September 24, 2014	Pending



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134	A kind of 3D printing poly lactic acid/leather powder composite materials and its preparation method	201410690528.6	November 27, 2014	Pending
135	A kind of biodegradable polymer-docetaxel bonding medicine and its preparation method	201410690529.0	November 27, 2014	Pending
136	A preparation method of polyimide composite material	201410691532.4	November 27, 2014	Pending
137	A preparation method of high toughness biodegradable polylactic acid foam plastics	201410691587.5	November 27, 2014	Pending
138	A preparation of antibacterial polylactic acid fiber	201410691901.X	November 27, 2014	Pending
139	A kind of poly lactic acid preparation method of lactide ring-opening polymerization	201410697015.8	November 28, 2014	Pending
140	A modification of PLA material and its preparation method	201410697822.X	November 28, 2014	Pending
141	A method of preparing high strength PLA composites	201410697790.3	November 28, 2014	Pending
142	A kind of twin screw reactive extrusion method ring opening polymerization preparation of PLA	201410697838.0	November 28, 2014	Pending
143	A method of preparing high toughness PLA composites	201410697801.8	November 28, 2014	Pending
144	A kind of organic molecule catalytic method for preparation of poly lactic acid	201410703493.5	November 30, 2014	Pending
145	A surface treatment of carbon fiber reinforced thermoplastic polyimide composites	201410703815.6	November 30, 2014	Pending
146	A carbon fiber-reinforced thermoplastic polyimide composites	201410703816.0	November 30, 2014	Pending
147	A preparation method of the high toughness, high mobility PLA/PP Alloy	201410704664.6	December 4, 2014	Pending
148	A preparation method of the natural fiber/polylactic acid based composite materials	201410704612.9	December 4, 2014	Pending
149	A preparation method of the high toughness ABS/PLA-based alloys	201410704588.9	December 4, 2014	Pending

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150	Nanoparticles/CF hybrid reinforced PEEK composite material and its preparation method	201410729719.9	December 5, 2014	Pending
151	Method for preparing thermoplastic polyimide composites	201410730324.0	December 5, 2014	Pending
152	Boron fiber reinforced polyimide	201410730235.6	December 5, 2014	Pending
153	A method of preparation of carbon fiber prepreg reinforced skis	201410729635.5	December 5, 2014	Pending
154	High mobility TLCP/PES/PEEK composite material and its preparation method	201410729614.3	December 5, 2014	Pending
155	An PEEK/BaSo4 composite material and its preparation method	201410730260.4	December 5, 2014	Pending
156	Foamed PP and graphite fiber composites preparation methods of enhancement of skis	201410729634.0	December 5, 2014	Pending



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157	Method for increasing the compatibility of PPS/PEEK composite materials	201410730258.7	December 5, 2014	Pending
158	A compressor valve plate with a modified material and the method	201410733902.6	December 8, 2014	Pending
159	An automobile air conditioner drive gear with the modified materials and the method	201410733905.X	December 8, 2014	Pending
160	Method for preparing high toughness of polycarbonate/polylactic acid-based alloys	201410733882.2	December 8, 2014	Pending
161	A preparation method of high performance PEEK/carbon fiber composite material	201410747379.2	December 10, 2014	Pending
162	A preparation method of PEEK composite material	201410746978.2	December 10, 2014	Pending
163	A ternary no return toughening copolymer of polylactic acid composite material and its preparation method	201410747386.2	December 10, 2014	Pending
164	Sensor with high-performance fiber-reinforced PPS composites	201410747061.4	December 10, 2014	Pending
165	Glass fiber modified wearable Polyimide	201410747053.X	December 10, 2014	Pending
166	An advantage of specially prepared by coupling treatment sio2 reinforced PEEK	201410747062.9	December 10, 2014	Pending
167	A high-mobility PVA/wood flour composite biomass	201410747054.4	December 10, 2014	Pending
168	One kind of thermal evaporation method graphene Gec	201410746877.5	December 10, 2014	Pending
169	A highly heat-resistant polylactic acid/Wood Flour Composites	201410747097.2	December 10, 2014	Pending
170	Preparation of an enhanced flame retardant polyurethane composites	201410747055.9	December 10, 2014	Pending
171	A process for producing fiber reinforced PA6 dedicated 3D printing materials processing using a special method	201410747082.6	December 10, 2014	Pending
172	A preparation method of low warpage ABS special 3D printing materials	201410746979.7	December 10, 2014	Pending

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173	A preparation method of impact-resistant strain of modified polylactic acid materials	201410747377.3	December 10, 2014	Pending
174	A preparation method of chemical vapor deposition method graphene films	201410747180.X	December 10, 2014	Pending
175	A process for producing acrylic polyurethane high-solids coatings	201410747079.4	December 10, 2014	Pending
176	The use of core-shell particles toughening PC and PBT resin	201410747406.6	December 10, 2014	Pending
177	A high strength, high modulus of PEEK composite material and preparation method	201410747376.9	December 10, 2014	Pending

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178	A modified high-performance carbon fiber composite materials	201410747395.1	December 10, 2014	Pending
179	A kind of microfluidics device prepared by the technology of 3D-printing	201410747264.3	December 10, 2014	Pending
180	A high-retardant polyvinyl alcohol/Wood Flour Composites biomass	201410746938.8	December 10, 2014	Pending
181	A method of processing aids (ACR) improved PVC materials	201410746804.6	December 10, 2014	Pending
182	A preparation method of polylactic acid film	201410746939.2	December 10, 2014	Pending
183	A catalyst with double function activation properties of PLA and preparation method	201510949309.x	December 20, 2015	Pending
184	A preparation method of high strength and biodegradable PLA composite material	201510949307.0	December 20, 2015	Pending
185	A high-performance PLA and its preparation method	201510949312.1	December 20, 2015	Pending
186	A kind of biodegradable recycling PLA material and its preparation method	201510949306.6	December 20, 2015	Pending
187	A high flexibility and heat resistance of PLA modified material and its preparation method	201510949313.6	December 20, 2015	Pending
188	A kind of inorganic filler biodegradable 3D printing consumables and its preparation method	201510949636.5	December 20, 2015	Pending
189	A kind of biodegradable 3D printing toughening material and its preparation method	201510949638.4	December 20, 2015	Pending
190	A low-cost biodegradable 3D printing consumables and its preparation method	201510949637.x	December 20, 2015	Pending
191	A kind of biodegradable 3D printing reinforced material and its preparation method	201510949653.9	December 20, 2015	Pending
192	A biodegradable 3D printing alloy material and its preparation method	201510949651.x	December 20, 2015	Pending
193	A kind of suitable for 3D printing chest straps of polylactic acid materials and its preparation method	201510089885.1	February 28, 2015	Pending

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194	A stereoscopic word based on 3D printing	201520229477.7	April 16, 2015	Pending
195	A kind of alloy material for 3D printing	201510179994.2	April 16, 2015	Pending
196	A method of preparation of water-soluble PLA support material for 3D printing	201510180141.0	April 17, 2015	Pending
197	A kind of high performance PEEK/chopped carbon fiber composite material and the preparation method	201510180750.6	April 17, 2015	Pending

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198	The preparation method of a high toughness polylactic acid based composite material	201510180761.4	April 17, 2015	Pending
199	A nylon base composite material for medical strap by 3D printing and the preparation method	201510180170.7	April 17, 2015	Pending
200	A medical chest straps based on 3D printing technology and its preparation method	201510290769.6	June 1, 2015	Pending
201	A preparation method of 3D printing support material of PVA with amyllum filled	201510342646.2	June 19, 2015	Pending
202	A preparation method of ASA composite materials for 3D printing	201510342647.7	June 19, 2015	Pending
203	A kind of PBT/carbon fiber composite material and its preparation method	201510343448.8	June 20, 2015	Pending
204	A kind of anionic catalytic method for preparation of PLA	201510343470.2	June 20, 2015	Pending
205	A kind of suitable for 3D printing flexible material and its preparation method	201510343479.3	June 20, 2015	Pending
206	A gear assembly line pen container	201510372972.8	July 1, 2015	Pending
207	A 3D printing PA-12 composite materials and preparation methods	201510425924.0	July 21, 2015	Pending
208	A kind of PC/ABS alloy for 3D printing	201510425922.1	July 21, 2015	Pending
209	A kind of chitosan fill the PVA support materials for 3D printing	201510425923.6	July 21, 2015	Pending
210	A preparation methods of PA-12 composite materials for 3D printing	201510425925.5	July 21, 2015	Pending
211	A preparation methods of ASA composite materials for 3D printing	201510426034.1	July 21, 2015	Pending
212	PCL materials for 3D printing	201510426518.6	July 21, 2015	Pending
213	PLA/carbon fiber composite materials for 3D printing	201510444970.5	July 21, 2015	Pending
214	ABS/carbon fiber composite materials for 3D printing	201510444857.7	July 21, 2015	Pending
215	A low-cost PEEK composite materials	201510442250.5	July 21, 2015	Pending
216	A kind of flame retardant PEK-C composite materials	201510442249.2	July 21, 2015	Pending
217	The preparation method of PLA composites with higher strength	201510513220.9	August 20, 2015	Pending
128		201510513331.X		Pending

High flexibility and heat resistance of modified PLA material and its preparation method

August 20,  
2015

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219	The preparation method of high toughness PLA composites	201510513381.8	August 21, 2015	Pending
220	A low hardness material for 3D printing and its preparation method	201510513507.1	August 21, 2015	Pending
221	A kind of high toughness ABS/PLA base alloy and its preparation method	201510513987.1	August 21, 2015	Pending
222	A preparation methods of PLA/carbon fiber composite cable	201510513965.5	August 21, 2015	Pending
223	A kind of high toughness PC/PLA base alloy and its preparation method	201510513964.0	August 21, 2015	Pending
224	A PLA/PCL materials for 3D printing	201510513963.6	August 21, 2015	Pending
225	A preparation methods of biodegradable PP composite materials	201510516595.0	August 21, 2015	Pending
226	A kind of twin screw reactive extrusion method ring opening polymerization preparation of PLA	201510516697.2	August 21, 2015	Pending
227	A 3D printing with PLA wood plastic composite material and its preparation method	201510516892.5	August 22, 2015	Pending
228	A kind of biodegradable plastic material	201510516891.0	August 22, 2015	Pending
229	A water-soluble 3D printing support material and its preparation method	201510517574.0	August 22, 2015	Pending
230	A kind of modified carbon fiber reinforced PEK-C composite materials	201510518210.4	August 24, 2015	Pending
231	The preparation method of PLA by catalytic organic molecules	201510529386.x	August 26, 2015	Pending
232	A kind of alloy material for 3D printing	201510529324.9	August 26, 2015	Pending
233	The preparation method of PLA by glue lactide ring-opening polymerization	201510529229.9	August 26, 2015	Pending
234	A PLA/PCL based materials for 3D printing	201510596497.2	September 19, 2015	Pending
235	A kind of PC/PLA alloy for 3D printing	201510596496.8	September 19, 2015	Pending
236	A preparation methods of PA-12 composite materials for 3D printing	201510596494.9	September 19, 2015	Pending
237	A straw filling masterbatch for car and its preparation method	201510596493.4	September 19, 2015	Pending

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238	A kind of flame retardant straw man-made composite panels and its preparation method	201510598097.5	September 21, 2015	Pending
239	A kind of injection molding with straw powder/PP composite wood plastic material	201510598151.6	September 21, 2015	Pending

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240	A free aldehyde a two-component straw green adhesive and its preparation method	201510598096.0	September 21, 2015	Pending
241	A radiation-hardened PEK-C composite materials	201510598127.2	September 21, 2015	Pending
242	A highly transparent and heat resistant PLA based composite materials and preparation methods	201510605550.0	September 22, 2015	Pending
243	A long natural fiber/PLA based composite materials and preparation methods	201510605549.8	September 22, 2015	Pending
244	A high toughness, high liquidity PLA/PP alloy and its preparation method	201510605551.5	September 22, 2015	Pending
245	A kind of chemical modification of two-component straw without adhesive and its preparation method	201510606502.3	September 23, 2015	Pending
246	A filler masterbatch containing straw fiber and its preparation method	201510620223.2	September 26, 2015	Pending
247	A kind of high toughness of polyolefin/PLA based alloy material and its preparation method	201510620222.8	September 26, 2015	Pending
248	A straw in organic resin environmental protection plastic masterbatch and preparation method	201510620187.X	September 26, 2015	Pending
249	A kind of SEBS compound materials for 3D printing and preparation methods	201510625700.4	September 26, 2015	Pending
250	A straw combined with compound wood plastic material and its preparation method	201510621223.4	September 28, 2015	Pending
251	A 3D printing in toughening PLA material	201510678609.9	October 21, 2015	Pending
252	A 3D printing with imitation wood material and its preparation method	201510678582.3	October 21, 2015	Pending
253	A shock profile ASA modification and preparation method	201510678508.1	October 21, 2015	Pending
254	A kind of suitable for 3D printing PP/SEBS composite materials	201510678417.8	October 21, 2015	Pending
255	A weather resistance type ASA material preparation method	201510682952.0	October 22, 2015	Pending

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256	A 3D printing with PA-12/carbon fiber composite material preparation method	201510774246.9	November 14, 2015	Pending
257	A PEEK composites used for 3D printing	201510776191.5	November 16, 2015	Pending
258	A 3D printing use environmental protection material and its preparation method	201510781986.5	November 17, 2015	Pending
259	A 3D printing to strengthen PLA material	201510781729.1	November 17, 2015	Pending
260	A 3D printing for PVA/PLA composite materials	201510781822.2	November 17, 2015	Pending

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261	Carbon fiber reinforced polylactic acid/hydroxyapatite composite material preparation method	201510781758.8	November 17, 2015	Pending
262	A PLA/PCL composite materials for 3D printing fixed with chest photo	201510781757.3	November 17, 2015	Pending
263	A carbon fiber thermoplastic composites material and its preparation method	201510802664.4	November 20, 2015	Pending
264	A kind of plant fiber modified PP composite material and its preparation process	201510801217.7	November 20, 2015	Pending
265	A straw biodegradable green tableware and its preparation method	201510800686.7	November 20, 2015	Pending
266	A straw packaging products and its preparation method	201510800422.1	November 20, 2015	Pending
267	A long natural fiber/polylactic acid based composite material preparation method	201510807808.5	November 23, 2015	Pending
268	One kind of resistance to warpage reinforced polyamide 6 material and preparation method	201310250426.8	June 24,2013	Pending
269	Preparing a polyamide material reinforced with continuous glass fibers	201310250967.0	June 24,2013	Pending
270	A low-cost method for preparing hydrophobic material of polypropylene	201310250185.7	June 24,2013	Pending
271	A polypropylene self-luminous material and preparation method	201310250047.9	June 24,2013	Pending
272	A molding method suitable PEEK	201010173663.5	May 17,2010	Pending
273	A preparation process of heat-stable flame retardant reinforced nylon composite material	201310413691.3	September 12,2013	Pending
274	An anti-oxidation, high flow, flame retardant ABS and preparation process	201310413270.0	September 12,2013	Pending
275	An flax oil fiber reinforced polypropylene composite material and its preparation process	201310413287.6	September 12,2013	Pending
276	A preparation of applying to charging pile casing PC / ABS alloy compound	201310414007.3	September 12,2013	Pending
277	A no-spray, high durability, scratch-resistant, flame retardant ABS Preparation and Process	201310414024.7	September 12,2013	Pending

278 An antistatic, low smoke, flame retardant PC/ABS alloy materials and preparing process 201310414847.X September 13,2013 Pending

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## Trademark

We own the trademarks for our graphic logo and Chinese characters of "Xinda", which we use in packaging our products and marketing.

## Certification Process

To meet the requirements of an automobile manufacturer, products used as component parts must pass a rigorous certification process by the manufacturer's technological quality assurance department before they can be approved for and used in production. The certification process consists of three stages.

First, the automobile manufacturer reviews the manufacturer of modified plastics. The examination involves assessment of the operation history of the modified plastics manufacturer, their experience in providing component services, the specialization of their factory equipment, their research and development capacity and quality assurance systems. The manufacturer's operations need to meet the requirements of the automobile manufacturer. Once the initial review is passed, the modified plastics manufacturer will obtain a qualification as an automobile component manufacturer. This initial stage takes approximately sixteen to twenty two months to complete.

Second, the automobile manufacturer and the manufacturer of modified plastics reach an understanding about a product specification. The modified plastics manufacturer provides product research and development materials to the automobile manufacturer for inspection. The automobile manufacturer tests the product specification according to its standards and, if results are satisfactory, the modified plastics manufacturer obtains a product specification certification and enters the product certification stage. The second stage takes approximately eight months to complete.

Third, the parties complete technology R&D tests and perform automobile component finished parts tests. The product undergoes additional testing by the automobile manufacturer and is used in road tests. This stage takes approximately five to fifteen months depending on whether the car model is an existing model or a new model. At the conclusion of the third stage, the modified plastics manufacturer receives a product certification from the automobile manufacturer.

We believe that the necessity, rigorousness, complexity and duration of the certification process make it difficult for outside competitors to enter the field in a short period of time. We have 361 certifications from automobile manufacturers as of December 31, 2015, which we believe is currently one of the largest portfolios of product certifications in the Chinese automobile modified plastics industry.

## Sales and Marketing

Currently, our sales network focuses on the northeastern, northern, eastern and southwestern regions of China. We primarily sell to end customers through our approved distributors. To a less extent, we also sell directly to end customers. A typical customer development cycle starts when our R&D staff develops customized products for new end customers and obtains product certifications. These end customers are usually major automobile parts manufacturers who can only source from suppliers like China XD with product certifications granted by major automobile manufacturers. After we established relationships with these end customers and began to have large volume of transactions with them, we assign end customers to our approved distributors according to our internal policies. We also acquired end customers with our existing certifications from time to time. In 2015, approximately 92.6% of our sales were generated from approved distributors.

We enter into distribution agreements with local distributors in areas where large automobile manufacturers are located. The distribution agreements usually have a term of one year, during which period we can enter into distribution agreements with other distributors for our products. The distributors are responsible for marketing and distributing our products. Through the established sales channels, we can quickly respond to local market demand, address customer needs, enhance our ability to provide technical support and after-sales services, and lower our marketing expenses. Our general credit term with our distributors is three months and our collection of payment from distributors is not contingent upon their cash collection from end customers. We manufacture products according to orders received from our distributors and maintain a certain quantity of raw materials based on our experience and the distributors order patterns. By doing this we hope to ensure the smooth implementation of the production plan of major automobile manufacturers and avoid risks of inventory shortage. We do not provide the distributors nor end customers with the right of return, price protection or any other concessions. We allow for an exchange of products or return only if the products are defective.

We have been actively extending our distribution network to 8 distributors in 2015 and we believe we have good relationships with our distributors. We believe that we have been able to secure and maintain strong relationships with end customers due to our existing certifications, advanced technologies and high product quality, which establish a higher barrier to entry for others. Most of the end customer relationships will be developed through our own R&D and sales force and maintained by our R&D and sales professionals and our distributors. According to our distribution contracts, our distributors are prohibited from selling our competitors' products and required to use the product certificate, brand name and package standards set by us during the distribution period. After the expiration of the distribution contracts in absence of renewal, we retain the customer relationships with end customers.

While the pricing volatility of our raw materials is a primary cause of cost variations in our products, we are generally able to pass the cost of price changes in our raw materials to our customers, although there are timing delays of varying lengths depending upon volatility of raw material prices, the type of products, competitive conditions and individual customer arrangements.

We sell our products substantially through approved distributors in the PRC. Our sales to our distributors are highly concentrated but have been gradually diversified in recent years. Sales to major distributors and direct customer, which individually exceeded 10% of our revenues, accounted for approximately 84.7%, 86.7% and 79.6% of our revenues for the years ended December 31, 2015, 2014 and 2013, respectively. We expect to reduce our distributor concentration over time, although revenues from these distributors are expected to continue to represent a substantial portion of our revenue in the future. Further information about our major distributors and the director customer, which individually exceeded 10% of our revenues, for the years ended December 31, 2015, 2014 and 2013, is set forth in Note 1 of the notes to the consolidated financial statements of this Annual Report on Form 10-K.

We have initiated our marketing efforts to develop new customers outside of China, in particular those in the Korean market. We have started offering certain high-end products, such as PA66 and long-chain PA12 manufactured from our Heilongjiang plants, directly to the Korean market since the second quarter of 2014. In addition, we completed and run the trial production in the plant in Dubai, UAE with additional 2,500 metric tons ("Phase 1") targeting high-end products for the overseas markets. We plan to serve customers in oversea markets from our Dubai Composites plant. Information about geographic revenue is set forth in Note 24 of the notes to the consolidated financial statements of this Annual Report on Form 10-K.

## Competition

The PRC automotive modified plastics industry is growing rapidly and highly fragmented with the top three domestic producers occupying less than approximately 26.6% of the market shares in 2013 according to Frost & Sullivan's report. According to Frost & Sullivan's report, in terms of sales volume and production capacity, we are one of the leading domestic specialized manufacturers of modified plastic for automobile parts in China, with a market share of approximately 9.5% in 2014 and 11.6% in 2013. In 2015, our sales volume of automotive plastics was approximately 332,144 MT. As of December 31, 2015, our annual production capacity of automotive plastics was 392,500 MT.

In 2014, the Company developed a customer from the ROK by the sales of mainly higher-end polymer composite materials. Our competitors in the ROK are mostly global brand name companies. Due to our high quality standard and competitive pricing, we are able to compete in and penetrate markets outside of China.

We installed 30 new product lines in December 2012, which are utilized primarily for the manufacture of higher value-added modified plastics products. The lines increased the Company's total production capacity by 135,000 MT to 390,000 MT per annum.

In addition, we completed and run the trial production in the plant in Dubai, UAE with additional 2,500 metric tons ("Phase 1") targeting high-end products for the overseas markets.



Currently, HLJ Xinda Group's primary Chinese competitor in the automobile industry is Guangzhou Kingfa Science & Technology Co., Ltd. ("Guangzhou Kingfa"). Guangzhou Kingfa entered the automotive modified plastics market in 2006 and its facilities had an annual manufacturing capacity of 312,000 MT for its modified plastics products used in the automobile industry at the end of 2014, according to the research report by Frost and Sullivan. Guangzhou Kingfa has the largest capacity expansion plans and was expected to expand to 1.06 million MT by 2015 according to Frost and Sullivan's report, but its utilization rate of production capacity is expected to be lower than that of China XD based on Frost & Sullivan's report. Guangzhou Kingfa has much larger financial resources than HLJ Xinda Group. However, we believe that it is less focused in automotive sector and currently holds fewer number of product certifications for automotive modified plastic to the automobile industry compared to HLJ Xinda Group. Another top domestic manufacturer of modified plastic is Shanghai Pret Composites Co., Ltd. ("Shanghai Pret"), which focuses on the production of automotive plastics. It had an annual capacity and sales volume of 136,600 MT and 113,524 MT in 2014 and 2013, respectively, according to a report by Frost and Sullivan.

Historically, the Chinese auto market predominantly used modified plastics manufactured overseas or in factories controlled by foreign companies, such as manufacturers from Germany, the US, the Netherlands and Japan. Although China's automotive plastic market has been dominated by foreign or JV players, Chinese suppliers are continuing to gain market share. It is estimated that automotive plastics imported or manufactured by multinational and JV companies accounted for approximately 33.4% of the total China automotive plastic supply in 2013, decreased from 35.4% in 2010. JV manufacturers based in China in automotive plastics sector have been slow to invest and expand in China. Compared to non-domestic competitors including JV manufacturers, domestic manufacturers can benefit from the lower costs and geographical proximity in China. As local players continue to invest in research and development, enhance product quality and improve management skills, we believe that domestic production of automotive plastics will compete very favorably with the foreign competitors in terms of price, quality, services and delivery times and continue to replace imported plastics.

#### Our Competitive Strengths

We believe that the following competitive strengths continue to enable us to compete effectively in the automotive modified plastics market in the PRC:

**Leading Market Position with High Barrier to Entry.** We believe that we are one of the China's leading specialized manufacturers of modified plastic for automobile parts in terms of sales volume and production capacity, with a market share of approximately 9.5% in 2014. The PRC automotive modified plastics industry is growing rapidly and is highly fragmented with the top three domestic producers occupying less than approximately 26.6% of the market shares in 2014. In 2015, our sales volume of automotive plastics was approximately 332,144 MT, representing a decrease of 2.7% compared to that in 2014 mostly due to the slowdown of the auto industry in China. As of December 31, 2015, our annual production capacity of automotive plastics was 392,500 MT. We believe our leading market position allows us to successfully compete with other foreign and domestic modified plastic manufacturers in the market. Being one of the leading specialized manufacturers of automotive modified plastics in China, we believe we are well-positioned to not only grow with the increasing market demand but increase market share by replacing smaller and less efficient modified plastic manufacturer.

In addition, as a result of our consistent research and development efforts, we have 361 product certifications from major automotive manufacturers in the PRC as of December 31, 2015, which we believe is among the largest numbers of product certifications by any domestic player in China's automotive plastics industry. Strict certification requirements and long certification periods result in high barriers to entry. Our current or potential competitors are required to obtain relevant product certifications from automotive manufacturers in order to compete with us. Each certification normally takes over two years to complete, and as a result, automotive manufacturers are reluctant to

replace suppliers like us who have already received necessary certifications and proven consistent product quality. We believe that having one of the largest portfolios of product certifications in China allows us to strengthen our competitive position.

**Long-Term Relationships with Reputable End Users.** Our senior management has been involved in the business of modified plastics since 1985. We benefit from the industry connections and experience of our senior management, which have enabled us to establish long-term customer relationships and strong industry recognition. We are a qualified provider of high-quality automotive plastics, and have sold our products through plastic auto part manufacturers to many leading automotive manufacturers in China. Currently, our modified plastics are utilized in more than 28 automobile brands and over 80 automobile models manufactured in China, including Audi, Volkswagen, BMW, GM, Mazda, Toyota, Cherry, and Geely. We believe that our brand and our products are well recognized and respected in China's automotive modified plastics market.

**High Quality Products with Lower Costs.** We purchase our raw materials from a small number of large suppliers who procure resins locally or internationally. By concentrating our purchases from a small group of suppliers, we are able to keep the costs of purchasing raw materials relatively low. Also, since our manufacturing facilities are located in China where labor, raw materials and operation costs are relatively lower, we are able to charge lower prices than our international competitors while maintaining comparable quality. Compared to our domestic competitors, we believe our long-standing manufacturing experience, in-depth market knowledge, significant scale of economy and strong R&D capabilities enable us to provide higher quality products at competitive prices.

Manufacturing facilities are critical to the quality of products. We have in the past invested substantial time and resources in building state-of-the-art production lines to enhance our product quality. Our facilities have maintained ISO/TS16949, a certification of quality management systems specific to the automotive industry.

**Strong Customer-Oriented R&D Capabilities.** The modified plastics industry is characterized by rapid development and increasing demand for high quality products. We have strong R&D capabilities that allow us to have successfully passed OEM automakers' certification processes in the past and continually introduce new and high quality products to the market. Compared to international plastic supply models, which target larger scale applications of common plastics and involve less customization and specialization, we provide customer-oriented product development through our certification process. By working closely with our customers, we are able to adjust our product features to better satisfy the specific needs of each customer. To achieve this, we have staffed our R&D team with professionals, of whom 46 have Ph.D. and/or Master's degrees. On average, our R&D employees have worked with us for more than three years, and some key experts have more than 10 years of experience in our industry. We have also cooperated with a number of the leading technology centers in China. Besides providing specialized research and development skills, these relationships help us formulate cutting edge research programs aimed at developing new technologies and applications in plastics engineering. We currently have 10 approved patents and 268 pending patent applications with the State Intellectual Property Office of the PRC, or SIPO.

**Established Distribution Model.** Through 8 distributors across China, we have established distribution networks that cover Northeast, North, Southwest and East China, with a current focus on Northeast China. We enter into distribution agreements with local distributors in areas where large automobile manufacturers are located. By leveraging the proximity of our distributors to the automobile manufacturers, we can enhance our relationships with our customers. Through the established sales channels, we can quickly respond to local market demand, address customer needs, enhance our ability to provide superior technological support and after-sales services, and lower our marketing expenses. At the same time, our distributors are responsible for the payments to us which is not contingent upon their cash collection from end customers. By actively managing our distribution network, we are also able to accelerate local market penetration and increase sales opportunities. For example, we entered the north China market in 2009 through a local distributor, one year earlier than we planned, and in 2013, we entered into the Southwest China market, and in 2014, we entered into South China and Central China market. For the year ended December 31, 2015, Northeast, North, East, Southwest, South, and Central China account for approximately 38.0%, 15.6%, 31.2%, 1.2%, 1.3% and 5.5% of our revenues, respectively.



Entry to Overseas Market. In 2015, the Company developed its presence in the Korean market by selling primarily higher-end PA66 and (Long Chain) plastic alloy, US\$71.6 million products to the Korean market, accounting for 7.2% of the total revenues for the year ended December 31, 2015.

Seasoned Management Team. Our senior management team and key personnel have extensive operating and industry experience. Mr. Han, our chief executive officer and president, founded our former affiliate Harbin Xinda Nylon Factory in 1985. With 30 years of industry experience, Mr. Han has in-depth knowledge and expertise in China's modified plastics industry. He currently serves as executive director of the China Plastics Processing Industry Association and as a member of the Standing Committee of the Heilongjiang Association of Industry and Commerce. Our chief executive officer, chief technology officer and chief operating officer have over 50 years combined experience in the modified plastics industry and we believe their extensive expertise and knowledge can well serve our customers.

### Our Strategies

Our goal is to capitalize on China's modified plastics growth trend, with a specific focus on applications in the auto sector, and to eventually be the leading modified plastics manufacturer in China. We are committed to enhancing our sales and profitability and achieving our goals through the following strategies:

Continue to Increase Production Capacity. Over the past five years, we have consistently increased production capacity to meet the rising demands of the automotive industry in the PRC. As of December 31, 2015, we have an installed annual production capacity of 392,500 metric tons, and we have been operating at near full capacity since 2007. With the expected strong growth in the automotive modified plastics market of China, we expect that we will continue to experience strong demand from our customers. Therefore, we intend to continue to strategically increase our production capacity to meet customer demands from both expanded geographical locations and future downstream sector growth. In 2013, we commenced to construct our fourth production base with 300,000 MT new material production capacity and the affiliated research and development center and training center in Nanchong City of Sichuan Province (the "Project"). We plan to complete the Project by 2016 and upon its completion, our annual domestic capacity is expected to reach approximately 690,000 MT by 2016. The Company completed and started the trial production in the plant in Dubai, UAE with additional 2,500 metric tons targeting high-end products for the overseas markets. The Company is planning to complete installing 75 production lines with additional 14,000 metric tons ("Phase 2") of annual production capacity in that property at the beginning of 2017, bringing total production capacity in Dubai to 16,500 metric tons.

Focus on R&D and Develop New Product Offerings. We are currently utilizing our R&D capabilities to obtain further product certifications, develop new products, applications and technologies. Approximately 90% of our automotive plastics product certification applications are currently undergoing trial manufacturing periods to obtain the necessary certifications. In addition, we are developing new products for automotive applications to expand our product portfolio, including initiating R&D on modified plastic for use in electric vehicles. We are also developing specialty engineering plastics and bio-plastics for use in other applications, such as high-speed trains, vessel-propulsion systems, mining and oil-field equipment and aerospace equipment. We are the first non-State-Owned-Enterprise awarded National Level Enterprise Technology Center, in Heilongjiang Province. In addition, we have Postdoctoral and Academy Member Workstation in Heilongjiang Province enhancing our research and development capabilities.

**Expand Customer Base Domestically and Internationally.** The automotive plastics market in the PRC is highly fragmented with significant barriers to entry. Although we had approximately 9.5% of the market share in 2014, our customer coverage was concentrated in the northeast regions of the PRC. We seek to steadily enhance our market share in Northeast China, and also expand our reach to Northern and Eastern China. In addition, we have conducted sales in overseas markets and exported our products including non-auto sectors in 2015. We plan to implement such strategies through further expanding our distribution network by working with local distributors who have contacts and networks overseas and directly establishing strategic alliances with certain of our non-PRC customers. Although the entry barrier of some non-auto sectors might not generally be as high as that of the auto sector, our focus is to target high-value-added products by leveraging our technology, expertise and know-how accumulated in the auto sector over the course of our operational history.

**Pursue Selective Strategic Acquisitions.** While we have experienced substantial organic growth, we plan to pursue a disciplined and targeted acquisition strategy to accelerate our growth. Our strategy will focus on strengthening presence in certain geographies, improving our penetration in attractive markets, enhancing research and development capabilities and acquiring new markets or customers.

**Increase Efficiency by Corporate Restructuring.** We completed our corporate restructuring plan at the end of 2014, with the aim of establishing a more efficient company group structure, as a result of which our subsidiaries are more easily accessible to our end customers and our operations are able to respond to the market changes in a more efficient manner.

#### Environmental Laws

The cost of compliance with Chinese environmental regulations currently is minimal. Most of the waste produced from our production process is water, which we circulate in our enclosed water treatment system.

#### Employees

China XD's operations are organized into several operational departments including manufacturing, R&D, management, finance, sales, purchasing and marketing and others. As of December 31, 2015, there were 1,647 employees, including 591 in manufacturing, 362 in R&D, 553 in management, 65 in finance, 58 in sales, purchasing and marketing and 18 in other departments.

#### Available Information

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and registration statements, and any amendments thereto, with the Securities and Exchange Commission (SEC). All such filings are available online through the SEC's website at <http://www.sec.gov> or on our corporate website at <http://www.chinaxd.net>. We make available free of charge, on or through our corporate website, our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the SEC. In addition, copies of the written charters for the committees of our board of directors and our Code of Business Conduct are also available on our website, and can be found under the Investor Relations-Corporate Governance links. You may read and copy any materials we file with the SEC at the Securities and Exchange Commission Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Our website address is intended to be an inactive textual reference only, and none of the information contained on our website is part of this report or is incorporated in this report by reference.



## ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, readers should carefully consider the following important factors. These factors, among others, in some cases have affected, and in the future could affect, our financial condition and results of operations and could cause our future results to differ materially from those expressed or implied in any forward-looking statements that appear in this on Form 10-K or that we have made or will make elsewhere.

The global economic uncertainty could further impair the automotive industry thereby limiting demand for our products.

The continuation or intensification of the recent global economic uncertainty arising from the European debt crisis and economic slowdown in Asia may adversely impact our business and the businesses of our customers. Our specialized plastics are sold to automobile parts manufacturers and distributors. The recent global economic uncertainty harmed most industries and has been detrimental to the automotive industry. Since virtually all of our sales are made to auto industry participants, our sales and business operations are dependent on the financial health of the automotive industry and could suffer if our customers experience, or continue to experience, a downturn in their business. Presently, it is unclear whether and to what extent the economic stimulus measures facilitated by the European Union and other governments throughout the world will mitigate the effects of the crisis on the automotive industry and other industries that affect our business.

We concentrate our operations primarily in the automotive industry; therefore, a contraction in automotive sales and production could have a material adverse effect on our results of operations and liquidity.

We develop, manufacture, and distribute modified plastic, primarily for use in automobiles. Automotive sales and production are highly cyclical and depend, among other things, on general economic conditions and consumer spending and preferences (which can be affected by a number of issues including fuel costs and the availability of consumer financing). As the volume of automotive production fluctuates, the demand for our products also fluctuates. In 2015, the China automotive sales and production volume recorded a slower growth rate of 4.68% and 3.25%, respectively, according to China Association of Automobile Manufacturers. The contraction in automotive sales and production will harm our results of operations and financial condition. Consequently, we are exposed to the risks of adverse developments affecting the auto industry to a greater extent than if our operations were dispersed over a variety of industries.

Our financial performance may be affected by the prospect of our Dubai facility and the associated expansion into Middle East, Europe and other parts of Asia.

Since 2014, we developed the presence in the ROK by selling to our ROK customer primarily long carbon chain PA plastic alloy and high-performance modified PA66 products, which embarked our entry into the international market after approximately one year of product development and marketing effort. Although the average number of collection days in 2014 from our ROK customer was longer than that from customers in China, it was largely within our standard collection term and industry norm (90 days) in 2014. However, we have experienced delayed payments from our ROK customer in 2015. To better manage its financial risk, we ceased supply to the customer for 60 days. The DSO for ROK customer has increased from 55 days for the year ended December 31, 2014 to 107 days for the year ended December 31, 2015. In addition, we purchased raw materials in the amount of US\$70.0 million on behalf of our ROK customer during the second half year of 2015, but did not receive all the payment. As of December 31, 2015, the amount due from our ROK customer is approximately US\$9.5 million. In the event the payment for raw materials and/or the outstanding accounts receivable become uncollectable despite management's efforts, we will suffer



financial losses and as a result, our plan to develop overseas market may be delayed.

The withdrawal of preferential government policies and the tightening control over the Chinese automotive industry and automobile purchase restrictions imposed in certain major cities may limit market demand for our products.

