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CASE NO: A-20-822393-B  
Department 11

8 *Attorney for Plaintiff*

9 (Additional Counsel on Signature Page)

10 **IN THE EIGHTH JUDICIAL DISTRICT COURT OF THE STATE OF NEVADA**  
11 **IN AND FOR THE COUNTY OF CLARK**

12 ZHONG HAO FENG, BRIAN BURWELL,  
13 NELLAI CHOCKALINGAM, and  
14 BONMERC UG & CO. KG, individually and  
15 on behalf of all others similarly situated,

16 Plaintiffs,

17 v.

18 JIE HAN, XD. ENGINEERING PLASTICS  
19 COMPANY LIMITED, FAITH ABUNDANT  
20 LIMITED, FAITH DAWN LIMITED, FAITH  
21 HORIZON INC., TAYLOR ZHANG, HUIYI  
22 CHEN, GUANBAO HUANG, and LINYUAN  
23 ZHAI,

24 Defendants.

Case No. \_\_\_\_\_  
Dept No. \_\_\_\_\_

**CLASS ACTION COMPLAINT**

**DEMAND FOR JURY TRIAL**

1 Plaintiffs Zhong Hao Feng, Brian Burwell, and Bonmerc UG & Co. KG (together, “Plaintiffs”),  
2 by and through their undersigned counsel, allege with respect to themselves upon personal  
3 knowledge, and with respect to all other matters upon information and belief based on the  
4 investigation conducted by Plaintiffs’ counsel.

5 **NATURE OF THE ACTION**

6 1. This class action arises out of the proposed management-led buyout (the “Buyout”)  
7 of China XD Plastics Company Limited (“China XD” or the “Company”) by the Company’s  
8 founder, Chairman, CEO, and controlling stockholder, Jie Han (“Han”), and certain affiliated entities  
9 (together with Han, the “Buyer Group”).<sup>1</sup> The Buyer Group and the rest of China XD’s Board of  
10 Directors (the “Board,” and with the Buyer Group, “Defendants”) breached their fiduciary duties to  
11 China XD’s public stockholders by agreeing to sell the Company for an inadequate \$1.20 per share  
12 following a short, conflict-laden process. Defendants further breached their duties by causing China  
13 XD to solicit stockholder approval for the Buyout through a materially false and misleading proxy  
14 statement filed with the U.S. Securities and Exchange Commission (the “SEC”) on September 30,  
15 2020 (the “Proxy”), which scheduled a vote on the deal for November 4, 2020.<sup>2</sup>

16 2. China XD is a China-based Nevada corporation that makes and sells plastics  
17 primarily for automotive applications. Recently, the Company has embarked on an aggressive  
18 expansion into other sectors, including biodegradable plastics, 3D printing, and personal protection  
19 equipment (“PPE”). Han has controlled the Company since its inception, directly or indirectly  
20 owning 50.1% of the Company’s shares and 69.6% of its voting power, and he has served as the  
21 Company’s Chairman and CEO for more than a decade.

22 3. After taking China XD public in 2009 through a reverse merger, Han has long wanted  
23 to consolidate his control over the Company by taking it private again. He tried but failed a few  
24 years ago, after which he worked to reconstitute the Board with new directors. When the global

25 \_\_\_\_\_  
26 <sup>1</sup> The Buyer Group includes XD. Engineering Plastics Company Limited (the “Han SPV”), Faith  
27 Abundant Limited (“Holdco”), Faith Dawn Limited (“Parent”), and Faith Horizon Inc. (“Merger  
28 Sub”), all of which Han directly or indirectly owns.

<sup>2</sup> On September 30, 2020, the Company also filed a transaction statement on a Schedule 13E-3.

1 COVID-19 pandemic struck, triggering a temporary decline in stock prices worldwide, Han seized  
2 on the opportunity to acquire complete control of China XD at a bargain basement price.

3 4. In May 2020, Han submitted an offer to the Board to buy the rest of the Company  
4 (*i.e.*, the shares he didn't already own) for \$1.10 per share. The Board responded by forming a special  
5 committee to evaluate the offer (the "Committee"), which in turn engaged Duff & Phelps, LLC  
6 ("Duff") as its financial advisor. Over the next month—without contacting any other potential buyers  
7 and relying on unreliable financial analyses that incorporated Company forecasts created by the  
8 conflicted Buyer Group itself (the "Buyout Projections")—the Committee and Duff worked with  
9 Han to finalize the Buyout. In acquiescing to Han's demands, the Committee failed to secure a  
10 "majority of the minority" voting condition, which would have allowed the Company's independent  
11 shareholders a meaningful voice in voting on the Buyout. The swift, single-bidder, and one-sided  
12 process was fatally deficient and did not maximize shareholder value.

13 5. On June 15, 2020, China XD, Parent, and Merger Sub entered into an agreement and  
14 plan of merger (the "Merger Agreement"), under which the Buyer Group, through Parent and Merger  
15 Sub, will acquire all of the outstanding shares of China XD common stock for \$1.20 per share, or a  
16 total of approximately \$40.6 million, which represents a slight increase over the original offer price  
17 but is still a fraction of the Company's true worth.

18 6. As Han wrests control of the Company, Plaintiffs and all other China XD  
19 shareholders stand to lose their stakes in the Company for grossly inadequate consideration. Among  
20 other things, the Buyout values the Company at less than 10% its net book value of \$12.41 per share.  
21 The Buyout price also fails to account for a \$62.8 million receivable from a long-time customer  
22 which China XD listed as a "doubtful account[]" but fully expects to receive, according to  
23 admissions on earnings calls. Moreover, the Buyout fails to account for Han's persistent efforts over  
24 the past few months to diminish China XD's apparent value through a series of sham equity  
25 investment transactions involving the Company's two most important subsidiaries. Further, contrary  
26 to the analyses Duff performed using the misleading Buyout Projections, the \$1.20 per share ignores  
27 the fact that China XD has successfully weathered the COVID-19 pandemic, recently invested  
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1           19. Defendant Merger Sub is a Nevada corporation, a signatory to the Merger Agreement,  
2 and a wholly-owned subsidiary of Parent. Merger Sub was formed solely for the purpose of entering  
3 into the Merger Agreement and consummating the transactions contemplated by such agreements.

4           20. Defendants Han, the Han SPV, Holdco, Parent, and Merger Sub are collectively  
5 referred to as the Buyer Group.

6 **III. THE ADDITIONAL INSIDE MANAGEMENT DIRECTOR**

7           21. Defendant Taylor Zhang (“Zhang”) has served as the Company’s Chief Financial  
8 Officer as well as a member of the Board since 2009. In its most recent annual proxy statement, filed  
9 with the SEC on January 14, 2020 (the “2020 Annual Proxy”), the Company admits that Zhang is  
10 not independent. According to the Proxy, Zhang owns 500,000 shares of China XD common stock.

11 **IV. THE OUTSIDE DIRECTORS**

12           22. Defendant Huiyi Chen (“Chen”) has served as a Board member since January 2,  
13 2020. According to the Proxy, Chen owns zero shares of China XD common stock. Chen was a  
14 member of the Committee.

15           23. Defendant Guanbao Huang (“Huang”) has served as a Board member since January  
16 2, 2020. According to the Proxy, Huang owns zero shares of China XD common stock.

17           24. Defendant Linyuan Zhai (“Zhai”) has served as a Board member since 2009.  
18 According to the Proxy, Zhai owns 10,879 shares of China XD common stock. Zhai was a member  
19 of the Committee.

20           25. Han, Zhang, Chen, Huang, and Zhai are collectively referred to as the Board. Chen,  
21 Huang, and Zhai constitute the Committee and are collectively referred to as the “Outside Directors”  
22 The Buyer Group, Zhang, and the Outside Directors are collectively referred to as “Defendants.”

23 **V. RELEVANT NON-PARTIES**

24           26. Non-party China XD is a China-based Nevada corporation. After a series of complex  
25 transactions, and through various wholly-owned subsidiaries, China XD develops, manufactures,  
26 and sells polymer composite materials, primarily for automotive applications. China XD has two  
27 classes of stock issued and outstanding—common stock and preferred stock. As of the date of the  
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1 Merger Agreement, there were 66,948,841 shares of common stock issued and outstanding, and  
2 there were 1,000,000 shares of Series B Preferred Stock issued and outstanding, all of which were  
3 owned by the Han SPV. Each share of common stock is entitled to one vote on Company matters,  
4 while the Series B Preferred Stock shares are entitled in the aggregate to 44,632,561 total votes,  
5 representing approximately 40% of the Company's total voting power.

