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China XD Plastics Co Ltd
Form 10-Q
August 06, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 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 Number: 000-53131

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, Heilongjiang Province, PRC 150060
(Address of principal executive offices) (Zip Code)

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

(Former name, former address and former fiscal year, if changed since last report)

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

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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 Exchange Act). Yes
No

As of August 3, 2015, the registrant had 49,151,796 shares of common stock, par value US\$0.0001 per share, outstanding.

TABLE OF CONTENTS

| | PAGE |
|---|------|
| PART I. FINANCIAL INFORMATION | 2 |
| Item 1. Financial Statements | 2 |
| Unaudited Condensed Consolidated Balance Sheets | 2 |
| Unaudited Condensed Consolidated Statements of Comprehensive Income | 3 |
| Unaudited Condensed Consolidated Statements of Cash Flows | 4 |
| Notes to the Unaudited Condensed Consolidated Financial Statements | 5 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 16 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 29 |
| Item 4. Controls and Procedures | 29 |
| PART II. OTHER INFORMATION | 30 |
| Item 1. Legal Proceedings | 30 |
| Item 1A. Risk Factors | 30 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 30 |
| Item 3. Defaults Upon Senior Securities | 30 |
| Item 4. Mine Safety Disclosures | 30 |
| Item 5. Exhibits | 30 |
| Signatures | 31 |

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2015 US\$ | December 31, 2014 US\$ |
|--|--------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | 52,702,280 | 45,456,612 |
| Restricted cash | 43,587,432 | 12,545,772 |
| Time deposits | 231,779,552 | 238,532,702 |
| Accounts receivable, net | 211,803,068 | 203,998,138 |
| Amounts due from a related party | - | 220,262 |
| Inventories | 287,072,414 | 249,797,244 |
| Prepaid expenses and other current assets | 9,384,107 | 11,253,828 |
| Total current assets | 836,328,853 | 761,804,558 |
| Property, plant and equipment, net | 315,022,041 | 318,324,600 |
| Land use rights, net | 18,707,621 | 11,896,542 |
| Prepayments to equipment and construction suppliers | 294,418,527 | 182,259,578 |
| Other non-current assets | 40,904,920 | 25,499,744 |
| Total assets | 1,505,381,962 | 1,299,785,022 |
| LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term bank loans, including current portion of long-term bank loans | 217,468,948 | 99,735,422 |
| Bills payable | 50,561,363 | 43,389,928 |
| Accounts payable | 190,971,174 | 152,073,014 |
| Amounts due to related parties | 141,834 | - |
| Income taxes payable | 4,864,511 | 3,269,115 |
| Accrued expenses and other current liabilities | 25,534,299 | 24,484,583 |
| Total current liabilities | 489,542,129 | 322,952,062 |
| Long-term bank loans, excluding current portion | 130,407,653 | 174,274,446 |
| Notes payable | 148,750,658 | 148,617,057 |
| Income taxes payable | 18,460,593 | 14,025,825 |
| Deferred income tax liabilities | 15,797,125 | 16,951,551 |
| Deferred income | 28,972,444 | - |
| Total liabilities | 831,930,602 | 676,820,941 |
| Redeemable Series D convertible preferred stock | 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, 49,182,284 shares and 49,172,796 shares issued, 49,161,284 shares and 49,151,796 shares outstanding as of June 30, 2015 and December 31, 2014, respectively | 4,917 | 4,916 |

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| | | | |
|--|---------------|---------------|---|
| Treasury stock, 21,000 shares at cost | (92,694 |) (92,694 |) |
| Additional paid-in capital | 81,262,157 | 80,875,787 | |
| Retained earnings | 482,706,335 | 431,823,706 | |
| Accumulated other comprehensive income | 11,994,080 | 12,775,801 | |
| Total stockholders' equity | 575,874,895 | 525,387,616 | |
| Commitments and contingencies | - | - | |
| Total liabilities, redeemable convertible preferred stock and stockholders' equity | 1,505,381,962 | 1,299,785,022 | |

See accompanying notes to unaudited condensed consolidated financial statements.

2

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

| | Three-Month Period Ended | | Six-Month Period Ended June | |
|--|--------------------------|---------------|-----------------------------|---------------|
| | June 30, | | 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| | US\$ | US\$ | US\$ | US\$ |
| Revenues | 265,412,742 | 264,208,995 | 487,339,137 | 487,789,670 |
| Cost of revenues | (213,919,846) | (211,909,052) | (387,203,965) | (388,841,389) |
| Gross profit | 51,492,896 | 52,299,943 | 100,135,172 | 98,948,281 |
| Selling expenses | (438,041) | (135,625) | (734,861) | (257,953) |
| General and administrative expenses | (6,592,032) | (4,553,144) | (11,556,790) | (8,349,508) |
| Research and development expenses | (6,659,310) | (13,355,881) | (12,473,173) | (21,986,615) |
| Total operating expenses | (13,689,383) | (18,044,650) | (24,764,824) | (30,594,076) |
| Operating income | 37,803,513 | 34,255,293 | 75,370,348 | 68,354,205 |
| Interest income | 2,466,291 | 3,454,649 | 4,894,362 | 6,490,014 |
| Interest expense | (11,038,295) | (11,614,261) | (21,667,648) | (20,194,238) |
| Foreign currency exchange gains (losses) | 322,056 | 406,479 | 231,641 | (72,711) |
| Gains (losses) on foreign currency forward contracts | 305,825 | (934,765) | 660,344 | (934,765) |
| Change in fair value of warrants liability | - | (906,006) | - | (1,068,745) |
| Government grant | 4,814 | 12,974 | 4,814 | 1,324,213 |
| Total non-operating expense, net | (7,939,309) | (9,580,930) | (15,876,487) | (14,456,232) |
| Income before income taxes | 29,864,204 | 24,674,363 | 59,493,861 | 53,897,973 |
| Income tax expense | (4,385,601) | (4,837,703) | (8,611,232) | (12,065,262) |
| Net income | 25,478,603 | 19,836,660 | 50,882,629 | 41,832,711 |
| Earnings per common share: | | | | |
| Basic and diluted | 0.39 | 0.30 | 0.77 | 0.64 |
| Net Income | 25,478,603 | 19,836,660 | 50,882,629 | 41,832,711 |
| Other comprehensive income (loss) | | | | |
| Foreign currency translation adjustment, net of nil income taxes | (616,961) | 1,346,532 | (781,721) | (12,842,203) |
| Comprehensive income | 24,861,642 | 21,183,192 | 50,100,908 | 28,990,508 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Six-Month Period Ended June 30, | |
|---|---------------------------------|-----------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Cash flows from operating activities: | | |
| Net cash provided by operating activities | 71,660,883 | 61,291,114 |
| Cash flows from investing activities: | | |
| Proceeds from maturity of time deposits | 237,499,197 | 259,984,756 |
| Purchase of time deposits | (231,080,300) | (362,130,254) |
| Purchase of land use rights | (6,904,447) | - |
| Purchase of and deposits for property, plant and equipment | (119,535,975) | (86,442,465) |
| Net cash used in investing activities | (120,021,525) | (188,587,963) |
| Cash flows from financing activities: | | |
| Proceeds from bank borrowings | 323,407,459 | 422,150,363 |
| Repayments of bank borrowings | (238,181,426) | (383,003,049) |
| Proceeds from issuance of the Notes | - | 148,396,175 |
| Payment of issuance costs of the Notes | - | (3,970,357) |
| Proceeds from the exercise of Series A investor warrants | - | 596,740 |
| Release of restricted cash as collateral for bank borrowings | - | 3,243,383 |
| Placement of restricted cash as collateral for bank borrowings | (29,729,123) | (20,595,485) |
| Net cash provided by financing activities | 55,496,910 | 166,817,770 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | 109,400 | (2,211,225) |
| Net increase in cash and cash equivalents | 7,245,668 | 37,309,696 |
| Cash and cash equivalents at beginning of period | 45,456,612 | 95,545,904 |
| Cash and cash equivalents at end of period | 52,702,280 | 132,855,600 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid, net of capitalized interest | 20,159,080 | 12,985,268 |
| Income taxes paid | 3,706,530 | 23,029,798 |
| Non-cash investing and financing activities: | | |
| Government grant related to construction in the form of repayment of bank loan on behalf of the Company by the government | | 11,267,062 - |
| Accrual for purchase of equipment and construction | | 295,893 564,103 |

See accompanying notes to unaudited condensed consolidated financial statements

CHINA XD PLASTICS COMPANY LIMITED AND SUBSIDIARIES
 NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of presentation, significant concentrations and risks

(a) Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the United States Securities and Exchange Commission ("SEC"). The condensed consolidated balance sheet as of December 31, 2014 was derived from the audited consolidated financial statements of China XD Plastics Company Limited ("China XD") and subsidiaries (collectively, the "Company"). The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated balance sheet of the Company as of December 31, 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, included in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2015.

In the opinion of the management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of the financial position as of June 30, 2015, the results of operations for the three-month and six-month periods ended June 30, 2015 and 2014, and the cash flows for the six-month periods ended June 30, 2015 and 2014, have been made.

