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As filed with the Securities and Exchange Commission on April 27, 2010 Registration No. 333-

# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM F-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

### CHINA NEW BORUN CORPORATION

(Exact name of registrant as specified in its charter)

**Not Applicable**

(Translation of registrant's name into English)

**Cayman Islands**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**2085**  
(Primary Standard Industrial  
Classification Code Number)

**Not Applicable**  
(I.R.S. Employer  
Identification No.)

**Bohai Industrial Park (Yangkou Town)**  
**Shouguang, Shandong 262715, PR China**  
**+86 (536) 5451199**

(Address, including zip code, and telephone number, include area code, of registrant's principal executive offices)

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**Approximate Date of Proposed Sale to the Public:** As soon as practicable after the effective date of this Registration Statement

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement the same offering.

If delivery of prospectus is expected to be made pursuant to Rule 434, please check the following box.

#### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered(1)	Proposed Maximum Aggregate Offering Price(2)(3)	Amount of Registration Fee
Ordinary Shares, \$0.001 par value per share	\$92,000,000	\$6,560

- (1) American depositary shares issuable upon deposit of the ordinary shares registered hereby will be registered under a separate registration statement on Form F-6 to be filed with the Commission. Each American depositary share represents ordinary shares.
- (2) Includes ordinary shares initially offered and sold outside the United States that may be resold from time to time in the United States, including ordinary shares underlying American depositary shares that may be purchased by the underwriters pursuant to an over-allotment option. These ordinary shares are not being registered for the purposes of sales outside the United States.
- (3) Estimated solely for the purpose of determining the amount of registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

The registrant amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated \_\_\_\_\_, 2010

## American Depositary Shares

### CHINA NEW BORUN CORPORATION



#### Representing Ordinary Shares

- China New Borun Corporation is offering \_\_\_\_\_ ADSs, representing \_\_\_\_\_ ordinary shares.
- This is our initial public offering and no public market currently exists for our ADSs or ordinary shares.
- We anticipate that the initial public offering price will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per ADS.
- Proposed trading symbol: New York Stock Exchange—BORN

This investment involves significant risks. See "Risk Factors" beginning on page 14.

	Per ADS	Total
Public offering price	\$ _____	\$ _____
Underwriting discounts	\$ _____	\$ _____
Proceeds, before expenses, to China New Borun Corporation	\$ _____	\$ _____

The underwriters have a 30-day option to purchase up to \_\_\_\_\_ additional ADSs from us to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved of anyone's investment in these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The ADSs will be ready for delivery on or about \_\_\_\_\_, 2010.

## Piper Jaffray

The date of this prospectus is \_\_\_\_\_, 2010

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You should rely only on information contained in this prospectus and in any free writing prospectus filed with the Securities and Exchange Commission in connection with this offering. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which the offer or solicitation is not permitted or is unlawful.

## PROSPECTUS SUMMARY

*This summary highlights material information about us that is described more fully elsewhere in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. You should carefully read the more detailed information contained in this prospectus, including our financial statements and related notes. Our business and an investment in the ADSs involve significant risks. You should carefully consider the information under the heading "Risk Factors" beginning on page 14.*

*Unless the context otherwise requires, the terms "we", our "Company", "us" or "New Borun" refer to China New Borun Corporation, a Cayman Islands exempt entity, and its consolidated subsidiaries.*

### **Our Business**

We are a leading producer and distributor of corn-based edible alcohol in the People's Republic of China based on tons of edible alcohol produced. Our edible alcohol products are primarily sold as an ingredient to producers of *baijiu* who further blend our products into finished products sold under various brand names throughout China. "*Baijiu*" is a grain based alcoholic beverage, generally made from corn, wheat or barley, clear in color, with alcohol content ranging from 18% to 68%. *Baijiu* is sold throughout China in retail stores, bars, banquet halls, restaurants and other locations where alcoholic beverages are typically consumed. *Baijiu* is consumed in almost all the occasions in China where alcoholic beverage is desirable, from daily residential consumption, gatherings of family and friends, business and social occasions, to the Chinese Spring Festival celebrations. In China, consumption of *baijiu* is generally associated with a higher standard of living.

We believe our in-house developed manufacturing process results in a cost effective, consistent and superior product widely sought by *baijiu* producers. Producers of *baijiu* often have distinctive taste and flavor profiles that are achieved through proprietary recipes and blending techniques. The consistency and quality of the alcohol ingredient we supply to them is an important aspect in consistently achieving their final taste and flavor profiles.

During the production of edible alcohol, we also produce DDGS Feed and corn germ as by-products which are sold separately from our edible alcohol. We are also constructing facilities to manufacture liquid carbon dioxide from waste carbon dioxide emitted during our production process, in order to create additional streams of revenue.

In China, edible alcohol can be classified into Grades A, B and C (see "Our Industry—Overview of the Chinese Edible Alcohol Industry"). Currently, we sell both Grade B and Grade C edible alcohol, and we intend to sell more Grade B edible alcohol upon completion of our capacity expansion. Grade B edible alcohol has a higher ethanol content than Grade C alcohol and thus can be sold at a higher price than Grade C edible alcohol.

Based upon our knowledge of our industry and our ongoing patent application, we believe our in-house developed Borun Wet Process has a higher production yield, is environmentally friendlier and has a higher energy efficiency as compared to other producers of commercially available corn-based edible alcohol in China. The State Intellectual Property Office of the PRC accepted our application for a patent of invention for the Borun Wet Process and as of the date of this prospectus, such application is under review for approval. Based upon our knowledge of our industry and our ongoing patent application, we believe we are the only corn-based edible alcohol producer in China utilizing our method (see "Our Business—Intellectual Property").

We currently own and operate two facilities: one in Shouguang, Shandong Province and the other in Daqing, Heilongjiang Province. Our Shouguang facility has an annual production capacity of 160,000 tons of corn-based edible alcohol (90,000 tons of Grade B edible alcohol and 70,000 tons of Grade C edible alcohol). Our Daqing facility currently has an annual production capacity of 100,000 tons of corn-based edible alcohol (70,000 tons of Grade B edible alcohol and 30,000 tons Grade C edible alcohol). We are constructing an additional 120,000 tons of capacity (all Grade B edible alcohol) at our Daqing facility, currently expected to commence commercial production in November 2010. According to the Frost Report, we are the largest privately-owned corn-based edible alcohol producer operating in Shandong Province and Heilongjiang Province. Our Daqing facility is licensed to build up to 330,000 tons of production capacity of edible alcohol. Based on data from the Frost Report and our knowledge of our industry, we believe we will be the largest producer of corn-based edible alcohol in China, in terms of current known production capacity following complete development of the Daqing facility.

Corn, which we purchase from local farmers and distributors, is the most important raw material used in our production process. Prices of corn are generally higher during non-harvest season than the harvest season and are the lowest in the northeastern region of China. In order to minimize our corn cost and secure supply during the non-harvest season, in November 2009 we entered into framework agreements with local granaries in Heilongjiang Province to purchase corn on our behalf from local farmers during the harvest season and to store the corn for delivery. We believe these arrangements will substantially satisfy our corn requirements for our Shouguang and Daqing facilities during the non-harvest season. We have entered into framework agreements with nine granaries and four granaries in Heilongjiang Province to supply in total approximately 282,000 tons and 155,000 tons of dried corn to our Shouguang facility and Daqing facility, respectively, in 2010.

From 2007 to 2009 our revenue grew from RMB487.3 million (\$71.4 million) to RMB1,060.5 million (\$155.4 million), representing a CAGR of 47.5%. In the same period, our net income grew from RMB58.7 million (\$8.6 million) to RMB166.4 million (\$24.4 million), representing a CAGR of 68.4%.

### **Conventions That Apply to This Prospectus**

Unless we indicate otherwise, references in this prospectus to:

- "ADRs" are to the American depositary receipts, which, if issued, evidence our ADSs;
- "ADSs" are to our American depositary shares, each of which represents           ordinary shares;
- "CAGR" is to compound annual growth rate;
- "China" and the "PRC" are to the People's Republic of China, excluding, for the purposes of this prospectus only, Taiwan and the special administrative regions of Hong Kong and Macau;
- "Frost Report" is to the Frost & Sullivan report entitled "The Independent Market Research For Edible Alcohol Market in China";
- "NYSE" is to the New York Stock Exchange;
- "ordinary shares" are to our ordinary shares, par value \$0.001 per share;

- "RMB" and "Renminbi" are to the legal currency of China;
- "\$" and "U.S. dollars" are to the legal currency of the United States; and
- "we", "us", "our Company" and "our" are to China New Borun Corporation and its consolidated subsidiaries.

This prospectus contains translations of certain RMB amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from RMB to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers in RMB per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of December 31, 2009, which was RMB6.8259 to \$1.00. We make no representation that the RMB amounts referred to in this prospectus could have been or could be converted into U.S. dollars at any particular rate or at all. See also "Exchange Rate Information". On March 8, 2010, the noon buying rate was RMB6.8263 to \$1.00.

The information contained in this prospectus is correct only as of the date of this prospectus regardless of the time of the delivery of this prospectus or any sale of our ADSs. Our business, financial condition, results of operations and prospects may have changed since that date. This prospectus is based on information provided by us and other sources that we believe are reliable. We have summarized certain documents and other information in a manner we believe to be accurate.

We filed a Trademark Application for the "Borun" name (both in English and Chinese) with the Trademark Office of State Administration for Industry and Commerce of People's Republic of China. As of the date of this prospectus, such Trademark Application is pending. Other trademarks, trade names and service marks used in this prospectus are the property of their respective owners.

## **Our Industry**

China was the third largest alcohol producing nation in the world in 2008 and accounted for 13.5% of global alcohol production in that year behind the United States (44%) and Brazil (30%). Over 90% of alcohol produced in China in 2008 was edible alcohol while fuel alcohol accounted for less than 10%.

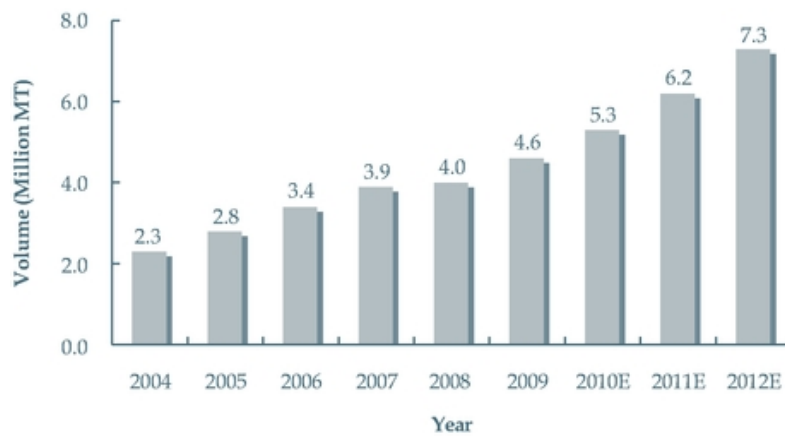
### **Market Size of Edible Alcohol in China**

The domestic demand for edible alcohol grew from 2.3 million tons in 2004 to 4.6 million tons in 2009, representing a CAGR of 14.9%. The growth from 2004 to 2007 was mainly due to significant increase in demand from the *baijiu* industry and, to a lesser extent, the chemical industry.

Despite the effect of the 2008 financial crisis on the Chinese economy and export businesses, domestic demand for edible alcohol in China still grew by 0.7 million tons from 2007 to 2009. Although the chemical industry in China has been negatively affected by the financial crisis in 2008, the strong demand from the *baijiu* industry contributed to this result.

Fueled by the strong demand for *baijiu* as a result of continuous growth in China's per capita disposable income and a gradual recovery of the chemical industry as the world economy recovers, domestic demand for edible alcohol is forecasted to grow at a CAGR of 16.6% from 2009 to 2012, reaching 7.3 million tons in 2012.

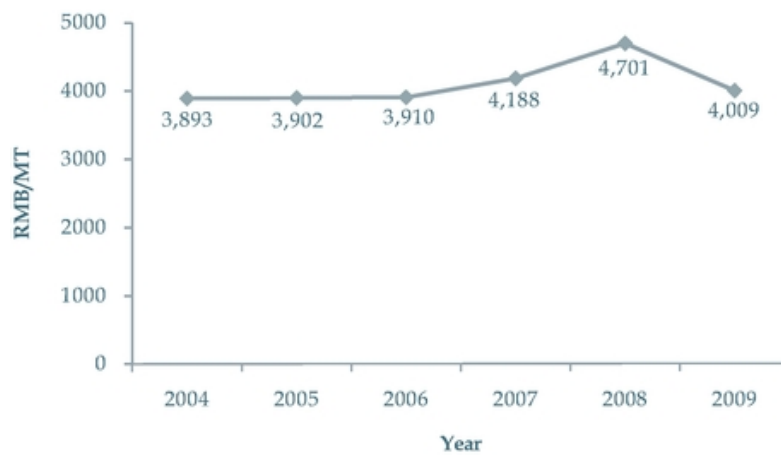
**Domestic Demand of Edible Alcohol (China), 2004-2012E**



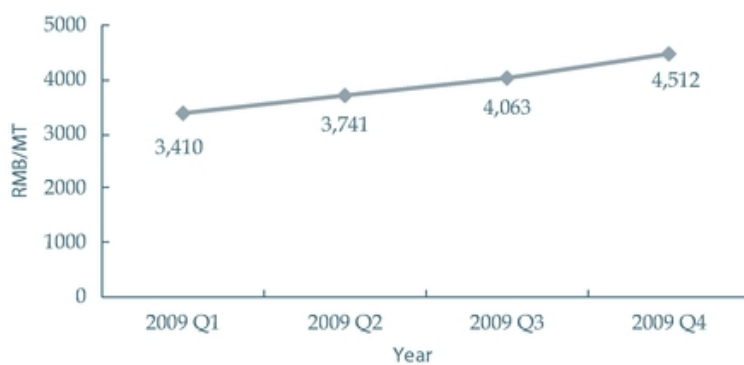
Source: The Frost & Sullivan Report

The price of edible alcohol in China has increased 3.0% from RMB3,893 (\$570.3) in 2004 to RM4,009 (\$587.3) in 2009.

**Price of Corn-based Edible Alcohol in China, 2004-2008**



Quarterly Price of Corn-based Edible Alcohol in China, 2009



Source: The Frost & Sullivan Report

Baijiu and Edible Alcohol Demand in China

According to the Frost & Sullivan Report, *baijiu* production has witnessed tremendous growth from 2004 to 2009. The total production went up from 2.7 million tons in 2004 to 6.2 million tons in 2009, with a CAGR of 17.8% from 2004 to 2009.

The growth of *baijiu* production is expected to continue in the future, driven by the continuous growth of China's economy. The production of *baijiu* is estimated to grow from 6.2 million tons in 2009 to 9.8 million tons in 2012, at a CAGR of 16.5%.

With the growth of *baijiu* production, the demand of edible alcohol from *baijiu* is anticipated to keep increasing to 4.5 million tons in 2012 from 2.6 million tons in 2009, representing 2.1 times increase and a CAGR of 20.1%.

Production of Baijiu in China, 2004-2012E



Source: The Frost & Sullivan Report



**Consumption of Edible Alcohol for Baijiu in China, 2004-2012E**

Source: The Frost & Sullivan Report

According to the Frost & Sullivan Report, Sichuan and Shandong were the top two *baijiu* producing provinces in 2008. The top five *baijiu* producing provinces in 2008 together accounted for approximately 56.7% of *baijiu* production in that year.

## Our Competitive Strengths

### *Leading Position in the Corn-Based Edible Alcohol Market in the PRC*

We are one of the largest corn-based edible alcohol producers in the PRC in terms of production capacity and production output of edible alcohol in 2009, according to the Frost Report. We believe that our leading position plays an important role in negotiating and securing contracts with customers and suppliers and recruiting talent. We enjoy economies of scale over our competitors having a smaller production scale and, accordingly, we believe these enhance our overall competitiveness and are important to our future growth.

### *Efficient Production Technology*

Our production management professionals have independently developed the Borun Wet Process for the production of edible alcohol. Based upon our knowledge of our industry and our ongoing patent application, we believe that compared to the dry process method used by other producers in China, our Borun Wet Process has a higher production yield and consumes less energy and water due to our higher degree of waste energy recovery. The wet process method also enables us to produce corn germ, which generates an additional stream of revenue compared to producers utilizing the dry method.

The average amount of corn which we used to produce one ton of edible alcohol in each of 2007, 2008 and 2009 was 3.06, 3.05 and 3.03 tons, respectively. Thanks to our continuous optimization of our production process, our Shouguang facility produced each ton of edible alcohol from an average of 2.98 and 2.95 tons of corn in 2009 and the last quarter of 2009 respectively.

### *Geographical Advantage of our Production Facilities*

Our production facilities are situated in Shandong Province and Heilongjiang Province in the PRC. Heilongjiang Province is in the northeast region of the PRC and is one of the largest corn production

provinces in the PRC. There are also a significant number of large and mid-sized local *baijiu* distilleries situated in Shandong Province and Heilongjiang Province. The location of the production facilities in Shandong Province and Heilongjiang Province enables us to gain access to the *baijiu* distilleries, potential customers as well as a stable supply and lower cost for corn, our primary raw material.

#### ***Licensed to Increase Production Capacities***

Our Daqing facility has a government-issued production license to produce 330,000 tons of edible alcohol, an additional 230,000 tons over the current production capacity of 100,000 tons. We believe that the approved production license for our Daqing facility ensures that we can expand our capacity in order to capitalize on future market opportunities in the near future. We believe that we are in an advantageous position in responding to the expected growing market demand for edible alcohol.

#### ***Corn Sourcing Arrangements***

We have entered into framework agreements with local granaries in Heilongjiang Province, where corn prices are the lowest in the northeastern region in China, to engage them to purchase corn on our behalf from local farmers during the harvest season and store them for delivery to substantially satisfy our corn requirements for our Shouguang and Daqing facilities during the non-harvest season in 2010. We intend to continue with these arrangements in the future and we believe they will enable us to minimize our corn consumption costs and secure a sufficient corn supply through purchasing earlier in the year for the non-harvest season. Accordingly, we believe this arrangement enhances our price competitiveness.

#### ***Experienced Management Team***

Our management team includes our founder, Mr. Jinmiao Wang, who has been engaged in the production of corn-based edible alcohol in the PRC since 2004. Such experience has enhanced Mr. Wang's knowledge and understanding of the corn processing industry and laid the foundation for his development of our edible alcohol business. We believe that our management team's knowledge of the edible alcohol industry will enable us to continue to respond efficiently to challenges created by changing market conditions.

### **Our Strategies**

#### ***Continuous Expansion of Production Capacity—Construction of Phases III and IV of the Daqing Facilities***

At the end of 2009, we had a total production capacity of 260,000 tons of corn-based edible alcohol (consisting of 160,000 tons of Grade B edible alcohol and 100,000 tons of Grade C edible alcohol). We plan to use part of the proceeds from this offering to finance the construction of the 120,000 ton Grade B edible alcohol Phase III at our Daqing facility. This expansion is currently under construction and is expected to commence commercial production in November 2010. It is our intention that our future facilities will produce Grade B edible alcohol which currently has a higher gross profit margin than Grade C edible alcohol.

#### ***Customer Diversification***

We sell our corn-based edible alcohol largely to local distilleries of medium to high quality *baijiu* in Shandong Province, Heilongjiang Province, Sichuan Province, Anhui Province and Jiangsu Province. We plan to expand our sales to other provinces to diversify our customer base. We intend to sell our edible alcohol to western and southern provinces such as Guizhou where domestic edible alcohol production fails to meet local demand and prices for edible alcohol are significantly higher than the

northern China region due to shortage of production. From December 2009, we started selling edible alcohol in Sichuan Province. We intend to establish a sales office in Sichuan Province in the third quarter of 2010.

### ***Opportunistic Acquisitions***

As the PRC Government in principle will not approve the construction of new corn deep-processing plants for edible alcohol according to current policies, we intend to look for acquisition opportunities to expand our production capacity. We will consider medium-sized "dry milling process" edible alcohol production plants where we can improve the production technologies by converting their production processes to our more advanced Borun Wet Process. Currently, we have neither identified or are in negotiation with any edible alcohol manufacturer with respect to a possible acquisition.

### ***Development of New By-Product—Liquid Carbon Dioxide***

We intend to install facilities to produce liquid carbon dioxide in both of our Shandong and Daqing facilities by recycling carbon dioxide produced from our production process. Our wet process produces carbon dioxide which is emitted openly under the current design. Liquid carbon dioxide is used extensively in oil exploitation to enhance oil recovery, especially in the tertiary phase of oil exploitation, and as a food additive by food and beverage companies. We have entered into a letter of intent to sell 50% of our liquid carbon dioxide produced at our Shouguang facility to an oil service company in Shengli Oilfield. We are also in discussion with a number of food and beverage companies in Shandong Province to sell our liquid carbon dioxide as a food additive. We expect to complete the installation of the liquid carbon dioxide production facilities at our Shouguang facility in 2010, and we intend to install such facilities at our Phase III Daqing facility.

### ***Continuous Improvement of our Borun Wet Process***

Our production team has continued to enhance the process by varying conditions of our Borun Wet Process such as temperature, enzyme and acidity applied in the Borun Wet Process which has led to a consistently higher yield of edible alcohol from corn and lower energy consumption than what we believe is typical for the market. We are currently developing a process for implementation in Phase III at our Daqing facility where we will ferment raw corn directly which will reduce our energy consumption and enhance our yield of production.

### ***Our Products and Primary Markets***

Our principal product is corn-based edible alcohol. In our production of corn-based edible alcohol, we also produce DDGS Feed and corn germ as by-products. Based on our production record during the year ended December 31, 2009, approximately 3.03 tons of corn produced 1 ton of edible alcohol, 0.69 tons of DDGS Feed and 0.20 tons of corn germ. We also plan to produce liquid carbon dioxide by recycling waste carbon dioxide produced during our production process.

### ***Our Challenges***

Our ability to achieve our objectives and execute our strategies is subject to risks and uncertainties. We believe the following are the major risks and uncertainties that may materially affect us:

- if we fail to accurately project demand for our products, we may encounter problems of over capacity, which would materially and adversely affect our business, financial condition and results of operations, as well as damage our reputation and brand;

- our inability to expand or to manage the expansion of our production capacity and growth could materially adversely affect our business, financial condition and results of operations, and result in a loss of business opportunities;
- rising prices of our raw materials could yield lower margins for our products, if we are unable to pass such rising prices on to our customers, which could reduce our profitability and have a material adverse effect on our business;
- if we are unable to access corn of the quality required to meet our production standards, or if we are unable to obtain a sufficient supply of raw materials from our suppliers or at all, our business, financial condition and results of operations and financial performance may suffer;
- if we experience problems with our product quality, customer satisfaction with respect to pricing of our products or the timely delivery of our products, we could lose our customers and market acceptance which will affect our sales and have an adverse effect on our business, financial condition and results of operations;
- Governmental Authorities within the PRC periodically set corn prices and enact general industry policies which limit production capacity and use of raw materials. Although governmental pricing guidance has not had a material impact on our business in the past, a significant increase in the market price of corn as a result of such governmental efforts would increase our cost of sales, and we may not be able to pass those increased costs on to our customers. Such increased costs and other policy initiatives could limit our growth and have a material adverse effect on our business, financial condition and results of operations.
- any interruption in our manufacturing operations or production and distribution processes could impair our financial performance and negatively affect our brand;
- we have not obtained power generation permits for our coal-fire power generating systems, which could result in the forfeiture of income and the imposition of fines;
- interruptions with our coal-fire power generating systems, whether planned or unexpected, may have an adverse effect on our business, financial condition and results of operations;
- transportation delays, including as a result of disruptions to infrastructure, could adversely affect our business, results of operations and financial condition; and
- if we fail to continue to develop and introduce new products and technologies, our business, results of operations and financial condition could be materially adversely affected.

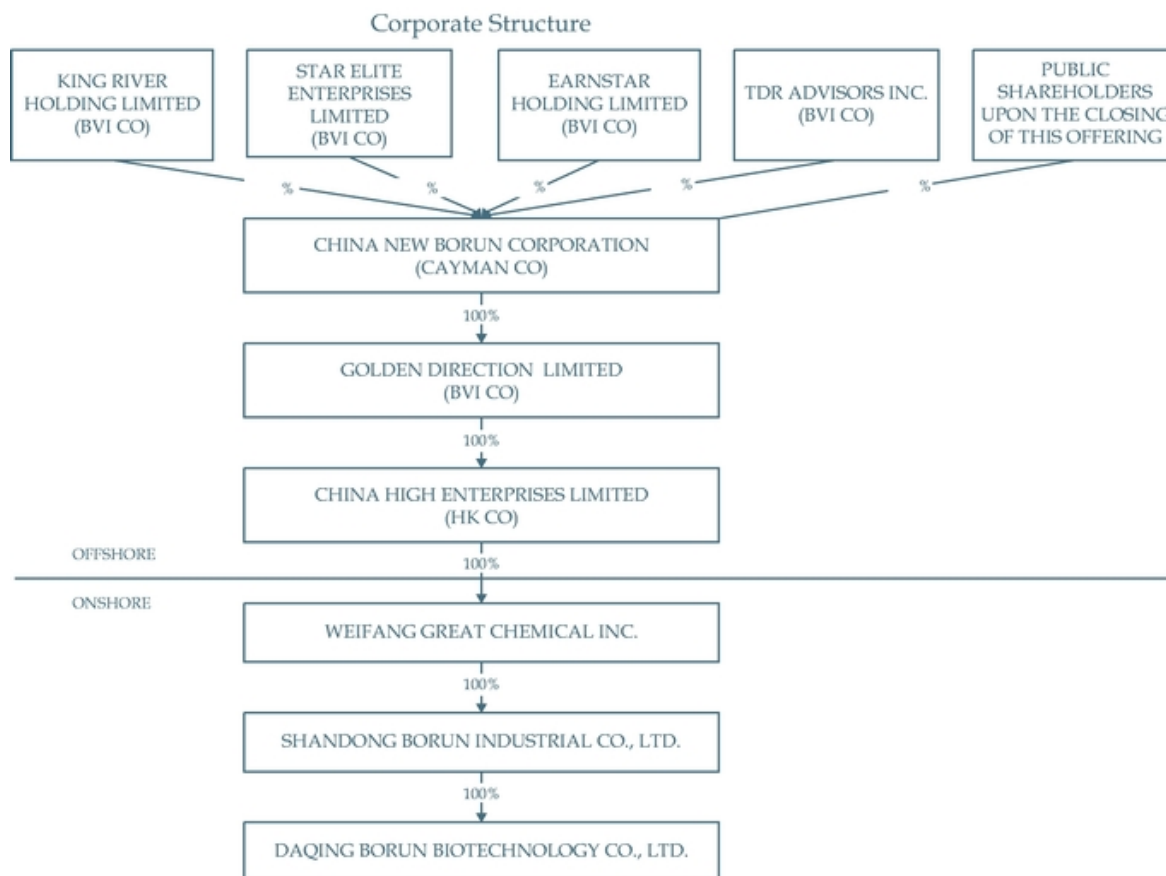
Please see "Risk Factors" and other information included in this prospectus for a detailed discussion of these risks and uncertainties.

#### **Our Corporate Structure and History**

We function exclusively through China High Enterprises Limited, or China High, China High's wholly-owned subsidiary, Weifang Great Chemical Inc., or WGC, a company organized under the laws of the PRC, WGC's wholly-owned and our chief operating company, Shandong Borun

Industrial Co., Ltd., or Shandong Borun, a company organized under the laws of the PRC primarily by Mr. Jinmiao Wang, our President and CEO ("Mr. Wang") and Mr. Wang's father, Mr. Peiren Wang (collectively with Mrs. Shan Junqin, mother of Mr. Wang, the "Wang Family") on December 1, 2000 and Shandong Borun's wholly-owned subsidiary, Daqing Borun Biotechnology Co., Ltd., or Daqing Borun, a company organized under the laws of the PRC. We conduct all of our business in the PRC and do not have any off-shore operations.

Our corporate structure is as follows:



### Corporate Information

Our principal executive offices are located at Bohai Industrial Park (Yangkou Town), Shouguang, Shandong 262715, the People's Republic of China. Our telephone number is +86 (536) 5451199. Our registered office in the Cayman Islands is at c/o Maples Corporate Services Limited, P.O. Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands.

Investor inquiries should be directed to us at the address and telephone number of our principal executive offices set forth above. Our website is [www.chinaneborun.com](http://www.chinaneborun.com). The information contained on our website does not form part of this prospectus. Our agent for service of process in the United States is CorpDirect Agents, Inc., located at 515 East Park Avenue, Tallahassee, Florida 32301.

## The Offering

Price per ADS	We currently estimate that the initial public offering price will be between \$      and \$      per ADS.
ADs offered by China New Borun Corporation	ADs.
ADs outstanding immediately after the offering	(or      ADs if the underwriters exercise their option to purchase additional ADs in full).
Ordinary shares outstanding immediately after the offering	ordinary shares (or      ADs if the underwriters exercise their option to purchase additional ADs in full).
Listing	We intend to apply for the listing of the ADs on the New York Stock Exchange under the symbol "BORN". Our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system.
New York Stock Exchange Proposed Trading Symbol	BORN
The ADs	<p>Each AD represents      ordinary shares, par value \$0.001 per share. The ADs may be evidenced by American depositary receipts, or ADRs.</p> <p>The depositary will be the holder of the ordinary shares underlying the ADs and you will have the rights of an AD holder as provided in the deposit agreement among us, the depositary and holders and beneficial owners of ADs from time to time.</p> <p>You may surrender your ADs to the depositary to withdraw the ordinary shares underlying your ADs. The depositary will charge you a fee for that surrender.</p> <p>We may amend or terminate the deposit agreement for any reason without your consent. If an amendment becomes effective, you will be bound by the deposit agreement, as amended, if you continue to hold your ADs.</p> <p>To better understand the terms of the ADs, you should carefully read the section in this prospectus entitled "Description of American Depositary Shares." We also encourage you to read the deposit agreement, which is an exhibit to the registration statement that includes this prospectus.</p>
Depositary	The Bank of New York Mellon

Options to purchase additional ADSs	We have granted the underwriters an option, exercisable within 30 days from the date of this prospectus, to purchase up to an additional                      ADSs representing ordinary shares.
Use of proceeds	<p>We will receive net proceeds from this offering of approximately \$                      , assuming an initial public offering price of \$                      per ADS, the midpoint of the estimated initial public offering price range set forth on the front cover of this prospectus (after deducting the underwriting discounts and commissions and estimated aggregate offering expenses payable by us).</p> <p>We intend to use approximately \$                      of the net proceeds we receive from this offering to fund the expansion of our production capacity.</p> <p>We intend to use the remaining portion of the net proceeds we receive from this offering for other general corporate purposes. Please see "Use of Proceeds" for additional information.</p>
Risk factors	Investing in these securities involves significant risk. As an investor, you should be able to bear a complete loss of your investment. You should carefully consider the information set forth in the "Risk Factors" section beginning on page 14 before deciding to invest in the ADSs.
Lock-up	Our directors, executive officers and existing shareholders have agreed with the underwriters, subject to certain exceptions, not to sell, transfer or dispose of any of our ADSs, ordinary shares or similar securities for a period of 180 days after the date of this prospectus. In addition, through a letter agreement we have agreed to instruct BNY Mellon, as depository, not to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus unless we consent to such deposit or issuance, and not to provide consent without the prior written consent of Piper Jaffray. The foregoing does not affect the right of ADS holders to cancel their ADSs and withdraw the underlying ordinary shares. See "Underwriting".
Timing and settlement for ADSs	The ADSs are expected to be delivered against payment on                      , 2010. The ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York.

**SUMMARY CONSOLIDATED FINANCIAL DATA**

The following consolidated statements of operations data for each of the years ended December 31, 2006, 2007, 2008 and 2009 and the balance sheet data as of December 31, 2006, 2007, 2008 and 2009 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. Our audited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Historical results are not necessarily indicative of the results of operations for future periods. The following data is qualified in its entirety by and should be read in conjunction with "Operating and Financial Review and Prospects" and our consolidated financial statements and related notes included elsewhere in this prospectus.

**Consolidated Statement of Operations Data:**

	Year ended December 31,				
	2006	2007	2008	2009	2009
	RMB	RMB	RMB	RMB	\$
Revenues	271,808,571	487,305,927	615,881,195	1,060,493,812	155,363,221
Cost of goods sold	216,829,009	387,729,613	493,847,780	811,865,247	118,938,931
Gross profit	54,979,562	99,576,314	122,033,415	248,628,565	36,424,290
Selling, general and administrative expenses	8,417,028	10,057,899	12,928,345	22,547,881	3,303,284
Operating income	46,562,534	89,518,415	109,105,070	226,080,684	33,121,006
Other (income)/expenses	1,073,304	2,237,334	5,333,952	3,408,024	499,278
Income before income taxes	45,489,230	87,281,081	103,771,118	222,672,660	32,621,728
Income tax expense	15,504,371	28,557,072	26,640,990	56,262,029	8,242,434
Net income	29,984,859	58,724,009	77,130,128	166,410,631	24,379,294
Amortization of preference share discount	—	—	(42,000,000)	—	—
Participation in undistributed earnings by preference shareholders	—	—	(7,026,026)	(42,868,951)	(6,280,337)
Net income attributable to ordinary shareholders	29,984,859	58,724,009	28,104,102	123,541,680	18,098,957
<b>Earnings per share<sup>(1)</sup></b>					
Basic and diluted	2.02	3.96	1.89	8.32	1.22
<b>Weighted average ordinary shares outstanding:</b>					
Basic and diluted	14,847,811	14,847,811	14,847,811	14,847,811	14,847,811

(1) All share and per share data have been presented to give retrospective effect to our reorganization as described in the section entitled "Our Corporate Structure and History". For the purpose of calculating basic and diluted earnings per ordinary share, the number of ordinary shares used in the calculation reflects the issuance of ordinary shares as if the reorganization took place as of the beginning of the earliest period presented. The resulting pro forma earnings per share and weighted average ordinary shares outstanding assume that all issued and outstanding Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares.

**Consolidated Balance Sheet Data:**

	December 31,				
	2006	2007	2008	2009	2009
	RMB	RMB	RMB	RMB	\$
Total current assets	50,711,811	127,129,510	104,986,070	251,807,507	36,890,008
Total assets	190,476,067	265,622,975	476,114,001	765,860,621	112,199,215
Total liabilities	99,344,535	126,784,933	180,134,221	249,651,232	36,574,113
Total shareholders' equity	91,131,532	138,838,042	295,979,780	516,209,389	75,625,102



## RISK FACTORS

*An investment in the ADSs involves significant risks. You should consider carefully the material risks described below and all of the information contained in this prospectus before deciding whether to purchase any ADSs. Our business, financial condition or results of operations could be materially adversely affected by these risks if any of them actually occur. The trading price of the ADSs could decline due to any of these risks, and an investor may lose all or part of his investment. This filing also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this registration statement or prospectus.*

### RISKS RELATED TO OUR COMPANY

*If We Fail To Accurately Project Demand For Our Products, We May Encounter Problems Of Over Capacity, Which Would Materially And Adversely Affect Our Business, Financial Condition And Results Of Operations, As Well As Damage Our Reputation And Brand.*

We plan to use a substantial portion of our net proceeds from this offering to fund the construction of Phase III at our Daqing facility which, upon commencement of commercial production in November 2010, is expected to have an additional production capacity of 120,000 tons of edible alcohol. Historically, edible alcohol production capacity has exceeded actual market demand, and the Frost Report predicts that production capacity in the PRC will exceed demand in the near term (see "Our Industry"). We have planned our expansion assuming a reduction in market supply based on the national industry policies to close "backward" smaller manufacturers with a production capacity of less than 30,000 tons per year (see "Regulation of Our Industry"), the halt in approvals for new corn deep-processing production capacities in principle, and the growth in demand for edible alcohol driven by the PRC Chinese white liquor industry. Furthermore, we do not currently have existing contracts or letters of intent to guarantee sales of such additional production capacity. However, if supply of edible alcohol in the PRC is not in fact reduced or if the PRC Government began to approve new production capacities or there is no, or little growth in demand for edible alcohol as we have expected, we may encounter difficulties in selling our increased production capacity, which would materially and adversely affect our business, financial condition and results of operations.

While our Shouguang and Daqing facilities have entered into annual sales contracts for 2010 which provide for minimum purchases equal to an aggregate of 219,400 tons of edible alcohol, these sales are made through monthly purchase orders similar to those placed by our other customers (See "Our Business—Our Customers and Methods of Distribution of our Products"). Purchase orders are typically placed on a monthly basis, and we take such orders into account when we formulate our overall operation plans. We project demand for our products based on rolling projections from our customers and customer inventory levels. The varying sales and purchasing cycles of our customers, however, make it difficult for us to accurately forecast future demand for our products. Our inability to accurately predict and to timely meet demand, or the failure of our 2010 contract purchasers to take up their contracted volume of our products, could materially and adversely affect our business, financial condition and results of operations.

*Our Inability To Expand Or To Manage The Expansion Of Our Production Capacity And Growth Could Materially Adversely Affect Our Business, Financial Condition And Results Of Operations, And Result In A Loss Of Business Opportunities.*

We plan to use a substantial portion of our net proceeds from this offering to expand our production capacity at our Daqing facility. However, we may be unsuccessful in the timely or cost-efficient expansion of our production capacity. This project and others may not be constructed on the

anticipated timetable or within budget. Any material delay in completing these projects, or any substantial increase in costs or quality issues in connection with these projects, could materially and adversely affect our business, financial condition and results of operations, and result in a loss of business opportunities.

Furthermore, we have limited operational, administrative and financial resources, which may be inadequate to sustain the growth we want to achieve. We have experienced a period of rapid growth and expansion that has placed, and will continue to place, strain on our management personnel, systems and resources. To accommodate our growth pursuant to our strategies, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems procedures and controls, and improve our accounting and other internal management systems, all of which require substantial management efforts and financial resources. We will also need to continue to expand, train, manage and motivate our workforce, and effectively manage our relationships with our customers and suppliers. All of these endeavors will require substantial management effort and skills and the incurrence of additional expenditures. We cannot assure you that we will be able to efficiently or effectively implement our growth strategies and manage the growth of our operations, and any failure to do so may limit our future growth and hamper our business strategy.

In addition, in Daqing, we rely on the use of a government-owned rail station in close proximity to our Daqing facility to transport our products, including our planned expanded production, to our customers. Although we have not previously been restricted from its use, the government may prohibit our use of such station at anytime. If this were to occur, or if we were to lose access to the station for any reason, we would be required to transport our products to the next closest rail station by truck, which would increase our costs of transportation, have an adverse affect on our profit margin and inhibit our expansion and growth.

***Rising Prices Of Our Raw Materials Could Yield Lower Margins For Our Products, If We Are Unable To Pass Such Rising Prices On To Our Customers, Which Could Reduce Our Profitability And Have A Material Adverse Effect On Our Business.***

The key raw materials used in the production of our products are corn and coal. Changes in the prices for these raw materials would significantly affect our cost of goods sold. In general, rising prices of corn and coal will produce lower profit margins for us if we are unable to pass such rising costs on to our customers. Whether we can pass such rising costs on to our customers depends on a variety of factors, including corn and coal pricing and consumer market conditions. The price of corn is influenced by weather conditions and other factors affecting crop yields, farmer planting decisions and general economic, market and regulatory factors. These factors include government policies and subsidies with respect to agriculture and international trade, and global and local demand and supply. The price of coal is influenced by a variety of factors, including market conditions, mine operating costs, coal quality, transportation costs, fluctuations in demand by other industry sectors, such as power plants, and the cost of alternative fuels. The significance and relative effect of these factors on the price of corn and coal is difficult to predict. Also, although our supply contracts provide us access to corn at prices which we believe have historically been below the spot market price in the off season and times of high price volatility (due to crop failure and other factors), we have no contracts or derivative instruments in place that effectively hedge against the fluctuations in the price of our raw materials as our corn purchase and edible alcohol sales contracts are priced based on market conditions. Any event that tends to negatively affect the supply of these raw materials could increase prices and potentially harm our business. To the extent that we cannot fully pass on the price increases in raw materials to our customers, or at all, our business and profitability would be materially and adversely affected.

***If We Are Unable To Access Corn Of The Quality Required To Meet Our Production Standards, Or If We Are Unable To Obtain A Sufficient Supply Of Raw Materials From Our Suppliers Or At All, Our Business, Financial Condition And Results Of Operations And Financial Performance May Suffer.***

From time to time we may be unable to access corn of the quality and type that meets our production standards, which could adversely affect our financial performance. For example, if the corn is too wet or if the starch content of the corn is too low, we would be required to purchase and then process larger quantities of such lower-quality corn in order to maintain the same quality in the production of our edible alcohol, and such increased raw material cost, as well as increased energy costs of burning more coal in order to process the increased amount of corn, would reduce our profit margins. Furthermore, our extended inability to obtain and process corn of the required quality would also reduce our annual production.

If we experience a shortage in the supply of corn in the future, irrespective of quality, our production capacities and results of operations would be materially and adversely affected. We intend to source approximately 50% of our corn for 2010 through framework agreements with local granaries in Heilongjiang Province (where we believe corn prices are the lowest in Northeastern China) and the balance from local farmers and distributors. According to such framework agreements, the granaries purchase corn on our behalf from local farmers in order to satisfy substantially all of our corn requirements of our Shouguang facility, and for our Daqing facility during the non-harvest season in 2010. The granaries also store the corn for us and obtain loans from the Agricultural Development Bank, or ADB, to carry out the purchase of corn on our behalf (see "Our Business - Our Competitive Strengths - Corn Sourcing Arrangements"). If we lose any of these significant sources of corn through crop failure or through the failure by the granaries or the ADB to abide by the material terms of our sourcing arrangements, we would be required to purchase corn at less favorable prices which could adversely affect our profit margins. Also, there is no guaranty that we will realize savings through our sourcing arrangements since we are liable for the interest payments on the bank loans between the granaries and ADB and transportation costs. We may also have difficulty finding alternative sources of corn on satisfactory terms in a timely manner, or at all, which could cause us not to operate at full capacity. Identifying and accessing alternative sources may increase our costs and extended lack of raw materials will reduce production capacity which would have a materially adverse effect on our financial performance.

We rely on a steady supply of coal to power our production facilities. If we experience a shortage of coal, our business could be adversely affected. We currently have relationships with seven suppliers of coal, however we do not have any long-term supply agreements in place with these suppliers and we cannot guarantee that such suppliers will continue to do business with us. In the event that our coal suppliers stop doing business with us, we would be forced to find replacement coal suppliers, or increase our coal uptake from existing suppliers, which could take time to locate and secure. If we experience any extended period of time without coal, we would need to obtain power from the local electricity grid, if available, which would have a material adverse effect on our business, financial condition and results of operations. See "Risk Factors - Risks Related To Our Company - Interruptions With Our Coal-Fire Power Generating Systems, Whether Planned Or Unexpected, May Have An Adverse Effect On Our Business, Financial Condition And Results of Operations".

***If We Experience Problems With Our Product Quality, Customer Satisfaction With Respect To Pricing Of Our Products Or The Timely Delivery Of Our Products, We Could Lose Our Customers And Market Acceptance Which Will Affect Our Sales And Have An Adverse Effect On Our Business, Financial Condition And Results Of Operations.***

Our growth and sales primarily depend on our maintenance of quality control, customer satisfaction with respect to pricing and the punctual availability and delivery of our products. If we fail to deliver the same quality of our products with the same punctuality and pricing which our customers have grown accustomed to, or in accordance with the terms of our sales agreements, we could damage our customer relations and market acceptance which will affect sales and our business will suffer. For example, as we advance and improve our methods of producing higher quality products such as Grade B edible alcohol, it may become more difficult to maintain our quality standards. Additionally, if we are ever forced to down-grade the sale of our Grade B edible alcohol to Grade C, this could also affect the future improvement of our profit margins. If we experience deterioration in the performance or quality of any of our products, whether due to problems internally or externally, it could result in delays in delivery, cancellations of orders or customer complaints, loss of goodwill, diversion of the attention of our senior personnel and harm to our brand and reputation. Any and all of these results would have an adverse effect on our business, financial condition and results of operations.