6 27. Non-party MSPEA Modified Plastics Holding Limited ("MSPEA") is an affiliate of  
7 Morgan Stanley Private Equity Asia III, Inc. In 2011, MSPEA invested \$100 million into China XD,  
8 acquiring 16,000,000 China XD preferred shares. In 2019, China XD exercised its rights pursuant  
9 to the 2011 investment agreement and converted MSPEA's preferred shares into 16,000,000  
10 common shares, for which MSPEA had to pay an additional \$100 million. In total, MSPEA, a  
11 sophisticated financial behemoth, thus paid \$12.50 per common share for its interest in the  
12 Company, far more than the \$1.20 per share Buyout price.

### 13 CLASS ACTION ALLEGATIONS

14 28. Plaintiffs bring this action on behalf of themselves and all owners of China XD  
15 common stock and their successors in interest, except Defendants and their affiliates (the "Class").  
16 This action is properly maintainable as a class action for the following reasons.

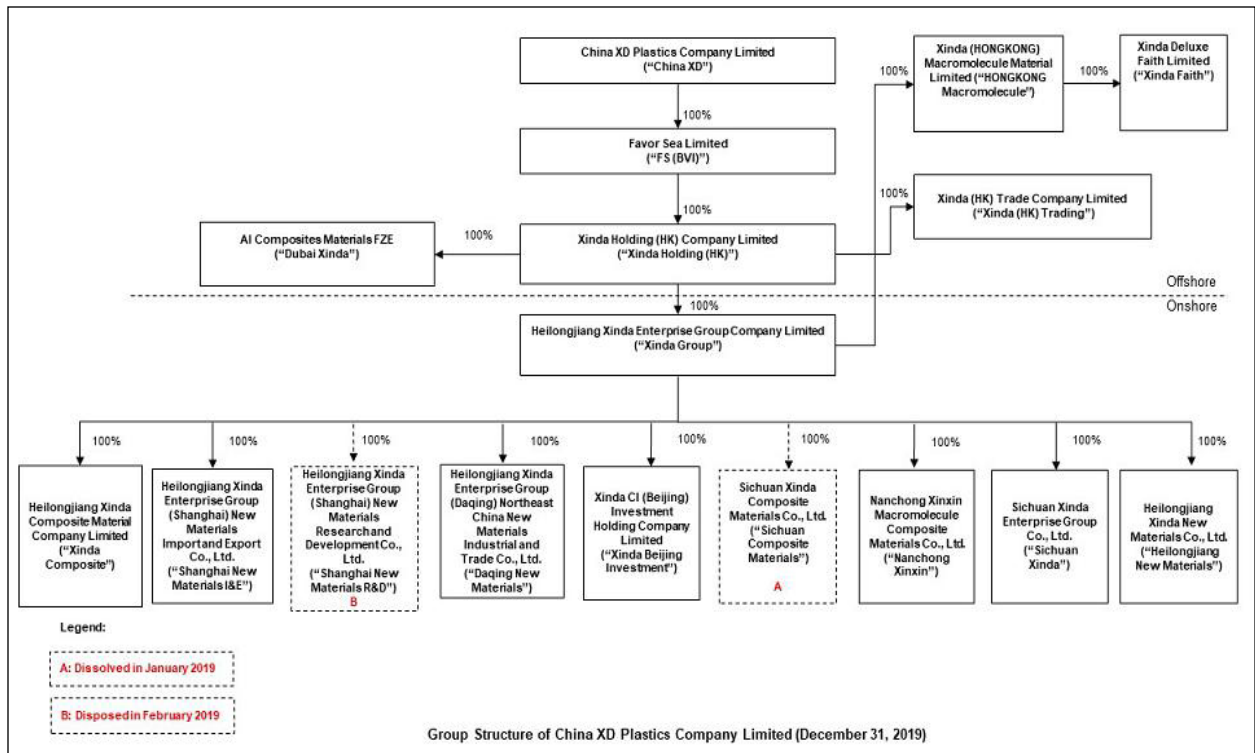
17 29. The Class is so numerous that joinder of all members is impracticable because China  
18 XD had millions of shares of common stock owned by thousands of different shareholders.

19 30. Questions of law and fact are common to the Class, including whether:

- 20 a. the Board members breached their fiduciary duties owed by them to Plaintiffs  
21 and the other members of the Class;
- 22 b. the Board members, in connection with the Buyout, pursuing a course of  
23 conduct that is in violation of their fiduciary duties;
- 24 c. the members of the Buyer Group aided and abetted the Board members'  
25 breaches of fiduciary duty; and
- 26 d. the Class entitled to injunctive relief or damages as a result of Defendants'  
27 wrongful conduct.







36. China XD's primary end-market is the Chinese automotive industry, which has grown rapidly for the past few years where the Company's modified plastics are used by customers to fabricate a variety of different interior, exterior, and functional auto components such as air conditioning casing, heating and ventilation casing, engine covers, and air ducts.

37. The Company's specialized plastics are utilized in more than 31 automobile brands manufactured in China, including leading brands such as Audi, Mercedes Benz, BMW, Toyota, Buick, Chevrolet, Mazda, Volvo, Ford, Citroen, Jinbei, and VW.

38. China XD has three manufacturing bases in Harbin, Heilongjiang, and one manufacturing base in Nanchong, Sichuan Province. It also operates a manufacturing base in Dubai, UAE.

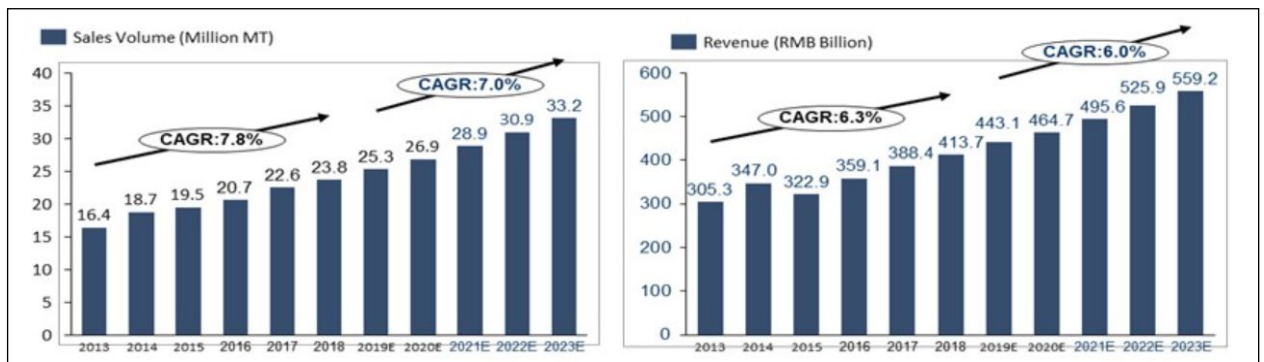
39. In its most recent annual report filed with the SEC on June 1, 2020, on a Form 10-K (the "2019 Annual Report"), China XD described the growth potential in the markets it serves:

According to a research report prepared exclusively for the Company and issued by Frost & Sullivan in 2020, China is estimated to have consumed approximately 25.3 million Metric Tons ("MT") of modified plastic products in 2019, representing an increase of 6.3% compared to 2018. With China being the world's leading manufacturing center and with rising domestic individual consumption, we believe

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that demand for modified plastics from China will continue to increase in the foreseeable future. As shown in Figure 1, the market demand for modified plastics will reach 33.2 million MT in 2023, representing compound annual growth rates (“CAGR”) of 7.0% and 6.0% by sales volume and revenues from 2019 to 2023. Currently, demand for our products is primarily driven by the Chinese automotive industry. In order for plastics to be used in automobile parts and components, they must satisfy specific physical criteria in terms of mechanical functionality, stability under light and heat, durability, flame resistance, and environmental friendliness. Modified plastics are usually found in interior materials, door panels, dashboards, mud flaps, chassis, bumpers, oil tanks, gas valves, grilles, unit heater shells, air conditioner shells, heat dissipating grids, wheel covers, and other components.

40. China XD also disclosed two charts demonstrating the steady growth within the Chinese Modified Plastics Market from 2013 through 2023E:



41. The Company cites numerous factors underlying the growth trajectory, including pro-environment and fuel economy trends and shifts toward plastic and away from historical use of metals in automotive applications, rising personal income driving automotive industry growth, improved vehicular safety and performance through use of plastics, and extensive government-backed programs to increase automobile production and consumption. All these policies suggest that, in addition to general, omnipresent growth drivers, numerous specific factors will drive even further growth in China XD’s relevant markets.

42. The Company has also stated in the 2019 Annual Report:

- a. “We believe the growth momentum in China’s auto sales will remain strong over the next four years.”
- b. “The automotive industry in China is still in its infancy . . . .”