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 collectibility 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.

(b) Significant concentrations and risks

Sales concentration

The Company sells its products primarily through approved distributors in the People's Republic of China (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 end customer, which individually exceeded 10% of the Company's revenues for the three month and six months periods ended June 30, 2015 and 2014, are as follows:

| | Three-Month Period Ended June 30, | | | |
|---------------|-----------------------------------|-------|------------|-------|
| | 2015 | | 2014 | |
| | US\$ | % | US\$ | % |
| Distributor A | 47,121,285 | 17.8% | 46,122,237 | 17.5% |
| Distributor B | 38,766,823 | 14.6% | 34,853,678 | 13.2% |
| Distributor C | 32,232,229 | 12.1% | 35,872,313 | 13.6% |

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| | | | | |
|-----------------------------------|-------------|-------|-------------|-------|
| Distributor D | 28,722,000 | 10.8% | 36,194,327 | 13.7% |
| Distributor E | 27,377,033 | 10.3% | 22,881,624 | 8.7 % |
| Direct Customer F, located in ROK | 29,139,000 | 11.0% | 19,970,900 | 7.6 % |
| Total | 203,358,370 | 76.6% | 195,895,079 | 74.3% |

5

| | Six-Month Period Ended June 30, | | | |
|-----------------------------------|---------------------------------|-------|-------------|-------|
| | 2015 | | 2014 | |
| | US\$ | % | US\$ | % |
| Distributor A | 82,134,181 | 16.9% | 82,477,849 | 16.9% |
| Distributor B | 71,578,657 | 14.7% | 67,433,893 | 13.8% |
| Distributor C | 58,437,523 | 12.0% | 68,405,706 | 14.0% |
| Distributor D | 51,380,046 | 10.5% | 69,391,812 | 14.2% |
| Distributor E | 49,664,900 | 10.2% | 42,212,473 | 8.7% |
| Direct Customer F, located in ROK | 64,085,900 | 13.2% | 19,970,900 | 4.1% |
| Total | 377,281,207 | 77.5% | 349,892,633 | 71.7% |

The Company expects revenues from these distributors and the customer to continue to represent a substantial portion of its revenue in the future. Any factor 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. Company purchased its raw materials through five and eight distributors, which individually exceeded 10% of the Company's total raw material purchases, accounted for approximately 71.8% and 81.1% of the Company's total raw materials purchases for the three-month periods ended June 30, 2015 and 2014, respectively, and 67.1% and 79.0% of the Company's total raw materials purchases for the six-month periods ended June 30, 2015 and 2014, 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 major equipment distributors, which accounted for 96.1% and 98.6% of the Company's total equipment purchases for the three-month periods ended June 30, 2015 and 2014, respectively, and accounted for 97.9% and 97.5% of the Company's total equipment purchases for the six-month periods ended June 30, 2015 and 2014. 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 would 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 3.4% and nil of the Company's total equipment purchases for the three-month periods ended June 30, 2015 and 2014, respectively, and 37.4% and 3.0% of the Company's total equipment purchases for the six-month periods ended June 30, 2015 and 2014, respectively, is also the majority owner of sales Distributor D presented above.

Cash concentration

Cash and cash equivalents, restricted cash and time deposits maintained at banks consist of the following:

| | June 30, 2015 US\$ | December 31, 2014 US\$ |
|-------------------------------------|--------------------------|------------------------------|
| RMB denominated bank deposits with: | | |

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| | | |
|---|-------------|-------------|
| Financial Institutions in the PRC | 353,954,158 | 311,377,750 |
| Financial Institutions in Hong Kong Special Administrative Region ("Hong Kong SAR") | 4,212 | 2,617 |
| Financial Institution in Dubai, United Arab Emirates ("UAE") | 8,183 | 170 |
| U.S. dollar denominated bank deposits with: | | |
| Financial Institution in the U.S. | 195,624 | 770,704 |
| Financial Institutions in the PRC | 17,142 | 17,139 |
| Financial Institution in Hong Kong SAR | 323,962 | 1,366,224 |
| Financial Institution in Macau Special Administrative Region ("Macau SAR") | 4,104,707 | 47,868 |
| Financial Institution in Dubai, UAE | 4,870,136 | 481,179 |
| Euro denominated bank deposits with: | | |
| Financial institution in Hong Kong SAR | - | 83,017 |
| Financial institution in Dubai, UAE | 3,091 | 3,355 |
| HK dollar denominated bank deposits with: | | |
| Financial institution in Hong Kong SAR | 394 | 581 |
| Dirham denominated bank deposits with: | | |
| Financial institution in Dubai, UAE | 14,562 | 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 and Macau SAR with acceptable credit rating.

Cash deposits in bank that are restricted as to withdrawal or usage for up to 12 months are reported as restricted cash in the condensed consolidated balance sheets and excluded from cash in the condensed consolidated statements of cash flows. Cash deposits that are restricted for period beyond 12 months from the balance sheet date are included in other non-current assets in the condensed consolidated balance sheets.

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\$13,768,349 and US\$11,868,855 as of June 30, 2015 and December 31, 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 June 30, 2015 and December 31, 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 condensed consolidated statements of cash flows.

Cash deposits in the amount of US\$17,744,510 were restricted relating to the government grant as of June 30, 2015 (note 12), and included in other non-current assets. The cash flows from the pledged bank deposits, which relate to government grant for construction of assets, are reported within cash flows from investing activities in the condensed consolidated statements of cash flows.

Short-term bank deposits that are pledged as collateral for short-term bank borrowings are reported as restricted cash and amounted to US\$13,723,281 and nil as of June 30, 2015 and December 31, 2014, respectively. Short-term bank deposits that are pledged as collateral for long-term bank borrowings are reported as restricted cash and amounted to US\$16,095,802 and nil as of June 30, 2015 and December 31, 2014, respectively. Long-term bank deposits that are pledged as collateral for issuance of letter of guarantee are reported as other non-current assets and amounted to US\$17,705,382 and US\$17,728,782 as of June 30, 2015 and December 31, 2014, respectively. The cash flows from such bank deposits are reported within cash flows from financing activities in the condensed consolidated statements of cash flows.

Note 2 - Accounts receivable

Accounts receivable consists of the following:

| | June 30, 2015 US\$ | December 31, 2014 US\$ |
|---------------------------------|--------------------------|------------------------------|
| Accounts receivable | 211,912,835 | 204,108,050 |
| Allowance for doubtful accounts | (109,767) | (109,912) |

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Accounts receivable, net 211,803,068 203,998,138

As of June 30, 2015 and December 31, 2014, the accounts receivable balances also include notes receivable in the amount of US\$1,472,406 and US\$921,907, respectively. As of June 30, 2015 and December 31, 2014, nil and US\$50,473,063 of accounts receivable are pledged for the short-term bank loans, respectively.

There was no accrual of additional provision or write-off of accounts receivable for the three-month and six-month periods ended June 30, 2015 and 2014.

7

Note 3 - Inventories

Inventories consist of the following:

| | June 30, 2015 | December 31, 2014 |
|-------------------|---------------|----------------------|
| | US\$ | US\$ |
| Raw materials | 256,203,379 | 241,853,814 |
| Work in progress | 226,881 | 207,181 |
| Finished goods | 30,642,154 | 7,736,249 |
| Total inventories | 287,072,414 | 249,797,244 |

There were no write down of inventories for the three-month and six-month periods ended June 30, 2015 and 2014.

Note 4 – Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following:

| | June 30, 2015 | December 31, 2014 |
|---|------------------|----------------------|
| | US\$ | US\$ |
| Advances to suppliers | 247,022 | 168,614 |
| Value added taxes receivables | 2,283,841 | 6,407,547 |
| Interest receivable | 3,438,119 | 3,351,672 |
| Others | 3,415,125 | 1,325,995 |
| Total prepaid expenses and other current assets | 9,384,107 | 11,253,828 |

Others mainly include prepaid interest expenses and staff advances.