In 2011, Chinese government terminated two preferential policies for its automotive industry: (1) vehicles with 1.6L or lower air displacement were given a 50% discount in purchase tax and (2) vehicles sold in rural area were given a government subsidy. Since 2011, in order to resolve the extreme traffic congestion, the Beijing government has been implementing the vehicle purchase quota policy, which limits the maximum vehicles sold in Beijing per month to 20,000. Other cities which have begun to show signs of traffic congestion have also begun to implement similar measures to control traffic congestion, including the limited automobile licenses policy implemented in Shanghai and Tianjin and the imposition of congestion charges in Shenzhen. The termination of two nation-wide preferential policies negatively affected consumer demand for new vehicles, and local restrictive measures over automobile purchases in major cities has resulted in slower growth of sales in 2015 and may cause reduction in the sale of vehicles nationwide. The national and local policies over the Chinese automotive industry may continue to impact market demand for automobiles in 2016 and eventually result in a reduction in our product sales.

The Chinese automotive industry's growth is slowing after the rapid growth since 2000 and such slowdown may adversely affect the market demand for our products.

There is a direct correlation between our business and automobile production volume and sales, which are dependent on economic policies and market sentiment. The Chinese automotive industry had been rapidly growing for a decade prior to 2011. However, inflation, higher interest rates, tighter bank lending, lifting of consumer subsidies and buying restrictions in congested cities all contributed to a more modest environment since 2011, resulting in a slow-down in automobile sales volume growth rate to 4.68% in 2015, compared to 6.86% in 2014, according to China Association of Automobile Manufacturers. Any significant reduction in automobile production and sales would have a material and adverse effect on our business. There can be no assurance that the market conditions, government policies and other factors leading to the existing slowdown in demand for automobiles will not continue. The decline in demand for automobiles would directly and adversely affect demand for our products and hence our business, financial condition and results of operations.

A large percentage of our sales revenue is derived from sales to a limited number of distributors and a limited number of customers, and our business will suffer if sales to these customers decline.

A significant portion of our sales revenue historically has been derived from a limited number of distributors in China. Sales to major distributors and direct customer, which individually exceeded 10% of the Company's revenues is approximately 84.7% and 86.7% in 2015 and 2014, respectively. Any significant reduction in demand for modified plastics by any of these major distributors, any decrease in demand of products by its customers or by our ROK customer could harm our sales and business operations, financial condition and results of operations. During the third quarter of 2015, the Company experienced a delay in its cash collection from the ROK customer. To better manage its financial risk, the Company ceased supply to the customer while both parties actively negotiated future pricing and payment terms associated with the Company's high-end products. By the end of 2015, all the outstanding accounts receivable from the ROK customer were collected and the supply to this customer has been resumed, despite at a slower run rate initially. In the case of any such delay in payment from the ROK customer or other customers in the future, our sales and business operations, financial conditions and results of operations may be negatively affected.

We are dependent on a limited number of suppliers. While we have identified alternative sources for the materials and equipment we use, a temporary disruption in our ability to procure necessary materials and equipment could adversely impact our sales in future periods.

Materials constitute a substantial part of the cost of our products. We seek to reduce the cost of raw materials by dealing with major suppliers. During the year ended December 31, 2015, we purchased approximately 80.0% of our raw materials from seven major suppliers. The Company purchased equipment from two suppliers, which accounted for 99.8% of the Company's equipment purchases for the year ended December 31, 2015. We believe the relationship with our suppliers is satisfactory and that alternative suppliers are available if relationships falter or existing suppliers should become unable to keep up with our requirements. However, there can be no assurance that our current or future suppliers will be able to meet our requirements on commercially reasonable terms or within scheduled delivery times. An interruption of our arrangements with suppliers could cause a delay in the production of our products for timely delivery to distributors and customers, which could result in a loss of sales in future periods.

If we are subject to product quality or liability claims relating to our products, we may incur significant litigation expenses and management may have to devote significant time defending such claims, which if determined adversely to us, could require us to pay significant damage awards.

Although we have adopted certain internal measures to supervise and examine the quality of our products, we may be subject to legal proceedings and claims from time to time relating to our product quality. The defense of these proceedings and claims could be both costly and time-consuming and significantly divert the efforts and resources of our management. An adverse determination in any such proceedings could subject us to significant liability. In addition, any such proceeding, even if ultimately determined in our favor, could damage our market reputation and prevent us from maintaining or increasing sales and market share. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase of our products.

We have limited insurance coverage on our assets in China and any uninsured loss or damage to our property, business disruption or litigation may result in our incurring substantial costs.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited insurance products. Other than automobile insurance on certain vehicles and property and casualty insurance for some of our assets such as factories and equipment we do not have insurance coverage on our other assets or inventories, nor do we have any business interruption, product liability or litigation insurance for our operations in China. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured loss or damage to property, business disruption or litigation may result in our incurring substantial costs and the diversion of our resources, which may have a material adverse effect on our results of operations, financial condition and/or liquidity.

SAFE regulations relating to offshore investment activities by PRC individuals may increase our administrative burden and restrict our overseas and cross-border investment activity. If our shareholders and beneficial owners who are PRC individuals fail to make any required applications, registrations and filings under such regulations, we may be unable to distribute profits and may become subject to liability under PRC laws.

The State Administration of Foreign Exchange, or "SAFE", has promulgated several regulations, including the Circular on Relevant Issues Relating to Domestic Resident's Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular No. 37, in July 2014 that requires PRC residents or entities to register with SAFE or its local branch in connection with their establishment or control of an offshore entity established for the purpose of overseas investment or financing. In addition, such PRC residents or entities must update their SAFE registrations when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, transfers or exchanges of shares, or mergers or divisions. SAFE Circular 37 is issued to replace the Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles, or SAFE Circular No. 75.

We have requested our shareholders and beneficial owners who are PRC residents to make the necessary applications and filings as required under these regulations and under any implementation rules or approval practices that may be established under these regulations. As of the date of this Annual Report on Form 10-K, Mr. Han, our Chief Executive Officer, has registered his beneficial ownerships in China XD and XD Engineering Plastics Company Limited ("XD Engineering Plastics") respectively with local SAFE in accordance with Circular No. 37. However, we cannot assure you that the rest of our shareholders and beneficial owners who are PRC individuals have timely updated their registrations with SAFE in accordance with SAFE regulations. The failure or inability of our PRC shareholders and beneficial owners to make any required registrations may subject us to fines and legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, as a result of which our acquisition strategy and business operations and our ability to distribute profits to you could be materially and adversely affected.

On December 25, 2006, the People's Bank of China issued the Administration Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC and non-PRC citizens) under the current account or the capital account, and the corresponding Implementing Rules were issued by SAFE on January 5, 2007, both of these regulations became effective on February 1, 2007. According to these regulations, all foreign exchange matters relating to employee stock holding plans, share option plans or similar plans of an overseas publicly-listed company in which PRC citizens will participate require approval from SAFE or its authorized branch.

In February 2012, SAFE promulgated the Notice on Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the New Stock Option Rules, which replaced and substituted the Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in Employee Stock Holding Plan or Stock Option Plan of Overseas-Listed Company, or the Stock Option Rule. According to the New Stock Option Rules, if a PRC resident participates in any stock incentive plan of an overseas publicly-listed company, a qualified PRC domestic agent, which could be a PRC subsidiary of such overseas publicly-listed company or another qualified institution selected by such PRC subsidiary, among other things, must file on behalf of such participant an application with SAFE to conduct the SAFE registration with respect to such stock incentive plan and obtain approval for an annual allowance with respect to the purchase of foreign exchange in connection with the exercise or sale of stock options or stock such participant holds. Such participants must also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the qualified PRC domestic agent is required to amend the SAFE registration with respect to the stock incentive plan if there is any material change to the stock incentive plan, the qualified PRC domestic agent or the overseas entrusted institution or other material changes. Such participant's foreign exchange income received from the sale of stock and dividends distributed by the overseas publicly-listed company must be fully remitted into a specific domestic foreign currency account opened and managed by such qualified PRC domestic agent first, before distribution to such participants.

We are an offshore listed company and, as a result, any Chinese employee or foreign employee of our PRC subsidiaries, who resides in PRC more than one year consecutively, including without limitation, directors, supervisors and other senior management staffs of our PRC subsidiaries, who have been granted share options or shares under our existing share incentive plan, are subject to the New Stock Option Rules. We completed the application with local SAFE in Heilongjiang on December 16, 2013, obtaining a registration in respect of our incentive share plan in accordance with the New Stock Option Rules. If our PRC subsidiaries or their qualified employees fail to comply with these regulations, including the New Stock Option Rules, they may be subject to fines or other legal sanctions imposed by SAFE or other Chinese government authorities. In that case, our ability to compensate our employees, directors, supervisors and other senior management staffs through equity compensations may be hindered and our business operations may be adversely affected.



Under the PRC EIT Law, we and/or Favor Sea BVI may be classified as a "resident enterprise" of the PRC. Such classification could result in tax consequences to us, our non-PRC resident shareholders and Favor Sea BVI.

On March 16, 2007, the National People's Congress approved and promulgated the PRC Enterprise Income Tax Law, or "EIT Law," which took effect on January 1, 2008. Under the EIT Law, enterprises are classified as resident enterprises and non-resident enterprises. An enterprise established outside of China with "de facto management bodies" within China is considered a "resident enterprise," and subject to the uniform 25% enterprise income tax rate on global income. The implementing rules of the EIT Law define "de facto management bodies" as a managing body that in practice exercises "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise; however, due to the short history of the EIT Law and lack of applicable legal precedents, it remains unclear whether the PRC tax authorities would deem our managing body as being located within China, or whether we or our non-PRC subsidiaries would be deemed as resident enterprises of the PRC.

If the PRC tax authorities determine that we, Favor Sea Limited, a British Virgin Islands corporation ("Favor Sea BVI") and/or Xinda Holding (HK) Company Limited, a Hong Kong corporation ("Xinda HK"), are "resident enterprises" for PRC enterprise income tax purposes, a number of PRC tax consequences could follow. We, Favor Sea BVI and/or Xinda HK may be subject to enterprise income tax at a rate of 25% on our, Favor Sea BVI's and/or Xinda HK's worldwide taxable income, as well as PRC enterprise income tax reporting obligations. However, under the EIT Law and its implementing rules, dividends paid between "qualified resident enterprises" are exempt from enterprise income tax. As a result, if we, Favor Sea BVI and Xinda HK are treated as PRC "qualified resident enterprises," all dividends paid from HLJ Xinda Group to Xinda HK, from Xinda HK to Favor Sea BVI and from Favor Sea BVI to us may be exempt from PRC tax. Otherwise, all dividends paid from HLJ Xinda Group to Xinda HK, from Xinda HK to Favor Sea BVI and from Favor Sea BVI to us may be subject to withholding tax under the EIT Law and its implementing rules.

On April 22, 2009, State Administration of Taxation ("SAT") enacted "Circular of the State Administration of Taxation on Issues Concerning the Identification of Chinese-Controlled Overseas Registered Enterprises as Resident Enterprises in Accordance With the Actual Standards of Organizational Management". On July 27, 2011, SAT enacted "Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Income Tax on Chinese-controlled Resident Enterprises Incorporated Overseas (Trial Implementation)". Under those two rules, either the enterprises may request the PRC tax authorities to determine their "resident enterprises" identity or the tax authority may investigate and determine an enterprise's identity. The target enterprises under those two rules are foreign registered companies controlled by the PRC companies, however, the PRC tax authority may determine if a foreign registered company controlled by the PRC individual(s) is a "resident enterprise" or not by reference to those two rules.

Under the EIT Law and its implementation rules, dividends payable by a foreign-invested enterprise in China to its shareholders that are "non-resident enterprises" are subject to a 10% withholding tax, unless such shareholders' jurisdiction of incorporation has a tax treaty with China that provides for a preferential arrangement. Pursuant to the Notice of the SAT on Issuing the Table of Tax Rates on Dividends in Treatises, or Notice 112, which was issued on January 29, 2008, the Arrangement between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion, or the Double Taxation Arrangement (Hong Kong), which became effective on December 8, 2006, such withholding tax may be lowered to 5% if the PRC enterprise is at least 25% directly held by a Hong Kong enterprise. In October 2009, the SAT further issued the Notice on How to Understand and Determine the "Beneficial Owners" in Tax Treaties, or Circular 601. According to Circular 601, non-resident enterprises that cannot provide valid supporting documents as "beneficial owners" may not be approved to enjoy tax treaty benefits, and "beneficial owners" refer to individuals, companies or other organizations which are normally engaged in substantive operations. These rules also set forth certain adverse factors on the recognition of a

"beneficial owner." Specifically, they expressly exclude a "conduit company" that is usually established for the purposes of avoiding or reducing tax obligations or transferring or accumulating profits and not engaged in substantive operations such as manufacturing, sales or management, from being a "beneficial owner." As a result, if we are treated as PRC "non-resident enterprises" under the EIT Law, then dividends from HLJ Xinda Group (assuming such dividends were considered sourced within the PRC) paid to us through Xinda HK may be subject to a reduced withholding tax at a rate of 5% if Xinda HK is determined to be Hong Kong tax residents and are considered to be "beneficial owners" that are generally engaged in substantive business activities and entitled to treaty benefits under the Double Taxation Arrangement (Hong Kong). Otherwise, we may not be able to enjoy the preferential withholding tax rate of 5% under the tax arrangement and therefore be subject to withholding tax at a rate of 10% with respect to dividends to be paid by HLJ Xinda Group (assuming such dividends were considered sourced within the PRC) to us through Xinda HK. Any such taxes on dividends could materially reduce the amount of dividends, if any, we could pay to our shareholders.



However, if we are deemed as a "resident enterprise," the new "resident enterprise" classification could result in a situation in which an up to 10% PRC tax is imposed on dividends we pay to our non-PRC shareholders that are not PRC tax "resident enterprises". In such event, we may be required to withhold an up to 10% PRC tax on any dividends paid to non-PRC resident enterprise shareholders. Our non-PRC resident enterprise shareholders also may be responsible for paying PRC tax at a rate of 10% on any gain realized from the sale or transfer of our ordinary shares in certain circumstances if such income is considered PRC-sourced income by relevant tax authorities. We would not, however, have an obligation to withhold PRC tax with respect to such gain.

On December 15, 2009, the State Administration of Taxation ("SAT") released the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises ("Circular 698") that reinforces the taxation of non-listed equity transfers by non-resident enterprises through overseas holding vehicles. Circular 698 is retroactively effective from January 1, 2008. Subsequently SAT also released the Announcement on Several Issues Related to Enterprise Income Tax for Indirect Asset Transfer by Non-PRC Resident Enterprises ("Announcement 7"), effective from February 3, 2015, which in part supersedes Circular 698.

Announcement 7 addresses indirect share transfer as well as other issues. According to Announcement 7, if a non-PRC resident enterprise transfers the equity interests of or similar rights or interests in overseas companies which directly or indirectly own PRC taxable assets through an arrangement without a reasonable commercial purpose, but rather to avoid PRC corporate income tax, the transaction will be re-characterized and treated as a direct transfer of PRC taxable assets subject to PRC corporate income tax. Announcement 7 specifies certain factors that should be considered in determining whether an indirect transfer has a reasonable commercial purpose. Since Announcement 7 has a short history, there is uncertainty as to its application and in particular, the interpretation of the term "reasonable commercial purpose."

Announcement 7 further provides that, the entity which has the obligation to pay the consideration for the transfer to the transferring shareholders has the obligation to withhold any PRC corporate income tax that is due. If the transferring shareholders do not pay corporate income tax that is due for a transfer and the entity which has the obligation to pay the consideration does not withhold the tax due, the PRC tax authorities may impose a penalty on the entity that so fails to withhold, which may be relieved or exempted from the withholding obligation and any resulting penalty under certain circumstances if it reports such transfer to the PRC tax authorities.

We (or a foreign investor) may become at risk of being taxed or imposed a penalty under Announcement 7 and may be required to expend valuable resources to comply with Announcement 7 or to establish that we (or such foreign investor) should not be taxed under Announcement 7, which could have a material adverse effect on our financial condition and results of operations (or such foreign investor's investment in us).

PRC regulations relating to mergers and acquisitions of domestic enterprises by foreign investors may increase the administrative burden we face and create regulatory uncertainties.

On August 8, 2006, six PRC regulatory agencies, namely, the PRC Ministry of Commerce, or MOFCOM, the State Assets Supervision and Administration Commission, or SASAC, the State Administration for Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission, or CSRC, and SAFE, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, or the M&A Rule, which became effective on September 8, 2006. The M&A Rule purports, among other things, (i) to require any PRC company, enterprise or individual that intends to merge or acquire its domestic affiliated company in the name of an overseas company which it lawfully established or controls, to apply for MOFCOM's examination on and approval for the proposed merger or acquisition; and (ii) to require SPVs, formed for overseas listing purposes through acquisitions of PRC domestic companies and controlled directly or indirectly by PRC companies or individuals, to obtain the approval of CSRC prior to publicly listing their securities on an overseas stock exchange.

However, there are substantial uncertainties regarding the interpretation, application and enforcement of these rules, and CSRC has yet to promulgate any written provisions or formally to declare or state whether the overseas listing of a PRC-related company structured similar to ours is subject to the approval of CSRC. As a result, we are not sure whether the M&A Rule would require us or our entities in China to obtain the approval from either MOFCOM or CSRC or any other regulatory agencies in connection with the transaction contemplated by the share transfer contracts which were entered into between Mr. Jie Han, Mr. Qingwei Ma and Xinda Holding (HK) Company Limited on June 26, 2008, the transaction contemplated in the Agreement and Plan of Merger entered into by and among NB Telecom, Favor Sea (BVI) and the shareholders of Favor Sea (BVI) on December 24, 2008 (detailed description of both of the two aforesaid transactions and relevant contracts can be found in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed on April 14, 2010) the adoption and performance of the option agreement dated May 16, 2008 between Ms. Piao and Mr. Han.

Further, in the event MOFCOM or CSRC deems it necessary for us to obtain its approval prior to our entry into the aforesaid agreements, we could be subject to severe penalties. The M&A Rule does not stipulate the specific penalty terms, therefore, we are unable to determine what penalties we may face, and how such penalties may affect our business operations or future strategy.

Our business will suffer if we cannot obtain or maintain necessary permits or approvals.

Under PRC laws, we are required to obtain from various PRC governmental authorities certain permits and licenses in relation to the operation of our business. These permits and licenses are subject to periodic renewal and/or reassessment by the relevant PRC government authorities and the standards of compliance required in relation thereto may from time to time be subject to change. We cannot assure you that we can always obtain, maintain or renew all the permits and licenses in a timely manner. Additionally, any changes in compliance standards, or any new laws or regulations that may prohibit or render it more restrictive for us to conduct our business or increase our compliance costs may adversely affect our operations or profitability. Any failure by us to obtain, maintain or renew necessary licenses, permits and approvals, could subject us to fines and other penalties and limit the business we could conduct, which could have a material adverse effect on the operation of our business. In addition, we may not be able to carry on business without such permits and licenses being renewed and/or reassessed.

Pursuant to PRC laws and regulations, construction or expansion of a building or a production facility is subject to various permits and approvals from different government authorities. In connection with the construction of HLJ Xinda Group's factory and production facilities, which has already been completed and put into operation, we obtained a project approval from Administration Committee of Harbin Economic and Technological & High-tech Development Zone and an approval for the environmental impact assessment report on the construction project of HLJ Xinda Group in 2003. In connection with the construction of Sichuan Xinda Group's factory and production facilities which are in progress and is expected to be completed by the middle of 2016, we obtained the project approvals from Bureau of Development and Reform of Shunqing District, Nanchong City in 2013 and 2015, respectively. In connection with the Phase II construction of AL Composites which is expected to be completed by the middle of 2016, we obtained the project approval from Engineering & Project Management Department, UAE region Economic Zones World ("EZW") in June 2015, and the building permit from Department of Planning & Development, Ports, Customs & Free Zone Corporation, Government of Dubai in September 2015. However, certain other necessary permits relating to the construction and operation of HLJ Xinda Group's factory and production facilities are outstanding. Failure to obtain all necessary approvals/permits may subject us to various penalties, such as fines or being required to vacate from the facilities where we currently operate our business.

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 we plans to export plastics to the U.S. and Europe in coming years, we have developed certain safeguards in our manufacturing processes to assure compliance with the environmental protection standard ISO/TS16949 Quality Assurance Standard, the European Union's RoHS Standards and Germany's PAHs Standards. Furthermore, we are in the process of applying for the U.S.'s UL Safety Certification, ISO14001 Environmental Management System Certification and OHSAS18001 Occupational Health Management System Certification. 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.

Our independent registered public accounting firm's audit documentation related to its audit reports included in our annual report may include audit documentation located in the Peoples' Republic of China. The Public Company Accounting Oversight Board currently cannot inspect audit documentation located in China and, as such, you may be

deprived of the benefits of such inspection.

Our independent registered public accounting firm issued an audit opinion on the financial statements included in our Annual Report filed with the SEC. As auditors of companies that are traded publicly in the United States and a firm registered with the PCAOB, our auditor is required by the laws of the United States to undergo regular inspections by the PCAOB. However, work papers located in China are not currently inspected by the PCAOB because the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities.

Inspections of certain other firms that the PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. However, the PCAOB is currently unable to inspect an auditor's audit work related to a company's operations in China and where such documentation of the audit work is located in China. As a result, our investors may be deprived of the benefits of the PCAOB's oversight of auditors that are located in China through such inspections.

The inability of the PCAOB to conduct inspections of an auditor's work papers in China makes it more difficult to evaluate the effectiveness of any of our auditor's audit procedures or quality control procedures that may be located in China as compared to auditors outside of China that are subject to PCAOB inspections. Investors may consequently lose confidence in our reported financial information and procedures and the quality of our financial statements.

The disclosures in our reports and other filings with the SEC and our other public pronouncements are not subject to the scrutiny of any regulatory body in China. Accordingly, our public disclosures should be reviewed in light of the fact that no governmental agency located in China where substantially all of our operations and business are located has conducted any due diligence on our operations or reviewed or cleared any of our disclosures.

We are regulated by the SEC and our reports and other filings with the SEC are subject to SEC review in accordance with the rules and regulations promulgated by the SEC under the Securities Act and the Exchange Act. Our SEC reports and other disclosure and public pronouncements are not subject to the review or scrutiny of any PRC regulatory authority. For example, the disclosure in our SEC reports and other filings are not subject to the review of the CSRC, a PRC regulator that is tasked with oversight of the capital markets in China. Accordingly, you should review our SEC reports, filings and our other public pronouncements with the understanding that no local regulator has done any due diligence on the Company and with the understanding that none of our SEC reports, other filings or any of our other public pronouncements has been reviewed or otherwise been scrutinized by any local regulator.

Our independent registered public accounting firm may be temporarily suspended from practicing before the SEC if unable to continue to satisfy SEC investigation requests in the future. If a delay in completion of our audit process occurs as a result, we could be unable to timely file certain reports with the SEC, which may lead to the delisting of our stock.

On January 22, 2014, Judge Cameron Elliot, an SEC administrative law judge, issued an initial decision suspending the Chinese member firms of the “Big Four” accounting firms, including our independent registered public accounting firm, from practicing before the SEC for six months. In February 2014, the initial decision was appealed. While under appeal and in February 2015, the Chinese member firms of “Big Four” accounting firms reached a settlement with the SEC. As part of the settlement, each of the Chinese member firms of “Big Four” accounting firms agreed to settlement terms that include a censure, undertakings to make a payment to the SEC, procedures and undertakings as to future requests for documents by the SEC, and possible additional proceedings and remedies should those undertakings not be adhered to.

If the settlement terms are not adhered to, our independent registered public accounting firm may be suspended from practicing before the SEC which could in turn delay the timely filing of our financial statements with the SEC. In addition, it could be difficult for us to timely identify and engage another qualified independent auditor to replace our independent registered public accounting firm. A delinquency in our filings with the SEC may result in NASDAQ initiating procedures, which could adversely harm our reputation and have other material adverse effects on our overall growth and prospects.

We may fail to develop and maintain an effective system of internal controls over financial reporting. As a result, we may not be able to accurately report our financial results or prevent fraud and current and potential shareholders could lose confidence in the integrity of our financial reports, which could harm our business and the trading price of our common stock.

Prior to our listing on the US stock exchange, we were a private company with all business operations within China. Our accounting and reporting system was designed to satisfy local statutory requirements and internal management needs. Since we became a public company, our business has grown significantly over the years. Management concluded that our internal controls over financial reporting were ineffective as of December 31, 2015, due to one material weakness which relates to the lack of sufficient accounting and financial reporting personnel to formalize certain key controls over the financial reporting process and report financial information based on US GAAP and SEC reporting requirements.



Our management is committed to strengthening our internal controls and complying with Section 404 of the Sarbanes-Oxley Act of 2002 ("SOX 404"). Since 2014 when we were required to comply with SOX 404, our efforts to improve our internal control over financial reporting include: (1) our accounting staff obtained external training of U.S. GAAP and SEC reporting by qualified entities, (2) having hired two third-party SOX 404 compliance consultants to help us improve our internal control system, (3) continuing to seek senior qualified people with requisite expertise and knowledge to help improve our internal control procedures, (4) having adopted internal policies and approval and supervision procedures governing financial reporting, (5) having adopted procedures to evaluate and assess performance of directors, officers and employees of the Company, and (6) continuing to hold internal meetings, discussions and seminars periodically to review and improve our internal control procedures.

However, we cannot be certain that these measures we have undertaken will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, if we are able to rapidly grow our business, the internal controls that we will need may become more complex, and significantly more resources may be required to ensure our internal controls remain effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we fail to maintain an effective internal control system, our stockholders and other potential investors may lose confidence in our business operations and the integrity of our financial statements, and may be discouraged from future investments in our company, which may delay or hinder any future business development or expansion plans if we are unable to raise funds in future financings, and our current stockholders may choose to dispose of the shares of common stock they own in our company, which could have a negative impact on our stock price. In addition, non-compliance with SOX 404 could subject us to a variety of administrative sanctions, including the suspension of trading of our stock on the NASDAQ Global Market, ineligibility for listing on other national securities exchanges, and the inability of registered broker-dealers to make a market in our common stock, which could further reduce our stock price.

We may be subject to or be liable for US taxes, interest and penalties.

As of December 31, 2015, for U.S. federal income tax purposes, the Company has tax loss carryforwards of US\$592,638 and did not owe any U.S. federal income taxes. There can be no assurance that the IRS will agree with this position, and therefore we ultimately could be held liable for U.S. federal income taxes, interest and penalties.

Our inability or failure to protect our intellectual property rights may significantly and materially impact our business, financial condition and results of operations.

Protection of our proprietary processes, methods and other technology is important to our business. We generally rely on a combination of the patent, trademark and copyright laws of the PRC and laws protecting trade secret in the PRC, as well as licenses and non-disclosure and confidentiality agreements, to protect our intellectual property rights. The patent, trademark and copyright laws of the PRC, as well as laws protecting trade secret in the PRC, may not protect our intellectual property rights to the same extent as the laws of the U.S.

Failure to protect our intellectual property rights may result in the loss of valuable proprietary technologies. Additionally, some of our technologies are not covered by any patent or patent application and, even if a patent application has been filed, it may not result in an issued patent. If patents are issued to us, those patents may not provide meaningful protection against competitors or against competitive technologies. In addition, upon the expiration of patents issued to us, we will be unable to prevent our competitors from using or introducing products using the formerly-patented technology. As a result, we may be faced with increased competition and our results of operations may be adversely affected. We cannot assure you that our intellectual property rights will not be challenged, invalidated, circumvented or rendered unenforceable.

We also rely upon unpatented proprietary manufacturing expertise, continuing technological innovation and other trade secrets to develop and maintain our competitive position. While we generally enter into confidentiality/non-disclosure agreements with our employees and third parties to protect our intellectual property, we cannot assure you that our confidentiality/non-disclosure agreements will not be breached, that they will provide meaningful protection for our trade secrets and proprietary manufacturing expertise or that adequate remedies will be available in the event of an unauthorized use or disclosure of our trade secrets or manufacturing expertise.



Our intellectual property rights may be challenged or infringed upon by third parties or we may be unable to maintain, renew or enter into new license agreements that are important to our business with third-party owners of intellectual property on reasonable terms. We could also face patent infringement claims from our competitors or others alleging that our processes or products infringe on their proprietary technologies. If we are found to be infringing on the proprietary technology of others, we may be liable for damages, and we may be required to change our processes, to redesign our products partially or completely, to pay to use the technology of others or to stop using certain technologies or producing the infringing product(s) entirely. Even if we ultimately prevail in an infringement suit, the existence of the suit could prompt customers to switch to products that are not the subject of infringement suits. We may not prevail in any intellectual property litigation and such litigation may result in significant legal costs or otherwise impede our ability to produce and distribute key products.

We may be unable to renew the leases for our factories on acceptable terms or these leases may be terminated.

As of December 31, 2015, HLJ Xinda Group operated three separate factories located at 9 Qinling Road (the "Qinling Road Factory"), 9 North Dalian Road (the "Dalian Road Factory") and 9 Jiangnan First Road (the "Jiangnan Road Factory"), respectively. HLJ Xinda Group owns the titles to the land and premises of the Qinling Road Factory. HLJ Xinda Group leases the land and premises of the Dalian Road Factory from Xinda High-Tech. HLJ Xinda Group is in the process of acquiring the titles to the land and premises at Jiangnan Road Factory. The Company expects the title transfer to be completed by the end of third quarter of 2016. HLJ Xinda Group's leases will expire on December 31, 2018. If we are unable to renew our lease on acceptable terms in due course or acquire the titles to the land and premises at Jiannan Road Factory or if our lease is terminated by the lessor unilaterally for the Dalian Road Factory:

we may be unable to find a new property with the amenities and in the location we require for our factories, which may result in a factory closure;

we may have to relocate to a less desirable location;

we may have to relocate to a location with facilities that do not meet our requirements;

our factories may experience significant disruption in operations and, as a result, we may be unable to produce products during the period of disruption.

Any of these events may materially and adversely affect our business, prospects, results of operations and financial condition.

Our ability to sell our products at current profit margin is subject to a number of risks and uncertainties, which are beyond our control; in particular, we may not be able to reflect raw material cost increases in the price of our products.

Our ability to sell our products at current profit margin is subject to a number of risks and uncertainties, which are beyond our control. For example, general slow-down in the Chinese or world economy may lessen the demand for our products, and we may be forced to sell our products at a lower price. See "Risks Relating to the PRC — Changes in political or economic policies of the PRC government and a slow-down in China's economy may have an adverse impact on our operations."

Particularly, we may not be able to pass through raw material cost increases to our customers on a timely basis and reflect such increases in the price of our products. We purchase various plastic resins, which are derived from petroleum or natural gas, to produce our modified plastics products. Cost of raw materials made up a vast majority of our cost of revenues in 2014 and 2015. The market prices of plastic resins may fluctuate due to changes in supply and demand conditions in that industry. Any shortage in supply of or significant increase in demand for plastic resins and additives may result in higher market prices and thereby increase our cost of revenues, and we may not be able to pass on increases in the prices of raw materials to our customers. Under the terms of our distributor agreements, we will only be able to increase the sales prices for our products if the cost of our raw materials increases by more than 5% on a cumulative basis. As a result, we may not be able to adjust our selling prices in a timely manner, and our inability to increase the selling prices of our products sold during the period in which the cumulative increases of the cost of our raw materials is less than 5% may reduce our profitability. Furthermore, other adverse developments such as increased competition may not allow us to pass through cost increases to our distributors at all. Any of the foregoing could have a material adverse effect on our margins, results of operations and financial condition. When expanding into new regions, we have taken and may continue to take marketing initiatives from time to time to offer sales incentives, including discounts, to increase market share. Such initiatives and measures have put and may continue to put pressure on our margins.

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

Our assets are primarily located inside China. Under the laws governing FIEs in China, dividend distribution and liquidation are allowed but subject to respective administrative procedures under the relevant laws and rules. Any dividend payment will be subject to the decision of the Board of Directors and be subject to foreign exchange rules governing such repatriation. Any liquidation is subject to the decision of the highest authority of the company, the relevant government agency's approval and supervision (including but not limited to the local branch of MOFCOM), as well as the whole process of liquidation under PRC laws and regulations, including without limitation personnel resettlement, assets disposition, settlement of debts and creditor's rights as well as deregistration, which process could be very time-consuming and complex. Since the dividend distribution procedure is subject to foreign exchange rules governing such repatriation, risks may arise for our investors when HLJ Xinda Group pays dividend to us through Xinda HK. Furthermore, the liquidation procedure is a complex and time consuming procedures subject to government approvals, additional risks and costs may arise for our investors in the process.

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

A majority of our revenue are earned in Renminbi. 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 our subsidiaries in China would be reduced.

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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 2005 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 fluctuation of the Renminbi against the U.S. dollar since July 21, 2005. 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.

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 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 become due.

MSPEA Modified Plastics Holding Limited ("MSPEA") has significant influence over our affairs.

MSPEA currently owns 100% of our outstanding Series D Preferred Stock, representing approximately 24.5% of our issued and outstanding shares of common stock on an as converted basis. Pursuant to the Amended and Restated Certificate of Designation of Series D Preferred Stock, holders of Series D Preferred Stock have the right to elect, voting as a separate class, two directors to serve on the Board so long as at least 12,800,000 (adjusted for any dilutive corporate actions) shares of Series D Preferred Stock are outstanding, and one director to serve on the Board if the number of shares of Series D Preferred Stock outstanding at such time is less than 12,800,000 but more than 1,600,000 (in each case adjusted for any dilutive corporate actions). For so long as at least 1,600,000 (adjusted for any dilutive corporate actions) shares of Series D Preferred Stock remain outstanding, holders of Series D Preferred Stock have veto rights over certain material corporate actions of the Company and its subsidiaries as described in the Amended and Restated Certificate of Designation of Series D Preferred Stock. As such, MSPEA currently has significant influence over our affairs.

The terms of our senior notes financing include provisions on events of default that may require us to repay such notes, which may not be practicable at such time depending upon the circumstances.

On February 5, 2014, the Company's wholly owned subsidiary, Favor Sea Limited (the "Note Issuer"), completed the sale of US\$150 million in aggregate principal amount of 11.75% guaranteed senior notes due on February 4, 2019 (the "Notes"). The Notes are guaranteed on a senior basis by the Company (the "Parent Guarantor") and Xinda Holding (HK) Company Limited, a subsidiary wholly owned by the Note Issuer (the "Subsidiary Guarantor") and secured by a pledge of the shares of the Note Issuer and the Subsidiary Guarantor. Events of default under the Notes include a breach by the Parent Guarantor or the Subsidiary Guarantor of certain provisions of the Notes and the indenture in connection with the issuance of the Notes, the commencement by the Company or any of its subsidiaries of any bankruptcy, insolvency, reorganization or the like, or the appointment of a custodian, receiver, liquidator, assignee, trustee or other similar officials of the Company or any of its subsidiaries for the winding up or liquidation of its affairs. Should any such event occur, the holders of the Notes may be entitled to repayment in full of such indebtedness, which we may be unable to repay and would need to seek a waiver from such holders, which they may be unwilling to provide. As a result, if we have insufficient cash available or do not have access to additional

third-party financings on commercially reasonable terms or at all to repay the Notes, we may be required to liquidate assets to fund such repayment, which could have a material adverse effect on our business, financial condition and results of operations.

Upon the occurrence of certain events, we may be required to redeem all or a portion of the Series D Preferred Stock.

On January 27, 2014, the Company adopted and filed the Amended and Restated Certificate of Designation of Series D Preferred Stock (the "Restated Certificate of Designation") with the Secretary of State of the State of Nevada, pursuant to which, the maturity date of the Series D Preferred Stock is extended to February 4, 2019, and, the performance target for the year ended December 31, 2013 the failure to meet which target could trigger the mandatory redemption of the Series D Preferred Stock, has been removed.

As of December 31, 2013, the Company concluded that it has met the actual profit targets under the Restated Certificate of Designation that could otherwise trigger mandatory redemption. The remaining trigger events pursuant to the terms of the Restated Certificate of Designation for such mandatory redemption include:

- (i) a breach by the Company, XD Engineering Plastics Company Limited ("XD Engineering Plastics"), or Mr. Han of certain provisions of the financing documents in connection with the issuance and sale of the Series D Preferred Stock, if such breach would constitute a material adverse effect on the Company and its subsidiaries taken as a whole or which materially diminishes the value of the Series D Preferred Stock,
- (ii) the commencement by the Company or any of its subsidiaries of any bankruptcy, insolvency, reorganization or the like, or
- (iii) the appointment of a custodian, receiver, liquidator, assignee, trustee or other similar officials of the Company or any of its subsidiaries for the winding up or liquidation of its affairs.

If any of the events mentioned above occurs prior to February 4, 2019, or, in the event the Series D Preferred Stock remains outstanding as of February 4, 2019, we may be required to redeem such shares at a price per share equal to an amount that would yield a total (annualized) internal rate of return of 15% to the holder of such Series D Preferred Stock on the original issue price of US\$6.25 per share, and, in the event we have insufficient cash available or do not have access to additional third-party financings on commercially reasonable terms or at all to complete such redemption, we may experience liquidity problems, which could have a material adverse effect on our ability to service our debt, including the Notes, and we may be required to liquidate assets to fund such redemption.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

### 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 owned 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 storage room, one transformer station, and two guard rooms. All the Company's properties are insured by China Pacific Property Insurances Co., Ltd.