1 c. “The significant gap of automobiles ownership per 1,000 people among  
2 China, United States and Europe indicates that the Chinese auto industry is  
3 still of huge growth potential.”

4 d. “With the continuous development of Chinese auto manufacturing industry  
5 and expansion of auto consumption market, the parc of automobiles increased  
6 from 126,830.0 thousand units in 2013 to 231,220.0 thousand units in 2018  
7 at a CAGR of 12.8%. It is expected that the number will keep growing and  
8 hit a record of 311,593.4 thousand units in 2023, with a CAGR of 5.7% during  
9 the period from 2019 to 2023.”

10 43. Moreover, regarding plans to meet ever-growing demands, the Company said:

11 Over the past five years, we have consistently increased production capacity to meet  
12 the rising demands of the automotive industry in the PRC. As of December 31, 2019,  
13 we have an installed annual production capacity of 394,200 metric tons in domestic  
14 production bases, and we have been operating at near full capacity since 2007. With  
15 the expected strong growth in the automotive modified plastics market of China, we  
16 expect that we will continue to experience strong demand from our customers.  
17 Therefore, we intend to continue to strategically increase our production capacity to  
18 meet customer demands from both expanded geographical locations and future  
19 downstream sector growth.

20 44. In addition to its automotive parts business, China XD is expanding to produce  
21 plastics for PPE that can be used in the wake of the COVID-19 pandemic. It is also currently  
22 expanding into 3D printing and biodegradable plastics. Thus, the Company is strongly positioned  
23 for substantial, long-term growth.

24 **II. GIVEN CHINA XD’S STRONG POSITION, HAN TOOK ADVANTAGE OF THE**  
25 **PANDEMIC TO ACQUIRE THE COMPANY**

26 45. In 2009, China XD completed a reverse merger to become publicly traded in the U.S.  
27 Over the past decade, Han reaped substantial benefits at the expense of public stockholders, earning  
28 \$21,623,799 in executive compensation awards, which amount is excessive in light of Han’s  
ownership of the Company (and thus his ability to secure a return on his investment in lieu of lavish  
compensation arrangements) as well as the \$40,660,544.40 total Buyout price allocable to the

1 Company's public shareholders. Indeed, it is unreasonable for Han to have paid himself executive  
2 compensation amounting to roughly half of the Buyout price.

3 46. After having enriched himself at the expense of the Company's shareholders, Han  
4 decided he wanted to take China XD private again so that he could control the Company's affairs  
5 without the nuisance of having to satisfy his fiduciary duties or comply with the federal securities  
6 laws.

7 47. Han's first overt attempt to take the Company private came in 2017.

8 48. On February 16, 2017, Han, the Han SPV, and MSPEA formed a consortium and  
9 submitted a preliminary, non-binding letter to the Board, proposing to acquire all of the Common  
10 Shares of the Company not already owned by the consortium at \$5.21 per share in cash in a take-  
11 private transaction. Notably, Han said that he would not move forward with a takeover unless it was  
12 approved by (i) a special committee of the Board and (ii) the vote of a majority of minority China  
13 XD's shares, *i.e.*, shares held by those other than Han, the Han SPV, and MSPEA.

14 49. In response, the Board formed a special committee, which retained Duff to serve as  
15 its financial advisor.

16 50. Investors roundly criticized the 2017 take-private offer. During a March 15, 2017,  
17 earnings call, Matthew Larson, an analyst and frequent participant on the Company's earnings calls,  
18 called the \$5.21 per share offer "almost unconscionable." John Cooper, an industry analyst from  
19 Stuyvesant Capital, said the offer represented "pennies on the dollar." Another analyst, George  
20 Mayor, described the offer as "ridiculously low."

21 51. The take-private offer remained on the table for many months, but Han, Duff, and the  
22 special committee did not take any meaningful steps to advance a potential deal for more than a year.  
23 In periodic earnings calls, China XD's management said that Duff was performing a valuation of  
24 the Company, yet neither the Company nor the Board disclosed anything in this regard. The ongoing  
25 informational vacuum gave rise to investor angst and pointed questions toward China XD's  
26 management, including the following exchange between Zhang and analyst John Cooper:

1 Q: Hi, sorry, but Matt[hew Larson]'s question reminded me of something that I  
2 was concerned with. In the case that the going private offer doesn't go  
3 through, is there a plan B?

4 A: I just say there is no plan B or C in place currently.

5 52. By asserting that Han was not considering any alternatives to the proposed buyout,  
6 Zhang all but confirmed that a go-private transaction was the only end result for the Company.

7 53. Investors continued to criticize the lack of transparency concerning the offer, as well  
8 as the clearly unfair process that was undertaken, suggesting that such conduct could lead to class  
9 action litigation. In the wake of such criticism, certain members of the special committee even  
10 resigned from the Board.

11 54. Meanwhile, 2018 featured record investment by the Company into capital projects  
12 that would substantially increase the Company's manufacturing footprint and enable it to serve the  
13 world's and China's ever-growing need for complex plastics materials.

14 55. On October 14, 2019, after the Company's share price fell from about over \$3 per  
15 share to under \$2 per share, MSPEA withdrew from the consortium and informed the Board that it  
16 no longer intended to participate in the proposed transaction. Shortly thereafter, Han caused China  
17 XD to convert MSPEA's preferred stock into common stock, which had the effect of diminishing  
18 MSPEA's voting power.

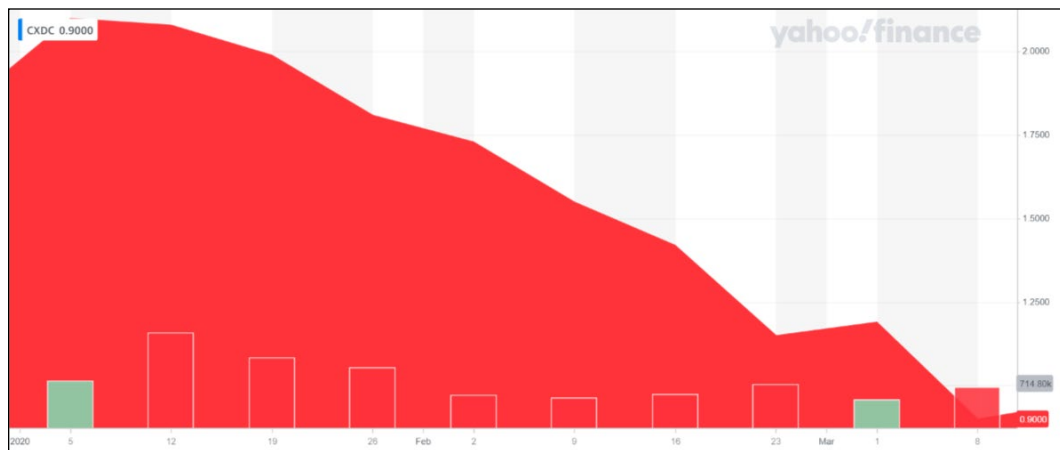
19 56. After MSPEA withdrew from the process, Han continued to consider buying the rest  
20 of the Company. To that end, he periodically reviewed the Company's business operations, the  
21 general conditions of the Chinese economy, the Company's industrial sector, and generally assessed  
22 strategic alternatives, including a going private transaction.

23 57. In early 2020, the COVID-19 pandemic struck, plaguing businesses and financial  
24 markets worldwide. In China, where the Company does most of its business, GDP declined by 6.8%  
25 in the first quarter of the year, the biggest contraction since quarterly GDP records began. Chinese  
26 stock prices likewise dropped. The International Monetary Fund, in its April 2020 report, projected  
27 a global growth rate of -3% in 2020. (The lowest global growth rate during the 2007-09 global  
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1 financial crisis was recorded as  $-1.7\%$  in 2009). America's S&P500 Index also dropped by 22%  
2 from January 21, the day the first case was reported in the USA, until March 31, 2020.

3 58. The most commonly used indicator for volatility—and therefore financial anxiety—  
4 is the VIX, which also closed at an all-time record high, even higher than during the 2009 financial  
5 crisis. Han took advantage of the unprecedented market-wide angst to the detriment of China XD's  
6 minority shareholders.

7 59. China XD's stock price also disappointed, losing half its value over the first quarter.



15 60. By the end of the quarter, however, China's economy had already begun to show  
16 signs of a major recovery, and the Company, in particular, started to increase capacity again as  
17 administrative and factory employees returned to work.