Note 5 – Property, plant and equipment, net

Property, plant and equipment consist of the following:

| | June 30, 2015 | December 31, 2014 |
|-------------------------------------|------------------|----------------------|
| | US\$ | US\$ |
| Machinery, equipment and furniture | 263,516,693 | 209,509,700 |
| Motor vehicles | 1,984,993 | 1,854,985 |
| Workshops and buildings | 79,383,200 | 79,009,346 |
| Construction in progress | 48,887,660 | 93,970,716 |
| Total property, plant and equipment | 393,772,546 | 384,344,747 |
| Less accumulated depreciation | (78,750,505) | (66,020,147) |
| Property, plant and equipment, net | 315,022,041 | 318,324,600 |

For the three-month and six-month periods ended June 30, 2015, the Company capitalized US\$168,306 of interest costs as a component of the cost of construction in progress, respectively. Depreciation expense on property, plant and equipment was allocated to the following expense items:

| | Three-Month Period Ended June 30, | |
|-------------------------------------|---|-----------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Cost of revenues | 5,525,990 | 4,638,160 |
| General and administrative expenses | 403,135 | 319,502 |
| Research and development expenses | 901,082 | 527,963 |
| Selling expense | 223 | - |
| Total depreciation expense | 6,830,430 | 5,485,625 |

| | Six-Month Period Ended June 30, | |
|-------------------------------------|------------------------------------|------------|
| | 2015 | 2014 |
| | US\$ | US\$ |
| Cost of revenues | 10,305,578 | 9,508,815 |
| General and administrative expenses | 778,263 | 621,783 |
| Research and development expenses | 1,696,801 | 959,972 |
| Selling expense | 223 | - |
| Total depreciation expense | 12,780,865 | 11,090,570 |

Note 6 - Prepayments to equipment suppliers

On March 8, 2013, Xinda Holding (HK) Co, Ltd. ("Xinda Holding (HK)") entered into an investment agreement with Nanchong Government, pursuant to which Xinda Holding (HK) will invest RMB1.8 billion (equivalent to US\$289.7 million) in property, plant and equipment and approximately RMB0.6 billion (equivalent to US\$96.6 million) in working capital, for the construction of the Sichuan plant. In December 2013, the Company entered into an equipment purchase contract with Harbin Jiamu Import & Export Trading Co., Ltd ("Jiamu") for a total consideration of RMB1,629.3 million (equivalent to US\$262.3 million) to purchase 70 production lines and RMB89.7 million (equivalent to US\$14.4 million) to purchase testing equipment. As of June 30, 2015 and December 31, 2014, the Company has paid RMB1,375.2 million (equivalent to US\$221.4 million) and RMB1,130.9 million (equivalent to US\$182.3 million) for production lines and testing equipment, respectively.

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\$65.6 million as prepayments as of June 30, 2015.

Note 7 – Fair value measurement

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, amounts due to related parties, income taxes 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 June 30, 2015, the carrying amount and estimated fair value of the notes payable were US\$ 148,750,658 and US\$ 146,062,500, respectively.

Derivative assets on foreign currency forward contract- fair value is 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.

Note 8 – Borrowings

(a) Current

| | June 30, 2015 US\$ | December 31, 2014 US\$ |
|---|--------------------------|------------------------------|
| Unsecured loans | 70,821,530 | 47,223,028 |
| Secured loans by accounts receivable | - | 40,292,686 |
| Guaranteed loans by a third-party (ii) | 27,362,863 | - |
| Secured loans by restricted cash (iii) | 35,600,000 | - |
| Current portion of long-term bank loans (note b) | 83,684,555 | 12,219,708 |
| Total short-term loans, including current portion of long-term bank loans | 217,468,948 | 99,735,422 |

As of June 30, 2015 and December 31, 2014, the Company's short-term bank loans bear a weighted average (i) interest rate of 4.03% and 5.7% per annum, respectively. All short-term bank loans mature at various times within one year and contain no renewal terms.

(ii) On February 11, 2015, the Company obtained RMB140 million (US\$22.6 million) bank loan at an annual interest rate of 5.32%, from Bank of Communications, and RMB100 million (US\$16.1 million) bank loan at an annual interest rate of 5.32%, from Bank of Construction banks in Nanchong City, Sichuan. These two loans were guaranteed by an investment company affiliated with the People's Government of Shunqing District, Nanchong City, Sichuan Province ("Shunqing Government") and were issued to support the Company's construction of a production plant in Nanchong City, Sichuan and will be paid off in five installments. The first installment in the amount of RMB70 million (US\$11.3 million) was paid on April 30, 2015. The last installment will become due and payable on November 30, 2015.

(iii) On January 15, 2015, the Company obtained a 350-day secured loan of US\$12.0 million from HSBC Bank Middle East Limited in Dubai, UAE at an annual interest rate of 3-month London Inter-Bank Offered Rate ("LIBOR") (0.2832% as of June 30, 2015) plus 1.8%. On February 2, 2015, the Company obtained another 351-day secured loan of US\$16.6 million from HSBC Bank Middle East Limited in Dubai, UAE at an interest rate of 3-month LIBOR (0.2832% as of June 30, 2015) plus 1.8%. These loans were secured by restricted cash of RMB39.3 million (equivalent to US\$6.3 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 Luxemburg Branch at an annual interest rate of one-year LIBOR (0.7715% as of June 30, 2015) plus 0.75%. These loans were secured by restricted cash of RMB45.9 million (equivalent to US\$7.4 million) by the Bank of China in Harbin, China.

(b) Non-current

| | June 30, 2015 | December 31, 2014 |
|--|---------------|----------------------|
| | US\$ | US\$ |

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| | | |
|---|-------------|-------------|
| Secured loans | 83,164,800 | 70,000,000 |
| Unsecured loans | 130,927,408 | 116,494,154 |
| Less: current portion | 83,684,555 | 12,219,708 |
| Total long-term bank loans, excluding current portion | 130,407,653 | 174,274,446 |

10

During March and April 2014, the Company obtained two 15-month unsecured loans of RMB50 million (equivalent to US\$8.0 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 June 12, 2014, the Company obtained a three-year secured loan of US\$70 million from Bank of China at interest rate of 3-month LIBOR (0.2832% as of June 30, 2015). The loan is secured by restricted cash of US\$17.7million. The Company has repaid US\$2 million on June 9, 2015.

On January 23, 2015, the Company obtained a two-year unsecured loan of RMB100 million (equivalent to US\$16.1 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, at an interest rate of LIBOR (0.2832% as of June 30, 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\$16.1 million).

On April 22, 2015, the Company obtained a two-year unsecured loan of RMB40 million (equivalent to US\$6.4 million) at an annual interest rate of 5.75% from Agriculture Bank of China.

As of June 30, 2015, the Company had total lines of credit of RMB3,348.5 million (US\$538.8 million). As of June 30, 2015, the Company has unused lines of credit of RMB1,222.9 million (US\$196.8 million) with remaining terms less than 12 months and RMB134.3million (US\$21.6 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 June 30, 2015, the Company has met these financial covenants.

Note 9 - Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consist of the following:

| | June 30, 2015 | December 31, 2014 |
|--|------------------|----------------------|
| | US\$ | US\$ |
| Payables for purchase of property, plant and equipment | 7,182,356 | 7,234,607 |
| Accrued freight expenses | 3,211,971 | 1,688,431 |
| Accrued interest expenses | 9,784,921 | 9,031,741 |
| Others | 5,355,051 | 6,529,804 |
| Total accrued expenses and other current liabilities | 25,534,299 | 24,484,583 |

Others mainly represent accrued payroll and employee benefits, non income taxes payables and other accrued miscellaneous operating expenses.

Note 10 – 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:

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| | Three-Month Period Ended June 30, | | Six-Month Period Ended June 30, | |
|--|---|--------------|------------------------------------|--------------|
| | 2015 US\$ | 2014 US\$ | 2015 US\$ | 2014 US\$ |
| Costs and expenses resulting from transactions with related parties: | | | | |
| Rental expenses for plant and office spaces | 165,500 | 195,677 | 360,714 | 395,588 |

The related party balances are summarized as follows:

| | June 30, 2015 | December 31, 2014 |
|--|---------------|-------------------|
| | US\$ | US\$ |
| Amounts due from a related party: | | |
| Prepaid rent expenses to Xinda High-Tech | - | 220,262 |
| Total: | - | 220,262 |

| | | |
|-----------------------------------|---------|---|
| Amounts due to a related party: | | |
| Rental payable to Xinda High-Tech | 128,195 | - |
| Rental payable to Mr Han's son | 13,639 | - |
| Total: | 141,834 | - |

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

| Premise Leased | Area (M ²) | Annual Rental Fee (US\$) | Period of Lease |
|-----------------|---------------------------|-----------------------------------|---|
| Office building | 23,894 | 766,851 | Between January 1, 2014 and December 31, 2018 |

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

| Premise Leased | Area (M ²) | Annual Rental Fee (US\$) | Period of Lease |
|----------------|---------------------------|-----------------------------------|---|
| Facility | 3,134 | 16,047 | Between January 1, 2015 and December 31, 2015 |
| Facility | 200 | 6,419 | Between August 17, 2014 and August 16, 2015 |

Note 11– Income taxes

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. Under the current laws of Dubai, AL Composites is exempted from income taxes.

The effective income tax rate for the six-month periods ended June 30, 2015 and 2014 were 14.3% and 22.3%, respectively. The effective income tax rate for the six-month period ended June 30, 2015 differs from the PRC statutory income tax rate of 25% primarily due to the above mentioned Dubai exempt from income taxes, Sichuan Xinda Group's preferential income tax rate, and Sichuan Xinda Group's R&D expense bonus tax deduction, partially offsetting by effect of tax rate differential on entities not subject to PRC income tax, effect of non-deductible expenses and increase of valuation allowances against deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

As of June 30, 2015, the unrecognized tax benefits were US\$18,460,593 and the interest relating to unrecognized tax benefits was US\$2,038,387. No penalties expense related to unrecognized tax benefits were recorded. 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.