***Governmental Authorities Within The PRC Periodically Set Corn Prices And Enact General Industry Policies Which Limit Production Capacity And Use Of Raw Materials. Such Policy Initiatives Could Limit Our Growth And Have A Material Adverse Effect On Our Business, Financial Condition And Results Of Operations.***

The PRC government has the power to intervene in the price of important types of grain (including corn) under certain circumstances, such as when a material change occurs to the market supply and demand and/or the grain price fluctuates significantly, in order to protect the interests of farmers. In practice, the PRC government will periodically purchase a large amount of corn from farmers and set the price for the corn purchased by the government, resulting in effective guidance of the market price by the PRC government. Every November, the PRC government indicates to the market the amount of corn that it plans to buy in the following year, and the price band in which it is willing to buy this corn. This has a significant impact on the market price of corn for the following year, but does not constitute a legally mandated price for corn. Although such pricing guidance has not had a material impact on our business in the past, a significant increase in the market price of corn as a result of such governmental efforts would increase our cost of sales, and we may not be able to pass those increased costs on to our customers. Such increased costs could have a material adverse effect on our business, financial condition and results of operations.

The PRC government requires all producers of edible alcohol to obtain production permits which set forth limitations on how much edible alcohol we can produce. Our Shouguang facility has a government permit to produce 160,000 tons of edible alcohol per year and our Daqing facility has a government permit to process up to 1,000,000 tons of corn, which can produce 330,000 tons of edible alcohol. If our permits are revoked for whatever reason, or if the PRC decides to revise its industry policies to our detriment, we could be forced to curtail or cease our operations.

Furthermore, in order to secure the supply of food and feed, PRC governmental entities set limitations on the use of certain raw materials. For instance, during the 11th Five-Year Plan (2006-2010), the amount of corn used for deep-processing cannot exceed 26% of the total corn consumption as stated in the Guidance Opinion on Promoting of the Healthy Development of Corn Deep-Processing Industry announced by the PRC government. Any further downward limitation may adversely affect our ability to obtain an adequate level of corn at favorable prices.

In addition, the Chinese government has ceased approving applications for building new corn deep-processing capacity in principle. Our growth could be limited if we fail to obtain government approval for new capacity or to expand through acquisitions in other geographical areas. In addition, we could face penalties and other enforcement actions if our production levels exceed our approved production levels. The realization of any of the foregoing risks could have a material adverse effect on our business, financial condition and results of operations.

***Any Interruption In Our Manufacturing Operations Or Production And Distribution Processes Could Impair Our Financial Performance And Negatively Affect Our Brand.***

Our production operations involve the coordination of raw materials, internal production processes and external distribution processes. We may experience difficulties in coordinating the various aspects of our production processes, thereby causing downtime and delays. We produce and store almost all of our products, as well as conduct some of our development activities, of our Shouguang and Daqing facilities. We do not maintain back-up facilities, so we depend on these facilities for the continued operation of our business.

A delay or stoppage of production caused by adverse weather, natural disaster or other unanticipated catastrophic event, including, without limitation, power interruptions, water shortage, storms, fires, earthquakes, terrorist attacks and wars, could significantly impair our ability to produce our products and operate our business, as well as delay our research and development activities. Our facilities and certain equipment located in these facilities would be difficult to replace and could require substantial replacement lead-time. Catastrophic events may also destroy any inventory located in our facilities. The occurrence of such an event could materially and adversely affect our business. Any stoppage in production, even if temporary, or delay in delivery to our customers could severely affect our business or reputation. We currently do not have business interruption insurance to offset these potential losses and any interruption in our production operations or production and distribution processes could impair our financial performance and negatively affect our brand.

***We Have Not Obtained Power Generation Permits For Our Coal-Fire Power Generating Systems, Which Could Result In The Forfeiture Of Income And The Imposition Of Fines.***

A new permit system was established in 2005, which requires all existing and new power generating, dispatching and supplying companies to obtain permits from the State Electricity Regulatory Commission. The State Electricity Regulatory Commission has been in the process of implementing the new permit system. By the end of 2008, the State Electricity Regulatory Commission had issued 6,170 power generating permits. We believe that we are to date in compliance with the relevant permit regulations, which required all of our plants to apply for power generation permits no later than August 31, 2008. We have submitted applications for power generation permits for all our existing coal-fire power projects, but have not yet received the permits. The granting of a power generation permit for an existing power generation project is a time-consuming and complicated process, which may in some instances require retroactive application of existing laws and regulations to existing projects that were constructed many years ago. As a result, we may not be able to successfully obtain power generation permits for our coal-fire power generating systems. A failure to obtain a power generation permit may have a material adverse effect on our business operations, including the forfeiture of income and the imposition of fines.

***Interruptions With Our Coal-Fire Power Generating Systems, Whether Planned Or Unexpected, May Have An Adverse Effect On Our Business, Financial Condition And Results Of Operations.***

Our production facilities require a significant amount of electricity in order to operate at full capacity. Both our Shouguang and Daqing facilities were designed and built to be self-sufficient in power supply through the construction of their own coal-fire power generating systems. Our Shouguang power

generating system consists of two turbines having a combined utilization rate of 60.7%. Our Daqing power generating system consists of one turbine having a utilization rate of 91.7%. We are also connected to the national power grid at both facilities as a backup measure in the event we experience unanticipated interruptions to our electricity generation, and when we carry our annual full-scale inspection and maintenance program for our electricity supply systems (See "Our Business - Our Supply of Electricity"). In addition, we are in the process of undertaking construction project approval procedures, environmental impact assessments and completion acceptance procedures for our Shouguang and Daqing power generating systems. In the event that we fail to obtain approvals from competent government agencies for the construction of our power generating systems, we may be required to shut down our power generating systems and be subject to punishment. If we unexpectedly lose both turbines at our Shouguang facility or our sole turbine at our Daqing facility due to mechanical failure or regulatory action, or when we schedule our annual inspection of our supply systems, we must negotiate with the government for the purchase of electricity to be supplied through the relevant grid until our turbines become operational. During such negotiations, we understand we could be forced in the future to accept pricing terms which are not favorable to us. Furthermore, such negotiations could be time-consuming which could cause a diversion of resources and time of our senior management personnel, potentially resulting in reductions in our revenues. Furthermore, we cannot assure you that there will be no interruptions or shortages in the national or local grid electricity supply or that there will be sufficient electricity available to us to meet our needs. There have been shortages in electricity supply in various regions across China, especially during the winter season when the weather is bad and during the summer peak season. Therefore, if either of our production facilities were to experience any significant downtime, we would be unable to meet our production targets and our business would suffer. Any disruption at our facilities would have a material adverse effect on our business, financial condition and results of operations.

***Transportation Delays, Including As A Result Of Disruptions To Infrastructure, Could Adversely Affect Our Business, Results Of Operations And Financial Condition.***

Our business depends on the availability of rail, road and boat distribution infrastructure for the delivery of raw materials and for the delivery of our products to our customers. Any disruptions in this infrastructure network, whether caused by earthquakes, storms, other natural disasters or human error or malfeasance, could materially impact our business. Therefore, any unexpected delay in transportation of our raw materials or in the delivery of our products to our customers could result in significant disruption to our operations, including the closure of our facilities. Specifically, we do not have contractual rights or any other license to use the railways and rail station that transport our products from our Daqing facility. If for any reason we should lose the use of these facilities, we may not be able to find sufficient alternative methods of transport for products from our Daqing facility. We will also rely upon others to maintain rail lines and roads from our production facilities to national rail, road and shipping networks, and any failure on their part to maintain such transportation systems could impede the delivery of our raw materials to us and our products to our customers, impose additional costs on us or otherwise cause our business, results of operations and financial condition to suffer.

***If We Fail To Continue To Develop And Introduce New Products And Technologies, Our Business, Results Of Operations And Financial Condition Could Be Materially Adversely Affected.***

We intend to continue to develop new products and technologies to broaden our product line. The planned timing or introduction of new products and technologies is subject to risks and uncertainties. Actual timing may differ materially from original plans. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of our new products or technologies. Moreover, we cannot be sure that any of our new products or technologies will achieve widespread market acceptance or generate incremental revenue. If our efforts to develop, market and sell new products to the market and apply new technologies are not successful, our business, financial condition and results of operations could be materially adversely affected.

***Our Operations Are Subject To Various Risk Associated With Our Use, Handling, Storage And Disposal Of Hazardous Materials, Some Of Which Are Toxic And Flammable. If We Are Found Liable For Contamination, Injury To Employees Or Others, Or Other Harms Related To Our Use, Handling Storage And Disposal Of Hazardous Materials, Our Business, Reputation, Financial Condition And Results Of Operations May Be Adversely Affected.***

We use, handle, store and dispose of hazardous materials in our operations. Our wastewater may contain toxins and our edible alcohol and methane produced in our operations is flammable. (See "Our Business—Environmental Protection"). We cannot completely eliminate the risks of contamination, injury to employees or others, or other harms related to our use, handling, storage and disposal of hazardous material. Although we have not experienced incidents in the past, there can be no assurance that we will not experience fires, leakages and other accidents. In the event of future incidents, we could be liable for any damages that may result, including potentially significant monetary damages for any civil litigation or government proceedings related to a personal injury claim, as well as other fines, penalties and other consequences, including suspension or revocation of our licenses or permits or suspending production or ceasing operations at our manufacturing facilities, all of which would have a material adverse effect on our business, reputation, financial condition and results of operations. Furthermore, we currently do not carry any insurance coverage for potential liabilities relating to the release of hazardous materials.

***Our Use, Production And Disposal Of Hazardous Materials Subject Us To Stringent Environmental, Health And Safety Regulations. Any Actual Or Alleged Violation Of These Regulations Could Result In Significant Regulatory Actions, Fines And Other Penalties, Including Suspending Production Or Ceasing Operations, Substantial Civil Or Criminal Claims Resulting In Potentially Significant Monetary Damages, Adverse Publicity, And Other Negative Consequences To Our Business.***

Because we use, produce and dispose of hazardous materials and our production processes generate noise, wastewater, gaseous and other industrial wastes, we are required to comply with national and local environmental, health and safety regulations applicable to us. Except as disclosed in this prospectus, we believe that we have complied with all applicable environmental, health and safety procedures and measures. However, we cannot completely eliminate the environmental, health and safety risks associated with our use, production and disposal of hazardous materials and we may experience environmental, health and safety incidents at our facilities, including fires, leakages and other accidents, which could result in regulatory actions requiring us to take corrective actions and subject us to fines and other penalties. In some cases, we could be required to temporarily suspend production or cease operations while we performed corrective actions.

Our operations are subject to various risk associated with our use, handling, storage and disposal of hazardous materials, some of which are toxic and flammable. If we are found liable for contamination, injury to employees or others, or other harms related to our use, handling storage and disposal of hazardous materials, our business, reputation, financial condition and results of operations may be adversely affected. Daqing Borun is undertaking environmental completion acceptance procedures for its production projects, and Daqing Borun is also in the process of obtaining formal waste discharge permits for the discharge of wastewater, waste gas and noise. In the event that our Daqing facilities fail to complete any of the aforesaid procedures, they may be subject to a fine or be required to make corrections within a prescribed period. Except as described in this prospectus, we believe we are currently in compliance with applicable environmental, health and safety regulations in all material aspects and have all necessary environmental, health and safety permits to operate our business as it is presently conducted. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. If we fail to comply with present or future environmental, health and safety regulations, we may be subject to significant regulatory actions, fines and other penalties, including suspending production or ceasing operations, substantial civil or criminal

claims resulting in potentially significant monetary damages, adverse publicity, and other negative consequences to our business, all of which could have a material adverse effect on our business, reputation, financial condition and results of operations.

***Environmental Compliance And Remediation Could Result In Substantially Increased Capital Requirements And Operating Costs Which Could Adversely Affect Our Business.***

We are subject to the PRC laws and regulations relating to the protection of the environment. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. Our Daqing facility is undertaking environmental completion acceptance procedures for its production projects, and it's also in the process of obtaining the formal waste discharge permit. In the event that Daqing facilities fail to complete any of the aforesaid procedures, it may be subject to a fine or be required to make corrections within a prescribed period. Our business and operating results could be materially and adversely affected if we were required to increase expenditures to comply with any new environmental regulations affecting our operations.

Our operations are subject to various risks associated with our use, handling, storage and disposal of edible alcohol, which is flammable. If we are found liable for contamination, injury to employees or others, or other harms related to our use, handling, storage and disposal of edible alcohol, our business, reputation, financial condition and results of operations may be adversely affected and our permits and licenses may be suspended or revoked by Chinese regulatory authorities.

Although we have designed and implemented procedures and measures to promote occupational health and safety, we cannot completely eliminate the risks of contamination, injury to employees or others, or other harms related to our use, handling, storage and disposal of edible alcohol. In the event of future incidents, we could be liable for any damages that may result, including potentially significant monetary damages for any civil litigation or government proceedings related to a personal injury claim, as well as other fines, penalties and other consequences, including suspension or revocation of our licenses or permits or suspending production or ceasing operations at our research and manufacturing facilities, all of which could have a material adverse effect on our business, reputation, financial condition and results of operations.

***The Expansion Of Our Sales And Marketing And Distribution Efforts In New Provinces And Regions May Not Be As Successful As In Shandong And Heilongjiang Provinces, Or At All.***

We plan to expand our sales and marketing and distribution efforts into provinces and regions beyond Shandong and Heilongjiang in China, and have already commenced sales and marketing operations in Sichuan Province, Anhui Province and Jiangsu Province. However, our experience in the sales and marketing and distribution of our products in Shandong and Heilongjiang Provinces may not be applicable in other parts of China. We cannot assure you that we will be able to leverage such experience to expand into other provinces and regions. When we enter new markets, we may face intense competition from edible alcohol producers with established experience or presence in the geographical areas in which we plan to enter and from other edible alcohol producers with similar target customers. In addition, expansion of sales into new markets in new provinces will require the hiring and training of a new sales force to market and sell our products in that region, the assimilation with the local business cultures of new regions which may be very different from the business cultures of Shandong and Heilongjiang, and require a diversion of resources and time of our senior management personnel. If we fail to integrate effectively in new markets, our operating efficiency may be affected. Furthermore, because customers in new provinces may be far away from our production facilities, our profit margins may be lower because of increased costs in the transportation of our



products. Demand for edible alcohol and government regulation may also be different in other provinces. Our failure to manage our planned expansion of sales into new provinces may have a material adverse effect on our business, financial condition and results of operations and we may not have the same degree of success in other provinces that we have had so far to date, or at all.

***Our Production Activities Are And Will Continue To Be Conducted In Concentrated Locations. Damage To Or Disruptions At Our Production Facilities Could Materially And Adversely Affect Our Business, Financial Condition And Results Of Operations, Especially Since We Do Not Have Any Business Interruption Insurance.***

Our two operating production facilities are located in Shandong and Heilongjiang Provinces, making our operations particularly vulnerable to natural and other disasters that may occur in those provinces. Operating hazards, natural disasters or other unanticipated or catastrophic events, including power interruptions, water shortages, storms, typhoons, fires, explosions, earthquakes, terrorist attacks, wars, and labor disputes in and around these provinces could cause damage to or destroy our facilities or equipment therein. Any of these or similar events could significantly impair our ability to operate our business, as well as delay our research and development activities and commercial production. Our facilities and equipment are expensive and potentially difficult and time-consuming to repair or replace. Catastrophic events may also result in damage to or the destruction of inventory located in our production facilities. In addition, we do not carry any business interruption or other insurance that would compensate us in the event of a loss of this type. The occurrence of such an event could result in substantial costs and diversion of resources, and our business, financial condition and results of operations may be materially and adversely affected.

***We Rely On Our Relationships With Customers With Which We Have Sale Contracts The Termination Of Which Could Cause Us To Experience Short Term Or Permanent Losses Which Would Have An Adverse Effect On Our financial Condition, Results Of Operations And Prospects.***

Although during the years ended December 31, 2007, 2008 and 2009 there was no single customer from which we generated more than 10% of total sales for any of our products, we do rely on our relationships with certain customers, mainly *baijiu* distilleries, with which we have entered into 12-36 month sales contracts for the sale in 2010 of an aggregate 219,400 tons, or an estimated 84% of our existing annual production capacity of edible alcohol of 260,000 tons. Additionally, during the fiscal years 2007, 2008 and 2009, aggregate sales to our five largest customers represented 32.6%, 31.7% and 23.4% of our sales, respectively. If our relationships with our top customers terminate, or if our relationships with those customers with which we entered into sales contracts terminate, or if such customers decide not to abide by the sales agreements and fail to purchase our products thereunder, or if we are unable to renew our agreements to supply our products with such customers in 2011, then we would be forced to identify and negotiate with new customers in order to replace the lost volume of sales. If we find ourselves having to replace these customers, this may require a diversion of resources and time of our senior management personnel as well as a short term reduction in our revenues, or we may not be successful in identifying and negotiating with new customers at all, all of which would have a material adverse effect on our financial condition, our results of operations and prospects.

***Our Business Is Capital Intensive And Our Growth Strategy May Require Additional Capital Which May Not Be Available On Favorable Terms Or At All.***

We may require additional cash resources due to changed business conditions, implementation of our strategy to expand our manufacturing capacity or potential investments or acquisitions we may pursue. Furthermore, if we fail to complete this offering, or complete it at a level below our expectations, we will not have the capital necessary to complete Phase III of our Daqing facility, which could force us to

sell debt securities or additional equity securities, or obtain additional credit facilities from banks in the PRC in order to implement our growth strategy or to otherwise meet our capital needs. The sale of additional equity securities could result in dilution of your holdings. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

***We May Undertake Acquisitions, Which May Distract Our Management, May Not Result In The Benefits We Had Anticipated And May Have Unknown Risks And Liabilities Associated With Them.***

Our growth strategy may involve the acquisition of new businesses or the creation of strategic alliances in the edible alcohol production business. These acquisitions could require that our management manage new business relationships, manage new facilities and attract new customers. Furthermore, acquisitions may require significant attention from our management, and the diversion of our management's attention and resources could have a material adverse effect on our ability to manage our business. Future acquisitions may also expose us to potential risks, including risks associated with (1) the integration of new operations, services and personnel, (2) unforeseen or hidden liabilities, (3) the diversion of resources from our existing businesses, (4) our inability to generate sufficient revenue to offset the costs of acquisitions, and (5) potential loss of, or harm to, relationships with employees or customers, any of which may have a material adverse effect on our ability to manage our business. We may also experience some or all of these risks with respect to our recently acquired WGC and Daqing Borun businesses. For example, we can not ensure that WGC and Daqing Borun have obtained the construction project permits, fully completed environmental impact assessment procedures and obtained all the licenses required for their conduct of business before we acquired them. Failure of Daqing Borun or WGC to comply with the aforementioned requirements may cause our Company to bear the liabilities provided by relevant laws and regulations.

***We Will Incur Increased Costs As A Result Of Being A Public Company, Which Will Adversely Impact Our Results Of Operations.***

Upon closing of this offering, we will become a public company and expect to incur significant legal, accounting and other expenses that we did not incur as a private company. Moreover, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the Securities and Exchange Commission and the NYSE, has imposed additional requirements on corporate governance practices of public companies. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. For example, as a result of becoming a public company, we will need to add independent directors to our board and adopt policies regarding internal controls and disclosure controls and procedures. In addition, we will incur additional costs associated with our public company reporting requirements. It may also be difficult for us to attract and retain qualified persons to serve on our board of directors due to increased risks of liability to our directors under the new rules and regulations. We are currently evaluating and monitoring developments with respect to these new rules and regulations, and we cannot predict or estimate with any degree of certainty the amount or timing of additional costs we may incur.

Although our results of operations, cash flows and financial condition reflected in our combined and consolidated financial statements include all of the expenses allocable to our business, because of the additional administrative and financial obligations associated with operating as a publicly traded company, they may not be indicative of the results of operations that we would have achieved had we operated as a public entity for all periods presented or of future results that we may achieve as a

publicly traded company with our current holding company structure. Such variations may be material to our business.

***We may have difficulty establishing adequate management, legal and financial controls in the PRC, and the failure to establish such controls could have a material adverse effect on our business and the price of our ADSs.***

The PRC has only recently begun to adopt the management, legal and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management, legal and financial controls that are expected of a United States public company. If we cannot establish such controls, or if such deficiencies persist, we may experience difficulty in collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards. The failure to establish such controls could also result in significant deficiencies or material weaknesses in our internal controls, which could impact the reliability of our financial statements. Any such deficiencies, weaknesses or lack of compliance could have a materially adverse effect on our business and the public announcement of such deficiencies could adversely impact the price of our ADSs.

***We May Be Exposed To Potential Risks Relating To Our Internal Controls Over Financial Reporting And Our Ability To Have Those Controls Attested To By Our Independent Auditors.***

Upon the closing of this offering, we will become a public company in the United States that is or will be subject to, the Sarbanes-Oxley Act of 2002. As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the U.S. Securities and Exchange Commission adopted rules requiring public companies to include a report of management on the company's internal controls over financial reporting in their annual reports. In addition, the independent registered public accounting firm auditing a company's financial statements must also attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting as well as the operating effectiveness of the company's internal controls. Under current law, we will be required to include a management report beginning with our annual report for the 2011 fiscal year. Our management may conclude that our internal controls over our financial reporting are not effective. Even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

In connection with the audit of our financial statements as of and for the years ended December 31, 2007, 2008 and 2009 our auditors identified four "reportable conditions" as that term is defined under standards established by the PCAOB, in our internal accounting controls. These reportable conditions, which do not qualify as material weakness, related to our lack of a computerized financial accounting information system to record and process our financial transactions, a need to improve the timely recording and processing of our business transactions, lack of formal documentation to document and validate that management has performed periodic financial analysis and failure to set up and carry out the budget and management control in the overall operation systematically. We are in the process of remediating the reportable conditions identified above.

We can provide no assurance that we will be in compliance with all of the requirements imposed by SOX 404 or that we will receive a positive attestation from our independent auditors. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, investors and others may lose confidence in the

reliability of our financial statements. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our reporting processes, which could adversely affect the trading price of the ADSs.

***If Granted, Unauthorized Use Of Our Borun Wet Process Patent Of Invention By Third Parties And The Expenses Incurred In Protecting Such Patent May Adversely Affect Our Business.***

We regard our Borun Wet Process patent of invention, the application of which was accepted by The State Intellectual Property Office of the PRC and is under review, and our "Borun" trademark as important to our business. Based upon our knowledge of our industry and our ongoing patent application, we believe that we are the only corn-based edible alcohol producer in China using the wet process and the market recognizes our brand name products. Unauthorized use of this intellectual property may reduce our revenues and harm our reputation. We rely on intellectual property laws and contractual arrangements with our key employees and certain of our customers and others to protect our intellectual property rights. Policing unauthorized use of intellectual property is difficult and expensive, as are the steps necessary to prevent the misappropriation or infringement of our technology or trademark. Despite our precautions, it may be possible for third parties to obtain and use our Borun Wet Process method without authorization or sell their products under our "Borun" trademark. The validity, enforceability and scope of protection of intellectual property in many industries in China are uncertain and still evolving and may not protect intellectual property rights to the same extent as do the laws and enforcement procedures in the United States. Moreover, we may not prevail in any litigation that we undertake to enforce our intellectual property rights, and such litigation could result in substantial costs and diversion of our management resources. Our failure to adequately maintain and protect our intellectual property rights could lead to the loss of a competitive advantage or otherwise impair our ability to operate our business.

***We Are Dependent Upon Our Existing Management, And Our Business May Be Severely Disrupted If We Lose Their Services.***

Our future performance depends substantially on the continued services of our executive officers, most notably our President and Chief Executive Officer, Mr. Jinmiao Wang. If one or more of our executive officers are unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. In addition, we do not have any key person insurance on the lives of such individuals and the loss of any of their services could materially and adversely affect us.

If any of our executive officers joins a competitor or forms a competing company, we may lose know-how, key professionals and staff members as well as suppliers. These executive officers could develop products that could compete with and take market share away from us. Each of our executive officers has entered into an employment agreement with us, each of which contain non-competition provisions. However, if any dispute arises between our executive officers and us, these non-competition provisions may not be enforceable in China. If any of these were to happen, our competitive position and business prospects may be materially and adversely affected.

***One Of Our Shareholders Has Significant Control Over The Outcome Of Our Shareholder Votes***

One shareholder, King River Holding Limited, beneficially owned \_\_\_\_\_ % of our outstanding equity interests as of the date of this prospectus. Accordingly, King River Holding Limited has significant control over the outcome of any corporate transaction or other matter submitted to our shareholders for approval, including the election of directors, mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership in our ordinary shares by King River Holding Limited will limit your ability to influence corporate matters and may have the effect of delaying or preventing a third party from acquiring control over us.

***Covenants In Certain PRC Loan Agreements Entered Into By Shandong Borun and Daqing Borun Restrict Our Ability To Engage In Or Enter Into A Variety Of Transactions, Which May Cause Disruption in our Business Operations and Have a Material Adverse Effect on Our Business Operations.***

Shandong Borun and Daqing Borun have entered into PRC loan agreements with banks in the PRC which contain various covenants that may limit our discretion in operating the business of our operating subsidiaries.

Our lenders have rights that include the following:

- (i) restricting us from using the loan for a purpose other than the one stated in the agreement;
- (ii) restricting us during the term of the loan from undertaking any shareholding change or restructuring without obtaining prior approval of the lender;
- (iii) restricting us from undertaking mergers and acquisitions or any other joint venture arrangement without prior approval of the lender;
- (iv) restricting us from undertaking withdraw of capital, asset transfer, or equity transfer; and
- (v) restricting us from undertaking major investment, asset transfer, leasing, pledging or mortgaging its assets without obtaining prior approval of the lender.

In addition, pursuant to Daqing Borun's short-term bank loan of RMB13,500,000 (\$1,977,761) from Agricultural Development Bank of China, we pledged as collateral our buildings and land use right with a total carrying value of RMB8,576,848 (\$1,256,515) and RMB8,039,497 (\$1,177,793), respectively, from August 26, 2009 to August 25, 2010 in a related Maximum Mortgage Contract. Under the contract, the lender may restrict our use of the mortgaged properties and from donating, alienating, leasing or pledging the mortgage property without obtaining prior written consent of the lender.

These restrictions on our business may cause disruption in our business operations. Our lenders may restrict us from disposing of or restructuring the ownership of our operation facilities and limit our ability to undertake any acquisition or major investment. If we should fail to obtain their approval for any such transaction, we must give timely notice of the transaction. However, the lender may still have the right to rescind the loan which may materially and adversely affect our future prospects and results of operations.

***Our Operating Results For A Particular Period Could Fall Below Our Expectations Or The Expectations Of Investors Or Research Analysts, Resulting In A Decrease In The Price Of Our ADSs.***

Our operating results may vary significantly from period to period as a result of factors beyond our control, such as the recent slowdown in China's economic growth caused in part by the recent severe global crisis in the financial services and credit markets, and may be difficult to predict for any given period. Our past results may not be indicative of our future performance and our quarterly results may not be indicative of our full year results. If our operating results for any period fall below our expectations or the expectations of investors or research analysts, the price of our ADSs are likely to decrease.

***As a company incorporated in the Cayman Islands, we may adopt certain home country practices in relation to corporate governance matters. These practices may afford less protection to shareholders than they would enjoy if we complied fully with the NYSE corporate governance listing standards.***

As a non-U.S. company with shares listed on the NYSE, we are subject to the NYSE corporate governance listing standards. However, in reliance on Section 303A.00 of the NYSE Listed Company Manual, which permits a foreign private issuer to follow the corporate governance practices of its home country, we have adopted certain corporate governance practices that may differ significantly from the NYSE corporate governance listing standards. For example, we may include non-independent directors as members of our compensation committee and nominating and corporate governance committee, and our independent directors may not hold regularly scheduled meetings at which only independent directors are present. Such home country practice differs from the NYSE corporate governance listing standards, because there are no specific provisions under the Companies Law of the Cayman Islands imposing such requirements. Accordingly, executive directors, who may also be our major shareholders or representatives of our major shareholders, may have greater power to make or influence major decisions than they would if we complied with all the NYSE corporate governance listing standards. While we may adopt certain practices that are in compliance with the laws of the Cayman Islands, such practices may differ from more stringent requirements imposed by the NYSE Listed Company Manual and as such, our shareholders may be afforded less protection under Cayman Islands law than they would under the NYSE rules applicable to U.S. domestic issuers.

***As a foreign private issuer we are exempt under the Exchange Act from providing certain disclosure. As a result our shareholders may be afforded less protection than they would enjoy if we were a U.S. company.***

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements. In addition, our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Further, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. As a result, our shareholders may be afforded less protection than they would under the Exchange Act rules applicable to U.S. domestic issuers.

### **RISKS RELATED TO OPERATING IN CHINA**

All of our assets are located in China and all of our revenues are derived from our operations in China. Accordingly, our business, financial condition, results of operations and prospects are subject to economic, political and legal developments in China.

***The Chinese Government Exerts Substantial Influence Over The Manner In Which We Must Conduct Our Business Activities.***

After decades of centralized control, China only recently has permitted provincial and local economic autonomy and private economic activities and, as a result, we are dependent on our relationship with the local government in the provinces in which we operate our business. The Chinese government has exercised and continues to exercise substantial control over virtually every sector of the Chinese economy through regulation and state ownership. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. These actions, as well as future actions and policies of the PRC government, could materially affect general economic conditions in China and our business and operations.

Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, production permits, import and export tariffs, environmental regulations, land use rights, property and other matters. Except as disclosed in this Prospectus, we believe that our operations in China are in material compliance with all applicable legal and regulatory requirements. However, the central or local governments of these jurisdictions may impose new, stricter regulations or interpretations of existing regulations that would require additional expenditures and efforts on our part to ensure our compliance with such regulations or interpretations. Accordingly, government actions in the future, including any decision not to continue to support recent economic reforms and to return to a more centrally planned economy or regional or local variations in the implementation of economic policies, could have a significant effect on economic conditions in China or particular regions thereof, and could require us to divest ourselves of any interest we then hold in Chinese properties. In addition, the PRC government continues to play a significant role in regulating industry developments by imposing industrial policies, any of which could adversely impact our business.

***Adverse Changes In PRC Economic And Political Policies Could Have A Material Adverse Effect On The Overall Economic Growth Of China, Which Could Reduce The Demand For Our Products And Materially And Adversely Affect Our Business.***

Our operating business is based in China and all of our sales are made in China. As such, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. The Chinese economy differs from the economies of most developed countries in many aspects, including:

- the level of government involvement;
- the level of development;
- the growth rate;
- the level and control of capital investment;
- the control of foreign exchange; and
- the allocation of resources.

While the Chinese economy has grown significantly in the past two decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow or to do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. For example, the Chinese economy experienced high inflation in the second half of 2007 and the first half of 2008. China's consumer price index increased by 7.0% during the nine months ended September 30, 2008 as compared to the same period in 2007. To combat inflation and prevent the economy from overheating, the PRC government adopted a number of tightening macroeconomic measures and monetary policies. Due in part to the impact of the global crisis in financial services and credit markets and other factors, the growth rate of China's gross domestic product as measured against the same period of the previous year decreased to 7.1% in the first half of 2009, down from 10.4% in the first half of 2008. Beginning in September 2008, among other measures, the PRC government began to loosen macroeconomic measures and monetary policies, including reducing interest rates and decreasing the statutory reserve rates for banks. In addition, in November 2008 the PRC government announced an economic stimulus package in the amount of \$586 billion. It is uncertain whether the various

macroeconomic measures, monetary policies and economic stimulus packages adopted by the PRC government will be effective in restoring or sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long term, may have a negative effect on us. For example, our financial condition and results of operations may be materially and adversely affected by government control over capital investments.

Although the Chinese economy has been transitioning from a planned economy to a more market-oriented economy, a substantial portion of the productive assets in China are still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the Chinese government could materially and adversely affect our business. The PRC government also exercises significant control over Chinese economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. Any adverse change in the economic conditions or government policies in China could have a material adverse effect on the overall economic growth and the level of investments and expenditures in China, which in turn could lead to a reduction in demand for our products and consequently have a material adverse effect on our business.

***Uncertainties With Respect To The Chinese Legal System Could Have A Material Adverse Effect On Us.***

We conduct substantially all of our operations through companies established in the PRC. Our principal operating subsidiaries located in China are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local regulations by national laws, or the overturn of local government's decisions by the higher level government. These uncertainties may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

***Fluctuations In The Value Of RMB Will Affect The Amount Of The Value Of, And Dividends Payable On, Our ADSs In Foreign Currency Terms.***

The value of RMB depends, to a large extent, on China's domestic and international economic, financial and political developments and government policies, as well as the currency's supply and demand in the local and international markets. For over 10 years from 1994, the conversion of RMB into foreign currencies, including the U.S. dollar, was based on exchange rates set and published daily by People's Bank of China in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the U.S. dollar was largely stable until July 2005. On July 21, 2005, People's Bank of China revalued RMB by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of RMB appreciated by 2% on that day. The China central bank allowed the official RMB exchange rate to float against a basket of foreign currencies, and the RMB has further appreciated by 18.8% against the U.S. dollar as of November 5, 2009. In July 2008, the China central bank established a narrow band within which the RMB could fluctuate against these



currencies, the practical effect of which has been to re-peg the RMB to the U.S. dollar. Since our income and profits are denominated in RMB, any appreciation of RMB will increase the value of, and any dividends payable on, our ADSs in foreign currency terms. Conversely, any depreciation of RMB will decrease the value of, and any dividends payable on, our ADSs in foreign currency terms.

***PRC Regulations Relating To Offshore Investment Activities By PRC Residents May Increase The Administrative Burden We Face And May Subject Our PRC Resident Beneficial Owners To Personal Liabilities, Limit Our PRC Subsidiary's Ability To Distribute Profits To Us, Limit Our Ability To Inject Capital Into Our PRC Subsidiary, Or May Otherwise Expose Us To Liability Under The PRC Law.***

In October 2005, the PRC State Administration of Foreign Exchange, or SAFE, issued the "Notice on Relevant Issues Concerning Foreign Exchange Administration on Financing and Round-Trip Investment through offshore Special Purpose Vehicles by Domestic Residents", generally referred to as Circular 75. The policy announced in this notice required PRC residents to register with the relevant SAFE branch before establishing or controlling offshore special purpose vehicles, or SPVs, for the purpose of engaging in an equity financing outside of China on the strength of domestic PRC assets originally held by those residents. In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006. In addition, any PRC resident that is a shareholder of an SPV is required to amend its SAFE registration within 30 days after any major change in the share capital of the offshore special purpose company without any roundtrip investment being made, such as any increase or decrease of capital, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, provision of guaranty to a foreign party etc. In May 2007, SAFE issued relevant guidance to its local branches with respect to the operational process for SAFE registration, which standardised more specific and stringent supervision on the registration relating to SAFE Circular No. 75. Failure to comply with the requirements of Circular 75 may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's PRC affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV.

We understand that none of our shareholders is a PRC citizen. Our PRC counsel advises that none of our shareholders is subject to the requirement of the SAFE registration under Circular 75. However, due to the vagueness and uncertainty as to how the SAFE regulations are interpreted and implemented and the possible amendments or changes of the SAFE regulations, we cannot provide any assurance that our current shareholders who may spend certain amount of their time in the PRC each year will not be required to make or obtain any applicable registrations pursuant to the SAFE regulations.

The failure or inability to comply with the registration procedures set forth therein may subject these shareholders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our PRC subsidiaries' ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

***We May Face Regulatory Uncertainties That Could Restrict Our Ability To Issue Equity Compensation To Our Directors And Employees And Other Parties Who Are PRC Citizens Or Residents Under PRC Law.***

On April 6, 2007, SAFE issued the "Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also known as "Circular 78." For any equity compensation plan which is so covered and is adopted by a non-PRC listed company after April 6, 2007, Circular 78 requires all participants who

are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. In addition, Circular 78 also requires PRC citizens within three months after the issuance of Circular 78 to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company's covered equity compensation plan prior to April 6, 2007. We intend to adopt an equity compensation plan prior to the closing of this offering and will make option grants to some of our directors and senior officers, most of whom are PRC citizens. Circular 78 may require PRC citizens who receive option grants to register with SAFE. We believe that the registration and approval requirements contemplated in Circular 78 will be burdensome and time-consuming. If it is determined that any of our equity compensation plans failure to comply with such provisions, this may subject us and recipients of such options to fines and legal sanctions and prevent us from being able to grant equity compensation to our PRC employees. In that case, our ability to compensate our employees and directors through equity compensation would be hindered and our business operations may be adversely affected.

***We Have Limited Business Insurance Coverage In China.***

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited insurance products. As of December 31, 2009, we carried up to RMB841 million (\$123.2 million) of insurance coverage, which includes coverage for certain of our property, plant and equipment and inventory and for employee injury. We do not have insurance coverage on our other assets and we do not have insurance to cover our business or interruption of our business, litigation or product liability. We have determined that the costs of insuring for these risks and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. Any uninsured occurrence of loss or damage to property, litigation or business disruption may result in our incurring substantial costs and the diversion of resources, which could have an adverse effect on our operating results and financial condition.

***Restrictions On Currency Exchange May Limit Our Ability To Utilize Our Revenues Effectively.***

Substantially all of our revenues and operating expenses are denominated in Renminbi. The Renminbi is currently freely convertible under the "current account," which includes dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and loans.

Currently, WGC may purchase foreign exchange for settlement of "current account transactions", including payment of dividends to us. WGC may also retain foreign exchange in its current account, subject to a ceiling approved by the State Administration for Foreign Exchange or its local branches, to satisfy foreign exchange liabilities or to pay dividends. However, we cannot assure you that the relevant PRC governmental authorities will not limit or eliminate our ability to purchase and retain foreign currencies in the future.

Since a significant amount of our future revenues will be denominated in Renminbi, the existing and any future restrictions on currency exchange may limit our ability to utilize revenues generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies.

Foreign exchange transactions under the capital account are subject to limitations and require registration with or approval by the relevant PRC governmental authorities. In particular, if we finance our Chinese subsidiaries by means of foreign currency loans, those loans cannot exceed certain statutory limits and must be registered with the State Administration for Foreign Exchange or its local branches, and if we finance our Chinese subsidiaries by means of capital contributions, those capital contributions must be approved by the Ministry of Commerce or its local branches. Our ability to use

the U.S. dollar proceeds of the private placement of the notes to finance our business activities conducted through our Chinese subsidiaries will depend on our ability to obtain these governmental registrations or approvals. In addition, because of the regulatory issues related to foreign currency loans to, and foreign investment in, domestic PRC enterprises, we may not be able to finance our Chinese subsidiaries' operations by loans or capital contributions. We cannot assure you that we can obtain these governmental registrations or approvals on a timely basis, if at all.

***The Application Of PRC Regulations Relating To The Overseas Listing Of PRC Domestic Companies Is Uncertain, And We May Be Subject To Penalties For Failing To Obtain Approval Of The PRC Authorities Prior To Listing Our ADSs In The U.S.***

On August 8, 2006, six PRC government agencies, namely, the Ministry of Commerce, or MOFCOM, the State-Owned Assets Supervision and Administration Commission, or SASAC, the State Administration of Taxation, or SAT, the State Administration for Industry and Commerce, or SAIC, the China Securities Regulatory Commission, or CSRC and SAFE jointly issued the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (the "New M&A Rules"), which became effective on September 8, 2006. The New M&A Rules purport, among other things, to require offshore "special purpose vehicles" or SPVs, that are (i) formed for the purpose of overseas listing of the equity interests of PRC companies via acquisition and (ii) are controlled directly or indirectly by PRC companies and/or PRC individuals, to obtain the approval of the CSRC prior to the listing and trading of their securities on overseas stock exchanges. On September 21, 2006, pursuant to the New M&A Rules and other PRC laws, the CSRC published on its official website relevant guidance with respect to the listing and trading of PRC domestic enterprises' securities on overseas stock exchanges (the "Related Clarifications"), including a list of application materials regarding the listing on overseas stock exchange by SPVs. Based on our understanding of current PRC laws and as advised by our PRC counsel, we were and are not required to obtain the approval of CSRC under the New M&A Rules in connection with this offering due to the fact that (1) we were and are not an SPV and (2) the acquisitions among China High, WGC and Shandong Borun were subject to the PRC laws, regulations, rules and circulars related to foreign investment enterprises such as "Interim Provisions on Domestic Investments by Foreign Investment Enterprises" and "Provisions for the Alteration of Investors' Equities in Foreign-funded Enterprises" instead of the New M&A Rules.

However, there are substantial uncertainties regarding the interpretation, application and enforcement of these rules, and CSRC has yet to promulgate any written provisions or formally to declare or state whether the overseas listing of a PRC-related company structured similar to ours is subject to the approval of CSRC. Any violation of these rules could result in fines and other penalties on our operations in China, restrictions or limitations on remitting dividends outside of China, and other forms of sanctions that may cause a material and adverse effect to our business, operations and financial condition.

The New M&A Rules also established additional procedures and requirements that are expected to make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise that owns well-known trademarks or China's traditional brands. We may grow our business in part by acquiring other businesses. Complying with the requirements of the new mergers and acquisitions regulations in completing this type of transactions could be time-consuming, and any required approval processes, including CSRC approval, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***We May Be Deemed A PRC Resident Enterprise For PRC Tax Purposes Under The New Enterprise Income Tax Law, Which Could Result In The Imposition Of a 25% PRC Enterprise Income Tax Payable On Our Taxable Global Income and Additional Taxation of our Dividend Payments to Investors.***

On March 16, 2007, the National People's Congress of the PRC passed the Enterprise Income Tax Law of the PRC (the "New Income Tax Law"), which took effect as of January 1, 2008. On December 6, 2007, the Implementation Rules of the Enterprise Income Tax Law of the PRC ("Implementation Rules") were also enacted, and took effect as of January 1, 2008.

Under the New Income Tax Law and the Implementation Rules, enterprises are classified into PRC-resident enterprises and non—resident enterprises of the PRC. PRC-resident enterprises are enterprises established in the PRC or established under the laws of foreign jurisdictions other than the PRC with their "de facto management body" within the PRC. Under the Implementation Rules, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury and acquisition and disposition of properties and other assets of an enterprise. At present, it is unclear what factors will be used by the PRC tax authorities to determine whether we have a "de facto management body" in China.

The Company was established under the laws of the Cayman Islands and its current tax rate is zero. However, a substantial number of our management personnel are located in the PRC and all of our revenues arise from our operations in China. Therefore, we may be deemed a PRC resident enterprise for PRC tax purposes under the New Income Tax Law. If the PRC tax authorities determine that we are a PRC resident enterprise, we will be subject to PRC tax on our worldwide income at the uniform tax rate of 25%, which may have a material adverse effect on our financial condition and results of operations.

Notwithstanding the foregoing provision, the New Income Tax Law also provides that, if a resident enterprise has already invested in another resident enterprise, the dividends received by the investing resident enterprise from the invested resident enterprise are exempt from income tax, subject to certain qualifications. Therefore, if we are classified as a resident enterprise, the dividends received from our PRC subsidiaries may be exempt from income tax.

Due to the recent enactment of such laws and regulations and lack of enforcement history, it is not clear how such laws and regulations will be executed in practice. Therefore, we cannot conclude at this time whether we will be deemed as a PRC resident enterprise. It is also unclear as to (i) the detailed qualification requirements for above-mentioned exemption and (ii) whether dividend payments by our PRC subsidiaries to us will meet such qualification requirements, even if we are deemed as a PRC resident enterprise for tax purposes.

***We Rely On Dividends And Other Distributions On Equity Paid By Our Subsidiaries For Our Cash Needs.***

We are a holding company organized under the laws of the Cayman Islands, and we conduct all of our operations through our operating subsidiaries in the PRC. We rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our Shareholders, to serve any debt we may incur and to pay our operating expenses. Current regulations in the PRC such as the Wholly-Foreign Owned Enterprise Law (1986), as amended, and the Wholly-Foreign Owned Enterprise Law Implementing Rules (1990), as amended and the Company Law of the PRC (2005), permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations.