18 61. Han nevertheless saw the temporary stock drop and general investor wariness as a  
19 golden opportunity to acquire the shares of China XD he didn't already own at a bargain basement  
20 price. The Proxy, in fact, expressly acknowledges that Han began "seriously consider[ing]" the  
21 Buyout in April 2020. The Proxy further admits that the impact of the COVID-19 pandemic was one  
22 of the "primary factors that influenced [Han's] consideration of strategic alternatives." Han  
23 continued to evaluate the business throughout the rest of April and into the beginning of May 2020.

1 **III. THE BOARD AGREES TO THE BUYOUT AFTER A TRUNCATED AND**  
2 **DEFICIENT PROCESS**

3 62. Whenever a company's board of directors decides to sell a company, the board has a  
4 fiduciary duty to maximize shareholder value. In connection therewith, directors must implement a  
5 process that is designed to secure the highest possible price. Here, however, the Board completely  
6 failed to maximize shareholder value.

7 63. On May 8, 2020, the Buyer Group submitted an offer to acquire China XD's  
8 remaining outstanding shares for \$1.10 per share. Unlike before, the Buyer Group did not condition  
9 the Buyout on minority shareholder approval, which shows that Han was willing to disregard the  
10 views of independent shareholders in order to seize control of the Company.

11 64. On May 10, 2010, the Board met telephonically to discuss the Buyer Group's offer  
12 and resolved to form the Committee, consisting of three directors, Zhai, Chen, and Huang. The  
13 Committee was purportedly imbued with broad authority, including to solicit interest from other  
14 potential acquirers. Yet as alleged herein, the Committee never even entertained reaching out to any  
15 other potential acquirers.

16 65. Later the same day, the Committee met telephonically and, among other things,  
17 decided to engage Duff as its financial advisor. The Proxy fails to disclose, however, how the  
18 Committee came to select Duff versus other potential financial advisors, whether Duff or any other  
19 potential advisor provided any presentation materials to the Committee to facilitate its decision-  
20 making process, and whether the Committee's members had any prior connections with Duff.

21 66. On May 18, 2020, the Committee discussed logistics of the process and authorized  
22 Duff to commence due diligence on the Company to inform its eventual financial analyses regarding  
23 the Buyout. The Committee's due diligence authorization reflects that neither the Committee  
24 members nor Duff had any prior knowledge as to China XD's value, which is especially concerning  
25 given that Duff had purportedly already worked as a financial advisor in connection with Han's 2017  
26 take-private offer. Moreover, as set forth below, Duff never actually conducted any meaningful "due  
27 diligence."  
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1 COVID-19 pandemic. The 2019 Annual Report explained that China XD said it had to “temporarily  
2 close[] [its] manufacturing facilities and corporate offices” in early 2020 “in accordance with the  
3 requirement of the Chinese government . . . .” Nevertheless, the 2019 Annual Report stated that 90%  
4 of the Company’s administrative employees had returned to work by the end of April 2020, and by  
5 the end of May 2020 its factories had attained “normal utilization rate . . . .” China XD’s factory in  
6 Dubai was not impacted by the outbreak of COVID-19 during January and February.

7 71. On June 4, 2020, the Committee met to discuss a variety of issues, but it does not  
8 appear from the Proxy that Duff provided any financial analyses regarding China XD’s intrinsic  
9 value. Thus, although the Committee directed Duff to seek an unspecified price increase, it had no  
10 understanding regarding what the Company was worth.

11 72. On June 14, 2020, the Buyer Group increased its offer by \$0.10, to \$1.20 per share.  
12 During this time, the parties had also been exchanging drafts of the Merger Agreement, indicating  
13 the Buyout was already by this time a foregone conclusion.

14 73. On June 15, 2020, the Committee met to accept the Buyer Group’s \$1.20 per share  
15 offer, and at the same meeting Duff gave the Committee a financial “fairness” presentation regarding  
16 the Buyout. There is no indication of how much time, if any, the Committee devoted to analyzing  
17 Duff’s report.

18 74. Despite the important role the presentation played in the Board’s eventual approval  
19 of the Buyout—paid-for “fairness opinions” are de facto requirements for any transaction no matter  
20 how unfair the price actually is—Duff’s presentation was unreliable on its face.

21 75. Duff’s presentation, attached as an exhibit to the Schedule 13E-3 filed with the SEC  
22 on June 22 and September 9, 2020, expressly disclaimed any responsibility for the accuracy of the  
23 information contained in its presentation. Moreover, although Duff relied on the Buyout Projections  
24 for the basis of its opinion, Duff expressly disclaimed having any knowledge as to the accuracy of  
25 the information. Duff stated that it “did not independently verify” the information in the projections  
26 and, instead, offered a blanket disclaimer: “The information utilized in preparing this presentation  
27 was obtained from the Company and from public sources under the assumption that they are  
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1 complete and accurate as of the date of provision.” Duff’s presentation elsewhere further admitted  
2 that it accepted certain materials from China XD’s management (namely, Han), without question or  
3 reservation about their accuracy. Specifically, Duff’s presentation stated that it received “[a] detailed  
4 financial projection model for the Company” and that it “relied” on this model “in performing its  
5 analysis.”

6         76. Duff unreservedly relied on the Buyout Projections despite both (i) Han’s clear  
7 incentive to provide Duff with artificially low forecasts to secure the lowest deal value possible and  
8 (ii) Duff’s prior representation to the Committee that it would conduct “due diligence” on the  
9 Company. Indeed, the Committee and the Buyer Group were adversarial vis-à-vis the Buyout, and  
10 the Proxy’s admission that “the management of the Company [*i.e.*, Han] prepared and made  
11 available certain financial projections . . . for purposes of performing [*sic*] the financial analyses and  
12 [fairness] opinion” underscores the unreliability of the projections Duff received. Given China XD’s  
13 recent entry into certain financing arrangements, which would have required the Company to  
14 produce financial projections as part of lenders’ own due diligence process, Han’s admission that  
15 the Buyout Projections were created solely for Duff’s fairness analyses confirms that Han  
16 maintained different projections for his own financial planning purposes as well as in connection  
17 with any Company borrowing. These alternative sets of projections have not been disclosed.

18         77. Despite the numerous reasons not to rely on the Buyout Projections, Duff blindly  
19 used these and other figures to perform various financial analyses regarding the Buyer Group’s \$1.20  
20 per share offer. Based on its flawed analyses, Duff told the Board that the Buyout was fair, “from a  
21 financial point of view,” to China XD’s minority stockholders.

22         78. On the same date that Duff presented its conclusion regarding value, the Committee  
23 summarily voted to accept Han’s offer, and the full Board—which included both Han and Zhang—  
24 resolved to authorize China XD to enter into the Merger Agreement with Parent and Merger Sub.  
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1 **IV. SUMMARY OF THE MERGER AGREEMENT**

2 79. On June 15, 2020, China XD announced that it had entered into the Merger  
3 Agreement with Parent and Merger Sub, pursuant to which Han, through Parent and Merger Sub,  
4 would acquire all the outstanding shares that Han does not already own for \$1.20 per share.

5 80. As the press release specifies:

6 Subject to the terms and conditions of the Merger Agreement, at the effective time of  
7 the merger, Merger Sub will merge with and into the Company, with the Company  
8 continuing as the surviving corporation and a wholly-owned subsidiary of Parent (the  
9 “[Buyout]”), and each of the Common Shares issued and outstanding immediately  
10 prior to the effective time of the [Buyout] will be cancelled and cease to exist in  
11 exchange for the right to receive the Merger Consideration of US\$1.2 per share in  
12 cash, without interest and net of any applicable withholding tax, except for (i)  
13 Common Shares and Preferred Shares held by any of Parent, Merger Sub, the  
14 Rollover Stockholders and any of their respective affiliates; (ii) Common Shares held  
15 by the Company or any its wholly owned subsidiary (or held in the Company’s  
16 treasury), and (iii) Common Shares reserved (but not yet allocated) for issuance,  
17 settlement and allocation upon exercise or vesting of the Company share awards.

18 81. The Buyout requires an affirmative vote of the holders of at least a majority of the  
19 voting power of the common and preferred shares.

20 82. Absent judicial intervention, because Han already controls a majority of China XD’s  
21 voting power, including from all the preferred shares, shareholder approval of the Buyout is a  
22 foregone conclusion. Han did not agree to condition the approval of the Buyout on a majority vote  
23 of the unaffiliated shareholders.

24 83. On September 30, 2020, China XD filed the Proxy, which announced that the  
25 shareholder vote on the Buyout would occur on November 5, 2020 at 9:00 a.m. (Beijing Time),  
26 which is equivalent to November 4, 2020 at 8:00 p.m. U.S. Eastern Standard Time.