Note 12 – Deferred Income

On January 26, 2015, the Company entered into a memorandum and a fund support agreement with the People's Government of Shunqing District, Nanchong City, Sichuan Province ("Shunqing Government") pursuant to which Shunqing Government, through its investment vehicle, extended to the Company RMB110 million (equivalent to US\$17.7 million) interest free fund to support the construction of the Sichuan plant. In June 2015, the Company received additional RMB70 million (equivalent to US\$11.2 million) from Shunqing Government in the form of government repayment of bank loans on behalf of the Company. Since both funding are related to construction of long-term assets, the amounts were recognized as government grant, which is included in deferred income on the unaudited condensed consolidated balance sheet, and to be recognized as other income in the consolidated statement of comprehensive income over the periods and in the proportions in which depreciation expense on the long-term assets is recognized.

Note 13 – Stockholders' equity

The changes of each caption of stockholders' equity for the six-month period ended June 30, 2015 are as follows:

| | Series B Preferred Stock Number of Shares | Amount US\$ | Common Stock Number of Shares | Amount US\$ | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|-----------------------------------|--|----------------|-------------------------------------|----------------|-------------------|----------------------------------|----------------------|---|----------------------------------|
| Balance as of January 1, 2015 | 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 | - | - | - | - | - | - | 50,882,629 | - | 50,882,629 |
| Other comprehensive loss | - | - | - | - | - | - | - | (781,721) | (781,721) |
| Stock based compensation | - | - | - | - | - | 386,371 | - | - | 386,371 |
| Vesting of nonvested shares | - | - | 9,488 | 1 | - | (1) | - | - | - |
| Balance as of June 30, 2015 | 1,000,000 | 100 | 49,161,284 | 4,917 | (92,694) | 81,262,157 | 482,706,335 | 11,994,080 | 575,874,895 |

Note 14 – Stock based compensation

A summary of the nonvested shares activity for the six-month ended June 30, 2015 is as follows:

| | Number of Nonvested Shares | Weighted Average Grant date Fair Value US\$ |
|-------------------------------------|----------------------------------|--|
| Outstanding as of December 31, 2014 | 647,288 | 5.00 |
| Vested | (9,488) | 4.15 |
| Forfeited | (47,830) | 4.63 |
| Outstanding as of June 30, 2015 | 589,970 | 5.04 |

The Company recognized US\$130,645 and US\$122,091 of share-based compensation expense in general and administration expenses relating to nonvested shares for the three-month periods ended June 30, 2015 and 2014, respectively, and US\$386,371 and US\$532,939 of share-based compensation expense in general and administration expenses relating to nonvested shares for the six-month periods ended June 30, 2015 and 2014, respectively. As of June 30, 2015, there was US\$1,219,064 total unrecognized compensation cost relating to nonvested shares, which is to be recognized over a weighted average period of 1.26 years.

Note 15 - Earnings per share

Basic and diluted earnings per share are calculated as follows:

| | Three-Month Period Ended June 30, | | Six-Month Period Ended June 30, | |
|--|--------------------------------------|--------------|------------------------------------|---------------|
| | 2015 US\$ | 2014 US\$ | 2015 US\$ | 2014 US\$ |
| Net income | 25,478,603 | 19,836,660 | 50,882,629 | 41,832,711 |
| Less: | | | | |
| Earnings allocated to participating Series D convertible preferred stock | (6,199,413) | (4,869,197) | (12,379,759) | (10,284,553) |
| Earnings allocated to participating nonvested shares | (230,996) | (119,614) | (466,567) | (352,376) |
| Net income for basic and diluted earnings per share | 19,048,194 | 14,847,849 | 38,036,303 | 31,195,782 |
| Denominator | | | | |
| Denominator for basic and diluted earnings per share | 49,161,284 | 48,789,480 | 49,159,344 | 48,532,252 |
| Earnings per share: | | | | |
| Basic and diluted | 0.39 | 0.30 | 0.77 | 0.64 |

The following table summarizes potentially dilutive securities excluded from the calculation of diluted earnings per share for the three-month periods and six-month periods ended June 30, 2015 and 2014 because their effects are anti-dilutive:

| | Three-Month Period Ended June 30, | | Six-Month Period Ended June 30, | |
|---|--------------------------------------|------------|------------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Shares issuable upon conversion of Series D convertible preferred stock | 16,000,000 | 16,000,000 | 16,000,000 | 16,000,000 |
| Shares issuable upon exercise of Series A investor warrant | - | 438,038 | - | 438,038 |
| Shares issuable upon exercise of Series A placement agent warrant | - | 117,261 | - | 117,261 |

Note 16 - Commitments and contingencies

(1) Lease commitments

Future minimum lease payments under non-cancellable operating leases agreements as of June 30, 2015 were as follows.

| | US\$ |
|---|-----------|
| Period from July 1, 2015 to December 31, 2015 | 651,896 |
| Years ending December 31, | |
| 2016 | 1,099,595 |
| 2017 | 963,302 |
| 2018 | 892,443 |
| 2019 | 112,866 |
| 2020 and thereafter | 1,147,475 |

Rental expenses incurred for operating leases of plant and office spaces were US\$499,500 and US\$302,480 for the three-month periods ended June 30, 2015 and 2014, respectively, and US\$728,649 and US\$620,708 for the six-month periods ended June 30, 2015 and 2014, 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) entered into an investment agreement with Shunqing Government, pursuant to which Xinda Holding (HK) will invest RMB1.8 billion (equivalent to US\$289.7 million) in property, plant and equipment and approximately RMB0.6 billion (equivalent to US\$96.6 million) in working capital, for the construction of Sichuan plant. As of June 30, 2015, the Company has a remaining commitment of RMB215.3 million (equivalent to US\$34.6 million) mainly for facility construction, and RMB343.8 million (equivalent to US\$55.3 million) for the acquisition of equipments.

(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 June 30, 2015, the Company has a remaining commitment of US\$205.6 million for the remaining equipment acquisition. On January 25, 2015, AL Composites entered into a facility purchase contract with Zettachem International Limited for a total consideration of AED12.5 million (equivalent to US\$3.4 million). As of June 30, 2015, the Company has a remaining commitment of US\$0.3 million.

(4) Xinda Group equipment

During the six-month period ended June 31, 2015, Xinda Group entered into a series of equipment purchase contracts with Jiamu for a total consideration of RMB93.2 million (equivalent to US\$15.0 million). As of June 30, 2015, the Company has a remaining commitment of RMB85.2 million (equivalent to US\$13.7 million) for the remaining equipment acquisition.

(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 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 June 30, 2015 since the possible loss or range of loss cannot be reasonably estimated.

Item 2. 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 2 "Management's Discussion and Analysis of Financial Condition and Results 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: economic conditions generally and the automotive modified plastics market specifically, legislative or regulatory changes that affect our business, including changes in regulation, 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.

Overview

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. 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 339 certifications from manufacturers in the automobile industry as of June 30, 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 257 professionals and 8 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 207 patents, six of which we have obtained the patent rights and the remaining 201 of which we have applications pending in China as of June 30, 2015.

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

The Company's products are primarily used in the production of exterior and interior trim and functional components of more than 27 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 June 30, 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 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 Group 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 Group. The Company expects Sichuan facility to be completed around the end of 2015 and early 2016. In order to meet the increasing demand from our customer in 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 16,200 metric tons ("Phase 2") of annual production capacity in that property by the end of 2015, bringing total production capacity in Dubai to 18,700 metric tons.

Highlights for the three months ended June 30, 2015 include:

Revenues were \$265.4 million, an increase of 0.5% from \$264.2 million in the second quarter of 2014

Gross profit was \$51.5 million, a decrease of 1.5% from \$52.3 million in the second quarter of 2014

Gross profit margin was 19.4%, compared to 19.8% in the second quarter of 2014

Net income was \$25.5 million, compared to \$19.8 million in the second quarter of 2014

Total volume shipped was 84,833 metric tons, up 4.0% from 81,584 metric tons in the second quarter of 2014

Results of Operations

The following table sets forth, for the periods indicated, statements of income data in millions of USD:

| (in millions, except percentage) | Three-Month | | | Six-Month | | | |
|----------------------------------|---------------|---------|----------|---------------|---------|----------|--|
| | Period Ended | | Change | Period Ended | | Change | |
| | June 30, 2015 | 2014 | | June 30, 2015 | 2014 | | |
| Revenues | 265.4 | 264.2 | 0.5 % | 487.3 | 487.8 | (0.1)% | |
| Cost of revenues | (213.9) | (211.9) | 0.9 % | (387.2) | (388.9) | (0.4)% | |
| Gross profit | 51.5 | 52.3 | (1.5)% | 100.1 | 98.9 | 1.2 % | |
| Total operating expenses | (13.7) | (18.0) | (23.9)% | (24.8) | (30.6) | (19.0)% | |
| Operating income | 37.8 | 34.3 | 10.2 % | 75.3 | 68.3 | 10.2 % | |
| Income before income taxes | 29.9 | 24.7 | 21.1 % | 59.4 | 53.8 | 10.4 % | |
| Income tax expense | (4.4) | (4.9) | (10.2)% | (8.5) | (12.0) | (29.2)% | |
| Net income | 25.5 | 19.8 | 28.8 % | 50.9 | 41.8 | 21.8 % | |

Three months ended June 30, 2015 compared to three months ended June 30, 2014

Revenues

Revenues were US\$265.4 million in the second quarter ended June 30, 2015, an increase of US\$1.2 million, or 0.5%, compared to US\$264.2 million in the same period of last year, due to approximately 4.0% increase in sales volume and 3.4% decrease in the average selling price of our products.