According to the laws mentioned above and the articles of association of our PRC subsidiaries, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on the PRC accounting standards and regulations each year to its statutory reserve, until the balance in the reserve reaches 50% of the registered capital of the company. Funds in the reserve are not distributable to us in forms of cash dividends, loans or advances. In addition, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us, which in turn will adversely affect our available cash.

***Dividends Payable By Our Company To Its Non-PRC Resident Shareholders May Become Subject To Taxes Under PRC Tax Laws.***

The New Income Tax Law and the Implementation Rules provide that (1) if the enterprise that distributes the dividends is domiciled in the PRC, or (2) if capital gains are realized from the transfer of equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income, and PRC income tax at the rate of up to 10% is applicable to such dividends or capital gains payable to overseas investors that are "non-resident enterprises". If our Company is considered a PRC-resident enterprise for tax purposes, any dividends distributed by our Company to our Company's non-PRC resident shareholders as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and as a result, may be subject to PRC withholding tax at the rate of up to 10%, depending on the provisions of tax treaty between the PRC and the jurisdiction in which the non-PRC resident shareholder resides.

As the New Income Tax Law and the Implementation Rules have only been in effect from January 1, 2008, it is uncertain as to how these laws and regulations would be implemented by the relevant PRC tax authorities. If our Company's dividend payments to our Company's non-PRC resident shareholders are subject to PRC withholding tax, it may materially and adversely affect our shareholders return on and value of investment in our Company.

***We face uncertainty from the Circular on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises' Share Transfer ("Circular 698") released in December 2009 by China's State Administration of Taxation (SAT), effective as of January 1, 2008.***

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (Circular 698) issued by the State Administration of Taxation on December 10, 2009, where a foreign investor transfers the equity interests of a PRC resident enterprise indirectly via disposing of the equity interests of an overseas holding company ("Indirect Transfer") and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the foreign investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. The PRC tax authority will examine the true nature of the Indirect Transfer, and if the tax authority considers that the foreign investor has adopted an abusive arrangement in order to avoid PRC tax, they will disregard the existence of the overseas holding company and re-characterize the Indirect Transfer and as a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at the rate of up to 10%. Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the competent tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

Since Circular 698 came into force on January 1, 2008, we can't assure you our reorganization will not be subject to examination by the PRC Subsidiaries' tax authorities and any direct or indirect transfer of our equity interests in our PRC subsidiaries via our overseas holding companies will not be subject to a withholding tax of 10%.

***Our Certificates, Permits, And Licenses Related To Our Operations Are Subject To Governmental Control And Renewal And Failure To Obtain Such Certificates, Permits, And Licenses Or Their Renewals Will Cause All Or Part Of Our Operations To Be Terminated.***

Our operations require licenses, permits and in some cases renewals of these licenses and permits from various governmental authorities within the PRC. Our ability to obtain, sustain, or renew such licenses and permits on acceptable terms are subject to change, as, among other things, the regulations and policies of applicable governmental authorities may change. If these permits expire without renewal, we will not be able to operate production which will cause our operations to be terminated. Our inability to obtain, the loss of, or the denial of, extension as to any of these licenses or permits may have a material adverse effect on our operations and financial condition and could result in our being required to cease operations, incur fines and penalties.

***If Our Land Use Rights Are Revoked, We Would Have No Operational Capabilities.***

Under Chinese law land is owned by the state or rural collective economic organizations. The state issues to the land users the land use right certificate. Land use rights can be revoked and the land users forced to vacate at any time when redevelopment of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent. Each of our two facilities rely on these land use rights as the cornerstone of their operations, and the loss of such rights would have a material adverse effect on our company.

***New Labor Laws In The PRC May Adversely Affect Our Results Of Operations.***

On June 29, 2007, the PRC government promulgated a new labor law, namely, the Labor Contract Law of the PRC, or the New Labor Contract Law, which became effective on January 1, 2008. The New Labor Contract Law imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires certain terminations be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the New Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

***Our Failure To Fully Comply With PRC Labor Laws Exposes Us To Potential Liability.***

Companies operating in China must comply with a variety of labor laws, including certain social insurance, housing fund and other staff welfare-oriented payment obligations. There exist uncertainties as to the interpretation, implementation and enforcement of such obligations. If relevant governmental authorities determine that we have not complied fully with such obligations, we may be in violation of applicable PRC labor laws and we cannot assure you that PRC governmental authorities will not impose penalties on us for any failure to comply. In addition, in the event that any current or former employee files a complaint with relevant governmental authorities, we may be subject to making up such staff-welfare oriented obligations as well as paying administrative fines. In the past, we had been delinquent with respect to the payment of social insurance and housing fund payments. We may be liable for the payments and fines arising from such delinquent payments.

***Future Inflation In China May Inhibit Our Ability To Conduct Business In China.***

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on profitability. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the

availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

***We Face Risks Related To Health Epidemics.***

Our business could be materially and adversely affected by the effects of H1N1 flu (swine flu), avian flu, severe acute respiratory syndrome or other epidemics or outbreaks. In April 2009, an outbreak of H1N1 flu (swine flu) first occurred in Mexico and quickly spread to other countries, including the U.S. and China. In the last decade, China has suffered health epidemics related to the outbreak of avian influenza and severe acute respiratory syndrome. Any prolonged occurrence or recurrence of H1N1 flu (swine flu), avian flu, severe acute respiratory syndrome or other adverse public health developments in China may have a material adverse effect on our business and operations. These health epidemics could result in severe travel restrictions and closures that would restrict our ability to ship our products. Potential outbreaks could also lead to temporary closure of our manufacturing facilities, our suppliers' facilities and/or our end-user customers' facilities, leading to reduced production, delayed or cancelled orders, and decrease in demand for our products. Any future health epidemic or outbreaks that could disrupt our operations and/or restrict our shipping abilities may have a material adverse effect on our business and results of operations.

***We Face Risks Related To Natural Disasters, Terrorist Attacks Or Other Events In China That May Affect Usage Of Public Transportation, Which Could Have A Material Adverse Effect On Our Business And Results Of Operations.***

Our business could be materially and adversely affected by natural disasters, terrorist attacks or other events in China. For example, in early 2008, parts of China suffered a wave of strong snow storms that severely impacted public transportation systems. In May 2008, Sichuan Province suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. The May 2008 Sichuan earthquake has had a material adverse effect on the general economic conditions in the areas affected by the earthquake. Any future natural disasters, terrorist attacks or other events in China could cause a reduction in usage of or other severe disruptions to, public transportation systems and could have a material adverse effect on our business and results of operations.

***PRC Regulation Of Direct Investment And Loans By Offshore Holding Companies To PRC Entities May Delay Or Limit Our Ability To Use The Proceeds Of This Offering To Make Additional Capital Contributions Or Loans To Our PRC Operating Businesses.***

Any capital contributions or loans that we, as an offshore company, make to our PRC operating businesses, including from the proceeds of this offering, are subject to PRC regulations. For example, any of our loans to WGC cannot exceed the difference between the total amount of investment our PRC operating businesses are approved to make under relevant PRC laws and their respective registered capital, and must be registered with the local branch of the State Administration of Foreign Exchange as a procedural matter. In addition, our capital contributions to our PRC operating businesses must be approved by the National Development and Reform Commission and the Ministry of Commerce or their local counterpart and registered with the State Administration for Industry and Commerce or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC operating businesses or to fund their operations may be negatively affected, which could adversely affect their liquidity and their ability to fund their working capital and expansion projects and meet their obligations and commitments.

Furthermore, the State Administration of Foreign Exchange promulgated a new circular in August 2008 with respect to the administration of conversion of foreign exchange capital contribution of foreign invested enterprises into RMB. Pursuant to this new circular, RMB converted from foreign exchange capital contribution can only be used for the activities within the approved business scope of such foreign invested enterprise and cannot be used for domestic equity investment or acquisition unless otherwise allowed by PRC laws or regulations. As a result, we may not be able to increase the capital contribution of our operating subsidiaries and subsequently convert such capital contribution into RMB for equity investment or acquisition in China.

## RISKS RELATED TO THIS OFFERING

### ***There Has Been No Public Market For Our Ordinary Shares Or ADSs Prior To This Offering, And You May Not Be Able To Resell Our ADSs At Or Above The Price You Paid For Them, Or At All.***

Prior to this initial public offering, there has been no public market for our ordinary shares or ADSs. Although we have applied to list our ADSs on the New York Stock Exchange, a liquid public market for our ADSs may not develop. Our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system. If an active trading market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs will be materially and adversely affected.

The initial public offering price for our ADSs will be determined by negotiations between us and the underwriters and may bear no relationship to the market price for our ADSs after this initial public offering. We cannot assure you that an active trading market for our ADSs will develop or that the market price of our ADSs will not decline significantly below the initial public offering price.

### ***We Are A Cayman Islands Company And, Because Judicial Precedent Regarding The Rights Of Shareholders Is More Limited Under Cayman Islands Law Than That Under U.S. Law, You May Have Less Protection For Your Shareholder Rights Than You Would Under U.S. Law.***

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, the Cayman Islands Companies Law (as amended) and the common law of the Cayman Islands. The rights of shareholders to take action against the directors, actions by noncontrolling shareholders and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States. In addition, some U.S. states, such as Delaware, have more fully developed and judicially interpreted bodies of corporate law than the Cayman Islands.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests in the face of actions taken by management, members of the board of directors or controlling shareholders than they would as shareholders of a U.S. public company.

### ***We May Be Classified As A Passive Foreign Investment Company, Which Could Result In Adverse U.S. Tax Consequences To U.S. Investors.***

Based upon the nature of our income and assets, we may be classified as a passive foreign investment company, or PFIC, by the United States Internal Revenue Service for U.S. federal income tax purposes.



This characterization could result in adverse U.S. tax consequences to you. For example, if we are a PFIC, our U.S. investors will become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to more burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis, and those determinations depend on the composition of our income and assets, including goodwill, from time to time. We intend to operate our business so as to minimize the risk of PFIC treatment, however you should be aware that certain factors that could affect our classification as PFIC are out of our control. For example, the calculation of assets for purposes of the PFIC rules depends in large part upon the amount of our goodwill, which in turn is based, in part, on the then market value of our ADSs, which is subject to change. Similarly, the composition of our income and assets is affected by the extent to which we spend the cash we have raised on acquisitions and capital expenditures. In addition, the relevant authorities in this area are not clear and so we operate with less than clear guidance in our effort to minimize the risk of PFIC treatment. Therefore, we cannot be sure whether we are not and will not be a PFIC for the current or any future taxable year. In the event we are determined to be a PFIC, our stock may become less attractive to U.S. investors, thus negatively impacting the price of our stock.

***You May Have Difficulty Bringing An Action Against Us Or Our Directors, Or Enforcing Judgments Obtained Against Us Or Them Because We Are Incorporated In The Cayman Islands, Because We Conduct Substantially All Of Our Operations In The PRC And Because Some Of Our Directors And Officers Reside Outside Of The United States.***

We are a Cayman Islands company and substantially all of our assets are located outside of the United States. Substantially all of our current operations are conducted in the PRC. In addition, some of our directors and officers are nationals and residents of countries other than the United States. As a result, it may be difficult for you to bring an action in the United States upon these persons. It may also be difficult for you to enforce judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws against us and our officers and directors, most of whom are not residents in the United States and the substantial majority of whose assets are located outside of the United States. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands or the PRC may render you unable to enforce a judgment against our assets or the assets of our directors and officers. For more information regarding the relevant laws of the Cayman Islands and the PRC, see "Enforceability of Civil Liabilities".

***Our Articles Of Association Contain Anti-Takeover Provisions That Could Discourage A Third Party From Acquiring Us, Which Could Limit Our Shareholders' Opportunity To Sell Their Shares, Including Ordinary Shares Represented By Our ADSs, At A Premium.***

Our articles of association limit the ability of others to acquire control of our Company or cause us to engage in change-of-control transactions. These provisions could have the effect of depriving our shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging third parties from seeking to obtain control of our Company in a tender offer or similar transaction. For example, our board of directors has the authority, without further action by our shareholders, to issue preference shares. These preference shares may have better voting rights than our ordinary shares, in the form of ADSs or otherwise, and could be issued quickly with terms calculated to delay or prevent a change in control of our company or make removal of management more difficult. If our board of directors decides to issue preference shares, the price of our ADSs may fall and the voting rights of the holders of our ordinary shares and ADSs may be diluted. See "Description of Share Capital—Ordinary Shares—Issuance of Additional Shares."

Certain actions require the approval of a supermajority of at least two-thirds of the members of our board of directors which, among other things, would allow our non-independent directors to block a variety of actions or transactions, such as a merger, asset sale or other change of control, even if all of

our independent directors unanimously voted in favor of such action, thereby further depriving our shareholders of an opportunity to sell their shares at a premium. See "Description of Share Capital—Ordinary Shares—Actions Requiring the Approval of a Supermajority of our Board of Directors."

***The Market Price For Our ADSs May Be Volatile, Which Could Result In Substantial Losses To You.***

The market price for our ADSs is likely to be highly volatile and subject to wide fluctuations in response to factors, many of which are beyond our control and which may occur regardless of our actual operating performance, including the following:

- announcements of technological or competitive developments;
- regulatory developments in China affecting us, our customers or our competitors;
- announcements regarding patent or other intellectual property litigation or the issuance of patents to us or our competitors or updates with respect to the enforceability of patents or other intellectual property rights generally in China or internationally;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other specialty chemicals companies;
- addition or departure of our executive officers and key research personnel;
- release or expiry of lock-up or other transfer restrictions on our outstanding ordinary shares or ADSs; and
- sales or perceived sales of additional ordinary shares or ADSs.

In addition, the securities market has, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. Any of these factors could result in large and sudden changes in the volume and trading price of our ADSs and could cause holders of our ADSs to incur substantial losses. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit or other securities litigation, it would divert the attention of our senior management, require us to incur significant expense and, whether or not adversely determined, could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Because The Initial Public Offering Price Is Substantially Higher Than Our Pro Forma Net Tangible Book Value Per Share, You Will Incur Immediate And Substantial Dilution.***

If you purchase ADSs in this offering, you will pay more for your ADSs than the amount paid by our existing shareholders for their ordinary shares on a per-ADS basis. As a result, you will experience immediate and substantial dilution of approximately \$            per ADS, representing the difference between our pro forma net tangible book value per ADS as of December 31, 2009, after giving effect to this offering and assuming an initial public offering price of \$            per ADS, the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus. In addition, in the event that we decide to implement a stock incentive or option plan, you may

experience further dilution to the extent that our ordinary shares are issued upon the exercise of share options thereunder. See "Dilution" for a more complete description of how the value of your investment in our ADSs will be diluted upon the closing of this offering.

***Substantial Future Sales Of Our ADSs Or The Anticipation Of Future Sales Of Our ADSs In The Public Market Could Cause The Price Of Our ADSs To Decline.***

Sales of our ADSs or ordinary shares in the public market after this offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Upon the closing of this offering, we will have \_\_\_\_\_ ordinary shares outstanding, including \_\_\_\_\_ ordinary shares represented by \_\_\_\_\_ ADSs sold in this offering. All ADSs sold in this offering will be freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining \_\_\_\_\_ or dinary shares outstanding after this offering will be available for sale upon the expiration of the 180-day lock-up period beginning from the date of this prospectus subject to volume and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act. Any or all of these ordinary shares (other than those held by certain option holders) may be released prior to expiration of the lock-up period at the discretion of the lead underwriter. To the extent ordinary shares are released before the expiration of the lock-up period and these ordinary shares are sold into the market, the market price of our ADSs could decline.

In addition, certain holders of our ordinary shares or their transferees and assignees will have the right to cause us to register the sale of their shares under the Securities Act upon the occurrence of certain circumstances. See "Description of Share Capital." Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the closing of this offering. Sales of these registered ordinary shares in the public market could cause the price of our ADSs to decline.

***Future Issuances Of Ordinary Shares Or ADSs May Depress The Trading Price Of Our ADSs.***

Any issuance of equity securities after this offering could dilute the interests of our existing shareholders and could substantially decrease the trading price of our ADSs. We may issue equity securities in the future for a number of reasons, including to finance our operations and business strategy (including in connection with acquisitions and other transactions), to adjust our ratio of debt to equity, to satisfy our obligations upon the exercise of outstanding warrants or options or for other reasons.

***Our Management Will Have Considerable Discretion As To The Use Of The Net Proceeds To Be Received By Us From This Offering.***

Our allocation of the net proceeds to be received by us of this offering is based on current plans and business conditions. The amounts and timing of any expenditure will vary depending on the amount of cash generated by our operations, competitive and market developments and the number and type of new projects, we undertake. Accordingly, our management will have considerable discretion in the application of the net proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our efforts to maintain profitability or increase our share price. The net proceeds from this offering, pending investment in operating assets or businesses, may be placed in investments that do not produce income or that lose value.

***Your Right To Participate In Any Future Rights Offerings May Be Limited, Which May Cause Dilution To Your Holdings.***

If we offer holders of our shares any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you if it is lawful and reasonably practicable. However, the depositary may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them. In addition, U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADSs issued after exercise of rights. Under the deposit agreement, the depositary will not distribute rights to holders of ADSs unless the distribution and sale of rights and the securities to which these rights relate are either exempt from registration under the Securities Act with respect to holders of ADSs, or are registered under the provisions of the Securities Act. We can give no assurance that we can establish an exemption from registration under the Securities Act, and we are under no obligation to file a registration statement with respect to these rights or underlying securities or to endeavor to have a registration statement declared effective. Accordingly, you may be unable to participate in our rights offerings and may experience dilution of your holdings as a result.

***Your Ability To Protect Your Rights As Shareholders Through The U.S. Federal Courts May Be Limited Because We Are Incorporated Under Cayman Islands Law.***

Cayman Islands companies may not have standing to initiate a derivative action in a federal court of the United States. As a result, your ability to protect your interests if you are harmed in a manner that would otherwise enable you to sue in a U.S. federal court may be limited.

***Holders Of ADSs Have Fewer Rights Than Shareholders And Must Act Through The Depositary To Exercise Their Rights.***

Holders of ADSs do not have the same rights of our shareholders and may only exercise voting rights with respect to the underlying ordinary shares in accordance with the provisions of the deposit agreement. Under our amended and restated memorandum and articles of association, which will become effective upon the closing of this offering, the minimum notice period required to convene a general meeting in        days. When a general meeting is convened, you may not receive sufficient notice of a shareholders' meeting to permit you to withdraw your ordinary shares to allow you to cast your vote with respect to any specific matter. In addition, the depositary and its agents may not be able to send voting instructions to you or carry out your voting instructions in a timely manner. We will make all reasonable efforts to cause the depositary to extend voting rights to you in a timely manner, but we cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your ADSs. Furthermore, the depositary and its agents will not be responsible for any failure to carry out any instructions to vote, for the manner in which any vote is cast or for the effect of any such vote. As a result, you may not be able to exercise your right to vote and you may lack recourse if your ADSs are not voted as you requested. In addition, in your capacity as an ADS holder, you will not be able to call a shareholders' meeting.

***You May Not Receive Distributions On Our Shares Or Any Value For Them If It Is Illegal Or Impractical For Us To Make Them Available To You.***

The depositary has agreed to pay you the cash dividends or other distributions it or its custodian receives on our shares or other deposited securities after deducting its fees and expenses.

You will receive these distributions in proportion to the number of our shares your ADSs represent. However, the depositary is not responsible if it is unlawful or impractical to make a distribution available to any holders of ADSs. For example, it would be unlawful to make a distribution to a holder of ADSs if it consists of securities that require registration under the Securities Act but that are not properly registered or distributed pursuant to an applicable exemption from registration and the

depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the costs of mailing them. The depository is not responsible for making a distribution available to any holders of ADSs if any government approval or registration is required for such distribution. We have no obligation to take any other action to permit the distribution of our ADSs, shares, rights or anything else to holders of our ADSs. This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you. These restrictions may have a material and adverse effect on the value of your ADSs.

***You May Be Subject To Limitations On Transfers Of Your ADSs.***

Your ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, or for any other reason.

***We May Need Additional Capital And May Sell Additional Ordinary Shares, ADSs Or Other Equity Securities Or Incur Indebtedness, Which Could Result In Additional Dilution To Our Shareholders Or Increase Our Debt Service Obligations.***

If we do not raise sufficient funds from this offering or if we fail to complete this offering, we may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our cash resources 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 securities or equity-linked debt securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements principally in the sections entitled "Summary", "Risk Factors", "Use of Proceeds", "Operating and Financial Review and Prospects" and "Business". Generally, you can identify these statements because they include words and phrases like "anticipates", "believes", "continue", "could", "estimates", "expects", "intends", "may", "might", "plans", "possible", "potential", "predicts", "projects", "seeks", "should", "will", "would" and similar expressions.

The forward-looking statements contained in this prospectus are based on our management's current expectations and beliefs concerning future developments. There can be no assurance that future developments actually affecting us will be those anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements, including the following:

- the significant risks, challenges and uncertainties in the edible alcohol manufacturing industry and for our business generally, including our beliefs regarding the cost advantages and scalability provided by our manufacturing methods and processes;
- supply and demand in the edible alcohol industry in China;
- our ability to offset anticipated increases in raw material and other costs that could compress or decrease our gross margins;
- our current expansion strategy, including our ability to expand production capacity and outputs;
- market and industry demand, including demand for our products by our customers that incorporate our products into other products in the food and beverage, medical and health and chemical industries;
- the global economic downturn and its effect on our business and operations;
- our beliefs regarding our strengths and strategies;
- our ability to maintain strong relationships with suppliers or customers;
- our beliefs as to the regulatory environment in China and in other jurisdictions in which we sell our products;
- our ability to comply with all relevant environmental, health and safety laws and regulations;
- our beliefs regarding the competitiveness of our products;
- market acceptance of our products and our ability to attract new customers;
- our ability to effectively protect our intellectual property and trade secrets and not infringe on the intellectual property and trade secrets of others;
- our planned use of proceeds;

- our ability to obtain or maintain permits and licenses to carry on our business;
- our success in the acquisition of new production facilities; and
- our future prospects, business development, results of operations and financial condition.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from market research, publicly available information and industry publications. We have not independently verified the data, and we do not make any representation as to the accuracy of the information.

The forward-looking statements contained in this prospectus speak only as of the date of this prospectus or, if obtained from third party studies or reports, the date of the corresponding study or report, and are expressly qualified in their entirety by the cautionary statements in this prospectus. Since we operate in an emerging and evolving environment and new risk factors emerge from time to time, you should not rely upon forward-looking statements as predictions of future events. Except as otherwise required by the securities laws of the United States, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.

## USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately \$ [redacted] after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. These estimates are based upon an assumed initial offering price of \$ [redacted] per ADS, the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus. A \$ [redacted] increase (decrease) in the assumed initial public offering price of \$ [redacted] per ADS would increase (decrease) the net proceeds to us from this offering by \$ [redacted] million, after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us and assuming no exercise of the underwriters' option to purchase additional ADSs and no other change to the number of ADSs offered by us as set forth on the cover page of this prospectus.

We intend to use approximately \$60 million of the net proceeds we receive to complete the construction of Phase III at our Daqing facility. We intend to use the remaining portion of the net proceeds that we receive from this offering as working capital to be used to support our production capacity expansion.

The foregoing estimates of the use of our net proceeds from this offering represent our current intentions based upon our present plans and business condition. The amounts and timing of any expenditure will vary depending on the amount of cash generated by our operations, competitive and technological developments and the rate of growth, if any, of our business. Accordingly, our management will have significant discretion in the allocation of the net proceeds we will receive from this offering. Depending on future events and other changes in the business climate, we may determine at a later time to use the net proceeds for different purposes. Pending their use, we intend to place our net proceeds in short-term bank deposits.

In utilizing the proceeds of this offering, as an offshore holding company, we are permitted, under PRC laws and regulations, to provide funding to our PRC subsidiaries only through loans or capital contributions. Subject to satisfaction of applicable government registration and approval requirements, we may extend inter-company loans to our PRC subsidiaries or make additional capital contributions to our PRC subsidiaries to fund their capital expenditures or working capital. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all.



## DIVIDEND POLICY

Our board of directors has complete discretion on whether to pay dividends on our ordinary shares. Even if our board of directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

Shandong Borun declared and distributed dividends of RMB3.6 million (\$0.5 million) in 2006 and RMB11.0 million (\$1.6 million) in 2007. We did not declare any dividends in 2008 and 2009. In the future, at the determination of our board of directors, we may from time to time pay a cash dividend to our shareholders. The payment of any such dividend will depend upon our profitability and will be subject to the discretion of our management and the approval of our board of directors. Aside from the payment of such dividends, we currently intend to retain the remainder of our available funds and any future earnings to operate and expand our business.

Our ability to pay dividends depends substantially on the payment of dividends to us by our operating subsidiaries in China. Each of the operating subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Each of our PRC subsidiaries, including wholly foreign-owned enterprises, or WFOEs, is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital.

Our statutory reserves are not distributable as loans, advances or cash dividends. In addition, if any of our PRC subsidiaries incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitation on the payment of dividends by our subsidiaries could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends and otherwise fund and conduct our businesses. See "Risk Factors—Risks Related To Doing Business In China—We Rely On Dividends And Other Distributions On Equity Paid By Our Subsidiaries For Our Cash Needs."

In addition, if our Company is considered a PRC-resident enterprise for tax purposes, any dividends distributed by our Company to our Company's non-resident shareholders as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and as a result, may be subject to PRC withholding tax at the rate of up to 10%, depending on the provisions of a tax treaty between the PRC and the jurisdiction in which the non-resident shareholder resides. See "Risk Factors—Risks Related To Doing Business In China—Dividends Payable By Our Company To Its Non-Resident Shareholders May Become Subject To Taxes Under The PRC Tax Laws."

Furthermore, pursuant to the Tax Arrangement, Notice 81 and the Administrative Measures, a payment of dividends by WGC to China High Enterprises Limited, which hold 100% of the equity interest in WGC may be subject to a PRC withholding tax at a rate of 5%, if the provisions of Notice 81 and the Administrative Measures are satisfied and our overseas members are not considered to be PRC-resident enterprises for tax purposes See "Risk Factors—Risks Related To Doing Business In China—Dividends Payable By Our Company To Its Non-Resident Shareholders May Become Subject To Taxes Under The PRC Tax Laws." and see also "Taxation—People's Republic of China Taxation." We are actively monitoring the withholding tax and are evaluating appropriate organizational changes to minimize the corresponding tax impact.

If we pay any dividends, the Depositary will distribute such payments to our ADS holders to the same extent as holders of the corresponding numbers of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See "Description of American Depositary Shares." Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

## CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2009:

- on an actual basis; and
- on an as-adjusted basis to reflect the issuance and sale of ADSs, assuming an initial public offering price of \$ per ADS, the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated aggregate offering expenses payable by us and assuming no exercise of the underwriters' option to purchase additional ADSs and no other change to the number of ADSs sold by us as set forth on the cover page of this prospectus.

The "as adjusted" column in the table below assume that all issued and outstanding Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares as contemplated by a share exchange agreement (see "Our Corporate Structure and History").

The as adjusted information below is illustrative only and our capitalization following the closing of this offering is subject to adjustment based on the actual initial public offering price of our ADSs and other terms of this offering determined at pricing. You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the information under "Operating and Financial Review and Prospects."

	As of December 31, 2009			
	Actual		As adjusted	
	RMB	\$	RMB	\$
	(in thousands)			
Short-term bank borrowings <sup>(1)</sup>	143,200	20,979	143,200	20,979
Long-term bank borrowings	0	0	0	0
Shareholders' equity:				
Ordinary shares: \$0.001 (RMB0.0068259) par value, 14,847,811 shares authorized; issued and outstanding; and shares issued and outstanding on an as adjusted basis	101	15	137	20
Class A convertible preference shares: \$0.001 (RMB0.0068259) par value, 3,711.952 issued and outstanding actual, and as adjusted	0	0	0	0
Class B convertible preference shares: \$0.001 (RMB0.0068259) par value, 1,065.330 issued and outstanding actual, and as adjusted	0	0	0	0
Class C convertible preference shares: \$0.001 (RMB0.0068259) par value, 374.907 issued and outstanding actual, and as adjusted	0	0	0	0
Additional paid-in capital	227,157	33,279	227,121	33,274
Retained earnings- appropriated	41,315	6,053	41,315	6,053
Retained earnings- unappropriated	247,864	36,312	247,864	36,312
Accumulated other comprehensive income (loss)	(228)	(34)	(228)	(34)
Total Shareholders' equity	516,209	75,625	516,209	75,625
Total capitalization	659,409	96,604	659,409	96,604

(1) As of December 31, 2009, short-term bank loan of RMB33.5 million (\$4.9 million) were secured by our land use rights and buildings, all other short-term bank borrowings were secured by third party guarantees.

## DILUTION

If you invest in our ADSs, your interest will be diluted to the extent of the difference between the initial public offering price per ADS and our net tangible book value per ADS after this offering. Dilution results from the fact that the initial public offering price per ordinary share is substantially in excess of the book value per ordinary share attributable to the existing shareholders for our presently outstanding ordinary shares.

Assuming that all of the issued and outstanding Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares as contemplated by a share exchange agreement (see "Our Corporate Structure and History"), our net tangible book value as of December 31, 2009 was approximately RMB (\$ million), or RMB (\$ ) per ordinary share and \$ per ADS. Net tangible book value represents the amount of our total consolidated tangible assets, minus the amount of our total consolidated liabilities. Without taking into account any other changes in such net tangible book value after December 31, 2009, other than to give effect to our sale of the ADSs offered in this offering at the assumed initial public offering price of \$ per ADS, the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus, and after deduction of underwriting discounts and commissions and estimated offering expenses of this offering payable by us, our adjusted net tangible book value as of December 31, 2009 would have increased to \$ , or \$ per ordinary share and \$ per ADS. This represents an immediate increase in net tangible book value of \$ per ordinary share and \$ per ADS to the existing shareholders and an immediate dilution in net tangible book value of \$ per ordinary share and \$ per ADS, to investors purchasing ADSs in this offering. The following table illustrates such per-share dilution:

Estimated initial public offering price per ordinary share	\$
Net tangible book value per ordinary share as of December 31, 2009	\$
Amount of dilution in net tangible book value per ordinary share to new investors in this offering	\$
Amount of dilution in net tangible book value per ADS to new investors in this offering	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per ADS would increase (decrease) our pro forma net tangible book value after giving effect to the offering by \$ , or by \$ per ordinary share and by \$ per ADS, assuming no change to the number of ADSs offered by us as set forth on the cover page of this prospectus, and after deducting underwriting discounts and commissions and other expenses of the offering. The pro forma information discussed above is illustrative only. Our net tangible book value following the closing of this offering is subject to adjustment based on the actual initial public offering price of our ADSs and other terms of this offering determined at pricing.

The following table summarizes, on a pro forma basis as of December 31, 2009, the differences between existing shareholders and the new investors with respect to the number of ordinary shares (in the form of ADSs or shares) purchased from us, the total consideration paid and the average price per ordinary share and per ADS, assuming that all of the issued and outstanding Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares as contemplated by a share exchange agreement. In the case of ADSs purchased by new investors, the consideration and price amounts are paid before deducting estimated underwriting discounts and commissions and estimated offering expenses, assuming an initial public offering price of \$ per ADS, the midpoint of the estimated initial public offering price range set forth on the front cover page of this prospectus. The total number of ordinary shares in the following table does not include ordinary shares underlying the ADSs issuable upon the exercise of the option to purchase additional ADSs

granted to the underwriters. The information in the following table is illustrative only and the total consideration paid and the average price per ordinary share and per ADS for new investors is subject to adjustment based on the actual initial public offering price of our ADSs and other terms of this offering determined at pricing.

	<u>Ordinary Shares Purchased</u>		<u>Total Consideration</u>		<u>Average Price Per Ordinary Share</u> (in thousands, except for percentage and per share data)	<u>Average Price Per ADSs</u>
	<u>Number</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>		
Existing shareholders		%	\$	%	\$	\$
New investors		%	\$	%	\$	\$
<b>Total</b>		%	\$	%		

A \$ increase (decrease) in the assumed initial public offering price of \$ per ADS would increase (decrease) total consideration paid by new investors, total consideration paid by all shareholders and the average price per ADS paid by all shareholders by \$ , \$ and \$ , respectively, assuming no change in the number of ADSs sold by us as set forth on the cover page of this prospectus and without deducting underwriting discounts and commissions and other expenses of the offering.

The discussion and tables above also assume no exercise of any outstanding share options.

**RECENT DEVELOPMENTS**

The following is a summary of our selected unaudited consolidated financial results for the three months ended March 31, 2010 compared to our selected unaudited consolidated financial results for the three months ended March 31, 2009. Our first quarter 2010 results may not be indicative of our full year results for our fiscal year ending December 31, 2010 or future quarterly periods. See "Operating and financial review and prospects" included elsewhere in this prospectus for information regarding trends and other factors that may influence our results of operations and for recent quarterly operating results.

**Selected Unaudited Consolidated Financial Information  
for the Three Months Ended March 31, 2010 and 2009**

	Three Months Ended March 31,		
	2009	2010	2010
	RMB	RMB	\$
Revenues	176,785,834	388,768,417	56,954,895
Cost of goods sold	138,803,800	301,674,443	44,195,556
Gross profit	37,982,034	87,093,974	12,759,339
Selling, general and administrative expenses	4,565,186	6,637,489	972,398
Operating income	33,416,848	80,456,485	11,786,941
Other (income)/expenses	2,311,640	1,666,196	244,098
Income before income taxes	31,105,208	78,790,289	11,542,843
Income tax expense	6,755,750	20,339,461	2,979,748
Net income	24,349,458	58,450,828	8,563,095
Participation in undistributed earnings by preference shareholders	4,869,891	15,057,486	2,205,934
Net income attributable to ordinary shareholders	19,479,567	43,393,342	6,357,161
Earnings per share <sup>(1)</sup>			
Basic and diluted	1.31	2.92	0.43
Weighted average ordinary shares outstanding:			
Basic and diluted	14,847,811	14,847,811	14,847,811

- (1) All share and per share data have been presented to give retrospective effect to our reorganization as described in the section entitled "Our Corporate Structure and History". For the purpose of calculating basic and diluted earnings per ordinary share, the number of ordinary shares used in the calculation reflects the issuance of ordinary shares as if the reorganization took place as of the beginning of the earliest period presented. The resulting pro forma earnings per share and weighted average ordinary shares outstanding assume that all issued and outstanding Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares.

	Three Months Ended	
	March 31,	
	2009	2010
Revenues	100.0%	100.0%
Cost of goods sold	78.5%	77.6%
Gross profit	21.5%	22.4%
Selling, general and administrative expenses	2.6%	1.7%
Operating income	18.9%	20.7%
Other (income)/expenses	1.3%	0.5%
Income before income taxes	17.6%	20.2%
Income tax expense	3.8%	5.2%
Net income	13.8%	15.0%

Our revenues increased by RMB\$212.0 million (\$31.1 million), or 119.9%, to RMB388.8 million (\$57.0 million) for the three months ended March 31, 2010 from RMB176.8 million (\$25.9 million) for the three months ended March 31, 2009, primarily as a result of an increase in the volume of our products sold during this period due to the commencement of commercial production of Phase II of our Shouguang and Daqing facilities and improvement of our production yields of edible alcohol and our by-products. Revenue for edible alcohol increased by RMB149.4 million (\$21.9 million), or 118.9%, to RMB275.1 (\$40.1 million) for the three months ended March 31, 2010, from RMB125.7 million (\$18.4 million) for the three months ended March 31, 2009. Revenue for DDGS Feed increased by RMB33.4 million (\$4.9 million), or 91.8%, to RMB69.8 million (\$10.2 million) for the three months ended March 31, 2010, from RMB36.4 million (\$5.3 million) for the three months ended March 31, 2009. Revenue from Corn Germ increased by RMB28.7 million (\$4.2 million), or 204.0%, to RMB42.8 million (\$6.3 million) for the three months ended March 31, 2010, from RMB14.1 million (\$2.1 million) for the three months ended March 31, 2009.

Our cost of goods sold increased by RMB162.9 million (\$23.9 million), or 117.3%, to RMB301.7 million (\$44.2 million) for the three months ended March 31, 2010 from RMB138.8 million (\$20.3 million) for the three months ended March 31, 2009. This increase was primarily due to the increase of the sales volume of our products during this period. As a percentage of revenue, our cost of goods sold decreased 0.9% from 78.5% for the three months ended March 31, 2009 to 77.6% for the three months ended March 31, 2010. This decrease was mainly due to the following:

- Increase of average sales price for each of our products marginally offset by increase of average purchase price of corn.
- Decrease of unit fixed cost due to increased sales volume of our products.

Our operating income increased by RMB47.0 million (\$6.9 million), or 140.8%, to RMB80.5 million (\$11.8 million) for the three months ended March 31, 2010 from RMB33.4 million (\$4.9 million) for the three months ended March 31, 2009. This increase was mainly due to the increased revenues from commencement of commercial production of Phase II of our Shouguang and Daqing facilities and improvement of our production yields of edible alcohol and our by-products.

Our provision for income taxes increased by RMB13.6 million (\$2.0 million), or 201.1%, to RMB20.3 million (\$3.0 million) for the three months ended March 31, 2010 from RMB6.8 million

(\$1.0 million) for the three months ended March 31, 2009. This increase was consistent with the increase of our income before income tax expenses.

As a result of the foregoing, our net income increased by RMB34.1 million (\$5.0 million), or 140.0%, to RMB58.5 million (\$8.6 million) for the three months ended March 31, 2010 from RMB24.3 million (\$3.6 million) for the three months ended March 31, 2009. As a percentage of revenue, our net income increased 1.2% from 13.8% for the three months ended March 31, 2009 to 15.0% for the three months ended March 31, 2010.

**EXCHANGE RATE INFORMATION**

We conduct all of our business operations in and from China all of our sales and a significant portion of our costs and expenses is denominated in Renminbi. Periodic reports made to shareholders will be expressed in Renminbi with translations of Renminbi amounts into U.S. dollars at the then-current exchange rate solely for the convenience of the reader. For all dates and periods through December 31, 2008, exchange rates of Renminbi into U.S. dollars are based on the noon buying rate in The City of New York for cable transfers of Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise noted, all translations from Renminbi to U.S. dollars and from U.S. dollars to Renminbi in this prospectus were made at a rate of RMB6.8259 to \$1.00, the exchange rate set forth as of December 31, 2009. We make no representation that any Renminbi or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Renminbi, as the case may be, at any particular rate, the rates stated below, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. On April 2, 2010, the exchange rate was RMB6.8255 to \$1.00. The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

<u>Period</u>	<u>Exchange Rate</u>			
	<u>Period End</u>	<u>Average<sup>(1)</sup></u>	<u>Low</u>	<u>High</u>
	(RMB per \$1.00)			
Year ended December 31,				
2002	8.2800	8.2770	8.2800	8.2669
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2771	8.2765
2005	8.0702	8.1826	8.2765	8.0702
2006	7.8041	7.9579	8.0702	7.8041
2007	7.2946	7.6081	7.3040	7.8127
2008	6.8225	6.9193	7.2946	6.7800
2009	6.8259	6.8313	6.8176	6.8470
Most recent six months				
October 2009	6.8264	6.8267	6.8292	6.8246
November 2009	6.8265	6.8271	6.8300	6.8255
December 2009	6.8259	6.8275	6.8299	6.8244
January 2010	6.8268	6.8269	6.8295	6.8258
February 2010	6.8258	6.8285	6.8330	6.8258
March 2010	6.8258	6.8262	6.8270	6.8254
April 2010 (through April 23)	6.8270	6.8256	6.8275	6.8229

(1) Annual averages are calculated from month-end rates. Monthly averages are calculated using the average of the daily rates during the relevant period.

Source: Federal Reserve Statistical Release



## ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated in the Cayman Islands to take advantage of certain benefits associated with being a Cayman Islands exempted company, such as:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include:

- the Cayman Islands has a less developed body of securities laws as compared to the United States and provides significantly less protection to investors; and
- Cayman Islands companies do not have standing to sue before the federal courts of the United States.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders, be arbitrated.

All of our current operations are conducted in China, and all of our assets are located in China. Some of our directors and officers are nationals or residents of jurisdictions other than the United States and a portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon us or such persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

We have appointed CorpDirect Agents, Inc. as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any state in the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Maples and Calder, our counsel as to Cayman Islands law, and The B&D Law Firm, our counsel as to PRC law, have advised us, respectively, that there is uncertainty as to whether the courts of the Cayman Islands and the PRC, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or

- entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Maples and Calder has further advised us that a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable, other than a sum payable in respect of taxes, fines, penalties or similar fiscal obligations and which was neither obtained in a manner nor is of a kind enforcement of which is contrary to natural justice or the public policy of the Cayman Islands, may be subject to enforcement proceedings as a debt in the courts of the Cayman Islands under the common law doctrine of obligation without any re-examination of the merits of the underlying dispute. The Cayman Islands courts are unlikely to enforce a punitive judgment of a United States court predicated upon the liabilities provision of the federal securities laws in the United States without a retrial on the merits if such judgment gives rise to obligations to make payments that may be regarded as fines, penalties or similar charges.

According to our Hong Kong counsel, there are currently no reciprocal enforcement arrangements for judgments between the United States and Hong Kong. However, a judgment issued by a U.S. court would be treated as constituting a cause of action and a summary judgment could be sought in the Hong Kong courts. The Hong Kong courts could enter judgments in such proceedings, without re-examination of the merits of the original judgment, provided that: (1) the original court is of competent jurisdiction; (2) the original judgment is final and conclusive; (3) the original judgment is between the same parties (or their privies) as those before the Hong Kong court; (4) the original judgment is not for multiple damages (as defined by the Protection of Trading Interests Ordinance, Chapter 471 of the Laws of Hong Kong); (5) the original judgment is for a fixed sum of money and not for a tax, fine or penalty; (6) the original judgment is not obtained by fraud, or in proceedings contrary to substantial justice and its enforcement is not contrary to Hong Kong public policy; (7) the writ in Hong Kong is issued within twelve years after the date on which the original judgment becomes enforceable; and (viii) the original judgment is not inconsistent with a Hong Kong judgment in respect of the same points at issue between the same parties.

The B&D Law Firm has advised us further that the recognition and enforcement of foreign judgments in the PRC are provided for under the PRC Civil Procedures Law. PRC courts may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based either on treaties between the PRC and the country where the judgment is made or on reciprocity between jurisdictions, provided that the foreign judgments do not violate the basic principles of laws of the PRC or its sovereignty, security or social and public interests.

**SELECTED CONSOLIDATED FINANCIAL DATA**

The following consolidated statements of operations data for each of the years ended December 31, 2007, 2008 and 2009 and the balance sheet data as of December 31, 2007, 2008 and 2009 are derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The selected financial data for the years ended December 31, 2004 and 2005 cannot be provided without unreasonable effort and expense because of the lack of accounting records for the period available to us, and the fact that available records were not prepared in accordance with U.S. GAAP. Our audited consolidated financial statements are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Historical results are not necessarily indicative of the results of operations for future periods. The following data is qualified in its entirety by and should be read in conjunction with "Operating and Financial Review and Prospects" and our consolidated financial statements and related notes included elsewhere in this prospectus.

**Consolidated Statement of Operations Data:**

	Year ended December 31,				
	2006	2007	2008	2009	2009
	RMB	RMB	RMB	RMB	\$
<b>Revenues</b>	271,808,571	487,305,927	615,881,195	1,060,493,812	155,363,221
<b>Cost of goods sold</b>	216,829,009	387,729,613	493,847,780	811,865,247	118,938,931
<b>Gross profit</b>	54,979,562	99,576,314	122,033,415	248,628,565	36,424,290
<b>Selling, general and administrative expenses</b>	8,417,028	10,057,899	12,928,345	22,547,881	3,303,284
<b>Operating income</b>	46,562,534	89,518,415	109,105,070	226,080,684	33,121,006
<b>Other (income)/expenses</b>	1,073,304	2,237,334	5,333,952	3,408,024	499,278
<b>Income before income taxes</b>	45,489,230	87,281,081	103,771,118	222,672,660	32,621,728
Income tax expense	15,504,371	28,557,072	26,640,990	56,262,029	8,242,434
<b>Net income</b>	29,984,859	58,724,009	77,130,128	166,410,631	24,379,294
Amortization of preference share discount	—	—	(42,000,000)	—	—
Participation in undistributed earnings by preference shareholders	—	—	(7,026,026)	(42,868,951)	(6,280,337)
Net income attributable to ordinary shareholders	29,984,859	58,724,009	28,104,102	123,541,680	18,098,957
<b>Earnings per share<sup>(1)</sup></b>					
Basic and diluted	2.02	3.96	1.89	8.32	1.22
<b>Weighted average ordinary shares outstanding:</b>					
Basic and diluted	14,847,811	14,847,811	14,847,811	14,847,811	14,847,811

(1) All share and per share data have been presented to give retrospective effect to our reorganization as described in the section entitled "Our Corporate Structure and History". For the purpose of calculating basic and diluted earnings per ordinary share, the number of ordinary shares used in the calculation reflects the issuance of ordinary shares as if the reorganization took place as of the beginning of the earliest period presented. The pro forma earnings per share assume that all issued and outstanding Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares upon the closing of this offering will be same as the historical ones as stated in this table.