27 84. The press release announcing the Buyout stated, “Pursuant to Nevada Revised  
28 Statutes 92A.390(1), there are no rights of dissent available to the holders of Common Shares in  
connection with the Buyout.” Moreover, “If completed, the [Buyout] will, under laws of the State  
of Nevada, result in the Company becoming a privately-held company and the Common Shares of  
the Company would no longer be listed on the NASDAQ.”

1 **V. THE BUYOUT OFFERS INADEQUATE CONSIDERATION TO CHINA XD'S**  
2 **PUBLIC SHAREHOLDERS**

3 85. After sanctioning a deficient process, the Board further breached its duties by  
4 accepting inadequate consideration for China XD's shares. The Company is worth far more than the  
5 \$1.20 per share they stand to receive.

6 *The Buyout Price Omits \$62.8 Million in Receivables*

7 86. First, the Company's purported balance sheet materially undervalues the Company's  
8 assets because it improperly omits a \$62.8 million receivable from a longstanding customer.  
9 Although the Company claims that the \$62.8 million was written off as a "doubtful account," the  
10 Company's own public statements in recent earnings calls demonstrate that the Company expected  
11 to receive the payment in the near future (if it hasn't already). An analyst and frequent participant  
12 on the Company's earnings calls highlighted the concern during the June 1, 2020, earnings call:

13 The glaring problem is, of course, the large uncollectible, as you call it, billed for  
14 some customer in the UAE. All right? You must have known that was uncollectible  
15 during the fourth quarter. And that actually in December is when you were able to  
16 close on the very, very important financing. So, the banks were willing to lend you  
17 money for the first time, these state-owned enterprise banks, even though they knew  
18 that there was supposedly some sort of collection problem. So, to me, that's a one-  
19 off event.

20 [discussion in foreign language ensued.]

21 But it sounds to me you're going to collect it. So, you're going to write that loss back  
22 up this year. All right? So, by a one-off event, you just dumped it into the fourth  
23 quarter. And the numbers look worse than they are because you're going to be able  
24 to recoup that and put it back on as an income item for this year. And the banks lent  
25 you the money knowing that, and that's the critical thing because they wouldn't be  
26 lending you money for the first time if you were showing some sort of shortfall of  
27 that magnitude. But your revenues grew dramatically. Your EBITDA was still very  
28 strong.

87. The Company, therefore, wrote off the \$62.8 million to present, falsely, a lower asset  
base and attempt to justify an inadequate Buyout price. The Duff fairness opinion is premised on,  
among other erroneous facts, the false claim that the \$62.8 million is not likely to be collected. Duff  
did not opine that the Buyout price would be fair if that material asset remained on the balance sheet.  
The \$62.8 million that China XD expects to receive from a major Middle East customer should have  
been, but was not, reflected in the Buyout price.

1 *The Buyout Projections Incorporate Numerous False Assumptions Regarding the Company*  
 2 *and Materially Understate China XD's Prospects*

3 88. The Buyout price is also inadequate because it was based on a false premise  
 4 concerning China XD's long-term value, as reflected by the misleading Buyout Projections Han  
 5 gave Duff so Duff could render a "fairness opinion" regarding the \$1.20 per share Buyout price.

6 89. The Buyout Projections were summarized in the Proxy as follows:

<b>Company Financial Projections</b>						
<b>Fiscal Year Ending December 31,</b>						
	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<small>(in RMB million except percentage)</small>						
<b>Net Revenues</b>	6,075	8,810	8,718	12,990	17,719	20,323
<b>Gross Profit</b>	606	880	871	1,784	2,843	3,463
<i>% Margin</i>	<i>10.0%</i>	<i>10.0%</i>	<i>10.0%</i>	<i>13.7%</i>	<i>16.0%</i>	<i>17.0%</i>
<b>Operating Expenses</b>	589	773	779	979	1,281	1,469
<b>Income from Operations</b>	17	107	92	805	1,562	1,994
<i>% Margin</i>	<i>0.3%</i>	<i>1.2%</i>	<i>1.1%</i>	<i>6.2%</i>	<i>8.8%</i>	<i>9.8%</i>
<b>Depreciation and Amortization</b>	805	1,276	1,330	1,355	1,400	1,444
<b>EBITDA</b>	823	1,383	1,422	2,159	2,962	3,437
<i>% Margin</i>	<i>13.5%</i>	<i>15.7%</i>	<i>16.3%</i>	<i>16.6%</i>	<i>16.7%</i>	<i>16.9%</i>
<b>Net Income</b>	-476	-546	-666	-16	522	833
<i>% Margin</i>	<i>-7.8%</i>	<i>-6.2%</i>	<i>-7.6%</i>	<i>-0.1%</i>	<i>2.9%</i>	<i>4.1%</i>

17 90. The Schedule 13E-3 offers a more detailed (yet hardly legible) picture:  
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# Valuation Analysis

## Historical and Projected Financial Performance

### Historical and Projected Financial Performance (RMS in thousands)

	2015A	2016A	2017A	2018A	2019A	YTD 3/31/2019	YTD 3/31/2020	LTM 3/31/2020	Management Projections					
									2020P	2021P	2022P	2023P	2024P	2025P
Net Revenue - Petroleum Products Growth	¥6,284,708 NA	¥7,025,223 26.6%	¥8,755,478 9.9%	¥8,426,588 (3.2%)	¥8,595,950 8.9%	¥2,033,126 2.9%	¥627,003 (89.1%)	¥7,506,743 (10.1%)	¥6,080,500 (52.8%)	¥8,799,876 45.2%	¥8,546,118 (2.8%)	¥9,681,651 13.0%	¥11,481,806 18.6%	¥12,901,271 4.5%
Net Revenue - Biodegradable Plastics Growth	¥0 NA	¥0 MM	¥0 NM	¥0 NM	¥0 NM	¥0 MM	¥0 NM	¥0 MM	¥0 NM	¥0 MM	¥157,824 NM	¥3,353,560 NM	¥6,206,916 87.8%	¥8,289,730 33.6%
Net Revenue - 3D Printing Materials Growth	¥0 NA	¥0 MM	¥0 NM	¥0 NM	¥0 NM	¥0 MM	¥0 NM	¥0 MM	¥0 NM	¥0 MM	¥750 MM	¥14,463 NM	¥18,950 NM	¥21,886 15.1%
Net Revenue - Others Growth	¥25,412 NA	¥51,161 93.7%	¥7,005 (85.2%)	¥5,161 (27.2%)	¥1,000,725 NM	¥261 MM	¥143,525 NM	¥1,143,990 NM	¥14,253 (58.8%)	¥10,300 (30.3%)	¥10,000 0.0%	¥10,000 0.0%	¥10,000 0.0%	¥10,000 0.0%
Total Net Revenue Growth	¥6,281,118 (8.1%)	¥7,076,384 28.8%	¥8,751,555 9.3%	¥8,431,747 (3.3%)	¥9,596,675 18.4%	¥2,033,386 2.0%	¥771,445 (82.1%)	¥8,724,733 2.8%	¥6,074,853 (59.2%)	¥9,058,875 45.0%	¥8,717,699 (1.0%)	¥12,969,674 49.9%	¥17,718,922 36.4%	¥20,322,899 14.1%
Gross Profit Margin % Growth	¥1,280,411 20.4%	¥1,828,702 26.0%	¥1,839,928 21.1%	¥1,710,460 20.3%	¥1,852,869 18.8%	¥408,254 21.2%	¥180,883 29.9%	¥1,583,517 18.1%	¥1,270,702 21.8%	¥1,045,402 22.1%	¥1,951,172 22.7%	¥2,915,528 22.4%	¥4,012,801 22.8%	¥4,868,031 23.0%
Adjusted EBITDA Margin % Growth	¥1,052,594 16.7%	¥1,378,395 17.3%	¥1,448,108 15.8%	¥1,596,617 13.0%	¥1,459,808 14.1%	¥336,895 (5.4%)	¥147,248 (55.9%)	¥1,226,191 14.1%	¥667,667 14.2%	¥1,426,352 16.2%	¥1,463,533 16.8%	¥2,237,011 17.2%	¥3,043,845 17.2%	¥3,514,519 15.6%
Adjusted EBIT Margin % Growth	¥678,168 14.8%	¥1,147,847 14.4%	¥1,155,408 13.2%	¥780,569 (31.8%)	¥691,481 25.4%	¥227,056 (12.4%)	¥52,289 (77.9%)	¥816,710 7.1%	¥84,917 (94.9%)	¥142,738 1.6%	¥126,329 1.4%	¥674,519 11.9%	¥1,653,974 NM	¥2,363,581 86.6%
Capital Expenditures % of Net Revenue	¥1,683,778 26.9%	¥1,359,495 17.5%	¥3,082,988 35.4%	¥2,836,767 35.7%	¥1,123,588 11.3%	¥77,376 3.8%	¥142,633 18.6%	¥1,188,844 13.6%	¥3,042,378 84.9%	¥1,671,742 18.9%	¥500,000 7.2%	¥482,300 3.1%	¥531,566 3.0%	¥909,687 3.8%
Net Working Capital % of Net Revenue	¥623,257 14.7%	¥2,083,173 31.1%	¥2,419,564 27.8%	¥3,420,035 40.7%	¥4,389,847 43.7%			¥5,928,890 57.6%	¥2,456,696 40.4%	¥4,367,382 49.2%	¥4,571,387 52.4%	¥7,132,519 54.8%	¥10,528,854 59.4%	¥12,308,010 59.2%

Note: Financial performance metrics presented are adjusted to exclude public company costs and non-recurring income and expenses.  
Source: Company filings, the management of the Company.