Vehicle sales in China grew by 1.4% in the first half of 2015, the slowest rate in approximately 24 years, amid which the State-backed auto association revised 2015 full year forecast to 3% 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 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 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. As previously disclosed, 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. The increase of revenues recognized by AL Composites Materials FZE ("AL Composites") from oversea market in the ROK was more than such decline.

(i) Domestic market

For the three months ended June 30, 2015, we had a decrease of 2.9% in sales volume and 6.6% in the average RMB selling price of our products, as compared with those of last year. However more sales were achieved in Southwest China because of our marketing efforts to develop new customers. As for the selling price, the decrease was mainly in lower-end product of modified PA6 and PA66 that we recently reformulated for customers in China in response to pricing pressure caused by the slowdown in China's auto industry.

(ii) Overseas market

For the three months ended June 30, 2015, we had an increase of 61.1% in sales volume partially offset by 9.4% decrease in the average 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.

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

| (in millions, except percentage) | Revenues For the Three-Month Period Ended June 30, | | | | | | | |
|--|--|-------|--------|-------|--------------|---|--------------|---|
| | 2015 | | 2014 | | Change in | | Change in | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Modified Polyamide 66 (PA66) | 53.0 | 20.0% | 53.3 | 20.2% | (0.3) | | (0.6) | % |
| Modified Polyamide 6 (PA6) | 52.1 | 19.6% | 62.6 | 23.7% | (10.5) | | (16.8) | % |
| Plastic Alloy | 99.0 | 37.3% | 78.7 | 29.8% | 20.3 | | 25.8 | % |
| Modified Polypropylene (PP) | 44.6 | 16.8% | 55.5 | 21.0% | (10.9) | | (19.6) | % |
| Modified Acrylonitrile butadiene styrene (ABS) | 10.8 | 4.1 % | 9.6 | 3.6 % | 1.2 | | 12.5 | % |
| Polyoxymethylenes (POM) | 0.9 | 0.3 % | 0.9 | 0.3 % | 0.0 | | 0.0 | % |
| Polyphenylene Oxide (PPO) | 3.3 | 1.3 % | 3.1 | 1.2 % | 0.2 | | 6.5 | % |
| Raw Materials | 1.7 | 0.6 % | 0.5 | 0.2 % | 1.2 | | 240.0 | % |
| Total Revenues | 265.4 | 100 % | 264.2 | 100 % | 1.2 | | 0.5 | % |

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

| (in MTs, except percentage) | Sales Volume For the Three-Month Period Ended June 30, | | | | | | Change in MT | Change in % |
|--|--|--------|--------|--------|--------------------|-------------------|--------------------|-------------------|
| | 2015 | | 2014 | | Change in MT | Change in % | | |
| | MT | % | MT | % | | | | |
| Modified Polyamide 66 (PA66) | 12,342 | 14.5 % | 9,448 | 11.6 % | 2,894 | 30.6 % | | |
| Modified Polyamide 6 (PA6) | 14,399 | 17.0 % | 12,481 | 15.3 % | 1,918 | 15.4 % | | |
| Plastic Alloy | 28,357 | 33.5 % | 25,426 | 31.1 % | 2,931 | 11.5 % | | |
| Modified Polypropylene (PP) | 23,542 | 27.8 % | 29,500 | 36.2 % | (5,958) | (20.2) % | | |
| Modified Acrylonitrile butadiene styrene (ABS) | 4,185 | 4.9 % | 3,727 | 4.6 % | 458 | 12.3 % | | |
| Polyoxymethylenes (POM) | 270 | 0.3 % | 271 | 0.3 % | (1) | 0.4 % | | |
| Polyphenylene Oxide (PPO) | 453 | 0.5 % | 431 | 0.5 % | 22 | 5.1 % | | |
| Raw Materials | 1,285 | 1.5 % | 300 | 0.4 % | 985 | 328.3 % | | |
| Total Sales Volume | 84,833 | 100 % | 81,584 | 100 % | 3,249 | 4.0 % | | |

The Company continued to shift production mix from traditional Modified Polypropylene (PP) to higher-end products such as PA6 and Plastic Alloy, 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. In addition, the Company sold primarily higher-end PA66 and Plastic Alloy to the newly developed customer in the Republic of Korea.

Gross Profit and Gross Profit Margin

| (in millions, except percentage) | Three-Month Period Ended | | Change Amount | % |
|----------------------------------|-----------------------------|--------|------------------|--------|
| | June 30, 2015 | 2014 | | |
| Gross Profit | \$51.5 | \$52.3 | \$(0.8) | (1.5)% |
| Gross Profit Margin | 19.4% | 19.8% | | (0.4)% |

Gross profit was US\$51.5 million in the second quarter ended June 30, 2015 compared to US\$52.3 million in the same period of 2014, representing a decrease of 1.5%. Our gross margin decreased to 19.4% during the quarter ended June 30, 2015 from 19.8% during the same quarter of 2014 primarily due to pricing pressure resulting from the slow down of the auto industry in China, and the increase of depreciation expenses as production facility in Dubai were put

in operation and no more orders for two individual products from the Korean customer. The average selling price of our products reduced by 3.4% for the quarter ended June 30, 2015 as compared to that of the prior year.

General and Administrative Expenses

| (in millions, except percentage) | Three-Month Period Ended June 30, | | Change | |
|-------------------------------------|--|--------|--------|-------|
| | 2015 | 2014 | Amount | % |
| General and Administrative Expenses | \$ 6.6 | \$ 4.5 | \$ 2.1 | 46.7% |
| as a percentage of revenues | 2.5 % | 1.8 % | 0.7 % | |

General and administrative (G&A) expenses were US\$6.6 million in the quarter ended June 30, 2015 compared to US\$4.5 million in the same period in 2014, representing an increase of 46.7%, or US\$2.1 million. This increase is primarily due to the increase of (i) US\$0.7 million of stamp duties in connection with our business expansion; (ii) US\$ 0.7 million of expenses incurred for the opening of temporary exhibition centre in Sichuan; (iii) US\$0.7 million of other miscellaneous expenses.

Research and Development Expenses

| (in millions, except percentage) | Three-Month Period Ended June 30, | | Change | |
|-----------------------------------|--|---------|----------|---------|
| | 2015 | 2014 | Amount | % |
| Research and Development Expenses | \$ 6.7 | \$ 13.4 | \$ (6.7) | (50.0)% |
| as a percentage of revenues | 2.5 % | 5.1 % | (2.6 %) | |

Research and development expenses were US\$6.7 million during the quarter ended June 30, 2015 compared with US\$13.4 million during the same period in 2014, a decrease of US\$6.7 million, or 50.0%, reflecting the Company's efforts to adjust research and development activities on 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, etc..

As of June 30, 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.

Operating Income

Total operating income was US\$37.8 million in the second quarter ended June 30, 2015 compared to \$34.3 million in the same period of 2014, representing an increase of 10.2% or US\$ 3.5 million. This increase is primarily due to lower research and developed expenses, partially offset by higher general and administrative expenses.

Interest Income (Expenses)

| (in millions, except percentage) | Three-Month Period Ended June 30, | | Change | |
|----------------------------------|---|------|--------|---|
| | 2015 | 2014 | Amount | % |

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| | | | | |
|-----------------------------|----------|----------|---------|---------|
| Interest Income | \$2.5 | \$3.5 | \$(1.0) | (28.6)% |
| Interest Expenses | (11.0) | (11.7) | 0.7 | (6.0)% |
| Net Interest Expenses | \$(8.5) | \$(8.2) | \$(0.3) | 3.7 % |
| as a percentage of revenues | (3.2)% | (3.1)% | | (0.1)% |

Net interest expense was US\$8.5 million for the three-month period ended June 30, 2015, compared to net interest expense of US\$8.2 million in the same period of 2014, primarily due to (i) the decrease of interest income was caused by the decrease of average deposit balance in the amount of US\$344.5 million for the three months ended June 30, 2015 compared to US\$442.4 million for the same period of 2014, combined the decrease of average interest rate of 2.8% for the three month period ended June 30, 2015 compared to 3.0% for the same period of 2014; and (ii) the decrease of interest expense was caused by the decrease of average interest rate 5.3% for the three months ended June 30, 2015 compared to 5.7% as for the three months ended June 30, 2014, and offset by the increase of short-term and long-term loans in the amount of US\$409.9 million for the three months ended June 30, 2015 compared to US\$374.4 million of prior year.