**Consolidated Balance Sheet Data:**

	December 31,				
	2006	2007	2008	2009	2009
	RMB	RMB	RMB	RMB	\$
<b>Total current assets</b>	50,711,811	127,129,510	104,986,070	251,807,507	36,890,008
<b>Total assets</b>	190,476,067	265,622,975	476,114,001	765,860,621	112,199,215
<b>Total liabilities</b>	99,344,535	126,784,933	180,134,221	249,651,232	36,574,113
<b>Total shareholders' equity</b>	91,131,532	138,838,042	295,979,780	516,209,389	75,625,102

## OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus. Unless the context otherwise requires, the terms "we", the "Company" or "us" refers to China High Enterprises Limited and its wholly-owned subsidiaries.

### Overview

We are a leading producer and distributor of corn-based edible alcohol in the People's Republic of China based on tons of edible alcohol produced. Our edible alcohol products are primarily sold as an ingredient to producers of *baijiu* who further blend our products into finished products sold under various brand names throughout China. "*Baijiu*" is a grain based alcoholic beverage, generally made from corn, wheat or barley, clear in color, with alcohol content ranging from 18% to 68%. *Baijiu* is sold throughout China in retail stores, bars, banquet halls, restaurants and other locations where alcoholic beverages are typically consumed. *Baijiu* is consumed in almost all the occasions in China where alcoholic beverage is desirable, from daily residential consumption, gatherings of family and friends, business and social occasions, to the Chinese Spring Festival celebrations. In China, consumption of *baijiu* is generally associated with a higher standard of living.

We believe our in-house developed manufacturing process results in a cost effective, consistent and superior product widely sought by *baijiu* producers. Producers of *baijiu* often have distinctive taste and flavor profiles that are achieved through proprietary recipes and blending techniques. The consistency and quality of the alcohol ingredient we supply to them is an important aspect in consistently achieving their final taste and flavor profiles.

During the production of edible alcohol, we also produce DDGS Feed and corn germ as by-products which are sold separately from our edible alcohol. We are also constructing facilities to manufacture liquid carbon dioxide from waste carbon dioxide emitted during our production process, in order to create additional streams of revenue.

In China, edible alcohol can be classified into Grades A, B and C (see "Our Industry—Overview of the Chinese Edible Alcohol Industry"). Currently, we sell both Grade B and Grade C edible alcohol, and we intend to sell more Grade B edible alcohol upon completion of our capacity expansion. Grade B edible alcohol has a higher ethanol content than Grade C alcohol and thus can be sold at a higher price than Grade C edible alcohol.

We currently own and operate two facilities: one in Shouguang, Shandong Province and the other in Daqing, Heilongjiang Province. Our Shouguang facility has an annual production capacity of 160,000 tons of corn-based edible alcohol (90,000 tons of Grade B edible alcohol and 70,000 tons of Grade C edible alcohol). Our Daqing facility currently has an annual production capacity of 100,000 tons of corn-based edible alcohol (70,000 tons of Grade B edible alcohol and 30,000 tons Grade C edible alcohol). We are constructing an additional 120,000 tons of capacity (all Grade B edible alcohol) at our Daqing facility, currently expected to commence commercial production in November 2010. According to the Frost Report, we are the largest privately-owned corn-based edible alcohol producer operating in Shandong Province and Heilongjiang Province. Our Daqing facility is licensed to build up to 330,000 tons of production capacity of edible alcohol. Based on data from the Frost Report and our knowledge of our industry, we believe we will be the largest producer of

corn-based edible alcohol in China, in terms of current known production capacity following complete development of the Daqing facility.

### ***Principal Factors Affecting our Financial Performance***

We believe that the following factors will continue to affect our financial performance:

#### **Expansion of Production Capacity**

We believe that the completion of our Phase III Daqing facility in 2010 will have a material impact on our financial performance as our production capacity of edible alcohol will be increased by 46.2% to 380,000 tons from the current 260,000 tons. While the PRC edible alcohol market is characterized by total production capacity exceeding market demand, we have operated our facilities at full capacity since 2007, and to date have not experienced any difficulty in selling 100% of our production even as we expanded production capacity. When increasing production capacity, we have obtained orders from existing and new customers to take up our increased production. Furthermore, according to the Frost & Sullivan Report, the demand for edible alcohol will be increased at a CAGR of 16.6% from 4.6 million tons in 2009 to 7.3 million tons in 2012. Based on this forecast increase in market demand, the implementation of national policies restricting new production capacity and closing older, smaller producers, and our historical experience, we expect to fully utilize our new capacity at Daqing Phase III.

We believe we have been able to sell 100% of our production capacity in recent years due to our large production volume and high quality of our product making us a key supplier for leading *baijiu* producers, who are willing to maintain long term relationships with us in order to secure supply of our product. Our focus on the high and medium-end *baijiu* market has had a direct impact on the demand for our product, in particular during the recent economic downturn, as demand for *baijiu* in the PRC did not experience a significant decline. As a result, demand for our product remained steady, where edible alcohol suppliers primarily servicing the pharmaceutical and chemical industries experienced sharp drops in demand. Going forward, we believe the projected growth in the high and medium-end *baijiu* market will continue to result in uptake of 100% of our annual production.

#### **Fluctuation of Demand for and Price of Edible Alcohol**

Our revenues are primarily derived from sales of edible alcohol. Industry demand for edible alcohol increased from 2.3 million tons in 2004 to 4.6 million tons in 2009, equivalent to a CAGR of 14.9%, and as a result, we have operated at full capacity since 2007. According to the Frost & Sullivan Report, due to the strong demand for *baijiu* as a result of continuous growth in China's per capita disposable income and a gradual recovery of the chemical industry from the global financial crisis, the demand for edible alcohol in China is expected to grow at a CAGR of 16.6% from 2009 to 2012, reaching 7.3 million tons in 2012.

The overall supply of edible alcohol outpaced the demand for edible alcohol, and there is excess production capacity in China currently. In 2009, total production capacity of edible alcohol was 6.5 million tons while the demand for edible alcohol was 4.7 million tons, according to the Frost & Sullivan Report. To control the over expansion of capacity in the edible alcohol industry, the PRC government has implemented a series of restrictive policies to control the industry's capacity expansion since 2006. This was done primarily through the prohibition on accepting applications for the construction of new edible alcohol facilities and closing existing edible alcohol facilities with production capacity of less than 30,000 tons per annum. According to the Frost & Sullivan Report, the PRC market is one in which large edible alcohol producers are able to maintain a high capacity utilization rate due to their large exposure to and close relationship with *baijiu* producers, and this

historically has been our experience. As a result, the Frost Report expects the production capacity of edible alcohol in China to remain stable in 2010.

We believe that the annualized average price of edible alcohol will rise in the near term due to the growing demand for edible alcohol. The price for the edible alcohol or producer will be impacted to a lesser extent by the fluctuations in the price of corn and coal used by us. While the price of corn is expected, even under adverse severe weather conditions or other unforeseen circumstances, to fluctuate in a narrow band around pricing levels set by the PRC government. We anticipate the future fluctuation in demand for and price of edible alcohol will have a significant impact on our financial performance.

#### **Fluctuations in the Price of Corn**

The primary component of our cost of goods sold is corn. As such, any significant fluctuations in corn prices may have a significant impact on our financial performance. We normally price our products according to the price of corn, coal and other raw materials and intend to pass on any increase in our costs to our customers. Historically, we have been able to pass most of the upward fluctuation of corn prices on to our customers. Our purchasing manager is assigned to closely monitor the fluctuation of corn prices. Whenever the price of corn increases more than 1% compared to the previous day's price, our head of sales and procurement is notified immediately and initiates a discussion with the CEO, the CFO, and the general manager. Once management agrees to adjust the sales price of edible alcohol, the sales department is notified for immediate execution.

Moreover, the PRC government coordinates the price of corn by annually setting the price for government-owned granaries to buy and sell corn. The market price of corn will normally fluctuate in a narrow band around the government price in response to market conditions. While any significant fluctuations in corn price due to severe weather conditions, massive crop failure or any other unforeseen circumstance may result in corn price increases too large to be passed on to our customers, we in general expect in the future we will continue to be able to upwardly adjust the price of our edible alcohol in response to increases in corn price. However, any inability to do so would directly impact our gross profit margins.

Historically, the price of corn is lower during harvest season and higher in non-harvest season. To stabilize and lower our cost of corn, we started to enter into framework agreements with local granaries in Heilongjiang province in November 2009. Such supply contracts provide us access to corn at prices which we believe have historically been below the spot market price in the off season and times of high price volatility due to crop failures and other factors. These arrangements allow us to purchase corn at a lower price during the harvest season and to transport the corn to our facility to meet our production needs during the non-harvest season. We pay 10% to 20% of our purchase amounts as security deposits to these granaries, which in some cases then borrow funds from the Agricultural Development Bank to obtain loans to purchase corn according to our requests. We will then request that the granaries deliver their corn during the non-harvest season to satisfy our corn consumption needs in our Shouguang and Daqing facilities. We pay the granaries a storage fee and the interest for the loans they obtained from the Agricultural Development Bank. We have an oral agreement with the Agricultural Development Bank regarding these funding arrangements, but no formal contractual commitment from ADB. We believe that our supply arrangements with the Heilongjiang granaries will lower our overall price of corn, however we cannot be certain that corn prices will not drop significantly in the non-harvest season, which could result in our corn supply arrangements effectively increasing our corn costs.

## **Expansion of Our Product Mix and Sales Network**

We have our own sales team to market our products, and we do not sell our products through any distributors. Our sales teams in the Shandong Province and the Heilongjiang Province market our products directly to our customers. Most of our existing customers of products produced at our Shouguang facility are located in Shandong province, and most of our existing customers of products produced at our Daqing facility are located in Heilongjiang province. Moreover, before 2009, we only sold Grade C edible alcohol which has an alcohol concentration of 95.0%.

As a part of our development strategy, we built the Phase II of our Shouguang Facility and the Phase II of our Daqing Facility to produce Grade B edible alcohol, which has an alcohol concentration of 95.5%, and began selling Grade B edible alcohol in August 2009. We intend to continue our expansion into the Grade B edible alcohol market by increasing the production capacity of our Grade B edible alcohol through the construction of Phases III and IV at our Daqing facility. Upon the completion of Phase III at our Daqing facility, we expect the majority of our production capacity will be used to produce Grade B edible alcohol. In connection with our growth plan, we also intend to expand into key strategic markets for Grade B edible alcohol. We have already commenced sales operations in Sichuan province, Jiangsu Province and Anhui Province and intend to expand into Guizhou Province. Going forward, as Grade B edible alcohol generally sells for higher prices and higher margins than Grade C edible alcohol, we anticipate our results of operations will be positively affected as we expand our product mix and our sales network.

## **Component of Revenues and Expenses**

### ***Revenues***

We derive revenues from sales of edible alcohol, which comprises the majority of our sales, and its by-products, including DDGS Feed and corn germ. In the near future, as a result of the installation of carbon dioxide recycling equipment in our manufacturing facilities, we expect to generate revenue from the sale of liquid carbon dioxide as well.

Our revenues are significantly influenced by our pricing power and sales volumes of our products. We price our products based on several factors, including manufacturing costs, market conditions and, to a lesser extent, size of purchase orders.

### ***Cost of Goods Sold***

Cost of goods sold consists of raw material costs, utility costs, direct labor costs, material consumption in overhead, depreciation and other overhead. Our cost of goods sold is affected primarily by the cost of corn and coal, which made up 82.8% and 9.6% of our cost of goods sold in the year ended December 31, 2009. The cost of both corn and coal are volatile and can vary as a result of a wide variety of factors, including weather, market condition, government regulation and general economic conditions, all of which are outside of our control. We expect our cost of goods sold, including our raw materials costs, to increase significantly as our manufacturing capacity expands and as prices for raw materials continue to increase.

### ***Gross Profit***

Our gross profit consists of revenues less cost of goods sold. Our gross profit margin is mainly affected by production efficiency, pricing conditions, volume of sales, raw material cost and also temporary market conditions. We maintained gross profit of 20.4%, 19.8% and 23.4% for the years ended December 31, 2007, 2008 and 2009, respectively. The primary driver for our gross profit levels is our ability to maintain the pricing differential between our purchase price for corn and our sales price for edible alcohol. This differential dropped significantly in 2009, that is, our price of corn increased and

we were unable, due to economic conditions in the PRC, to pass on that price increase to our customers. We were, however, able to maintain and in fact increase our gross profit margin in the year ended December 31, 2009 due to the increase in DDGS Feed and corn germ produced in our manufacturing process. We realized these increases in byproduct manufacture through improvements in our production process, and expect these increased levels of DDGS Feed and corn germ output to continue going forward.

Generally, while we expect our gross profit margins to increase slightly in the next few years, we also expect the following to negatively impact our gross profit margin:

- Our raw material prices are expected to continue to increase;
- Increasing labor costs; and
- Stricter control over the alcohol industry by the PRC Government, which would likely cause additional costs to be incurred in the future in order to comply with the stricter requirements.

We expect to offset any negative impact on our gross profit margin to a certain extent by:

- Focusing on higher quality products sold to higher tier customers which will allow us to command higher margins;
- Implementing a new sourcing strategy to control our raw material costs;
- Continued research and development efforts to further improve our manufacturing process to consume less raw materials and energy, manufacture our products more efficiently and produce value-added by-products, such as liquid carbon dioxide.

### ***Operating Expenses***

Our operating expenses primarily consist of selling expenses and general and administrative expenses.

#### ***Selling Expenses***

Our selling expenses consist primarily of sales employee salaries, travelling and other business development expenses and other miscellaneous items. We expect that our selling expenses will increase as we expand our sales force in connection with our expansion.

#### ***General and Administrative Expenses***

General and administrative expenses consist primarily of salary and benefits for our management and administrative personnel, office expenses, traveling and entertainment expenses, insurance premiums, amortization and depreciation on computers and other office equipment, consulting and auditing fees and other administrative costs and expenses.

We expect our general and administrative expenses to increase upon the closing of this offering and our listing on the New York Stock Exchange, in connection with our obligation to comply with the reporting requirements under the Exchange Act as well as other requirements under the Sarbanes-Oxley Act. See "Risk Factors—We Will Incur Increased Costs As A Result Of Being A Public Company."



### ***Interest Expense***

Interest expense consists of interest expense associated with short-term borrowings from banks which mature at various dates within the year.

### ***Income Taxes***

#### ***Hong Kong***

In accordance with the relevant tax laws and regulations of Hong Kong, a company, irrespective of its residential status, is subject to tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong. No tax is levied on profits arising abroad, even if they are remitted to Hong Kong. Therefore, our subsidiary, China High, was not subject to income tax for the year ended December 31, 2008 and 2009, since all the profits were derived from its direct and indirect subsidiaries in the PRC. The income tax rate for the year 2008 is 16.5% in Hong Kong.

#### ***China***

In accordance with the relevant tax laws and regulations of the PRC, a company registered in the PRC is subject to state and local income taxes within the PRC at the applicable tax rate on its taxable income. The PRC enterprise income tax ("EIT") was assessed at a rate of 33% of taxable income of Shandong Borun and Daqing Borun for the year of 2007. On March 16, 2007, the National People's Congress of China enacted a new EIT law, under which foreign invested enterprises, such as WGC, and domestic companies would be subject to EIT at a uniform rate of 25%. The new EIT law became effective on January 1, 2008 and the enterprise income tax rate paid by our PRC entities in 2008 was 25%. There was no income tax incentive to our PRC entities from the local government in 2007, 2008 or 2009.

### ***Critical Accounting Policies, Estimates and Assumptions***

#### ***Basis of Presentation and Consolidation***

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The consolidated financial statements include the financial statements of China High, WGC, Shandong Borun and Daqing Borun. All significant inter-company transactions and balances have been eliminated upon consolidation.

#### ***Segment Reporting***

The Company operates and manages its business as a single segment. As the Company primarily generates its revenues from customers in the PRC, no geographical segments are presented.

#### ***Revenue Recognition***

We recognize revenue in accordance with ASC 605, Revenue Recognition, when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Delivery occurs upon receipt of products by the customers at the customers' warehouse or designated destination, or at the time products are picked up by the customers at our warehouse.

#### ***Cost of Goods Sold***

Our cost of goods sold include product costs, shipping and handling costs, and costs related to inventory adjustments, including write downs for excess and obsolete inventory. Product costs include raw materials, production overhead costs, amortization of production license, and depreciation of property, plant and equipment used directly or indirectly for production.

**Inventories**

Our inventories are stated at the lower of cost or market determined using the weighted average method which approximates cost and estimated net realizable value. Cost of work in progress and finished goods comprise direct material, direct production costs and an allocated portion of production overhead costs based on normal operating capacity.

**Property, Plant, and Equipment, net**

Property, plant, and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method (after taking into account their respective estimated residual value) over the estimated useful lives as follows.

Buildings and improvements	20 to 30	Years
Machinery	10	Years
Office equipment and furnishing	3 to 5	Years
Motor vehicles	4 to 5	Years

**Income Taxes**

We follow ASC 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

We adopted ASC 740-10-25 on January 1, 2007, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. We must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. We did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25.

**Recently Issued Accounting Pronouncements**

In December 2007, the FASB issued ASC 810-10-65, Consolidation, which applies to all companies that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. ASC 810-10-65 is effective for us on January 1, 2009. Earlier adoption is prohibited. We adopted ASC 810-10-65 on January 1, 2009 and the adoption of ASC 810-10-65 did not have any impact on our results of operations or financial position.

In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. Our management evaluated all events or transactions that occurred after December 31, 2009 up through April 27, 2010, the date the financial statements were issued. During these periods, we did not have any material recognizable subsequent events

required to be disclosed other than those disclosed in Note 18 to the financial statements included elsewhere in the prospectus for the year ended December 31, 2009.

In April 2009, the FASB issued three related staff positions to clarify the application of FASB ASC 820 to fair value measurements in the current economic environment, modify the recognition of other-than-temporary impairments of debt securities, and require companies to disclose the fair value of financial instruments in interim periods. The final staff positions are effective for interim and annual periods ending after June 15, 2009.

- FASB ASC 820 (Transitional 820-10-65-4)—which provides guidance on how to determine the fair value of assets and liabilities under FASB ASC 820 in the current economic environment and reemphasizes that the objective of a fair value measurement remains the price that would be received to sell an asset or paid to transfer a liability at the measurement date.
- FASB ASC 320—which modifies the requirements for recognizing other-than-temporarily impaired debt securities and significantly changes the existing impairment model for such securities. It also modifies the presentation of other-than-temporary impairment losses and increases the frequency of and expands already required disclosures about other-than-temporary impairment for debt and equity securities.
- FASB ASC 820-10-50—which requires disclosures of the fair value of financial instruments within the scope of FASB ASC 820 in interim financial statements, adding to the current requirement to make those disclosures in annual financial statements. The staff position also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period.

In June 2009, the Financial Accounting Standards Board ("FASB") issued its final Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 established the FASB Accounting Standards Codification ("ASC") as the single source of authoritative U.S. GAAP to be applied by nongovernmental entities in the preparation of financial statements. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance in the ASC carries an equal level of authority. The ASC supersedes all previously existing non-SEC accounting and reporting standards. The ASC simplifies user access to all authoritative U.S. GAAP by reorganizing previously issued U.S. GAAP pronouncements into approximately 90 accounting topics within a consistent structure, without creating new accounting and reporting guidance. The ASC became effective for financial statements issued for interim and annual periods ending after September 15, 2009; accordingly, we adopted the ASC in the third quarter of fiscal 2009. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the ASC, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the ASC. For the discussion herein, we refer to ASC citations that relate to ASC Topics and their descriptive titles, as appropriate, and no longer refer to citations that relate to accounting pronouncements superseded by the ASC.

In June 2009, the FASB issued ASC 860, which eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's

interest in transferred financial assets. FASB ASC 860 will be effective for transfers of financial assets in fiscal years beginning after November 15, 2009 and in interim periods within those fiscal years with earlier adoption prohibited. We will adopt FASB ASC 860 on October 1, 2010.

In September 2009, the FASB issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. The accounting guidance will be applied prospectively and will become effective during the first quarter of 2011. Early adoption is allowed. The Company will adopt this guidance beginning January 1, 2010 and the Company does not expect this accounting guidance to materially impact the Company's consolidated financial statements.

In January 2010, the FASB issued new accounting guidance related to the disclosure requirements for fair value measurements and provided clarification for existing disclosure requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. presenting the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure are effective for fiscal years beginning after December 15, 2009, except for the disclosure requirements related to the purchases, sales, issuances and settlements in the rollforward activity of Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years ending after December 31, 2010. The Company does not believe the adoption of this guidance will have a material impact to the Company's consolidated financial statements.

**Results of Operations**

The following table sets forth selected income statement data and each item as a percentage of our revenues for the periods indicated.

	Year ended December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	\$
<b>Revenues</b>	487,305,927	615,881,195	1,060,493,812	155,363,221
<b>Cost of goods sold</b>	387,729,613	493,847,780	811,865,247	118,938,931
<b>Gross profit</b>	99,576,314	122,033,415	248,628,565	36,424,290
<b>Selling, general and administrative expenses</b>	10,057,899	12,928,345	22,547,881	3,303,284
<b>Operating income</b>	89,518,415	109,105,070	226,080,684	33,121,006
<b>Other (income) expenses</b>	2,237,334	5,333,952	3,408,024	499,278
<b>Income before income taxes</b>	87,281,081	103,771,118	222,672,660	32,621,728
Income tax expense	28,557,072	26,640,990	56,262,029	8,242,434
<b>Net income</b>	58,724,009	77,130,128	166,410,631	24,379,294

	Year ended December 31,		
	2007	2008	2009
<b>Revenues</b>	100.0%	100.0%	100.0%
<b>Cost of goods sold</b>	79.6%	80.2%	76.6%
<b>Gross profit</b>	20.4%	19.8%	23.4%
<b>Selling, general and administrative expenses</b>	2.0%	2.1%	2.1%
<b>Operating income</b>	18.4%	17.7%	21.3%
<b>Other (income) expenses</b>	0.5%	0.9%	0.3%
<b>Income before income taxes</b>	17.9%	16.8%	21.0%
Income tax expense	5.8%	4.3%	5.3%
<b>Net income</b>	12.1%	12.5%	15.7%

Net revenue for the years ended December 31, 2007, 2008 and 2009 were comprised of the following:

	Year ended December 31,			
	2007 RMB	2008 RMB	2009 RMB	2009 S
<b>Revenue by amount</b>				
Edible alcohol	376,411,354	454,920,795	728,765,152	106,764,698
DDGS feed	66,183,039	100,809,855	225,927,391	33,098,550
Corn Germ	42,295,570	57,500,714	102,298,397	14,986,800
Others	2,415,964	2,649,831	3,502,872	513,173
<b>Total</b>	<b>487,305,927</b>	<b>615,881,195</b>	<b>1,060,493,812</b>	<b>155,363,221</b>
<b>Revenue by %</b>				
Edible alcohol	77.2%	73.9%	68.7%	68.7%
DDGS feed	13.6%	16.4%	21.3%	21.3%
Corn Germ	8.7%	9.3%	9.7%	9.7%
Others	0.5%	0.4%	0.3%	0.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## Results of Operations for the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2009

### Revenues

Revenues increased by RMB444.6 million (\$65.1 million), or 72.2%, to RMB1,060.5 million (\$155.4 million) in the year ended December 31, 2009 from RMB615.9 million (\$90.2 million) in the year ended December 31, 2008. The increase was primarily due to the following:

- An increase in edible alcohol sales by approximately RMB273.9 million (\$40.1 million), or 60.2%, from RMB454.9 million (\$66.6 million) in the year ended December 31, 2008 to RMB728.8 million (\$106.8 million) in the year ended December 31, 2009 primarily due to an increase in production capacity through acquisition of the Daqing facility in July 2008 (actual production began in January 2009) and the commencement of commercial production of Phase II of our Shouguang facility in August 2009. We sold approximately 96,700 tons of edible alcohol in the year ended December 31, 2008 compared to approximately 181,800 tons in the same period of 2009 which resulted in an increase of 85,100 tons or 88.0%. Operating at 100% utilization, our actual production for the year ended December 31, 2008 was 89,700 tons of edible alcohol, as compared to 185,500 tons for the year ended December 31, 2009 for an increase of 95,800 tons, or 106.8%. The weighted average sales price of edible alcohol was approximately RMB4,707 (\$689.6) per ton for the year ended December 31, 2008 compared to RMB4,008 (\$587.2) per ton in the same period in 2009, which resulted in a decrease in weighted average sales price of RMB699 (\$102.4) per ton, or 14.9%. The decrease was due to a decrease in the cost of corn and price pressure resulting from the economic downturn.
- An increase in DDGS Feed sales by approximately RMB125.1 million (\$18.3 million), or 124.1%, from RMB100.8 million (\$14.8 million) for the year ended December 31, 2008 to RMB225.9 million (\$33.1 million) for the year ended December 31, 2009, due to the increase in production capacity described above. We sold approximately 61,000 tons of DDGS Feed in the year ended December 31, 2008 compared to approximately 125,900 tons in the same period of 2009, which resulted in an increase in sales of 64,900 tons, or 106.4%. The weighted average sales price of DDGS Feed was approximately RMB1,652 (\$242.0) per ton for DDGS Feed sales for the year ended

December 31, 2008, compared to RMB1,794 (\$262.8) per ton in the same period in 2009, which resulted in an increase in weighted average sales price of RMB142 (\$20.8) per ton, or 8.6%. The increase was due to strong domestic market demand for this product.

- An increase in Corn Germ sales by approximately RMB44.8 million (\$6.6 million), or 77.9%, from RMB57.5 million (\$8.4 million) for the year ended December 31, 2008 to RMB102.3 million (\$15.0 million) due to increase in ability to meet demand from customers. We sold approximately 13,800 tons of Corn Germ in the year ended December 31, 2008 compared to approximately 36,300 tons in the same period of 2009, which resulted in an increase in sales of 22,500 tons, or 163.0%. The weighted average sales price of Corn Germ was approximately RMB4,169 (\$610.8) per ton for Corn Germ sales for the year ended December 31, 2008, compared to RMB2,816 (\$412.5) per ton in the same period in 2009, which resulted in a decrease in weighted average sales price of RMB1,353 (\$198.2) per ton, or 32.5%. The increase of sales volume was due to our expansion of production capacity in 2009 described above. The decrease of weighted average sales price of Corn Germ was mainly due to an overall decline of corn oil export from China as a result of the economic downturn in 2009. Thus, the price of Corn Germ, the main raw material of corn oil, dropped accordingly.

### **Gross Profit**

Gross profit increased by RMB126.6 million (\$18.5 million), or 103.7%, to RMB248.6 million (\$36.4 million), or 23.4% of revenues, for the year ended December 31, 2009, from RMB122.0 million (\$17.9 million), or 19.8% of revenues, for the year ended December 31, 2008. The increase was primarily due to the following:

- Increase in revenues by RMB444.6 million (\$65.1 million), or 72.2%, to RMB1,060.5 million (\$155.4 million) in the year ended December 31, 2009 from RMB615.9 million (\$90.2 million) in the year ended December 31, 2008.
- Higher production yields of edible alcohol, DDGS Feed and corn germ due to improvements in production techniques.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by RMB9.6 million (\$1.4 million), or 74.4%, to RMB22.5 million (\$3.3 million), for the year ended December 31, 2009 from RMB12.9 million (\$1.9 million), for the year ended December 31, 2008. The increase was primarily due to the following:

- Selling expenses increased 65.1% from RMB1.4 million (\$0.2 million) in the year ended December 31, 2008 to RMB2.4 million (\$0.3 million) in the year ended December 31, 2009 primarily due to additional expenses incurred in Daqing Borun including newly hired sales employees salaries, promotion expenses and other expenses totaling approximately RMB1.0 million (\$0.1 million).
- General and administrative expenses increased by RMB8.7 million (\$1.3 million), or 75.6%, from RMB11.5 million (\$1.7 million) in the year ended December 31, 2008 to RMB20.2 million (\$3.0 million) in the year ended December 31, 2009, primarily due to general and administrative costs for the acquisition of Daqing Borun, which amounted to an increase of RMB8.6 million (\$1.3 million).

### ***Other (Income)/Expenses***

Other expenses was RMB3.4 million (\$0.5 million), primarily consisting of interest expense of RMB10.0 million (\$1.5 million) and other income of RMB6.2 million (\$0.9 million) primarily related to subsidy income received from the local government as incentives to renovate our production technology and income from disposal of obsolescent motor vehicles and outdated facilities for the year ended December 31, 2009 compared to interest expense of RMB3.0 million (\$0.4 million) and other expense of RMB2.7 million (\$0.4 million) primarily related to disposal of fixed assets for the year ended December 31, 2008. Interest expense increased from RMB3.0 million (\$0.4 million) for the year ended December 31, 2008 to RMB10.0 million (\$1.5 million) for the year ended December 31, 2009 primarily due to an increase in bank borrowings outstanding from RMB24.7 million (\$3.6 million) as of December 31, 2007 to RMB89.7 million (\$13.1 million) as of December 31, 2008 and to RMB143.2 million (\$21.0 million) as of December 31, 2009 and offset by a decrease in the weighted average interest rate of our short-term borrowings in the year ended December 31, 2009 compared to the year ended December 31, 2008.

### ***Income Tax Expenses***

We recorded RMB26.6 million (\$3.9 million) income tax expenses in the year ended December 31, 2008, compared to income tax expense of RMB56.3 million (\$8.2million) in the year ended December 31, 2009. Since the effective tax rate remained relatively stable, the increase is consistent with the increase of our income before income tax expenses.

## **Results of Operations for the Year Ended December 31, 2007 Compared to the Year Ended December 31, 2008**

### ***Revenues***

Revenues increased by RMB128.6 million (\$18.8 million), or 26.4%, to RMB615.9 million (\$90.2 million) in the year ended December 31, 2008 from RMB487.3 million (\$71.4 million) in the year ended December 31, 2007. The increase was primarily due to the following:

- An increase in edible alcohol sales by approximately RMB78.5 million (\$11.5 million), or 20.9%, from RMB376.4 million (\$55.1 million) in the year ended December 31, 2007 to RMB454.9 million (\$66.6 million) in the year ended December 31, 2008 primarily due to the sale in 2008 of some inventory left over from 2007 and improvement in our production process effectively increasing our production capacity. Operating at 100% utilization, our actual production for the year ended December 31, 2007 was 83,700 tons of edible alcohol, as compared to 89,700 tons for the year ended December 31, 2008 for an increase of 6,000 tons, or 7.2%. We sold approximately 80,100 tons of edible alcohol in the year ended December 31, 2007 compared to approximately 96,700 tons in the year ended December 31, 2008 which resulted in an increase in sales of 16,600 tons, or 20.7%. The weighted average sales price of edible alcohol was approximately RMB4,700 (\$688.6) per ton for edible alcohol for the year ended December 31, 2007 compared to RMB4,707 (\$689.6) per ton for the year ended December 31, 2008.
- An increase in DDGS Feed sales by approximately RMB34.6 million (\$5.1 million), or 52.3%, from RMB66.2 million (\$9.7 million) for the year ended December 31, 2007 to RMB100.8 million (\$14.8 million) for the year ended December 31, 2008 due to the increase in production capacity described above. We sold approximately 46,900 tons of DDGS Feed in the year ended December 31, 2007 compared to approximately 61,000 tons in the year ended December 31, 2008 which resulted in an increase of 14,100 tons, or 30.1%. The weighted average sales price of DDGS Feed was approximately RMB1,411 (\$206.7) per ton for the year ended December 31, 2007, compared to RMB1,652 (\$242.0)



per ton for the year ended December 31, 2008 which resulted in an increase of RMB241 (\$35.3) per ton, or 17.1%. The increase was due to strong domestic market demand for this product.

- An increase in corn germ sales by approximately RMB15.2 million (\$2.2 million), or 35.9%, from RMB42.3 million (\$6.2 million) in the year ended December 31, 2007 to RMB57.5 million (\$8.4 million) in the year ended December 31, 2008 due to increase in ability to meet demand from customers. We sold approximately 10,100 tons of Corn Germ in the year ended December 31, 2007 compared to approximately 13,800 tons in the same period of 2008, which resulted in an increase in sales of 3,700 tons, or 36.6%. The weighted average sales price of Corn Germ was approximately RMB4,200 (\$615.3) per ton for Corn Germ sales for the year ended December 31, 2007, compared to RMB4,169 (\$610.8) per ton in the same period in 2008. The price of corn germ remained flat due to stable demand of corn germ from corn oil manufacturers. The increase of sales volume was due to improved production yield of Corn Germ in 2008.

### **Gross Profit**

Gross profit increased by RMB22.5 million (\$3.3 million), or 22.6%, to RMB122.0 million (\$17.9 million), or 19.8% of revenues, for the year ended December 31, 2008 from RMB99.6 million (\$14.6 million), or 20.4% of revenues, for the year ended December 31, 2007. The increase was primarily due to the following:

- Increase in revenues by RMB128.6 million (\$18.8 million), or 26.4%, to RMB615.9 million (\$90.2 million) in the year ended December 31, 2008 from RMB487.3 million (\$71.4 million) in the year ended December 31, 2007.
- Gross margin decreased due to higher average corn price in fiscal 2008 compared to fiscal 2007.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by RMB2.9 million (\$0.4 million), or 28.5%, to RMB12.9 million (\$1.9 million), or 2.1% of revenues, for the year ended December 31, 2008 from RMB10.1 million (\$1.5 million), or 2.1% of revenues, for the year ended December 31, 2007. The increase was primarily due to the following:

- Selling expenses decreased by RMB0.6 million (\$0.1 million), or 28.1%, to RMB1.4 million (\$0.2 million) for the year ended December 31, 2008 from RMB2.0 million (\$0.3 million) for the year ended December 31, 2007. The decrease in selling expenses was primarily due to the decrease in business promotion expenses.
- General and administrative expenses increased by RMB3.4 million (\$0.5 million), or 42.6%, to RMB11.5 million (\$1.7 million) for the year ended December 31, 2008 from RMB8.1 million (\$1.2 million) for the year ended December 31, 2007. This increase was primarily due to the additional new hires as the result of the increased production capacity at our Shouguang facility and depreciation and amortization expenses for non-production related assets and also the additional general and administrative costs for the Daqing facility acquired in July 2008.

***Other (Income)/Expenses***

Other expenses was RMB5.3 million (\$0.8 million), primarily consisting of interest expense of RMB3.0 million (\$0.4 million) and other expense of RMB2.7 million (\$0.4 million) primarily related to loss from disposal of obsolescent motor vehicles for the year ended December 31, 2008, compared with interest expense of RMB2.4 million (\$0.3 million) and no other expense for the year ended December 31, 2007. Interest expense increased from RMB2.4 million (\$0.3 million) for the year ended December 31, 2007 to RMB3.0 million (\$0.4 million) for the year ended December 31, 2008 primarily due to increase in bank borrowings outstanding from RMB24.7 million (\$3.6 million) at December 31, 2007 to RMB89.7 million (\$13.1 million) at December 31, 2008.

***Income Tax Expense***

Provision for income tax expense decreased by 6.7% to RMB26.6 million (\$3.9 million) for the year ended December 31, 2008 from RMB28.6 million (\$4.2 million) for the same period in 2007. The decrease was primarily due to decrease of the statutory income tax rate from 33% in 2007 to 25% in 2008. As a percentage of revenue, income tax expense decreased from 5.9% for the year ended December 31, 2007 to 4.3% for the year ended December 31, 2008.

**Selected Quarterly Results of Operations**

The following tables present certain consolidated quarterly financial data for each of the eleven quarters in the period from January 1, 2007 to December 31, 2009. You should read the following table in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. We have prepared the consolidated quarterly financial information on substantially the same basis as our annual consolidated financial statements. The consolidated financial information includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented. Our operating results for any quarter are not necessarily indicative of results that may be expected for any future period.

	March 31, 2007	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
<b>Revenues</b>	116,643,466	133,716,858	110,199,570	126,746,033	158,867,662	139,475,742	143,045,498	174,492,293	176,785,834	169,906,968	331,138,380	382,662,630
<b>Cost of goods sold</b>	91,953,671	104,773,841	92,467,894	98,534,207	128,621,233	115,809,270	117,840,413	131,576,864	138,803,800	129,038,886	254,197,129	289,825,432
<b>Gross profit</b>	24,689,795	28,943,017	17,731,676	28,211,826	30,246,429	23,666,472	25,205,085	42,915,429	37,982,034	40,868,082	76,941,251	92,837,198
<b>Operating expenses</b>												
Selling expenses	582,002	410,454	534,811	469,101	430,971	346,143	287,209	371,918	622,832	435,902	940,047	371,749
General and administrative expenses	1,841,163	1,492,369	2,019,754	2,708,245	3,272,130	2,148,722	2,886,161	3,185,091	3,942,354	2,902,411	3,099,002	10,233,584
	2,423,165	1,902,823	2,554,565	3,177,346	3,703,101	2,494,865	3,173,370	3,557,009	4,565,186	3,338,313	4,039,049	10,605,333
<b>Operating income</b>	22,266,630	27,040,194	15,177,111	25,034,480	26,543,328	21,171,607	22,031,715	39,358,420	33,416,848	37,529,769	72,902,202	82,231,865
<b>Other (income)/expenses</b>												
Interest income	(28,172)	(27,623)	(28,293)	(29,528)	(8,101)	(9,988)	(262,218)	(64,071)	(107,110)	(65,768)	(73,915)	(115,714)
Interest expense	601,858	552,351	651,121	544,670	752,441	871,852	655,707	703,610	2,644,891	2,376,050	1,912,859	3,027,985
Others	—	—	—	950	—	300,000	2,404,720	(10,000)	(226,141)	(203,333)	(988,067)	(4,773,713)
	573,686	524,728	622,828	516,092	744,340	1,161,864	2,798,209	629,539	2,311,640	2,106,949	850,877	(1,861,442)
<b>Income before income tax expense</b>	21,692,944	26,515,466	14,554,283	24,518,388	25,798,988	20,009,743	19,233,506	38,728,881	31,105,208	35,422,820	72,051,325	84,093,307
<b>Income tax expense</b>	7,101,578	8,678,752	4,751,203	8,025,539	6,783,594	5,415,141	5,366,661	9,075,594	6,755,750	9,084,620	17,574,690	22,846,969
<b>Net income</b>	14,591,366	17,836,714	9,803,080	16,492,849	19,015,394	14,594,602	13,866,845	29,653,287	24,349,458	26,338,200	54,476,635	61,246,338

Generally, our business is not seasonal in nature. The fluctuation of quarterly revenue, gross profit and net income was consistent with the fluctuation of our operating results in 2007, 2008 and 2009.

### Liquidity and Capital Resources

Cash generated from our business is our primary source of liquidity. As of December 31, 2007, December 31, 2008 and December 31, 2009, we had approximately RMB25.2 million (\$3.7 million), RMB20.9 million (\$3.1 million) and RMB105.8 million (\$15.5 million), respectively, in cash. Our cash represents cash on hand and in banks. We require cash to fund our ongoing business needs, particularly salary and benefits and costs and expenses of raw materials. Other cash needs include primarily the working capital for our daily operations and manufacturing activities, the purchase of equipment for our manufacturing facilities and expenditures related to the expansion of our manufacturing facilities.

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

	Year ended December 31,			
	2007	2008	2009	2009
	RMB	RMB	RMB	\$
Net cash provided by operating activities	39,429,686	85,372,839	190,939,423	27,972,784
Net cash used in investing activities	(15,406,268)	(223,722,382)	(213,352,205)	(31,256,275)
Net cash provided by financing activities	(20,655,901)	133,982,500	107,558,796	15,757,453
Effect of foreign currency exchange translation	—	11,610	(239,818)	(35,134)
Net increase (decrease) in cash	3,367,517	(4,355,433)	84,906,196	12,438,828

#### Net Cash Provided by Operating Activities

Net cash provided by operating activities was RMB39.4 million (\$5.8 million), RMB85.4 million (\$12.5 million), and RMB190.9 million (\$28.0 million) for the years ended December 31, 2007, 2008 and 2009, respectively. The increase in cash provided by operating activities for fiscal 2008 compared to 2007 primarily reflects higher income and lower level of inventories offset by lower accounts payable balances. The increase in cash provided by operating activities for the year ended December 31, 2009 compared to the same period in 2008 was primarily due to an increase in net income, non-cash expenses and trade accounts payable, income tax payable, accrued expenses and other payables, offset by a decrease in operating cash flow due to an increased inventory balance, increased accounts receivable balance and increased prepaid expenses and other current assets.

#### Net Cash Provided by (Used In) Financing Activities

**Financing Activities**—Net cash provided by (used in) financing activities was RMB(20.7) million (\$(3.0) million), RMB134.0 million (\$19.6 million) and RMB107.6 million (\$15.8 million) for the years ended December 31, 2007, 2008 and 2009, respectively. For the year ended December 31, 2007, net cash used consisted of net cash payments on short-term borrowings of RMB15.3 million (\$2.2 million) and dividend payments of RMB5.4 million (\$0.8 million). For the year ended December 31, 2008, net cash provided consisted of capital contribution of RMB10.0 million (\$1.5 million), proceeds from issuances of convertible preference shares of RMB70.0 million (\$10.3 million), and net borrowings under short-term borrowings of RMB65.0 million (\$9.5 million) offset by dividend payments of RMB11.0 million (\$1.6 million). For the year ended December 31, 2009, net cash provided consisted of proceeds from issuances of convertible preference shares of RMB54.1 million (\$7.9 million) and net borrowings under short-term borrowings of RMB53.5 million (\$7.8 million).

**Financing Agreement**—As of December 31, 2007, December 31, 2008 and December 31, 2009, we had approximately RMB24.7 million (\$3.6 million), RMB89.7 million (\$13.1 million) and

RMB143.2 million (\$21.0 million) outstanding short-term borrowings, bearing weighted average interest rates at 7.58%, 9.68% and 8.19% per annum respectively for the years ended December 31, 2007, 2008 and 2009. At December 31, 2009, with the exception of our RMB13.5 million (\$2.0 million) loan from the Agricultural Development Bank of China, which is secured by our facilities including land use rights, buildings and equipment, and our RMB20.0 million (\$2.9 million) loan from the Industrial & Commercial Bank of China, which is secured by land use rights, all of our loans are secured by third party guarantees.

Our short-term borrowings mature at various dates within one year. These facilities contain no specific renewal terms or any requirement for the maintenance of financial covenants. We were able to pay off the loans on the due dates and borrow again from the same banks. We have been making this type of loan arrangement since 2006. As we expanded our business, our borrowing capacity also increased over the years. This type of financing is very similar to a revolving line of credit and is common practice in China, particularly in Shandong and Heilongjiang Provinces where our production facilities are located. Amounts outstanding under these bank loans are presented in our financial statements as short term loans.