The land on which our owned facility in Heilongjiang is located measures 14,715 square meters (158,391 square feet). The land use right was issued to HLJ Xinda Group by the City of Harbin and will expire in 2053. We also have a long-term lease of the production facilities with Harbin Xinda High-Tech Co., Ltd ("Xinda High-Tech"). The land on which our leased facility is located measures 16,537 square meters (178,009 square feet). The facility we rent includes three buildings with two office buildings attached by one workshop respectively and one guard room.

The two lands on which our owned facility in Sichuan are located measures 287,503 square meters (3,094,657 square feet) and 23,859 square meters (256,816 square feet), respectively. The land use right were issued to Sichuan Xinda by the City of Nanchong and will expire in 2065 and 2085, respectively.

The land on which our owned facility in Dubai is located measures 10,000 square meters (107,639 square feet ) issued to AL Composites by Department of Planning & Development, Ports, Customs & Free Zone, Government of Dubai.

On May 9, 2011, Harbin Xinda, a subsidiary of China XD, entered into a purchase agreement with Harbin Shengtong Engineering Plastics Co. Ltd. ("Harbin Shengtong") as amended on June 1, 2011. The legal representative of Harbin Shengtong is a former employee of Harbin Xinda. Pursuant to the purchase agreement, Harbin Xinda will purchase from Harbin Shengtong land use rights and a plant consisting of five workshops, a building and certain ancillary facilities (the "Project"). Harbin Shengtong is responsible to complete the construction of the plant and workshops according to Harbin Xinda's specifications. Once the Project is fully completed and accepted by Harbin Xinda, Harbin Shengtong shall transfer titles of the Project to Harbin Xinda. During the year ended December 31, 2014, the Project was completed. The total cost for the Project was RMB501.5 million. The titles of the five workshops are expected to transfer to the Company in 2016.

As of December 31, 2015, we had approximately 392,500 metric tons of production capacity across 94 automatic production lines utilizing German twin-screw extruding systems, automatic weighing systems and Taiwan conveyer systems, including the three additional workshops with 30 production lines completed the trial-run in December of 2012 and further expanded our annual capacity potential by approximately 135,000 metric tons and support our future growth in 2013. In December 2013, we broke ground on the construction of our fourth production base in Nanchong City, Sichuan Province, with additional 300,000 metric tons of annual production capacity, expecting to bring total domestic installed production capacity to 690,000 metric tons with additional 70 new production lines at the completion of the construction of our fourth production base. In addition, during the three months ended June 30, 2014, we started the construction of Dubai Composites plant in Dubai, UAE, with additional 2,500 metric tons ("Dubai Phase 1") targeting on high-end products for the overseas markets, which was completed in May 2015. In order to meet the increasing demand from the ROK and to support penetration in other potential overseas markets, on January 25, 2015, AL Composites Materials FZE obtained a leased property of approximately 10,000 square meters from Jebel

Ali Free Zone Authority ("JAFZA") in Dubai, UAE with constructed building comprising a warehouse, office and service block with lease term granted 15 years. The Company is planning to complete installing 75 production lines with additional 14,000 metric tons ("Phase 2") of annual production capacity in that property at the beginning of 2017, bringing total production capacity in Dubai to 16,500 metric tons.



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 HLJ Xinda Group. 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, HLJ Xinda Group has developed its own techniques and equipment for many of the steps in the production process. Among the aspects of production for which HLJ Xinda Group 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 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 HLJ Xinda Group as a National Torch Project and a National Spark Plan Project, and has given HLJ Xinda Group the "Most Valuable High Tech in China" award. HLJ Xinda Group is an executive member of the Council of the Chinese Automobile Parts Association, a member of the Chinese Modified Plastics Professional Committee, a member of the Chinese Plastics Engineering Committee and Heilongjiang Province Postdoctoral Workstation.

### ITEM 3. LEGAL PROCEEDINGS

The Company and certain of its officers and directors have been named as defendants in two putative securities class action lawsuits filed in the United States District Court for the Southern District of New York. These actions, which allege violations of Section 10(b) and Section 20(a) of the United States securities laws, were filed on July 15, 2014 and July 16, 2014 and are captioned Yang v. Han, et al., No. 14-cv-5308 (GBD) and Tompkins v. China XD Plastics Company Ltd., et al., No. 14-cv-5359 (GBD), respectively. On November 21, 2014, the Court consolidated the actions and appointed lead plaintiffs. On February 17, 2015, the lead plaintiffs filed a Consolidated Class Action Complaint on behalf of a class of all persons other than the defendants who purchased the common stock of China XD Plastics Company Limited between March 25, 2014 and July 10, 2014, inclusive. Specifically, the lead plaintiffs allege that the Company and two of its officers made false or misleading statements and/or omitted material facts in the Company's Form 10-K for the year ended December 31, 2013 and the Company's Form 10-Q for the first quarter ended March 31, 2014. They also assert that the individual defendants are liable because they allegedly controlled the Company during the time the allegedly false and misleading statements and omissions were made. The lead plaintiffs seek damages in unspecified amounts. On April 3, 2015, the Company moved to dismiss the Consolidated Class Action Complaint. The Court heard oral argument on the motion on October 22, 2015, and the motion remains pending.

Based on our initial review of the complaints, the management believes the lawsuits are without merit and intends to vigorously defend against them.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Prior to November 27, 2009, our common stock was quoted on the OTC Bulletin Board ("OTCBB") under the symbol "CXDC". On November 27, 2009, we terminated our listing on OTCBB and listed our common stock on NASDAQ Global Market, also under the symbol "CXDC." The following table sets forth, for the indicated periods, the high and low sales prices for our common stock, as reported on NASDAQ.

	Common Stock	
	High	Low
Fiscal Year Ending December 31, 2015		
First Quarter	5.62	3.76
Second Quarter	6.60	5.03
Third Quarter	6.45	4.18
Fourth Quarter	4.83	3.91
Fiscal Year Ending December 31, 2014		
First Quarter	5.74	4.58
Second Quarter	12.70	5.37
Third Quarter	8.31	5.05
Fourth Quarter	6.46	5.15

## Number of Holders

As of March 10 2016, there were 454 record holders of our common stock.

Interwest Transfer Company Inc. is the registrar and transfer agent for our common stock. Its address is 1981 Murray Holladay Road, Suite 100, Salt Lake City, UT 84117 USA, telephone: (801) 272-9294.

## Dividend Policy

We have not paid any cash dividends since our inception and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We expect to retain our earnings, if any, to provide funds for the expansion of our business. Future dividend policy will be determined periodically by the Board of Directors based upon conditions then existing, including our earnings and financial condition, capital requirements and other relevant factors.

Under current PRC regulations, wholly foreign-owned enterprises and Sino-foreign equity joint ventures in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. Additionally, these foreign-invested enterprises are required to set aside certain amounts of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends. Payment of future dividends, if any, will be at the discretion of our Board of Directors after taking into account various factors, including current financial condition, operating results and current and anticipated cash needs.

## Securities Authorized for Issuance under Equity Compensation Plans

The information set forth in Item 12 of this Annual Report on Form 10-K is incorporated herein by reference.



#### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On April 7, 2011, the Board of Directors approved a stock repurchase program that allows the Company to repurchase up to US\$10 million of its stock until May 31, 2012. On September 28, 2011, the Company purchased 21,000 shares of its common stock in the public stock market for a total consideration of US\$92,694. The stock repurchase program expired on May 31, 2012.

#### Stockholder Return Performance Graph

The following Performance Graph and related information shall not be deemed "soliciting material" or deemed to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that we specifically incorporate such information by reference into such filing.

The following graph compares the change in cumulative total stockholders' return on our common stock with (a) NASDAQ Composite Index and (b) Russell Small Cap Completeness Index, for each year from December 31, 2010 through December 31, 2015. The graph assumes an initial investment of \$100 at the closing price on December 31, 2009 and assumes all dividends (if any) were reinvested. The figures for the chart and graph set forth below have been calculated based on the closing prices on the last trading day on the NASDAQ Global Market for each period indicated..

## Adjusted Closing Stock Price Cumulative Change

	12/31/2015	12/31/2014	12/31/2013	12/31/2012	12/31/2011	12/31/2010
China XD Plastics Co. Ltd.	\$ 81	\$ 100	\$ 97	\$ 70	\$ 98	\$ 100
Nasdaq Composite Index	\$ 189	\$ 179	\$ 157	\$ 114	\$ 98	\$ 100
Russell Small Cap Completeness Index	\$ 151	\$ 159	\$ 150	\$ 110	\$ 94	\$ 100

\*\$100 invested on 12/31/2010 in stock or index, including reinvestment of dividends. Data points are the last day of each fiscal year for the Company's common stock and December 31 of each year for indexes.

## ITEM 6. SELECTED FINANCIAL DATA

The tables below set forth selected historical financial information of the Company that has been derived from the audited financial statements as of December 31, 2011, 2012, 2013, 2014 and 2015, and for the last five years in the period ended December 31, 2015. The selected historical financial data should be read in conjunction with the consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations", included elsewhere in this Form 10-K.

(in millions, except number of shares and per share amounts).

	2015	2014	2013	2012	2011
Revenues	\$999.2	\$1,110.6	\$1,050.8	\$599.8	\$381.6
Net income	\$83.7	\$120.7	\$133.8	\$85.9	\$60.5
Earnings per share					
- basic	\$1.27	\$1.85	\$2.08	\$1.35	\$1.17
-diluted	\$1.27	\$1.85	\$2.08	\$1.35	\$1.16
Shares used in computing earnings per share					
-basic	49,225,566	48,833,434	47,794,028	47,549,275	47,280,468
-diluted	49,229,460	48,833,434	47,794,028	47,549,275	47,286,375
Total cash, cash equivalents, restricted cash and time deposits	408.4	296.5	390.5	148.7	146.6
Total Assets	1,752.0	1,299.7	1,075.9	611.6	360.6
Long term bank loans	107.5	174.3	-	-	-
Notes payable	145.6	148.6	-	-	-
Total liabilities	1,076.4	676.8	566.0	249.6	89.1
Redeemable Series D Convertible Preferred Stock	97.6	97.6	97.6	97.6	97.6
Total Stockholder's equities	578.0	525.3	412.3	264.4	173.9

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We make forward-looking statements in this report, in other materials we file with the Securities and Exchange Commission (the "SEC") or otherwise release to the public, and on our website. In addition, our senior management might make forward-looking statements orally to analysts, investors, the media and others. Statements concerning our future operations, prospects, strategies, financial condition, future economic performance (including growth and earnings) and demand for our products and services, and other statements of our plans, beliefs, or expectations, including the statements contained in this Item 7, "Management's Discussion and Analysis or Plan of Operation," regarding our future plans, strategies and expectations are forward-looking statements. In some cases these statements are identifiable through the use of words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "target," "can," "could," "may," "should," "will," "would" and similar expressions. We intend such forward-looking statements to be covered by the safe harbor provisions contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and in Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You are cautioned not to place undue reliance on these forward-looking statements because these forward-looking statements we make are not guarantees of future performance and are subject to various assumptions, risks and other factors that could cause actual results to differ materially from those suggested by these forward-looking statements. Thus, our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: global and domestic economic conditions generally and the automotive modified plastics market specifically, legislative or regulatory changes that affect our business, including changes in environmental regulations and control policies over the domestic automotive industry, the availability of working capital, the introduction of competing products and other risk factors described herein. These risks and uncertainties, together with the other risks described from time-to-time in reports and documents that we filed with the SEC should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Indeed, it is likely that some of our assumptions will prove to be incorrect. Our actual results and financial position will vary from those projected or implied in the forward-looking statements and the variances may be material. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**General**

China XD Plastics Company Limited ("China XD", "we", and the "Company", and "us" or "our" shall be interpreted accordingly) is one of the leading specialty chemical companies engaged in the research, development, manufacture and sale of modified plastics primarily for automotive applications in China, and to a lesser extent, in Dubai, UAE. Through our wholly-owned operating subsidiaries in China and UAE we develop modified plastics using our proprietary technology, manufacture and sell our products primarily for use in the fabrication of automobile parts and components. We have 361 certifications from manufacturers in the automobile industry as of December 31, 2015. We are the only company certified as a National Enterprise Technology Center in modified plastics industry in Heilongjiang province. Our Research and Development (the "R&D") team consists of 362 professionals and 11 consultants, including one consultant who is a member of Chinese Academy of Engineering, and one consultant who is the former chief scientist of Specialty Plastics Engineering Institute of Jilin University. As a result of the integration of our academic and technological expertise, we have a portfolio of 278 patents, ten of which we have obtained the patent rights and the remaining 268 of which we have applications pending in China as of December 31, 2015.

Our products include eleven categories: Modified Polypropylene (PP), Modified Acrylonitrile Butadiene Styrene (ABS), Modified Polyamide 66 (PA66), Modified Polyamide 6 (PA6), Modified Polyoxymethylenes (POM), Modified Polyphenylene Oxide (PPO), Plastic Alloy, Modified Polyphenylene Sulfide (PPS), Modified Polyimide (PI), Modified Polylactic acid (PLA) and Poly Ether Ether Ketone (PEEK). Since not all the categories have achieved

sales during the years of 2015, 2014 and 2013, we only presented the categories which have generated sales.

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The Company's products are primarily used in the production of exterior and interior trim and functional components of more than 28 automobile brands and 80 automobile models manufactured in China, including Audi, Mercedes Benz, BMW, Buick, Chevrolet, VW Passat, Golf and Jetta, Mazda, and Toyota. Our research center is dedicated to the research and development of modified plastics, and benefits from its cooperation with well-known scientists from prestigious universities in China. We operate three manufacturing bases in Harbin, Heilongjiang in the PRC, with the construction of Sichuan plant underway. In addition, we completed and run the trial production in the plant in Dubai, UAE with additional 2,500 metric tons ("Phase 1") targeting high-end products for the overseas markets. As of December 31, 2015, in domestic market, we had approximately 390,000 metric tons of production capacity across 84 automatic production lines utilizing German twin-screw extruding systems, automatic weighing systems and Taiwanese conveyer systems. In December 2013, we broke ground on the construction of our fourth production base in Nanchong City, Sichuan Province, with additional 300,000 metric tons of annual production capacity, expecting to bring total domestic installed production capacity to 690,000 metric tons with additional 70 new production lines at the completion of the construction of our fourth production base. Sichuan Xinda has supplied to its customers since 2013, backed by production capacity in our Harbin production base. To streamline the management in Sichuan, the Company completed a restructuring in July 2015 by merging its subsidiary in Nanchong City, the entire registered capital (US\$99.99 million) of which was owned by Xinda (Heilongjiang) Investment Co., Ltd, into Sichuan Xinda. The Company expects Sichuan facility to be completed around the middle of 2016. In order to meet the increasing demand from our customer in the ROK and to develop potential overseas markets, on January 25, 2015, AL Composites Materials FZE obtained a leased property of approximately 10,000 square meters from Jebel Ali Free Zone Authority ("JAFZA") in Dubai, UAE with constructed building comprising a warehouse, office and service block with lease term granted 15 years. The Company is planning to complete installing 75 production lines with additional 14,000 metric tons ("Phase 2") of annual production capacity in that property at the beginning of 2017, bringing total production capacity in Dubai to 16,500 metric tons.

### Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect (1) the reported amounts of our assets and liabilities; (2) the disclosure of our contingent assets and liabilities at the end of each reporting period; and (3) the reported amounts of revenues and expenses during each reporting period. We continually evaluate these judgments, estimates and assumptions based on our own historical experience, knowledge and assessment of current business and other conditions and our expectations regarding the future based on available information which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

When reading our consolidated financial statements, you should consider our selection of critical accounting policies, the judgment and other uncertainties affecting the application of such policies, and the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

### Long-Lived Assets

Our long-lived assets include property, plant and equipment and land use rights.

We depreciate and amortize our property, plant and equipment and land use rights, using the straight-line method of accounting over the estimated useful lives of the assets. We make estimates of the useful lives of property, plant and equipment, including the salvage values, and land use rights in order to determine the amount of depreciation and amortization expense to be recorded during each reporting period. The estimated useful life is the period over which



the long-lived assets are expected to contribute directly or indirectly to the future cash flows of the Company.

We evaluate long-lived assets, including property, plant and equipment, and land use rights for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We assess recoverability by comparing carrying amount of a long-lived asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated undiscounted future cash flows, we recognize an impairment charge based on the amount by which the carrying amount exceeds the estimated fair value of the asset or asset group. We estimate the fair value of the asset or asset group through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. Assets to be disposed are reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated.

No impairment on our long-lived assets was recognized in 2015, 2014 or 2013.

#### Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. In establishing the required allowance, we consider historical losses adjusted to take into account current market conditions, the amount of receivables in dispute, and the current receivables aging and current payment patterns. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers.

We extend unsecured credit to customers with good credit history. We review our accounts receivable on a regular basis to determine if the bad debt allowance is adequate at each year-end. We have not experienced any material write-offs in history.

#### Valuation of Inventories

Our inventories are stated at the lower of cost or net realizable value (NRV). We routinely evaluate quantities and value of our inventories in light of current market conditions and market trends, and record a write-down against the cost of inventories for net realizable value below cost. Expected demand and anticipated sales price are the key factors affecting our inventory valuation analysis. For purposes of our inventory valuation analysis, we develop expected demand and anticipated sales prices primarily based on sales orders as well as industry trends and individual customer analysis. We also consider sales and sales orders after each reporting period-end but before the issuance of our financial statements to assess the accuracy of our inventory valuation estimates. Historically, actual demand and sales price have generally been consistent with or greater than expected demand and anticipated sales price used for purposes of the our inventory valuation analysis. The evaluation also takes into consideration new product development schedules, the effect that new products might have on the sale of existing products, product obsolescence, customer concentrations, product merchantability and other factors. Market conditions are subject to change and actual consumption of inventories could differ from forecasted demand. Our products have a long life cycle and obsolescence has not historically been a significant factor in the valuation of inventories. We have not experienced any material inventory write-downs before.

#### Income Tax Uncertainties and Realization of Deferred Income Tax Assets

Our income tax provision, deferred income tax assets and deferred income tax liabilities are recognized and measured primarily based on actual and expected future income, PRC statutory income tax rates, PRC tax regulations and tax planning strategies. Significant judgment is required in interpreting tax regulations in the PRC, evaluating uncertain tax positions, and assessing the realizability of deferred income tax assets. Actual results could differ materially from those judgments, and changes in judgments could materially affect our consolidated financial statements. As of December 31, 2015 and 2014, we had total gross deferred income tax assets of US\$1,941,124 and US\$727,711 respectively. We record a valuation allowance to reduce our deferred income tax assets if, based on the weight of available evidence, we believe expected future taxable income is not likely to support the use of a deduction or credit in that jurisdiction. We evaluate the level of our valuation allowances quarterly, and more frequently if actual operating results differ significantly from forecasted results. As of December 31, 2015 and 2014, our valuation allowance against deferred income tax assets was US\$1,941,124 and US\$727,711 respectively.

We recognize the impact of a tax position if we determine the position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, it is presumed that the position will be examined by the appropriate tax authority that has full knowledge of all relevant information. In addition, a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest

amount of benefit that is greater than fifty percent (50%) likely of being realized upon settlement. The tax positions are regularly re-evaluated based on the results of the examination of income tax filings, statute of limitations expirations and changes in tax law that would either increase or decrease the technical merits of a position relative to the more-likely-than-not recognition threshold. In the normal course of business, we are regularly audited by the PRC tax authorities. The settlement of any particular issue with the applicable tax authority could have a material impact on our consolidated financial statements.

## Stock Based Compensation

We measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award and recognize the cost over the period the employee is required to provide service in exchange for the award, which generally is the vesting period. We have elected to recognize the compensation cost for an award with only service conditions and a graded vesting schedule on a straight-line basis over the requisite service period for the entire award. However, the cumulative amount of compensation cost recognized at any date equals at least the portion of the grant date value of such award that is vested at that date.

We estimated the fair value of our share options using the Black-Scholes Option Pricing model. The model incorporates subjective assumptions. The expected volatility was based on implied volatilities from traded options and historical volatility of the Company's common stock. The risk free interest rate assumption is determined using the Federal Reserve nominal rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. There is no expected dividend yield, as the Company has not paid dividend and does not anticipate paying dividend over the term of the grants.

## Recently Issued Accounting Standards

In 2015, the Company elected to early adopt the Accounting Standards Update ("ASU") No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires the debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, instead of reported on the balance sheet as an asset. The costs will continue to be amortized to interest expense using the effective interest method. Upon adoption of the guidance, the debt issuance costs in the amount of US\$4,243,412 as of December 31, 2014, which were included in the other non-current assets, have been retrospectively adjusted as a direct deduction of an equivalent amount from the carrying amount of the notes payable as of December 31, 2014.

In 2015, the Company elected to early adopt the ASU No. 2015-11, Simplifying the Measurement of Inventory, which changes the measurement principle of inventory from the lower of cost or market to lower of cost and net realizable value, and requires prospective adoption. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU eliminates the guidance that entities consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory when cost is determined on a first-in-first-out or average cost basis. The Company applied this new measurement principle of inventory as of December 31, 2015. The adoption of ASU No. 2015-11 does not have any impact on the Company's consolidated financial statements.

In 2015, the Company elected to early adopt the ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The Company adopted this new guidance retrospectively. The adoption of ASU No. 2015-17 does not have any impact on the Company's consolidated financial statements.

The Financial Accounting Standards Board issued Accounting Standards Codification ("ASC") Topic 842, Leases, in February 2016. ASC Topic 842 requires a lessee to recognize all leases, including operating leases, on balance sheet via a right-of-use asset and lease liability, unless the lease is a short-term lease (one with an accounting lease term of 12 months or less). All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying assets, or executory costs, that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees. The new standard does not substantially change lessor accounting from current U.S. GAAP. The new standard also requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does. The standard is applied retrospectively, with elective reliefs. The new standard is effective for annual and interim reporting periods beginning after December 15, 2018 for a public business entity. Early adoption is permitted. The

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Company has not yet determined the impact of the new standard on its current policies for leases.

The following table sets forth statements of comprehensive income data for the years ended December 31, 2015, 2014 and 2013 in millions of US\$:

(millions of US\$, except the percentage)

	For the Years Ended December 31,									
	2015			2014			2013			
	Amount	%	Change %	Amount	%	Change %	Amount	%	Amount	%
Revenues	999.2	100 %	(10.0) %	1,110.6	100.0%	5.7 %	1,050.8	100.0%		
Cost of revenues	(817.8)	(81.8)%	(7.9) %	(888.2 )	(80.0 )%	7.3 %	(827.4 )	(78. 7)%		
Gross profit	181.4	18.2 %	(18.4) %	222.4	20.0 %	(0.4) %	223.4	21.3 %		
Total operating expenses	(46.4)	(4.6) %	(8.5) %	(50.7 )	(4.6 )%	34.1 %	(37.8 )	(3.6 )%		
Operating income	135.0	13.6 %	(21.4) %	171.7	15.4 %	(7.5) %	185.6	17.7 %		
Income before income taxes	101.9	10.3 %	(26.7) %	139.0	12.4 %	(23.0) %	180.5	17.2 %		
Income tax expense	(18.2)	(1.8) %	(0.5 )%	(18.3 )	(1.6 )%	(60.8) %	(46.7 )	(4.4 )%		
Net income	83.7	8.5 %	(30.7) %	120.7	10.8 %	(9.8) %	133.8	12.8 %		

## Revenues

### Fiscal 2015 Highlights

Revenues decreased by 10.0% or US\$111.4 million in 2015 as compared to 2014. This was due to approximately 2.7% decrease in sales volume and 5.5% decrease in the average RMB selling price of our products.

#### (i) Domestic market

For the year ended December 31, 2015, revenue from domestic market decreased by US\$42.9 million as a result of a decrease of 1.0% in sales volume and a decrease of 1.4% in the average RMB selling price of our products, as compared with those of last year. However more sales were achieved in Southwest China and Central China, because of our marketing efforts to develop new customers.

Vehicle sales in China grew by 4.7% in 2015, a slower growth than that of 2014, and the slowest rate in approximately 25 years, missing the State-backed auto association's revised forecast amid the economy slowdown in the world's largest car market. The Chinese government's anti-monopoly probe against luxury automobile manufacturers and dealers by the state backlashed against automakers contributed to the lower-than-expected growth rate. Further, both automakers and parts manufacturers in China experienced pricing pressure from 2014 to the present. The unusual volatility of the Chinese stock market since June 2015 also seemed to have certain negative impact on consumer sentiments. As a result, plastic fabricators have been seeking newer products utilizing lower cost raw materials and more cost-efficient formulations. The pricing of our products is determined with reference to the relatively lower average selling price in response to customer demand in China.

In order to stimulate the slowdown of the auto industry, on September 29, 2015, the Chinese government implemented a tax incentive policy of 50% reduction of the sales tax for eligible purchase of vehicles with engines of 1.6 liters and less. This helped the recovery of vehicle sales in China for the fourth quarter of 2015.

#### (ii) Overseas market

For the year ended December 31, 2015, revenue from overseas market decreased by US\$68.5 million, as a result of a decrease of 49.7% in sales volume mostly due to the ceasing supply during the second half of 2015 to the ROK customer, partially offset by 1.3% increase in the average USD selling price as compared with those of last year. The products sold in overseas market are mainly higher-end products such as PA66 and Plastic Alloys with much higher selling price for engine bonnet, oil pump, fuse hose and other higher-end auto engine related applications, high-end appliance components, and circuit boards etc. The Company expects continuing growth opportunities in overseas markets, including the ROK and Europe.

### Fiscal 2014 Highlights

Revenues increased by 5.7% or US\$59.8 million in 2014 as compared to 2013. This was due to approximately 0.6% increase in sales volume and 5.3 % increase in the average RMB selling price of our products.

In 2014, the Company developed its presence in the ROK by selling to a ROK customer primarily higher-end PA66 and plastic alloy products for an aggregate amount of US\$140.1 million, which accounted for 12.6% of the total revenues for the year ended December 31, 2014.

The year-over-year increase of sales volume was primarily driven by the new business from the oversea market in the ROK.

Vehicle sales in China grew by 6.9% in 2014, missing the State-backed auto association's revised forecast amid the economy slowdown in the world's largest car market. The Chinese government's anti-monopoly probe against luxury automobile manufacturers by the state and dealers backlashed against automakers. Both contributed to the lower-than-expected growth rate. Further, both automakers and parts manufacturers in China experienced pricing pressure in 2014. As a result, plastic fabricators have been seeking newer products utilizing lower cost raw materials and more cost-efficient formulations. The pricing of the majority of our existing products remained stable while our newly launched products have relatively lower average selling price in response to customer demand in China. The Company has started marketing its higher-end products to customers overseas since early 2014 to better allocate its limited production capacity, diversify its business and reduce its concentration in the Chinese market. Although revenues from China declined in 2014 as compared to 2013, the increase of revenues from oversea market in the ROK more than offset such decline.

## Fiscal 2013 Highlights

Revenue increased by 75.2% or US\$451.0 million in 2013 as compared to 2012. This was due to approximately 51.6% increase in sales volume and 12.6% increase in the average RMB selling price of our products.

The increase of sales volume was driven by the strong demand of modified plastics in the PRC market and higher penetration of our business in our existing markets supported by our additional 30 production lines, which commenced production in December 2012, as well as the marketing efforts to develop new customers, in particular those in East and Southwest China. Such increase in demand was driven by increasing demand for middle and high-end automobiles by Chinese consumers, continuing substitution of imported modified plastics by domestic suppliers, as well as the increase of plastic content on the per-vehicle-basis in China with even higher adoption rate in higher-end automobile models than low-end ones. The increase of average RMB selling price was mainly due to the shift of product mix towards higher-end products.

The following table summarizes the breakdown of revenues by categories in millions of US\$:

(millions of US\$, except the percentage)	Revenues For the Years Ended December 31,									
	2015		Change		2014		Change		2013	
	Amount	%	%	%	Amount	%	%	%	Amount	%
Modified Polyamide 66 (PA66)	219.1	21.9 %	13.9 %		192.4	17.4 %	(1.6 %)		195.5	18.6 %
Modified Polyamide 6 (PA6)	203.5	20.4 %	(8.8) %		223.1	20.1 %	3.2 %		216.2	20.6 %
Plastic Alloy	350.6	35.1 %	(12.4) %		400.3	36.0 %	35.0 %		296.6	28.2 %
Modified Polypropylene (PP)	164.8	16.5 %	(29.1) %		232.4	21.0 %	(18.8) %		286.3	27.2 %
Modified Acrylonitrile butadiene styrene (ABS)	40.5	4.1 %	10.1 %		36.8	3.3 %	13.6 %		32.4	3.1 %
Polyoxymethylenes (POM)	3.5	0.3 %	(2.8) %		3.6	0.3 %	28.6 %		2.8	0.3 %
Polyphenylene Oxide (PPO)	13.0	1.3 %	(12.2) %		14.8	1.3 %	8.8 %		13.6	1.3 %
Modified Polylactic Acid (PLA)	0	0 %	n/a		0.0	0.0 %	n/a		-	- %
Raw Materials	3.4	0.3 %	(52.8) %		7.2	0.6 %	33.3 %		5.4	0.5 %
Others	0.8	0.1 %	n/a		-	-	-		-	-
Sub-total	999.2	100.0%	(10.0) %		1,110.6	100.0%	5.9 %		1,048.8	99.8 %
After-sales Service	-	- %	%		-	- %	(100.0) %		2.0	0.2 %
Total Revenues	999.2	100.0%	(10.0) %		1,110.6	100.0%	5.7 %		1,050.8	100.0%



The following table summarizes the breakdown of metric tons (MT) by product mix:

Sales Volume For the Years Ended December 31,													
	2015		Change		2014		Change		2013				
	MT	%	%	%	MT	%	%	%	MT	%	%		
Modified Polyamide 66 (PA66)	53,114	16.0	%	43.6	%	36,984	10.8	%	3.4	%	35,757	10.5	%
Modified Polyamide 6 (PA6)	58,465	17.6	%	18.2	%	49,447	14.5	%	17.8	%	41,989	12.4	%
Plastic Alloy	111,314	33.5	%	(2.5)	%	114,216	33.4	%	8.9	%	104,894	30.9	%
Modified Polypropylene (PP)	88,508	26.6	%	(26.5)	%	120,385	35.3	%	(14.3)	%	140,505	41.3	%
Modified Acrylonitrile butadiene styrene (ABS)	16,007	4.8	%	15.3	%	13,884	4.1	%	23.5	%	11,244	3.3	%
Polyoxymethylenes (POM)	1,049	0.3	%	0.9	%	1,040	0.3	%	11.8	%	930	0.3	%
Polyphenylene Oxide (PPO)	1,834	0.6	%	(8.8)	%	2,010	0.6	%	7.5	%	1,870	0.6	%
Modified Polylactic Acid (PLA)	1	0.0	%	n/a		1	0.0	%	n/a		-	-	
Raw materials	1,852	0.6	%	(47.9)	%	3,553	1.0	%	47.2	%	2,413	0.7	%
Total Sales Volume	332,144	100.0	%	(2.7)	%	341,520	100.0	%	0.6	%	339,602	100.0	%

The Company continued to shift production mix from traditional Modified Polypropylene (PP) to higher-end products such as PA66, PA6, primarily due to (i) the greater growth potential of advanced modified plastics in luxury automobile models in China, (ii) the stronger demand as a result of promotion by the Chinese government for clean energy vehicles and (iii) better quality from and consumer recognition of higher-end cars made by automotive manufacturers from Chinese and Germany joint ventures, and U.S. and Japanese joint ventures, which manufacturers tend to use more and higher-end modified plastics in quantity per vehicle in China.

#### Gross Profit and Gross Margin

(in millions, except percentage) For the Years Ended December 31,

	2015	Change	2014	Change	2013
Gross Profit	\$181.4	(18.4)%	\$222.4	(0.4 )%	\$223.4
Gross Margin	18.2 %	(1.8) %	20.0 %	(1.3 )%	21.3 %

#### Fiscal 2015 Highlights

Gross profit was US\$181.4 million in the year ended December 31, 2015 compared to US\$222.4 million in the same period of 2014, representing a decrease of 18.4%. Our gross margin decreased to 18.2% during the year of 2015 from 20.0% during the same period of 2014 primarily due to pricing pressure resulting from the slowdown of the auto industry in China and lower margin contribution from the overseas sales. The average RMB selling price of our products reduced by 5.5% for the year ended December 31, 2015 as compared to that of the prior year.

### Fiscal 2014 Highlights

The year-over-year decrease in the gross margin percentage in 2014 compared to 2013 was driven by multiple factors including the following:

- (i) new and lower-margin modified PA6 and PA66 products that we developed in 2014 in response to customer demand;
  - higher cost structures due to utilization of higher-end raw materials on certain products and flat production
- (ii) capacity to focus on product quality, partially offset by the favorable shift in sales mix to higher-end products with higher margins and sales to the Korean market;
- (iii) lower sales discount off the original prices to lower-end products such as Modified Polypropylene (PP) and Modified Acrylonitrile Butadiene Styrene (ABS);
- (iv) higher-end product sales (mainly PA6, PA66, POM, PPO and Plastic Alloy) accounting for 75.1% of our total revenues in 2014 as compared to 69.1% of that of the prior year;
  - the average 1.0% of sales discount off the original prices to lower-end products Modified Polypropylene (PP) and
- (v) Modified Acrylonitrile Butadiene Styrene (ABS) in 2014 as compared to an average 5.8% discount off the original prices in 2013.

### Fiscal 2013 Highlights

The year-over-year decrease in the gross margin percentage in 2013 compared to 2012 was primarily due to:

- an average 5.8% discount on the listed prices in 2013 provided to our distributors as part of our marketing initiatives to increase our market share in East China and Southwest China. The discount is primarily aimed at
  - (i) further expanding into the East China and Southwest China market. As a result, revenues contribution from East China and Southwest China grew to 31.2% and 3.7% of our total sales in 2013 compared to 22% and nil in the same period of 2012, respectively.
  - an increase in shipping expenses to US\$16.0 million in 2013 from US\$2.1 million in 2012. We started bearing the
- (ii) shipping expenses, which is a part of our marketing tactic to grow our market share since the first quarter of 2013. Such arrangement is expected to continue in the future.

### General and Administrative Expenses

(in millions, except percentage)	For the Years Ended December 31,					
	2015	Change	2014	Change	2013	
General and Administrative Expenses	\$23.8	15.5 %	\$20.6	26.4 %	\$16.3	
as a percentage of revenues	2.4 %	0.5 %	1.9 %	0.3 %	1.6 %	

### Fiscal 2015 Highlights

General and administrative (G&A) expenses were US\$23.8 million in 2015 compared to US\$20.6 million in 2014, representing an increase of 15.5%, or US\$3.2 million. This increase is primarily due to the increase of (i) US\$1.1 million of corporate events related expenses; (ii) US\$0.7 million of travel expenses in connection with our business expansion; (iii) US\$0.4 million of fixed assets depreciation; (iv) US\$0.7 other miscellaneous expenses, and (v) US\$0.3 million of payroll and welfare expense.

On a percentage basis, G&A expenses in 2015 were 2.4% of revenues, compared to 1.9% of the same period of 2014.

### Fiscal 2014 Highlights

General and administrative (G&A) expenses were US\$20.6 million in 2014 compared to US\$16.3 million in 2013, representing an increase of 26.4%, or US\$4.3 million. This increase is primarily due to the increase of (i) US\$3.1 million in payroll resulting of headcount and salary increase; (ii) US\$0.4 million in rental fee due to the business expansion; (iii) US\$0.4 million of professional fees; and (iv) US\$0.2 million in fixed assets depreciation.

On a percentage basis, G&A expenses in 2014 were 1.9% of revenues, compared to 1.6% of the same period of 2013.

### Fiscal 2013 Highlights

General and administrative ("G&A") expenses were US\$16.3 million in 2013 compared to US\$10.0 million in 2012, representing an increase of 63.0%, or US\$6.3 million. This increase was primarily due to the increase of (i) US\$ 2.4 million of share based compensation; (ii) US\$ 0.9 million of travel and office expenses associated with the business expansion; (iii) US\$ 0.7 million of fixed assets depreciation; (iv) US\$ 0.6 million of professional fees and (v) US\$ 0.6 million of non-income taxation.

On a percentage basis, G&A expenses in 2013 was 1.6% of revenues, compared to 1.7% of the same period of 2012.

### Research and Development Expenses

(in millions, except percentage)	For the Years Ended December 31,					
	2015	Change	2014	Change	2013	
Research and Development Expenses	\$21.1	(28.2)%	\$29.4	38.0 %	\$21.3	
as a percentage of revenues	2.1 %	(0.5) %	2.6 %	0.6 %	2.0 %	

### Fiscal 2015 Highlights

Research and development expenses were US\$21.1 million in 2015 compared with US\$29.4 million in 2014, a decrease of US\$8.3 million, or 28.2%, reflecting the Company's efforts to adjust research and development activities, terminate certain strategically unfit R&D projects earlier and shift to new products primarily for industrialized applications from automotive to other advanced fields such as ships, airplanes, high-speed rail, 3D printing materials, biodegradable plastics, and medical devices.