Gains (losses) on foreign currency forward contracts

| (in millions, except percentage) | Three-Month Period Ended | | Change | |
|---|-----------------------------|------------------|--------|----------|
| | June 30, 2015 | June 30, 2014 | Amount | % |
| Gain (losses) on foreign currency forward contracts | \$0.3 | \$(0.9) | \$1.2 | (133.3)% |
| as a percentage of revenues | 0.1% | (0.4) | 0.5 | % |

During the three-month period ended June 30, 2015, the Company settled the foreign currency forward contract which was entered into to manage its exposure to foreign currency risks with a notional amount of US\$50M. Due to the decrease of foreign exchange rate (USD to RMB) from April 1, 2015 and the settlement date during the three-month period ended June 30, 2015, the Company had a gain of US\$0.3 million on foreign currency forward contracts.

During the three-month period ended June 30, 2014, the Company settled the foreign currency forward contract which was entered into to manage its exposure to foreign currency risks with a notional amount of US\$80M. Due to the increase of foreign exchange rate (USD to RMB) during the three-month period ended June 30, 2014, the Company had a loss of US\$0.9 million on foreign currency forward contracts.

Income Taxes

| (in millions, except percentage) | Three-Month Period Ended | | Change | |
|----------------------------------|-----------------------------|------------------|--------|---------|
| | June 30, 2015 | June 30, 2014 | Amount | % |
| Income before Income Taxes | \$ 29.9 | \$ 24.7 | \$ 5.2 | 21.1 % |
| Income Tax Expense | (4.4) | (4.9) | 0.5 | (10.2)% |
| Effective income tax rate | 14.7% | 19.8% | (5.1) | % |

The effective income tax rate for the three-month periods ended June 30, 2015 and 2014 was 14.7% and 19.8%, respectively. The decrease was primarily due Sichuan Xinda Group's R&D expense bonus tax deduction. The decrease was partially offsetting by effect of tax rate differential on entities not subject to PRC income tax, effect of non-deductible expenses and increase of valuation allowances against deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

Our PRC and Dubai subsidiaries have US\$363.5 million of cash and cash equivalents, restricted cash and time deposits as of June 30, 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 taxes 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 AL Composites in Dubai, UAE, on undistributed earnings.

Net Income

As a result of the above factors, we had a net income of US\$25.5 million in the second quarter of 2015 compared to a net income of US\$19.8 million in the same quarter of 2014.

Six months ended June 30, 2015 compared to six months ended June 30, 2014

Revenues

Revenues were US\$487.3 million in the six-month period ended June 30, 2015, a decrease of US\$0.5 million, or 0.1%, compared with US\$487.8 million in the same period of last year, due to approximately 2.6% increase in sales volume and 2.7% decrease in the average selling price of our products.

(i) Domestic market

For the six months ended June 30, 2015, we had a decrease of 8.6% in the average RMB selling price of our products while the sales volume remained the same compared with those of last year. However more sales were achieved in South China, Central China and Southwest China because of our marketing efforts to develop new customers. As for the RMB selling price, the decrease was mainly in lower-end product of modified PA6 and PA66 that we recently reformulated for customers in China in response to pricing pressure caused by the slowdown in China's auto industry.

(ii) Overseas market

For the six months ended June 30, 2015, we had a significant increase of 255% in sales volume partially offset by 9.6% decrease in the average 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 oversea markets, including the ROK.

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

| (in millions, except percentage) | Revenues For the Six -Month Period Ended June 30, | | | | Change in Amount | Change in % |
|--|---|--------|--------|--------|------------------------|-------------------|
| | 2015 | | 2014 | | | |
| | Amount | % | Amount | % | | |
| Modified Polyamide 66 (PA66) | 89.1 | 18.3 % | 112.0 | 23.0 % | (22.9) | (20.4)% |
| Modified Polyamide 6 (PA6) | 95.0 | 19.5 % | 114.4 | 23.5 % | (19.4) | (17.0)% |
| Plastic Alloy | 191.2 | 39.2 % | 130.4 | 26.7 % | 60.8 | 46.6 % |
| Modified Polypropylene (PP) | 84.1 | 17.3 % | 104.8 | 21.5 % | (20.7) | (19.8)% |
| Modified Acrylonitrile butadiene styrene (ABS) | 19.2 | 3.9 % | 19.2 | 3.9 % | 0.0 | 0.0 % |
| Polyoxymethylenes (POM) | 1.4 | 0.3 % | 2.1 | 0.4 % | (0.7) | (33.3)% |
| Polyphenylene Oxide (PPO) | 6.2 | 1.3 % | 4.2 | 0.9 % | 2.0 | 47.6 % |
| Raw Materials | 1.1 | 0.2 % | 0.7 | 0.1 % | 0.4 | 57.1 % |
| Total Revenues | 487.3 | 100 % | 487.8 | 100 % | (0.5) | (0.1)% |

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

| (in MTs, except percentage) | Sales Volume For the Six-Month Period Ended June 30, | | | | | | Change in MT | Change in % |
|--|--|-------|---------|-------|---------|--------|--------------------|-------------------|
| | 2015 | | 2014 | | MT | % | | |
| | MT | % | MT | % | | | | |
| Modified Polyamide 66 (PA66) | 20,789 | 13.5% | 19,719 | 13.1% | 1,070 | 5.4 | % | |
| Modified Polyamide 6 (PA6) | 26,380 | 17.1% | 22,669 | 15.1% | 3,711 | 16.4 | % | |
| Plastic Alloy | 52,500 | 34.0% | 45,733 | 30.4% | 6,767 | 14.8 | % | |
| Modified Polypropylene (PP) | 44,485 | 28.8% | 53,452 | 35.6% | (8,967) | (16.8) | % | |
| Modified Acrylonitrile butadiene styrene (ABS) | 7,491 | 4.9% | 7,086 | 4.7% | 405 | 5.7 | % | |
| Polyoxymethylenes (POM) | 408 | 0.3% | 600 | 0.4% | (192) | (32.0) | % | |
| Polyphenylene Oxide (PPO) | 849 | 0.6% | 570 | 0.4% | 279 | 48.9 | % | |
| Raw Materials | 1,285 | 0.8% | 399 | 0.3% | 886 | 222.1 | % | |
| Total Sales Volume | 154,187 | 100% | 150,228 | 100% | 3,959 | 2.6 | % | |

The Company continued to shift production mix from traditional Modified Polypropylene (PP) to higher-end products such as PA6 and Plastic Alloy, primarily due to (i) 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. In addition, the Company sold primarily higher-end PA66 and Plastic Alloy to the recently developed customer in the Republic of Korea.

Gross Profit and Gross Profit Margin

| (in millions, except percentage) | Six-Month Period Ended June 30, | | Change Amount | % |
|----------------------------------|---------------------------------------|---------|------------------|------|
| | 2015 | 2014 | | |
| Gross Profit | \$ 100.1 | \$ 98.9 | \$ 1.2 | 1.2% |
| Gross Profit Margin | 20.5 % | 20.3 % | | 0.2% |

Gross profit was US\$100.1 million for the six months ended June 30, 2015 compared to US\$98.9 million in the same period of 2014, representing an increase of 1.2%. Our gross margin increased to 20.5% during the six months ended June 30, 2015 from 20.3% during the same period of 2014, primarily due to higher-end product sales accounting for 78.8% of our total revenues for the six months ended June 30, 2015 as compared to 74.5% of that of the prior year.

General and Administrative Expenses

| (in millions, except percentage) | Six-Month Period Ended | | Change | |
|-------------------------------------|---------------------------|-------|--------|-------|
| | June 30, 2015 | 2014 | Amount | % |
| General and Administrative Expenses | \$11.6 | \$8.3 | \$3.3 | 39.8% |
| as a percentage of revenues | 2.4 % | 1.7% | | 0.7 % |

General and administrative (G&A) expenses were US\$11.6 million for the six months ended June 30, 2015 compared to US\$8.3 million in the same period in 2014, representing an increase of 39.8%, or US\$3.3 million. This increase is primarily due to the increase of (i) US\$0.9 million of stamp duties in connection with our business expansion; (ii) US\$0.7 million expenses incurred for the opening of temporary exhibition centre in Sichuan; (iii) US\$0.5 million of salary and welfare due to the increase in the number of management staff; (iv) US\$0.8 million of other miscellaneous expenses.

Research and Development Expenses

| (in millions, except percentage) | Six-Month Period Ended June 30, | | Change | |
|-----------------------------------|---------------------------------------|--------|---------|---------|
| | 2015 | 2014 | Amount | % |
| Research and Development Expenses | \$12.5 | \$22.0 | \$(9.5) | (43.2)% |
| as a percentage of revenues | 2.6 % | 4.5 % | | (1.9) % |

Research and development (R&D) expenses were US\$12.5 million for the six months ended June 30, 2015 compared with US\$22.0 million during the same period in 2014, an decrease of US\$9.5 million, or 43.2%, reflecting the Company's efforts to adjust research and development activities on 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, etc.

As of June 30, 2015, the number of ongoing research and development projects is 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.