#### ***Net Cash Used In Investing Activities***

***Investing Activities***—Net cash used in investing activities largely reflects capital expenditures made in connection with the expansion and upgrade of our research and development and manufacturing facilities, and purchase of land use rights. Net cash used in investing activities amounted to (1) RMB15.4 million (\$2.3 million) in 2007, mainly related to purchases of land use rights of RMB11.2 million (\$1.6 million) and purchases of property, plant and equipment of RMB4.2 million (\$0.6 million), (2) RMB223.7 million in (\$32.8 million) 2008, mainly related to our acquisition of our Daqing facility of RMB93.2 million (\$13.7 million) and purchases of property, plant and equipment of RMB130.5 million (\$19.1 million), and (3) RMB213.4 million (\$31.3 million) in the year ended December 31, 2009 mainly related to purchases of property, plant and equipment for Phase II at our Shouguang and Daqing facilities of RMB175.5 million (\$25.7 million) and cash used to purchase our Daqing facility of RMB45.8 million (\$6.7 million), offset by proceeds from disposal of outdated production facilities.

***Future Capital Requirements***—We had cash on hand of RMB25.2 million (\$3.7 million), RMB20.9 million (\$3.1 million), RMB105.8 million (\$15.5 million) at December 31, 2007, 2008 and 2009, respectively. We expect our capital expenditures over the next several years to increase as we execute our expansion plan to further improve our existing facilities. Our primary planned capital expenditures for fiscal 2010 are for the expansion of our manufacturing capacity in the PRC. We expect our capital expenditures in 2010 to be approximately RMB410.0 million (\$60.1 million) for the expansion of Phase III at our Daqing facility and RMB90.0 million (\$13.2 million) for the construction of a liquid carbon dioxide facility at our Shouguang facility. We expect to fund these planned expenditures including our working capital requirements through cash generated from operations, borrowings through short-term loans, and the proceeds from issuances of ordinary or preference shares and we believe that such cash generated from these activities will be sufficient for our planned expenditures including our working capital requirements.

#### **Research and Development**

We spent approximately RMB79,200 (\$11,602.9), RMB120,000 (\$17,580.1) and RMB201,600 (\$29,534.6) during the fiscal years ended December 31, 2007, 2008 and 2009, respectively, on Company-sponsored research and development activities, including, without limitation, all activities in respect of our in-house developed Borun Wet Process, as determined in accordance with US GAAP.

## **Off-Balance Sheet Arrangements**

We were the guarantor for a third party for its RMB10.0 million (\$1.5 million) short-term bank loan that matured on March 25, 2010. We had agreed to guarantee this loan after the borrower had provided a guarantee to us of short-term bank loans of RMB14.7 million (\$2,153,562). As of the date of this prospectus, such loan has been fully paid off. We do not believe such guarantee to be material in respect of our liquidity, capital resources, market risk support, credit risk support or other benefits. Except for that, we have no material off-balance sheet transactions. We do not have any off-balance sheet outstanding derivative financial instruments, interest rate swap transactions or foreign currency forward contracts. We do not engage in trading activities involving non-exchange traded contracts.

## **Quantitative and Qualitative Disclosure about Market Risk**

### ***Interest Rate Risk***

We are exposed to interest rate risk due primarily to our short-term borrowings. Other than RMB30.0 million (\$4.4 million) indebtedness had a fixed interest of 6.90% per annum, RMB113.2 million (\$16.6 million) indebtedness bore interest at the basic interest rate published by the People's Bank of China ("PBOC"), plus certain inflation ranged from zero to 20%. The basic interest rate is subject to adjustment by PBOC from time to time. The current basic interest rate published by PBOC is 5.31%. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We do not use any derivative financial instruments to manage interest rate risks.

### ***Inflation***

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in Consumer Price Index in China increased by 1.5% in January 2010 compared with the same month in 2009.

### ***Credit Risk***

Since commencing our operations in 2000, we have not had to write off bad debts. In addition, we have very short accounts receivable cycles and short collection periods, normally, all accounts receivables are collected within one month. As a result, we believe we have no significant exposure to credit risk.

### ***Foreign Currency Risk***

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic condition. Since July 2005, the Renminbi has no longer been pegged to the U.S. dollar. Currently the Renminbi exchange rate versus the U.S. dollar is restricted to a rise or fall of no more than 0.5% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate. This change in policy has resulted in an appreciation of the RMB against the U.S. dollar of approximately 6.5% and 6.4% in 2007 and 2008, respectively. The Renminbi may appreciate or depreciate significantly in value against the U.S. dollar. Moreover, it is possible that in the future PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and reduce their level of intervention in the foreign exchange market. Because substantially all of our earnings and cash assets are denominated in Renminbi and the net proceeds from this offering will be denominated, and we maintain our consolidated financial statements in U.S. dollars, fluctuations in the exchange rate between the U.S. dollar and the Renminbi will affect the relative purchasing power of these proceeds and our balance sheet and earnings per share. In addition, appreciation or depreciation in the value of

the Renminbi relative to the U.S. dollar would affect our financial results reported in U.S. dollars without giving effect to any underlying change in our business or results of operations. Fluctuations in the Renminbi/U.S. dollar exchange rate will also affect the relative value of any dividend we reserve that will be exchanged into U.S. dollars and earnings from, and the value of, any Renminbi-denominated investments we make in the future. We have not entered into any hedging transactions that would reduce or increase our exposure to this foreign currency exchange risk. If the value of the Renminbi was to increase after the closing of this offering but before we invested the proceeds in assets denominated in Renminbi or to pay Renminbi-denominated expenses, the value of those U.S. dollar-denominated proceeds would be proportionally less. Fluctuation in the exchange rate between the Renminbi and U.S. dollar would therefore impact the Renminbi proceeds to us from this offering. Assuming an offering price of \$ , our U.S. dollar proceeds from this offering would be \$ , or RMB using the U.S. dollar/Renminbi exchange rate at December 31, 2009. If the Renminbi were to appreciate by 1.0% against the U.S. dollar over the December 31, 2009 exchange rate, the amount of our RMB proceeds from this offering would decrease by RMB .

### ***Contractual Obligation and Capital Commitments***

The following table sets forth our contractual obligations, including interest, as of December 31, 2009:

	Payment Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(RMB in millions)				
Capital commitment	64.2	64.2	—	—	—
Operating lease obligations	—	—	—	—	—
Short-term debt	146.9	146.9	—	—	—
Long-term debt	—	—	—	—	—
Total:	211.1	211.1	—	—	—

## OUR CORPORATE STRUCTURE AND HISTORY

We are a holding company incorporated in the Cayman Islands on December 21, 2009. Effective as of March 31, 2010, New Borun consummated a share exchange agreement with Golden Direction Limited, or Golden Direction, a British Virgin Islands company beneficially owned by Mrs. Shan Junqin, a member of the Wang Family, whereby New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to King River Holding Limited or King River of 14,847,810 ordinary shares (King River is a British Virgin Islands company owned and controlled by Mrs. Shan, and King River had already owned one share of New Borun which had been transferred from Mrs. Shan). As of the date of that agreement, (1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction held approximately 74.24% of the voting capital stock of China High Enterprises Limited, or China High, our Hong Kong holding company.

Effective as of March 31, 2010, New Borun and Golden Direction consummated a share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing the exchange, New Borun issued (i) 3,711,952 of its Class A convertible preference shares, which are automatically convertible into 3,711,952 of its ordinary shares upon the closing of this offering, to one of our private equity investors, Star Elite Enterprises Limited, or Star Elite, a British Virgin Islands company, (ii) 1,065,330 shares of its Class B convertible preference shares, which are automatically convertible into 1,065,330 ordinary shares upon the closing of this offering, to one of China High's private equity investors, Earnstar Holding Limited, or Earnstar, a British Virgin Islands company and (iii) 374,907 shares of its Class C convertible preference shares, which are automatically convertible into 374,907 ordinary shares upon the closing of this offering, to one of China High's private equity investors, TDR Advisors Inc., or TDR, a British Virgin Islands company. Upon the consummation of this exchange, Golden Direction continues to be a wholly-owned subsidiary of New Borun and China High became a wholly-owned subsidiary of Golden Direction.

In connection with and as contemplated by the Exchange, New Borun, King River, Star Elite, Earnstar and TDR entered into a shareholders agreement effective as of March 31, 2010 which sets forth the preference rights held by each of Star Elite, Earnstar and TDR in New Borun. The shareholders agreement provides for the automatic conversion of each Class A, B and C preference share into ordinary shares upon the closing of this offering and therefore, unless otherwise stated, the information in this prospectus assumes that such Class A, B and C preference shares have been fully converted into ordinary shares.

We now function exclusively through (1) Golden Direction, (2) China High, (3) China High's wholly-owned subsidiary, WGC, (4) WGC's wholly-owned and our chief operating company, Shandong Borun and (5) Shandong Borun's wholly-owned subsidiary, Daqing Borun. We conduct all of our business in the PRC and do not have any off-shore operations.

WGC was established as a limited liability company on March 21, 2001 in China's Shandong Province under the laws of the PRC. China High was incorporated in Hong Kong's Special Administrative Region on July 15, 2008. For restructuring and reorganization purposes, pursuant to an equity interest acquisition agreement, China High acquired all of the equity interests of WGC on October 27, 2008 for cash consideration of \$160,000 and obtained all requisite approvals from the government for such transaction.

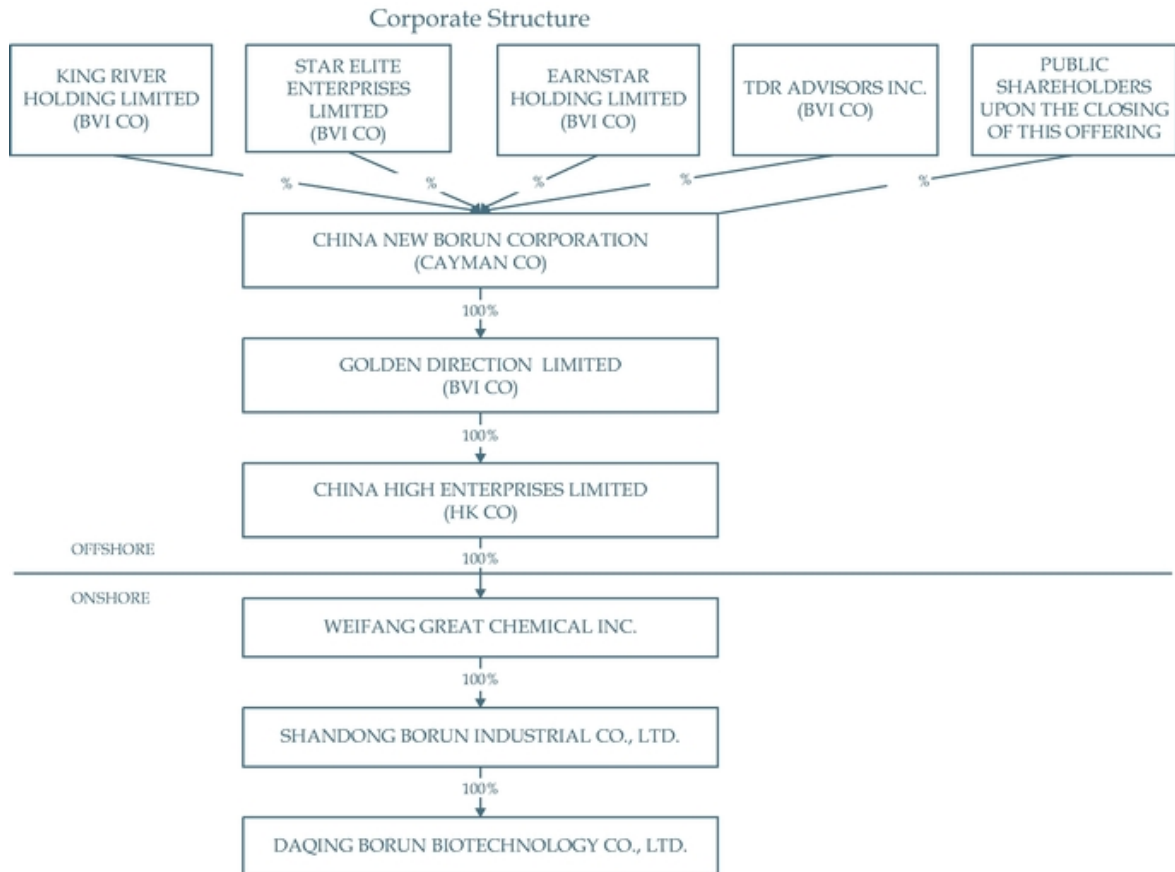
On December 15, 2008, WGC completed its acquisition of all of the equity interests in Shandong Borun for cash consideration of RMB 76,500,000 (\$11,207,313). Shandong Borun was originally incorporated in the city of Shouguang in China's Shandong Province on December 1, 2000 under the name "Shouguang Haihong Salt-Making Co., Ltd." Shandong Borun entered into the edible alcohol



producing industry in June 2004 and on March 13, 2006, changed its name to "Shandong Borun Industrial Co., Ltd." All operations unrelated to edible alcohol production were removed from Shandong Borun's business charter as of July 3, 2008.

On July 9, 2008, Shandong Borun completed its acquisition of all of the equity interests in Daqing Anxin Tongwei Alcohol Manufacturing Co., Ltd., or Anxin Tongwei, a limited liability company established under the laws of the PRC on September 20, 2004 in Daqing City, Heilongjiang Province, China. Anxin Tongwei applied for bankruptcy with the People's Court in Datong, Daqing City on July 26, 2007. The Court made the verdict to approve a procedure of reorganization on July 30, 2007 and to approve a plan of reorganization on November 30, 2007. On July 1, 2008, the Court made the verdict to approve that certain acquisition agreement between Shandong Borun and the then shareholders of Anxin Tongwei on June 26, 2008, and on July 9, 2008, the parties completed the acquisition pursuant to which Anxin Tongwei became a wholly-owned subsidiary of Shandong Borun. Shandong Borun paid a total cash consideration of RMB 139,000,000 (\$20,363,615) for Daqing Borun. Subsequent to the acquisition, Anxin Tongwei changed its name to Daqing Borun Biotechnology Co., Ltd. (since we regard "corn deep-processing" as a part of the biotechnology field, we named it accordingly).

Our corporate structure is as follows.



## OUR INDUSTRY

### Industry Overview

#### Overview of the Chinese Economy

Since the implementation of the opening-up policy by the Chinese government, the Chinese economy has experienced substantial growth. According to the National Bureau of Statistics of China and the 2008 Statistic Yearbook of China, from 2004 to 2007, China's GDP grew at a CAGR of 17.2%. Although the Chinese economy was also negatively affected by the financial crisis in 2008, its GDP still recorded growth in 2008 and 2009. According to the International Monetary Fund ("IMF"), the nominal GDP of China is expected to grow at a CAGR of 10.1% from 2009 to 2012, reaching RMB44.8 (\$6.6) trillion in 2012.

Nominal GDP (China), 2004-2012E



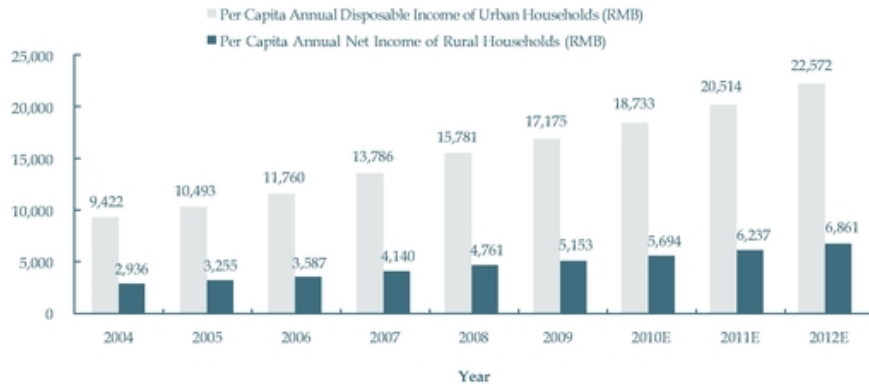
Note: All data are rounded; The base year is 2009.

Source:

1. Historical data: National Bureau of Statistics of China, 2008 Statistics Yearbook of China, 2009 Statistics Announcement
2. Projected data: International Monetary Fund, October, 2009

The growth in GDP, and also per capita GDP, in China has driven a strong growth in per capita disposable income. The per capita annual disposable income of urban households increased from RMB9,422 (\$1,380.3) in 2004 to RMB17,175 (\$2,516.2) in 2009, equivalent to a CAGR of 12.8%. According to the Frost & Sullivan Report, per capita annual disposable income of urban households is expected to increase to RMB22,572 (\$3,306.8) in 2012.

**Per Capita Annual Income of Urban and Rural Households (China), 2004-2012E**



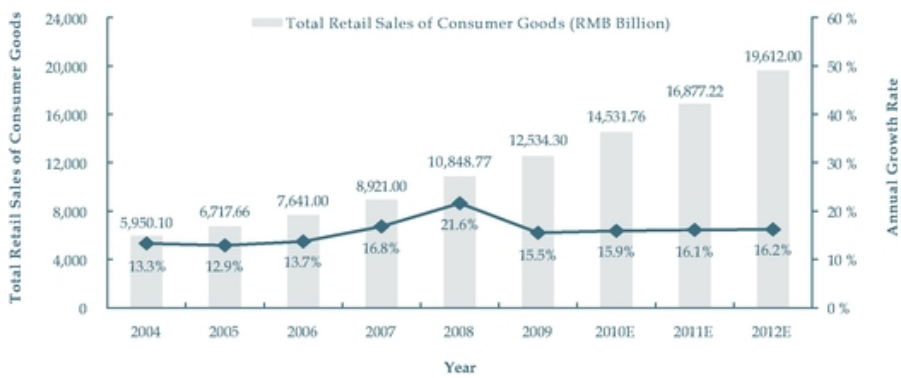
Note: All data are rounded; The base year is 2009.

Source:

1. Historical data: National Bureau of Statistics of China, 2008 Statistics Yearbook of China, 2009 Statistics Announcement
2. Projected data: The Frost & Sullivan Report

The retail sector in China has benefitted from the growth in per capita disposable income. The Frost & Sullivan Report expects retail sales of consumer goods in China to grow from RMB12.5 trillion (1.8 trillion) in 2009 to RMB19.6 trillion (\$2.9 trillion) in 2012, equivalent to a CAGR of 16.1%.

**Total Retail Sales of Consumer Goods (China), 2004-2012E**



Note: All data are rounded; The base year is 2009.

Source:

1. Historical data: National Bureau of Statistics of China, 2008 Statistics Yearbook of China, 2009 Statistics Announcement
2. Projected data: The Frost & Sullivan Report

## Overview of the Chinese Edible Alcohol Industry

### Introduction

According to the Frost & Sullivan Report, China was the third largest alcohol producing nation in the world in 2008 and accounted for 13.5% of global alcohol production in that year behind the United States (44%) and Brazil (30%). Over 90% of alcohol produced in China in 2008 was edible alcohol while fuel alcohol accounted for less than 10%.

According to the latest Chinese National Standards on edible alcohol adopted in 2008, edible alcohol is classified into the following three grades by product quality.

**Edible Alcohol Market: Key Dimensions of Edible Alcohol Grades (China), 2008**

Key Dimensions	Grade A Excellent	Grade B Fine	Grade C Normal
Look		Transparent and colorless	
Smell		Pleasant	No odor
Taste		Pure and slightly sweet	Fairly pure
Ethanol (percent per liter) >=	96.0	95.5	95.0
Methanol (mg per liter) <=	2.0	50.0	150.0

Source: General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and Standardization Administration of the People's Republic of China

According to the Frost Report, Grade A edible alcohol is mainly used for pharmaceutical and chemical purposes while both Grade B and C edible alcohol are mainly used for producing baijiu. As Grade B edible alcohol has a better taste and smell than Grade C edible alcohol, Grade B edible alcohol is mainly used for producing medium to high grade baijiu while Grade C edible alcohol is mainly used for producing low to medium grade baijiu.

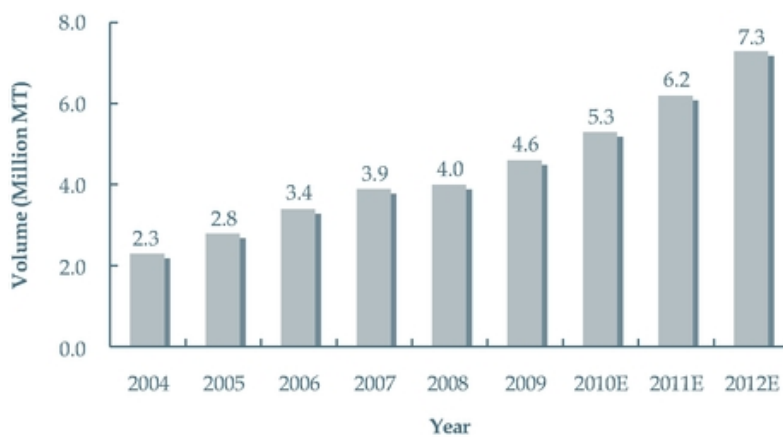
### Market Size of Edible Alcohol in China

The domestic demand for edible alcohol grew from 2.3 million tons in 2004 to 4.6 million tons in 2009, representing a CAGR of 14.9%. The growth from 2004 to 2007 was mainly due to significant increase in demand from the Chinese *baijiu* industry and, to a lesser extent, the chemical industry.

Despite the effect of the 2008 financial crisis on the Chinese economy and export businesses, domestic demand for edible alcohol in China still grew by 0.7 million tons from 2007 to 2009. Although the chemical industry in China has been negatively affected by the financial crisis in 2008, the strong demand from the *baijiu* industry contributed to this result.

Fueled by the strong demand for *baijiu* as a result of continuous growth in China's per capita disposable income and a gradual recovery of the chemical industry as the world economy recovers, domestic demand for edible alcohol is forecasted to grow at a CAGR of 16.6% from 2009 to 2012, reaching 7.3 million tons in 2012.

**Domestic Demand of Edible Alcohol (China), 2004-2012E**

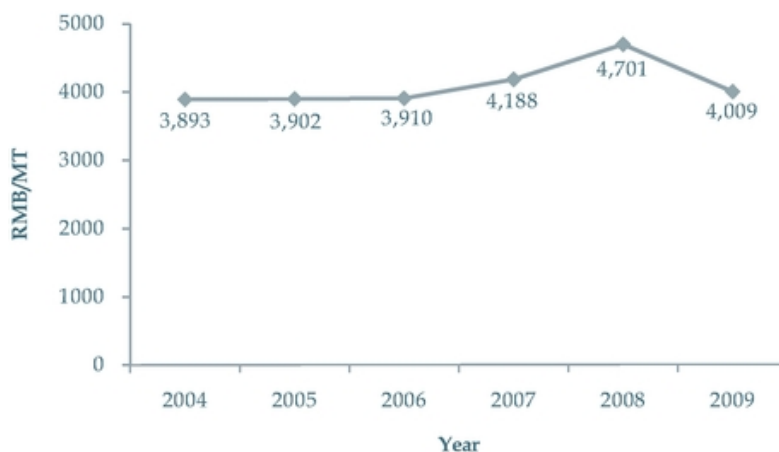


Source: The Frost & Sullivan Report

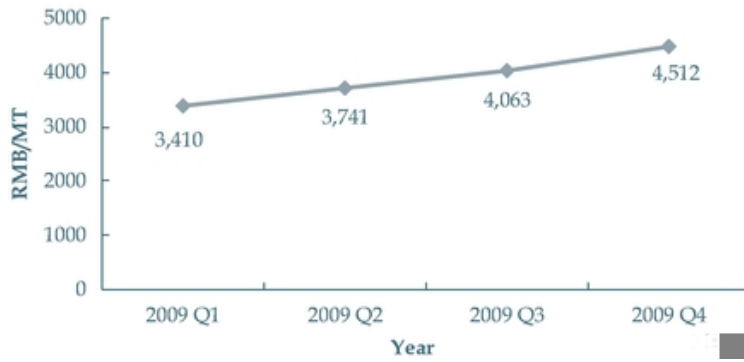
The price of edible alcohol in China has increased 3.0% from RMB3,893 (\$570.3) in 2004 to RMB4,009 (\$587.3) in 2009.

Due to the global economic downturn in 2008 to 2009, the average selling price of corn-based alcohol in 2009 decreased to RMB4,009 (\$587.3) from RMB4,701 in 2008. However, the quarterly average selling price in 2009 trended upwards due to the gradual recovery of the global economy.

**Price of Corn-Based Edible Alcohol in China, 2004-2009**



**Quarterly Price of Corn-based Edible Alcohol in China, 2009**

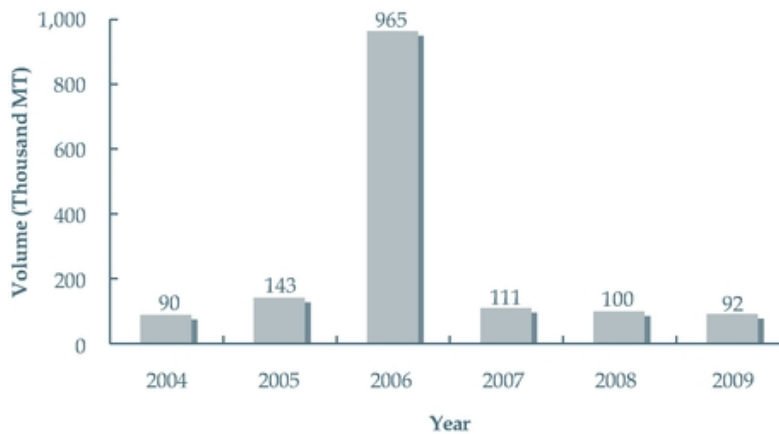


Source: *The Frost & Sullivan Report*

In China, edible alcohol is mainly used for the blending of *baijiu*, in the chemical industry and in the healthcare industry. Such usages accounted for 51.3%, 47.2% and 1.5% of the total consumption of edible alcohol in 2008, respectively.

China has been a net exporter of edible alcohol to the global market from 2004 to 2008. In 2006, the Chinese government introduced 13.0% tax rebates to the export of edible alcohol which led to a rapid increase in the net export volume of 965,000 tons by the end of that year, equivalent to about seven times the net export volume in 2005. When the Chinese government cancelled such policy in 2007, the net export volume of edible alcohol dropped back to 111,000 tons and 100,000 tons in 2007 and 2008, respectively. In June 2009, the Chinese government restated a 5.0% tax rebate on the export of edible alcohol to stimulate export. However, the rebate rate was relatively low, which gave little competitive advantage to local producers against international competitors.

**Net Export of Edible Alcohol from China, 2004-2009**



Source: *China Customs*

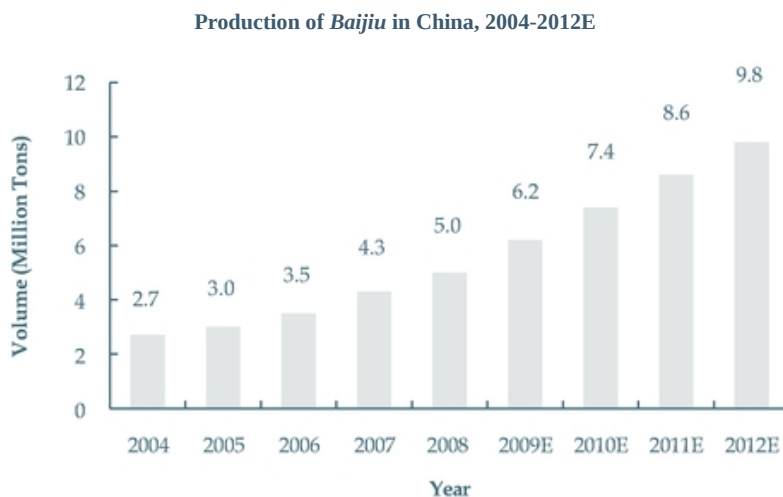
### **Baijiu and Edible Alcohol Demand in China**

*Baijiu* is a type of Chinese distilled alcoholic beverage. It is transparent with no color, and carries a strong alcoholic taste. *Baijiu* is derived from crops, such as corn, wheat and barley and the alcohol content normally ranges from 18% to 68%. *Baijiu* is produced either by direct fermentation or blending with edible alcohol. In 2008, about 70% of *baijiu* produced in China was produced by blending with edible alcohol. Corn-based edible alcohol is predominantly used in blending of *baijiu* because of the more favorable taste and flavor.

According to the Frost & Sullivan Report, *baijiu* consumption has witnessed substantial growth from 2004 to 2009. The total production went up from 2.7 million tons in 2004 to 6.2 million tons in 2009, with a CAGR of 18.1%.

The growth of *baijiu* production is expected to continue to grow in the future, driven by the continuous growth of China's economy. The production of *baijiu* in China is estimated to grow from 6.2 million tons in 2009 to 9.8 million tons in 2012, at a CAGR of 16.5%.

With the growth of *baijiu* production, the demand of edible alcohol from *baijiu* in China is anticipated to keep increasing to 4.5 million tons in 2012 from 2.6 million tons in 2009, representing a CAGR of 20.1%.



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Source: The Frost & Sullivan Report



**Consumption of Edible Alcohol for Baijiu in China, 2004-2012E**



Source: The Frost & Sullivan Report

According to the Frost & Sullivan Report, Sichuan and Shandong were the top two *baijiu* producing provinces in 2008. The top five *baijiu* producing provinces in 2008 together accounted for approximately 56% of *baijiu* production in that year.

**Top Ten Provinces by Baijiu Production in China in 2008**

Rank	Province	Production (thousand tons)	% Production to 2008 Total Baijiu Production in China
1	Sichuan	972	19%
2	Shandong	666	13%
3	Henan	504	10%
4	Liaoning	376	8%
5	Hubei	282	6%
6	Jiangsu	257	5%
7	Anhui	252	5%
8	Inner Mongolia	211	4%
9	Hebei	174	3%
10	Guizhou	160	3%

\* Total production of *baijiu* in China in 2008 = 5.0 million tons

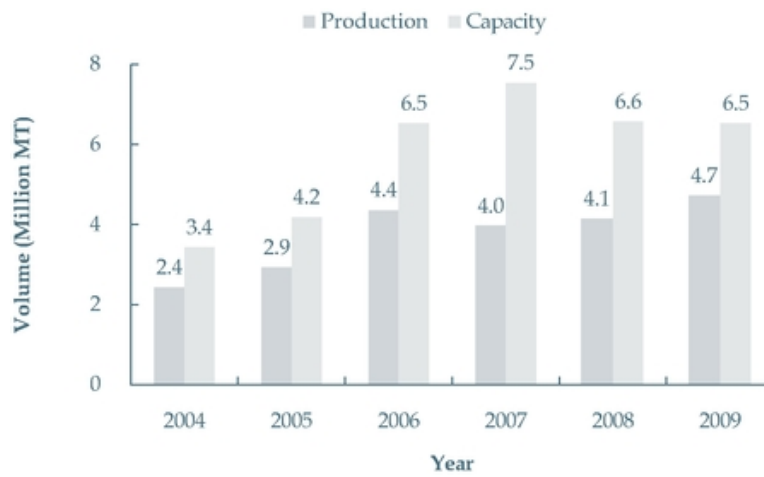
Source: The Frost & Sullivan Report

**Production of Edible Alcohol in China**

According to the Frost & Sullivan Report, the total production capacity of edible alcohol increased from 3.4 million tons in 2004 to 6.5 million tons in 2009. This does not include the 1.6 million tons of capacity from plants with production capacity of below 30,000 tons which are to be closed down by the PRC government by 2010 according to the Notification on the Issuing of the Comprehensive Work Plan on Saving Energy and Reducing Emission announced by the PRC government.

Driven by both domestic and foreign demand, the production volume of edible alcohol rose from 2.4 million tons in 2004 to 4.7 million tons in 2009, representing a CAGR of 14.4%.

**Capacity and Production (China), 2004-2009**



Source: The Frost & Sullivan Report

Jilin and Inner Mongolia were the top two edible alcohol producing provinces in China in 2008. The top five edible alcohol producing provinces accounted for approximately 53% of edible alcohol production in China in 2008.

**Top Ten Provinces by Edible Alcohol Production in China in 2008**



Source: The Frost & Sullivan Report

The Chinese government imposed strict control over the capacity expansion and new company establishment in the edible alcohol industry. In accordance with the Guidance Opinion on Promoting of the Healthy Development of Corn Deep-Processing Industry announced by the PRC government. During the 11<sup>th</sup> Five Year Plan (2006-2010), the PRC government will no longer accept applications for the construction of any corn deep-processing plants and will not allow companies to commence construction of such plants even if they have received approvals for construction but have not yet begun construction. In addition, the Chinese government sets raw material consumption requirements for edible alcohol manufacturers in which the manufacturers are not allowed to consume more than

3.15 tons of corn, 0.98 tons of coal (assuming average 5,000Kcal per ton of coal) and 40 tons of water to produce 1 ton of edible alcohol.

There are over 200 edible alcohol manufacturers in China. However, many of them have production capacities less than 100,000 tons. According to the Frost & Sullivan Report, the top manufacturers, in terms of production capacity, have a much higher capacity utilization rate than the others. Most of these top manufacturers are located in large corn producing provinces in China.

Rank	Company Name	Location	Established Annual Capacity until 2009 (Thousand Tons)	Production Volume in 2009 (Thousand Tons)
1	Meihekou Fukang*	Jilin	450.0	245.0
2	Jilin New Tian Long	Jilin	300.0	280.0
3	China New Borun	Shandong & Heilongjiang	260.0	185.5
4	COFCO Zhaodong	Heilongjiang	220.0	210.0
5	Lianyungang Dongcheng	Jiangsu	200.0	150.0
6	Songyuan Ji'an	Jilin	200.0	130.0
7	Tianjin Guanda	Tianjin	200.0	60.0
8	Zizhong Yinshan Hongzhan	Sichuan	200.0	125.0
9	Jiaozuo Heyang	Henan	130.0	105.0
10	Chengde Bishushangzhuang	Hebei	120.0	80.0

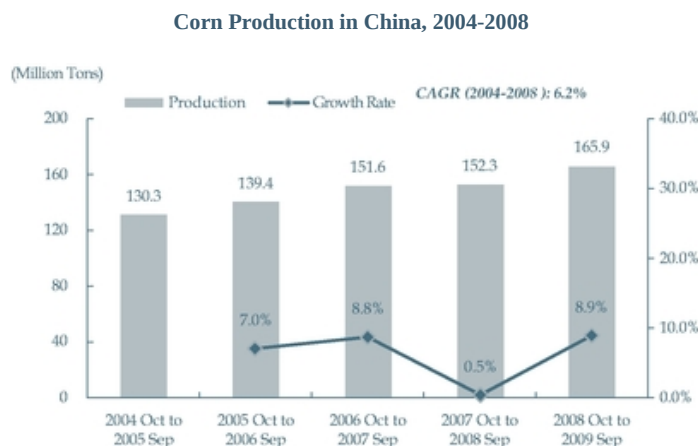
\* Meihekou Fukang launched new capacity of 250,000 in October 2009. Hence, this part of new capacity was only effective for 2 months in 2009.

Source: The Frost & Sullivan Report

### Supply of Corn in China

In China, most edible alcohol is produced from corn, making up approximately 65% of all edible alcohol production in China while cassava and sugarcane accounted for approximately 20% and 10% of production, respectively. The remaining 5% is contributed by other raw materials such as cellulose materials of wood, paper and rags. Corn has a harvest season of September to April.

China is the second largest corn producing country in the world. The production of corn in China has grown in the past few years due to the increase in farmland for corn and also improvement in farming technologies. The production of corn grew from 130.3 million tons in 2004 to 165.9 million tons in 2008, representing a CAGR of 6.2%.



Source: National Bureau of Statistics of China; the Frost & Sullivan Report

Most of the corn growing areas in the PRC are situated in the northeastern provinces, such as Jilin, Shandong, Heilongjiang, Henan and Hebei. These provinces are the key suppliers of corn nationwide. The following chart shows the top 10 provinces in the PRC by corn production in 2008:

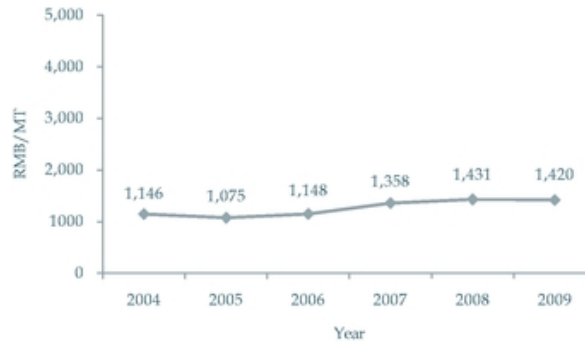
**Top 10 Provinces by Annual Corn Production in China in 2008**



Source: National Bureau of Statistics of China

Due to the strong demand for corn and the government's effort to stabilize the cost of living for rural residents, the price of corn has increased from RMB1,146 (\$167.9) per ton in 2004 to RMB1,420 (\$208.0) per ton in 2009.

**Price of Corn in China, 2004-2009**



Source: The Frost & Sullivan Report

The PRC government has the power to intervene in the price of important types of grain (including corn) under certain circumstances, such as when a material change occurs to the market supply and demand and/or the grain price fluctuates significantly, in order to protect the interests of farmers. In practice, the PRC government will periodically purchase a large amount of corn from farmers and set the price for the corn purchased by the government, resulting in effective guidance of the market price by the PRC government.

According to the Guidance Opinion on Promoting of the Healthy Development of Corn Deep-Processing Industry, the PRC government has declared a 26% cap on the total percentage of corn that can be consumed by the deep corn processing industry (including edible alcohol production) in China

during the 11<sup>th</sup> Five Year Plan (2006-2010) as a way to preserve the stability of corn supply to the general public. In 2008, the percentage of corn consumed by the deep corn processing industry was 25.2%.

## **Overview of the DDGS Feed Market in China**

### *Introduction*

DDGS Feed is a high-protein by-product produced during the manufacturing process of edible alcohol. It contains rich nutrients such as protein, fat, amino acid, vitamins and various kinds of minerals which are all vital for animal growth. DDGS Feed is mainly used for feeding poultry, livestock and fish.

DDGS Feed is formed through drying the residuals from the fermentation process during the production process of edible alcohol or other types of alcoholic beverages. While DDGS Feed can be produced from a wide range of raw materials, including corn, cassava and other grains, corn is the most important raw material of DDGS Feed. According to the Frost & Sullivan Report, the corn DDGS Feed made up 65.0% of the total production of DDGS Feed in 2008.

### *Demand for DDGS Feed in China*

With the continuous improvement of Chinese living standards, the production of meat, eggs and milk have been increasing from 2004 to 2008. The total production of meat, eggs and dairy foods produced grew 21.2% from 113.5 million tons in 2004 to 137.6 million tons in 2008. It is expected that the continuous growth of China's economy and per capita GDP will boost the demand for these essential daily foods and thus the demand for DDGS Feed in the long run.

According to the 11<sup>th</sup> Five Year Plan for the feed industry, the production capacity of concentrated feed, which is a type of mix feed with high protein feed and pre-mixed feed, should reach 30.0 million tons per year. DDGS Feed is a type of high protein feed and thus its demand is likely to increase.

### *Supply of DDGS Feed in China*

The production of DDGS Feed in China has grown substantially from 1.7 million tons in 2004 to 4.0 million tons in 2008, representing a 1.4 times increase or a CAGR of 23.9%. This increase in production is mainly due to the fact that more edible alcohol manufacturers are building DDGS Feed production lines to produce DDGS Feed as a by-product from their edible alcohol manufacturing process in order to generate more revenue.

The production volume of DDGS Feed is expected to grow from 4.0 million tons in 2008 to 7.3 million tons in 2012, equivalent to a CAGR of 16.2%.

The average price of corn DDGS Feed increased approximately 33% from RMB1,200 (\$175.8) per ton in 2004 to RMB1,600 (\$234.4) per ton in 2008. In 2005, the price of DDGS Feed declined to RMB1,050 (\$153.8) per ton mainly due to the decrease in the price of soybeans, the major substitute of DDGS Feed.

## **Overview of Corn Germ Market in China**

### **Introduction**

Corn germ is the reproductive part of corn, which is extracted from the embryo buds from the covering and the starch part of the corn. Corn oil is a type of vegetable oil, which consists of various

nutrients such as vitamin E, magnesium and calcium. Corn germ can be used to produce corn oil due to its rich oil content.

#### ***Demand For Corn Germ in China***

Corn oil consumption in China is estimated to grow from 2009 to 2012 with its outstanding value for health being gradually recognized. The growing demand of corn oil is expected to spur the demand for corn germ. Compared with other types of vegetable oil such as soy oil and peanut oil, corn oil contains more nutrients such as vitamin E, magnesium and calcium. China consumed less corn oil than developed countries such as the United States in 2008. The corn oil consumption in the United States accounted for approximately 10.0% of the total vegetable oil consumption in 2008 while such ratio in China was only about 2.0%. The clear gap, along with the continuous improving of Chinese living standards, indicates that corn oil demand has great potential to grow in China. With its benefits, the demand for corn oil is expected to go up from 2009 to 2012.

#### ***Supply of Corn Germ in China***

In 2008, the corn deep-processing manufacturers, including edible alcohol manufactures, supplied the majority of corn germ in China. Driven by the demand for corn germ oil, the total production volume reached 629,000 tons in 2008, up from 195,000 tons in 2004. Improvement in the techniques for extracting corn germ is expected to increase total production volume. The production volume of corn germ is expected to increase in order to meet the growing demand of corn oil.

## OUR BUSINESS

### Overview

We are a leading producer and distributor of corn-based edible alcohol in the People's Republic of China based on tons of edible alcohol produced. Our edible alcohol products are primarily sold as an ingredient to producers of *baijiu* who further blend our products into finished products sold under various brand names throughout China. "*Baijiu*" is a grain based alcoholic beverage, generally made from corn, wheat or barley, clear in color, with alcohol content ranging from 18% to 68%. *Baijiu* is sold throughout China in retail stores, bars, banquet halls, restaurants and other locations where alcoholic beverages are typically consumed. *Baijiu* is consumed in almost all the occasions in China where alcoholic beverage is desirable, from daily residential consumption, gatherings of family and friends, business and social occasions, to the Chinese Spring Festival celebrations. In China, consumption of *baijiu* is generally associated with a higher standard of living.

We believe our in-house developed manufacturing process results in a cost effective, consistent and superior product widely sought by *baijiu* producers. Producers of *baijiu* often have distinctive taste and flavor profiles that are achieved through proprietary recipes and blending techniques. The consistency and quality of the alcohol ingredient we supply to them is an important aspect in consistently achieving their final taste and flavor profiles.

During the production of edible alcohol, we also produce DDGS Feed and corn germ as by-products which are sold separately from our edible alcohol. We are also constructing facilities to manufacture liquid carbon dioxide from waste carbon dioxide emitted during our production process, in order to create additional streams of revenue.

In China, edible alcohol can be classified into Grades A, B and C (see "Our Industry—Overview of the Chinese Edible Alcohol Industry"). Currently, we sell both Grade B and Grade C edible alcohol, and we intend to sell more Grade B edible alcohol upon completion of our capacity expansion. Grade B edible alcohol has a higher ethanol content than Grade C alcohol and thus can be sold at a higher price than Grade C edible alcohol.

Based upon our knowledge of our industry and our ongoing patent application, we believe our in-house developed Borun Wet Process has a higher production yield, is environmentally friendlier and has a higher energy efficiency as compared to other producers of commercially available corn-based edible alcohol in China. The State Intellectual Property Office of the PRC accepted our application for a patent of invention for the Borun Wet Process and as of the date of this prospectus, such application is under review for approval. Based upon our knowledge of our industry and our ongoing patent application, we believe we are the only corn-based edible alcohol producer in China utilizing our method (see "Our Business—Intellectual Property").

We currently own and operate two facilities: one in Shouguang, Shandong Province and the other in Daqing, Heilongjiang Province. Our Shouguang facility occupies a site area of 102,909.28 square meters and has an annual production capacity of 160,000 tons of corn-based edible alcohol (90,000 tons of Grade B edible alcohol and 70,000 tons of Grade C edible alcohol). Our Daqing facility occupies a site area of 219,156 square meters and currently has an annual production capacity of 100,000 tons of corn-based edible alcohol (70,000 tons of Grade B edible alcohol and 30,000 tons Grade C edible alcohol). We plan to construct an additional 120,000 tons of capacity (all Grade B edible alcohol) at our Daqing facility, currently expected to commence commercial production in November 2010. We believe our Shouguang and Daqing facilities are the largest privately-owned corn-based edible alcohol producers in Shandong Province and Heilongjiang Province, respectively. Our Daqing facility is licensed to build up to 330,000 tons of production capacity of edible alcohol.