As of December 31, 2015, the number of ongoing research and development projects was 144. We expect to complete and commence to realize economic benefits on approximately 25% of the projects in the near term. The remaining projects are expected to be carried out for a longer period. The majority of the projects are in the field of modified plastics in automotive applications and the rest are in advanced fields such as ships, airplanes, high-speed rail, medical

devices, etc. In 2015, the Company successfully launched 40 new automobile manufacturers certified products ("AMCP"), which increased its total number of AMCP to 361.

### Fiscal 2014 Highlights

Research and development ("R&D") expenses were US\$29.4 million in 2014 compared with US\$21.3 million in 2013, an increase of US\$8.1 million, or 38.0% in 2014, reflecting increased research and development activities on new products primarily in consumption of raw materials for various experiments for automotive applications from automobile manufacturers as well as other non-automotive applications.

As of December 31, 2014, the number of ongoing research and development projects is 96. The majority of the projects are in the field of modified plastics in automotive applications and the rest are in advanced fields such as ships, airplanes, high-speed rail, medical devices, etc. In 2014, the Company successfully launched 38 new automobile manufacturers certified products ("AMCP"), which increased its total number of AMCP to 321.

### Fiscal 2013 Highlights

Research and development ("R&D") expenses were US\$21.3 million in 2013 compared with US\$21.6 million in 2012, a decrease of US\$0.3 million, or 1.4%. The decrease of our R&D expenses in 2013 was due to decreased expenses associated with the early completion of some research and development experiments after our R&D strategic review where we recalibrated our R&D efforts to target more longer-term but higher-end applications in fields such as aerospace, high-speed train, biological and medical. In 2013, the Company successfully launched 37 new AMCP, which increased its total number of AMCP to 283.

As of December 31, 2013, the Company had 96 products in the process of being certified by automotive and non-automotive manufacturers. The majority of the projects were in the field of modified plastics in automotive applications and the rest were in advanced fields such as ships, airplanes, high-speed rail, and medical devices.

### Operating Income

Total operating income was US\$135.0 million in 2015 compared to US\$171.7 million in 2014 and US\$185.6 million in 2013, representing a decrease of 21.4% or US\$36.7 million in 2015, and a decrease of 7.5% or US\$13.9 million in 2014. This decrease in 2015 was due to the lower gross profit, higher general and administration expenses and higher selling expenses, partially offset by the lower research and development expenses, while the decrease in 2014 was primarily due to lower gross profit and higher general and administrative expenses and research and development expenses.

### Interest Income (Expenses)

(in millions, except percentage) For the Years Ended December 31,

	2015	Change	2014	Change	2013
Interest Income	\$8.2	(25.5)%	\$11.0	61.8 %	\$6.8
Interest Expenses	(42.7 )	2.9 %	(41.5)	171.2 %	(15.3)
Net Interest Expenses	\$ (34.5)	13.1 %	\$(30.5)	258.8%	\$(8.5 )
as a percentage of revenues	3.5 %	0.8 %	2.7 %	1.9 %	0.8 %

### Fiscal 2015 Highlights

Net interest expense was US\$34.5 million in 2015, compared to net interest expense of US\$30.5 million in 2014, primarily due to (i) an increase of US\$1.8 million interest expenses resulting from the issuance of senior notes in 2014. On February 4, 2014, Favor Sea Limited ("Favor Sea (BVI)"), a wholly owned subsidiary of the Company, issued US\$150,000,000 aggregate principal amount of 11.75% Guaranteed Senior Notes due 2019 with issuance price

of 99.080% (the "senior notes"). The senior notes bear interest at a rate of 11.75% per annum and the holding days with the senior notes in 2015 was 365 days compared to 331 days in 2014 led the interest expense increase; (ii) an decrease of US\$2.8 million interest income due to the decrease of average deposit balance in the amount of US\$308.1 million bearing a weighted average interest rate of 2.6% in 2015 compared to US\$399.2 million bearing a weighted average interest rate of 2.7% in 2014, leading to the decrease of interest income;

## Fiscal 2014 Highlights

Net interest expense was US\$30.5 million in 2014, compared to net interest expense of US\$8.5 million in 2013, primarily due to (i) an increase of US\$16.9 million interest expenses resulting from the Notes issued on February 4, 2014; (ii) an increase of US\$9.3 million interest expenses resulting from the increase of bank loans to meet the need of our future capacity expansion in Southwest China and Dubai. The average balance of short-term and long-term bank loans in 2014 was US\$373.7 million as compared to US\$238.4 million during that of the prior year, leading to US\$9.3 million more interest expense, partially offset by (iii) an increase of US\$ 4.2 million interest income. The average deposit balance in, 2014 was US\$399.2 million as compared to US\$226.4 million during that of the prior year, leading to the increase of interest income.

## Fiscal 2013 Highlights

Net interest expenses was US\$8.5 million in 2013 compared to that of net interest expenses of US\$25,678 in 2012, primarily due to increase of short-term loans to meet the need of our future capacity expansion in Southwest China. The weighted average loan balance for the twelve-month ended December 31, 2013 was US\$238.4 million as compared to US\$65.7 million as of that of the prior year, leading to US\$8.5 million more net interest expenses.

## Foreign Currency Exchange Gains (Losses)

(in millions, except percentage)	For the Years Ended December 31,					
	2015	Change	2014	Change	2013	
Foreign currency exchange gains (losses)	\$(2.2)	15.8 %	\$(1.9)	(176.0)%	\$2.5	
as a percentage of revenues	0.2 %	0.0 %	0.2 %	0.0 %	0.2%	

Foreign currency exchange losses were US\$2.2 million in 2015, compared to US\$1.9 million in 2014, and foreign currency exchange gains of US\$2.5 million in 2013 mostly due to the appreciation of US Dollar against RMB during 2014 and 2015 as China loosened the range RMB was allowed to fluctuate.

## Gains/losses on foreign currency forward contracts

In 2015, the Company settled a foreign currency forward contract which was entered into to manage its exposure to foreign currency risks with a notional amount of US\$50 million by receiving RMB4.1 million (equivalent to US\$0.7 million) due to the appreciation of US dollars against Chinese Yuan.

In 2014, the Company settled a foreign currency forward contract which was entered into to manage its exposure to foreign currency risks with a notional amount of US\$80 million by paying RMB6.6 million due to the appreciation of US dollars against Chinese Yuan in June, and had a change of fair value of loss of RMB15,000 for another foreign currency forward contract with a notional amount of US\$50 million.

## Income Taxes

(in millions, except percentage) For the Years Ended December 31,

	2015	Change	2014	Change	2013
Income before Income Taxes	\$ 101.9	(26.7)%	\$ 139.0	(23.0)%	\$ 180.5
Income Tax Expense	(18.2)	(0.5)%	(18.3)	(60.8)%	(46.7)
Effective income tax rate	17.9%	4.8%	13.1%	(12.8)%	25.9%

The effective income tax rate in 2015, 2014 and 2013 was 17.9%, 13.1% and 25.9%, respectively. The effective income tax rate increased from 13.1% in 2014 to 17.9% in 2015, primarily due to less profit generated by Dubai Composites in 2015 compared with that of 2014, which was exempted from income taxes. The effective income tax rate decreased from 25.9% in 2013 to 13.1% in 2014, primarily due to significant portion of the consolidated profit was generated by Dubai Composites which was established in 2014 and exempted from income taxes.

The effective income tax rate in 2015 differs from the PRC statutory income tax rate of 25% primarily due to (i) Sichuan Xinda's preferential income tax rate, exemption of income tax for the income earned by Dubai Composites and R&D additional deduction of HLJ Xinda Group and Sichuan Xinda, partially offsetting by (i) non-deductible stock-based compensation expenses; (ii) increase of valuation allowances against deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

The effective income tax rate in 2014 differs from the PRC statutory income tax rate of 25% primarily due to (i) Sichuan Xinda's preferential income tax rate and exemption of income tax for the income earned by Dubai Composites, partially offsetting by (i) increase of valuation allowances against deferred income tax assets of certain subsidiaries, which were at cumulative loss position and (ii) effect of non-deductible expenses.

The effective income tax rate of 25.9% in 2013 differs from the PRC statutory income tax rate of 25% primarily due to (i) non-deductible stock-based compensation expenses and (ii) subpart F income for controlled foreign operations, partially offset by the preferential income tax rate of 15% enjoyed by Sichuan Xinda.

Our PRC and Dubai subsidiaries have US\$408.1 million of cash and cash equivalents, restricted cash and time deposits as of December 31, 2015, which are planned to be indefinitely reinvested in the PRC and Dubai. The distributions from our PRC and Dubai subsidiaries are subject to the U.S. federal income tax at 34%, less any applicable foreign tax credits. Due to our policy of indefinitely reinvesting our earnings in our PRC business, we have not provided for deferred income tax liabilities related to PRC withholding income tax on undistributed earnings of our PRC subsidiaries. In addition, due to our policy of indefinitely reinvesting our earnings in Dubai, UAE, we have not provided for deferred income tax liabilities related to Dubai Composites in Dubai, UAE, on undistributed earnings.

## Net Income

As a result of the above factors, we had a net income of US\$83.7 million in 2015, compared to US\$120.7 million in 2014 and US\$133.8 million in 2013.



Selected Balance Sheet Data as of December 31, 2015 and 2014:

(in millions, except percentage)	2015	2014	Change		
			Amount	%	
Cash and cash equivalents	119.9	45.5	74.4	163.5	%
Restricted cash	50.9	12.5	38.4	307.2	%
Time deposits	237.6	238.5	(0.9)	(0.4)	%
Accounts receivable, net of allowance for doubtful accounts	234.5	204.0	30.5	15.0	%
Inventories	294.7	249.8	44.9	18.0	%
Prepaid expenses and other current assets	15.7	11.3	4.4	38.9	%
Property, plant and equipment, net	571.7	318.3	253.4	79.6	%
Land use rights, net	24.5	11.9	12.6	105.9	%
Prepayments to equipment and construction suppliers	183.2	182.2	1.0	0.5	%
Other non-current assets	19.0	21.3	(2.3)	(10.8)	%
Total assets	1,752.0	1,295.5	456.5	35.2	%
Short-term bank loans, including current portion of long-term bank loans	284.3	99.7	184.6	185.2	%
Bills payable	33.5	43.4	(9.9)	(22.8)	%
Accounts payable	257.4	152.1	105.3	69.2	%
Income taxes payable, including noncurrent portion	28.0	17.3	10.7	61.8	%
Accrued expenses and other current liabilities	141.0	24.5	116.5	475.5	%
Long-term bank loans, excluding current portion	107.5	174.3	(66.8)	(38.3)	)%
Notes payable	145.6	144.4	1.2	0.8	%
Deferred income	62.0	-	62.0	N/A	
Redeemable Series D convertible preferred stock	97.6	97.6	-	-	
Stockholders' equity	578.0	525.3	52.7	10.0	%

Our financial condition continued to improve as measured by an increase of 10.0% in stockholders' equity as of December 31, 2015 compared to the prior year. Cash and cash equivalents, restricted cash and time deposits increased by 37.7% due to cash flows provided by operating activities and increase of short-term and long-term bank loans of US\$117.8 million, to meet the need in the capital expenditures, partially offset by the purchase of and prepayments for property, plant and equipment. Inventories increased by 18.0% as a result of more purchases made by the Company to take advantage of the lower purchase price of the raw materials and the Company's strategy to stock up the inventory. Increase of deferred income was due to RMB403.6 million (equivalent to US\$62.0 million) government grant from authorities in Sichuan Province for the construction of our 4th production base in Sichuan Province. The aggregate short-term and long-term bank loans and notes payable increased by 28.4% due to utilization of existing lines of credit. We believe our current debt level is manageable. We defined the manageable debt level as the sum of aggregate short-term and long-term loans, and notes payable over the total assets. Accounts payable and bills payable increased by 48.8% due to utilizing an extension of purchase credit term. As of December 31, 2015, notes payable was US\$145.6 million relating to the 11.75% guaranteed senior notes due in 2019, net of discount.

## LIQUIDITY AND CAPITAL RESOURCES

Historically, our primary uses of cash have been to finance working capital needs and capital expenditures for new production lines. We have financed these requirements primarily from cash generated from operations, bank borrowings and the issuance of our convertible preferred stocks and debt financings. As of December 31, 2015 and 2014, we had US\$119.9 million and US\$45.5 million, respectively, in cash and cash equivalents, which were primarily deposited with banks in China (including Hong Kong and Macau). As of December 31, 2015, we had US\$

284.3 million outstanding short-term bank loans (including the current portion of long-term bank loans), including US\$64.6 million unsecured loan and US\$43.0 million loans secured by accounts receivable, US\$27.1 million loans secured by restricted cash, and US\$149.6 long-term bank loans that due in one year. We also had US\$107.5 million long-term bank loans (excluding the current portion), including US\$46.0 million loans secured by long-term deposits and US\$61.5 million unsecured loan. Short-term and long-term bank loans in total bear a weighted average interest rate of 4.2% per annum and do not contain any renewal terms. We have historically been able to make repayments when due. In addition, the Company has US\$145.6 million of 11.75% guaranteed senior notes due in 2019.

A summary of lines of credit and the remaining line of credit as of December 31, 2015 is as below:

(in millions)	December 31, 2015			Remaining Available USD
	Name of Financial Institution	Lines of Credit, Obtained Date of Approval	RMB	
Bank of Communications	December 09, 2014	300.0	46.1	0.3
Bank of Longjiang, Heilongjiang	June 29, 2015	300.0	46.1	0
Bank of China	April 28, 2015	1,394.5	214.3	75.4
HSBC	September 2, 2014	618.1	95.0	78.4
Agriculture Bank of China	June 27, 2015	260.0	40.0	30.7
China Construction Bank	December 25, 2013	300.0	46.1	23.1
ICBC	October 28, 2015	500.0	76.9	72.2
Subtotal (credit term<=1 year)		3,672.6	564.5	280.1
Bank of China	April 28, 2015	957.4	147.2	61.2
Agriculture Bank of China	September 2, 2014	140.0	21.5	-
Subtotal (credit term>1 year)		1,097.4	168.7	61.2
Total		4,770.0	733.2	341.3

We have historically been able to make repayments when due. As of December 31, 2015, we have contractual obligations to pay (i) lease commitments in the amount of US\$5.0 million, including US\$1.5 million due in one year; (ii) equipment acquisition and facility construction in the amount of US\$127.4 million; (iii) long-term bank loan in the amount of US\$274.0 million (including principals and interests); and (iv) notes payable in the amount of US\$211.7 million (including principals and interests).

We expect that we will be able to meet our needs to fund operations, capital expenditures and other commitments in the next 12 months primarily with our cash and cash equivalents, operating cash flows and bank borrowings.

We may, however, require additional cash resources due to changes in business conditions or other future developments. If these sources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or equity-linked securities could result in additional dilution to stockholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financial covenants that would restrict operations. Financing may not be available in amounts or on terms acceptable to us, or at all.

#### Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2015, 2014, and 2013:

(in millions, except percentage)	Years Ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	227.4	148.7	115.6
Net cash used in investing activities	(280.3)	(299.3)	(249.9)
Net cash provided by financing activities	131.7	99.4	143.2
Effect of foreign currency exchange rate changes on cash and cash equivalents	(4.4)	1.1	2.8
Net increase (decrease) in cash and cash equivalents	74.4	(50.1)	11.7



## FY 2015 Highlights

### Operating Activities

Net cash provided by operating activities increased by US\$78.7 million for the year ended December 31, 2015 from US\$148.7 million for the year ended December 31, 2014, primarily due to (i) the decrease of approximately US\$267.5 million in operating cash payment, including raw material purchases, rental and personnel costs for the year ended December 31, 2015, (ii) the decrease of US\$20.3 million in income tax payments, (iii) the increase of US\$3.6 million received from government grant and (iv) cash received of US\$0.6 million in 2015 as a result of exercise of forward contract whereas cash payment of US\$1.1 million in 2014 which led to increase of US\$1.7 million partially offset by (v) the decrease of approximately US\$208.1 million cash collected from our customers and (vi) the increase of US\$6.6 million interest payments for the year ended December 31, 2015.

### Investing Activities

Net cash used in the investing activities was US\$280.3 million for the year ended December 31, 2015 compared to US\$299.3 million for the same period of last year, mainly due to (i) the decrease of US\$152.7 million purchase of time deposits, (ii) the decrease of US\$66.7 million purchase of property, plant and equipment, (iii) the increase of US\$11.5 million government grant related to the construction of Sichuan plant, partially offset by (iv) the decrease of US\$199.4 million proceeds from maturity of time deposits, and (v) the increase of US\$12.5 million acquisition of land use right for the year ended December 31, 2015.

### Financing Activities

Net cash provided by the financing activities was US\$131.7 million for the year ended December 31, 2015, as compared to US\$99.4 million for the same period of last year, primarily as a result of (i) ) the decrease of US\$492.4 million repayments of bank borrowings, (ii) ) the decrease of US\$4.7 million issuance costs paid, partially offset by (iii) the decrease of US\$293.4 million borrowings of bank loans, (iv) the decrease of US\$148.4 million proceeds from senior notes issued, (v) the increase of US\$12.5 million of placement of restricted cash as collateral for bank borrowings, (vi) the decrease of US\$10.0 million release from restricted cash as collateral for bank borrowings, and (vii) the decrease of US\$0.6 million proceeds from exercise of Series A investor warrants.

## FY 2014 Highlights

### Operating Activities

Net cash provided by the operating activities increased by US\$33.1 million for the year ended December 31, 2014 from US\$115.6 million last year. This increase was primarily due to (i) the increase of approximately US\$234.6 million in cash collected from our customers for the year ended December 31, 2014 resulting from increasing sales during the year, partially offset by (ii) the increase of approximately US\$184.9 million in raw material purchases, and (iii) the increase of approximately US\$18.1 million interest payment in 2014 resulting from increase in short term and long-term loans.

### Investing Activities

Net cash used in the investing activities increased by US\$49.4 million for the year ended December 31, 2014 as compared to US\$249.9 million last year, mainly due to the increase of US\$166.7 million purchase of time deposits, increase of US\$1.5 million payment for land use right and increase of US\$312.6 million purchase of property, plant

and equipment, partially offset by the increase of US\$431.4 million proceeds from maturity of time deposits.

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## Financing Activities

Net cash provided by the financing activities decreased by US\$43.8 million for the year ended December 31, 2014, as compared to US\$143.2 million last year, primarily as a result of the increase of (i) US\$473.7 million repayments of bank borrowings, (ii) US\$12.4 million of placement of restricted cash as collateral for bank borrowings, (iii) US\$4.7 million payment of issuance costs related to the notes payable, and offset by (iv) the increase of US\$293.8 million proceeds from bank borrowings, (v) the increase of US\$4.3 million release of restricted cash, and (vi) the proceeds of US\$148.4 million from issuance of long-term notes payable and (vii) the proceeds from US\$0.6 million warrants exercises.

On January 24, 2014, the Company's wholly owned subsidiary, Favor Sea Limited, priced its international offering of guaranteed senior notes. The offering consists of US\$150 million aggregate principal amount of 11.75% guaranteed senior notes due 2019. The Notes have been listed and quoted on the Singapore Stock Exchange on February 5, 2014. The Company intends to use the net proceeds from the offering for repayment of indebtedness incurred by its PRC subsidiaries, for capital expenditure on a production base in Sichuan and for general corporate purposes. The Notes are guaranteed on a senior basis by China XD and Xinda Holding (HK) Company Limited, a subsidiary wholly owned by the Note Issuer. The Notes are secured by a pledge of the shares of the Note Issuer and the Subsidiary Guarantor.

## FY 2013 Highlights

### Operating Activities

Net cash provided by the operating activities increased by US\$147.1 million for the year ended December 31, 2013 from net cash used in the operating activities of US\$31.5 million used last year. This increase was primarily due to (i) the increase of approximately US\$438.7 million in cash collected from our customers for the year ended December 31, 2013 resulting from increasing sales during the period, partially offset by (ii) increase of approximately US\$289.3 million in cash operating expenditures, including approximately US\$282.5 million in raw material purchases and (iii) the increase of approximately US\$2.3 million income tax payment in 2013 resulting from increase in income before taxes and decrease of effective income tax rate.

### Investing Activities

Net cash used in the investing activities increased by US\$105.0 million for the year ended December 31, 2013 as compared to US\$144.9 million last year, mainly due to the increase of US\$85.8 million purchase of time deposits, and the decrease of US\$95.2 million proceeds from maturity of time deposits, partially offset by the decrease of US\$76.0 million purchase of property, plant and equipment.

### Financing Activities

Net cash provided by the financing activities was US\$143.2 million for the year ended December 31, 2013, as compared to US\$123.9 million last year, primarily as a result of the increase of US\$260.8 million borrowings of short-term bank loans, the release of restricted cash as collateral for bank borrowings of US\$5.7 million, which was partially offset by the increase of US\$3.4 million placement of restricted cash as collateral for bank borrowings, and the increase of US\$243.8 million repayments of bank borrowings for the year ended December 31, 2013.

As of December 31, 2015, our cash and cash equivalents balance was US\$119.9 million, compared to US\$45.5 million at December 31, 2014.





Days Sales Outstanding ("DSO") has increased from 77 days for the year ended December 31, 2014 to 78 days for the year ended December 31, 2015. DSO in the PRC was shorter than the overall level, which was negatively affected by longer DSO overseas because of prolonged cash collection from the customer in the ROK. The DSO for domestic market has decreased from 81 days for the year ended December 31, 2014 to 76 days for the year ended December 31, 2015 while the DSO for ROK customer has increased from 55 days for the year ended December 31, 2014 to 107 days for the year ended December 31, 2015. While our DSO overseas was longer than our overall level due to longer collection period from the ROK customer in 2015, we have collected all outstanding accounts receivable from the ROK customer as of December 31, 2015 and believe that our DSO in PRC is still well below industry average. Industry Standard Customer and Supplier Payment Terms (days) as below:

	Year ended December 31, 2015	Year ended December 31, 2014 and 2013
Customer Payment Term	Payment in advance/up to 90 days	Payment in advance/up to 90 days
Purchase Credit Term	Payment in advance/up to 90 days	Payment in advance/up to 60 days

Inventory turnover days has increased from 80 days for the year ended December 31, 2014 to 120 days for the year ended December 31, 2015 due to inventory of raw materials buildup in anticipation of increasing demand from our customers, especially those located in longer distance.

The Company extended its credit terms with major suppliers from 60 days in 2014 to 90 days in 2015, in order to better manage its operating cash flows. Turnover days of payables have increased from 56 days for the year ended December 31, 2014 to 90 days for the year ended December 31, 2015.

Based on past performance and current expectations, we believe our cash and cash equivalents provided by operating activities and financing activities will satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations for at least the next 12 months.

The majority of the Company's revenues and expenses were denominated primarily in Renminbi ("RMB"), the currency of the People's Republic of China. There is no assurance that exchange rates between the RMB and the U.S. Dollar will remain stable. Inflation has not had a material impact on the Company's business.

## COMMITMENTS AND CONTINGENCIES

### Contractual Obligations

Our contractual obligations as of December 31, 2015 are as follows:

Contractual obligations	Total	Payment due			More than 5 years
		less than 1 year	1 – 3 years	3-5 years	
Lease commitments	4,950,092	1,469,537	2,222,368	227,042	1,031,145
Purchase of land use rights, plant equipment, and construction in progress (3)					
(4) (5)	127,369,737	127,083,376	286,361	-	-
Long-term bank loans (1)	273,975,994	158,171,684	72,234,217	43,570,093	-
Notes payable (2)	211,687,500	17,625,000	35,250,000	158,812,500	-
Total	617,983,323	304,349,597	109,992,946	202,609,635	1,031,145

(1) Includes interest of US\$ 16.9 million accrued at the interest rate under the loan agreements. For borrowings with a floating rate, the most recent rate as of December 31, 2015 was applied.

(2) On February 4, 2014, Favor Sea (BVI), a wholly owned subsidiary of the Company, issued US\$150,000,000 aggregate principal amount of 11.75% Guaranteed Senior Notes due 2019 with issuance price of 99.080% (the "Notes"). The Notes bear interest at a rate of 11.75% per annum, payable on February 4 and August 4 of each year, commencing August 4, 2014. The Notes will mature on February 4, 2019.

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(3) On March 8, 2013, Xinda Holding (HK) entered into an investment agreement with Shunqing Government, pursuant to which Xinda Holding (HK) will invest RMB1.8 billion in property, plant and equipment and approximately RMB0.6 billion in working capital, for the construction of Sichuan plant. As of December 31, 2015, the Company has a remaining commitment of RMB137.2 million (equivalent to US\$21.1 million) mainly for facility construction, and RMB17.9 million (equivalent to US\$2.8 million) for the acquisition of equipment.

(4) On January 5, 2015, AL Composites entered into an equipment purchase contract with Peaceful Treasure Limited ("Peaceful") for a total consideration of US\$271.2 million to purchase certain production and testing equipment. As of December 31, 2015, the Company has a commitment of US\$101.2 million for the remaining equipment acquisition. On April 28, 2015, AL Composites entered into a warehouse construction contract with Falcon Red Eye Contracting Co. L.L.C. for a total consideration of AED6.7 million (equivalent to US\$1.8 million). As of December 31, 2015, the Company has a remaining commitment of US\$0.9 million.

(5) As of December 31, 2015, HLJ Xinda Group has a remaining commitment of RMB 8.9 million (equivalent to US\$ 1.4 million) for the acquisition of equipment, including 3D printer and storage racks

#### Off-Balance Sheet Arrangements

Neither us, nor any of our subsidiaries 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.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Interest Rate Risk

We are exposed to interest rate risk primarily with respect to our short-term and long-term bank loans. Although the interest rates of our short-term and long-term bank loans, which are based on the prime rates set by People's Bank of China, are fixed during the terms of the loans, increase in interest rates will increase the cost of new borrowings and our interest expense.

A hypothetical 1.0% increase in the annual interest rate for all of our credit facilities under which we had outstanding borrowings as of December 31, 2015 would decrease income before income taxes by approximately US\$5.4 million for the year ended December 31, 2015. Management monitors the banks' prime rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We have not entered into any hedging transactions in an effort to reduce our exposure to interest rate risk.

#### Foreign Currency Exchange Rates

Majority of our revenues are collected in and our expenses are paid in RMB. We face foreign currency rate translation risks when our results are translated to U.S. dollars.

The RMB was relatively stable against the U.S. dollar at approximately 8.28 RMB to the US\$1.00 until July 21, 2005 when the Chinese currency regime was altered resulting in a 2.1% revaluation versus the U.S. dollar. From July 21, 2005 to June 30, 2010, the RMB exchange rate was no longer linked to the U.S. dollar but rather to a basket of currencies with a 0.3% margin of fluctuation resulting in further appreciation of the RMB against the U.S. dollar. Since June 30, 2009, the exchange rate had remained stable at 6.8307 RMB to 1.00 U.S. dollar until June 30, 2010 when the People's Bank of China allowed a further appreciation of the RMB by 0.43% to 6.798 RMB to 1.00 U.S. dollar. The People's Bank of China allowed the RMB and U.S. dollar exchange rate to fluctuate within 1% on April 16, 2012 and 2% on March 17, 2014 respectively. On December 31, 2015, the RMB traded at 6.5060 RMB to 1.00

U.S. dollar.

There remains international pressure on the Chinese government to adopt an even more flexible currency policy and the exchange rate of RMB is subject to changes in China's government policies which are, to a large extent, dependent on the economic and political development both internationally and locally and the demand and supply of RMB in the domestic market. There can be no assurance that such exchange rate will continue to remain stable in the future amongst the volatility of currencies, globalization and the unstable economies in recent years. Since (i) our revenues and net income of our PRC operating entities are denominated in RMB, and (ii) the payment of dividends, if any, will be in U.S. dollars, any decrease in the value of RMB against U.S. dollars would adversely affect the value of the shares and dividends payable to shareholders, in U.S. dollars.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and supplementary financial information of the Company and its subsidiaries, including the notes thereto, together with the report of our independent registered public accounting firm, are presented beginning on page F-1 of this report and are incorporated into this Item 8.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Based on our assessment, the CEO and the CFO determined that, as of December 31, 2015, and as of the date that the evaluation of the effectiveness of our disclosure controls and procedures was completed, because of the material weakness in our internal control over financial reporting described below, our disclosure controls and procedures were not effective to satisfy the objectives for which they are intended.

Notwithstanding management's assessment that our internal control over financial reporting was ineffective as of December 31, 2015 due to the material weakness described below under Management's Report on Internal Control Over Financial Reporting, we believe that the consolidated financial statements included in this Annual Report on Form 10-K correctly present our financial condition, results of operations and cash flows for the fiscal years covered thereby in all material respects.

(a) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. The Company's internal control over financial reporting is a process that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that:

- (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States and that our receipts and expenditures are being made only in accordance with the authorization of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on a framework established in Internal Control- Integrated Framework (2013) issued by the committee of Sponsoring Organizations of the Treadway Commission (COSO) as of December 31, 2015. Based on such evaluation, our management, including the CEO and CFO, has concluded that the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended) as of December 31, 2015 is ineffective. This assessment identified one material weakness related to lack of sufficient accounting and financial reporting personnel to formalize certain key controls over the financial reporting process and report financial reporting information based on generally accepted accounting principles and SEC reporting requirements.

The Company's independent registered public accounting firm has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2015, as stated in their report appearing herein under Item 9A(b) of this Annual Report on Form 10-K. Our independent registered public accounting firm has issued an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2015.

Changes in Internal Control Over Financial Reporting

During the twelve months ended December 31, 2015, our efforts to improve our internal controls over financial reporting (1) external training of U.S. GAAP and SEC reporting by qualified entities to our accounting staff, (2) recruiting qualified accounting staff in AL Composites with requisite expertise and knowledge to help improve our internal control procedures, (3) adopting internal policies and approval and supervision procedures governing financial reporting, (4) adopting procedures to evaluate and assess performance of directors, officers and employees of the Company, (5) internal meetings, discussions, trainings and seminars periodically to review and improve our internal control procedures. We plan to improve on the above-referenced weakness by the end of the fiscal year ending December 31, 2016.

Other than the foregoing, there has been no other changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our fourth fiscal quarter ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial

reporting.

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(b) Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
China XD Plastics Company Limited:

We have audited China XD Plastics Company Limited's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). China XD Plastics Company Limited's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the Company's lack of sufficient accounting and financial reporting personnel has been identified and included in management's assessment. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of China XD Plastics Company Limited and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the December 31, 2015 financial statements, and this report does not affect our report dated March 15, 2016, which expressed an unqualified opinion on those consolidated financial statements.



In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, China XD Plastics Company Limited has not maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG Huazhen LLP

Beijing, China

March 15, 2016

ITEM 9B. OTHER INFORMATION

None.

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## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

## Directors and Executive Officers

The following table sets forth the names and ages of our current directors and executive officers, their age, their principal offices and positions and the date each such person became a director or executive officer. Executive officers are appointed at the discretion of the Board of Directors. Directors are elected annually by our stockholders at our annual meeting of stockholders. Each director holds his office until his successor is elected and qualified or his earlier resignation or removal.

Our current directors and executive officers are as follows:

Name	Age	Title	Date of Initial Appointment
Jie Han	50	Chief Executive Officer and Chairman of the Board of Directors	December 31, 2008
Taylor Zhang	37	Chief Financial Officer and Director	May 14, 2009
Qingwei Ma	41	Chief Operating Officer and Director	December 31, 2008
Lawrence W. Leighton (1)(2)(3)	81	Independent Director	May 14, 2009
Feng Li (1)(2)(3)	53	Independent Director	November 14, 2012
Linyuan Zhai (1)(2)(3)	66	Independent Director	May 14, 2009
Homer Sun (2)(4)	44	Independent Director	January 1, 2012
Jun Xu(4)	40	Independent Director	September 28, 2011
Junjie Ma	40	Chief Technology Officer	May 26, 2009

(1) Serves as a member of the Audit Committee.

(2) Serves as a member of the Compensation Committee.

(3) Serves as a member of the Nominating Committee.

(4) Series D Director nominee.

Jie Han. Mr. Han co-founded Harbin Xinda Macromolecule Material Co., Ltd. ("Harbin Xinda"), the Company's wholly owned subsidiary, in 2004, and has been employed by Harbin Xinda since that time. In January 2008, Mr. Han was appointed Chairman and Chief Executive Officer of Harbin Xinda. Prior to organizing Xinda High-Tech Co., Ltd ("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 29 years of experiences in the industry, Mr. Han is an expert in the management and financial aspects of the manufacture and distribution of modified plastic products. Mr. Han contributes to our Board of Directors strong leadership and vision for the development of our Company.

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. Mr. Han received a business management degree from the Heilongjiang Provincial Party School.



Taylor Zhang. Mr. Zhang has over 13 years of experience in finance and operation in a broad range of industries. From May 2008 to March 2009, Mr. Zhang served as Chief Financial Officer of Advanced Battery Technologies, Inc. From 2007 to 2008, he served as Executive Vice President of Finance of China Natural Gas, Inc.. From 2005 to 2007, Mr. Zhang worked as a research analyst in New York Private Equity. From 2000 to 2002, he was employed as Finance Manager by Datong Thermal Power Limited. Mr. Zhang contributes to our Board of Directors with extensive experience in finance and operations. He holds a MBA from University of Florida and a Bachelor's Degree in mechanical and electronic engineering from Beijing Technology and Business University.

Qingwei Ma. Mr. Ma has been employed as General Manager of Harbin Xinda since it was founded in 2004. In 2008, he was promoted to Chief Operating Officer and appointed to the Board of Directors. Prior to joining Harbin 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 17 years of experiences in the modified plastics industry and contributes to our Board of Directors with such extensive experience. 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" and 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 appointed acting Chief Technology Officer of China XD in 2009. From December 2008 to May 2009, Mr. Ma served as a member of our Board of Directors. 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 engineer 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.

Lawrence W. Leighton. Mr. Leighton has had an extensive 46-year international investment banking career. Beginning at what became Lehman Brothers, he advised on financing for the Mexican Government and leading Mexican corporations. As Director of Strategic Planning for the consumer products company, Norton Simon Inc., he initiated and executed the acquisition of Avis Rent-a-car. Subsequently, he was a Limited Partner of Bear Stearns & Co., a Managing Director of the investment bank of Chase Manhattan Bank and then President and Chief Executive Officer of the U.S. investment bank of Credit Agricole, a major French Bank. Among his transactions, Mr. Leighton has advised Pernod Ricard, a major European beverage company, on its acquisitions in the United States; and Verizon, a U. S. telecom company, on its dispositions of certain European operations. Since 2005, Mr. Leighton has served as a managing director of Bentley Associates Investment Banking. Since 2008, Mr. Leighton has served as a member of the board of directors of China Natural Gas, Inc. Mr. Leighton contributes to our Board of Directors with extensive international banking experience and corporate executive advisory experience, advising both large and small corporations in both foreign countries and the United States. Mr. Leighton received his Bachelor's Degree in engineering from Princeton University and a Master's Degree from Harvard Business School. He holds a commercial pilot's license with instrument rating.

Linyuan Zhai. Mr. Zhai, 66, worked for China FAW Group Corporation for 37 years and has and contributes to our Board of Directors with extensive experience in terms of technology, production, and business management. He is one of the pioneers and outstanding contributors of FAW Group's success. Since 2000, Mr. Zhai has served as general manager of FAW Sihuan Products Co., Ltd., an automobile manufacturing company. From August 1998 to December 2000, Mr. Zhai was the manufacturing section chief at FAW Sihuan Head Office. From August 1992 to August 1998,

Mr. Zhai was the factory manager at FAW Sihuan Auto Warm Air Blower Factory. In 2000, as deputy general manager, Mr. Zhai successfully led the initial public offering of Four Ring Company, a subsidiary of FAW Group, a leader in the vehicle manufacturing industry based in China. Mr. Zhai received his business management degree from Changchun University.

Homer Sun. Mr. Sun, 44, is the Chief Investment Officer of Morgan Stanley Private Equity Asia and leads the fund's China Investments. Mr. Sun is also a Managing Director at Morgan Stanley and has been at the Firm since 2000 and serves on Morgan Stanley's China Management Committee, which is comprised of the Morgan Stanley's senior business leaders within China. Mr. Sun currently serves as a director on the boards of several Chinese companies, including Sihuan Pharmaceuticals Group, Tianhe Chemicals Group and Nature Home. Prior to joining Morgan Stanley, Mr. Sun practiced as a mergers and acquisitions lawyer with the law firm Simpson Thacher & Bartlett in New York and Hong Kong from 1996 to 2000. Mr. Sun received a B.S.E. in Chemical Engineering magna cum laude from the University of Michigan and a J.D. cum laude from the University of Michigan Law School.