Operating Income

Total operating income was US\$75.3 million for the six months ended June 30, 2015 compared to US\$68.3 million in the same period of 2014, representing an increase of 10.2% or US\$7.0 million. This increase is primarily due to higher gross profit, reduced R&D expenses, partially offset by higher G&A expenses.

Interest Income (Expenses)

| (in millions, except percentage) | Six-Month Period Ended June 30, | | Change | |
|----------------------------------|---------------------------------------|----------|---------|---------|
| | 2015 | 2014 | Amount | % |
| Interest Income | \$4.9 | \$6.5 | \$(1.6) | (24.6)% |
| Interest Expenses | (21.7) | (20.2) | (1.5) | 7.4 % |
| Net Interest Expenses | \$(16.8) | \$(13.7) | \$(3.1) | 22.6 % |
| as a percentage of revenues | (3.4)% | (2.9)% | | (0.5)% |

Net interest expense was US\$16.8 million for the six-month period ended June 30, 2015, compared to net interest expense of US\$13.7 million in the same period of 2014, primarily due to (i) the decrease of average deposit balance in amount of US\$330.9 million for the six months ended June 30, 2015 compared to US\$421.6 million for the same period in prior year, leading to the decrease of interest income; (ii) the increase of interest expense was due to the increase of average short-term and long-term loan balance in amount of US\$ 397.1 million for the six months ended June 30, 2015 compared to US\$348.2 million for the same period in 2014, and partially offset by the decrease average interest rate of 5.55% for the six months ended June 30, 2015 compared to 5.81% of the same period in 2014.

Income Taxes

| (in millions, except percentage) | Six Month Period Ended | | Change Amount | |
|----------------------------------|---------------------------|--------|------------------|---------|
| | June 30, 2015 | 2014 | | |
| Income before Income Taxes | \$ 59.4 | \$53.8 | \$5.6 | 10.4 % |
| Income Tax Expense | (8.5) | (12.0) | 3.5 | (29.2)% |
| Effective income tax rate | 14.3% | 22.3 % | (8.0)% | |

The effective income tax rate for the six-month period ended June 30, 2015 and 2014 were 14.3% and 22.3%, respectively, which differ from the PRC statutory income tax rate of 25%. The decrease was primarily due to exemption of income taxes for the income earned by AL Composites, as well as increased profit before income taxes generated in Dubai, UAE and Sichuan Xinda Group's R&D expense bonus tax deduction during the six-month ended June 30, 2015. Profit before income taxes from overseas market constitutes 59.0% and 24.1% of total profit before income taxes of the Company for the six-month ended June 30, 2015 and 2014, respectively. The decrease in effective income tax rate was partially offsetting by effect of tax rate differential on entities not subject to PRC income tax, effect of non-deductible expenses and increase of valuation allowances against deferred income tax assets of certain subsidiaries, which were at cumulative loss position.

Net Income

As a result of the above factors, we had a net income of US\$50.9 million for the six months ended June 30, 2015 compared to net income of US\$41.8 million in the same period of 2014.

Selected Balance Sheet Data as of June 30, 2015 and December 31, 2014:

| (in millions, except percentage) | June 30, | December | Change | |
|--|----------|-------------|---------|----------|
| | 2015 | 31, 2014 | Amount | % |
| Cash and cash equivalents | 52.7 | 45.5 | 7.2 | 15.8 % |
| Restricted cash | 43.6 | 12.5 | 31.1 | 248.8% |
| Time deposits | 231.8 | 238.5 | (6.7) | (2.8)% |
| Accounts receivable, net of allowance for doubtful accounts | 211.8 | 204.0 | 7.8 | 3.8 % |
| Inventories | 287.1 | 249.8 | 37.3 | 14.9 % |
| Property, plant and equipment, net | 315.0 | 318.3 | (3.3) | (1.0)% |
| Land use rights, net | 18.7 | 11.9 | 6.8 | 57.1 % |
| Prepayments to equipment and construction suppliers | 294.4 | 182.2 | 112.2 | 61.6 % |
| Other non-current assets | 40.9 | 25.5 | 15.4 | 60.4 % |
| Total assets | 1,505.4 | 1,299.7 | 205.7 | 15.8 % |
| Short-term bank loans, including current portion of long-term bank loans | 217.5 | 99.7 | 117.8 | 118.2% |
| Bills payable | 50.6 | 43.4 | 7.2 | 16.6 % |
| Accounts payable | 191.0 | 152.1 | 38.9 | 25.6 % |
| Income taxes payable, including noncurrent portion | 23.3 | 17.3 | 6.0 | 34.7 % |
| Accrued expenses and other current liabilities | 25.5 | 24.5 | 1.0 | 4.1 % |
| Long-term bank loans, excluding current portion | 130.4 | 174.3 | (43.9) | (25.2)% |
| Notes payable | 148.8 | 148.6 | 0.2 | 0.1 % |
| Deferred income | 29.0 | - | 29.0 | N/ A |
| Redeemable Series D convertible preferred stock | 97.6 | 97.6 | - | N/ A |

| | | | | | |
|----------------------|-------|-------|------|-----|---|
| Stockholders' equity | 575.9 | 525.3 | 50.6 | 9.6 | % |
|----------------------|-------|-------|------|-----|---|

Our financial condition continued to improve as measured by an increase of 9.6% in stockholders' equity as of June 30, 2015 as compared to that of December 31, 2014. Cash and cash equivalents, restricted cash and time deposits increased by 10.7% or US\$ 31.6 million due to the increase of cashflow provided by operating activities and aggregate short-term and long-term bank loans of US\$73.9 million, to meet the need in the capital expenditures, partially offset by the increase of prepayments to long-term equipment and construction suppliers. Inventories increased by 14.9% due to the need to ship products to customers in farther locations, such as, southwest China, South China, Central China and ROK and the lower purchase price of the raw materials resulting from the decreased crude oil price following the end of 2014. Prepayment to equipment and construction suppliers increased by 61.6% was due to the advance for equipment to be used in Dubai, UAE and Southwest China facilities. Other non-current assets and deferred income increase was due to US\$29.0 million (RMB180 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 17.5% due to the overall consideration of existing lines of credit utilization and maintaining a manageable debt level. 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 23.6% as a result of more purchases made by the Company because of the lower purchase price of the raw materials and the Company's strategy to stock up the inventory. As of June 30, 2015, notes payable was US\$148.8 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 June 30, 2015 and December 31, 2014, we had US\$52.7 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 June 30, 2015, we had US\$217.5 million short-term bank loans (including the current portion of long-term bank loans), including US\$70.8 million unsecured loan, US\$27.4 million loans secured by a third party affiliated with Shunqing government, US\$35.6 million loans secured by restricted cash, and US\$83.7 million long-term bank loans that due in one year. We also had US\$130.4 million long-term bank loans (excluding the current portion), including US\$76.2 million loans secured by long-term deposits and US\$54.2 million unsecured loan. Short-term and long-term bank loans in total bear a weighted average interest rate of 5.55% 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\$148.8 million of 11.75% guaranteed senior notes due in 2019.

A summary of lines of credit for the three-month period ended June 30, 2015 and the remaining lines of credit as of June 30, 2015 are below:

| (in millions) | June 30, 2015 | | | Remaining Available |
|---------------------------------|---------------------------|---------|-------|---------------------|
| | Lines of Credit, Obtained | | | |
| Names of Financial Institution | Date of Approval | RMB | USD | USD |
| Bank of Communications | December 09, 2014 | 103.0 | 16.6 | 0.2 |
| Bank of Longjiang, Heilongjiang | June 29, 2015 | 250.0 | 40.2 | 40.2 |
| Bank of China | April 28, 2015 | 1,161.4 | 186.9 | 96.6 |
| HSBC | September 2, 2014 | 279.6 | 45.0 | 16.4 |
| Agriculture Bank of China | June 27, 2015 | 160.0 | 25.8 | 16.1 |
| China Construction Bank | December 25, 2013 | 300.0 | 48.3 | 24.1 |
| Societe Generale(China)Limited | August 1, 2014 | 150.0 | 24.1 | 3.2 |
| Subtotal (credit term<=1year) | | 2,404.0 | 386.9 | 196.8 |
| Bank of China | April 28, 2015 | 557.5 | 89.7 | 13.6 |
| Bank of Communications | December 09, 2014 | 197.0 | 31.7 | - |
| Bank of Longjiang, Heilongjiang | June 29, 2015 | 50.0 | 8.0 | 8.0 |
| Agriculture Bank of China | June 27, 2015 | 140.0 | 22.5 | - |
| Subtotal (credit term>1year) | | 944.5 | 151.9 | 21.6 |
| Total | | 3,348.5 | 538.8 | 218.4 |

As of June 30, 2015, we have contractual obligations to pay (i) lease commitments in the amount of US\$4.9 million, including US\$1.2 million due in one year; (ii) equipment acquisition in the amount of US\$274.7 million and facility construction in the amount of US\$36.7 million; (iii) long-term bank loan in the amount of US\$224.4 million (including principals and interests), and (iv) notes payable in the amount of US\$220.5 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.