We believe we will be the largest producer of corn-based edible alcohol in China, based on current known production capacity following complete development of the Daqing facility.

Corn, which we purchase from local farmers and distributors, is the most important raw material used in our production process. Prices of corn are generally higher during non-harvest season than the harvest season and are the lowest in the northeastern region of China. In order to minimize our corn cost and secure supply during the non-harvest season, in November 2009 we entered into framework agreements with local granaries in Heilongjiang Province to purchase corn on our behalf from local farmers during the harvest season and to store the corn for delivery. Such supply contracts provide us access to corn at prices which we believe have historically been below the spot market price in the off season and times of high price volatility due to crop failures and other factors. We believe these arrangements will substantially satisfy our corn consumption at our Shouguang and Daqing facilities during the non-harvest season. We pay 10-20% of the corn purchase price up front to the granary and in some cases the Agricultural Development Bank funds the balance of the purchase price for the granaries. The agreements stipulate the amount of corn the local granaries have to purchase on our behalf and we make our purchase request to the local granaries in stages, stating the amount and purchase price determined with reference to the then prevailing market prices of purchasing directly from the farmers. The corn is stored by the granary until we request delivery. We have entered into framework agreements with nine granaries and four granaries in Heilongjiang Province to supply in total approximately 282,000 tons and 155,000 tons of dried corn to our Shouguang facility and Daqing facilities, respectively, in 2010.

From 2007 to 2009 our revenue grew from RMB487.3 million (\$71.4 million) to RMB1,060.5 million (\$155.4 million), representing a CAGR of 47.5%. In the same period, our net income grew from RMB58.7 million (\$8.6 million) to RMB166.4 million (\$24.4 million), representing a CAGR of 68.4%.

### ***Our Competitive Strengths***

#### ***Leading Position in the Corn-Based Edible Alcohol Market in the PRC***

We are one of the largest corn-based edible alcohol producers in the PRC in terms of production capacity and production output of edible alcohol in 2009, according to the Frost Report. We believe that our leading position plays an important role in negotiating and securing contracts with customers and suppliers and recruiting talent. We enjoy economies of scale over our competitors having a smaller production scale. Accordingly, we believe these enhance our overall competitiveness and are important to our future growth.

#### ***Efficient Production Technology***

Our production management professionals have independently developed the Borun Wet Process for the production of edible alcohol. Based upon our knowledge of our industry and our ongoing patent application, we believe that we are the only corn-based edible alcohol manufacturer that utilizes such a technology in China. The State Intellectual Property Office of the PRC has accepted our application for a patent of invention for our Borun Wet Process. Compared to the dry milling process used by other producers in China, our Borun Wet Process has a higher production yield and consumes less energy and water due to our higher degree of waste energy recovery. The wet process method also enables us to produce corn germ, which generates an additional stream of revenue compared to producers utilizing the dry method.

The average amount of corn which we used to produce one ton of edible alcohol in each of 2007, 2008 and 2009 was 3.06, 3.05 and 3.03 tons, respectively. Thanks to our continuous optimization of



our production process, our Shouguang facility produced each ton of edible alcohol from an average of 2.98 and 2.95 tons of corn in 2009 and the last quarter of 2009, respectively.

#### ***Geographical Advantage of our Production Facilities***

Our production facilities are situated in Shandong Province and Heilongjiang Province in the PRC. Heilongjiang Province is in the northeast region of the PRC and is one of the largest corn production provinces in the PRC. There are also a significant number of large and mid-sized local *baijiu* distilleries situated in Shandong Province and Heilongjiang Province. The location of our production facilities in Shandong Province and Heilongjiang Province enables us to gain access to the *baijiu* distilleries, potential customers as well as a stable supply and lower cost for corn, our primary raw material.

#### ***Licensed to Increase Production Capacity***

Our Daqing facility has a government-issued production license to produce 330,000 tons of edible alcohol, an additional 230,000 tons over the current production capacity of 100,000 tons. We believe that the approved production license for our Daqing facility ensures that we can expand our capacity in order to capitalize on future market opportunities in the near future. We believe that we are in an advantageous position in responding to the expected growing market demand for edible alcohol.

#### ***Corn Sourcing Arrangements***

We have entered into framework agreements with local granaries in Heilongjiang Province, where corn prices are the lowest in the northeastern region in China, to engage them to purchase corn on our behalf from local farmers during the harvest season and store them for delivery to substantially satisfy our corn requirements for our Shouguang and Daqing facilities during the non-harvest season in 2010. We intend to continue with these arrangements in the future and we believe they will enable us to minimize our corn consumption costs and secure a sufficient corn supply through purchasing earlier in the year for the non-harvest season. Accordingly, we believe this arrangement enhances our price competitiveness.

#### ***Experienced Management Team***

Our management team includes our founder, Mr. Jinmiao Wang, who has been engaged in the production of corn-based edible alcohol in the PRC since 2004. Such experience has enhanced Mr. Wang's knowledge and understanding of the corn processing industry and laid the foundation for his development of our edible alcohol business. We believe that our management team's knowledge of the edible alcohol industry will enable us to continue to respond efficiently to challenges created by changing market conditions.

#### ***Our Strategies***

##### ***Continuous Expansion of Production Capacity—Construction of Phases III and IV of our Daqing Facility***

At the end of 2009, we had a total production capacity of 260,000 tons of corn-based edible alcohol (consisting of 160,000 tons of Grade B edible alcohol and 100,000 tons of Grade C edible alcohol) while we are permitted to build facilities to produce up to 490,000 tons of edible alcohol (390,000 tons of Grade B edible alcohol and 100,000 tons of Grade C edible alcohol) under our current production licenses. We plan to use part of the proceeds from this offering to finance the construction of the 120,000 ton Grade B edible alcohol Phase III at our Daqing facility. This expansion is currently under construction and is expected to commence commercial production in November 2010. We intend to commence construction of Phase IV at our Daqing facility (all Grade B edible alcohol) in 2011 to bring the total production capacity of the Company to 490,000 tons of

edible alcohol. It is our intention that our future facilities will produce Grade B edible alcohol which currently has a higher gross profit margin than Grade C edible alcohol.

#### ***Customer Diversification***

We sell our corn-based edible alcohol largely to local distilleries of medium to high quality *baijiu* in Shandong Province and Heilongjiang Province, Sichuan Province, Anhui Province and Jiangsu Province. We plan to expand our sales to other provinces to diversify our customer base. We intend to sell our edible alcohol to western and southern provinces such as Guizhou where we believe that the domestic edible alcohol production fails to meet local demand and prices for edible alcohol are significantly higher than the northern China region due to shortage of production.

According to the Frost Report, Sichuan Province is the largest *baijiu* production base in China. Currently, we are marketing our edible alcohol to customers in Sichuan Province and will continue to develop business opportunities in that region. From December 2009, we started selling edible alcohol to customers in Sichuan Province. We intend to establish a sales office in Sichuan Province in the third quarter of 2010.

To step up our marketing effort and enhance our reputation in the industry, we intend to increase our local marketing initiatives and set up regional sales offices in strategically important provinces.

#### ***Opportunistic Acquisitions***

As the PRC Government, in principle, will not approve the construction of new corn deep-processing plants for edible alcohol according to current policies, we intend to look for acquisition opportunities to expand our production capacity. We will consider medium-sized dry milling edible alcohol production plants where we can improve the production technologies by converting their production processes to our more advanced Borun Wet Process.

By becoming one of the few listed edible alcohol producers in China with an efficient and environmental-friendly corn processing technology, we believe we will become one of the key consolidators in the edible alcohol industry. With our recent successful experience of acquiring the Daqing facility, we are confident in our ability to carry out similar acquisitions in China efficiently and effectively. Currently, we have neither identified nor negotiated with any edible alcohol producer with respect to a possible acquisition.

#### ***Development of New By-Product—Liquid Carbon Dioxide***

We intend to install facilities to produce liquid carbon dioxide in both of our Shouguang and Daqing facilities by recycling carbon dioxide produced from our production process. Our wet process produces carbon dioxide which is emitted openly under the current design. Liquid carbon dioxide is used extensively in oil exploitation to enhance oil recovery, especially in the tertiary phase of oil exploitation, and as a food additive by food and beverage companies. We expect to sell our liquid carbon dioxide to the Daqing Oilfield and the Shandong Shengli Oilfield, the largest and the second largest oilfields in China, respectively. Accordingly, in addition to reducing carbon dioxide emissions, we can generate an additional stream of revenue. We have entered into a letter of intent to sell 50% of our liquid carbon dioxide produced at our Shouguang facility to an oil service company in Shengli Oilfield. We are also in discussion with a number of food and beverage companies in Shandong Province to sell our liquid carbon dioxide as a food additive.

We expect to complete the installation of the liquid carbon dioxide production facilities at our Shouguang facility in 2010, and we intend to install such facilities at our Phase III Daqing facility. We intend to eventually equip our entire Daqing facility with carbon dioxide recycling facilities.

### ***Continuous Improvement of our Borun Wet Process***

Our production team has continued to enhance the process by varying conditions of our Borun Wet Process such as temperature, enzyme and acidity applied in the Borun Wet Process which has led to a consistently higher yield of edible alcohol from corn and lower energy consumption than what we believe is typical for the market. We are currently developing a process for implementation in Phase III at our Daqing facility where we will ferment raw corn directly which will reduce our energy consumption and enhance our yield of production.

Leveraging on our current success, we intend to continue to invest in research and development, especially in process technology, to improve our products and sustain our competitive edge. In this regard, we are in discussions to collaborate with local academies to set up a research center at our Shouguang facility.

### ***Our Products and Primary Markets***

Our principal product is corn-based edible alcohol. In our production of corn-based edible alcohol, we also produce DDGS Feed and corn germ as by-products. Based on our production record during the year ended December 31, 2009, approximately 3.03 tons of corn produced 1 ton of edible alcohol, 0.69 tons of DDGS Feed and 0.20 tons of corn germ. We also plan to produce liquid carbon dioxide by recycling waste carbon dioxide produced during our production process.

#### ***Edible Alcohol***

Edible alcohol is a colorless, transparent solution of ethanol or a mixed solution of water and ethanol that is produced through the filtration and refined distillation of fermented grain and yeast. We produce our edible alcohol through the distillation of fermented corn. Edible alcohol is an organic product used in various industries to produce a wide range of other products including alcoholic drinks, cleaning solvents, perfumes, cosmetics, dyes, medicines and fuel. The overwhelming majority of our customers are in the beverage and food industry, followed by the chemical industry and pharmaceutical industry. During the fiscal years ended December 31, 2007, 2008 and 2009, sales of edible alcohol accounted for 77.2%, 73.9% and 68.7% of our revenues, respectively.

In the food and beverage industry, edible alcohol is used for the production of *baijiu*, sparkling and other fruit wines and as a food additive. We produce Grade B edible alcohol, being alcohol having a concentration of 95.5%, at Phase II of our Shouguang facility (90,000 tons) and at Phase II of our Daqing facility (70,000 tons), and we produce Grade C edible alcohol, being alcohol having a concentration of 95%, at Phase I of our Shouguang facility (70,000 tons) and at Phase I of our Daqing facility (30,000 tons). In general, Grade B edible alcohol commands a higher market price than Grade C edible alcohol. The principal market for our edible alcohol is comprised of sales to producers of intermediate and high grade *baijiu*. During the fiscal years ended December 31, 2007, 2008 and 2009, 44.7%, 60.5% and 79.6%, respectively, of our edible alcohol sales revenue were attributable to the sale of edible alcohol to distilleries of *baijiu*.

A portion of our customers are in the chemical industry and use edible alcohol for chemical products such as acetic acid and glycol. During the years ended December 31, 2007, 2008 and 2009, revenue generated from the sale of edible alcohol to the chemical industry contributed 23.5%, 19.3% and 13.1% of our edible alcohol sales revenue, respectively.

A small number of our customers are in the pharmaceutical industry, where edible alcohol is used as disinfectant, preservative or a feedstock to produce different organic agents. During the years ended December 31, 2007, 2008 and 2009, 31.8%, 20.2% and 6.1% of our edible alcohol sales revenues, respectively, were attributable to the sale of edible alcohol to the pharmaceutical industry.

The average selling price of our edible alcohol per ton for each of the years ended December 31, 2007, 2008 and 2009 was approximately RMB4,701 (\$688.7), RMB4,707 (\$689.6) and RMB4,008 (\$587.2), respectively.

#### ***DDGS Feed***

DDGS Feed is a high-protein by-product of edible alcohol which contains rich proteins, fats, amino acid, vitamins and various kinds of minerals which are vital to animal growth and suitable for feeding poultry, livestock and fish. DDGS Feed is a digestible protein and energy source for beef cattle, can be used in turkey and swine applications and acts as a feed for both feedlot and dairy cattle. DDGS Feed is also fed to poultry and its use is increasing in the pork industry. DDGS Feed is formed through a distillation, evaporation and drying process which occurs after microbial fermentation of corn in the process of edible alcohol production. In the production of edible alcohol, only starch from the corn is used and the remaining nutrients (such as protein, fiber and oil) are used to produce DDGS Feed.

The main market for our DDGS Feed is comprised of sales to feed processing factories which provide DDGS Feed to poultry, livestock, cow, sheep, chicken, ducks and fish. During the years ended December 31, 2007, 2008 and 2009, sales of DDGS Feed contributed to 13.6%, 16.4% and 21.3% of our revenues, respectively. The average selling price of our DDGS Feed (per ton) for each of the years ended December 31, 2007, 2008 and 2009 was approximately RMB1,411 (\$206.7), RMB1,652 (\$242.0) and RMB1,794 (\$262.8), respectively.

#### ***Corn Germ***

Corn germ is a food product which is created through the process of isolating the embryo buds in corn by removing the outer covering and starch. Corn germ contains the most useful nutrients in the corn kernel. Corn germ is rich in a variety of vitamins and nutrient contents including vitamin E, magnesium and calcium. Corn germ generally has a longer shelf life and contains higher levels of some nutrients than wheat germ. Corn germ contains rich oil content and can also be used for producing corn germ oil, which is already consumed in western countries for its vitamin A and E content and has been growing in popularity in China in recent years.

The main market for our corn germ is comprised of sales to corn oil producing enterprises. During the years ended December 31, 2007, 2008 and 2009, sales of corn germ contributed to 8.7%, 9.3% and 9.7% of our total revenues, respectively. The average selling price of our corn germ per ton for each of the years ended December 31, 2007, 2008 and 2009 was approximately RMB4,200 (\$615.3), RMB4,169 (\$610.8) and RMB2,816 (\$412.5), respectively.

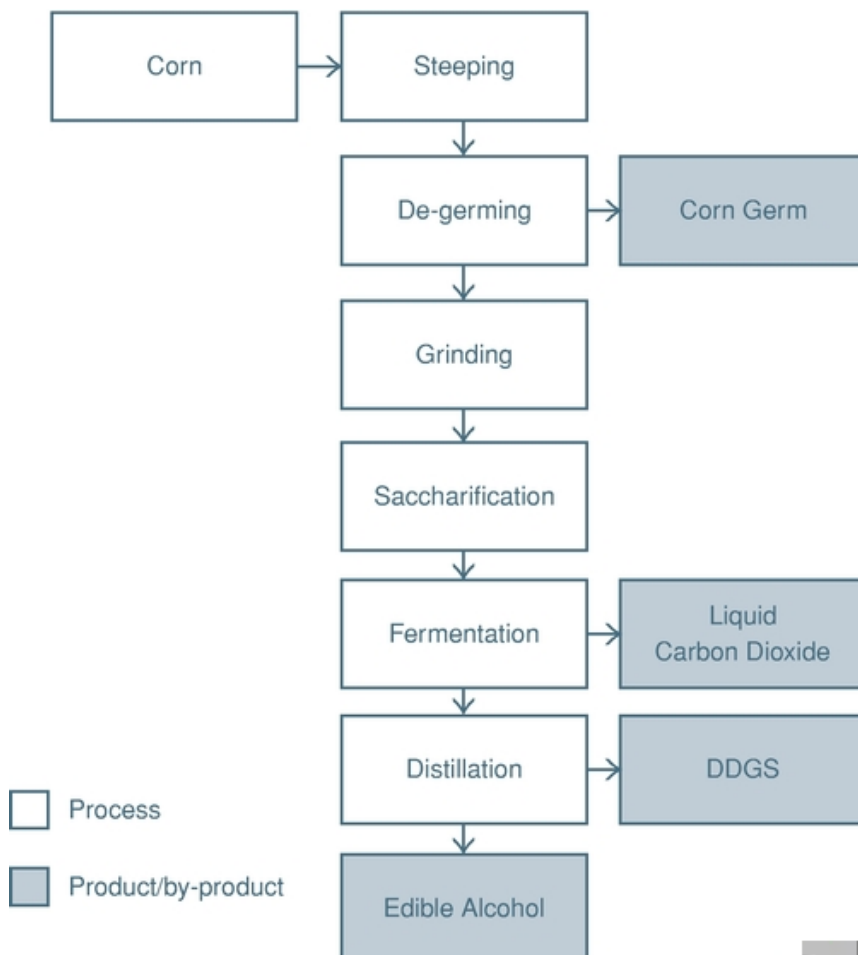
#### ***Product Under Development—Liquid Carbon Dioxide***

We currently have a plan at our Shouguang facility to develop liquid carbon dioxide. During the process of fermenting corn, waste carbon dioxide is generated (the production of one ton of edible alcohol generates approximately 0.7–0.8 ton of waste carbon dioxide) and such waste carbon dioxide is discharged into the atmosphere. Our plan is to build a 100,000 ton liquid carbon dioxide production line, which we believe will not only generate revenue but also serve to reduce air pollution by recycling waste carbon dioxide. Liquid carbon dioxide is used extensively in oil exploitation to enhance oil recovery, especially in the tertiary phase of oil exploitation, and as a food additive by the food and beverage industry. We expect to sell our liquid carbon dioxide to the Daqing Oilfield and the Shandong Shengli Oilfield, the largest and the second largest oilfields in China, respectively. We have entered into a letter of intent to sell 50% of our liquid carbon dioxide produced at our Shouguang facility to an oil service company in Shengli Oilfield. We are also in discussion with a number of food and beverage companies in Shandong Province to sell our liquid carbon dioxide as a food additive.

We estimate that the total investment for this project is approximately RMB90 million (\$13.2 million). The design for this process has been completed and we have entered into a letter of intent to purchase equipment for this project. We intend to finance this project using the income generated from our business. The project is estimated to be completed in 2010. After the completion of the liquid carbon dioxide production line with 100,000 tons capacity at our Shouguang facility, we plan to then construct another liquid carbon dioxide production line having 160,000 tons capacity at our Daqing facility. However, we have not entered into any agreements for the construction at such facility.

**Our Production Technology**

Our production technology is a departure from the traditional dry milling adopted in China of smashing dry grains and then adding water for size mixing prior to pulverization, fermentation and distillation. Our Borun Wet Process instead involves first steeping (approximately 30 hours) and then de-germing the corn kernel after which we smash the residual material with a colloid mill (a machine that is used to reduce the particle size of a solid which is suspended in a liquid) prior to fermentation (approximately 65 hours) and distillation. Below shows a simplified flowchart of our Borun Wet Process.



Note: Liquid Carbon Dioxide is a new by-product to be produced in 2010. Currently carbon dioxide is emitted as waste gas.

Through the implementation of our self developed production process we have the ability to extract corn germ from the corn, enabling us not only to generate revenue from the sale of such corn germ but also to save on energy costs by removing corn germ from the process. The extraction of corn germ reduces the content of fusil oil in the alcohol, which improves the purity of the product and taste. During the traditional method, corn germ remains in the process and is ultimately converted into corn germ lipids (fats), the presence of which during a later stage of waste water treatment inhibits the production and output of methane. Since we recycle methane through an anaerobic process to supplement our fuel needs (for heating our boilers, for example), the absence of corn germ (and thus, corn germ lipids) in the Borun Wet Process during such water treatment stage increases our yield of methane, thereby reducing our dependence on coal for our energy needs.

Our Borun Wet Process has been developed by our team of professional technicians through years of research and refinement. We believe the key to our gradual improvement on our production technology is our understanding and control of temperature and acidity as well as other key parameters during each stage of the production process. This understanding and application requires continuous and long-term research by our technical professionals as well as the timely inspection, adjustment and replacement of key components of our equipment. Although we understand that there are companies in other countries such as the United States that employ similar methods. Based upon our knowledge of our industry and our ongoing patent application, we believe that we are the only edible alcohol manufacturer that utilizes such a technology in China. The State Intellectual Property Office of the PRC accepted our application for a patent of invention for our wet process.

In addition to our production technology described above, we have modern production lines with state of the art equipment. For example, we now utilize five-tower fermentation and distillation equipment which enables us to produce a higher grade (Grade B) edible alcohol as opposed to three-tower equipment which generally produces ordinary grade (Grade C) edible alcohol. Most edible alcohol producers in China have three-tower equipment and thus our Borun Wet Process produces a purer, higher quality product which we believe will increase our popularity among customers.

### ***Our Supply of Electricity***

Our Shouguang and Daqing facilities were designed and built to be self-sufficient in power supply through the construction of their own coal-fired power generating systems. Our Shouguang power generating system consists of two turbines with total maximum electricity generating capacity of 14,000KW. The capacity utilization rate of our Shouguang power generating system was 60.7% in 2009. Our Daqing power generating system consists of one turbine with total maximum electricity generating capacity of 6,000KW and a utilization rate of 91.7% in 2009. To satisfy the electricity demand from our Phase III Daqing facility, we intend to construct additional coal-fired power generating systems with two turbines, adding total maximum electricity generating capacity of 24,000KW. We expect that the new power generating system for our Phase III Daqing facility will allow us to continue to be self-sufficient in power supply. Each of our Shouguang and Daqing facilities is connected to the national grids which allow us to access electricity from the local grid (to the extent available) when our turbines are under repair or their operations otherwise interrupted.

We carry out inspection, maintenance and repair works for our electricity supply system regularly to ensure a stable and continuous supply of electricity to our manufacturing facility and reduce the possibility of system failures. We carry out a full-scale inspection and maintenance program for our electricity supply system annually. This inspection and maintenance program takes approximately a week to complete. Once a stoppage in electricity occurs, our power generating systems take a few hours to return to normal output efficiency levels.

### ***Environmental Protection***

We strive to meet all applicable environmental standards and seek to increase recycling and waste energy recovery. We believe that our Borun Wet Process is an environmentally clean production technology with little pollution or discharge. We produce excess heat, solid waste from coal burning, wastewater and generate carbon dioxide and methane in our production process. The wastewater produced is subject to applicable national and local discharge limits.

For example, due to the abundance of methane output, we can reach the discharge standard in the wastewater treatment as our COD content is less than 50 milliliters per cube, which exceeds the Chinese minimum national standard requirement of 100 milliliters ("COD" is often measured as a rapid indicator of organic pollutants in water, is typically measured in both municipal and industrial wastewater treatment plants and gives an indication of the efficiency of the treatment process). We also recycle methane produced in our wastewater treatment process to generate electricity.

We have pollution control system in relation to our wastewater discharge installed in all of our production plants. These systems are connected directly to local environmental bureaus so that the local environmental bureaus can monitor whether our wastewater discharge is up to the relevant environmental standard. Except as otherwise disclosed in this prospectus, we are currently in full compliance with relevant environmental regulations.

In the process of burning coal to supply electricity, we produce solid waste which is sold normally for road building or as a type of construction material.

### ***Quality Control Measures***

We recognize the importance of stringent quality controls in our production and have established quality control departments responsible for implementing quality control measures and monitoring quality control policies and procedures. Quality control measures are in place throughout the production process to ensure that the finished products will meet our quality standards. We test raw materials, work-in-progress and finished products at our facilities throughout the production process.

Our quality control policies and procedures include: (1) a set of management policies for production, including the technical standards, detailed operational guidelines, procedures for updating technical data and on-going analyses of technical indicators; (2) detailed descriptions of the duties of each person involved in the production of our products, (3) the implementation of detailed reporting and transitional systems; (4) periodic assessments of the effectiveness of technical data and the quality of management; (5) the establishment of detailed operational procedures over key production cycles such as fermentation and distillation; and (6) incentive plans encouraging staff in the improvement of production quality and efficiency.

In addition, each of our quality control departments performs on-site inspection of corn at granaries or when raw materials are delivered to ensure that they meet the required standards.

### ***Our Research and Development***

We spent approximately RMB79,200 (\$11,602.9), RMB120,000 (\$17,580.1) and RMB201,600 (\$29,534.6) during the fiscal years ended December 31, 2007, 2008 and 2009, respectively, on Company-sponsored research and development activities, including, without limitation, all activities in respect of our in-house developed Borun Wet Process, as determined in accordance with US GAAP.

We currently have a research and development department staffed with ten individuals that have qualifications in various disciplines including fermentation engineering, biological technology and

applied biology and food engineering. Our research and development team is mainly responsible for the cultivation and selection of enzymes for fermentation, improvement of our production technique and processes, improvement of the quality of our products and collating industry standards and information and ensuring we are abreast of advance technologies.

We also intend to collaborate with science and academic institutions to explore means to refine our production technologies and improve product quality. We are in discussions with local academies to set up research centers in our Shouguang facility.

We believe the key to our gradual improvement in our production technology is our understanding and control of temperature, enzyme and acidity as well as other key parameters during each stage of the production process. This understanding and application requires continuous and long-term research by our technical professionals as well as the timely inspection, adjustment and replacement of key components of our equipment.

#### ***Our Production Facilities and Current Production Capabilities***

We have two production facilities, one in the city of Shouguang, Shandong Province (our Shouguang facility) and one in Daqing City in Heilongjiang Province (our Daqing facility). Our Shouguang facility has a government- issued production license to produce 160,000 tons of edible alcohol per year. We believe our Daqing facility has a government-issued production license to produce 330,000 tons of edible alcohol, however its current production capacity is only 100,000 tons (which will increase to 220,000 tons after the completion of Phase III at our Daqing facility).

Our Shouguang facility is ten kilometers from the Yangkou Port, which is located in the northern part of the city of Shouguang, Shandong Province, at the mouth of Xiaoqinghe River on the southwest coast of Laizhou Bay of the Bohai Sea in eastern China. The facility occupies a land area of 1,107,705 square feet (approximately 102,909.28 square meters) and employs 474 Company-trained employees. There are direct routes from the Yangkou Port to Japan, Korea, Singapore, Hong Kong, Macau and other countries and regions. The Bohai Sea Rim Economic Circle, where the port is situated, is one of the most active regions in China's economy.

At our Shouguang facility, we have two production lines in which the first production line was completed in 2006 to produce Grade C edible alcohol with a designed capacity of 60,000 tons per annum while the the second production line was completed in August 2009 to produce Grade B edible alcohol with a designed capacity of 80,000 tons per annum. Currently, annual production capacity of our Shouguang facility is 160,000 tons of edible alcohol. And we believe that our Shouguang facility is the largest edible alcohol manufacturer in Shandong Province, based on the Frost & Sullivan Report.

Our Daqing facility is located in the Corn Industrial Park of the Datong District of Daqing City in Heilongjiang Province in northeastern China. The facility occupies a land area of 2,358,978 square feet (219,156 square meters) and employs 388 company-trained employees. Based on the Frost & Sullivan Report, we believe Daqing facility is one of the largest private enterprises and edible alcohol manufacturers in Heilongjiang Province and, as a result, we enjoy preferential policies which promote investment from the local and provincial governments.

We acquired our Daqing facility in July 2008 and placed this facility into production at the end of 2008 with one production line. Upon completion of Phase II at our Daqing facility in August 2009, our annual production capacity at that facility became 100,000 tons of edible alcohol. Upon completion of our Phase III Daqing facility, our annual production capacity at that facility will be 220,000 tons of edible alcohol.



Below summarize the actual production level for each of our products from 2007, 2008 and 2009:

	Year ended December 31,		
	2007	2008	2009
	Ton	Ton	Ton
<b>Edible alcohol</b>	83,713	89,722	185,549
<b>DDGS Feed</b>	51,088	54,758	127,540
<b>Corn germ</b>	10,941	12,366	36,386

#### ***Our Customers and Methods of Distribution of our Products***

Our customers are primarily local *baijiu* distilleries in Shandong and Heilongjiang Provinces. And currently, we sell over 95% of our edible alcohol to 35 customers in Shandong & Heilongjiang Province.

Historically, our customers placed purchase orders with us regularly. In late 2009 and early 2010, we entered into long-term sales contracts for our edible alcohol with certain key customers, who have plans to purchase 84% of our total production capacity in 2010. Their planned purchases will also account for over 80% of the production capacity of our Shouguang facility in both 2011 and 2012.

In the first quarter of 2010, our Shouguang facility entered into three 12-month sales contracts and 15 three-year sales contracts with local distilleries in which we are obliged to supply a total of 121,000 tons, 131,200 tons and 128,400 tons of edible alcohol at prevailing market prices in 2010, 2011 and 2012, respectively. In these contracts, we will be required to produce edible alcohol with specific standards of quality on a pre-determined schedule. Our customers are required to settle our bills in one month or they will be required to pay penalties as well.

Our Daqing facility also entered into four 12-month sales contracts with local distilleries in December 2009 in which we are obliged to supply a total of 98,400 tons of edible alcohol at prevailing market prices in 2010 according to a pre-determined schedule, and our customers will pick up edible alcohol at our Daqing facility.

After our expansion of our Daqing facility in August 2009, we began using two railways and one 1,000 meter-long train station to deliver our products. The station is approximately five kilometers away from our Daqing facility. The railways and the station were specifically designed for the transportation of edible alcohol from our Daqing facility. This allows us to transport our products to customers in Jiangsu, Zhejiang, Shanghai, Fujian, Guangdong, Sichuan and other regions in southern China. We started selling in and transporting our edible alcohol to Sichuan Province in December 2009.

During the years ended December 31, 2007, 2008 and 2009, there was no single customer from which we generated more than 10% of total sales for any of our products.

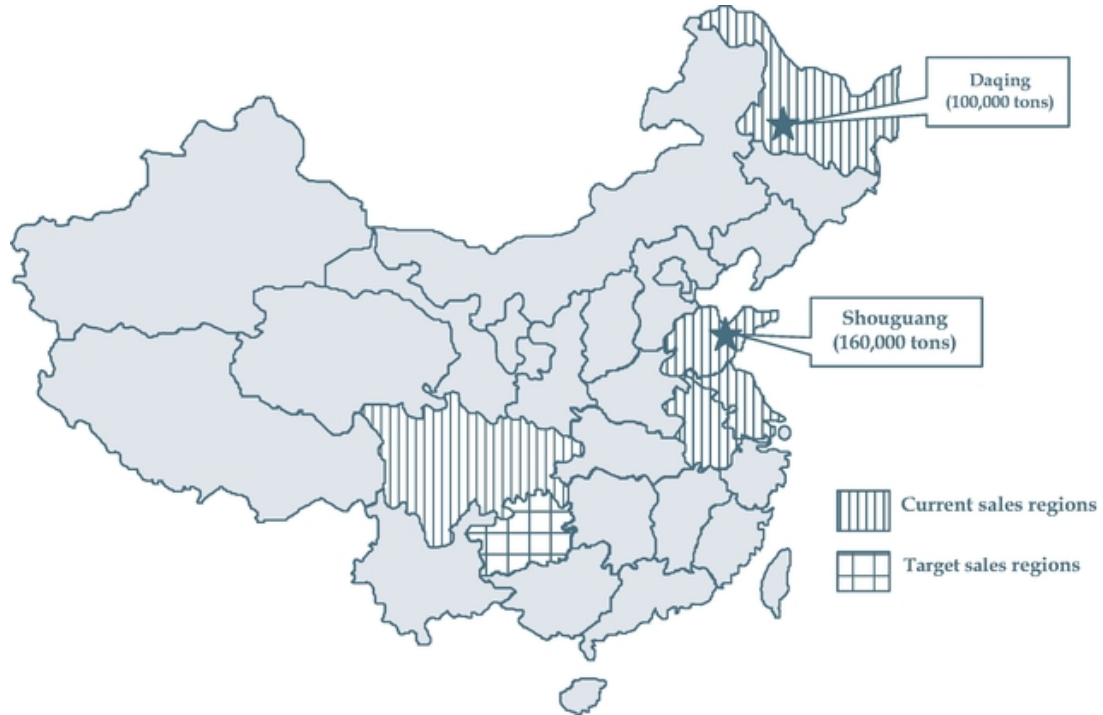
Most of our orders for edible alcohol are made by customers who arrange to come to our facilities to pick up their orders at our facilities. However, we do make deliveries under special arrangements to approximately 20% of our edible alcohol customers who will be liable to the costs of the arrangements. For DDGS Feed and corn germ, 100% our customers come to our facilities to pick up their orders and we have never been in charge of delivery and transportation for such by-products. This is common and consistent with the terms of our contracts with such customers and such customers usually make payments after they acknowledge their acceptance of such products (usually within one month of receipt of the products by such customers). We do not allow for payments to be deferred beyond one month as stipulated in our purchase orders.

In the case of deliveries for our edible alcohol, the charge for delivery is determined by the distance of the transportation. For automobile transport, the freight is RMB0.4 (\$0.059) per kilometer, per ton. For train transportation, the cost is RMB0.27 (\$0.040) per kilometer, per ton. Edible alcohol is transported using alcohol tankers for both road and rail. Generally, we will enter into a transportation contract with a delivery company and then we assign an escort to accompany the shipment in order to ensure the safe delivery of the product and to ensure our customers' satisfaction. The party who causes the loss during such transportation is responsible for the cost of such loss.

We have never had any significant delays in the delivery of our edible alcohol under such special arrangements and our delivery customers have been satisfied with our service. We do not depend on any single delivery company or a few delivery companies such that the loss of any one or more of which would have a material adverse affect on our business.

***Our Sales and Marketing***

We have a sales and marketing team of 25 employees. We have a sales manager overseeing our overall sales and marketing initiatives. And our Shouguang and Daqing facilities have their own sales and marketing teams which are responsible for sales and marketing of our products in different districts. Our Shouguang and Daqing sales and marketing teams consist of twenty and five employees, respectively.



We have our own sales team to market our products, and we do not sell our products through any distributors. Our sales teams in Shandong Province and Heilongjiang Province market our products directly to our customers. Due to the strong local demand for edible alcohol in Shandong Province, we expect that all of our products manufactured at our Shouguang and Daqing facilities will continue to be sold in the local market. In December 2009, we started selling edible alcohol produced from our Daqing facility in Sichuan Province as a strategy to diversify our customer base geographically. We expect to sell more edible alcohol to provinces other than Shandong Province and Heilongjiang

Province in the future. We plan to sell most of our edible alcohol from Phase III at our Daqing facility to provinces other than Shandong and Heilongjiang Provinces.

We price our products based on their respective prevailing market prices taking into account factors such as our manufacturing costs, and to a lesser extent, order size. As corn and coal are the key materials for our production, any fluctuation in the supply or price of either of these have an impact on our pricing determination. We convene meetings regularly to determine the price of our products. The general manager, sales manager, financial controller and sourcing manager participate in these meetings. Our customers generally pay at the time of receipt of our delivery or within one month after their receipt of our products, resulting in a very short accounts receivable cycle. For new customers, we may also require a prepayment before delivery of our products.

### ***Our Suppliers and Raw Materials***

At our Shouguang facility, we formerly sourced corn through the following channels: (1) from distributors in Jilin and Liaoning Province, which accounted for most of our corn supply; and (2) from local farmers in Shandong Province. At our Daqing facility, we formerly sourced corn through the following channels: (i) from distributors in Heilongjiang Province; and (ii) from the local farmers in Heilongjiang Province.

Beginning in November 2009, we entered into framework agreements with local granaries in Heilongjiang Province, where corn prices are the lowest in the Northeastern region of China, to engage them to purchase corn on our behalf from local farmers during the harvest season and store them for delivery to substantially satisfy the corn requirements of our Shouguang facility and Daqing facility during the non-harvest season in 2010. Such supply contracts provide us access to corn at prices which we believe have historically been below the spot market price in the off season and times of high price volatility due to crop failures and other factors. We intend to satisfy our corn consumption at our Shouguang and Daqing facilities through these arrangements. We have entered into framework agreements with nine granaries and four granaries in Heilongjiang Province to supply in total approximately 282,000 tons and 155,000 tons of dried corn to our Shouguang and Daqing facilities, respectively, in 2010. We are obligated to take delivery of 78.3% of the purchases by September 30, 2010 and 21.7% of the purchases by December 31, 2010.

The framework agreements stipulate the amount of corn the local granaries have to purchase on our behalf. We make our purchase requests to the local granaries in stages, stating the amount and purchase price, determined with reference to the then prevailing market prices. Certain local granaries obtain loans from the Agricultural Development Bank to carry out the purchases of corn on our behalf. After we make a purchase request, we pay the local granaries the security deposits they are required to pay the Agricultural Development Bank in order to obtain the loans required for the purchases. The amount of the security deposit required to be paid to the local granaries for loans made by the Agricultural Development Bank is 10% to 20% of the loan amount for framework agreements entered into for the Shouguang facility, and 10% for framework agreements entered into for the Daqing facility. We are liable for the interest on the loans. We settle the entire purchase price (the security deposit can be used as part payment) prior to taking delivery of the corn. So far, all of our purchase requests have been executed by the local granaries in accordance with terms set out therein.

Although the local granaries purchase corn on our behalf, they hold title to the corn until we take delivery under the framework agreements. However, the local granaries cannot dispose of the corn unless we breach our settlement obligations. We have employees at the local granaries to supervise the purchase, processing and storing of the corn purchased by the local granaries on our behalf.

We are required to pay the local granaries a fixed fee of RMB110 (\$16.1) per ton of corn for executing the purchase on our behalf, drying the corn to our required standard and storing the corn, among other services. 50% of this fee is payable when we request the purchase of corn and the remaining 50% when we complete the purchase. We are also responsible for the transportation cost of delivering the corn from the local granaries to our facilities.

We generally maintain an inventory of about half a month's corn requirement at our Shouguang facility and Daqing facility. During the fiscal years ended December 31, 2007, 2008 and 2009, corn accounted for 84.3%, 83.2% and 82.8% of our cost of raw materials, respectively.

In addition to corn, we rely on the supply of coal to power our production facilities. At our Shouguang facility, we purchase coal primarily from distributors who source their coal from Shanxi Province. At our Daqing facility, we purchase all of our coal from distributors who source their coal from Heilongjiang Province and Inner Mongolia. From June through September, coal prices are lower as compared to coal prices from October through July. Therefore, we purchase larger quantities during these months and stock our reserves. During the years ended December 31, 2007, 2008 and 2009, coal accounted for 7.9%, 9.5% and 9.6% of our cost of raw materials, respectively.

### ***Seasonality***

We believe our business is not seasonal in nature.

### ***Competition***

There is no dominant leader in our market but there are a few manufacturers whose capacities are similar to ours. We compete primarily on the basis of customer recognition and industry reputation, product price and quality, ability to deliver our product on a timely basis, and a competitive cost structure. We believe we can continue to compete successfully with our competitors because of our product quality, competitive cost structure and timely delivery of our product. In order to maintain and enhance our competitive advantages, we must continue to focus on our competitive pricing through cost control, product quality and improving our proprietary production processes.

We only compete with domestic companies and do not compete with any international producers. Our major competitors include the other top 10 edible alcohol producers in China such as Jilin New Tian Long, COFCO Zhaodong, Meihokou Fukang and Lianyungang Dongcheng.

Although we believe that our competitive strengths provide us with advantages over many of our competitors, some of our competitors may have stronger brand names, stronger customer bases, greater access to capital, longer operating histories, longer or more established relationships with their customers and greater marketing and other resources than we do. If we fail to maintain or improve our market position or fail to respond successfully to changes in the competitive landscape, our business, financial condition and results of operations may suffer.

### ***Safety Procedures and Measures***

Our edible alcohol and methane produced during our production process is flammable. We design and implement our production process with safety precautions against the flammable nature of edible alcohol and methane. We store produced edible alcohol in a warehouse away from our production facilities to reduce the risk of accidents (see "Risk Factors—Our Operations Are Subject To Various Risks Associated With Our Use, Handling, Storage And Disposal Of Hazardous Materials, Some Of Which Are Toxic And Flammable. If We Are Found Liable For Contamination, Injury To Employees Or Others, Or Other Harms Related To Our Use, Handling, Storage And Disposal Of Hazardous Materials, Our Business, Reputation, Financial Condition And Results Of Operations May Be


Adversely Affected" And "Regulation Of Our Industry—Regulation On Safety Administration Of Dangerous Chemicals").

The relevant safety law which governs us is the Production Safety Law of the PRC, which sets out the legal standard for safety measures in relation to the establishment, modification and expansion of production facilities. In case of any non-compliance, the relevant governmental body has the right to order the non-complying company to remedy such non-compliance within a given period of time, failing which, it may be subject to an order for cessation of production and penalty charges, and if it amounts to a criminal offense, such company will be prosecuted under the criminal laws.

We have implemented comprehensive occupational health and safety procedures and measures for our operations. Our management examined and scrutinized the internal industrial safety control measures and safety awareness of the workforce and supervisors in all plants and within the workstations. Safety-related training and education were provided periodically to promote safety awareness of the Group's management and employees.

We have internal safety operating manuals and risk approval procedures to ensure strict compliance with the internal rules and regulations by the employees. Our management and employees are trained under continued reassessment so as to comply with all the required procedures and the relevant operating guidelines.

### ***Intellectual Property***

On April 21, 2008, we received Notices of Acceptance from the Trademark Office of the State Administration for Industry and Commerce in respect of our Trademark Applications for the trademark "  " under Category 31. As of the date of this prospectus, such Trademark Applications are still pending.

On April 15, 2008, the State Intellectual Property Office of the PRC accepted our application for a patent of invention for our Borun Wet Process and based upon our knowledge of our industry and our ongoing patent application, we believe that we are the only corn-based edible alcohol producer in China using the Borun Wet Process. Currently such application is under review. For a description of our Borun Wet Process technology, please see the subsection above entitled "Our Production Technology".

Furthermore, we registered the domain name of [chinanewborun.com](http://chinanewborun.com), which is used to support our business and promote our Group.

### ***Description of Properties: Land Use Rights***

For our Shouguang facility, we have two Land Use Right Certificates covering an area of approximately 1,107,705 square feet (102,909.28 square meters) and 28 Property Ownership Certificate covering a construction area of approximately 377,489 square feet (35,070 square meters). For our Daqing facility, we have three Land Use Right Certificates covering an area of approximately 2,358,978 square feet (219,156 square meters) and 13 Property Ownership Certificates covering a construction area of approximately 252,983 feet (23,503 square meters).

Under Chinese law land is owned by the state or rural collective economic organizations. The state issues to the land users the land use right Certificate. Land use rights can be revoked and the land users forced to vacate at any time when redevelopment of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent. According to the Land Administration Law of the People's Republic of China, in one of

the following cases, the land administrative departments of related people's governments shall recover the land use right of State-owned land with the approval of the people's governments that originally gives the approval or the people's governments with the power of approval: (1) Use land for the sake of public interests; (2) Use land for adjustment in re-building old city districts in order to implement urban construction plans; (3) When the term for the land use right expires according to what is agreed upon in the contract for compensated use of land, the land user has failed to apply for extension or failed to get approval for extension; (4) The use of land originally allocated has been stopped due to cancellation or removal of units; (5) Roads, railways, airports and mining sites that have been approved to be abandoned. Proper compensation should be given to land use right users whereas the use right of State-owned land is recovered according to the provisions of (1) and (2) of the preceding paragraph.

With respect to the expropriation of land by the State, local governments at or above the county level are required to make an announcement and to organize the implementation after such determination in accordance with the applicable legal procedures. Owners or users of the land expropriated should, within the time limit specified in the announcement, go through the compensation registration for expropriated land with the land administrative departments of the local people's governments on the strength of the land certificate. Each of our two facilities rely on these land use rights as the cornerstone of their operations, and the loss of such rights would have a material adverse effect on our Company.