Jun Xu. Mr. Xu, 40, is a Managing Director of Morgan Stanley. Mr. Xu joined Morgan Stanley Private Equity Asia in 2008 after spending six years in investment banking advising Chinese clients on financing transactions and cross-border mergers and acquisitions. Prior to joining Morgan Stanley in 2005, he was with Goldman Sachs in Hong Kong SAR from 2002 to 2005. Mr. Xu focuses on the group's private equity transactions in China. Mr. Xu currently serves as a director on the boards of companies including Morgan Stanley (China) Private Equity Investment Management Co., Ltd., Dashenlin Medical Group Co., Ltd., Shanghai SVG Yonghui Fresh Foods Co., Ltd., Shanghai Shangshu Agr-Byproducts Co., Ltd., and Inner Mongolia Kerchin Cattle Industry Co., Ltd. Mr. Xu is a native Chinese and is based in Hong Kong SAR. Mr. Xu contributes to our Board of Directors with a broad range of transactional experience. Mr. Xu received dual Bachelor Degrees in both international trade and computer science magna cum laude from Shanghai Jiaotong University and an M.B.A. with honors from the University of Michigan.

Feng Li. Mr. Li, 53, is a deputy director at Plastics Processing R&D Center of Beijing Research Institute of the Chemical Industry, as well as a member of the Science and Technology Committee of Beijing Research Institute of the Chemical Industry. He has and contributes to our Board of Directors substantial experience in technology, production, and business management in the chemical industry. Under his leadership in various senior roles including Vice General Manager, Director, and Chief Engineer, responsible for project design, investment, management and finance, Mr. Li successfully launched and operated several joint ventures between Beijing Chemical Industry Research Institute (Group), a subsidiary of China Petroleum & Chemical Corp (Sinopec), the largest refiner in Asia, and Jiangnan Mould & Plastic Co. Ltd., Shenzhen Petrochemical and Plastics Co. Ltd., Suzhou Anli Chemical Co., Ltd., and others. Mr. Li is also on the committee of Venture Capital for Innovative Small-Medium size Enterprises under the Ministry of Science and Technology of the People's Republic of China. Mr. Li received a B.S. in polymer material from Nanjing Institute of Chemical Technology and a Master's Degree from Beijing University of Chemical Technology. Mr. Li also attended MBA program at China Sinopec Management Institute of Business Administration and studied as an exchange scholar at the University of Technology in Sydney, Australia.

#### Family Relationships

There are no family relationships between or among any of the executive officers or directors of the Company.

#### Board Leadership Structure

The Board of Directors believes that Jie Han's service as both Chairman of the Board of Directors and Chief Executive Officer is in the best interest of the Company and its stockholders. Mr. Han possesses detailed and in-depth knowledge of the issues, opportunities, and challenges facing the Company, and is thus best positioned to develop agendas that ensure that the time and attention of our Board of Directors are focused on the most critical matters. His combined role enables decisive leadership, ensures clear accountability, and enhances the Company's ability to communicate its message and strategy clearly and consistently to the Company's stockholders, employees and customers.

Each of the directors other than Jie Han, Taylor Zhang and Qingwei Ma is independent (see "Director Independence" below), and the Board of Directors believes that the independent directors provide effective oversight of management. The Board of Directors has not designated a lead director. Our independent directors call and plan their executive sessions collaboratively and, between Board of Directors meetings, communicate with management and one another directly. In the circumstances, the directors believe that formalizing in a lead director functions in which they all participate might detract from rather than enhance performance of their responsibilities as directors.

#### Director Qualifications

We seek directors with established strong professional reputations and experience in areas relevant to the strategy and operations of our businesses. We also seek directors who possess the qualities of integrity and candor, who have strong analytical skills and who are willing to engage management and each other in a constructive and collaborative fashion, in addition to the ability and commitment to devote significant time and energy to service on the Board of Directors and its committees. We believe that all of our directors meet the foregoing qualifications.

The Nominating Committee and the Board of Directors believe that the leadership skills and other experiences of the members of its Board of Directors, as described "Item 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE – Directors and Executive Officers", provide the Company with a range of perspectives and judgment necessary to guide our strategies and monitor their execution.

#### Board of Directors Practices

Our business and affairs are managed under the direction of our Board of Directors. The primary responsibilities of our Board of Directors are to provide oversight, strategic guidance, counseling and direction to our management. It is our expectation that the Board of Directors will meet regularly on a quarterly basis and additionally as required.

#### Board of Directors' Role in Risk Oversight

The Board of Directors as a whole has responsibility for risk oversight, with reviews of certain areas being conducted by the relevant Board of Directors committees. These committees then provide reports to the full Board of Directors. The oversight responsibility of the Board of Directors and its committees is enabled by management reporting processes that are designed to provide visibility to the Board of Directors about the identification, assessment, and management of critical risks. These areas of focus include strategic, operational, financial and reporting, succession and compensation, compliance, and other risks. The Board of Directors and its committees oversee risks associated with their respective areas of responsibility, as summarized below.

#### Meetings of the Board of Directors

The Board of Directors held 5 meetings during 2015. No director attended fewer than 75% of the meetings of the Board of Directors. No director attended less than 75% of any meeting of a committee of which the director was a member in fiscal year 2015.

#### Involvement in Certain Legal Proceedings

None of our directors and officers has been involved in any of the legal proceedings specified in Item 401(f) of Regulation S-K in the past 10 years.





## Committees of the Board of Directors

Our Board of Directors has an Audit Committee, a Nominating Committee, and a Compensation Committee. Our Board of Directors has determined that Lawrence W. Leighton, Feng Li, Linyuan Zhai and Homer Sun, the members of these committees, are "independent" under the current independence standards of NASDAQ Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Rule 10A-3(b)(1) under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). Our Board of Directors has also determined that these persons have no material relationships with us — either directly or as a partner, stockholder or officer of any entity — which could be inconsistent with a finding of their independence as members of our Board of Directors.

### Audit Committee

The Audit Committee was established on May 26, 2009. The Audit Committee operates under a written charter. The Audit Committee Charter can be found on our website at [www.cxdc.net](http://www.cxdc.net) and can be made available in print free of charge to any shareholder who requests it.

The Audit Committee's charter states that the responsibilities of the Audit Committee shall include, among other things:

- reviewing the Audit Committee's charter, annual report to stockholders and reports submitted to the SEC;
- appointing the Company's independent auditors, confirming and reviewing their independence, and approving their fees;
- reviewing the independent auditors' performance;
- discussing with the independent auditor and management the independent auditor's judgment about the quality, not just the acceptability, of the Company's accounting principles;
- following an audit, reviewing significant difficulties encountered during the audit; and
- reviewing significant disagreements among management and the independent auditors in the preparation of the Company's financial statements.

In addition, the Audit Committee reviews and approves all transactions with affiliates, related parties, directors and executive officers.

The Audit Committee held 5 meetings during 2015. The members of the Audit Committee during 2015 were Lawrence Leighton, Feng Li and Linyuan Zhai. Mr. Leighton served as the Chairman of the Audit Committee. Each of the above-listed Audit Committee members were or are considered "independent" under the current independence standards of NASDAQ Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, as determined by the Board of Directors.

Our Board of Directors has determined that we have at least one audit committee financial expert, as defined in the Exchange Act, serving on our Audit Committee. Lawrence Leighton is the "audit committee financial expert" and is an independent member of our Board of Directors.

## AUDIT COMMITTEE REPORT

The Audit Committee has reviewed and discussed our consolidated financial statements for the fiscal year ended December 31, 2015, including significant accounting policies applied by the Company in its consolidated financial statements, as well as alternative treatments with management and the Company's independent registered public accounting firm. The Committee has discussed with the independent registered public accounting firm all matters required by the standards of the Public Company Accounting Oversight Board (the "PCAOB"), including those described in Auditing Standard No. 16, Communications with Audit Committees.

In addition, the Committee has received the letter from the independent registered public accounting firm required by the applicable PCAOB requirements concerning auditor independence, and the Committee has discussed with the independent registered public accounting firm their independence from the Company and its management. The Committee has also considered whether the independent registered public accounting firm's provision of non-audit services to the Company could affect the accountant's independence. The Committee has concluded that the independent registered public accounting firm is independent from the Company and its management. The Committee has discussed with the Company's independent registered public accounting firm the overall scope and plans for its audit.

Based on the Audit Committee's review of the matters noted above and its discussions with our independent registered public accounting firm and our management, the Audit Committee recommended to the Board of Directors that the financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Respectfully submitted by:

Lawrence Leighton (Chair)

Feng Li

Linyuan Zhai

Nominating Committee

The Nominating Committee was established on May 26, 2009. The purpose of the Nominating Committee is to assist the Board of Directors in identifying qualified individuals to become members of the Board of Directors, in making recommendations to the Board of Directors as to the independence of each director, in monitoring significant developments in the law and practice of corporate governance and of the duties and responsibilities of directors of public companies, and in leading the Board of Directors in any annual performance self-evaluation, including establishing criteria to be used in connection with such evaluation. The Nominating Committee held 2 meeting during 2015.

The members of the Nominating Committee during 2015 were Lawrence Leighton, Feng Li and Linyuan Zhai. Mr. Zhai served as the Chairman of the Nominating Committee. Each of the above-listed Nominating Committee members is considered "independent" under the current independence standards of NASDAQ Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, as determined by the Board of Directors.

The Nominating Committee operates under a written charter. The Nominating Committee Charter can be found on our website at [www.chinaxd.net](http://www.chinaxd.net) and can be made available in print free of charge to any shareholder who requests it.



On September 28, 2011 the Company filed a Certificate of Designation with the Secretary of State of the State of Nevada (amended on January 24, 2014 and filed with the Secretary of State of the State of Nevada on January 27, 2014), which provides the holders of the Series D Preferred Stock with the right to elect up to two (2) directors to the Company's Board of Directors on the terms and conditions set forth therein. There have been no other changes to the procedures by which the stockholders of the Company may recommend nominees to the Board of Directors since the filing of the Company's Definitive Proxy Statement on November 19, 2009 for its Annual Meeting of Stockholders, which was held on December 1, 2009. The Nominating Committee will consider director candidates recommended by any reasonable source, including current Board of Directors members, stockholders, professional search firms or other persons. The directors will not evaluate candidates differently based on who has made the recommendation. The Board of Directors does not have a formal policy on Board of Directors candidate qualifications. The Board of Directors may consider those factors it deems appropriate in evaluating director nominees made either by the Board of Directors or stockholders, including judgment, skill, strength of character, experience with businesses and organizations comparable in size or scope to the Company, experience and skill relative to other Board of Directors members, and specialized knowledge or experience in business or financial matters as would make such nominee an asset to the Board of Directors and may, under certain circumstances, be required to be "independent," as such term is defined in the NASDAQ Marketplace Rules and applicable SEC regulations. Depending upon the current needs of the Board of Directors, certain factors may be weighed more or less heavily. In considering candidates for the Board of Directors, the directors evaluate the entirety of each candidate's credentials and do not have any specific minimum qualifications that must be met.

Security holders wishing to submit the name of a person as a potential nominee to the Board of Directors must send the name, address, and a brief (no more than 500 words) biographical description of such potential nominee to the Nominating Committee at the following address: Nominating Committee of the Board of Directors, c/o China XD Plastics Company Limited, 500 Fifth Ave Suite 960, New York, NY 10110. Potential director nominees will be evaluated by personal interview, such interview to be conducted by one or more members of the Nominating Committee, and/or any other method the Nominating Committee deems appropriate, which may, but need not, include a questionnaire. The Nominating Committee may solicit or receive information concerning potential nominees from any source it deems appropriate. The Nominating Committee need not engage in an evaluation process unless (i) there is a vacancy on the Board of Directors, (ii) a director is not standing for re-election, or (iii) the Nominating Committee does not intend to recommend the nomination of a sitting director for re-election. A potential director nominee recommended by a security holder will not be evaluated any differently than any other potential nominee. Although it has not done so in the past, the Nominating Committee may retain search firms to assist in identifying suitable director candidates.

#### Compensation Committee

The Compensation Committee was established on May 26, 2009. The members of the Compensation Committee during 2013 were Lawrence Leighton, Feng Li, Homer Sun and Linyuan Zhai. Mr. Li served as the Chairman of the Compensation Committee.

Each of these members were or are considered "independent" under the current independence standards of NASDAQ Marketplace Rule 4200(a)(15) and meet the criteria for independence set forth in Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended, as determined by the Board of Directors. The Compensation Committee operates under a written charter. The Compensation Committee Charter can be found on our website at [www.chinaxd.net](http://www.chinaxd.net) and can be made available in print free of charge to any shareholder who requests it.

The Compensation Committee discharges the Board of Directors' responsibilities relating to compensation of the Company's executive officers and administers our 2009 Stock Incentive Plan. The Committee has overall responsibility for approving and evaluating the executive officer compensation plans, policies and programs of the

Company. The Compensation Committee held three meeting during 2015.

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## Code of Business Conduct

We have adopted a code of business conduct that applies to our directors, officers and employees. A written copy of the code can be found on our website at [www.chinaxd.net](http://www.chinaxd.net) and can be made available in print to any shareholder upon request at no charge by writing to our Secretary, c/o China XD Plastics Company Limited, 500 Fifth Ave Suite 960, New York, NY 10110. Our code of business conduct is intended to be a codification of the business and ethical principles which guide us, and to deter wrongdoing, to promote honest and ethical conduct, to avoid conflicts of interest, and to foster full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations and accountability for adherence to the code.

## Executive Sessions

Under NASDAQ Marketplace Rule 5605(b)(2), our independent directors are required to hold regular executive sessions. The chairperson of the executive session will rotate at each session so that each non-management director shall have an opportunity to serve as chairperson. Interested parties may communicate directly with the presiding director of the executive session or with the non-management directors as a group, by directing such written communication to Mr. Lawrence Leighton at c/o China XD Plastics Company Limited, 500 Fifth Ave Suite 960, New York, NY 10110.

## Process for Sending Communications to the Board of Directors

The Board of Directors maintains a process for stockholders to communicate with the Board of Directors. Stockholders wishing to communicate with the Board of Directors or any individual director may send an email through our website at [www.chinaxd.net](http://www.chinaxd.net) or mail a communication addressed to the Secretary of the Company, c/o China XD Plastics Company Limited, 500 Fifth Ave Suite 960, New York, NY 10110. Any such communication must state the number of shares of common stock beneficially owned by the stockholder making the communication. All of such communications will be forwarded to the full Board of Directors or to any individual director or directors to whom communication is directed unless the communication is clearly of a marketing nature or is inappropriate, in which case we have the authority to discard the communication or take appropriate legal action regarding the communication.

## Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires the executive officers and directors of the Company and every person who is directly or indirectly the beneficial owner of more than 10% of any class of security of the Company to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Such persons also are required to furnish our company with copies of all Section 16(a) forms they file. Based solely on our review of copies of such forms received by us, we believe that during the fiscal year 2015, all of the executive officers and directors of the Company and every person who is directly or indirectly the beneficial owner of more than 10% of any class of security of the Company complied with the filing requirements of Section 16(a) of the Exchange Act.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

The following is a discussion and analysis of our named executive officer compensation program for the year ended December 31, 2015 detailing what we pay to our named executive officers and how our compensation objectives and policies help achieve our business objectives.

#### Overview of Compensation Program

Our Compensation Committee has responsibility for establishing, implementing and monitoring adherence to our compensation philosophy and objectives. Our Compensation Committee is responsible for ensuring that the total compensation paid to our executive officers is fair, reasonable and competitive. Our compensation decisions with respect to executive officer salaries, annual incentives and long-term incentive opportunities are influenced by (a) the officer's level of responsibility and function; (b) our overall financial performance and, in some cases, the officer's business unit; and (c) our assessment of the competitive marketplace, including other peer companies.

#### Compensation Philosophy and Objectives

All of our compensation programs, including our executive compensation programs, are designed to attract and retain key employees in the highly competitive modified plastic marketplace in China. Our executive compensation programs are also designed to motivate our executives to achieve and reward them for superior performance in attaining corporate and individual objectives that create stockholder value. Different programs, including both cash and stock-based compensation, are geared towards short-term and long-term performance, respectively, with the goal of aligning employee interests with stockholder interests and increasing stockholder value over the long term. Executive compensation programs impact all employees by setting general levels of compensation and creating an environment of goals, reward and expectations. Finally, we endeavor to ensure that our compensation programs are viewed as fundamentally fair to our stockholders.

#### Compensation Programs and Process

##### Elements of Compensation

Elements of compensation for our named executive officers include base salary, non-equity incentive compensation, equity incentive awards, pension plan, health, disability and life insurance and certain other perquisites. We use salary as the base amount necessary to match our competitors for executive talent. We utilize cash incentive payments to reward performance achievements over the course of a one-year horizon and we use equity incentive awards to reward long-term performance, with excellent corporate performance and extended tenure producing potentially significant value for our named executive officers. We believe that this combination of programs provides an appropriate mix of fixed and variable pay, balances short-term operational performance with long-term stockholder value, and encourages executive recruitment and retention.

##### Compensation Process

Our Compensation Committee is responsible for establishing, implementing and monitoring the compensation of our named executive officers. When making compensation decisions, our Compensation Committee analyzes the dollar amount of each component of the executive officer's compensation, including current cash compensation (base salary and non-equity plan incentive compensation), long-term equity incentive program compensation, and any other compensation.





Except as set forth below, our Compensation Committee has not adopted any formal or informal policies or guidelines for allocating compensation between long-term and currently paid out compensation, or between cash and non-cash compensation. However, our philosophy is to pay our executive officers competitive levels of compensation that best reflect their individual responsibilities and contributions to us.

We choose to pay each element of compensation in order to attract and retain necessary talent, reward annual performance (on an individual, business unit and enterprise-wide basis) and provide incentives for achieving long-term strategic goals as well as short-term objectives. The amount of each element of compensation is determined by our Compensation Committee in consultation with our CEO with respect to the other named executive officers, and, with respect to the CEO, by our Compensation Committee. Compensation decisions for all named executive officers take into account the following factors:

- Performance against corporate and individual objectives for the previous year;
- Value of skills and capabilities to support our long-term performance;
- Performance of general management responsibilities; and
- Contribution as a member of our executive management team.

#### Base Salary

Base salary levels for our named executive officers are intended to compensate executives competitively within the modified plastic marketplace in China. Base salary rewards core competence in an executive role relative to an officer's skills, experience and contributions to our business. Base salaries are determined on an individual basis by evaluating each executive officer's scope of responsibility, past performance, and data on prevailing compensation levels in an appropriate market comparison group.

#### 2009 Stock Option / Stock Issuance Plan

On May 26, 2009, we adopted our 2009 Stock Option / Stock Issuance Plan, supplemented by "Stock Award Grant Supplemental Provisions" in July 2013 (the "Plan"), under which 7,800,000 shares of common stock are reserved for issuance. The Plan provides for the grant of the following types of incentive awards: (i) stock options and (ii) stock issuances. Each of these is referred to individually as an "Award." Those who are eligible for Awards under the Plan include employees, directors and independent contractors who provide services to the Company and/or its affiliates.

#### Number of Shares of Common Stock Available Under the Plan

The Board of Directors has reserved 7,800,000 shares of the common stock for issuance under the Plan. As of December 31, 2015, 3,789,376 stock awards and 670,500 stock options have been granted under the Plan. Currently, approximately 105 employees and directors are eligible to participate in the Plan.

If the Company declares a dividend or other distribution or engages in a recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Company's

common stock, the Board of Directors will adjust the number and class of shares that may be delivered under the Plan, the number, class, and price of shares covered by each outstanding Award, and the numerical per-person limits on Awards.

Shares of common stock subject to outstanding options shall be available for subsequent issuance under the Plan to the extent (1) the options expire or terminate for any reason prior to exercise in full or (2) the options are cancelled in accordance with the Plan. Unvested shares issued under the Plan and subsequently repurchased by the Company, at a price per share not greater than the option exercise or direct issue price paid per share, pursuant to the Company's repurchase rights under the Plan shall be added back to the number of shares of common stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent option grants or direct stock issuances under the Plan.

#### Administration of the Plan

The Board of Directors administers the Plan. However, any or all administrative functions otherwise exercisable by the Board of Directors may be delegated to a committee of the Board of Directors (the "Committee"). Members of the Committee serve for such period of time as the Board of Directors may determine and shall be subject to removal by the Board of Directors at any time. The Board of Directors may also at any time terminate the functions of the Committee and reassume all powers and authority previously delegated to the Committee. Subject to the terms of the Plan, the Board of Directors has the sole discretion to select the employees, independent contractors, and directors who will receive Awards, determine the terms and conditions of Awards, and to interpret the provisions of the Plan and outstanding Awards.

#### Options

The Board of Directors is able to grant nonqualified stock options and incentive stock options under the Plan. The Board of Directors determines the number of shares subject to each option. Incentive options may only be granted to employees. The aggregate fair market value of the shares of common stock for which one or more options granted to any employee under the Plan may for the first time become exercisable as incentive options during one calendar year may not exceed \$100,000.

The Board of Directors determines the exercise price of options granted under the Plan, provided the exercise price (i) of incentive stock options must be at least equal to the fair market value of the common stock on the date of grant and (ii) of non-statutory stock options must be at least equal to 85% of the fair market value of the common stock on the date of grant. In addition, the exercise price of an incentive stock option granted to any participant who owns more than 10% of the total voting power of all classes of the Company's outstanding stock must be at least 110% of the fair market value of the common stock on the grant date.

The term of an option may not exceed ten years, except incentive stock options granted to an employee who is a 10% stockholder may not exceed five years.

Unless otherwise determined by the Board of Directors, after a termination of service with the Company, a participant will be able to exercise the vested portion of his or her option for (i) 90 days following his or her termination (or within such other period of time as may be specified by the Company, but in any event no later than the date of expiration of the option term) for reasons other than death, disability or misconduct, (ii) one year following his or her termination (or within such other period of time as may be specified by the Company, but in any event no later than the date of expiration of the option term) due to death or disability. Unless otherwise determined by the Board of Directors, if a participant ceases to be employed by the Company on the account of (i) termination by the Company for defined misconduct, any option held by the participant shall (A) terminate on the date on which the participant ceases to be employed by, or provide service to, the Company, or the date on which such option would otherwise expire, if earlier.

The administrator of the Plan shall have the discretion to grant options that are exercisable for unvested shares. Should the optionee's service cease while the shares issued upon the early exercise of the optionee's option are still unvested,

the Company shall have the right to repurchase any or all of the unvested shares in accordance with the Plan.

## Stock Issuance

The Board of Directors may transfer shares of Company stock to a Plan participant pursuant to a stock issuance, either through the immediate purchase of such shares or as a bonus for services rendered the Company. Stock issuances will vest in accordance with the terms and conditions established by the Board of Directors in its sole discretion. The Board of Directors will determine the number of shares granted pursuant to an Award of stock. Vesting conditions on stock issuances granted to non-officer employees may not be more restrictive than 20% per year vesting, with the initial vesting to occur no later than one year after the shares are issued.

The Board of Directors shall fix the purchase price per share of stock issuance. Shares issued to 10% stockholders must not have a purchase price per share less than 100% of the fair market value per share of common stock on the date of issuance. Shares issued to other Plan participants shall not be less than 85% of the fair market value per share of common stock on the date of issuance.

The participant shall have full stockholder rights with respect to any shares of common stock issued to the participant under the Plan, whether or not the participant's interest in those shares is vested. Accordingly, the participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

Should the participant cease to remain in service while holding one or more unvested shares issued under the Plan or should the performance objectives not be attained with respect to one or more such unvested shares, then the Company has the right to repurchase the unvested shares at the lower of (a) the purchase price paid per share or by the participants (b) the fair market value per share on the date participant's service ceased or the performance objective was not attained. The terms upon which such repurchase right shall be exercisable shall be established by the Board of Directors and set forth in the document evidencing such repurchase right.

The Board of Directors may in its discretion waive the surrender and cancellation of one or more unvested shares (or other assets attributable thereto) which would otherwise occur upon the non-completion of the vesting schedule applicable to those shares. Such waiver shall result in the immediate vesting of the participant's interest in the shares of common stock as to which the waiver applies. Such waiver may be effectuated at any time, whether before or after the Participant's service ceases or he or she attains the applicable performance objectives.

## Transferability of Awards

Except as described below, Stock Option Awards granted under the Plan are generally not transferable, and all rights with respect to a Stock Option Award granted to a participant generally will be available during a participant's lifetime only to the participant. A participant may not transfer those rights except by will or by the laws of descent and distribution. Participant may transfer non-statutory stock options to family members, or one or more trusts or other entities for the benefit of or owned by family members or to a transferee's former spouse, consistent with applicable securities laws, provided that the participant receives no consideration for the transfer of an option and the transferred option shall continue to be subject to the same terms and conditions as were applicable to the option immediately before the transfer.

The Company has the right of first refusal with respect to any proposed disposition by an optionee or a participant of any shares of common stock issued under the Plan. Such right of first refusal shall be exercisable and lapse in accordance with the terms established by the Board of Directors and set forth in the document evidencing such right.

## Change of Control

In the event of a change of control, each outstanding option which is at the time outstanding will automatically become fully vested and exercisable and be released from any restrictions on transfer and repurchase or forfeiture rights, and the restrictions and conditions on all outstanding stock issuances will lapse immediately prior to the specified effective date of such change of control, for all of the shares at the time represented by such option or stock issuance. An outstanding option shall not fully vest and be exercisable and released from such limitations and a stock issuance will not be released from such restrictions and restrictions on stock issuances if and to the extent: (i) such option or stock issuance is, in connection with the change in control, either to be assumed by the successor corporation or parent thereof or to be replaced with a comparable option, stock appreciation right or stock issuance with respect to shares of the capital stock of the successor corporation or parent thereof, or (ii) such option or stock issuance is to be replaced with a cash incentive program of the successor corporation or parent thereof which preserves the compensation element of such option or stock issuance existing at the time of the change in control and provides for subsequent payout in accordance with the same vesting schedule applicable to such option or stock issuance. The determination of option or stock issuance comparability under clause (i) above shall be made by the Board of Directors.

Effective upon the consummation of the change of control, all outstanding options or stock issuances under the Plan will terminate and cease to remain outstanding, except to the extent assumed by the successor company or its parent.

## Amendment and Termination of the Plan

The Board of Directors has the authority to amend, alter, suspend or terminate the Plan, except that shareholder approval will be required for any amendment to the Plan to the extent required by any applicable laws. No amendment, alteration, suspension or termination of the Plan will impair the rights of any participant, unless mutually agreed otherwise between the participant and the Board of Directors and which agreement must be in writing and signed by the participant and the Company. The Plan will terminate on May 26, 2019, unless the Board of Directors terminates it earlier or it is extended by the Company with the approval of the shareholders.

Although there may be adverse accounting consequences to doing so, options may be granted and shares may be issued under the Plan which are in each instance in excess of the number of shares of common stock then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained stockholder approval of an amendment sufficiently increasing the number of shares of common stock available for issuance under the Plan. If such stockholder approval is not obtained within twelve months after the date the first such excess grants or issuances are made, then (1) any unexercised options granted on the basis of such excess shares shall terminate and (2) the Company shall promptly refund to the optionees and the participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled.

In 2015, pursuant to the Company's 2010 Executive Compensation Program which sets forth cash and stock compensation of the Company's executives and directors, including the Company's named executive officers, the executive officers are entitled to receive compensation as follows:

Compensation for Mr. Jie Han, the Company's Chief Executive Officer: For fiscal year 2015, Mr. Han is entitled to a base salary of \$40,659 (RMB 256,000) per month from January to December. In addition, Mr. Han may receive a discretionary bonus as determined by the Compensation Committee of the Board of Directors at the end of the fiscal year.



Compensation for Mr. Taylor Zhang, the Company's Chief Financial Officer: For fiscal year 2015, Mr. Zhang is entitled to a monthly base salary of \$18,060. On August 7, 2010, Mr. Zhang received options to purchase up to 100,000 shares of the Company's common stock at the exercise price of \$8.01 per shares and 14,000 non-vested shares under our 2009 Stock Option / Stock Issuance Plan. One-third of the stock options shall vest on each anniversary of the grant date over a three-year period. The non-vested shares will vest on the third anniversary of the grant date. Mr. Zhang didn't exercise the options, which expired in 2013. On August 7, 2013, August 7, 2014 and August 8, 2015, Mr. Zhang received 14,000, 17,220 and 20,440 non-vested shares, respectively, under our 2009 Stock Option/Stock Issuance Plan. The restricted shares shall vest on the third anniversary of the grant date. In addition, Mr. Zhang may receive a discretionary bonus as determined by the Compensation Committee of the Board of Directors at the end of the fiscal year.

Compensation for Mr. Qingwei Ma, the Company's Chief Operating Officer: For fiscal year 2015, Mr. Ma is entitled to a base salary of \$17,947 (RMB 113,000) per month from January to December. On August 7, 2010, Mr. Ma was granted options to purchase up to 75,000 shares of the Company's common stock at the exercise price of \$8.01 per share and 12,000 non-vested shares under our 2009 Stock Option / Stock Issuance Plan. One-third of the stock options shall vest on each anniversary of the grant date over a three-year period. The non-vested shares will vest on the third anniversary of the grant date. Mr. Ma didn't exercise the options, which expired in 2013. On August 7, 2013, August 7, 2014 and on August 7, 2015, Mr. Ma received 14,000, 17,220 and 20,440 non-vested shares, respectively, under our 2009 Stock Option/Stock Issuance Plan. The restricted shares shall vest on the third anniversary of the grant date. In addition, Mr. Ma may receive a discretionary bonus as determined by the Compensation Committee of the Board of Directors at the end of the fiscal year.

Compensation for Mr. Junjie Ma, the Company's Chief Technology Officer: For fiscal year 2015, Mr. Ma is entitled to a base salary of \$7,782 (RMB49,000) per month from January to December. On August 7, 2010, Mr. Ma was granted options to purchase up to 25,000 shares of the Company's common stock at the exercise price of \$8.01 per share and 8,000 non-vested shares under our 2009 Stock Option / Stock Issuance Plan. One-third of the stock options shall vest on each anniversary of the grant date over a three-year period. The non-vested shares will vest on the third anniversary of the grant date. Mr. Ma didn't exercise the options, which expired in 2013. On August 7, 2013, August 7, 2014 and on August 7, 2015, Mr. Ma received 13,530, 16,060 and 18,590 non-vested shares, respectively, under our 2009 Stock Option/Stock Issuance Plan. The restricted shares shall vest on the third anniversary of the grant date. In addition, Mr. Ma may receive a discretionary bonus as determined by the Compensation Committee of the Board of Directors at the end of the fiscal year.

#### COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis contained in this filing on Form 10-K with management. Based on the Compensation Committee's review of and the discussions with management with respect to the Compensation Discussion and Analysis, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for filing with the SEC.

Respectfully submitted,

COMPENSATION COMMITTEE

Lawrence W. Leighton  
Feng Li  
Linyuan Zhai  
Homer Sun





The following table is a summary of the compensation paid to our executive officers for the two years ended December 31, 2015, 2014 and 2013.

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Jie Han, CEO	2015	487,913	-	-	-	-	-	-	487,913
	2014	456,729	498,604	-	-	-	-	-	955,333
	2013	282,762	-	-	-	-	-	-	282,762
Qingwei Ma, COO	2015	268,858	-	122,844	-	-	-	-	391,702
	2014	259,284	166,867	73,076	-	-	-	-	499,227
	2013	198,990	-	67,536	11,149	-	-	-	277,675
Taylor Zhang, CFO and Secretary to the Board of Directors	2015	216,720	-	122,844	-	-	-	-	339,564
	2014	211,414	-	73,076	-	-	-	-	284,490
	2013	143,316	44,088	64,920	14,865	-	-	-	267,189
Junjie Ma, CTO	2015	128,948	-	111,726	-	-	-	-	240,674
	2014	117,334	41,137	62,787	-	-	-	-	221,258
	2013	138,711	-	50,664	-	-	-	-	189,375
Rujun Dai General Manager of HLJ Xinda Group	2015	55,464	-	60,040	-	-	-	-	115,504
	2014	35,257	10,812	-	-	-	-	-	46,069
	2013	30,495	-	-	-	-	-	-	30,495

(1) Stock and option awards represent the amount of stock compensation expense recognized in 2015, 2014 and 2013 in accordance with FASB ASC 718.

The following is a summary of all options, unvested stock and equity incentive plans for our executive officers for the year ended December 31, 2015.

## GRANTS OF PLAN-BASED AWARDS

Name	Grant Date (Grant Date) (1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan (2)			All Other Stocks Awards: Number of Shares of Stock or Units	All Other Exercise Options Awards: Number of Underlying Options Award	Fair Value of Stock and Option Awards
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)			
Jie Han, CEO		-	-	-	-	-	-	-	-	-
Taylor Zhang, CFO and Secretary to the Board of Directors	August 7, 2015	-	-	-	-	-	-	20,440	-	122,844
Qingwei Ma, COO	August 7, 2015	-	-	-	-	-	-	20,440	-	122,844
Junjie Ma, CTO	August 7, 2015	-	-	-	-	-	-	18,590	-	111,726
Rujun Dai General manager of HLJ Xinda Group		-	-	-	-	-	-	9,990	-	60,040

(1) The "Grant Approval Date" is the date on which our Board of Directors approved the grant.

(2) The Company's equity incentive plan does not provide for thresholds or maximums; the amounts listed represent the actual awards to the named executive officers for fiscal 2014.

(3) These awards represent restricted stock units granted to the individual pursuant to the Company's 2009 Stock Option / Stock Issuance Plan, as amended, for services rendered to the Company. The Shares shall vest on the date that is three years after August 7, 2014, the date on which our Board of Directors approved such grant. No purchase price was paid for these awards.

## OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Option Awards					Stock Awards	
	Number of securities underlying unexercisable options (#)	Number of securities underlying exercisable options (#)	Number of securities underlying unexercisable options (#)	Option exercise price (\$)	Option expiration date	Number of shares or units of stock that have not vested (#)	Market value of stock or units of stock that have not vested (\$)
Jie Han, CEO	-	-	-	-	-	-	-
Taylor Zhang, CFO and Secretary to the Board of Directors	-	-	-	-	-	51,660	271,491
Qingwei Ma, COO	-	-	-	-	-	51,660	271,491
Junjie Ma, CTO	-	-	-	-	-	48,180	252,403
Rujun Dai, General Manager of HLJ Xinda Group	-	-	-	-	-	18,910	102,510

## Options Exercised and Stock Vested

The following table shows stock option exercises by the named executive officers during the last fiscal year, including the aggregate value realized upon exercise. This represents the excess of the fair market value, at the time of exercise, of the common stock acquired at exercise over the exercise price of the options. In addition, the table shows the number of shares of restricted stock held by the named executive officers that vested during the last fiscal year, including the aggregate value realized upon vesting.

## Option Exercises and Stock Vested—Fiscal 2015

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Jie Han	-	-	-	-
Qingwei Ma	-	-	-	-
Taylor Zhang	-	-	-	-
Junjie Ma	-	-	-	-
Rujun Dai	-	-	-	-

## Pension Benefits

The following table shows the actuarial present value of the pension benefit for the named executive officers as of December 31, 2015.

#### Pension Benefits—Fiscal 2015

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Fiscal 2015 (\$)
Jie Han	-	-	-	-
Qingwei Ma	-	-	-	-
Taylor Zhang	-	-	-	-
Junjie Ma	-	-	-	-
Rujun Dai	-	-	-	-

#### Employment Agreements

All of our officers have entered into employment agreements with the Company.

On December 31, 2011, Jie Han and China XD's subsidiary, HLJ Xinda Group, entered into an employment agreement and an employment memorandum, pursuant to which Mr. Han received a monthly salary of RMB256,000 (approximately US\$40,659) from January to December for 2015. Also, Mr. Han will receive an annual bonus of RMB 3,072,000 (approximately US\$487,913), which amount is subject to the Company's achievement of the corresponding year's performance goals. The calculation of the annual performance-based salary is based on a method set forth in HLJ Xinda Group's compensation management policy. The term of employment is five years beginning on January 1, 2012. The employer and employee may reach consent and terminate Mr. Han's employment with HLJ Xinda Group, and HLJ Xinda Group may have the right to unilaterally terminate Mr. Han's employment prior to the expiration of the employment term under certain circumstances, with a one-month prior notice.

On December 31, 2011, Taylor Zhang and HLJ Xinda Group entered into an employment agreement and an employment memorandum, pursuant to which Mr. Zhang received a monthly salary of US\$18,060 and awards of shares of China XD's common stock and options to purchase shares of China XD's common stock, as determined by the Compensation Committee of the Board of Directors. The term of employment is five years beginning on January 1, 2012. The employer and employee may reach consent to terminate Mr. Zhang's employment with HLJ Xinda Group at any time and HLJ Xinda Group has the right to unilaterally terminate Mr. Zhang's employment prior to the expiration of the employment term under certain circumstances, with a one-month prior notice. The employment agreement entered into between Mr. Zhang and Favor Sea (US) Inc., a China XD's subsidiary, on May 1, 2009 was terminated by a termination agreement executed by and among Mr. Zhang, Favor Sea (US) Inc. and HLJ Xinda Group on December 31, 2011.