The following table sets forth a summary of our cash flows for the periods indicated.

| (in millions US\$) | Six-Month Period Ended June 30, | |
|---|---------------------------------------|---------|
| | 2015 | 2014 |
| Net cash provided by operating activities | 71.7 | 61.3 |
| Net cash used in investing activities | (120.1) | (188.6) |
| Net cash provided by financing activities | 55.5 | 166.8 |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | 0.1 | (2.2) |
| Net increase in cash and cash equivalents | 7.2 | 37.3 |
| Cash and cash equivalents at the beginning of period | 45.5 | 95.5 |
| Cash and cash equivalents at the end of period | 52.7 | 132.8 |

Operating Activities

Net cash provided by operating activities increased to US\$71.7 million for the six-month period ended June 30, 2015 from net cash provided by operating activities of US\$61.3 million for the six-month period ended June 30, 2014, primarily due to (i) the decrease of approximately US\$99.7 million in cash operating payments, including raw material purchases, rental and personnel costs for the six-month period ended June 30, 2015, (ii) the decrease of US\$19.3 million in income tax payments, (iii) the increase of approximately US\$1.6 million cash inflow due to the forward contract settlement, partially offset by (iv) the decrease of approximately US\$90.1 million in cash collection from our customers (v) the decrease of approximately US\$11.7 million restricted cash, (vi) the increase of net interest payments of US\$7.9 million for the six-month period ended June 30, 2015.

Investing Activities

Net cash used in the investing activities was US\$120.1 million for the six-month period ended June 30, 2015 as compared to US\$188.6 million for the same period of last year, mainly due to (i) the decrease of US\$131.0 million purchase of time deposits, partially offset by (ii) the decrease of US\$22.5 million proceeds from maturity of time deposits, (iii) the increase of US\$33.1 million purchase of property, plant and equipment, and (iv) the increase of US\$6.9 million acquisition of land use right for the six-month period ended June 30, 2015.

Financing Activities

Net cash provided by the financing activities was US\$55.5 million for the six-month period ended June 30, 2015, as compared to US\$166.8 million for the same period of last year, primarily as a result of (i) US\$148.4 million proceeds from Senior notes issued during the period ended June 30, 2014, (ii) the decrease of US\$98.7 million borrowings of bank loans, (iii) the increase of US\$9.1 million of placement of restricted cash as collateral for bank borrowings, (iv) the decrease of US\$3.2 million of release of restricted cash for the six-month period ended June 30, 2015, partially offset by (v) the decrease of US\$144.8 million repayments of bank borrowings, and (vi) US\$4.0 million issuance costs paid for the issuance of Senior notes in 2014.

As of June 30, 2015, our cash and cash equivalents balance was US\$52.7 million, compared to US\$45.5 million at December 31, 2014.

Days Sales Outstanding ("DSO") remained stable as 76 days for the six-month period ended June 30, 2015 compared with 77 days for the year ended December 31, 2014. 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. As of June 30, 2015, the overdue amount of the accounts receivable from the ROK customer aging between one and three months was US\$33,267,498. Even though the ROK customer was late in repayment of the balances, it continued to pay back significant amounts of cash during the second quarter of 2015. Management has negotiated with the ROK customer on the timely settlement of overdue amounts and concluded that the overdue amount will be collected before the end of September, based on the overall evaluation of current market conditions, current receivable aging, current payment patterns, as well as the ROK customer's repayment plan. Our overall DSO is still well below industry average Industry Standard Customer and Supplier Payment Terms (days) as below:

| | Six-month period ended June 30, 2015 | Year ended December 31, 2014 |
|-----------------------|--------------------------------------|----------------------------------|
| Customer Payment Term | Payment in advance/up to 90 days | Payment in advance/up to 90 days |
| Supplier Payment Term | Payment in advance/up to 60 days | Payment in advance/up to 60 days |

Inventory turnover days has increased from 80 days for the year ended December 31, 2014 to 125 days for the six-month period ended June 30, 2015 due to inventory of raw materials buildup in anticipation of increasing demand

from our customers, especially those located in longer distance in the following quarters.

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 June 30, 2015 are as follows:

| | Total | Payment due less than 1 year | 1 – 3 years | 3-5 years | More than 5 years |
|--|-------------|------------------------------------|-------------|-------------|-------------------------|
| Contractual obligations | | | | | |
| Lease commitments | 4,867,577 | 1,201,694 | 1,959,322 | 615,521 | 1,091,040 |
| Purchase of land use rights, plant equipment, and construction in progress (3)(4)(5) | 311,376,103 | 310,641,542 | 734,561 | - | - |
| Long-term bank loans (1) | 224,439,536 | 90,775,764 | 133,663,772 | - | - |
| Notes payable (2) | 220,500,000 | 17,625,000 | 35,250,000 | 167,625,000 | - |
| Total | 761,183,216 | 420,244,000 | 171,607,655 | 168,240,521 | 1,091,040 |

(1) Includes interest of US\$10.3 million accrued at the interest rate under the loan agreements. For borrowings with a floating rate, the most recent rate as of June 30, 2015 was applied.

(2) 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 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.

(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 (equivalent to US\$289.7 million) in property, plant and equipment and approximately RMB0.6 billion (equivalent to US\$96.6 million) in working capital, for the construction of Sichuan plant. As of June 30, 2015, the Company has a remaining commitment of RMB215.3 million (equivalent to US\$34.6 million) mainly for facility construction, and RMB343.8 million (equivalent to US\$55.3 million) for the acquisition of equipments.

(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 June 30, 2015, the Company has a commitment of US\$205.6 million for the remaining equipment acquisition. On January 25, 2015, AL Composites entered into a facility purchase contract with Zettachem International Limited for a total consideration of AED12.5 million (equivalent to US\$3.4 million). As of June 30, 2015, the Company has a remaining commitment of US\$0.3 million.

(5) Xinda Group equipment

During the six-month period ended June 31, 2015, Xinda Group entered into a series of equipment purchase contracts with Harbin Jiamu Import & Export Trading Co., Ltd ("Jiamu") for a total consideration of RMB93.2 million (equivalent to US\$15.0 million). As of June 30, 2015, the Company has a commitment of RMB85.2 million (equivalent to US\$13.7 million) for the remaining equipment acquisition.

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 actions in their entirety. The hearing on the Company's motion to dismiss is scheduled to be heard by the Court on October 22, 2015. Management continues to believe that the lawsuits are without merit and intends to vigorously defend against them.

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet transactions.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Interest Rate Risk

We are exposed to interest rate risk primarily with respect to our short-term loans, long-term bank loans, notes payable, cash and cash equivalents, restricted cash and time deposits. Although the interest rates, which are based on the banks' prime rates are fixed for the terms of the loans and deposits, increase in interest rates will increase 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 June 30, 2015 would decrease income before income taxes by approximately US\$3.5 million for the six months ended June 30, 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

All of our revenues from China are collected in RMB and our overseas revenues are collected in U.S. dollars, and substantially all of 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. On June 30, 2015, the RMB traded at 6.2128 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.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's management has evaluated, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operations of the Company's disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)), as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective because of material weakness in our internal control over financial reporting as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Notwithstanding management's assessment that our internal control over financial reporting was ineffective as of December 31, 2014 due to one material weakness as identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, we believe that our unaudited condensed consolidated financial statements included in this Quarterly Report present fairly our financial position, results of operations and cash flows for the six months ended June 30, 2015 in all material respects.

(b) Changes in internal controls.

During the six-months ended June 30, 2015, our efforts to improve our internal controls over financial reporting include (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, 2015.

PART II. OTHER INFORMATION

Item 1. 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 actions in their entirety. The hearing on the Company's motion to dismiss is scheduled to be heard by the Court on October 22, 2015. Management continues to believe that the lawsuits are without merit and intends to vigorously defend against them.

Item 1A. Risk Factors

During the three months ended June 30, 2015, there have been no material changes to the Risk Factors disclosed in "Part I. Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially affect our operations. The risks, uncertainties and other factors set forth in our Annual Report on Form 10-K may cause our actual results, performances and achievements to be materially different from those expressed or implied by our forward-looking statements. If any of these risks or events occurs, our business, financial condition or results of operations may be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Exhibits

| Exhibit No. | Document Description |
|-------------|----------------------|
|-------------|----------------------|

| | |
|------|--|
| 10.1 | |
|------|--|

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English translation of the Equity Transfer and Merger Agreement entered into by Xinda (Heilongjiang) Investment Co., Ltd., Sichuan Xinda Group and Nanchong Xinda Composite Material Co., Ltd. on March 6, 2015.

- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13A-14(A)/15D-14(A) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
- 101 Interactive Data Files Pursuant to Rule 405 of Regulation S-T.

30

SIGNATURES

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

China XD Plastics Company
Limited

Date: August 6, 2015 By: /s/ Jie Han
Name: Jie Han
Title: Chief Executive Officer
(Principal Executive Officer)

Date: August 6, 2015 By: /s/ Taylor Zhang
Name: Taylor Zhang
Title: Chief Financial Officer

Exhibit Index

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|-------------|--|
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