91. The Schedule 13E-3 also lists general assumptions for the Buyout Projections:

#### Discounted Cash Flow Key Assumptions

- Duff & Phelps utilized and relied upon the Management Projections for the fiscal years ending December 31, 2020 through 2025 (excluding public company expenses, as provided by the management of the Company), discussions with Company management, and a review of the Company's historical performance and other factors to develop the DCF analysis.
- Beyond the projection period, Duff & Phelps estimated the "terminal value" using a perpetuity formula.
- Duff & Phelps discounted the resulting free cash flows and terminal value using a weighted average cost of capital range of 13.50% to 14.50%, derived from the Capital Asset Pricing Model. Duff & Phelps also considered the higher risk profile of the pre-revenue biodegradable plastics business in its determination of the appropriate discount rate range for the Company.
- The following is a summary of the Management Projections utilized in the discounted cash flow analysis:
  - Net revenue increases at a compound annual growth rate ("CAGR") of 12.6% from 2019 to 2025.
  - EBITDA margin averages 16.5% from 2020 to 2025.
  - Capital expenditures average 16.7% of net revenue from 2020 to 2025.
  - Net working capital averages 52.6% of net revenue from 2020 to 2025.

92. In the summary of Duff's DCF analysis, the Schedule 13E-3 similarly discloses a substantively similar set of financial projections:

Discounted Cash Flow Analysis								
(RMB in thousands)								
	LTM	2020P	2021P	2022P	2023P	2024P	2025P	Terminal Year
Net Revenue	¥ 8,724,733	¥ 6,074,853	¥ 8,809,875	¥ 8,717,699	¥ 12,989,674	¥ 17,718,922	¥ 20,322,899	¥ 20,322,899
Growth	2.8%	(39.2%)	45.0%	(1.0%)	49.0%	36.4%	14.7%	
EBITDA	¥ 1,226,161	¥ 867,697	¥ 1,426,352	¥ 1,463,533	¥ 2,237,011	¥ 3,040,045	¥ 3,514,918	¥ 3,514,918
Margin	14.1%	14.3%	16.2%	16.8%	17.2%	17.2%	17.3%	17.3%
Growth	71.8%	(38.5%)	64.4%	2.6%	52.9%	35.9%	15.6%	
		2020 Q2-Q4						
Earnings Before Interest and Taxes		2,688	142,738	126,329	874,579	1,631,974	2,063,591	2,922,895
Pro Forma Taxes		0	0	0	(73,677)	(161,212)	(211,807)	(340,703)
Net Operating Profit After Tax		2,688	142,738	126,329	800,902	1,470,762	1,851,784	2,582,192
Depreciation		706,493	1,270,794	1,324,363	1,349,611	1,395,251	1,438,507	579,203
Amortization		11,268	12,820	12,820	12,820	12,820	12,820	12,820
Capital Expenditures		(3,799,746)	(1,671,742)	(630,906)	(402,390)	(531,568)	(609,687)	(609,687)
(Increase) / Decrease in Working Capital		2,572,270	(1,900,892)	(214,015)	(2,561,122)	(3,394,334)	(1,509,158)	(421,375)
Free Cash Flow (1)		- ¥ 507,027	- ¥ 2,146,082	¥ 618,612	- ¥ 600,178	- ¥ 1,047,068	¥ 1,184,268	¥ 2,143,153
<b>Enterprise Value Range</b>		<b>Low</b>	<b>High</b>					
Terminal Growth Rate		4.00%	4.00%					
Weighted Average Cost of Capital		14.50%	13.50%					
<b>Concluded Enterprise Value</b>		<b>¥ 6,830,000</b>		<b>¥ 8,270,000</b>				
<b>Implied Valuation Multiples</b>								
EV / LTM EBITDA	¥ 1,226,161	5.6x	6.7x					
EV / 2020 EBITDA	¥ 867,697	7.9x	9.5x					
EV / 2021 EBITDA	¥ 1,426,352	4.6x	5.8x					
EV / 2022 EBITDA	¥ 1,463,533	4.7x	5.7x					
EV / LTM Revenue	¥ 8,724,733	0.78x	0.95x					
EV / 2020 Revenue	¥ 6,074,853	1.12x	1.36x					
EV / 2021 Revenue	¥ 8,809,875	0.78x	0.94x					
EV / 2022 Revenue	¥ 8,717,699	0.78x	0.95x					
(1) Prior to application of 10% dividend withholding tax, which is calculated based on levered cash flows and discounted separately at the cost of equity derived in the WACC calculation and included in the concluded enterprise value range.								
Note: Balance sheet data and LTM as of March 31, 2020. Financial performance metrics presented are adjusted to exclude public company costs and non-recurring income and expenses.								

93. Regardless of how presented, the Buyout Projections offer an objectively unsupportable and overly pessimistic view of China XD's long-term prospects.

94. The Buyout Projections are already facially unreliable because they came *not* from any ongoing long-term financial planning conducted by China XD's management but, rather, from a self-interested executive whose primary concern was paying as little as possible to acquire the Company.

95. Numerous additional factors further demonstrate that the Buyout Projections painted a materially misleading and unreasonably pessimistic view of the Company's long-term prospects.

96. First, the Buyout Projections assume that China XD's capital expenditures will average 16.7% of net revenue from 2020 through 2025. The Buyout Projections also show that the Company will record almost RMB 4 billion in capital expenditures for 2020 alone, which translates to approximately \$586,183,640 or 52.6% of the Company's projected net revenue for the same period.

1           97.     This estimate is utterly unupportable, as the Company has never in its entire history  
2 recorded anywhere close to that amount in annual capital expenditures, and the amount far exceeds  
3 China XD's ordinary level of capital expenditures over the past five years.

	2015	2016	2017	2018	2019
4 Revenues	\$999,192,894	\$1,201,678,898	\$1,290,447,748	\$1,274,833,282	\$1,448,204,826
5 CAPEX	\$267,427,681	\$210,840,098	\$175,659,870	\$429,205,807	\$154,115,880
6 CAPEX / 7 Revenues	26.8%	17.5%	13.6%	33.7%	10.6%

8  
9           98.     Notably, the Company did not provide any explanation for the materially inflated  
10 capital expenditure projections.

11           99.     Moreover, the high-water line of China XD's capital expenditures came in 2018,  
12 when the Company embarked on an aggressive expansion program that would substantially increase  
13 the Company's total manufacturing capacity. Those projects are largely complete, however, and the  
14 Company has not conveyed that it expects to spend anywhere close to 2018 levels in any public  
15 statements.

16           100.    Furthermore, China XD's quarterly report for the first half of 2020 represents that the  
17 Company spent only \$24.5 million on capital expenditures through June 30, 2020. Thus, based on  
18 the Company's own public statements regarding, among other things, outstanding commitments  
19 from certain construction projects, China XD will not spend anywhere close to \$586 million in  
20 capital expenditures for 2020.

21           101.    The assumptions regarding China XD's capital expenditures are patently absurd and  
22 were conjured to overstate the Company's projected expenses and, thus, understate the Company's  
23 value. Moreover, frontloading projected capital expenditures resulted in a lower implied valuation  
24 than if the Company had evenly spread projected expenditures over the projections period.

25           102.    Second, the Buyout Projections present materially false assumptions regarding the  
26 Company's net working capital. The Buyout Projections assume that China XD would maintain net  
27 working capital equivalent to 52.6% of the Company's net revenue. This too is belied by history.