On December 31, 2011, Qingwei Ma and HLJ Xinda Group entered into an employment agreement and an employment memorandum, pursuant to which Mr. Ma received a monthly salary of RMB113,000 (approximately US\$17,947 from January to December 2015). Also, Mr. Ma will receive a performance based bonus of RMB2,382,000 (approximately US\$378,323), which amounts are subject to the Company's achievement of the corresponding year's performance goals. The calculation of the annual performance-based salary is based on a method set forth in the HLJ Xinda Group's compensation management policy. The term of employment is five years beginning on January 1, 2012. The employer and employee may reach consent to terminate Mr. Ma's employment with HLJ Xinda Group at any time and HLJ Xinda Group has the right to unilaterally terminate Mr. Ma's employment prior to the expiration of the employment term under certain circumstances, with a one-month prior notice. That employment agreement entered into between Mr. Ma and Harbin Xinda on January 1, 2010 was terminated by a termination agreement executed by and among Mr. Ma, Harbin Xinda and HLJ Xinda Group on December 31, 2011.

On December 31, 2011, Junjie Ma and HLJ Xinda Group entered into an employment agreement and an employment memorandum, pursuant to which Mr. Ma received a monthly salary of \$7,782 (RMB49,000) per month from January to December, 2015. In addition, Mr. Ma will receive a performance based bonus of RMB963,000 (approximately US\$152,949), which amounts are subject to the Company's achievement of the corresponding year's performance goals. The calculation of the annual performance-based salary is based on a method set forth in the HLJ Xinda Group's compensation management policy. The term of employment is five years beginning on January 1, 2012. The employer and employee may reach consent to terminate Mr. Ma's employment with HLJ Xinda Group at any time and HLJ Xinda Group has the right to unilaterally terminate Mr. Ma's employment prior to the expiration of the employment term under certain circumstances, with a one-month prior notice.

On December 31, 2011, Rujun Dai and HLJ Xinda Group entered into an employment agreement and an employment memorandum, pursuant to which Mr. Dai received a monthly salary of \$3,335 (RMB21,000) per month from January to December, 2015. In addition, Mr. Dai will receive a performance based bonus of RMB417,000 (approximately US\$66,230), which amounts are subject to the Company's achievement of the corresponding year's performance goals. The calculation of the annual performance-based salary is based on a method set forth in the HLJ Xinda Group's compensation management policy. The term of employment is three years beginning on January 1, 2014. The employer and employee may reach consent to terminate Mr. Dai's employment with HLJ Xinda Group at any time and HLJ Xinda Group has the right to unilaterally terminate Mr. Dai's employment prior to the expiration of the employment term under certain circumstances, with a one-month prior notice.

#### Potential Payments Upon Termination or Change in Control

We may be required to make severance payments upon termination of employment pursuant to the laws of the PRC and other applicable jurisdictions. Under the PRC Labor Contract Law, if an employment is terminated prior to the expiration of the employment term, unless the termination resulted from such employee's certain fault, the employer shall pay a severance compensation for termination at an amount that is usually the average monthly salary of the 12-month period prior to termination multiplied by the number of years for which the terminated employee worked at the Company, subject to certain adjustment and restrictions if such employee's base salary is sufficiently higher than that of the average in the municipal region. In addition, in the event that the employer terminates the employment in violation of the PRC Labor Contract Law, the applicable severance compensation for termination should be two times the aforementioned amount. Furthermore, certain non-compete payment obligation may also apply upon termination of an employment, which payment amount pursuant to the Company's standard non-compete agreement, if so entered into with the said employee, is one third the monthly base salary prior to the termination of such employee per month for 24 months following the termination.

#### Director Compensation

On December 30, 2009, our Board of Directors approved 2010 Executive Compensation Program, which sets forth cash and stock compensation of the Company's executives and directors. Under the 2010 Executive Compensation Program, the Company's employee directors receive no additional compensation for their services to the Company as directors, including the Chairman of the Board of Directors. In addition, for fiscal year 2014, all non-employee directors who reside in China received an annual cash compensation of RMB60,000 (approximately \$9,530) after the first 18 months of continuous directorship and RMB36,000 (approximately \$5,718) during the initial 18 months directorship and Lawrence Leighton, the non-employee director who resides outside of China, received annual cash compensation of \$60,000. In addition, each non-employee director other than the two directors appointed by the Series D Preferred Stockholder is entitled to an annual stock award equal to a number of shares of the Company's common stock valued at \$50,000 for those who reside outside of China, RMB50,000 (approximately \$7,941) for Mr. Zhai , who resides in China, based on the market value of the common stock at the time of the stock award and such stock award shall vest six months after the grant date. Mr. Li will be eligible for an annual stock award equal to a number of shares of the Company's common stock valued at RMB50,000 (approximately \$7,941) after 18 months of continuous directorship. During the year ended December 31, 2015, the Company issued this stock award of 10,907 for the service rendered during the year ended December 31, 2014. The Company also accrued and recorded the stock award for the service rendered during the year ended December 31, 2015 as share base compensation expense. The Company has repurchase rights on the unvested shares of the stock award.

The following is a summary of the compensation paid to our non-employee directors for the year ended December 31, 2015. Our employee directors do not receive compensation for their services to the Company as directors.

#### DIRECTOR COMPENSATION

Name (1) (2)	Fees earned or paid in cash (\$)	Stock awards (\$)	Option awards (\$)	Non-equity incentive plan compensation (\$)	Nonqualified deferred compensation earnings (\$)	All other compensation (\$)	Total (\$)
Lawrence Leighton	60,000	50,000	-	-	-	-	110,000
Feng Li	9,530	7,941	-	-	-	-	17,471
Linyuan Zhai	9,530	7,941	-	-	-	-	17,471

Jie Han, Taylor Zhang and Qingwei Ma are not included in this table as they are our executive officers and thus (1) received no compensation for their services as a director. For disclosure related to the compensation of Jie Han,

Taylor Zhang and Qingwei Ma as an executive officer, see the "Summary Compensation Table" above.

(2) Homer Sun and Jun Xu are not included in this table as they receive no compensation for serving on our Board.

#### Service Agreements

On November 14, 2010, the Company entered into a Service Agreement with Lawrence W. Leighton. Pursuant to the terms of the Service Agreement, the Company shall (i) pay Mr. Leighton a fee of \$5,000 per month (\$60,000 annually); and (ii) award to Mr. Leighton under the Company's 2009 Equity Incentive Plan and pursuant to the terms of a restricted stock award agreement \$50,000 in restricted shares of common stock of the Company on an annual basis (the "Stock"), which shall vest in accordance with the terms of the restricted stock award agreement. The Stock shall be valued at the average closing price for the ten trading days prior to November 4, 2010, the date of the execution of the Service Agreement, and prior to each anniversary thereof. The Stock shall vest after six months of each year subject to Mr. Leighton's continued directorship with the Company, pursuant to such vesting schedule set forth in the restricted stock award agreement.

On November 14, 2010, the Company entered into a Service Agreement with Linyuan Zhai. Pursuant to the terms of the Service Agreement, the Company shall (i) pay Mr. Zhai a fee of RMB5,000 per month (RMB60,000 annually); and (ii) award to Mr. Zhai under the Company's 2009 Equity Incentive Plan and pursuant to the terms of a restricted stock award agreement RMB50,000 in restricted shares of common stock of the Company on an annual basis (the "Stock"), which shall vest in accordance with the terms of the restricted stock award agreement. The Stock shall be valued at the average closing price for the ten trading days prior to November 14, 2010, the date of the execution of the Service Agreement, and prior to each anniversary thereof. The Stock shall vest after twelve months of each year subject to Mr. Zhai's continued directorship with the Company, pursuant to such vesting schedule set forth in the restricted stock award agreement.

On November 14, 2012, the Company entered into a Service Agreement with Feng Li. Pursuant to the terms of the Service Agreement, the Company shall (i) pay Mr. Li a fee of RMB3,000 per month (RMB36,000 annually) for 18 months, and then RMB5,000 per month (RMB60,000 annually) starting from May 14, 2014; and (ii) award to Mr. Li under the Company's 2009 Equity Incentive Plan and pursuant to the terms of a restricted stock award agreement RMB50,000 in restricted shares of common stock of the Company on an annual basis (the "Stock"), which shall vest in accordance with the terms of the restricted stock award agreement. The Stock shall be valued at the average closing price for the ten trading days prior to May 14, 2014, the date of the execution of the Service Agreement, and prior to each anniversary thereof. The Stock shall vest after twelve months of each year subject to Mr. Li's continued



directorship with the Company, pursuant to such vesting schedule set forth in the restricted stock award agreement.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal year 2015, none of the members of our Compensation Committee was our current or former officer or employee.

No member of our Compensation Committee has had any relationship with us requiring disclosure under Item 404 of Regulation S-K under the Exchange Act. No member of our Compensation Committee during 2014 was an officer of China XD or any of our subsidiaries.

None of our executive officers has served as a director or member of the compensation committee (or other committee serving an equivalent function) of any other organization whose executive officer served as a member of our Board or Compensation Committee.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

## Securities Authorized for Issuance under Equity Compensation Plans

The Company adopted the 2009 Stock Option / Stock Issuance Plan (the "Plan") on May 26, 2009, which reserved 7,800,000 shares of common stock for issuance under the Plan. The Plan allows the Company to issue awards of stock options and stock issuances to directors, officers, employees and consultants of the Company, which may be subject to restrictions.

The following table provides certain information with respect to the Company's Plan in effect as of December 31, 2015.

Plan category	Number of securities to be issued upon exercise of outstanding options and unvested shares (a)	Weighted-average exercise price of outstanding options and unvested options (b)	Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
Equity compensation plan approved by security holders – 2009 Stock Option / Stock Issuance Plan	1,136,727	0.24	3,340,124
Total	1,136,727	0.24	3,340,124

(a) All securities are unvested shares.

(b) Shares issued to employees are subject to a three-year vesting schedule.

As of December 31, 2015, the number of securities remaining available for future issuance under equity compensation plans was 3,340,124 shares.

## Security Ownership Of Certain Beneficial Owners and Management

The following table sets forth certain information, as of December 31, 2015, with respect to the beneficial ownership of the outstanding share capital of our Company by (i) any holder of more than five percent (5%) of any class of our voting securities; (ii) each of our executive officers and directors; and (iii) our directors and executive officers as a group. Except as otherwise indicated, each of the stockholders listed below has sole voting and investment power over the shares beneficially owned.

Name and Address	Title of Class	Amount and Nature of Beneficial Ownership (1)	Percent of Class (2)
Jie Han (address: c/o China XD Plastics Company Limited, 500 5th Avenue, Suite 960, New York, New York 10110)	Series B Preferred Stock	1,000,000 (3)	100.0 %
Jie Han	Common Stock	32,510,131 (3)	65.9 %
Qingwei Ma (address: c/o China XD Plastics Company Limited, 500 5th Avenue, Suite 960, New York, New York 10110)	Common Stock	91,660	*
Junjie Ma (address: c/o China XD Plastics Company Limited, 500 5th Avenue, Suite 960, New York, New York 10110)	Common Stock	78,180	*
Taylor Zhang (address: c/o China XD Plastics Company Limited, 500 5th Avenue, Suite 960, New York, New York 10110)	Common Stock	93,660	*
Lawrence W. Leighton (address: c/o China XD Plastics Company Limited, 500 5th Avenue, Suite 960, New York, New York 10110)	Common Stock	71,730	*
Linyuan Zhai (address: c/o China XD Plastics Company Limited, 500 5th Avenue, Suite 960, New York, New York 10110)	Common Stock	10,879	*
Feng Li (address: c/o China XD Plastics Company Limited, 500 5th Avenue, Suite 960, New York, New York 10110)	Common Stock	10,440	*
XD. Engineering Plastics Company Limited (address: Palm Grove House, P.O. Box 438, Road Town, Tortola, British Virgin Islands)	Series B Preferred Stock	1,000,000 (3)	100.0 %
XD. Engineering Plastics Company Limited	Common Stock	24,382,598 (3)	49.4 %
MSPEA Modified Plastics Holding Limited (address: c/o Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands)	Series D Preferred Stock	16,000,000 (4)	100.0 %
Total Ownership of Common Stock by All Directors and Executive Officers as a Group		32,827,333	74.8 %

\* Less than 1%



The amount of beneficial ownership includes the number of shares of common stock and/or Series B Preferred Stock and/or Series D Preferred Stock, plus, in the case of each of the executive officer and directors and all officers and directors as a group, all shares issuable upon the exercise of the options held by them, which were (1) exercisable as of March 13, 2014 or within 60 days thereafter. Pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended, and the rules promulgated by the SEC, every person who has or shares the power to vote or to dispose of shares of common stock are deemed to be the "beneficial owner" of all the shares of common stock over which any such sole or shared power exists.

- (2) Based upon 49,323,284 shares of Common Stock outstanding, 1,000,000 shares of Series B Preferred Stock outstanding and 16,000,000 shares of Series D Preferred Stock outstanding as of December 31, 2015 Mr. Jie Han beneficially owns (i) 32,510,131 shares of Common Stock, representing 66.1% of our total outstanding Common Stock, which includes 8,127,533 shares of Common Stock directly held by Mr. Jie Han and 24,382,598 (3) shares of Common Stock beneficially owned by Mr. Jie Han through his sole ownership of XD Engineering Plastics, and (ii) 1,000,000 shares of Series B Preferred Stock through his sole ownership of XD Engineering Plastics, representing 100% of our total outstanding Series B Preferred Stock.
- (4) MSPEA Modified Plastics Holding Limited owns 16,000,000 shares of Series D Preferred Stock, representing 100% of our total outstanding Series D Preferred Stock.

#### Changes in Control

There were no arrangements, known to the Company, including any pledge by any person of securities of the Company the operation of which may at a subsequent date result in a change in control of the Company.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

##### Related Party Transactions

Other than as described below, there have been no other transactions since January 1, 2013, or any currently proposed transaction, or series of similar transactions, to which the Company was or is to be a party, in which the amount involved exceeds \$120,000 and in which any current or former director of officer of the Company, any 5% or greater shareholder of the Company or any member of the immediate family of any such persons had, or will have, a direct or indirect material interest other than as disclosed below.

During the years presented, the Company entered into related party transactions with (i) Xinda High-Tech, an entity controlled by the wife of Mr. Han, the chief executive officer and controlling stockholder of the Company, Ms. Limei Sun, and (ii) Mr. Han's son, Mr. Tiexin Han.

The Company rents the following plant and office buildings in Harbin, Heilongjiang province from Xinda High-Tech.

Premise Leased	Area (M <sup>2</sup> )	Annual Rental Fee (US\$)	Period of Lease
Office building	23,894	758,983	Between January 1, 2014 and December 31, 2018

The Company rents the following facilities in Harbin, Heilongjiang province from Mr. Tiexin Han:

Premise Leased	Area (M <sup>2</sup> )	Annual Rental Fee (US\$)	Period of Lease
Facility	3,134	11,912	Between January 1, 2015 and September 30, 2015
Facility	200	6,353	Between August 17, 2014 and August 16, 2016

Total rental expenses paid or payable to Xinda High-Tech amounted to US\$758,983, US\$775,189 and US\$785,449 during the years ended December 31, 2015, 2014 and 2013, respectively. Total rental expenses paid or payable to Mr. Tiexin Han amounted to US\$18,265, US\$16,271 and US\$16,266 during the years ended December 31, 2015, 2014 and 2013, respectively.

It is our policy that we will not enter into any related party transactions unless the Audit Committee or another independent body of the Board of Directors first reviews and approves such transaction over US\$120,000.

#### Director Independence

A majority of the directors serving on our Board of Directors must be independent directors under Rule 5605(b)(1) of the Marketplace Rules of The NASDAQ Stock Market ("NASDAQ"). The Board of Directors has a responsibility to make an affirmative determination whether a directors has a material relationships with the listed company through the application of Rule 5605(a)(2) of the Marketplace Rules of NASDAQ, which provides the definition of an independent director.

The Board of Directors has determined that each of the directors, except Jie Han, Taylor Zhang and Qingwei Ma, has no relationship that, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and is an "independent director" as defined in the Marketplace Rules of NASDAQ. In determining the independence of our directors, the Board of Directors has adopted independence standards that follow the criteria specified by applicable laws and regulations of the SEC and the Marketplace Rules of NASDAQ. In determining the independence of our directors, the Board of Directors considered all transactions in which the Company and any director had any interest, including those discussed under "Certain Relationships and Related Transactions" above.

Based on the application of the independence standards and the examination of all of the relevant facts and circumstances, the Board of Directors determined that none of the following directors had any material relationship with the Company and, thus, are independent under Rule 5605(a)(2) of the Marketplace Rules of NASDAQ: Lawrence W. Leighton, Feng Li, Linyuan Zhai, Homer Sun and Jun Xu. In accordance with the Marketplace Rules of NASDAQ, a majority of our Board of Directors is independent.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Our independent accountants for the audit of our annual financial statements for the year ended December 31, 2015 was KPMG Huazhen LLP (formerly known as KPMG Huazhen (SGP)). Our independent accountants for the audit of our annual financial statements for the year ended December 31, 2014 was KPMG. The following table shows the fees paid and to be paid by us to our independent accountants.

	2015	2014
Audit Fees	\$ 1,335,421	\$ 1,298,175
Audit-Related Fees	41,594	44,674
Tax Fees	62,284	20,769
All Other Fees	-	-
Total paid to independent public audit firms	\$ 1,439,299	\$ 1,363,618

## Audit Fees

Audit fees were paid for professional services rendered for the audit of our annual financial statements and the review of our quarterly financial statements and statutory audits. We paid or accrued expenses of US\$1,335,421 and US\$1,298,175 related to audits of our annual financial statements, reviews of our quarterly financial statements and statutory audits for the years ended December 31, 2015 and 2014, respectively.

## Audit-Related Fees

Fees for audit-related services were US\$41,594 and US\$44,674, respectively, for the years ended December 31, 2015 and 2014, for assistance in documenting internal control policies and procedures over financial reporting.

## Tax Fees

During the years ended December 31, 2015 and 2014, we paid or accrued expense of US\$62,284 and US\$20,769, respectively for professional services relating to evaluate potential restructuring, statutory tax filing and transfer pricing.

## Pre-Approval Policies and Procedures

The Audit Committee appoints the independent auditor each year and approves the audit, audit related and permissible non-audit services and fees proposed by the independent auditor. All services described under the caption services and fees of independent auditors were approved.



PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following are filed with this Annual Report:

(1) The financial statements listed on the Financial Statements Table of Contents.

(2) Not applicable.

(3) The exhibits referred to below, which include the following management contracts or compensatory plans or arrangements:

Service Agreement effective as of November 14, 2010 between China XD Plastics Company Limited and Linyuan Zhai

Service Agreement effective as of November 14, 2010 between China XD Plastics Company Limited and Lawrence W. Leighton

Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Jie Han

Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Jie Han

Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Qingwei Ma

Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Qingwei Ma

Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Taylor Zhang

Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Taylor Zhang

Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Junjie Ma

Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Junjie Ma

Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co., Ltd and Kenan Gong

Service Agreement dated November 14, 2012 between China XD Plastics Company Limited and Feng Li

(b) The exhibits listed on the Exhibit Index are filed as part of this Annual Report.

(c) Not applicable.

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EXHIBIT INDEX

Exhibit No.	Description of Exhibit	Incorporated by Reference Herein from the Following Filing
3.1	Articles of Incorporation	Filed as an exhibit to the Company's registration statement on Form SB-2, as filed with the Securities and Exchange Commission on May 12, 2006.
3.2	Amendment to Articles of Incorporation	Filed as Appendix I of Company's definitive information statement on Schedule 14C, as filed with the Securities and Exchange Commission on March 12, 2009.
3.3	Bylaws	Filed as an exhibit to the Company's registration statement on Form SB-2, as filed with the Securities and Exchange Commission on May 12, 2006.
3.4	Form of Second Amendment to Articles of Incorporation of the Company	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.
3.5	Second Amended and Restated Bylaws	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on November 8, 2011.
3.6	Forms of Certificates of Correction	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.
4.1	Specimen Stock Certificate	Filed as an exhibit to the Company's registration statement on Form SB-2, as filed with the Securities and Exchange Commission on May 12, 2006.
4.2	Certificate of Designation of Series A Convertible Preferred Stock	Filed as an exhibit to the Company's definitive information statement on Schedule 14C, as filed with the Securities and Exchange Commission on March 12, 2009.
4.3	Certificate of Designation of Series B Preferred Stock	Filed as an exhibit to the Company's definitive information statement on Schedule 14C, as filed with the Securities and Exchange Commission on March 12, 2009.
4.4	Form of Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on November 30, 2009.
4.5	Form of Series A Warrant to Purchase Common Stock	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on November 30, 2009.

4.6	Form of Series B Warrant to Purchase Common Stock	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on November 30, 2009.
4.7	Form of indenture with respect to senior debt securities, to be entered into between registrant and a trustee acceptable to the registrant, if any	Filed as an exhibit to the Company's registration statement on Form S-3, as amended, as filed with the Securities and Exchange Commission on June 10, 2010.
4.8	Form of indenture with respect to subordinated debt securities, to be entered into between registrant and a trustee acceptable to the registrant, if any	Filed as an exhibit to the Company's registration statement on Form S-3, as amended, as filed with the Securities and Exchange Commission on June 10, 2010.
4.9	Form of Common Stock Purchase Warrant	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on October 6, 2010.
4.10	Registration Rights Agreement entered into by and between the Company and MSPEA Modified Plastics Holding Limited on August 15, 2011	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.
4.11	Form of Certificate of Designation, Preferences and Rights of Series D Junior Convertible Preferred Stock	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.
4.12	Form of Amended and Restated Certificate of Designation, Preferences and Rights of Series D Junior Convertible Preferred Stock	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on January 28, 2014.
4.13	Purchase Agreement entered into by and among the Company, Favor Sea (BVI), Xinda Holding (HK), Morgan Stanley & Co. International PLC, UBS AG, Hong Kong Branch, the HongKong and Shanghai Banking Corporation Limited and China Minsheng Banking Corp., Ltd. Hong Kong Branch on January 24, 2014	Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2014.

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|-------|---|--|
| 4.14  | Indenture, dated February 4, 2014, constituting US\$150 million 11.75% Guaranteed Senior Notes Due 2019   | Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2014.                     |
| 10.1  | 2009 Stock Option/Stock Issuance Plan   | Filed as an appendix to the Company's definitive proxy statement on Schedule 14A, as filed with the Securities and Exchange Commission on November 11, 2009. |
| 10.2  | District Entry Agreement and Memorandum dated April 14, 2010 by and between Harbin Xinda Macromolecule Material Co., Ltd. and Harbin Economic and Technological Development Zone Administration | Filed as an exhibit to the Company's quarterly report on Form 10-Q, as filed with the Securities and Exchange Commission on August 9, 2010.                  |
| 10.3  | Letter Agreement, dated October 4, 2010, between China XD Plastics Company Limited and Rodman & Renshaw, LLC  | Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on October 6, 2010.                    |
| 10.4  | Securities Purchase Agreement dated October 4, 2010, among China XD Plastics Company Limited and certain institutional investors  | Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on October 6, 2010.                    |
| 10.5  | Amendment Agreement, dated as of September 30, 2010, to the Securities Purchase Agreement dated November 27, 2009 among China XD Plastics Company Limited and the purchasers named therein      | Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on October 6, 2010.                    |
| 10.6  | Service Agreement effective as of October 4, 2010 between China XD Plastics Company Limited and Robert Brisotti   | Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on October 7, 2010.                    |
| 10.7  | Service Agreement dated November 14, 2010 between China XD Plastics Company Limited and Linyuan Zhai *  | Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.                     |
| 10.8  | Service Agreement dated November 14, 2010 between China XD Plastics Company Limited and Lawrence Leighton   | Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.                     |
| 10.9  | Stock Award Grant Supplemental Provisions   | Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.                     |
| 10.10 | Securities Purchase Agreement entered into by and between the Company, MSPEA Modified Plastics Holding Limited, XD. Engineering Plastics Company Limited, and Mr. Jie Han on August 15, 2011    | Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.                    |
| 10.11 | Stockholders' Agreement entered into by and between MSPEA Modified Plastics Holding Limited, XD. Engineering Plastics Company Limited, and Mr. Jie Han on August 15, 2011                       | Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.                    |
| 10.12 | Form of Pledge Agreement by and between MSPEA Modified Plastics Holding Limited and XD. Engineering Plastics Company Limited  | Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.                    |

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- 10.13 Form of Indemnification Agreement  
 Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.
- 10.14 Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Jie Han \*  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.15 Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Jie Han  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.16 Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Qingwei Ma \*  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.17 Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Qingwei Ma  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.18 Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Taylor Zhang \*  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.19 Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Taylor Zhang  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.20 Employment Agreement dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Junjie Ma \*  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.21 Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Junjie Ma  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 10.22 Employment Memorandum dated December 31, 2011 between Heilongjiang Xinda Enterprise Group Co. Ltd and Kenan Gong \*  
 Filed herewith
- 10.23 Service Agreement dated November 14, 2012 between China XD Plastics Company Limited and Feng Li \*  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 25, 2013.
- 10.24 English translation of the Equity Transfer and Merger Agreement dated March 6, 2015 entered into by Xinda (Heilongjiang) Investment Co., Ltd., Sichuan Xinda and Nanchong Xinda Composite Material Co., Ltd.  
 Filed as an exhibit to the Company's quarterly report on Form 10-Q, as filed with the Securities and Exchange Commission on August 6, 2015.
- 14.1 Code of Business Conduct  
 Filed as an exhibit to the Company's annual report on Form 10-K, as filed with the Securities and Exchange Commission on March 26, 2012.
- 16.1

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	Letter, dated December 31, 2008, from Robison, Hill & Co. to the Securities and Exchange Commission	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on December 31, 2008, and incorporated herein by this reference.
16.2	Letter, dated November 4, 2009 from Bagell Josephs Levine & Company, LLC, to the Securities and Exchange Commission	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on November 6, 2009.
16.3	Letter, dated August 15, 2011, from Moore Stephens Hong Kong, to the Securities and Exchange Commission	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on August 15, 2011.
16.4	Letter of KPMG dated May 8, 2015 to the Securities and Exchange Commission	Filed as an exhibit to the Company's current report on Form 8-K, as filed with the Securities and Exchange Commission on May 8, 2015.
21.1	Subsidiaries of Registrant	Filed herewith
23.1	Consent of KPMG Huazhen LLP	Filed herewith
31.1	Certification of Principal Executive Officer Required Under Section 302 of Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Principal Financial Officer Required Under Section 302 of Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of Principal Executive Officer and Principal Financial Officer Required Under Section 906 of Sarbanes-Oxley Act of 2002	Filed herewith
101.	Interactive Data Files	Filed herewith

\* English translation

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 15, 2016

CHINA XD PLASTICS  
COMPANY LIMITED

By: /s/ Jie Han  
Jie Han  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Taylor Zhang  
Taylor Zhang  
Chief Financial Officer  
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Jie Han Jie Han	Chairman and Chief Executive Officer (Principal Executive Officer)	March 15, 2016
/s/ Taylor Zhang Taylor Zhang	Chief Financial Officer (Principal Financial and Accounting Officer)	March 15, 2016
/s/ Qingwei Ma Qingwei Ma	Director	March 15, 2016
/s/ Lawrence Leighton Lawrence Leighton	Director	March 15, 2016
/s/ Feng Li Feng Li	Director	March 15, 2016
/s/ Linyuan Zhai Linyuan Zhai	Director	March 15, 2016
/s/ Homer Sun Homer Sun	Director	March 15, 2016



/s/ Jun Xu  
Jun Xu

Director

March 15, 2016

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FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
China XD Plastics Company Limited:

We have audited the accompanying consolidated balance sheets of China XD Plastics Company Limited and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 China XD Plastics Company Limited and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), China XD Plastics Company Limited's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2016 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG Huazhen LLP

Beijing, China  
March 15, 2016

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	December 31, 2015 US\$	2014 US\$
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	119,928,485	45,456,612
Restricted cash	50,852,327	12,545,772
Time deposits	237,626,806	238,532,702
Accounts receivable, net of allowance for doubtful accounts	234,542,739	203,998,138
Amounts due from a related party	244,836	220,262
Inventories	294,665,195	249,797,244
Prepaid expenses and other current assets	15,675,848	11,253,828
Total current assets	953,536,236	761,804,558
Property, plant and equipment, net	571,746,507	318,324,600
Land use rights, net	24,506,837	11,896,542
Prepayments to equipment and construction suppliers	183,226,006	182,259,578
Other non-current assets	18,966,622	21,256,332
Total assets	1,751,982,208	1,295,541,610
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCKS AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Short-term bank loans, including current portion of long-term bank loans	284,339,089	99,735,422
Bills payable	33,522,287	43,389,928
Accounts payable	257,417,000	152,073,014
Amounts due to a related party	8,439	-
Income taxes payable	6,881,946	3,269,115
Accrued expenses and other current liabilities	140,988,712	24,484,583
Total current liabilities	723,157,473	322,952,062
Long-term bank loans, excluding current portion	107,481,709	174,274,446
Notes payable	145,634,996	144,373,645
Deferred income	62,039,050	-
Other non-current liabilities	38,046,917	30,977,376
Total liabilities	1,076,360,145	672,577,529
Redeemable Series D convertible preferred stock (redemption amount of US\$184,461,800 and US\$160,401,600 as of December 31, 2015 and 2014, respectively)	97,576,465	97,576,465
Stockholders' equity:		
Series B preferred stock	100	100
Common stock, US\$0.0001 par value, 500,000,000 shares authorized, 49,344,284 shares and 49,172,796 shares issued, 49,323,284 shares and 49,151,796 shares outstanding as of December 31, 2015 and 2014, respectively	4,933	4,916
Treasury stock, 21,000 shares at cost	(92,694	) (92,694
Additional paid-in capital	81,919,932	80,875,787
Retained earnings	515,555,985	431,823,706

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Accumulated other comprehensive income (loss)	(19,342,658 )	12,775,801
Total stockholders' equity	578,045,598	525,387,616
Commitments and contingencies		
Total liabilities, redeemable convertible preferred stocks and stockholders' equity	1,751,982,208	1,295,541,610

See accompanying notes to consolidated financial statements.

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CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2015 US\$	2014 US\$	2013 US\$
Revenues	999,192,894	1,110,685,692	1,050,816,364
Cost of revenues	(817,811,445)	(888,227,868 )	(827,419,861 )
Gross profit	181,381,449	222,457,824	223,396,503
Selling expenses	(1,458,658 )	(728,232 )	(243,975 )
General and administrative expenses	(23,816,148 )	(20,564,820 )	(16,284,528 )
Research and development expenses	(21,061,345 )	(29,434,680 )	(21,258,549 )
Total operating expenses	(46,336,151 )	(50,727,732 )	(37,787,052 )
Operating income	135,045,298	171,730,092	185,609,451
Interest income	8,221,532	10,984,980	6,788,243
Interest expense	(42,704,097 )	(41,518,878 )	(15,250,780 )
Foreign currency exchange gains (losses)	(2,237,541 )	(1,938,807 )	2,519,486
Gains (losses) on foreign currency forward contracts	653,569	(1,067,162 )	-
Loss on change in fair value of warrants liability	-	(1,871,074 )	(54,651 )
Government grant	2,991,493	2,723,495	924,216
Total non-operating expenses, net	(33,075,044 )	(32,687,446 )	(5,073,486 )
Income before income taxes	101,970,254	139,042,646	180,535,965
Income tax expense	(18,237,975 )	(18,266,277 )	(46,697,120 )
Net income	83,732,279	120,776,369	133,838,845
Earnings per common stock:			
Basic and diluted	1.27	1.85	2.08
Net Income	83,732,279	120,776,369	133,838,845
Other comprehensive income (loss)			
Foreign currency translation adjustment, net of nil income taxes	(32,118,459 )	(12,268,113 )	10,385,656
Comprehensive income	51,613,820	108,508,256	144,224,501

See accompanying notes to consolidated financial statements.

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Series B Preferred Stock		Common Stock			Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Number of Shares	Amount US\$	Number of Shares	Amount US\$	Amount US\$	Amount US\$	Amount US\$	Amount US\$	Amount US\$	
Balance at January 1, 2013	1,000,000	100	47,563,772	4,758	(92,694)	72,583,910	177,208,492	14,658,258	264,362,824	
Net income	-	-	-	-	-	-	133,838,845	-	133,838,845	
Other comprehensive income - Foreign currency translation adjustment, net of nil income taxes	-	-	-	-	-	-	-	10,385,656	10,385,656	
Stock based compensation	-	-	-	-	-	3,757,780	-	-	3,757,780	
Vesting of unvested shares	-	-	311,361	31	-	(31 )	-	-	-	
Balance as of December 31, 2013	1,000,000	100	47,875,133	4,789	(92,694)	76,341,659	311,047,337	25,043,914	412,345,105	
Net income	-	-	-	-	-	-	120,776,369	-	120,776,369	
Other comprehensive loss - Foreign currency translation adjustment, net of nil income taxes	-	-	-	-	-	-	-	(12,268,113)	(12,268,113)	
Stock based compensation	-	-	-	-	-	1,003,040	-	-	1,003,040	
Exercise of Series A investor warrants	-	-	602,458	60	-	3,531,155	-	-	3,531,215	
Vesting of unvested shares	-	-	674,205	67	-	(67 )	-	-	-	
Balance as of December 31, 2014	1,000,000	100	49,151,796	4,916	(92,694)	80,875,787	431,823,706	12,775,801	525,387,616	
Net income	-	-	-	-	-	-	83,732,279	-	83,732,279	

Other comprehensive loss-Foreign currency translation adjustment, net of nil income taxes	-	-	-	-	-	-	-	(32,118,459)	(32,118,459)
Stock based compensation	-	-	-	-	-	1,044,162	-		1,044,162
Vesting of unvested shares	-	-	171,488	17	-	(17 )	-	-	-
Balance as of December 31, 2015	1,000,000	100	49,323,284	4,933	(92,694)	81,919,932	515,555,985	(19,342,658)	578,045,598

See accompanying notes to consolidated financial statements.



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

	Years Ended December 31,		
	2015 US\$	2014 US\$	2013 US\$
Cash flows from operating activities:			
Net income	83,732,279	120,776,369	133,838,845
Adjustments to reconcile net income to net cash provided by operating activities:			
Net reversal for doubtful accounts	(69,281 )	(35,849 )	(2,293 )
Depreciation and amortization	27,540,212	22,916,893	21,420,723
Stock-based compensation	1,044,162	1,003,040	3,757,780
Loss on change in fair value of warrants liability	-	1,871,074	54,651
Amortization of discount and issuance cost of the Notes	1,086,010	898,634	-
Loss on change in fair value of forward contract	-	2,435	-
Foreign currency exchange losses (gains)	2,720,131	2,051,596	(2,519,486 )
Losses on disposals of property, plant and equipment	9,036	10,292	4,817
Deferred income tax benefit	(2,380,236 )	(2,018,757 )	(1,880,228 )
Change in operating assets and liabilities:			
Restricted cash	4,011,349	(6,427,562 )	6,082,662
Accounts receivable	(40,614,289 )	72,318,976	(132,230,006)
Amounts due from a related party	(35,937 )	-	6,534
Inventories	(58,103,919 )	(109,198,972)	(63,358,285 )
Prepaid expenses and other current assets	(4,542,796 )	(3,719,794 )	(2,134,119 )
Other non-current assets	(371,872 )	-	1,435
Bills payable	(8,119,365 )	18,538,133	15,676,880
Accounts payable	116,133,982	32,823,457	113,429,086
Amounts due to a related party	8,167	-	-
Income taxes payable	3,889,710	(8,996,712 )	17,835,057
Accrued expenses and other current liabilities	86,963,823	5,935,116	5,662,472
Deferred income	3,371,249	-	-
Other non-current liabilities	11,098,323	-	-
Net cash provided by operating activities	227,370,738	148,748,369	115,646,525
Cash flows from investing activities:			
Purchase of time deposits	(474,254,312)	(626,994,741)	(460,292,902)
Proceeds from maturity of time deposits	463,771,799	663,216,581	231,849,776
Purchases of and deposits for property, plant and equipment	(267,427,681)	(334,092,742)	(21,461,391 )
Purchase of land use rights	(13,931,804 )	(1,460,754 )	-
Government grant related to the construction of Sichuan plant	11,499,000	-	-
Net cash used in investing activities	(280,342,998)	(299,331,656)	(249,904,517)
Cash flows from financing activities:			
Proceeds from bank borrowings	504,218,741	797,615,642	503,843,151
Repayment of bank borrowings	(339,528,477)	(831,932,534)	(358,190,868)
Proceeds from Senior Notes Payable	-	148,396,175	-
Payment of issuance costs of the Notes	-	(4,718,452 )	-
Proceeds from exercise of Series A investor warrants	-	596,740	-
Proceeds from early exercise of options	121,725	-	-
Release of restricted cash as collateral for bank borrowings	-	10,022,398	5,733,852

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Placement of restricted cash as collateral for bank borrowings	(33,077,094 )	(20,612,868 )	(8,173,789 )
Net cash provided by financing activities	131,734,895	99,367,101	143,212,346
Effect of foreign currency exchange rate changes on cash and cash equivalents	(4,290,762 )	1,126,894	2,768,948
Net increase (decrease) in cash and cash equivalents	74,471,873	(50,089,292 )	11,723,302
Cash and cash equivalents at beginning of year	45,456,612	95,545,904	83,822,602
Cash and cash equivalents at end of year	119,928,485	45,456,612	95,545,904
Supplemental disclosure of cash flow information:			
Interest paid, net of RMB 231,356, RMB 113,317 and nil capitalized for the years ended December 31, 2015, 2014 and 2013, respectively	40,136,978	33,537,952	15,413,648
Income taxes paid	8,982,167	29,288,894	30,742,291
Non-cash investing and financing activities:			
Government grant related to construction in the form of repayment of bank loans on behalf of the Company by the government (note 13)	38,118,231	-	-
Government grant related to the construction of Sichuan plant in the form of restricted cash (note 13)	11,117,817	-	-
Accrual for purchase of equipment	41,251,663	-	21,398,595
Accrual for issuance cost of the Notes	-	202,712	-

See accompanying notes to consolidated financial statements.