### ***Insurance***

The insurance industry in China is still at an early stage of its development. Insurance companies in China offer limited business insurance products or offer them at a high price. Business interruption or similar types of insurance are not customary in China. We currently maintain insurance coverage on our property and facilities and machinery, which, as of December 31, 2009 were approximately RMB477.0 million (\$69.9 million) on our property and facilities and approximately RMB356.1 million (\$52.2 million) on our machinery. We do not carry any third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the last five years.

### ***Employees***

As of the date of this prospectus, our Shouguang facility had 474 full-time employees and our Daqing facility had 388 full-time employees for a total of 862 full time employees, which is comprised of 678 manufacturing staff, 159 management and administrative personnel, and the rest, 25 full-time employees in our sales department. We believe we have a good relationship with our employees, and we have never experienced a work stoppage or a labor dispute that has interfered with our operations. At our Daqing facility, we house our employees in Company-own apartment buildings. With respect to our Shouguang facility, we have chosen a piece of land for the construction of dormitories for our employees in the city of Shouguang and we anticipate construction on such housing will commence in the near future. When complete, we will allocate housing for our employees and provide shuttle bus services to and from the Shouguang facility.

In the PRC, in accordance with the relevant labor and social welfare laws and regulations, we are required to pay, in respect of our employees in the PRC, various social insurance including pension insurance, medical insurance, unemployment insurance, occupational injury insurance and maternity insurance. In accordance with applicable PRC regulations on housing funds, we are also required to contribute to a housing fund for our employees. In the past, we had been delinquent with respect to the payment of social insurance and housing fund payments. We may be liable for the payments and

finances arising from such delinquent payments. Total contributions to such funds were approximately nil, RMB0.63 million (\$0.1 million) and RMB2.0 million (\$0.3 million) for the years ended December 31, 2007, 2008 and 2009, respectively. We expect that the amount of our contribution to the government's social insurance funds will increase in the future as we expand our workforce and operations.

For the year ended December 31, 2009, we have paid RMB90,772 (\$13,298) and RMB2,016,583 (\$295,431) for group casualty insurance and pension insurance, respectively.

### ***Legal Proceedings***

We are not a party to any material legal proceedings.

### ***Summary of Material Contracts***

Daqing Borun obtained a short term loan from China Agricultural Development Bank (the "Bank") for RMB13.5 million (\$2.0 million) on August 26, 2009 which shall mature at August 25, 2010. In connection with the loan, Daqing Borun entered into a Maximum Mortgage Contract with the Bank pursuant to which Daqing Borun agreed to put up collateral for the loan, with the collateral consisting of a parcel of industrial land use right with a territory of 61,432.8 square meters and certain buildings. The carrying value of the land use right and buildings are RMB8,039,497 (\$1,177,793) and RMB8,576,848 (\$1,256,515), respectively. The mortgage is effective so long as the loan referenced above is outstanding. If Daqing Borun does not pay the loan on time, then the China People's Court may seize the property. Daqing Borun has the duty to maintain the property and its value. If the property is damaged or destroyed, Daqing Borun must timely notify the Bank and the Bank may collect the insurance proceeds. Within 15 days of signing the mortgage contract, Daqing Borun was required to purchase and did purchase insurance on the collateral and the Bank was to be named the primary beneficiary of the insurance. The Bank has the right to the collateral if Daqing Borun does not pay on time, becomes bankrupt or loses its business license. The Bank may proceed with its right through negotiation with Daqing Borun or through the Court. Daqing Borun shall not transfer the collateral to a third party without the prior written notice to and consent from the Bank. Daqing Borun must also notify the Bank on all material changes to the business of Daqing Borun.

On July 9, 2008, Shandong Borun completed its acquisition of all of the equity interests in Anxin Tongwei. Anxin Tongwei applied for bankruptcy with the People's Court in Datong, Daqing City on July 26, 2007. The Court made the verdict to approve a procedure of reorganization on July 30, 2007 and to approve a plan of reorganization on November 30, 2007. On July 1, 2008, the Court made the verdict to approve that certain acquisition agreement (the "Equity Purchase Agreement") between Shandong Borun and the then shareholders of Anxin Tongwei on June 26, 2008, and on July 9, 2008, the parties completed the acquisition pursuant to which Anxin Tongwei became a wholly-owned subsidiary of Shandong Borun. Shandong Borun paid a total cash consideration of RMB 139,000,000 (\$20,363,615) for Daqing Borun. Subsequent to the acquisition, Anxin Tongwei changed its name to Daqing Borun Biotechnology Co., Ltd. (since we regard "corn deep-processing" as a part of the biotechnology field, we named it accordingly).

## REGULATION OF OUR INDUSTRY

### **Introduction**

The primary production and operation entities of the Company are WGC, Shandong Borun and Daqing Borun, each of which is located in the PRC. These entities, with respect to their all business operations, are subject to relevant industry policies, laws, regulations, rules and extensive government regulatory policies which are presently valid and effective.

With respect to its current business operations, the Company is subject to the following laws, regulations and rules:

### **Material Licenses and Costs for Compliance with Certain Environmental Regulations**

On December 1, 2000, the Shouguang Administration for Industry and Commerce granted Shandong Borun the right to operate for a period of three years from the date of Shandong Borun's inception, and on November 1, 2003, the Shouguang Administration for Industry and Commerce extended the business term of Shandong Borun to November 1, 2033. On July 9, 2008, the Daqing Administration for Industry and Commerce (Datong Branch) granted Daqing Borun the right to operate with no business term limitation.

WGC and its subsidiaries (Shandong Borun and Daqing Borun) can only conduct business within their registered business scopes, which appear on each of their business licenses. WGC's license permits us to produce calcium chloride, magnesium chloride, snow-dissolved agents and edible alcohol and allows us to engage in the retail distribution of our products. Shandong Borun's license includes production and sale of edible ethanol, xanthan gum, corn oil, glacial acetic acid, chemical products (exclusive of dangerous chemicals), the purchase of foodstuffs and the import and export of goods within the scope allowed by the PRC. Daqing Borun's license includes production and sale (export) of edible alcohol and auxiliary materials in corn-processing, purchasing, processing and sale of foodstuffs. Any further amendment to the scope of our business will require additional applications and government approval or registration.

With respect to our costs of compliance with certain environmental regulations, we estimate that we spent approximately \$1.35 million on a particular environmental protection program whereby we add certain agents, such as granule sludge, during our wastewater treatment system which reacts with COD for producing biogas. The unit price of granule sludge is about RMB3,000 per ton (\$439.5 per ton) and we add approximately 3,000 tons of the agent each year.

### **Industry Policy**

On December 2, 2005, the National Development and Reform Commission of the PRC, or the NDRC, issued the Guidance Catalogue on the Adjustment of Industrial Structure (2005 Version) in which the production of alcohol line falls under the restricted industry item. According to the Interim Provisions on the Promotion of Adjustment of Industrial Structure promulgated by the State Council and implemented on December 2, 2005, investment into new projects of restricted industries is prohibited. Companies previously doing business in restricted industries may adopt measures to reform and upgrade.

On June 3, 2007, the State Council issued a "Notification on the Issuing of the Comprehensive Work Plan on Saving Energy and Reducing Emission" which stipulated the increasing elimination of "backward" production capacities in paper-making, alcohol, monosodium glutamate and citric acid industries. Alcohol manufacturers with "backward" production technologies and equipment, and those smaller manufacturers having a production capacity less than 30,000 tons per year of edible alcohol



would thereafter be eliminated from competing in the alcohol industry during the 11<sup>th</sup> Five-Year Plan period (from year 2006 to year 2010), and 1.6 million tons of such "backward" production capacity in the alcohol industry are to be eliminated by the end of the 11<sup>th</sup> Five-Year Plan period. Additionally, the "Notification on the Planning of Eliminating Backward Production Capacity in Paper-Making, Alcohol, Monosodium Glutamate and Citric Acid Industries" jointly issued by NDRC and State Environmental Protection Administration on October 22, 2007, provided a yearly target for elimination of 1.6 million tons of such "backward" production capacity in the alcohol industry, i.e. 101,000 tons for 2006, 400,000 tons for 2007, 444,000 tons for 2008, 355,000 tons for 2009 and 300,000 tons for 2010. According to a notice issued by National Development and Reform Commission, 945,000 tons of backward production capacity in the alcohol industry had already been eliminated by the end of 2008.

Overall, we believe that such national industry policy will have a positive impact on our business and will continue to be a contributing factor to our growth and developmental potential. Since the implementation of this national industry policy, the production capacity of the whole alcohol industry has substantially decreased while recent market trends show that alcohol consumption continues to rise (see "Our Industry"). Therefore, we have reason to believe that the alcohol industry as a whole will continue to be a growth industry as demand continues to rise. However, such national industry policy may also have a negative impact on our business. According to the "Guidance Opinion on Promoting of the Healthy Development of Corn Deep-Processing Industry" issued by National Development and Reform Commission in September, 2007, the amount of corn used for "deep-processing" cannot exceed 26% of the total corn consumption in the 11th Five-Year Period. During the 11th Five-Year Period, construction projects for corn deep-processing which have received approval but have not begun shall discontinue plans for construction. New applications for corn deep-processing projects will not be approved in principle. The examination of renovation and expansion projects of existing corn deep-processing facility shall be strengthened. Since the production of edible alcohol using corn maize is a form of "deep-processing" work, this policy may limit our ability to obtain our primary raw material (corn maize). According to the Frost Report, 25.2% of total consumption was used for corn deep-processing in 2008.

#### ***Material Licenses Relating to Our Products***

In accordance with the Regulations of the PRC on the Administration of Production License for Industrial Products promulgated by the State Council on July 9, 2005 and implemented on September 1, 2005, and the Circular on the Promulgation of Catalogue of Products subject to Production License issued by the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of the PRC on December 5, 2007, the State Council has put in place a production licensing system for enterprises which produce edible alcohol and liquid carbon dioxide.

#### ***Feed Production***

According to the Measures for the Examination of Feed Production Enterprises issued on November 7, 2006 by the Ministry of Agriculture, and implemented on May 1, 2007, an applicant for the establishment of a feed production enterprise shall obtain the Qualification Certificates for the Examination of Feed Production Enterprises (the "Certificate") prior to registering with the competent branches of SAIC. The Certificate also requires an annual filing before the end of March each year. The Regulation on the Administration of Feeds and Feed Additives, issued on May 29, 1999 and amended on November 29, 2001 further provides that feed products must be granted quality certificates before such products may be commercialized.

### ***Environmental Regulations***

Our production processes generate noise, wastewater, gaseous and other industrial wastes. The major PRC environmental regulations applicable to us include the Environmental Protection Law of the PRC, the Environmental Impact Appraisal Law of the PRC, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on Prevention and Control of Air Pollution, the Law of the PRC on Prevention and Control of Environmental Pollution Caused by Solid Waste and the Law of the PRC on Prevention and Control of Environmental Noise Pollution.

The Environmental Protection Law of the PRC sets out the legal framework for environmental protection in the PRC. The Ministry of Environmental Protection, or the MEP, of the PRC is primarily responsible for the supervision and administration of environmental protection work nationwide and formulating national waste discharge limits and standards. Local environmental protection authorities at the county level and above are responsible for environmental protection in their jurisdictions.

Companies that discharge contaminants must report and register with the MEP or the relevant local environmental protection authorities. Companies discharging contaminants in excess of the discharge limits prescribed by the central or local authorities must pay discharge fees for the excess in accordance with applicable regulations and are also responsible for the treatment of the excessive discharge. Government authorities can impose different penalties on individuals or companies in violation of the Environmental Protection Law of the PRC, depending on the individual circumstances of each case and the extent of contamination. Such penalties include warnings, fines, impositions of deadlines for remedying the contamination, orders to stop production or use, orders to re-install contamination prevention and treatment facilities which were removed without permission or left unused, administrative actions against relevant responsible persons or companies, or orders to close down those enterprises. Where a violation is serious, the persons or companies responsible for the violation may be required to pay damages to victims of the contamination. Where serious environmental contamination occurs in violation of the provisions of the Environmental Protection Law of the PRC resulting in serious loss of public and private property, the persons or enterprises directly responsible for such contamination may be held criminally liable.

### ***Regulation on Work Safety***

We are subject to a variety of governmental regulations related to work safety. The major PRC regulations related to work safety applicable to us include Work Safety Law of the PRC and Regulation on Work Safety License.

### ***Work Safety Law of the PRC***

The Work Safety Law of the PRC ("WSL") was adopted at the 28th meeting of the Standing Committee of the Ninth People's Congress on June 29, 2002, and was promulgated for implementation as of November 1, 2002. The WSL is applicable to the work safety of entities engaging in production and business operation activities within the PRC. Such entities must comply with the WSL and other relevant laws and regulations concerning work safety and must strengthen the administration of work safety, establish and perfect a system of responsibility for work safety, ensure conditions for safe production, and ensure safety in production.

The WSL and other provisions of the relevant laws and regulations create a system for attributing responsibility for work safety accidents and holding liable those found to be responsible for work safety accidents. Entities engaged in the production, operation and storage of hazardous substances, (1) must establish an administrative committee for work safety or have full-time personnel for the administration of work safety; (2) are subject to the examination and approval as well as the

supervision and administration of relevant administrative departments, according to the provisions of relevant laws and regulations, national standards or industrial standards; (3) must have archive files for substantial hazardous sources, make regular checks, appraisals, supervisions and controls, make emergency plans, and inform employees and other relevant people of the emergency measures that should be taken under emergency circumstances; (4) must report, according to the relevant provisions of the state, the substantial hazardous sources and the corresponding safety measures and emergency measures to the administrative department and other relevant departments of the local people's government in charge of the supervision and administration of work safety for archive purposes; and (5) must have exits in the sites of production and the dormitories of the employees which meet the requirements for emergency dispersal of people, have highly visible marks and be clear of obstructions. Entities shall be prohibited from closing or obstructing the exits of the sites of production and business operation and the dormitories of the employees.

#### ***Regulation on Work Safety Licenses***

The Regulation on Work Safety Licenses ("RWSL") was promulgated by the State Council on January 13, 2004 and came into force on the same date. According to the RWSL, an enterprise engaging in the production of hazardous chemicals must apply for a work safety license before production.

To obtain a work safety license, an entity must satisfy certain work safety conditions, which mainly include: (1) establishing and improving a system for work safety, and formulating a complete set of work safety rules; (2) investing in safety satisfying applicable work safety requirements; (3) establishing administrative entities for work safety and installing full-time work safety administrative personnel, who have passed the appraisal conducted by the competent authority; (4) ensuring that special personnel have passed the appraisal conducted by the competent authority, and have obtained qualification certificates for special operations; (5) ensuring employees have gone through work safety education and training; (6) ensuring premises, work sites, safety facilities, equipment and technology meet the requirements of the relevant work safety laws, regulations, standards and rules; (7) providing employees with labor protection articles which are up to the national standards or standards of the industrial sector concerned; and (8) establishing emergency rescue plans for accidents, appointing entities or personnel specializing in emergency rescue, and providing necessary emergency rescue materials and equipment.

A work safety license is valid for three years. If a work safety license needs to be extended upon its expiration, an entity shall go through the extension procedures three months prior to such expiration with the administrative department from which the license is issued.

#### ***Regulation on Safety Administration of Dangerous Chemicals***

The Regulation on Safety Administration of Dangerous Chemicals was promulgated by the State Council on January 26, 2002, and took effect on March 15, 2002. This regulation sets forth general requirements for the production and operation of certain chemicals that are considered dangerous and listed in the Dangerous Chemicals Catalogue. The Regulation on Safety Administration of Dangerous Chemicals was further supplemented and elaborated by subsequent regulations and rules. The State Administration of Work Safety of the PRC, or the SAWS, and other relevant state government authorities determine and from time to time adjust the chemicals included in the Dangerous Chemicals Catalogue. Under the PRC laws, the production, operation, storage, transportation of chemicals in the Dangerous Chemicals Catalogue and the industrial use of such chemicals require specific regulatory approval, licenses and permits. In addition, in order to strengthen the supervision and regulation of the safe operation and production of chemicals in the Dangerous Chemicals Catalogue, on October 8, 2002, the Commerce and Trade Committee of the PRC issued the Administration Rules for the

Registration of Dangerous Chemicals, according to which the enterprises should, within six months of the publication of the Dangerous Chemicals Catalogue, complete registration for the production and storage of dangerous chemicals. On the same date, the Commerce and Trade Committee of the PRC also issued the Administration Rules for the Operation License of Dangerous Chemicals, according to which, an Operation License is required for the operation and sale of dangerous chemicals. Both administrative rules took effect on November 15, 2002. Pursuant to these regulations, the producers of chemicals in the Dangerous Chemicals Catalogue will need to meet certain production safety requirements and pass a safety inspection conducted by the relevant government authorities. In addition, such producers will need to obtain the relevant work safety license prior to production.

#### ***Regulation on Labor Protection***

The Labor Contract Law of the PRC was promulgated on June 29, 2007 and became effective on January 1, 2008. This law governs the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of, and the amendment to employment contracts. To establish an employment relationship, a written employment contract must be signed. In the event that no written employment contract was signed at the time of establishment of an employment relationship, a written employment contract must be signed within one month after the date on which the employer starts engaging the employee.

#### ***PRC Patent Law***

The PRC first allowed patents for the protection of proprietary rights, as set forth in the PRC Patent Law, in 1985.

#### ***Patent Prosecution***

The patent prosecution system in China is different from the system in the United States in a number of significant ways. China, like most countries other than the United States, follows the "first to file" principle. In other words, when more than one person files a patent application for the same invention, the patent will be granted to the person who first filed the application. The United States, in contrast, uses a principle of first to invent to determine the granting of patents. In addition, the PRC requires absolute novelty in order for an invention to be patentable. Pursuant to this requirement, generally, with limited exceptions, any prior written or oral publication in or outside the PRC, demonstration or use in the PRC before the patent application filing prevents an invention from being patented in the PRC. Conversely, subject to certain statutory requirements, inventors in the United States can generally file a patent application within one year after publication of the invention if the inventor can demonstrate that the invention was made prior to the publication. Patents issued in the PRC are not enforceable in Hong Kong, Taiwan or Macau, each of which has an independent patent system. The fact that a patent application is pending is no guarantee that a patent will be granted, and even if granted, the scope of a patent may not be as broad as that of the initial application.

#### ***Patent Enforcement***

When a patent infringement dispute arises, the patent holder or an interested party who believes the patent is being infringed may either file a civil lawsuit or file a complaint with the relevant authorities in charge of the patent administration. A PRC court may grant the patent holder's or the interested party's request for a preliminary injunction before or during the legal proceeding. Damages for infringement are calculated as either (1) the loss suffered by the patent holder or the interested party due to the infringement or (2) the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined by using a reasonable multiple of the license fee under a contractual license. Typically, a patent holder in the PRC has the burden of proving that the patent is being infringed. However, if the holder of a production process patent alleges

infringement of such patent, the alleged infringing party which produces the same kind of products has the burden of proving that there has been no infringement.

#### *Compulsory Licensing*

Under the PRC Patent Law, where any entity is qualified to utilize a patented technology, but fails to obtain the license from the patent holder on reasonable terms and in a reasonable period of time, the entity is entitled to apply to the State Intellectual Property Office for a compulsory license. A compulsory license can also be granted where a national emergency or any extraordinary state of affairs occurs, where the public interest so requires, or where a registered invention is substantially superior to a prior invention in connection with technology that has a notable economic significance and the application of the later invention relies on the application of the prior invention.

#### *International Patent Treaties*

The PRC is also a signatory to major intellectual property conventions, including the Paris Convention for the Protection of Industrial Property, Madrid Agreement on the International Registration of Marks and Madrid Protocol, Patent Cooperation Treaty, Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure and the Agreement on Trade-Related Aspects of Intellectual Property Rights, or TRIPs.

Although patent rights are national rights, there is a large amount of international co-operation under the Patent Cooperation Treaty, or the PCT, to which China is a signatory. Under the PCT, applicants in one country can seek patent protection for an invention simultaneously in a number of other member countries by initially filing a single international patent application pursuant to the PCT and then later filing individual country or region specific applications on the international patent application.

#### *Foreign Exchange Regulation*

Pursuant to the Foreign Exchange Administration Rules promulgated on January 29, 1996 and amended on January 14, 1997 and August 5, 2008, and various regulations issued by the SAFE and other relevant PRC government authorities, RMB is freely convertible only with respect to current account items, such as trade-related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriations of investments, require the prior approval of the SAFE or its local branches for conversion of RMB into foreign currency, such as U.S. dollars, and remittance of the foreign currency outside the PRC.

Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign exchange payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by the SAFE or its local counterpart. Unless otherwise approved, domestic enterprises must convert all of their foreign exchange receipts into RMB.

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration on Financing and Round-Trip Investment Through Offshore Special Purpose Vehicles by Domestic Residents, or the SAFE Circular No. 75, issued on October 21, 2005, (i) a PRC resident must register with the local SAFE branch before establishing or controlling an overseas special purpose vehicle, or SPV, for the purpose of obtaining overseas equity financing using the assets of or equity interests in a domestic enterprise; (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an SPV, or engages in overseas financing after contributing assets or equity interests into an SPV, such PRC resident must register his or her interest in the SPV and any subsequent change thereto with the local SAFE branch; and (iii) when the SPV undergoes a material

event, such as a change in share capital, merger and acquisition, share transfer or exchange, spin-off or long-term equity and debt investment, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local SAFE branch.

We understand that none of our shareholders is a PRC citizen. Our PRC counsel advises that none of our shareholders is subject to the requirement of the SAFE registration under Circular 75. However, due to the vagueness and uncertainty as to how the SAFE regulations are interpreted and implemented and the possible amendments or changes of the SAFE regulations, we cannot provide any assurance that our current shareholders who may spend certain amount of their time in the PRC each year will not be required to make or obtain any applicable registrations pursuant to the SAFE regulations.

#### ***Dividend Distribution Regulation***

The principal laws and regulations governing dividends paid by our PRC operating subsidiaries include the Company Law of the PRC (1993), amended and effective as of January 1, 2006, Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, Implementation Rules of Wholly Foreign Owned Enterprise Law (1990), as amended in 2001, Chinese-Foreign Joint Venture Law (1979), as amended in 2001, and Implementation Regulation of Chinese-Foreign Joint Venture Law (1983), as amended in 2001. Under these laws and regulations, each of our PRC subsidiaries, including WFOEs, joint venture enterprise and domestic companies in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries, including WFOEs, joint venture enterprise and domestic companies, is required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserve reaches 50.0% of its respective registered capital. These reserves are not distributable as cash dividends. Furthermore, each of our WFOEs and joint venture enterprises in China is also required to allocate a portion of its after-tax profits, as determined by its board of directors, to its staff welfare and bonus funds, which may not be distributed as cash dividends.

#### ***Tax***

The key taxes applicable to the Company in the PRC are enterprise income tax, value added tax and consumption tax.

A. Pursuant to the Enterprises Income Tax Law of the PRC and its implementation regulations implemented on January 1, 2008, a resident enterprise is subject to enterprise income tax for the income derived from activities both inside and outside the territory of the PRC. If an organization or establishment is set up by a non-resident enterprise in the PRC, it is subject to enterprise income tax for the income derived from such organization or establishment in the PRC and the income derived from outside the PRC but only on those activities with actual connections to the organization or establishment in the PRC. For a non-resident enterprise which has not set up an organization or establishment in the PRC, or has set up an organization or establishment but the income derived has no actual connection with such organization or establishment, its income derived in the PRC will be subject to enterprise income tax.

The enterprise income tax shall be levied at the rate of 25%. A non-resident enterprise without a permanent establishment in the PRC or such non-resident enterprise which has set up a permanent establishment in PRC but its earning income is not connected with the abovementioned permanent establishment will be subject to tax on their PRC-sourced income. The income shall be taxed at the reduced rate of 10%.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income ("Tax Arrangement"), where a Hong Kong enterprise directly holds at least 25% of shareholding of a PRC enterprise, the withholding tax rate in respect to the payment of dividends by such PRC enterprise to such Hong Kong enterprise is 5%. Otherwise, the withholding tax rate is 10% for the relevant dividends.

Pursuant to the Notice of the State Administration of Taxation on the Issues concerning the Application of the Dividend Clauses of Tax Agreements, or the Notice No. 81, residents of counter-parties to any tax treaties who own up to a certain proportion (25% or 10% in general) of the capital of a Chinese resident company paying dividends are subject to taxation on such dividends at the tax rates as arranged. Any residents of the counterparties qualifying to enjoy such tax benefits should: (1) be an enterprise subject to taxation on dividends in accordance to such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese residents company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the Chinese resident company.

According to The Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) ("Administrative Measures") which came into force on October 1, 2009, in order for a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from PRC resident enterprises, to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax treaties. Accordingly, if the provisions of Notice 81 are satisfied and approvals under the Administrative Measures are obtained, the payments of dividends by the PRC subsidiaries to the Hong Kong subsidiaries shall be subject to a PRC withholding tax at the rate of 5% as stipulated in the Tax Arrangement. However, if the application to enjoy the favorable withholding tax under the Tax Arrangement is not approved, we may not enjoy the favorable withholding tax under the Tax Arrangement. In addition, according to Notice 81, if the primary purpose of our transactions or arrangements, in relation to the reorganization of the PRC subsidiaries, is deemed by the relevant authorities is to enjoy a favorable tax treatment, such favorable withholding tax enjoyed by us may be adjusted by the relevant authorities in the future.

B. Pursuant to the Provisional Regulations of the People's Republic of China on Value-Added Tax as amended on November 10, 2008 by the State Council and implemented on January 1, 2009, unless stated otherwise, for value-added tax payers who are selling or importing goods, and providing processing, repairs and replacement services in the PRC, the tax rate shall be 17%. The value-added tax rate for taxpayers selling and importing feed shall be 13%.

C. Pursuant to the Provisional Regulations of the People's Republic of China on Consumption Tax and the corresponding implementation regulations as amended on November 5, 2008 by the State Council and implemented on January 1, 2009, the producers of alcohol are subject to a consumption tax at a rate of 5%.

#### ***Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors***

On August 8, 2006, six PRC regulatory agencies, including the Chinese Securities Regulatory Commission, or CSRC, promulgated a rule entitled "Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors", or the new M&A rule, to more effectively regulate foreign investment in PRC domestic enterprises. The new M&A rule took effect on September 8, 2006. The new M&A rule also contains a provision requiring SPVs formed for overseas listing purposes and

controlled by PRC individuals to obtain the approval of the CSRC prior to publicly listing their securities on an overseas stock exchange.

The application of this new M&A rule is currently unclear. However, our PRC counsel, The B&D Law Firm, has advised us that based on their understanding of the current PRC laws, rules and regulations and the new M&A rule, the new M&A rule does not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the New York Stock Exchange, because the acquisitions among China High, WGC and Shandong Borun are suitable for the PRC laws, regulations, rules and circulars related to the foreign investment enterprises instead of New M&A Rules.

The B&D Law Firm has further advised us that their opinions summarized above are subject to the timing and content of any new laws, rules and regulations or clear implementations and interpretations from the CSRC in any form relating to the new M&A rule. See "Risk Factors—Risks Relating To Doing Business In China—The Application Of PRC Regulations Relating To The Overseas Listing Of PRC Domestic Companies Is Uncertain, And We May Be Subject To Penalties For Failing To Request Approval Of The PRC Authorities Prior To Listing Our ADSs In The U.S."

#### **Tort Liability Law**

The Tort Liability Law of the People's Republic of China, which was passed during the 12th Session of the Standing Committee of the 11th National People's Congress on December 26, 2009, states that manufacturers are liable for damages caused by defects in their products and sellers are liable for damages attributable to their fault. If the defects are caused by the fault of third parties such as the transporter or storekeeper, manufacturers and sellers are entitled to claim for compensation from these third parties after paying the compensation amount.



## MANAGEMENT

### Directors and Executive Officers

The following table sets forth information regarding our directors and executive officers as of the date of this prospectus.

Name	Age	Position(s)
Jinmiao Wang	40	Chief Executive Officer and Chairman of the Board
Bing Yu	33	Chief Financial Officer
Hengxiu Song	39	Chief Operations Officer and Director
Wei Qi	51	Chief Technology Officer
Rongjian Wang	38	Financial Controller and Director
Xinhua Ding	53	General Manager of Shandong Borun Industrial Co., Ltd.
Shixiang Huang	48	General Manager of Daqing Borun Biotechnology Co., Ltd.
Rong Chen	52	Director
Ray Chadwick	59	Independent Director*
Lucy Guo	37	Independent Director*
Yibin Wei	39	Independent Director
Ruiping Wang	48	Independent Director
Binbin Jiang	36	Independent Director*

\* Mr. Chadwick, Mr. Jiang and Ms. Guo shall serve as our independent directors effective upon the closing of this offering.

Unless otherwise indicated, the business address of each director and executive officer is Bohai Industrial Park (Yangkou Town), Shouguang, Shandong 242715, China.

### Biographies of Officers and Directors

#### Mr. Jinmiao Wang, President, Chief Executive Officer and Chairman of the Board

Mr. Wang has served as our chief executive officer and chairman of the board since 2010. Mr. Wang also serves as the chairman of Shandong Borun and has served in such capacity since July 2008. Prior to that, Mr. Wang served as the chairman and general manager of Shandong Borun from March 2006 to July 2008. From June 2004 to March 2006, Mr. Wang served as the chairman and general manager of Shandong Borun Salt Industrial Co., Ltd., Shandong Borun's predecessor company. From December 2000 to June 2004, Mr. Wang served as the chairman and general manager of Shouguang Haihong Salt-Making Co., Ltd. in the city of Shouguang in Shandong Province. Mr. Wang has been honored as a private entrepreneur in Shandong Province, having made significant contributions to his local economy in China.

#### Mr. Hengxiu Song, Chief Operations Officer and Director

Mr. Song has served as our chief operations officer since 2010. He has also served as the director of administration of Shandong Borun since April 2005. From February 2002 to March 2005, Mr. Song served as the marketing and purchasing director of Shandong Borun Salt Industrial Co., Ltd., Shandong Borun's predecessor company. Mr. Song obtained a bachelor's degree in Economics and Management from the Capital University of Economics and Business.

#### Mr. Rongjian Wang, Financial Controller and Director

Mr. Wang has served as our financial controller and a director since 2010. Mr. Wang also serves as the financial controller of Shandong Borun and has served in such capacity since July 2006. From May 2002 to July 2006, Mr. Wang served as financial controller of Shandong Borun Salt

Industrial Co., Ltd., Shandong Borun's predecessor company. Mr. Wang earned a bachelor's degree in Accounting from the Shandong University of Finance in Shandong Province, China.

**Mr. Rong Chen, Director**

Mr. Chen has served as our director since 2010, and has served as the chairman of Shanghai Zhonglu Group Co., Ltd., Zhonglu Co., Ltd. since December 1998 and chairman and general manager of Chengde Dixian Textile Co., Ltd since November 2008. Mr. Chen has also served as the vice president of Shanghai Federation of Industry and Commerce since July 2002 and the vice president of the Shanghai Private-Owned Enterprise Association. He has been the member of the Ninth and Tenth Chinese People's Political Consultative Conference since February 1999. Mr. Chen obtained a master's degree in International Trade from Chinese Academy of Social Science.

**Mr. Ray Chadwick, Independent Director**

Mr. Chadwick shall serve as our independent director effective upon the closing of this offering. Mr. Chadwick has also served as President & Chief Executive Officer of Diageo Chateau & Estate Wines, the wine division of Diageo, the world's leading premium drinks business, beginning in 2001, when he assumed responsibility for the integrated wine operations of Guinness UDV North America and Seagram Chateau & Estate Wines. On July 1, 2009, Mr. Chadwick stepped down from that role after 35 years of overall service, but continues to serve as a member of the Board of Directors of Diageo Chateau & Estate Wines. Previously, Mr. Chadwick served as Executive Vice President and Chief Financial Officer of the Seagram Chateau & Estate Wines Company, where his responsibilities included the overall direction of the finance function, long range and strategic planning, international sales, business development, information services, and environmental affairs. Mr. Chadwick served concurrently as Managing Director of Barton & Guestier, S.A., and had functional responsibility for the finance function at the Seagram Beverage Company. Mr. Chadwick first joined Seagram in 1974 and worked in a variety of roles, including market research, sales and finance. He also spent time in London in an international marketing role for Brown-Forman. Mr. Chadwick served as integration leader when The Seagram Classics Wine Company and Seagram Chateau and Estate Wines Company were merged in 1996. He served as co-integration leader during the merger of Diageo and Seagram wine operations in 2001, which led to the formation of Diageo Chateau & Estate Wines. Mr. Chadwick received his Bachelor of Arts and Master of Arts degrees from the University of Virginia, as well as an M.B.A. from the University of Chicago. He also studied in France, including a year in Bordeaux on a Fulbright scholarship. He currently serves as Chairman of the Board of Wine Institute, and as a Director of the Napa Valley Vintners. He also serves on the Advisory Board of Klein Foods, Inc. and on the Board of the Sonoma State University Wine Business Management Program.

**Ms. Lucy Guo, Independent Director**

Ms. Guo shall serve as our independent director effective upon the closing of this offering. Since August 2009, Ms. Guo has served as an equity research analyst at Ziff Brothers Investments, L.L.C. From April 2005 to August 2009, Ms. Guo served as a director in the Private Equity Group of Mergers & Acquisitions Transaction Services at KPMG LLP in Chicago, IL, where she advised private equity firms and strategic buyers on their domestic and cross-border deals in the U.S., Europe and Asia-Pacific region. Prior to joining KPMG, she served as a senior associate at PricewaterhouseCoopers LLP in Philadelphia, PA, where she advised a diversified group of publicly held and private companies with a range of financial advisory services including audits, SEC filing requirements for initial public offerings, debt offerings, private placements and implementation of Sarbanes-Oxley Section 404 requirements. Ms. Guo received her Bachelor of Economics with a major in Investment Management from the Central University of Finance and Economics in China, as well as an M.B.A. from the University of Miami. Ms. Guo is a CFA Charter holder since 2003 and a CPA

licensed in the state of Illinois and Pennsylvania. She is also a member of CFA Institute and a member of American Institute of Certified Public Accountants.

**Ms. Yibin Wei, Independent Director**

Ms. Wei has served as our independent director since 2010. Ms. Wei has served as executive director of Earnstar Holding Limited since 2008, responsible for international trading and investment. From September 1999 to May 2008, Ms. Wei worked for Alpha Plus Konsumentkontakt in Sweden. She obtained a master's degree in International Business Management from Goteborg University in Sweden and a bachelor's degree in International Commerce from Xiamen University in Fujian Province, China.

**Mr. Ruiping Wang, Independent Director**

Mr. Wang has served as our independent director since 2010. Mr. Wang is the founder and chairman of TDR Capital International Limited since 2006. He is a non-executive director of Vision Opportunity China Fund Ltd. which is listed on AIM of the London Stock Exchange (LSE code: VOC) and an independent non-executive director of Syscan Technology Holding Limited, which is listed on the Hong Kong Stock Exchange (HKEx code: 8083). Mr. Wang was an executive director of Softbank Investment International (Strategic) Ltd. and general manager of Softbank's China venture investment company—SIIS Investment Management Limited. Mr. Wang was an executive member of the investment committee of the fund during his years working with Softbank. He was an independent non-executive director of Holley Pharmaceuticals (Chongqing) Co Ltd., which is listed on the Shenzhen Stock Exchange (SZEx code: 000607). Mr. Wang was the vice president of Greater China Investment banking of Deutsche Bank. Mr. Wang was an assistant director of Standard Chartered (Asia) in charge of investment banking business in mainland China. Mr. Wang also worked for CITIC Group. Mr. Wang obtained a master's degree in Economics from Nankai University in Tianjin City, China.

**Mr. Binbin Jiang, Independent Director**

Mr. Jiang shall serve as our independent director effective upon the closing of this offering. Since July 1997, he has served as the general secretary of Shandong Alcohol Industry Association, the member of Technology Committee of Shandong Alcohol Industry Association, the vice general secretary of Shandong White Spirits Industry Association, the vice general secretary of Shandong Beer Industry Association, and the vice president of Shandong Food Industry Limited. He obtained a bachelor's degree in Fermentation from Food Engineering School of Shandong Institute of Light Industry.

**Ms. Bing Yu, Chief Financial Officer**

Ms. Yu has served as our chief financial officer since 2010 and has served as our chief financial officer of Shandong Borun since October 2009. From June 2007 to September 2009, Ms. Yu served as the executive director of Brainzoom Business Consulting Co., Ltd., a business and financial consulting services company in China. From March 2006 to May 2007, Ms. Yu served as the corporate financial director of Cellon International Holdings Corporation in Shenzhen, China. Prior to that, Ms. Yu worked at Arthur Andersen & Co. and as a manager of Assurance and Business Advisory at PricewaterhouseCoopers in Shenzhen. Ms. Yu earned a bachelor's degree in Accounting from the Central University of Finance and Economics in Beijing, China. Ms. Yu is a Certified Internal Auditor, a member of the Chinese Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

**Mr. Wei Qi, Chief Technology Officer**

Mr. Qi has served as our chief technology officer since 2010 and as chief technology officer of Daqing Borun since August 2008. Mr. Qi has also served as the chief engineer of Shandong Borun

Industrial Co., Ltd. from July 2005 to August 2008. From January 2000 to June 2005, he was the vice president of Shandong Jiujiu Limited, an edible alcohol producer with advanced technologies. Mr. Qi obtained a bachelor's degree in Sciences from Qiqihaer Light Industrial College.

**Mr. Xinhua Ding, General Manager of Shandong Borun Industrial Co., Ltd.**

Mr. Ding has served as the general manager of Shandong Borun Industrial Co., Ltd. since July 2008. Prior to joining us, he served as the vice president of Shandong Haoxin Group from September 2000 to July 2008. Mr. Ding obtained his Master of Business Administration degree from Peking University and a bachelor's degree in Economics and Management from Shandong University.

**Mr. Shixiang Huang, General Manager of Daqing Borun Biotechnology Co., Ltd.**

Mr. Huang has served as the general manager of Daqing Borun Biotechnology Co., Ltd. since July 2008. He served as the executive vice president of Shandong Borun Industrial Co., Ltd. from March to June 2008. Mr. Huang served as the vice president of Gulf Resources, Inc., a company listed on the NASDAQ, from January 2006 to March 2008. Mr. Huang obtained a bachelor's degree in Business Administration from Capital University of Economic and Business.

**Duties of Directors**

Under Cayman Islands law, our directors have a fiduciary duty to act honestly, in good faith and with a view to our best interests. Our directors also have a duty to exercise the skill they actually possess and such care and diligence that a reasonably prudent person would exercise in comparable circumstances. In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association, as amended and restated from time to time.

The functions and powers of our board of directors include, among others:

- convening shareholders' annual general meetings and reporting its work to shareholders at such meetings;
- declaring dividends and distributions;
- appointing officers and determining the term of office of officers;
- exercising the borrowing powers of our company and mortgaging the property of our company; and
- approving the transfer of shares of our company, including the registering of such shares in our share register.

**Board of Directors**

Our board of directors will establish an audit committee, a compensation committee and a corporate governance and nominating committee prior to the closing of this offering. We do not currently have a majority independent board and are relying on foreign private issuer exemptions allowed under the requirements of the NYSE Listed Company Manual. We expect to have a majority of independent board of directors within twelve months of the closing of this offering. Subject to certain exceptions, the requirements of the NYSE Listed Company Manual permit a foreign private issuer to follow its home country practice in lieu of the listing requirements of the NYSE. The composition of our board of directors and of our audit committee, compensation committee and corporate governance and

nominating committee is consistent with customary practice in the Cayman Islands and is not prohibited by the laws of the Cayman Islands.

### **Directors' and Officers' Insurance**

Though we do not maintain directors' and officers' liability insurance as of the date of this prospectus, we expect to obtain such a policy in the amount of \$2 million within six months after the closing of this offering.

### **Family Relationships**

There are no family relationships among the individuals comprising our Board of Directors and executive officers. Furthermore, Mr. Ruiping Wang is not related to the Wang Family or any member thereof.

### **Board Committees**

#### **Audit Committee**

Our audit committee will initially consist of Raymond S. Chadwick, Lucy Guo and Binbin Jiang, each of whom satisfy the "independence" tests of Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 promulgated under the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. Lucy Guo will be the chairman of our audit committee and meets the definition of an audit committee "financial expert" as set forth under Item 401(h) of Regulation S-K. The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

- selecting our independent registered public accounting firm and pre-approving all auditing and non-auditing services permitted to be performed by our independent registered public accounting firm;
- reviewing with our independent registered public accounting firm any audit problems or difficulties and management's response;
- reviewing and approving all proposed related-party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and our independent registered public accounting firm;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of significant control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;
- such other matters that are specifically delegated to our audit committee by our board of directors from time to time; and
- meeting separately and periodically with management and our internal auditor and independent registered public accounting firm.

### **Compensation Committee**

Our compensation committee will initially consist of Raymond S. Chadwick, Lucy Guo and Binbin Jiang, each of whom satisfy the "independence" tests of Section 303A.02 of the NYSE Listed Company Manual. Binbin Jiang will be the chairman of our compensation committee initially. Our compensation committee will assist the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee will not be prohibited from direct involvement in determining their own compensation. The compensation committee will be responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;
- reviewing and making recommendations to the board with respect to the compensation of our directors; and
- reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

### **Corporate Governance and Nominating Committee**

Our corporate governance and nominating committee will initially consist of Raymond S. Chadwick, Lucy Guo and Binbin Jiang, each of whom satisfy the "independence" tests of Section 303A.02 of the NYSE Listed Company Manual. Raymond S. Chadwick will be the chairman of our corporate governance and nominating committee. The corporate governance and nominating committee will assist the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee will be responsible for, among other things:

- identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;
- reviewing annually with the board the current composition of the board in light of the characteristics of independence, age, skills, experience and availability of service to us;
- advising the board periodically with respect to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations, and making recommendations to the board on all matters of corporate governance and on any corrective action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

### **Interested Transactions**

A director may vote in respect of any contract or transaction in which he or she is interested, provided that the nature of the interest of any directors in such contract or transaction is disclosed by him or her at or prior to its consideration and any vote in that matter.

## **Remuneration and Borrowing**

The directors may determine remuneration to be paid to the directors. The compensation committee assists the directors in reviewing and approving the compensation structure for the directors. The directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital, and to issue debentures or other securities whether outright or as security for any debt obligations of our Company or of any third party.

## **Qualification**

There is no shareholding qualification for directors.

## **Terms of Directors and Executive Officers**

Our executive officers are elected by and serve at the discretion of the board of directors. Our directors are not subject to a term of office and hold office until such time as they resign or are removed from office without cause by special resolution or the unanimous written resolution of all shareholders or with cause by ordinary resolution or the unanimous written resolutions of all shareholders. A director will be removed from office automatically if, among other things, the director (i) becomes bankrupt or makes any similar arrangement or compromise with his creditors; or (ii) dies or is found by our company to be or becomes of unsound mind. We have not entered into any service agreements with our directors that provide for any type of compensation upon termination.

## **Employment Agreements**

We have entered into employment agreements with all of our executive officers. Under these agreements, each of our executive officers is employed for a specified time period. We may terminate his or her employment for cause at any time, with prior written notice, for certain acts of the employee, including but not limited to a conviction to a felony, or willful gross misconduct by the employee in connection with his employment, and in each case if such acts have resulted in material and demonstrable financial harm to us. An executive officer may, with prior written notice, terminate his or her employment at any time for any material breach of the employment agreement by us that is not remedied promptly after receiving the remedy request from the employee. Furthermore, either party may terminate the employment agreement at any time without cause upon advance written notice to the other party. Upon termination, the employee is generally entitled to a severance pay equal to a certain specified number of months of his or her then base salary, depending on the length of his or her employment with us.

Each executive officer has agreed to hold, both during and subsequent to the terms of his or her agreement, in confidence and not to use, except in pursuance of his or her duties in connection with the employment, any of our confidential information, technological secrets, commercial secrets and know-how. Each of our executive officers has entered into a confidentiality agreement with us. Our executive officers have also agreed to disclose to us all inventions, designs and techniques that have resulted from work performed by them, and to assign us all right, title and interest of such inventions, designs and techniques.

## **Compensation of Directors and Executive Officers**

In 2009, the aggregate cash compensation to our executive officers and directors was RMB1,350,000 (\$197,776).