28



1 From 2015 through 2019, the Company’s net working capital as a percentage of net revenue ranged  
2 from -14.1% to 23.1%, not the ranges set forth in the Schedule 13E-3. By including inflated levels  
3 of net working capital in his projections, not only are the figures set forth in the Schedule 13E-3  
4 materially false, but Han has also cast a misleading picture in which the Company would hoard cash  
5 and refuse to deploy it for growth-generating uses. While the Chinese and global economy grows—  
6 as it is forecast to do—China XD, at least under the supposed net working capital assumptions,  
7 would remain largely idle for the next several years. That is a far-fetched scenario given the  
8 Company’s substantial investment into its manufacturing capabilities over the past several years.

9 103. The \$1.20 per share Buyout price also fails to reconcile the oft-discussed fact that the  
10 stock market has perpetually undervalued China XD’s stock, made even worse by the diminution in  
11 stock prices as a result of the COVID-19 pandemic. As observed during the November 14, 2019,  
12 earnings call, Zhang said, “The company has been undervalued over years.” Several investors who  
13 have participated in the Company’s period earnings calls have also decried the fact that China XD’s  
14 stock is generally undervalued. Such undervaluation stems from, among other things, Han’s  
15 persistent lack of transparency (including as related to the 2017 take-private offer as well as the  
16 dense web of affiliates and affiliated transactions the Company operates through), and the market’s  
17 relative inability to value non-U.S. companies of a size similar to China XD,

18 *The Recent Temporary Equity Transfer Undermines the Fairness of the Buyout*

19 104. On January 22, 2020, according to China XD’s report for the quarterly period ended  
20 March 31, 2020 (the “2020 Q1 10-Q”), for the equivalent of \$45.9 million, an unnamed “third party  
21 investor” acquired 36.21% and 38.08% of the equity interest of the Company’s two wholly owned  
22 Chinese subsidiaries, Heilongjiang Xinda Enterprise Group Company Limited and Sichuan Xinda  
23 Enterprise Group Company Limited.

24 105. In other words, this “third party investor” spent more money to acquire less than 40%  
25 of just two of the Company’s many subsidiaries—the 2019 Annual Report lists China XD has having  
26 15 different subsidiaries—than China XD’s independent stockholders will receive for Han to acquire  
27 the entire Company.

1           106. Beyond its potential measure of the Company’s overall value, the temporary equity  
2 transfer also appears to have been structured as such to drive down China XD’s equity value. Indeed,  
3 Duff’s financial analyses yielded “enterprise values” for the Company, which then have to be  
4 translated to “equity value” in order to arrive at a per share value. In addition to considering debt,  
5 cash, and cash equivalents, the enterprise-to-equity value calculation requires the subtraction of  
6 “non-controlling interests,” including the type reflected by the \$45.9 investment in the Company’s  
7 two Chinese subsidiaries. In other words, even though the January 22, 2020, transaction is akin to a  
8 loan, it was structured as an equity investment to drive down the resulting calculation of equity value  
9 by \$45.9 million. Han’s causing the Company to enter into the sham equity transfer, in and of itself,  
10 represents a breach of fiduciary duty.

11           *The Company’s Public Statements and Recent Business Activities and Stock Performance*  
12           *Demonstrate the Inadequacy of the \$1.20 Per Share Buyout Price*

13           107. Further, as alleged above, the Company’s own public statements indicate that China  
14 XD is poised for success. It boasts a massive manufacturing footprint, has successfully weathered  
15 the difficult business conditions stemming from the COVID-19 pandemic, and operates in a market  
16 that is expected to enjoy immense expansion over the next several years, and has recently invested  
17 substantial sums of money to expand its manufacturing capacity and expects to operate more  
18 efficiently (and thus more profitably) than ever before.

19           108. China XD’s recent, post-signing periodic financial reporting further demonstrates  
20 that the business is on solid footing and that it is primed for substantial long-term growth.

21           109. On June 29, 2020, China XD announced its financial results for the first quarter ended  
22 March 31, 2020. The Company observed declines in various metrics compared to the same period  
23 from the prior year, yet Han assured the market of China XD’s progress:

24           “Due to the COVID-19 pandemic, China’s auto industry was hit hard with production  
25 and sales decreased by 45.2% and 42.4%, respectively for the first quarter of 2020.  
26 The Company’s manufacturing facilities in Harbin and Sichuan were temporarily  
27 shut down in February and March 2020 while our Dubai facilities’ operation has been  
28 suspended since early February 2020, pursuant to the local government directives.  
During the first quarter of 2020, the Company’s revenue decreased by 52.0%, and  
our domestic sales decreased by 51.1% in all regions, as compared to the same period

1 of the last year. The Company has taken proactive measures to respond to these  
2 changes from the supply disruption and the decreased orders of auto industry. We  
3 continued to promote sales of high-priced semi-finished goods in domestic market  
4 during the first quarter of 2020. We are pleased to see an overall increase of 65.6%  
5 in the average RMB selling price of our products, to partially offset the decreased  
6 sales volume of 70.0%. “

7 “Meanwhile, China XD has responded to the COVID-19 pandemic by producing raw  
8 materials for PPE such as goggles and masks, to help alleviate the pandemic to our  
9 communities and mitigate the negative impact of world pandemic on Chinese auto  
10 industry.”

11 “We also resumed our commitment to completing our industrial project for upgrading  
12 existing equipment for 100,000 metric tons of engineering plastics by the end of third  
13 quarter of this year, and our Qinling Road Project and Jiangnan Road Project for  
14 equipment upgrade and factory revamping by the end of the fourth quarter of 2020,  
15 thus bringing the production capacity in Heilongjiang Campus back to 390,000 metric  
16 tons. At the same time, we expect to complete additional 10 production lines in our  
17 Sichuan plant by the end of the fourth quarter of this year, thus to bring the total  
18 capacity of Sichuan base to 300,000 metric tons. Together with the production  
19 capacity ramp up in Dubai, we are confident in our ability to make further inroads  
20 into more specialized high-end products for various applications in more other  
21 markets”

22 “We will continue to optimize our management structure and enhance our operating  
23 efficiency. We are confident, through our cooperation with Chinese big banks to  
24 successfully execute our expansion strategy in multiple regions and sectors, and to  
25 be confident with our core market positioning and expanded platform for growth.”  
26 Mr. Han concluded.

27 110. On August 14, 2020, China XD announced its financial results for the second quarter  
28 ended June 30, 2020. Although the Company’s results represented a decline over the prior year’s  
second quarter, Han explained performance was solid in light of the pandemic:

“We are pleased with our quarterly results with recovery in both top and bottom  
lines.” said Jie Han, Chairman of the Board of Directors and Chief Executive Officer.  
“During the first half of this year, we have witnessed severe disruption in both  
production and sales of China’s auto industry, and the production and sales in the  
first half of this year showed a year-on-year decline, as the result of the COVID-19  
pandemic. Amid the negative economic and industry environment, during the three-  
month period ended June 30, 2020, China XD proactively fine-tuned its marketing  
strategy to promote sales of new categories of higher-end products of PA66 and PA6  
produced with high-priced raw materials with higher selling price in domestic market.  
This was evidenced by sales growth in Southwest China, East China and South China,  
and average RMB sales price increased by 19.7%, partially offset the decreased sales  
volume of 47.0%. “

“Along the Chinese government recently issued supportive policies toward  
enterprises reopening, we will continue to focus on our customers’ need, synchronize  
our production and sales to pursue stable sales increase. At the same time, we will  
continue to complete our infrastructure projects in Heilongjiang and Sichuan campus  
as planned, thus bringing the production capacity in Heilongjiang Campus back to

1 390,000 metric tons and bringing the total capacity of Sichuan base to 300,000 metric  
2 tons by the end of 2020. We are confident in our ability to make further inroads into  
more specialized high-end products for various applications in more other markets.”

3 “We will continue to optimize our management structure and enhance our operating  
4 efficiency. We are confident, through our cooperation with Chinese major banks to  
successfully execute our expansion strategy in multiple regions and sectors, and  
confident with our core market positioning,” Mr. Han concluded.

5 111. Accordingly, given the Company’s recent strong performance, its positioning for  
6 growth, and analyst expectations, the Buyout undervalues the Company and is, therefore,  
7 inadequate.

8 112. Indeed, the Company’s own financials show the inadequacy of the offer price of  
9 \$1.20 per share. The Company’s shares were consistently traded above \$2.00 per share throughout  
10 2019 (above \$2.80 per share at its peak), and the Company’s tangible book value as of December  
11 31, 2019 was approximately \$836 million, or \$12.41 per share—more than ten times the \$1.20 per  
12 share which Han offered and the Board accepted.