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## Note 1 – Description of business and significant concentrations and risks

China XD Plastics Company Limited ("China XD") is a holding company that is incorporated in Nevada of the United States of America. China XD and its subsidiaries (collectively referred to hereinafter as the "Company"), is primarily engaged in the research and development, production and sales of modified and engineering plastics products. The plastics products, which are manufactured by the Company, are primarily for use in the fabrication of automobile parts and components and secondarily for applications in high-speed railway, airplanes and ships and consist of the following major products categories: Polypropylene ("PP"), Acrylonitrile Butadiene Styrene ("ABS"), Polyamid6 ("PA6"), Polyamid66 ("PA66"), Polyformaldehyde ("POM"), Polyphenylene Oxide ("PPO"), Plastic Alloy, Polyphenylene Sulfide ("PPS"), Poly Imide ("PI"), Polylactide Acid ("PLA") and Poly Ether Ether Ketone ("PEEK").

The Company's operations are primarily conducted through its subsidiaries in the People's Republic of China ("PRC") and Dubai, United Arab Emirates ("UAE"). The Company's other subsidiaries in the US, the British Virgin Islands ("BVI") and Hong Kong Special Administrative Region ("SAR"), do not have significant operations.

## Sales concentration

The Company sells its products primarily through approved distributors in the PRC. To a lesser extent, the Company also sells its products to an overseas customer in the Republic of Korea (the "ROK"). The Company's sales are highly concentrated. Sales to distributors and the end customer in the ROK, which individually exceeded 10% of the Company's revenues, for the years ended December 31, 2015, 2014 and 2013, are as follows:

(in millions, except percentage)	Years Ended December 31,					
	2015		2014		2013	
	US\$	%	US\$	%	US\$	%
Distributor A, located in PRC	192.0	19.2 %	176.6	15.9 %	209.4	19.9 %
Distributor B, located in PRC	155.3	15.5 %	136.4	12.3 %	250.7	23.9 %
Distributor C, located in PRC	127.3	12.7 %	138.5	12.5 %	63.8	6.1 %
Distributor D, located in PRC	112.1	11.2 %	134.0	12.1 %	136.0	12.9 %
Distributor E, located in PRC	106.5	10.7 %	98.0	8.8 %	38.8	3.7 %
Distributor F, located in PRC	81.8	8.2 %	139.8	12.6 %	138.1	13.1 %
Direct Customer G, located in the ROK	71.6	7.2 %	140.1	12.6 %	-	-
Total	846.6	84.7 %	963.4	86.7 %	836.8	79.6 %

The Company expects revenues from these distributors and the customer to continue to represent a substantial portion of its revenue in the future. Any factors adversely affecting the automobile industry in the PRC, electronic application industry in the ROK or the business operations of these customers will have a material effect on the Company's business, financial position and results of operations.

## Purchase concentration of raw materials and equipment

The principal raw materials used for the Company's production of modified plastics products are plastic resins, such as polypropylene, ABS and nylon. The Company purchases substantially all of its raw materials through a limited number of distributors. Raw material purchases from these distributors, which individually exceeded 10% of the Company's total raw material purchases, accounted for approximately 80.0% (seven distributors), 88.3% (eight distributors), 65.5% (three distributors), of the Company's total raw material purchases for the years ended December 31, 2015, 2014 and 2013, respectively. Management believes that other suppliers could provide similar raw materials on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which would adversely affect the Company's business, financial position and results of operations.

The Company purchased equipment from two equipment distributors, which accounted for 99.8%, 99.6% and 34.6% of the Company's total equipment purchases for the years ended December 31, 2015, 2014 and 2013, respectively. Management believes that other suppliers could provide similar equipment on comparable terms. A change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which could adversely affect the Company's business, financial position and results of operations. The majority owner of one of the major equipment distributors that supplied approximately 84.8%, 1.9% and 34.6% of the Company's total equipment purchases, is also the majority owner of a major raw material supplier that supplied approximately nil, 0.4% and 13.2% of the Company's total raw material purchases for the years ended December 31, 2015, 2014 and 2013, respectively. In addition, the majority owner of the equipment distributor is also the majority owner of sales Distributor D presented above.

## Cash concentration

Cash and cash equivalents, restricted cash, time deposits and other non-current assets mentioned below maintained at banks consist of the following:

	December 31, 2015 US\$	December 31, 2014 US\$
RMB denominated bank deposits with:		
Financial Institutions in the PRC	417,430,412	311,377,750
Financial Institutions in Hong Kong Special Administrative Region ("Hong Kong SAR")	13,778	2,617
Financial Institution in Dubai, United Arab Emirates ("UAE")	3,023	170
U.S. dollar denominated bank deposits with:		
Financial Institution in the U.S.	226,010	770,704
Financial Institutions in the PRC	17,109	17,139
Financial Institution in Hong Kong SAR	63,854	1,366,224
Financial Institution in Macau Special Administrative Region ("Macau SAR")	37,120	47,868
Financial Institution in Dubai, UAE	7,474,960	481,179
Euro denominated bank deposits with:		
Financial institution in Hong Kong SAR	-	83,017
Financial institution in Dubai, UAE	3,011	3,355
HK dollar denominated bank deposits with:		
Financial institution in Hong Kong SAR	336	581
Dirham denominated bank deposits with:		
Financial institution in Dubai, UAE	37,278	112,815

The bank deposits with financial institutions in the PRC are insured by the government authority up to RMB500,000. The bank deposits with financial institutions in the HK SAR are insured by the government authority up to HK\$500,000. The bank deposits with financial institutions in the Macau SAR are insured by the government authority up to MOP\$500,000. The bank deposits with financial institutions in UAE are not insured by any government authority. To limit exposure to credit risk, the Company primarily places bank deposits with large financial institutions in the PRC, HK SAR, Macau SAR and Dubai, UAE with acceptable credit rating.

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Note 2 – Summary of significant accounting policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(b) Consolidation

The accompanying consolidated financial statements include the financial statements of China XD and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

(c) Use of Estimates

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the recoverability of the carrying amounts of property, plant and equipment, the realizability of inventories, the useful lives of property, plant and equipment, the collectability of accounts receivable, the fair values of stock-based compensation awards and the accruals for tax uncertainties and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(d) Foreign Currency

The Company's reporting currency is the U.S. dollar (US\$). The functional currency of China XD Plastics and its subsidiaries in the United States, BVI, Hong Kong and Dubai, UAE is the US\$. The functional currency of China XD's subsidiaries in the PRC is Renminbi (RMB).

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the applicable exchange rates at the balance sheet date. The resulting exchange differences are recorded in foreign currency exchange gains (losses) in the consolidated statements of comprehensive income.

Assets and liabilities of subsidiaries with functional currencies other than US\$ are translated into US\$ using the exchange rate on the balance sheet date. Revenues and expenses are translated into US\$ at average rates prevailing during the reporting period. The differences resulting from such translation are recorded as a separate component of accumulated other comprehensive income (loss) within stockholders' equity.

Since the RMB is not a fully convertible currency, all foreign exchange transactions involving RMB must take place either through the People's Bank of China or other institutions authorized to buy and sell foreign exchange.

(e) Cash and cash equivalents, time deposits and restricted cash

Cash and cash equivalents consists of cash on hand, cash in bank and interest-bearing certificates of deposit with an initial term of three months or less when purchased.

Time deposits represent certificates of deposit with initial terms of six or twelve months when purchased. As of December 31, 2015 and 2014, the Company's time deposits bear a weighted average interest rate of 2.6% and 3.0% per annum, respectively.

Cash deposits in bank that are restricted as to withdrawal or usage for up to 12 months are reported as restricted cash in the consolidated balance sheets and excluded from cash and cash equivalents in the consolidated statements of cash flows. Cash deposits of US\$16,907,470 and US\$17,728,782 as of December 31, 2015 and 2014 that are restricted for period beyond 12 months from the balance sheet date are included in other non-current assets in the consolidated balance sheets and also excluded from cash and cash equivalents in the consolidated statements of cash flows.

Short-term bank deposits that are pledged as collateral for bills payable relating to purchases of raw materials are reported as restricted cash and amounted to US\$8,069,475 and US\$11,868,855 as of December 31, 2015 and 2014, respectively. Upon maturity and repayment of the bills payable, which is generally within 6 months, the cash becomes available for use by the Company. Short-term bank deposits that are pledged as collateral for letter of credit relating to purchases of raw materials are reported as restricted cash and amounted to nil and US\$676,917 as of December 31, 2015 and 2014, respectively. The cash will be available for use by the Company 90 days from the issuance of the letter of credit. The cash flows from the pledged bank deposits, which relate to purchases of raw materials, are reported within cash flows from operating activities in the consolidated statements of cash flows.

Short-term bank deposits that are pledged as collateral for short-term and long-term bank borrowings are reported as restricted cash and amounted to US\$32,010,452 and nil as of December 31, 2015 and 2014, respectively. Long-term bank deposits that are pledged as collateral for long-term bank borrowings are reported as other non-current assets and amounted to US\$16,907,470 and US\$17,728,782 as of December 31, 2015 and 2014, respectively. The cash flows from such bank deposits are reported within cash flows from financing activities in the consolidated statements of cash flows.

Short-term bank deposits that are related to government grant are reported as restricted cash and amounted to US\$10,772,400 and nil as of December 31, 2015 and 2014 respectively. The amount is reported as non-cash investing and financing activities in the consolidated statements of cash flows.

(f) Accounts Receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. In establishing the required allowance, management considers historical losses, the amount of accounts receivables in dispute, the accounts receivables aging and the customers' payment patterns. Account balances are written off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(g) Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the weighted average cost method. Work-in-progress and finish goods comprise direct materials (including purchasing, receiving and inspection costs), direct labor and an allocation of related manufacturing overhead based on normal operating capacity.

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(h) Long-lived Assets

## Property, plant and equipment

Property, plant and equipment are initially recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property, plant and equipment are as follows:

	Estimated Useful Life
Workshops and buildings	39 years
Machinery, equipment and furniture	5-10 years
Motor vehicles	5 years

An appropriate allocation of depreciation expense of property, plant and equipment attributable to manufacturing activities based on normal capacity is capitalized as part of the cost of inventory, and expensed in cost of revenues when the inventory is sold. Costs incurred in the construction of property, plant and equipment, including an allocation of interest expense incurred, are capitalized and transferred into their respective asset category when the assets are ready for their intended use, at which time depreciation commences. Ordinary maintenance and repairs are charged to expenses as incurred, while replacements and betterments are capitalized. When items are retired or otherwise disposed of, income is charged or credited for the difference between net book value of the item disposed and proceeds realized thereon.

## Land Use Rights

A land use right in the PRC represents an exclusive right to occupy, use and develop a piece of land during the contractual term of the land use right. The cost of a land use right is usually paid in one lump sum at the date the right is granted. The prepayment usually covers the entire period of the land use right. The lump sum advance payment is capitalized and recorded as land use right and then charged to expense on a straight-line basis over the period of the right, which is normally 50 years.

Amortization expense of land use rights was US\$411,178, US\$259,310 and US\$224,587 for the years ended December 31, 2015, 2014 and 2013, respectively, and is included in general and administrative expenses.

(i) Impairment of Long-lived Assets

Long-lived assets, such as property, plant and equipment, and land use rights, are reviewed for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Recoverability of a long-lived asset or asset group to be held and used is measured by a comparison of the carrying amount of an asset or asset group to the estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying value of an asset or asset group exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount that the carrying value exceeds the estimated fair value of the asset or asset group. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third party independent appraisals, as considered necessary. Assets to be disposed are reported at the lower of carrying amount or fair value less costs to sell, and are no longer depreciated.

No impairment of long-lived assets was recognized for any of the years presented.

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(j) Derivative Financial Instruments

The Company recognizes all derivative instruments as either assets or liabilities at their respective fair values. Changes in the fair value of derivative instruments not designated for hedge accounting are recognized in earnings.

(k) Revenue Recognition

The Company sells its products primarily to approved distributors. Revenue is recognized when all of the following conditions are met: persuasive evidence of an arrangement exists, delivery of the products has occurred or services have been rendered, the price is fixed or determinable and collectibility is reasonably assured. These criteria as they relate to each of the following major revenue generating activities are described below.

Products sales

For sales in PRC, acceptance of delivery of the products by the distributors is evidenced by goods receipt notes signed by the distributors' customers (or end users). The distributors accept the products at the time they are delivered to the distributors' customers (or end customers). Delivery acceptance is evidenced by signed goods receipt notes. The Company has no remaining obligations after the distributors' acceptance of the products. Under the terms of the contracts or purchase orders between the Company and the distributors, the risks and rewards of ownership of the products is transferred to the distributor upon the signing of the goods receipt notes and the distributor has no rights to return the products (other than for defective products). For sales to ROK, delivery of the products occurs at the point in time the product is delivered to the named port of shipment, which is when the risks and rewards of ownership are transferred to the customer. For the years ended December 31, 2015, 2014 and 2013, sales returns were minimal.

The selling price, which is specified in the sales contracts or purchase orders, is fixed. Under the terms of the sales contract, upon the sale of the products to the distributors and the signing of the good receipts notes, the Company has the legal enforceable right to receive full payment of the sales price. The distributors' obligation to pay the Company is not dependent on the distributors selling the products or collecting cash from their customers (or end customers).

The Company's sales are net of value added tax ("VAT") and business tax collected on behalf of tax authorities in respect of product sales. VAT and business tax collected from customers, net of VAT paid for purchases, is recorded as a liability in the consolidated balance sheets until it is paid to the tax authorities.

Service revenue

The Company used to provide technical assistance and consultation services to manufacturing companies prior to 2014.

Revenue from technical support was recognized as the services were performed, which was evidenced by signed customer acceptance forms on a monthly basis. Service revenue was recorded, net of business tax and surcharges, which was levied on the Company's service revenues generated in the PRC at the rate of 5.6%.

(l) Cost of revenues

Cost of revenues represents costs of raw materials (including purchasing, receiving and inspection costs), packaging materials, labor, utilities, depreciation and amortization of manufacturing facilities and warehouses, handling costs, outbound freight and inventory write-down. Depreciation and amortization of manufacturing facilities and warehouses attributable to manufacturing activities is capitalized as part of the cost of inventory, and expensed in costs of revenues when the inventory is sold.



(m) Selling, general and administrative expenses

Selling expenses represents primarily costs of payroll, benefits, commissions for sales representatives and advertising expenses. General and administrative expenses represents primarily payroll and benefits costs for administrative employees, rent and operating costs of office premises, depreciation and amortization of office facilities, and other administrative expenses.

(n) Research and Development Expense

Research and development costs are expensed as incurred.

(o) Government Grants

Government grants are recognized when there is reasonable assurance that the Company will comply with the conditions attaching to them and the grants will be received. Government grants for the purpose of giving immediate financial support to the Company with no future related costs are recognized as other income in the Company's consolidated statements of comprehensive income. Government grants related to the acquisition of assets are recorded as deferred income on the consolidated balance sheets when the grants become receivable, and recognized as other income in the consolidated statements of comprehensive income on a straight-line basis over the estimated useful lives of those assets.

(p) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the periods in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates or tax laws on deferred income tax assets and liabilities is recognized in the consolidated statements of comprehensive income in the period the change in tax rates or tax laws is enacted. A valuation allowance is provided to reduce the carrying amount of deferred income tax assets if it is considered more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Company recognizes in the consolidated financial statements the impact of a tax position, if that position is more likely than not of being sustained upon examination, based on the technical merits of the position. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company has elected to classify interest and penalties related to unrecognized tax benefits, if and when required, as part of interest expense, and general and administration expenses, respectively in the consolidated statements of comprehensive income.

(q) Bills Payable

Bills payable represent bills issued by financial institutions to the Company's raw material suppliers. The Company's suppliers receive payments from the financial institutions upon maturity of the bills and the Company is obliged to repay the face value of the bills to the financial institutions.

(r) Employee Benefit Plans

Pursuant to relevant PRC regulations, the Company is required to make contributions to various defined contribution plans organized by municipal and provincial PRC governments. The contributions are made for each PRC employee at rate of approximately 40% on a standard salary base as determined by local social security bureau. Contributions to the defined contribution plans are charged to the consolidated statements of comprehensive income when the related service is provided. For the years ended December 31, 2015, 2014 and 2013, the costs of the Company's contributions to the defined contribution plans amounted to US\$1,788,552, US\$1,555,471 and US\$1,024,728, respectively.

For the years ended December 31, 2015, 2014 and 2013, 77%, 78% and 80% of costs of employee benefits were recorded in general and administration expenses, respectively, with the remaining portion of costs of employee benefits in selling expenses, research and development expenses and cost of revenues each year.

The Company has no other obligation for the payment of employee benefits associated with these plans beyond the contributions described above.

(s) Stock Based Compensation

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes the cost over the period during which the employee is required to provide service in exchange for the award, which generally is the vesting period. The amount of cost recognized is adjusted to reflect any expected forfeitures prior to vesting. The Company recognizes compensation cost for an award with only service conditions that has a graded vesting schedule on a straight-line basis over the requisite service period for the entire award, provided that the cumulative amount of compensation cost recognized at any date at least equals the portion of the grant-date value of such award that is vested at that date.

(t) Commitments and Contingencies

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, shareholder lawsuits, product and environmental liability, and non-income tax matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated.

(u) Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to common stockholders by the weighted average number of common stock outstanding during the year using the two-class method. Under the two-class method, net income attributable to common stockholders is allocated between common stock and other participating securities based on participating rights in undistributed earnings. Nonvested shares and redeemable Series D convertible preferred stock are participating securities since the holders of these securities participate in dividends on the same basis as common stockholders. Diluted EPS is calculated by dividing net income attributable to common stockholders as adjusted for the effect of dilutive common stock equivalent, if any, by the weighted average number of common stock and dilutive common stock equivalent outstanding during the year. Potential dilutive securities are not included in the calculation of diluted earnings per share if the impact is anti-dilutive.

(v) Segment reporting

The Company uses the management approach in determining reportable operating segments. The management approach consider the internal reporting used by the Company's chief operating decision maker for making operating decisions about the allocation of resources of the segment and the assessment of its performance in determining the Company's reportable operating segments. Management has determined that the Company has one operating segment, which is the modified plastics segment.

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(w) Fair Value Measurements

The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of restricted cash and time deposits as of December 31, 2015 and 2014 are categorized as Level 2 measurement.

The fair value of foreign currency forward contracts as of December 31, 2014 is categorized as Level 3 measurement.

Except for the foreign currency forward contracts, which was measured at fair value on a recurring basis as of December 31, 2014, the Company did not have any financial assets and liabilities or nonfinancial assets and liabilities that are measured and recognized at fair value on a recurring or nonrecurring basis as of December 31, 2015 and 2014. Management used the following methods and assumptions to estimate the fair values of financial instruments at the balance sheet dates:

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

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

Notes payable-fair values of the Company's notes payable are estimated based on quoted market prices which are categorized as Level 1 measurement in the fair value hierarchy. As of December 31, 2015, the carrying amount and estimated fair value of the notes payable were US\$145,634,996 and US\$127,219,500, respectively.

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





(x) Recently Issued Accounting Standards

In 2015, the Company elected to early adopt the Accounting Standards Update ("ASU") No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires the debt issuance costs be presented on the balance sheet as a direct deduction from the carrying amount of the related debt liability, instead of reported on the balance sheet as an asset. The costs will continue to be amortized to interest expense using the effective interest method. Upon adoption of the guidance, the debt issuance costs in the amount of US\$4,243,412 as of December 31, 2014, which were included in the other non-current assets, have been retrospectively adjusted as a direct deduction of an equivalent amount from the carrying amount of the notes payable as of December 31, 2014.

In 2015, the Company elected to early adopt the ASU No. 2015-11, Simplifying the Measurement of Inventory, which changes the measurement principle of inventory from the lower of cost or market to lower of cost and net realizable value, and requires prospective adoption. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The ASU eliminates the guidance that entities consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory when cost is determined on a first-in-first-out or average cost basis. The Company applied this new measurement principle of inventory as of December 31, 2015. The adoption of ASU No. 2015-11 did not have any impact on the Company's consolidated financial statements.

In 2015, the Company elected to early adopt the ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, which requires entities with a classified balance sheet to present all deferred tax assets and liabilities as noncurrent. The Company adopted this new guidance retrospectively. The adoption of ASU No. 2015-17 did not have any impact on the Company's consolidated financial statements.

The Financial Accounting Standards Board issued Accounting Standards Codification ("ASC") Topic 842, Leases, in February 2016. ASC Topic 842 requires a lessee to recognize all leases, including operating leases, on balance sheet via a right-of-use asset and lease liability, unless the lease is a short-term lease (one with an accounting lease term of 12 months or less). All (or a portion of) fixed payments by the lessee to cover lessor costs related to ownership of the underlying assets, or executory costs, that do not represent payments for a good or service will be considered lease payments and reflected in the measurement of lease assets and lease liabilities by lessees. The new standard does not substantially change lessor accounting from current U.S. GAAP. The new standard also requires lessees and lessors to disclose more qualitative and quantitative information about their leases than current U.S. GAAP does. The standard is applied retrospectively, with elective reliefs. The new standard is effective for annual and interim reporting periods beginning after December 15, 2018 for a public business entity. Early adoption is permitted. The Company has not yet determined the impact of the new standard on its current policies for leases.

## Note 3 – Accounts receivable

Accounts receivable consists of the following:

	December 31,	
	2015	2014
	US\$	US\$
Accounts receivable	234,583,370	204,108,050
Allowance for doubtful accounts	(40,631 )	(109,912 )
Accounts receivable, net	234,542,739	203,998,138

As of December 31, 2015 and 2014, the accounts receivable balances also include notes receivable in the amount of US\$2,048,186 and US\$921,907, respectively. As of December 31, 2015 and 2014, US\$54,664,219 and US\$50,473,063 respectively of accounts receivable are pledged for the short-term bank loans.

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

	December 31, 2015 US\$	December 31, 2014 US\$
Aging:		
– current	234,396,244	203,760,775
– 1-3 months past due	146,495	208,482
– 4-6 months past due	-	-
– 7-12 months past due	-	5,560
– greater than one year past due	40,631	133,233
Total accounts receivable	234,583,370	204,108,050

The movements of the allowance for doubtful accounts are as follows:

	Year ended December 31,	
	2015 US\$	2014 US\$
Balance at the beginning of the year	(109,912)	(145,761)
Reversal of bad debt allowance	69,281	35,849
Balance at the end of the year	(40,631 )	(109,912)

#### Note 4 – Inventories

Inventories consist of the following:

	December 31,	
	2015 US\$	2014 US\$
Raw materials	287,995,933	241,853,814
Work in progress	164,034	207,181
Finished goods	6,505,228	7,736,249
Total inventories	294,665,195	249,797,244

There were no write down of inventories during the years ended December 31, 2015, 2014 and 2013.

## Note 5 – Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

	December 31,	
	2015	2014
	US\$	US\$
Receivables due from a customer in the ROK (i)	9,471,222	-
Interest receivable (ii)	3,306,974	3,351,672
Value added taxes receivables	698,286	6,407,547
Advances to suppliers	68,354	168,614
Others (iii)	2,131,012	1,325,995
Total prepaid expenses and other current assets	15,675,848	11,253,828

(i) As of December 31, 2015, receivables due from a customer in the ROK represents the amount the Company paid to purchase raw materials on behalf of the customer in the ROK.

(ii) Interest receivable mainly represents interest income accrued from time deposits and restricted cash.

(iii) Others mainly include prepaid miscellaneous service fee, staff advance and prepaid rental fee.

## Note 6 – Property, plant and equipment, net

Property, plant and equipment consist of the following:

	December 31,	
	2015	2014
	US\$	US\$
Machinery, equipment and furniture	258,173,175	209,509,700
Motor vehicles	2,009,440	1,854,985
Workshops and buildings	76,924,199	79,009,346
Construction in progress	323,955,531	93,970,716
Total property, plant and equipment	661,062,345	384,344,747
Less: accumulated depreciation	(89,315,838 )	(66,020,147 )
Property, plant and equipment, net	571,746,507	318,324,600

All of the property, plant and equipment, net as of December 31, 2015 and 2014 were located in the PRC, except for US\$83.8 million and US\$82.0 million of property, plant and equipment, net were located in Dubai, UAE. The Company capitalized US\$231,356, US\$113,317 and nil of interest costs as a component of the cost of construction in progress for the years ended December 31, 2015, 2014 and 2013 respectively.

Depreciation expense on property, plant and equipment was allocated to the following expense items:

	Years Ended December 31,		
	2015 US\$	2014 US\$	2013 US\$
Cost of revenues	21,980,993	19,407,668	18,578,088
General and administrative expenses	1,531,389	1,155,419	958,976
Research and development expenses	3,615,758	2,094,496	1,659,072
Selling expenses	894		
Total depreciation expense	27,129,034	22,657,583	21,196,136

Note 7 – Prepayments to equipment and construction suppliers

	December 31,	
	2015 US\$	2014 US\$
Jiamu (i)	11,712,843	182,259,578
Peaceful (ii)	170,009,200	-
Others	1,503,963	-
Total Prepayments to equipment and construction suppliers	183,226,006	182,259,578

In December 2013, the Company entered into an equipment purchase contract with Harbin Jiamu Import & Export Trading Co., Ltd ("Jiamu Trading") for a total consideration of RMB1,629.3 million to purchase 70 production lines and RMB89.7 million to purchase testing equipment. In August 2015, the Company signed a supplemental contract with Harbin Jiamu Science and Technology Co., Ltd. (together with Jiamu Trading as "Jiamu") to purchase testing equipment in the amount of RMB16.3 million (equivalent to US\$2.5 million). As of December 31, 2015 and 2014, the Company has paid RMB1,608.2 million (equivalent to US\$247.2 million) and RMB1,130.9 million (equivalent to US\$182.3 million) for production lines and testing equipment, respectively. As of December 31, 2015, the Company has received the equipment of 70 production lines, and hence recorded the related amount from prepayments to construction in progress. The balance of Jiamu as of December 31, 2015 mainly represents the prepayment for testing equipment.

On January 5, 2015, AL Composites Materials FZE ("AL Composites") entered into an equipment purchase contract with Peaceful Treasure Limited ("Peaceful") for a total consideration of US\$271.2 million to purchase certain production and testing equipment. Pursuant to the contract with Peaceful, the Company has paid US\$170.0 million as prepayments as of December 31, 2015.

## Note 8 – Borrowings

The Company has credit facilities with several banks under which they draw short-term and long-term bank loans as described below.

## (a) Current

	December 31,	
	2015	2014
	US\$	US\$
Unsecured loans	64,555,795	47,223,028
Loans secured by accounts receivable	43,037,196	40,292,686
Loans secured by restricted cash	27,100,000	-
Current portion of long-term bank loans (note b)	149,646,098	12,219,708
Total short-term loans, including current portion of long-term bank loans	284,339,089	99,735,422

As of December 31, 2015 and 2014, the Company's short-term bank loans (including the current portion of long-term bank loans) bear a weighted average interest rate of 4.2% and 5.7% per annum, respectively. All short-term bank loans mature at various times within one year and contain no renewal terms.

In January 2015, the Company obtained a one-year secured loan of US\$12.0 million from HSBC Middle East at an annual interest rate of three-month LIBOR (0.6127% as of December 31, 2015) plus 1.8%. These loans were secured by restricted cash of RMB16.5 million (equivalent to US\$2.5 million) by the HSBC Bank in Harbin, China. The company repaid this loan on December 31, 2015.

In February 2015, the Company obtained a one-year secured loan of US\$16.6 million from HSBC Middle East at an annual interest rate of three-month LIBOR (0.6127% as of December 31, 2015) plus 1.8%. These loans were secured by restricted cash of RMB22.8 million (equivalent to US\$3.5 million) by the HSBC Bank in Harbin, China.

In June 2015, the Company obtained a one-year secured loan of US\$7.0 million from Bank of China Luxembourg Branch at an annual interest rate of one-year LIBOR (1.1780% as of December 31, 2015) plus 0.8%. These loans were secured by restricted cash of RMB45.9 million (equivalent to US\$7.1 million) by the Bank of China in Harbin, China.

In July 2015, the Company obtained a one-year secured loan of US\$3.5 million from Bank of China Luxembourg Branch at an annual interest rate of one-year LIBOR (1.1780% as of December 31, 2015) plus 0.75%. These loans were secured by restricted cash of RMB23.0 million (equivalent to US\$3.5 million) by the Bank of China in Harbin, China.

On September 28, 2015, the company obtained four six-month secured loans of RMB 110 million (equivalent to US\$16.9 million) by accounts receivables of RMB170 million (equivalent to US\$27.2 million) at an annual interest rate of 4.60% from Harbin Longjiang Bank.

On October 16, 2015, the Company obtained five six-month secured loans of RMB140 million (equivalent to US\$21.5 million) by accounts receivables of RMB139.3 million (equivalent to US\$21.4 million) at an annual interest rate of 4.60% from Harbin Longjiang Bank.

On December 7, 2015, the Company obtained a six-month secured loan of RMB30 million (equivalent to US\$4.6 million) by accounts receivables of RMB39.4 million (equivalent to US\$6.1 million) at an annual interest rate of 4.79% from ICBC in Harbin.

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## (b) Non-current

	December 31,	
	2015	2014
	US\$	US\$
Secured loans	81,164,800	70,000,000
Unsecured loans	175,963,007	116,494,154
Less: current portion	149,646,098	12,219,708
Total long-term bank loans, excluding current portion	107,481,709	174,274,446

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

On December 11, 2014, the Company obtained a two-year unsecured loan of RMB199 million from Bank of Communication at an annual interest rate of 6.60%.

On December 16, 2014, the Company obtained a one and a half-year unsecured loan of US\$76.4 million from Bank of China Macau Branch at an interest of three-month LIBOR (0.6127% as of December 31, 2015) plus 1.7%. The interest rate is reset every three months.

On June 12, 2014, the Company obtained a three-year secured loan of US\$70 million from Bank of China Paris Branch at interest rate of 3-month LIBOR (0.6127% as of December 31, 2015). The loan is secured by restricted cash of RMB 110 million. The Company has repaid US\$2 million on June 9, 2015 and US\$2 million December 9, 2015.

On January 23, 2015, the Company obtained a two-year unsecured loan of RMB100 million (equivalent to US\$15.4 million) at an annual interest rate of 6.0% from Agriculture Bank of China.

On January 27, 2015, the Company obtained a one and half year secured loan of US\$15.2 million from Bank of China Macau Branch, at an interest rate of three-month LIBOR (0.6127% as of December 31, 2015) plus 1.5%. The interest rate is reset every three months. The loan is secured by restricted cash of RMB100 million (equivalent to US\$15.4 million).

On April 22, 2015, the Company obtained a two-year unsecured loan of RMB40 million (equivalent to US\$6.1 million) at an annual interest rate of 5.75% from Agriculture Bank of China.

On July 30, 2015, the Company obtained a thirteen-month unsecured loan of RMB50 million (equivalent to US\$7.7 million) at an annual interest rate of 5.25% from Harbin Longjiang Bank.

In October and November, 2015, the Company obtained three five-year unsecured loans of RMB260 million (equivalent to US\$40.0 million) at an annual interest rate of 4.75% from Bank of China.

As of December 31, 2015, the Company had total lines of credit of RMB4,770.0 million (US\$733.2 million) including unused lines of credit of RMB1,822.7 million (US\$280.1 million) with remaining terms less than 12 months and RMB398.1 million (US\$61.2 million) with remaining terms beyond 12 months.

Certain lines of credit contain financial covenants such as total stockholders' equity, debt asset ratio, current ratio, contingent liability ratio and net profit. As of December 31, 2015, the Company has met these financial covenants.

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## Note 9 – Notes Payable

On February 4, 2014, Favor Sea Limited, a wholly owned subsidiary of the Company, issued US\$150,000,000 aggregate principal amount of 11.75% Guaranteed Senior Notes due 2019 (the 'Notes') with issuance price of 99.080%. The Notes bear interest at a rate of 11.75% per annum, payable on February 4 and August 4 of each year, commencing August 4, 2014. The Notes will mature on February 4, 2019. Net proceeds after debt issuance costs and debt discount were approximately US\$143.5 million. Debt issuance costs are presented on the consolidated balance sheets as a direct deduction from the carrying amount of notes payable and amortized to interest expense using the effective interest method.

The Notes can be redeemed prior to their maturity, the details of which are as follows:

The Company may at its option redeem the Notes, in whole but not in part, at any time prior to February 4, 2017, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium, as defined in the Indenture of the Notes, and accrued and unpaid interest, if any, to (but not including) the redemption date. In addition, at any time and from time to time prior to February 4, 2017, the Company may at its option redeem up to 35% of the aggregate principal amount of the Notes with the net cash proceeds of one or more sales of common stock of China XD in an equity offering, at a redemption price of 111.75% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to (but not including) the redemption date, provided that at least 65% of the aggregate principal amount of the Notes issued remains outstanding after each such redemption and any such redemption takes place within 60 days after the closing of the related equity offering.

On or after February 4, 2017, the Company may on any or more occasions redeem all or any part of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the Notes redeemed, to (but not including) the applicable date of redemption, if redeemed during the twelve-month period beginning on February 4 of the years indicated below:

Year	Redemption Price
2017	105.875 %
2018	102.938 %

Upon occurrence of a Change of Control Triggering Event, as defined in the Indenture of the Notes, the Company must make an offer to purchase all the Notes outstanding at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to (but not including) the purchase date.

The Notes are guaranteed on a senior basis by China XD and Xinda Holding (HK) Company Limited ("Xinda Holding (HK)"), one of its direct subsidiaries. The Notes are secured by a lien on the share capital of Favor Sea Limited and Xinda Holding (HK).

For the year ended December 31, 2015 and 2014, the Company recognized interest expenses of the Notes in the amount of US\$18,710,825 and US\$16,870,122, respectively.

Unamortized discount and debt issuance costs as of December 31, 2015 and 2014 were US\$4,365,004 and US\$5,626,355, respectively.



## Note 10 – Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

	December 31,	
	2015	2014
	US\$	US\$
Payables for purchase of property, plant and equipment	42,524,903	7,234,607
Accrued freight expenses	1,579,936	1,688,431
Accrued interest expenses	7,800,481	9,031,741
Advance from customers (i)	82,009,002	63,414
Non income tax payables	4,353,730	2,322,006
Others(ii)	2,720,660	4,144,384
Total accrued expenses and other current liabilities	140,988,712	24,484,583

(i) Advance from customers mainly represent the advance received from two customers in the PRC for the raw material purchases during the 4th quarter of 2015.

(ii) Others mainly represent accrued payroll and employee benefits and other accrued miscellaneous operating expenses.

## Note 11 – Related party transactions

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

The significant related party transactions are summarized as follows:

	Years Ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
Costs and expenses resulting from transactions with related parties:			
Rental expenses for plant and office space	777,248	791,460	801,715

The related party balances are summarized as follows:

	December 31,	
	2015	2014
	US\$	US\$
Amounts due from a related party:		
Prepaid rental expenses to Xinda High-Tech	244,836	220,262

December  
31,  
2015 2014  
US\$ US\$

Amounts due to a related party

Rental payable to Mr Han's son 8,439 -

The Company rents the following plant and office buildings in Harbin, Heilongjiang province from Xinda High-Tech:

	Area	Annual Rental Fee (US\$)	Period of Lease
Premise Leased (M <sup>2</sup> )			
Office building	23,894	758,983	Between January 1, 2014 and December 31, 2018

The Company rents the following facilities in Harbin, Heilongjiang province from Mr. Han's son:

	Area	Annual Rental Fee (US\$)	Period of Lease
Premise Leased (M <sup>2</sup> )			
Facility	3,134	11,912	Between January 1, 2015 and September 30, 2015
Facility	200	6,353	Between August 17, 2014 and August 16, 2016

#### Note 12– Income Taxes

China XD and Xinda Holding (HK) US Sub Inc. ("Xinda US") (collectively referred to as the "U.S. Entities") are each subject to a tax rate of 34% and file separate U.S. federal income tax returns. Favor Sea (US) Inc. ("Favor Sea (US)") was subject to a tax rate of 34% and file separate U.S. federal income tax returns before all of its assets and liabilities, business and employees were transferred to Xinda US in 2013, as a result of an internal organization. Favor Sea (US) was liquidated after the reorganization.

Under the current laws of the British Virgin Island ("BVI"), Favor Sea Limited ("Favor Sea BVI"), a subsidiary of China XD, is not subject to tax on its income or capital gains.