13 113. Further, the Company’s financial results for the second quarter ended June 30, 2020  
14 show that the Company’s earnings per share in the quarter alone amounted to \$0.26, over 20% of  
15 the offer price of \$1.20 per share. In other words, an historically bad quarter resulted in quarterly  
16 revenues that, if extrapolated for an entire year, would approach the Buyout price, and the resulting  
17 roughly 1x multiple is so far beyond the range of acceptability that no director in good faith could  
18 authorize a deal based on these considerations.

19 *The Lack of Dissenters’ Rights Precludes an Independent Assessment of Fair Value*

20 114. The inadequacy of consideration is further compounded by the unavailability of  
21 appraisal rights pursuant to Nevada’s statutory corporate law, which precludes dissenters’ rights for  
22 shareholders of a Company whose stock trades on a national exchange.

23 **VI. THE PRECLUSIVE DEAL PROTECTION DEVICES**

24 115. The Buyout is a *fait accompli* because, absent judicial intervention, the Buyer Group  
25 has enough control over the Company to bring about the Buyout regardless of shareholder opposition  
26 given the Board’s failure to insist on a “majority of the minority” voting condition. Relatedly, Han’s  
27 majority control of the Company is likely to further deter any otherwise interested party. Han clearly  
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1 has an interest in acquiring the Company and has expressly stated that he will not consent to any  
2 other competing transaction, so it is extremely unlikely that any outside party would be able to  
3 develop a financial model for China XD.

4 116. Yet the Board also agreed to certain onerous and preclusive deal protection devices  
5 that operate conjunctively to make the Buyout even more preclusive.

6 117. Section 6.2 of the Merger Agreement includes a “no solicitation” provision barring  
7 the Company from soliciting interest from other potential acquirers in order to procure a price in  
8 excess of the amount offered by Han. This section also demands that the Company terminate any  
9 and all prior or on-going discussions with other potential acquirers. If an unsolicited bidder submits  
10 a competing proposal, the Company must notify Han of the bidder’s identity and the terms of the  
11 bidder’s offer. Thereafter, should the Board determine that the unsolicited offer is superior, before  
12 the Company can terminate the Merger Agreement with Han in order to enter into the competing  
13 proposal, it must grant Han four business days and allow Han to amend the terms of the Merger  
14 Agreement to make a counter-offer that the Board must consider in determining whether the  
15 competing offer still constitutes a superior proposal. In short, the Merger Agreement gives Han  
16 access to any rival bidder’s information and allows Han a free right to top any superior offer simply  
17 by matching it. Accordingly, no rival bidder is likely to emerge and act as a stalking horse, because  
18 the Merger Agreement unfairly assures that any “auction” will favor Han.

19 118. In addition, if the Board decides to pursue another offer, the Merger Agreement  
20 provides that China XD must pay the Buyer Group a termination fee, thereby essentially requiring  
21 that the competing bidder agree to pay a naked premium for the right to provide the shareholders  
22 with a superior offer.

23 119. Ultimately, these preclusive deal protection provisions illegally restrain the  
24 Company’s ability to solicit or engage in negotiations with any third party regarding a proposal to  
25 acquire all or a significant interest in the Company. The circumstances under which the Board may  
26 respond to an unsolicited written bona fide proposal for an alternative acquisition that constitutes or  
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1 would reasonably be expected to constitute a superior proposal are too narrowly circumscribed to  
2 provide an effective “fiduciary out” under the circumstances.

3 **VII. DEFENDANTS MISREPRESENTED AND OMITTED MATERIAL**  
4 **INFORMATION REGARDING THE BUYOUT**

5 120. On September 30, 2020, China XD filed the Proxy with the SEC, which announced  
6 that the vote on the Buyout would occur on November 5, 2020 at 9:00 a.m. (Beijing Time), which  
7 is equivalent to November 4, 2020 at 8:00 p.m. U.S. Eastern Standard Time. Also on September 30,  
8 2020, the Company filed a Schedule 13E-3, which contained a copy of Duff’s presentation to the  
9 Board.

10 121. Directors and officers have a fiduciary obligation to disclose any and all material  
11 information concerning matters subject to stockholder approval, and they similarly are obligated to  
12 ensure that such disclosures are not false and misleading, whether by affirmative misrepresentation  
13 or omission of information that would render a representation not misleading.

14 122. Here, however, Defendants have breached their fiduciary duties by filing a Proxy that  
15 misrepresents and omits material information concerning the Buyout.

16 123. First, for the reasons explained above, the Proxy is false and misleading because it  
17 misrepresents the current status of China XD’s business by failing to properly account for the \$62.8  
18 million the Company expects to receive from a long-term customer in the Middle East but has  
19 recorded as a “doubtful account[.]”

20 124. Second, as also explained above, the Proxy is false and misleading because it  
21 inaccurately depicts the long-term prospects of China XD. The Proxy partially discloses the Buyout  
22 Projections, which the Company’s management created and provided to Duff as purportedly  
23 representing management’s views as to the Company’s long-term prospects. But as stated above,  
24 these projections falsely present an overly negative view of the Company’s future. Among other  
25 things, the Company grossly overstates expected capital expenditures and net working capital.  
26 Moreover, given the Company’s recent investment in capacity expansion, as well as its foray into  
27 other areas like high-end products, biodegradable products, and medical-related products, the growth  
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1 assumptions underlying the Company's Buyout Projections are unreasonably pessimistic. The  
2 Proxy's presentation of objectively and subjectively false financial projections renders it materially  
3 misleading.

4 125. Third, the Proxy Statement is also materially inadequate and misleading because it  
5 fails to disclose details underlying Duff's retention as the Committee's financial advisor, including  
6 Duff's prior role in advising the Board on Han's prior attempt to buy the Company, the nature of  
7 Duff's ongoing interactions with any members of the Board or of China XD's management, and the  
8 nature of the due diligence it purportedly conducted prior to providing a single presentation  
9 supporting its flimsy fairness opinion on the inadequate \$1.20 per share.

10 126. Accordingly, Plaintiffs seek injunctive and other equitable relief to prevent the  
11 irreparable injury that Company shareholders will continue to suffer absent judicial intervention.

## 12 **CLAIMS FOR RELIEF**

### 13 **COUNT I** 14 **Breach of Fiduciary Duties**

15 127. **(Against the Outside Directors)** Plaintiffs repeats all previous allegations as if set  
16 forth in full herein.

17 128. The Outside Directors, as directors of China XD, owe China XD's shareholders  
18 fiduciary duties of loyalty, due care, good faith, and full disclosure. As a result of their fiduciary  
19 duties, the Outside Directors were obligated to:

- 20 a. undertake an appropriate evaluation of China XD's net worth as a  
21 merger/acquisition candidate;
- 22 b. take all appropriate steps to enhance China XD's value and attractiveness as  
23 a merger/acquisition candidate;
- 24 c. act independently to protect the interests of the Company's public  
25 shareholders;
- 26 d. adequately ensure that no conflicts of interest exist between the Outside  
27 Directors' own interests and their fiduciary obligations, and, if such conflicts  
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1 exist, to ensure that all conflicts are resolved in the best interests of China  
2 XD's public shareholders;

3 e. evaluate the Buyout and engage in a meaningful auction with third parties in  
4 an attempt to obtain the best value on any sale of China XD; and

5 f. disclose to China XD's shareholders any and all material information  
6 regarding the Buyout in a completely truthful manner.

7 129. The Outside Directors have breached their fiduciary duties to Plaintiffs and the Class.

8 130. As alleged herein, the Outside Directors have initiated a process to sell China XD  
9 that undervalues the Company. In addition, by agreeing to the Acquisition, the Outside Directors  
10 have capped the price of China XD at a price that does not adequately reflect the Company's true  
11 value. The Outside Directors also failed to sufficiently inform themselves of China XD's value, or  
12 disregarded the true value of the Company. Furthermore, any alternate acquirer will be faced with  
13 engaging in discussions with a management team and Board that are committed to the Acquisition.

14 131. As a result of the Outside Directors' breaches, Plaintiffs and the Class will suffer  
15 irreparable injury in that they have not and will not receive their fair portion of the value of China  
16 XD's assets and will be prevented from benefiting from a value-maximizing transaction.

17 132. Unless enjoined by this Court, the Outside Directors will continue to breach their  
18 fiduciary duties owed to Plaintiffs and the Class, and may consummate the Buyout, to the irreparable  
19 harm of the Class.

20 133. Plaintiffs and the Class have no adequate remedy at law.

21 **COUNT II**  
22 **Breach of Fiduciary Duties**

23 134. **(Against the Buyer Group)** Plaintiffs repeat all previous allegations as if set forth  
24 in full herein.

25 135. The Buyer Group, as China XD's controlling shareholder, owes China XD's  
26 shareholders fiduciary duties of loyalty, due care, good faith, and full disclosure.

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