No provision for Hong Kong Profits Tax was made for Xinda Holding (HK) Co., Ltd. ("Xinda HK"), (formerly known as Hong Kong Engineering Plastics Co., Ltd.), Xinda (HK) International Trading Co., Ltd. ("Xinda Trading", liquidated in February 2015), and Xinda (HK) Trade Company Limited. ("HK Trading") as they did not have any assessable profits arising in or derived from Hong Kong for any of the periods presented.

Under the current laws of Dubai, AL Composites Materials FZE ("Dubai Composites"), a subsidiary of China XD, is exempted from income taxes.

The Company's PRC subsidiaries file separate income tax returns in the PRC. Effective from January 1, 2008, the PRC statutory income tax rate is 25% according to the Corporate Income Tax ("CIT") Law which was passed by the National People's Congress on March 16, 2007.

Pursuant to an approval from the local tax authority in July 2013, Sichuan Xinda Enterprise Group Co., Ltd. ("Sichuan Xinda Group"), a subsidiary of China XD, became a qualified enterprise located in the western region of the PRC, which entitled it to a preferential income tax rate of 15% from January 1, 2013 to December 31, 2020.

The CIT Law and its implementation rules impose a withholding income tax at 10%, unless reduced by a tax treaty or arrangement, on the amount of dividends distributed by a PRC-resident enterprise to its immediate holding company outside the PRC that are related to earnings accumulated beginning on January 1, 2008. Dividends relating to undistributed earnings generated prior to January 1, 2008 are exempt from such withholding income tax.

China XD earnings from its subsidiaries in PRC and Dubai are subject to the U.S. federal income tax at 34%, less any applicable foreign tax credits. Due to its plan to indefinitely reinvest its earnings in the PRC, the Company has not provided for deferred income tax liabilities related to PRC withholding income tax on undistributed earnings of US\$488,303,847 and US\$434,416,319 as of December 31, 2015 and 2014, respectively. In addition, due to its plan to indefinitely reinvest its earnings in Dubai, the Company has not provided for deferred income tax liabilities related to Dubai on undistributed earnings of US\$117,827,046 and US\$83,272,307 as of December 31, 2015 and 2014, respectively. It is not practicable to estimate the amounts of unrecognized deferred income tax liabilities thereof.

The components of income before income taxes are as follows:

	Years Ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
US	(3,512,598 )	(4,957,190 )	(4,768,725 )
BVI	(18,685,588 )	(16,070,146 )	(7,685 )
Hong Kong	(306,945 )	(973,523 )	(815,408 )
Dubai	34,554,739	83,267,935	-
PRC, excluding Hong Kong	89,920,646	77,775,570	186,127,783
Total income before income taxes	101,970,254	139,042,646	180,535,965

The Company's income tax expense (benefit) recognized in the consolidated statements of comprehensive income consists of the following:

	Years Ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
Current income tax expense-PRC	20,618,211	20,089,436	47,559,763
Current income tax expense-US	-	195,598	1,017,585
Deferred income tax benefit-PRC	(2,380,236 )	(2,018,757 )	(1,880,228 )
Total income tax expense	18,237,975	18,266,277	46,697,120

The effective income tax rate based on income tax expense and income before income taxes reported in the consolidated statements of comprehensive income differs from the PRC statutory income tax rate of 25% due to the following:

	Years Ended December					
	2015		2014		2013	
	US\$		US\$	US\$		
PRC statutory income tax rate	25	%	25	%	25	%
Increase (decrease) in effective income tax rate resulting from:						
Tax rate differential on US entities not subject to PRC income tax	-		-		(0.2)	%
Tax rate differential on HK entities not subject to PRC income tax	-		-		0.1	%
Tax rate differential on BVI entities not subject to PRC income tax	4.6	%	2.9	%	-	
Tax rate differential on UAE entities not subject to PRC income tax	(8.5)	%	(15.0)	%	-	
Non-deductible expenses	0.4	%	0.6	%	0.8	%
Preferential tax rate	(4.5)	%	(3.3)	%	(0.7)	%
Change in valuation allowance	1.2	%	0.5	%	(0.0)	%
R&D additional deduction	(2.6)	%	0.0	%	0.0	%
Others	2.3	%	2.4	%	0.9	%
Effective income tax rate	17.9	%	13.1	%	25.9	%

The principal components of the Company's deferred income tax assets and deferred income tax liabilities are as follows:

	December 31,	
	2015	2014
	US\$	US\$
Deferred income tax assets:		
Tax loss carry forwards	1,941,124	727,711
Less: valuation allowance	(1,941,124)	(727,711)
Deferred income tax assets, net	-	-
Deferred income tax liabilities:		
Net assets of Research Institute granted to Research Center	-	1,185,638
Forward contract	-	(604)
Property, plant and equipment	13,874,224	15,766,517
Total deferred income tax liabilities (included in other non-current liabilities)	13,874,224	16,951,551

The Research Institute was established with a registered capital of approximately US\$0.4 million in 2007. The Research Institute provided research and development services to the Company's ultimate end customers. In December 2010, for tax purposes and because the Research Institute could not meet the Company's development needs, the Company dissolved the Research Institute and formed a new legal entity, Heilongjiang Xinda Enterprise Group Macromolecule Materials R&D Center Company Limited ("Xinda Group Material Research"). Based on applicable regulations promulgated by the local Civil Affairs Bureau, only the local government has the authority for the distribution of the assets of the Research Institute upon liquidation. Therefore, the Company dissolved the Research Institute by distributing the net assets of the Research Institute in the amount of US\$84.0 million to the local



government. The difference between the net assets in the amount of US\$84.0 million and the amount of the initial registered capital of US\$0.4 million represents undistributed accumulated profit generated by the Research Institute from its inception date to its liquidation date. Simultaneously, the local government granted the net assets back to the Research Center, the newly established subsidiary of Harbin Xinda in December 2010. The Research Center was established with a registered capital of approximately US\$0.5 million funded by cash. A loss equal to the net assets of the Research Institute distributed to the local government was recognized in other expenses and a government grant for the receipts of the same assets back from the local government was recognized as other income in the consolidated statements of comprehensive income. Pursuant to the local tax regulations, the net assets granted to the Research Center are not subject to income tax to the extent the Research Center spends a total of US\$84.0 million in five years from the date of grant. The expenditures of US\$84.0 million will not be deductible for income tax purposes. As a result, the Company recognized a deferred income tax liability in the amount of US\$21.5 million in connection with the net assets granted to the Research Center as of December 31, 2010. To the extent that the Company has spent on research and development equipment during the five years from the date of grant, deferred income tax liabilities relating to the net assets of Research Institute granted to Research Center will be reclassified to deferred income tax liabilities relating to property, plant and equipment, and recognized in profit or loss over the useful life of the asset.

The movements of the valuation allowance are as follows:

	Years Ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
Balance at the beginning of the year	727,711	73,182	556,677
Expiration due to liquidation	(68,070 )	-	(437,762)
Additions of valuation allowance	1,333,527	662,151	72,305
Reduction of valuation allowance	(52,044 )	(7,622 )	(118,038)
Balance at the end of the year	1,941,124	727,711	73,182

The valuation allowance as of December 31, 2015, 2014 and 2013 was primarily provided for the deferred income tax assets of certain entities, which were at cumulative loss positions. As of December 31, 2015, for U.S. federal income tax purposes, the Company had tax loss carryforwards of (i) US\$590,057 from US Entities, of which US\$212,659, US\$159,481 and US\$217,917 would expire by 2033, 2034 and 2035, respectively, if unused, (ii) US\$5,827,090 from subsidiaries in PRC, of which US\$67,201, US\$1,160,448 and US\$4,599,441 would expire by 2018, 2019 and 2020, respectively, if unused, and (iii) US\$2,018,829 from subsidiaries in HK, which could be carried forward indefinitely to be offset against future profits. In view of the cumulative losses for the entities concerned, 100% valuation allowances were provided against their deferred income tax assets as of December 31, 2015, 2014 and 2013, which in the judgment of the management, are not more likely than not to be realized.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the year ended December 31, 2015 is as follows:

	Year ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
Balance at beginning of year	14,609,258	8,807,490	-
Increase related to current year tax positions	7,051,049	5,801,768	8,807,490
Balance at end of year	21,660,307	14,609,258	8,807,490

At December 31, 2015, 2014 and 2013, there are US\$18,370,729, US\$12,544,088 and US\$6,690,841 of unrecognized tax benefits that if recognized, would affect the annual effective tax rate.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and does not recognize penalties. During the years ended December 31, 2015, 2014 and 2013, the Company recognized approximately US\$1,905,191, US\$1,322,135 and nil of interest expense. The Company had approximately US\$3,095,819 and US\$1,322,135 for the payment of interest accrued related to unrecognized tax benefits at December 31, 2015 and 2014, respectively which were included in other non-current liabilities. As of December 31, 2015 and 2014, US\$21,076,874 and US\$14,025,825 of unrecognized tax benefits were included in other non-current liabilities, respectively. US\$583,433 of unrecognized tax benefit were presented as a reduction of the deferred income tax assets for tax loss carry forwards since the uncertain tax position would reduce the tax loss carry forwards under the tax law. The unrecognized tax benefits represent the estimated income tax expenses the Company would be required to pay, should the income tax rate used, taxable income and deductible expenses for tax purpose recognized in accordance with tax laws and regulations. The Company is currently unable to provide an estimate of a range of the total amount of unrecognized tax benefits that is reasonably possible to change significantly within the next twelve months.

The tax returns of the U.S. Entities are subject to U.S. federal income tax examination by tax authorities for the years from 2013 to 2015. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than US\$15,000. In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The tax returns of the Company's PRC subsidiaries for the years from 2013 to 2015 are open to examination by the PRC tax authorities.

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## Note 13 – Deferred Income

On January 26, 2015, the Company entered into a memorandum and a fund support agreement (the "Agreement") with the People's Government of Shunqing District, Nanchong City, Sichuan Province ("Shunqing Government") pursuant to which Shunqing Government, through its investment vehicle, will extend to the Company RMB350 million (equivalent to US\$ 53.8 million) to support the construction of the Sichuan plant. As of December 31, 2015, the Company has received RMB280 million (equivalent to US\$ 43.0 million) in total from Shunqing Government in the form of government repayment of bank loans on behalf of the Company. The Company also received RMB70 million (equivalent to US\$ 10.8 million) pursuant to the Agreement for which the amount was restricted to use subject to the progress of the construction, which has been recorded as restricted cash as of December 31, 2015.

The Company also received RMB32.4 million (equivalent to US\$5.0 million) from Shunqing Government to support the construction of the Sichuan plant and RMB6.4 million (equivalent to US\$ 1.0 million) subsidy for development of additive manufacturing industry for the year ended December 31, 2015.

Since the funding is related to construction of long-term assets, the amounts were recognized as government grant, which is included in deferred income on the consolidated balance sheets, and to be recognized as other income in the consolidated statements of comprehensive income over the periods and in the proportions in which depreciation expense on the long-term assets is recognized.

In addition, the Company received RMB22 million (equivalent to US\$3.4 million) interest subsidy for strategic emerging industry development, among which RMB7.2 million (equivalent to US\$ 1.1 million) have been recognized as other income when related interest expense was recognized as of December 31, 2015.

## Note 14 – Other non-current liabilities

	2015	2014
	US\$	US\$
Income tax payable-noncurrent (i)	24,172,693	14,025,825
Deferred income tax liabilities (note 12)	13,874,224	16,951,551
Total other non-current liabilities	38,046,917	30,977,376

(i) Income tax payable-noncurrent represents the accumulative balance of unrecognized tax benefits and related accrued interest.

## Note 15 – Common Stock

Pursuant to the amended Article of Incorporation dated March 12, 2009, the Company's authorized share capital is 550,000,000 shares, consisting of 500,000,000 shares of common stock (US\$0.0001 par value), and 50,000,000 shares of all classes of preferred stock (US\$0.0001 par value).

## Note 16 – Preferred Stock

### Series B preferred stock

The Company issued 1,000,000 shares of Series B preferred stock to XD Engineering Plastics in December 2008. The Series B preferred stock is not convertible or redeemable. The holder of Series B preferred stock has 40% of the total voting power of the Company on a fully diluted basis. Holders of Series B preferred stock are not entitled to receive dividends. In the event of any liquidation, dissolution or winding up, whether voluntary or involuntary, the holders of issued and outstanding shares of Series B preferred stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the common stockholders and any other series of preferred stock ranking junior to the Series B preferred stock with respect to liquidation, US\$1.00 per share in cash. The holders of Series B preferred stock will not be entitled to any further participation in any distribution of assets by the Company.

### Redeemable Series D convertible preferred stock

On August 15, 2011, China XD entered into a securities purchase agreement (the "Securities Purchase Agreement") with MSPEA Modified Plastics Holding Limited, a Cayman Islands company and an affiliate of Morgan Stanley Private Equity Asia III Holdings (Cayman) Ltd, a Cayman Islands limited liability company ("MSPEA"), XD Engineering Plastics and Mr. Han, pursuant to which MSPEA purchased 16,000,000 shares of the Company's Series D convertible preferred stock with par value of US\$0.0001 per share (the "Series D Preferred Stock"), for a total consideration of US\$100 million or US\$6.25 per share. On September 28, 2011, China XD issued 16,000,000 shares of Series D Preferred Stock and received total gross proceeds of US\$100 million in cash. Net proceeds after issuance cost were approximately US\$99.1 million.

The significant terms of Series D Preferred Stock are as follows:

#### (i) Conversion

The holders of the Series D Preferred Stock have the right to convert all or any portion of their holdings into common stock at a price of US\$6.25 per share from January 1, 2012 through February 4, 2019, subject to adjustments for stock splits, combinations, dividends or distributions of common stock, merger and reorganization. In addition, if the Company achieves net income as adjusted to exclude (i) all extraordinary or non-recurring gains or losses for the relevant period, (ii) all gains or losses derived from any business operation other than the principal business of the Company or otherwise derived outside the ordinary course of business of the Company for the relevant period, and (iii) all gains or losses attributable to the Series D Preferred Stock ("Actual Profit"), at least RMB360 million, RMB520 million and RMB800 million in 2011, 2012 and 2013, respectively, each outstanding Series D Preferred Stock will be converted into common stock from September 28, 2014 upon the delivery of a written notice from the Company to the holders of Series D Preferred Stock. The Company determined that there was no embedded beneficial conversion feature attributable to the Series D Preferred Stock at the commitment date since the initial conversion price of the Series D Preferred Stock was greater than the price of China XD's common stock.

#### (ii) Voting

The holders of Series D Preferred Stock have the same voting rights as the common stockholders on an "if-converted" basis. In addition, if 1,600,000 shares or more (adjusted for any dilutive corporate actions) of Series D Preferred Stock remain outstanding, holders of Series D Preferred Stock have veto rights over certain material corporate actions of the Company.



(iii) Dividends

Each share of Series D Preferred Stock shall be entitled to dividend or other distribution simultaneously with any dividend or distribution on any shares of the Company's common stock as if each share of Series D Preferred Stock has been converted to common stock.

(iv) Liquidation preference

In the event of the liquidation, dissolution or winding-up of the affairs of the Company, whether voluntary or involuntary (a "Liquidation"), the holders of Series D Preferred Stock then outstanding shall be entitled to receive, out of the assets of the Company available for distribution to its stockholders before any payment shall be made to the holders of shares of common stock by reason of their ownership thereof, but after any payment shall be made to the holders of any Series B preferred stock by reason of their ownership thereof, with respect to each share of Series D Preferred Stock, an amount equal to the greater of (i) an amount per share that would yield a total internal rate of return of 15% on the Series D Original Issuance Price, taking into account all cash dividends and/or distributions paid by the Company and received by the holder in respect of his or her share of Series D Preferred Stock (the IRR Price); and (ii) an amount per share as would have been payable had all shares of Series D Preferred Stock been converted into the Company's common stock pursuant to a voluntary conversion or a mandatory conversion immediately prior to such Liquidation (without taking into account any limitations or restrictions on the convertibility of the shares of Series D Preferred Stock).

(v) Redemption

Upon the occurrence of a triggering event as defined below, the holders of the Series D Preferred Stocks have the option to redeem the Series D Preferred Stock at a price equal to the IRR Price (the "Redemption Price"), by delivery of written notice to the Company (the "Redemption Request") at least 6 months prior to the proposed date of redemption (the "Redemption Date").

A triggering event means any of the following events: (I) the occurrence of any of the following: (i) the Actual Profit for the Financial Year ended December 31, 2011 is less than RMB360 million, or (ii) the Actual Profit for the Financial Year ended December 31, 2012 is less than RMB468 million, or (iii) the Actual Profit for the Financial Year ending December 31, 2013 is less than RMB608 million, which Actual Profit target has been removed pursuant to the Restated Certificate of Designation filed as of January 27, 2014 (such targets under (I) collectively, the "Actual Profit Targets"); (II) any breach by any of the Company, XD Engineering Plastics and Mr. Han (the "Principal Stockholders") of any representation, warranty, covenant or other agreement in the Securities Purchase Agreement, the Certificate of Designation, the Registration Rights Agreement, the Stockholders' Agreement, the Pledge Agreement and the Indemnification Agreements (collectively, the "Transaction Document") that (i) in the case of a breach of a covenant or agreement that is curable, has remained uncured for 30 days after the holder of Series D Preferred Stock has given written notice of such breach to the Company's Principal Stockholders and (ii) has had or could reasonably be expected to have a material adverse impact on (a) the business, operations, properties, financial position (including any material increase in provisions), earnings or condition of the Company, or (b) the value, marketability or liquidity of the Series D Preferred Stock taking into account any remedies already sought and received in connection with such breach; or (III) the commencement by the Company or any other member of the Company of any bankruptcy, insolvency, reorganization or of any other case or proceeding to be adjudicated a bankruptcy or insolvency, or the consent by it to the entry of a decree or order for relief in respect of the Company or any other member of the Company in an involuntary case; or the appointment of a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar officials of the Company or any other member of the Company for the winding up or liquidation of its affairs.

If any shares of Series D Preferred Stock remain outstanding on February 4, 2019, the holders of such shares shall require the Company to redeem each share of Series D Preferred Stock at a price equal to the IRR Price (the "Mandatory Redemption Price") no later than six months after the Original Maturity Date. The Mandatory Redemption Price per share was US\$11.53 and US\$10.03 as of December 31, 2015 and 2014, respectively.

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The Company concluded that it has met the Actual Profit Targets and that it is not probable any of the triggering events has occurred or is expected to occur. In addition, the Company concluded that it has met the performance target of RMB360 million, RMB520 million and RMB800 million in 2011, 2012 and 2013, respectively and accordingly it has the right to request the conversion of Series D Preferred Stock into common stock. As a result, it was not probable that the Series D Preferred Stock is redeemable as of December 31, 2015. Therefore no changes in the redemption value were recognized for any of the periods presented. The Company will assess the probability of whether the Series D Preferred Stock is redeemable at each reporting period end.

Pursuant to the Stockholders' Agreement between MSPEA and the Principal Stockholders, if the Company shall at any time issue or sell any shares of common stock or equity securities, other than an issuance or sale in an exempted issuance, at a price per share, or in the case other equity securities exchangeable or convertible into shares of common stock, at a conversion or exercise price for a share of common stock (in each case, the "New Issue Price") that is less than the then effective conversion price of Series D Preferred Stock, the holders of Series D Preferred Stock shall have the right to purchase from the Principal Stockholders, and Principal Stockholders shall sell and transfer to the holders of Series D Preferred Stock, at par value per share, a number of shares of common stock that is equal to (i) the number of shares of common stock that the Series D Preferred Stock held by the holders of Series D Preferred Stock would have been convertible into as if the then effective conversion price is equal to the New Issue Price, minus (ii) the number of shares of common stock that the outstanding Series D Preferred Stock held by the holders of Series D Preferred Stock are convertible into under the then effective conversion price. The exempted issuance refers to (a) any issuance of common stock upon the conversion of the Series D Preferred Stock; (b) the conversion, exercise or exchange of options, warrants or convertible securities of the Company that are outstanding and have been fully disclosed to MSPEA as of September 28, 2011; (c) any issuance of shares of common stock or options to employees, officers, directors or other service providers of the Company pursuant to any stock or option plan duly approved for such purpose including the board of directors; (d) any issuance of common stock, options, warrants or convertible securities of the Company pursuant to acquisitions or other strategic transactions, in each case approved by the board of directors and (e) any issuance of adjustment shares that the Principal Stockholders shall sell and transfer to the holders of Series D Preferred Stock if the Company is unable to achieve the Actual Profit as defined below.

In addition, the Principal Stockholders entered into a pledge agreement with the holders of Series D Preferred Stock to secure the payment and performance of the following obligations (collectively, the "Secured Obligations"), which are secured by the collateral under the Pledge Agreement between the holders of Series D Preferred Stock and the Principal Stockholders: (a) the full and prompt payment when due (whether at stated maturity, by redemption or acceleration or otherwise) of all debts, obligations and liabilities of Principal Stockholders owing to the holders of Series D Preferred Stock; (b) all reasonable costs and expenses incurred by the holders of Series D Preferred Stock to enforce this Agreement and maintain, preserve, collect and realize upon the collateral. The collateral refers to 16,000,000 shares of common stock, par value \$0.0001, of China XD registered in the name of XD Engineering Plastic.

The holders of Series D Preferred Stock have an option to purchase common stock at par value from the Principal Stockholders if the Company is unable to achieve the Actual Profit of RMB360 million, RMB520 million and RMB800 million in 2011, 2012 and 2013, respectively. The number of common stock to be purchased is based on a pre-set formula as specified in the Stockholders' Agreement.

The Stockholders' Agreement was an inducement made to facilitate the investment in the Series D Preferred Stock on behalf of the Company. Therefore, the fair value of the options issued by the Principal Stockholders to the holders of the Series D Preferred Stock was recognized as additional paid-in capital and reflected as a reduction of the proceeds allocated to the Series D Preferred Stock. As of September 28, 2011, the fair value of the options was determined to be US\$1,501,000 based on the Company's common stock price on September 28, 2011, and the probability of the Company's future financial projection and the expected volatility of the Company's common stock.

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Note 17 – Warrants

In connection with the issuance of Series C preferred stock on December 1, 2009, the Company also issued Series A investor warrants to purchase a total of 1,320,696 shares of common stock at an exercise price of US\$5.50 per share with a five-year term. On April 3, 2014, 130,435 Series A investor warrants were exercised for 130,435 shares of the common stocks of the Company. The Company received proceeds of US\$596,740 in cash on April 3, 2014. In addition, 894,383 shares of Series A investor warrants were exercised using cashless method for 472,023 shares of the common stocks of the Company during the year ended December 31, 2014. 295,878 investor warrants expired on December 1, 2014.

The Company also issued Series A placement agent warrants to purchase a total of 117,261 shares of common stock at an exercise price of US\$5.50 per share, with a five-year term to a third party as part of the placement fee. The exercise price of the Series A investor warrants was adjusted to US\$4.90 per share in connection with the common stock direct offering on October 4, 2010. The warrants expired on December 1, 2014.

In connection with the common stock direct offering on October 4, 2010, the Company issued Series C investor warrants to purchase a total of 1,666,667 shares of common stock at an exercise price of US\$6.00 per share. The warrants are exercisable for a period between April 8, 2011 and October 14, 2011. The Company also issued Series C placement agent warrants to purchase 166,667 shares of common stock at an exercise price of US\$7.50 per share to a third party as part of the placement fee. The warrants expired on July 6, 2013.

Pursuant to the agreements of the Series A investor warrants, if the Company issues its common stock for a consideration per share less than the exercise price of the Series A investor warrants, the exercise price of the Series A investor warrants shall be reduced to the lower issuance price. Also, if the Company grants any options or other securities convertible to its common stock for which the exercise or conversion price is less than the exercise price of the Series A investor warrants, the exercise price of the Series A investor warrants shall be reduced to the lowest exercise or conversion price. The holders of the Series A placement agent warrants have the same down-round protection as the holders of the Series A investor warrants. The Company's Series A investor warrants and Series A placement agent warrants with down-round protection are not considered indexed to a company's own stock under ASC Subtopic 815-40, Contracts in Entity's Own Equity, and accordingly are accounted as derivatives.

The Company also determined that the Series C placement agent warrants are derivatives because the warrants require a net cash settlement if the Company fails to cause the transfer agent to timely transmit to the warrant holders a certificate or certificates representing the shares of common stock upon exercise.

Accordingly, the Company accounted for these warrants at fair value with changes in fair value recorded in earnings at each reporting period.

There were no outstanding warrants as of December 31, 2014.

The changes in the fair value of warrants during the years presented is as follow:

Series A investor warrants US\$	Series A placement agent warrants US\$	Series C placement agent warrants US\$	Total US\$
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As of December 31, 2012	915,189	66,077	27,484	1,008,750
Change in fair value	89,721	(7,586 )	(27,484 )	54,651
As of December 31, 2013	1,004,910	58,491	-	1,063,401
Change in fair value	1,929,565	(58,491 )	-	1,871,074 )
Exercise of warrants	(2,934,475)	-	-	(2,934,475)
As of December 31, 2014	-	-	-	-

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Note 18– Stock based compensation

Stock options issued to employees, directors and consultants

On May 26, 2009, the Board of Directors approved the adoption of the 2009 Stock Incentive Plan (the "2009 Plan"), which provides for the granting of stock options and other stock-based awards to key employees, directors and consultants of the Company. The aggregate number of common stock which may be issued under the 2009 Plan may not exceed 7,800,000 shares.

Nonvested shares

On August 7, 2010, the Company's Board of Directors approved the grant of 99,856 nonvested shares to four independent directors, two directors and certain executive officers and employees. 19,856 shares vested on February 7, 2011 and 80,000 shares vested on August 6, 2013.

On October 24, 2011, the Company's Board of Directors approved the grant of 26,405 nonvested shares to four independent directors, all vested on April 24, 2012.

On August 7, 2012, the Company's Board of Directors approved the grant of (i) 230,000 nonvested shares to certain executive officers and employees which vested on August 6, 2015, (ii) 225,000 nonvested shares to 15 consultants which vested on February 7, 2013, and (iii) 10,000 nonvested shares to a former employee which vested on the date of grant.

On May 8, 2013, the Company's Board of Directors approved the grant of 26,361 nonvested shares to three independent directors, all of which vested on November 8, 2013.

On August 7, 2013, the Company's Board of Directors approved the grant of (i) 192,370 nonvested shares to certain executive officers and employees which will vest on August 7, 2016; (ii) 674,205 nonvested shares to 17 consultants and two independent directors which vested on February 7, 2014.

On August 7, 2014, the Company's Board of Directors approved the grant of (i) 282,460 nonvested shares to certain executive officers and employees which will vest on August 7, 2017; (ii) 9,488 nonvested shares to two independent directors all of which vested on February 7, 2015.

On August 7, 2015, the Company's Board of Directors approved the grant of (i) 192,300 nonvested shares to certain executive officers and employees which will vest on August 7, 2018; (ii) 10,907 nonvested shares to three independent directors which will vest on February 7, 2016.

A summary of the nonvested shares activity for the years ended December 31, 2015, 2014 and 2013 is as follows:

	Number of Nonvested Shares	Weighted Average Grant date Fair Value US\$
Outstanding as of December 31, 2012	513,000	4.66
Granted	892,936	4.52
Vested	(311,361 )	4.74
Forfeited	(4,000 )	4.37
Outstanding as of December 31, 2013	1,090,575	4.89
Granted	291,948	5.13
Vested	(674,205 )	4.58
Forfeited	(61,030 )	4.47
Outstanding as of December 31, 2014	647,288	5.00
Granted	203,207	6.00
Vested	(171,488 )	4.40
Forfeited	(64,280 )	4.65
Outstanding as of December 31, 2015	614,727	5.54
Expected to vest as of December 31, 2015	561,237	5.54

The total fair value of shares vested during the years ended December 31, 2015, 2014 and 2013 was US\$754,547, US\$3,090,766 and US\$1,499,941, respectively.

The Company recognized US\$813,699, US\$1,003,040 and US\$3,630,565 of compensation expense in general and administrative expenses relating to nonvested shares for the years ended December 31, 2015, 2014 and 2013, respectively.

As of December 31, 2015, total unrecognized compensation cost relating to nonvested shares was US\$1,903,077, which is to be recognized over a weighted average period of 1.65 years.

#### Stock options

On August 7, 2010, the Company's Board of Directors approved the grant of stock options to purchase 445,500 shares of the Company's common stock to two directors and certain executive officers and employees at an exercise price of US\$8.01. The options vest over a three-year period beginning on each anniversary of the date of grant. One-third of the options expired on August 7, 2011, 2012 and 2013, respectively.

On October 10, 2015, the Company's Board of Directors approved the grant of stock options to purchase 72,000 shares of the Company's common stock to six consultants at an exercise price of US\$0.24. The options vest over a three-month period and vested on February 1, 2016.

On October 10, 2015, the Company's Board of Directors also approved the grant of stock options to purchase 450,000 shares of the Company's common stock to three sales consultants at an exercise price of US\$0.24. The options have a performance condition which requires the consultants to develop specified number of new end customers during the service period of one year. The options can be vested at the end of six month if the performance condition is met. The awards will be forfeited if such performance condition is not met at the end of the service period. Selling and

marketing expenses are recognized through the period of service as the service is performed and adjusted for changes in fair value until performance is complete.

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A summary of stock options activity for the years ended December 31, 2015, 2014 and 2013 is as follows.

	Number of Options Outstanding	Weighted Average Exercise Price US\$
Outstanding as of December 31, 2012	148,500	8.01
Expired	(148,500 )	8.01
Outstanding as of December 31, 2013 and 2014	-	-
Granted	72,000	0.24
Outstanding as of December 31, 2015	72,000	0.24

The Company recognized US\$230,463, nil and US\$127,215 of share-based compensation expense in general and administration expenses relating to stock options for the years ended December 31, 2015, 2014 and 2013, respectively.

Note 19– Earnings per share

Basic and diluted earnings per share are calculated as follows:

	Years Ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
Numerator:			
Net income	83,732,279	120,776,369	133,838,845
Less:			
Earnings allocated to participating Series D convertible preferred stock	(20,350,826)	(29,552,623 )	(33,229,887 )
Earnings allocated to participating nonvested shares	(770,145 )	(1,026,493 )	(1,347,073 )
Net income for basic and diluted earnings per share	62,611,308	90,197,253	99,261,885
Denominator:			
Denominator for basic earnings per share	49,225,566	48,833,434	47,794,028
Dilutive effect of outstanding share options	3,894	-	-
Denominator for diluted earnings per share	49,229,460	48,833,434	47,794,028
Earnings per common share:			
Basic and diluted earnings per common share	1.27	1.85	2.08

The following table summarizes potentially dilutive securities excluded from the calculation of diluted earnings per share for the years ended December 31, 2015, 2014 and 2013, because their effects are anti-dilutive:

	Years Ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
Numerator:			
Shares issuable upon conversion of Series D convertible preferred stocks	16,000,000	16,000,000	16,000,000
Shares issuable upon exercise of Series A investor warrant	-	-	1,320,696
Shares issuable upon exercise of Series A placement agent warrant	-	-	117,261



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## Note 20– Statutory reserves

Under PRC rules and regulations, all subsidiaries of China XD in the PRC are required to appropriate 10% of their net income, as determined in accordance with PRC accounting rules and regulations, to a statutory surplus reserve until the reserve balance reaches 50% of their registered capital. The appropriation to this statutory surplus reserve must be made before distribution of dividends to China XD can be made. The statutory reserve is non-distributable, other than during liquidation, and can be used to fund previous years losses, if any, and may be converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of the shares currently outstanding, provided that the remaining balance of the statutory reserve after such issue is not less than 25% of the registered capital.

For the years ended December 31, 2015, 2014 and 2013, China XD' subsidiaries in the PRC made appropriations to the reserve fund of RMB48,174,525 (equivalent to US\$7,651,365), RMB37,156,541 and RMB30,075,331 respectively. As of December 31, 2015, 2014 and 2013, the accumulated balance of the statutory surplus reserve was 140,005,280 (equivalent to US\$22,575,538), RMB91,830,755 and RMB54,674,214, respectively.

## Note 21– Commitments and contingencies

## (1) Lease commitments

Future minimum lease payments under non-cancellable operating leases agreements as of December 31, 2015 were as follows. The Company's leases do not contain any contingent rent payments terms.

	US\$
Years ending December 31,	
2016	1,469,537
2017	1,336,389
2018	885,979
2019	113,521
2020	113,521
2021 and thereafter	1,031,145

Rental expenses incurred for operating leases of plant and equipment and office spaces were US\$1,698,088, US\$1,476,640 and US\$1,042,894 in 2015, 2014 and 2013, respectively. There are no step rent provisions, escalation clauses, capital improvement funding requirements, other lease concessions or contingent rent in the lease agreements. The Company has no legal or contractual asset retirement obligations at the end of leases. The Company's leases do not contain any contingent rent payments terms.

## (2) Sichuan plant construction and equipment

On March 8, 2013, Xinda Holding (HK) Company Limited ("Xinda Holding (HK)") entered into an investment agreement with Shunqing Government, pursuant to which Xinda Holding (HK) will invest RMB1.8 billion in property, plant and equipment and approximately RMB0.6 billion in working capital, for the construction of Sichuan plant. As of December 31, 2015, the Company has a remaining commitment of RMB137.2 million (equivalent to US\$21.1 million) mainly for facility construction, and RMB17.9 million (equivalent to US\$2.8 million) for the acquisition of equipment.



## (3) Dubai plant construction and equipment

On January 5, 2015, AL Composites entered into an equipment purchase contract with Peaceful for a total consideration of US\$271.2 million to purchase certain production and testing equipment. As of December 31, 2015, the Company has a remaining commitment of US\$101.2 million for the remaining equipment acquisition. On April 28, 2015, AL Composites entered into a warehouse construction contract with Falcon Red Eye Contracting Co. L.L.C. for a total consideration of AED6.7 million (equivalent to US\$1.8 million). As of December 31, 2015, the Company has a remaining commitment of US\$0.9 million.

## (4) Xinda Group construction and equipment

As of December 31, 2015, Xinda Group has a remaining commitment of RMB8.9 million (equivalent to US\$ 1.4 million) for the acquisition of equipment.

## (5) Contingencies

The Company and certain of its officers were named as defendants in two putative securities class action lawsuits filed on July 15, 2014 and July 16, 2014 in the United States District Court for the Southern District of New York. The Court held a hearing on the Company's motion to dismiss on October 22, 2015, but has not yet issued a ruling. The Company, after consultation with its legal counsel, believes that the lawsuits are without merit and intends to vigorously defend against them. Nevertheless, there is a possibility that a loss may have been incurred. In accordance with ASC Topic 450, no loss contingency was accrued as of December 31, 2015 since the possible loss or range of loss cannot be reasonably estimated.

## Note 22 – Revenues

Revenues consist of the following:

	Years Ended December 31,		
	2015	2014	2013
	US\$	US\$	US\$
Modified Polyamide 66 (PA66)	219,082,301	192,374,156	195,471,978
Modified Polyamide 6 (PA6)	203,485,029	223,122,191	216,210,438
Plastic Alloy	350,620,202	400,306,257	296,635,139
Modified Polypropylene (PP)	164,828,880	232,421,229	286,263,653
Modified Acrylonitrile butadiene styrene (ABS)	40,510,344	36,804,599	32,440,913
Polyoxymethylenes (POM)	3,481,072	3,606,000	2,835,335
Polyphenylene Oxide (PPO)	12,984,368	14,830,647	13,570,734
Poly lactide (PLA)	5,661	13,952	-
Raw materials	3,373,854	7,206,661	5,373,656
Others	821,183	-	-
Subtotal	999,192,894	1,110,685,692	1,048,801,846
Service revenue	-	-	2,014,518
Total Revenue	999,192,894	1,110,685,692	1,050,816,364

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Note 23 – Selected Quarterly Financial Information (Unaudited)

The following tables show a summary of the Company's quarterly financial information for each of the four quarters of 2015 and 2014 (in millions, except gross margin and per share amounts):

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2015:				
Revenues	\$ 272.8	\$ 239.1	\$ 265.4	\$ 221.9
Gross profit	\$ 52.0	\$ 29.3	\$ 51.5	\$ 48.6
Net income	\$ 26.8	\$ 6.0	\$ 25.5	\$ 25.4

Earnings per share				
Basic and diluted	\$ 0.41	\$ 0.09	\$ 0.39	\$ 0.39

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2014:				
Revenues	\$ 307.1	\$ 315.7	\$ 264.2	\$ 223.6
Gross profit	\$ 58.1	\$ 65.4	\$ 52.3	\$ 46.6
Net income	\$ 35.7	\$ 43.2	\$ 19.8	\$ 22.0

Earnings per share				
Basic	\$ 0.54	\$ 0.66	\$ 0.30	\$ 0.34
Diluted	\$ 0.54	\$ 0.62	\$ 0.30	\$ 0.34

Note 24 – Geographic Revenue Information

The following summarizes the Company's revenues from the following geographic areas (based on the location of the customer):

	Years Ended December		
	2015 US\$	2014 US\$	2013 US\$
Revenues (in US\$ millions)			
PRC (excluding HK SAR, Macau SAR and Taiwan)	927.6	970.5	1,050.8
ROK	71.6	140.1	-
Total	999.2	1,110.6	1,050.8

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