## PRINCIPAL SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of the date of this prospectus by each of our directors and executive officers, and each person known to us to own beneficially more than 5% of our ordinary shares. The following table also assumes that New Borun has issued 14,847,811 ordinary shares to Golden Direction Limited and that all Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares as contemplated by a share exchange agreement (see "Our Corporate Structure and History"). Unless otherwise indicated, the address of each shareholder listed in the table is c/o China New Borun Corporation, Bohai Industrial Park (Yangkou Town), Shouguang, Shandong 262715, the People's Republic of China.

	Ordinary Shares Beneficially Owned Prior to This Offering <sup>(1)(2)</sup>		Shares Beneficially Owned After This Offering <sup>(1)(2)(3)</sup>	
	Number	%	Number	%
<b>Directors and Executive Officers:</b>				
Jinmiao Wang, President, CEO and Chairman of the Board	0	0	0	0
Bing Yu, Chief Financial Officer, Secretary and Director	0	0	0	0
Heng Xiu Song, Chief Operations Officer and Director	0	0	0	0
Wei Qi, Chief Technology Officer	0	0	0	0
Rongjian Wang, Financial Controller and Director	0	0	0	0
Xindhua Ding, General Manager of Shandong Borun	0	0	0	0
Shixiang Huang, General Manager of Daqing Borun	0	0	0	0
Rong Chen, Director	0	0	0	0
Yibin Wei, Independent Director <sup>(4)</sup>	1,065,330		1,065,330	
Ruiping Wang, Independent Director <sup>(5)</sup>	374,907		374,907	
Binbin Jiang, Independent Director	0	0	0	0
Ray Chadwick, Independent Director	0	0	0	0
Lucy Guo, Independent Director	0	0	0	0
<b>All directors and executive officers as a group (11 persons):</b>	<b>1,440,237</b>		<b>1,440,237</b>	
<b>Principal Shareholders:</b>				
King River Holding Limited <sup>(6)</sup>	14,847,811		14,847,811	
Star Elite Enterprises Limited <sup>(7)</sup>	3,711,952		3,711,952	
Earnstar Holding Limited <sup>(4)</sup>	1,065,330		1,065,330	
TDR Advisors Inc. <sup>(5)</sup>	374,907		374,907	

- (1) Beneficial ownership is determined in accordance with Rule 13d-3 of the General Rules and Regulations under the Securities Act of 1934, as amended, and includes voting or investment power with respect to the securities and outstanding share options exercisable within 60 days of the date of this prospectus.
- (2) Percentage of beneficial ownership of each listed person prior to the offering is based on (i) ordinary shares outstanding as of \_\_\_\_\_, 2010. Percentage of beneficial ownership of each listed person after the offering is based on \_\_\_\_\_ ordinary shares outstanding immediately after the closing of this offering.
- (3) Assume no exercise of the underwriters' option to purchase additional ADSs as set forth on the cover page of this prospectus.
- (4) Ms. Yibin Wei owns 100% of the issued and outstanding shares of capital stock of Earnstar, is the sole director of Earnstar and has sole voting and investment control over the shares held by Earnstar. This table assumes that all 1,065,330 shares of our Class B convertible preference shares held by Earnstar have been fully converted into 1,065,330 ordinary shares, which we expect will happen automatically upon the closing of this offering in accordance with the terms of the shareholders agreement. The business address of Earnstar is Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands.



- (5) Mr. Ruiping Wang owns 100% of the issued and outstanding shares of capital stock of TDR, is the sole director of TDR and has sole voting and investment control over the shares held by TDR. Mr. Ruiping Wang is not related to the Wang Family or any member thereof. This table assumes that all 374,907 shares of our Class C convertible preference shares held by TDR have been fully converted into 374,907 ordinary shares, which we expect will happen automatically upon the closing of this offering in accordance with the terms of the shareholders agreement. The business address of TDR is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.
- (6) King River Holding Limited is a British Virgin Islands company which is 100% controlled and owned by Mrs. Shan Junqin, the mother of our President and CEO Mr. Jinmiao Wang, however, Mr. Wang expressly disclaims any nominal or beneficial ownership of the shares owned by King River Holding Limited and shares of capital stock of any of our group companies. Mrs. Shan has sole voting power and investment control of the shares held by King River Holding Limited, the business address of which is Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.
- (7) Ms. Ping Chen owns 100% of the issued and outstanding shares of capital stock of Star Elite, is the sole director of Star Elite and has sole voting and investment control over the shares held by Star Elite. This table assumes that all 3,711,952 shares of our Class A convertible preference shares held by Star Elite have been fully converted into 3,711,952 ordinary shares, which we expect will happen automatically upon the closing of this offering in accordance with the terms of the shareholders agreement. The business address of Star Elite is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

None of our shareholders has different voting rights from other shareholders after the closing of this offering and none of the preference shareholders have the right to retain their preference shares upon the closing of this offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our Company.

### **Issuances and Sales of Our Securities**

The information below sets forth the date of issuance, title, amount and purchasers of, and consideration paid for, our securities sold within the last three years that were not registered under the Securities Act. All such securities were issued outside the United States pursuant to Regulation S of the Securities Act.

On October 10, 2008, China High issued 2,000 preference shares to Star Elite as consideration for Star Elite's capital contribution to China High of RMB70,000,000 (\$10,225,057.94).

In July 2008, China High issued 8,000 ordinary shares to Golden Direction as consideration for the acquisition by WGC (China High's wholly-owned subsidiary) of all of the equity interests in Shandong Borun.

On June 12, 2009, China High issued 563 preference shares to Earnstar as consideration for Earnstar's capital contribution to China High of RMB40,000,000 (\$5,860,033.11).

On September 22, 2009, China High issued 202 preference shares to TDR as consideration for TDR's capital contribution of RMB14,050,000 (\$2,058,336.63), and issued an additional 11 preference shares to Earnstar for no consideration in accordance with certain anti-dilution provisions set forth in an investment agreement by and between China High and TDR (such investment agreement has subsequently been terminated and replaced with the Shareholders Agreement, dated as of March 31, 2010).

Upon the incorporation of New Borun on December 21, 2009, we issued one ordinary share originally having a par value of \$1.00, to Mrs. Shan Junqin on December 21, 2009 (we subsequently changed the par value of our ordinary shares to \$0.001 per share). On March 9, 2010, Mrs. Shan transferred her one share of New Borun to King River. Effective as of March 31, 2010, New Borun consummated a share exchange agreement with Golden Direction, a British Virgin Islands company beneficially

owned by Mrs. Shan Junqin, a member of the Wang Family, whereby New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to King River of 14,847,810 ordinary shares, par value \$0.001 per share. As of the date of that agreement, (1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction held approximately 74.24% of the voting capital stock of China High.

Effective as of March 31, 2010, New Borun and Golden Direction consummated a share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing the exchange, New Borun issued (i) 3,711,952 of its Class A convertible preference shares, par value \$0.001 per share, which are automatically convertible into 3,711,952 of its ordinary shares upon the closing of this offering, to one of our private equity investors, Star Elite, (ii) 1,065,330 shares of its Class B convertible preference shares, par value \$0.001 per share, which are automatically convertible into 1,065,330 ordinary shares upon the closing of this offering, to one of China High's private equity investors, Earnstar and (iii) 374,907 shares of its Class C convertible preference shares, par value \$0.001 per share, which are automatically convertible into 374,907 ordinary shares upon the closing of this offering, to one of China High's private equity investors, TDR. Upon the consummation of this exchange, Golden Direction continues to be a wholly-owned subsidiary of New Borun and China High became a wholly-owned subsidiary of Golden Direction.

In connection with and as contemplated by the Exchange, New Borun, King River, Star Elite, Earnstar and TDR entered into a shareholders agreement effective as of March 31, 2010 which sets forth the preference rights held by each of Star Elite, Earnstar and TDR in New Borun. The shareholders agreement provides for the automatic conversion of each Class A, B and C convertible preference share into ordinary shares upon the closing of this offering and therefore, unless otherwise stated, the information herein assumes that such Class A, B and C convertible preference shares have been fully converted into ordinary shares.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders after the closing of this offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of the date of this prospectus, none of our outstanding ordinary shares or Class A, B or C convertible preference shares are held by record holders in the United States.

Certain of our major shareholders and their affiliates have indicated their desire to subscribe for the ADSs offered in this offering. None of such shareholders or their affiliates is currently under any obligation or has any contractual right to purchase any ADSs in this offering, and their interest in purchasing ADSs in this offering is not a commitment to do so.

## RELATED PARTY TRANSACTIONS

### Reorganization, Share Exchange Agreements and Shareholders Agreement

On October 27, 2008, China High acquired all of the equity interests of WGC in connection with its restructuring and reorganization for cash consideration of \$160,000. In December 2008, China High, through WGC, acquired 100% of the equity interests in Shandong Borun, our predecessor company, for cash consideration of RMB76,500,000 (\$11,207,313). Shandong Borun was set up on December 1, 2000 primarily by Mr. Wang and Mr. Wang's father, both of whom are members of the Wang Family.

On March 15, 2010 New Borun signed, and effective as of March 31, 2010 New Borun consummated, a share exchange agreement with Golden Direction, a company beneficially owned by Mrs. Shan Junqin, a member of the Wang Family, whereby New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to King River of 14,847,810 ordinary shares (King River is a British Virgin Islands company owned and controlled by Mrs. Shan, a member of the Wang Family, and King River already owned one share of New Borun, which had been transferred from Mrs. Shan). As of the date of that agreement, (1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction held approximately 74.24% of the voting capital stock of China High, our Hong Kong holding company.

On February 28, 2010 New Borun and Golden Direction signed, and effective as of March 31, 2010 New Borun and Golden Direction consummated, a share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing the exchange, New Borun issued (i) 3,711,952 of its Class A convertible preference shares, which are automatically convertible into 3,711,952 of its ordinary shares upon the closing of this offering, to one of our private equity investors, Star Elite, a British Virgin Islands company wholly-owned by Ms. Ping Chen, a Director of New Borun, (ii) 1,065,330 shares of its Class B convertible preference shares, which are automatically convertible into 1,065,330 ordinary shares upon the closing of this offering, to one of China High's private equity investors, Earnstar, a British Virgin Islands company wholly-owned by Ms. Yibin Wei, a Director of New Borun and (iii) 374,907 shares of its Class C convertible preference shares, which are automatically convertible into 374,907 ordinary shares upon the closing of this offering, to one of China High's private equity investors, TDR, a British Virgin Islands company wholly-owned by Mr. Ruiping Wang, a Director of New Borun.

In connection with and as contemplated by the exchange agreement described in the paragraph above, New Borun entered into a shareholders agreement, effective as of March 31, 2010, with Star Elite, Earnstar, TDR and King River, a company controlled by Mrs. Shan, which sets forth the preference rights held by each of Star Elite, Earnstar and TDR in New Borun. The shareholders agreement provides for the automatic conversion of each Class A, B and C preference share into ordinary shares upon the closing of this offering and therefore, unless otherwise stated, the information in this prospectus assumes that such Class A, B and C preference shares have been fully converted into ordinary shares.

The shareholders agreement further provides that Star Elite, Earnstar and TDR shall, upon the closing of a qualified public offering (which includes this offering), retain the right to nominate one director candidate at the next annual meeting of our shareholders, however such nominating right does not guarantee that such director candidate will be elected to serve as a director. Furthermore, Earnstar and TDR (for purposes of this paragraph only, a "Holder") shall retain Form F-3 registration rights, which shall terminate upon the earlier of: (a) the date of the completion of a Liquidation Event (as defined in the shareholders agreement, however in general, the term includes any reorganization with or into any person whereby our shareholders immediately before such transaction own less than 50% of our voting power immediately after such transaction, or a sale of all or substantially or of our assets),

(b) as to any Holder, when all Registrable Securities (as defined in the shareholders agreement, however in general, such term means ordinary shares held by Star Elite, Earnstar and TDR) held by such Holder could be sold without restriction under Rule 144 within a 90 day period and (c) the date that is five years following the closing of a qualified public offering (which includes this offering).

If we receive from any Holder (or Holders) of a majority of all Registrable Securities then outstanding a written request that we effect a registration on Form F-3 (or an equivalent registration in a jurisdiction outside of the United States) and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company will (i) provide notice of the proposed registration to all Holders, (ii), as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's (or Holders') Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder (or Holders) joining in such request as are specified in a written request given within 20 days after we provide the notice discussed above; provided, however, that we shall not be obligated to effect any such registration, qualification or compliance: (A) if Form F-3 is not available for such offering by the Holders, (B) if the Holders, together with the holders of any other of our securities entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than \$10,000,000, (C) if we furnish to the Holders a certificate signed by our President or Chief Executive Officer stating that in the good faith judgment of our Board, it would be materially detrimental to us and to our shareholders for such Form F-3 Registration to be effected at such time, in which event we shall have the right to defer the filing of the Form F-3 registration statement no more than once during any 12 month period for a period of not more than 60 days after receipt of the request of the Holder (or Holders); provided that we shall not register any of its other shares during such 60 day period, (D) if we have, within the six month period preceding the date of such request, already effected a registration under the Securities Act other than a registration from which the Registrable Securities of Holders have been excluded (with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration); or (E) in any particular jurisdiction in which we would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance. Form F-3 registrations are not deemed to be demand registrations and except as otherwise provided in the shareholders agreement, there shall be no limit on the number of times the Holders may request registration of Registrable Securities.

All registration expenses incurred in connection with any registration (but excluding certain Selling Expenses) shall be borne by us. The shareholders agreement also includes standard indemnification provisions. If we are obligated to file a registration statement with respect to such Registrable Securities, we are obligated to use our best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to 90 days or, in the case of Registrable Securities registered under Form F-3 in accordance with Rule 415 under the Securities Act or a successor rule, until the distribution contemplated in the registration statement has been completed; provided, however, that such 90 day period shall be extended for a period of time equal to the period any Holder refrains from selling any securities included in such registration at the request of the underwriter(s), and in the case of any registration of Registrable Securities on Form F-3 which are intended to be offered on a continuous or delayed basis, such 90 day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold.

Without the prior written consent of the Holders of a majority in interest of the Registrable Securities then outstanding, we have covenanted and agreed that we shall not grant, or cause or permit to be created, for the benefit of any person or entity any registration rights of any kind (whether similar to

the demand, "piggyback" or Form F-3 registration rights or otherwise) relating to any securities of the Company which are senior to, or on a parity with, those granted to the Holders of Registrable Securities. A complete description of such registration rights are set forth on Exhibit C to the shareholders agreement.

For the avoidance of doubt, Mr. Ruiping Wang, our independent director, is not related to the Wang Family or any member thereof.

#### **Additional Related Party Transactions**

The Company had an amount due to one of its directors which is a non-interest bearing loan, payable upon demand in the amount of RMB1,407,960 (\$206,267.3) and nil as of December 31, 2008 and 2009, respectively.

Mr. Rong Chen, a director of the Company, has served as the chairman of Shanghai Zhonglu Group since December 1998. On December 26, 2008, the Company entered into a loan agreement with Shanghai Zhonglu Group pursuant to which the Company borrowed an aggregate amount of RMB40,000,000 (US\$5,859,776) with a fixed interest rate of 30% per annum, which was repaid in two installments on January 25, 2009 and April 25, 2009, respectively.

## DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands exempted company with limited liability and our affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and the Companies Law (as amended) of the Cayman Islands, which is referred to as the Companies Law below. Our registered office in the Cayman Islands is at the offices of Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

As of the date hereof, our authorized share capital consists of 100,000,000 ordinary shares, each with a par value of \$0.001, of which \_\_\_\_\_ shares are issued and outstanding and 5,000,000 preference shares, each with a par value of \$0.001, of which zero (0) preference shares are issued and outstanding, assuming the conversion of all shares of Class A, Class B and Class C convertible preference shares held by Star Elite, Earnstar and TDR, respectively, in accordance with the terms of a shareholders agreement (see "Our Corporate Structure and History"). Our amended and restated memorandum and articles of association have become effective upon the consummation of the listing of our ADSs on the New York Stock Exchange. The following are summaries of material provisions of our amended and restated memorandum and articles of association and the Companies Law insofar as they relate to the material terms of our ordinary shares.

### **Ordinary Shares**

#### *General*

All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing ordinary shares are issued in registered form. Our shareholders who are non-residents of the Cayman Islands may freely hold and transfer their ordinary shares.

#### *Dividends*

The holders of our ordinary shares are entitled to such dividends as may be declared by our Board of Directors subject to the Companies Law.

#### *Voting Rights*

Each holder is entitled to have one vote for each share registered in his name on the register of members. Voting at any meeting of shareholders is by a show of hands unless a poll is demanded.

A quorum required for a meeting of shareholders consists of shareholders who hold at least one-half of our ordinary shares at the meeting present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings may be held annually and may be convened by our board of directors on its own initiative or upon a request to the directors by shareholders holding in aggregate at least ten percent of our ordinary shares. Advance notice of at least seven calendar days is required for the convening of our shareholders meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares.

#### *Transfer of Ordinary Shares*

Subject to the restrictions of our articles of association, as applicable, any of our shareholders may transfer all or any of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board.

Our board of directors may, in its absolute discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any ordinary share unless:

- the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of shares;
- the instrument of transfer is properly stamped, if required;
- in the case of a transfer to joint holders, the number of joint holders to whom the ordinary shares are to be transferred does not exceed four; and
- the ordinary shares transferred are free of any lien in favor of us.

If our directors refuse to register a transfer, they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended nor the register closed for more than 30 days in any year.

### ***Liquidation***

On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of ordinary shares), assets available for distribution among the holders of ordinary shares shall be distributed among the holders of the ordinary shares on a pro rata basis. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately.

### ***Calls on Ordinary Shares and Forfeiture of Ordinary Shares***

Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their ordinary shares in a notice served to such shareholders at least 14 calendar days prior to the specified time of payment. The ordinary shares that have been called upon and remain unpaid are subject to forfeiture.

### ***Redemption of Ordinary Shares***

Subject to the provisions of the Companies Law, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as may be determined by our amended and restated memorandum and articles of association. None of the shares underlying the ADSs being offered hereunder contain any redemption rights.

### ***Variations of Rights of Shares***

All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the unanimous written consent of the holders of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

### ***Inspection of Books and Records***

Holders of our ordinary shares have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See "Where You Can Find Additional Information."

### ***Changes in Capital***

We may from time to time by ordinary resolutions:

- increase the share capital by such sum, to be divided into shares of such classes and amount, as the resolution shall prescribe;
- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- convert all or any of our paid-up shares into stock and reconvert that stock into paid-up shares of any denomination;
- sub-divide our existing shares, or any of them into shares of a smaller amount that is fixed by the amended and restated memorandum and articles of association;
- cancel any shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled.

Subject to Companies Law and our amended and restated memorandum and articles of association as regards the matters to be dealt with by ordinary resolution, we may by special resolution reduce our share capital and any capital redemption reserve in any manner authorized by law.

### ***Issuance of Additional Shares***

Our amended and restated memorandum of association authorizes our board of directors to issue additional ordinary shares from time to time as our board of directors shall determine, to the extent of available authorized but unissued shares.

Our amended and restated memorandum of association authorizes our board of directors to establish from time to time one or more series of preference shares and to determine, with respect to any series of preference shares, the terms and rights of that series, including:

- the designation of the series;
- the number of shares of the series;
- the dividend rights, dividend rates, conversion rights, voting rights; and
- the rights and terms of redemption and liquidation preferences.

Our board of directors may issue preference shares without action by our shareholders to the extent authorized but unissued. In addition, the issuance of preference shares may be used as an anti-takeover device without further action on the part of the shareholders. Issuance of these shares may dilute the voting power of holders of ordinary shares.



### ***Actions Requiring the Approval of a Supermajority of Our Board of Directors***

Certain actions require the approval of a supermajority of at least two-thirds of our board of directors, including:

- the appointment or removal of either of our chief executive officer or chief financial officer;
- any merger resulting in our shareholders immediately prior to such merger holding less than a majority of the voting power of the outstanding share capital of the surviving business entity;
- the sale or transfer of all or substantially all of our assets; and
- any change in the number of our board of directors.

### **Preference Shares**

As of the date of this prospectus, we had no preference shares issued and outstanding (assuming the conversion of all shares of Class A, Class B and Class C convertible preference shares held by StarElite, Earnstar and TDR, respectively). Our Board of Directors, without further approval of the our Shareholders, is authorized to fix the dividend rights and terms, conversion rights, voting rights, redemption rights, liquidation preferences and other rights and restrictions relating to any class or series of preference stock. Issuances of preference shares, while providing flexibility in connection with possible financings, acquisitions and other corporate purposes, could, among other things, adversely affect the voting power of the holders of our ordinary shares and prior or other series of our preference shares then outstanding.

### **Exempted Company**

We are an exempted company with limited liability under the Companies Law of the Cayman Islands. The Companies Law distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;
- an exempted company's register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue negotiable or bearer shares or shares with no par value;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and

- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount unpaid by the shareholder on the shares of the company. We are subject to reporting and other informational requirements of the Exchange Act, as applicable to foreign private issuers. We currently intend to comply with the rules of the New York Stock Exchange, in lieu of following home country practice after the closing of our initial public offering. The rules of the New York Stock Exchange require that every company traded on the New York Stock Exchange hold an annual general meeting of shareholders. In addition, our articles of association allow directors or shareholders to call special shareholder meetings pursuant to the procedures set forth in the articles. We believe that the differences with respect to being a Cayman Islands exempted company as opposed to a Delaware corporation do not pose additional material risks to investors, other than the risks described under "Risk Factors—Risks Related to This Offering."

### **Differences in Corporate Law**

The Companies Law is modeled after that of English law but does not follow many recent English law statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

### ***Mergers and Similar Arrangements***

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (b) a "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorized by either (a) a special resolution of the shareholders of each constituent company voting together as one class if the shares to be issued to each shareholder in the consolidated or surviving company will have the same rights and economic value as the shares held in the relevant constituent company or (b) a shareholder resolution of each constituent company passed by a majority in number representing 75% in value of the shareholders voting together as one class. The plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the

Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the majority vote have been met;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a take-over offer is made and accepted by holders of 90.0% of the shares (within four months), the offeror may, within a two month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

#### ***Shareholders' Suits***

The Cayman Islands courts can be expected to follow English case law precedents. The common law principles (namely the rule in *Foss v. Harbottle* and the exceptions thereto) which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) have been applied and followed by the courts in the Cayman Islands.

#### ***Indemnification of Directors and Executive Officers and Limitation of Liability***

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our amended and restated memorandum and articles of association permit indemnification of officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained in their capacities as such unless such losses or damages arise from actual, fraud or wilful neglect or default of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

***Anti-takeover Provisions in Our Amended and Restated Memorandum and Articles of Association***

Some provisions of our amended and restated memorandum and articles of association may discourage, delay or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our board of directors to issue preference shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preference shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our amended and restated memorandum and articles of association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company.

***Directors' Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company, and therefore it is considered that he owes the following duties to the company—a duty to act bona fide in the best interests of the company, a duty not to make a profit based on his position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care, and these authorities are likely to be followed in the Cayman Islands.

***Shareholder Action by Written Consent***

Under the Delaware General Corporation Law, a corporation may eliminate the right of shareholders to act by written consent by amendment to its certificate of incorporation. Cayman Islands law and our amended and restated articles of association provide that shareholders may approve corporate matters by way of a unanimous written resolution signed by or on behalf of each shareholder who would have been entitled to vote on such matter at a general meeting without a meeting being held.

### ***Shareholder Proposals***

Under the Delaware General Corporation Law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings.

Cayman Islands law and our amended and restated articles of association allow our shareholders holding not less than 10.0% of the paid up voting share capital of the company to requisition a shareholder's meeting. As an exempted Cayman Islands company, we are not obliged by law to call shareholders' annual general meetings. However, our amended and restated articles of association require us to call such meetings.

### ***Cumulative Voting***

Under the Delaware General Corporation Law, cumulative voting for elections of directors is not permitted unless the corporation's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of noncontrolling shareholders on a board of directors, since it permits the noncontrolling shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions in relation to cumulative voting under the laws of the Cayman Islands, but our amended and restated articles of association do not provide for cumulative voting. As a result, our shareholders are not afforded any less protections or rights on this issue than shareholders of a Delaware corporation.

### ***Removal of Directors***

Under the Delaware General Corporation Law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Under our amended and restated articles of association, directors can be removed without cause by special resolution or the unanimous written resolution of all shareholders, or with cause, by the ordinary resolution or the unanimous written resolution of all shareholders.

### ***Transactions with Interested Shareholders***

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15.0% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors. Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into

bona fide in the best interests of the company and not with the effect of constituting a fraud on the noncontrolling shareholders.

#### ***Dissolution; Winding up***

Under the Delaware General Corporation Law, unless the board of directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the Companies Law of the Cayman Islands and our amended and restated articles of association, our company may be dissolved, liquidated or wound up by a special resolution at a meeting or the unanimous written resolution of all shareholders.

#### ***Variation of Rights of Shares***

Under the Delaware General Corporation Law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of such class, unless the certificate of incorporation provides otherwise. Under Cayman Islands law and our amended and restated articles of association, if our share capital is divided into more than one class of shares, we may vary the rights attached to any class only by a special resolution of such class or unanimous written resolution of all shareholders of that class.

#### ***Amendment of Governing Documents***

Under the Delaware General Corporation Law, a corporation's governing documents may be amended with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. As permitted by Cayman Islands law, our amended and restated memorandum and articles of association may only be amended with a special resolution at a meeting or the unanimous written resolution of all shareholders.

#### ***Rights of Non-resident or Foreign Shareholders***

There are no limitations imposed by our amended and restated memorandum and articles of association on the rights of non-resident or foreign shareholders to hold or exercise voting rights on our shares. In addition, there are no provisions in our amended and restated memorandum and articles of association governing the ownership threshold above which shareholder ownership must be disclosed.

#### ***History of Securities Issuances***

The information below sets forth the date of issuance, title, amount and purchasers of, and consideration paid for, our securities sold within the last three years that were not registered under the Securities Act. All such securities were issued outside the United States pursuant to Regulation S of the Securities Act.

On October 10, 2008, China High issued 2,000 preference shares to Star Elite as consideration for Star Elite's capital contribution to China High of RMB70,000,000 (\$10,225,057.94).

In July 2008, China High issued 8,000 ordinary shares to Golden Direction as consideration for the acquisition by WGC (China High's wholly-owned subsidiary) of all of the equity interests in Shandong Borun.

On June 12, 2009, China High issued 563 preference shares to Earnstar as consideration for Earnstar's capital contribution to China High of RMB40,000,000 (\$5,860,033.11).

On September 22, 2009, China High issued 202 preference shares to TDR as consideration for TDR's capital contribution of RMB14,050,000 (\$2,058,336.63), and issued an additional 11 preference shares to Earnstar for no consideration in accordance with certain anti-dilution provisions set forth in an investment agreement by and between China High and TDR (such investment agreement has subsequently been terminated and replaced with the Shareholders Agreement, dated as of March 31, 2010).

Upon the incorporation of New Borun on December 21, 2009, we issued one ordinary share originally having a par value of \$1.00, to Mrs. Shan Junqin on December 21, 2009 (we subsequently changed the par value of our ordinary shares to \$0.001 per share). Effective as of March 31, 2010, New Borun consummated a share exchange agreement with Golden Direction, a British Virgin Islands company beneficially owned by Mrs. Shan Junqin, a member of the Wang Family whereby New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to Mrs. Shan of 14,847,810 ordinary shares, par value \$0.001 per share. As of the date of that agreement, (1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction held approximately 74.24% of the voting capital stock of China High.

Effective as of March 31, 2010, New Borun and Golden Direction consummated a share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing the exchange, New Borun issued (i) 3,711,952 of its Class A convertible preference shares, par value \$0.001 per share, which are automatically convertible into 3,711,952 of its ordinary shares upon the closing of this offering, to one of our private equity investors, Star Elite, (ii) 1,065,330 shares of its Class B convertible preference shares, par value \$0.001 per share, which are automatically convertible into 1,065,330 ordinary shares upon the closing of this offering, to one of China High's private equity investors, Earnstar and (iii) 374,907 shares of its Class C convertible preference shares, par value \$0.001 per share, which are automatically convertible into 374,907 ordinary shares upon the closing of this offering, to one of China High's private equity investors, TDR. Upon the consummation of this exchange, Golden Direction continues to be a wholly-owned subsidiary of New Borun and China High became a wholly-owned subsidiary of Golden Direction.

In connection with and as contemplated by the Exchange, New Borun, King River, Star Elite, Earnstar and TDR entered into a shareholders agreement effective as of March 31, 2010 which sets forth the preference rights held by each of Star Elite, Earnstar and TDR in New Borun. The shareholders agreement provides for the automatic conversion of each Class A, B and C convertible preference share into ordinary shares upon the closing of this offering and therefore, unless otherwise stated, the information herein assumes that such Class A, B and C convertible preference shares have been fully converted into ordinary shares.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders after the closing of this offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of the date of this prospectus, none of our outstanding ordinary shares or Class A, B or C convertible preference shares are held by record holders in the United States.

Certain of our major shareholders and their affiliates have indicated their desire to subscribe for the ADSs offered in this offering. None of such shareholders or their affiliates is currently under any obligation or has any contractual right to purchase any ADSs in this offering, and their interest in purchasing ADSs in this offering is not a commitment to do so.

## DESCRIPTION OF AMERICAN DEPOSITARY SHARES

### American Depositary Receipts

The Bank of New York Mellon, as depositary, will deliver the ADSs that you will be entitled to receive in this Offering. Each ADS will represent an ownership interest in ordinary shares that we will deposit with the custodian, as agent of the depositary, under the deposit agreement among ourselves, the depositary and yourself as an ADS holder. In the future, each ADS will also represent any other securities, cash or other property deposited with the depositary but which it has not distributed directly to you.

The depositary's office is located at 101 Barclay Street, 22nd Floor West, New York, New York 10286, USA.

You may hold ADSs either (A) directly (i) by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in your name, or (ii) by having ADSs registered in your name in the Direct Registration System, or (B) indirectly by holding a security entitlement in ADSs through your broker or other financial institution. If you hold ADSs directly, you are a registered ADS holder, also referred to as an ADS holder. This description assumes you are an ADS holder. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, also referred to as DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be confirmed by periodic statements sent by the depositary to the registered holders of uncertificated ADSs.

As an ADS holder, we will not treat you as a shareholder of ours and you will not have any shareholder rights. Cayman Island law governs shareholder rights. Because the depositary or its nominee will be the shareholder of record for the shares represented by all outstanding ADSs, shareholder rights rest with such record holder. Your rights are those of an ADS holder. Such rights derive from the terms of the deposit agreement to be entered into among us, the depositary and all registered holders and other holders from time to time of ADSs issued thereunder. The obligations of the depositary and its agents are also set out in the deposit agreement. The deposit agreement and the ADSs are governed by New York law.

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of ADR which contains the terms of your ADSs. You can read a copy of the deposit agreement which is filed as an exhibit to the registration statement of which this prospectus forms a part. You may also obtain a copy of the deposit agreement at the SEC's Public Reference Room which is located at 100 F Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. You may also find the registration statement and the attached deposit agreement on the SEC's website at <http://www.sec.gov>.

### Share Dividends and Other Distributions

#### *How will you receive dividends and other distributions on the shares underlying your ADSs?*

We may make various types of distributions with respect to our securities. The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other



deposited securities, after converting any cash received into U.S. dollars and, in all cases, making any necessary deductions provided for in the deposit agreement. You will receive these distributions in proportion to the number of underlying securities that your ADSs represent.

Except as stated below, to the extent the depositary is legally permitted it will deliver such distributions to ADS holders in proportion to their interests in the following manner:

*Cash.* The depositary will distribute any U.S. dollars available to it resulting from a cash dividend or other cash distribution or the net proceeds of sales of any other distribution or portion thereof (to the extent applicable), on an averaged or other practicable basis, subject to (i) appropriate adjustments for taxes withheld, (ii) such distribution being impermissible or impracticable with respect to certain registered holders and (iii) deduction of the depositary's fees and expenses in (1) converting any foreign currency to U.S. dollars to the extent that it determines that such conversion may be made on a reasonable basis, (2) transferring foreign currency or U.S. dollars to the United States by such means as the depositary may determine to the extent that it determines that such transfer may be made on a reasonable basis, (3) obtaining any approval or license of any governmental authority required for such conversion or transfer, which is obtainable at a reasonable cost and within a reasonable time, and (4) making any sale by public or private means in any commercially reasonable manner. *If exchange rates fluctuate during a time when the depositary cannot convert a foreign currency, you may lose some or all of the value of the distribution.*

*Shares.* In the case of a distribution in shares, the depositary may deliver additional ADSs representing such shares. Only whole ADSs will be issued. The depositary will try to sell any shares which would result in fractional ADSs and any net proceeds will be distributed in the same manner as cash to the ADS holders entitled thereto. The depositary may sell a portion of the distributed shares sufficient to pay its fees and expenses in connection with that distribution.

*Rights to Receive Additional Shares.* In the case of a distribution of rights to subscribe for additional shares or other rights, if we provide satisfactory evidence that the depositary may lawfully distribute such rights, the depositary may distribute warrants or other instruments representing such rights. However, if we do not furnish such evidence, the depositary may:

- sell such rights if practicable and distribute the net proceeds as cash; or
- if it is not practicable to sell such rights, do nothing and allow such rights to lapse, in which case ADS holders will receive nothing.
- We have no obligation to file a registration statement under the Securities Act in order to make any rights available to ADS holders.

*Other Distributions.* In the case of a distribution of securities or property other than those described above, the depositary may either (i) distribute such securities or property in any manner it deems equitable and practicable or (ii) to the extent the depositary deems distribution of such securities or property not to be equitable and practicable, sell such securities or property and distribute any net proceeds in the same way it distributes cash. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

If the depositary determines that any distribution described above is not practicable with respect to any specific ADS holder, the depositary may choose any practicable method of distribution for such ADS holder, including the distribution of foreign currency, securities or property, or it may retain such items, without paying interest on or investing them, on behalf of the ADS holder as deposited securities, in which case the ADSs will also represent the retained items.

Any U.S. dollars will be distributed by checks drawn on a bank in the United States for whole dollars and cents. The depository will round all payments to the nearest whole cent.

The depository is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders.

*There can be no assurance that the depository will be able to convert any currency at a specified exchange rate or sell any property, rights, shares or other securities at a specified price, or at all, nor that any of such transactions can be completed within a specified time period.*

## **Deposit, Withdrawal and Cancellation**

### ***How are ADSs issued?***

The depository will deliver ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian and pay the fees and expenses owing to the depository in connection with such issuance. In the case of the ADSs to be issued under this prospectus, we will arrange with the underwriters named herein to deposit such shares.

Shares deposited in the future with the custodian must be accompanied by certain delivery documentation, including instruments showing that such shares have been properly transferred or endorsed to the person on whose behalf the deposit is being made.

The custodian will hold all deposited shares (including those being deposited by or on our behalf in connection with this offering to which this prospectus relates) for the account of the depository. ADS holders thus have no direct ownership interest in the shares and only have such rights as are contained in the deposit agreement. The custodian will also hold any additional securities, property and cash received on or in substitution for the deposited shares. The deposited shares and any such additional items are referred to as deposited securities.

Upon each deposit of shares, receipt of related delivery documentation and compliance with the other provisions of the deposit agreement, including the payment of the fees and charges of the depository and any taxes or other fees or charges owing, the depository will deliver ADSs in the name or upon the order of the person entitled thereto to which such person is entitled.

### ***How do ADS Holders Surrender an ADS and Obtain Deposited Securities?***

When you turn in your ADSs at the depository's office, or when you provide proper instructions and documentation in the case of direct registration ADSs, the depository will, upon payment of certain applicable fees, charges and taxes, deliver the amount of deposited securities represented thereby at the custodian's office or effect delivery by such other means as the depository deems practicable, including transfer to an account at an accredited financial institution on your behalf. At your risk, expense and request, the depository may deliver deposited securities at such other place as you may request.

The depository may only restrict the withdrawal of deposited securities in connection with:

- temporary delays caused by closing our transfer books or those of the depository or the deposit of shares in connection with voting at a shareholders' meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or

- compliance with any U.S. or foreign laws or governmental regulations relating to the ADSs or to the withdrawal of deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

### **Record Dates**

The depositary may fix record dates for the determination of the ADS holders who will be entitled (or obligated, as the case may be):

- to receive any distribution on or in respect of shares,
- to give instructions for the exercise of voting rights at a meeting of holders of shares,
- for the determination of the registered holders who shall be responsible for the fee assessed by the depositary for administration of the ADS program and for any expenses as provided for in the deposit agreement, or
- to receive any notice or to act in respect of other matters,

all subject to the provisions of the deposit agreement.

### **Voting Rights**

#### ***How do You Vote?***

ADS holders may instruct the depositary to vote the number of deposited shares their ADSs represent. The depositary will notify ADS holders of shareholders' meetings and arrange to deliver our voting materials to them if we ask it to. Those materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. For instructions to be valid, they must reach the depositary by a date set by the depositary.

*Otherwise, you won't be able to exercise your right to vote unless you withdraw the shares. However, you may not know about the meeting enough in advance to withdraw the shares.*

The depositary will try, as far as practical, subject to the laws of the Cayman Islands and of our articles of association or similar documents, to vote or to have its agents vote the shares or other deposited securities as instructed by ADS holders.

There is no guarantee that you will receive voting materials in time to instruct the depositary to vote and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

### **Reports and Other Communications**

#### ***Will You Be Able to View our Reports?***

The depositary will make available for inspection by ADS holders any written communications from us which are both received by the depositary as a holder of deposited securities and made generally available to the holders of deposited securities. We will furnish these communications in English when so required by any rules or regulations of the Securities and Exchange Commission.

Additionally, if we make any written communications generally available to holders of our shares, including the depositary or the custodian, and we request the depositary to provide them to ADS holders, the depositary will mail copies of them to ADS holders.

## Fees and Expenses

### *What Fees and Expenses will You be Responsible for Paying?*

The depositary may charge each person to whom ADSs are issued, including, without limitation, issuances against deposits of shares, issuances in respect of share distributions, rights and other distributions, issuances pursuant to a stock dividend or stock split declared by us or issuances pursuant to a merger, exchange of securities or any other transaction or event affecting the ADSs or deposited securities, and each person surrendering ADSs for withdrawal of deposited securities in any manner permitted by the deposit agreement, \$5.00 or less for each 100 ADSs (or any portion thereof) issued, delivered, reduced, cancelled or surrendered, as the case may be.

The following additional charges shall be incurred by the ADS holders, by any party depositing or withdrawing shares or by any party surrendering ADSs or to whom ADSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by our company or an exchange of stock regarding the ADSs or the deposited securities or a distribution of ADSs), whichever is applicable:

- a fee of \$0.05 or less per ADS (or portion thereof) for any cash distribution made pursuant to the deposit agreement;
- a fee of \$0.05 per ADS or less per ADS (or portion thereof) per calendar year for services performed by the depositary in administering our ADR program (which fee may be charged on a periodic basis during each calendar year and shall be assessed against holders of ADSs as of the record date or record dates set by the depositary during each calendar year and shall be payable in the manner described in the next succeeding provision);
- any other charge payable by any of the depositary, any of the depositary's agents, including, without limitation, the custodian, or the agents of the depositary's agents in connection with the servicing of our shares or other deposited securities (which charge shall be assessed against holders of ADSs as of the record date or dates set by the depositary and shall be payable at the sole discretion of the depositary by billing such holders or by deducting such charge from one or more cash dividends or other cash distributions);
- a fee for the distribution of securities, such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities (treating all such securities as if they were shares) but which securities are instead distributed by the depositary to those holders entitled thereto;
- stock transfer or other taxes and other governmental charges;
- cable, telex and facsimile transmission and delivery charges incurred at your request;
- transfer or registration fees for the registration of transfer of deposited securities on any applicable register in connection with the deposit or withdrawal of deposited securities;
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars; and

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The fees described above may be amended from time to time.

The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services are paid.

### **Payment of Taxes**

ADS holders must pay any tax or other governmental charge payable by the custodian or the depositary on any ADS or ADR, deposited security or distribution. If an ADS holder owes any tax or other governmental charge, the depositary may (i) deduct the amount thereof from any cash distributions, or (ii) sell deposited securities and deduct the amount owing from the net proceeds of such sale. In either case the ADS holder remains liable for any shortfall. Additionally, if any tax or governmental charge is unpaid, the depositary may also refuse to effect any registration or registration of transfer of ADSs or, split-up or combination of ADRs or withdrawal of deposited securities, except under limited circumstances mandated by securities regulations. If any tax or governmental charge is required to be withheld on any non-cash distribution, the depositary may sell the distributed property or securities to pay such taxes and distribute any remaining net proceeds to the ADS holders entitled thereto.

### **Reclassifications, Recapitalizations and Mergers**

If we take certain actions that affect the deposited securities, including (i) any change in par value, split-up, consolidation, cancellation or other reclassification of deposited securities or (ii) any recapitalization, reorganization, merger, consolidation, liquidation, receivership, bankruptcy or sale of all or substantially all of our assets, then the depositary may choose to:

- amend the form of ADR;
- distribute additional or amended ADRs;
- distribute cash, securities or other property it has received in connection with such actions;
- sell any securities or property received and distribute the proceeds as cash; or
- none of the above.

If the depositary does not choose any of the above options, any of the cash, securities or other property it receives will constitute part of the deposited securities and each ADS will then represent a proportionate interest in such property.

## **Amendment and Termination**

### ***How may the Deposit Agreement be Amended?***

We may agree with the depository to amend the deposit agreement and the ADSs without your consent for any reason. ADS holders must be given at least 30 days notice of any amendment that imposes or increases any fees or charges, other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses, or prejudices any substantial existing right of ADS holders. If an ADS holder continues to hold ADS after being so notified, such ADS holder is deemed to agree to such amendment. No amendment, however, will impair your right to surrender your ADSs and receive the underlying securities, except in order to comply with mandatory provisions of applicable law.

### ***How may the Deposit Agreement be Terminated?***

The depository will terminate the deposit agreement at our direction by mailing notice of termination to the ADS holders then outstanding at least 30 days prior to the date fixed in such notice for such termination. The depository may also terminate the deposit agreement by mailing notice of termination to us and the ADS holders if 60 days have passed since the depository told us it wants to resign but a successor depository has not been appointed and accepted its appointment. After termination, the depository's only responsibility will be (i) to deliver deposited securities to ADS holders who surrender their ADSs, and (ii) to hold or sell distributions received on deposited securities. As soon as practicable after the expiration of four months from the termination date, the depository may sell the deposited securities which remain and hold the net proceeds of such sales, without liability for interest, for the ADS holders who have not yet surrendered their ADSs. After making such sale, the depository shall have no obligations except to account for such proceeds and other cash. The depository will not be required to invest such proceeds or pay interest on them.

## **Limitations on Obligations and Liability to ADS holders**

### ***Limits on our Obligations and the Obligations of the Depository; Limits on Liability to ADS Holders and Holders of ADSs***

Prior to the issuance, registration, registration of transfer, or cancellation of any ADRs, ADSs or the split-up or combination of any ADRs or the delivery of any distribution in respect thereof, we, the depository and its custodian may require you to pay, provide or deliver:

- payment with respect thereto of (i) any stock transfer or other tax or other governmental charge, (ii) any stock transfer or registration fees in effect for the registration of transfers of shares or other deposited securities upon any applicable register and (iii) any applicable fees and expenses described in the deposit agreement;
- the production of proof satisfactory to the depository and/or its custodian of (i) the identity of any signatory and genuineness of any signature and (ii) such other information, including without limitation, information as to citizenship, residence, exchange control approval, beneficial ownership of any securities, payment of applicable taxes or governmental charges, or legal or beneficial ownership and the nature of such interest, information relating to the registration of the shares on the books maintained by or on our behalf for the transfer and registration of shares, compliance with applicable law, regulations, provisions of or governing shares and terms of the deposit agreement and the ADSs, as it may deem necessary or proper; and

- compliance with such regulations as the depositary may establish consistent with the deposit agreement.

The delivery of ADSs, the acceptance of deposits of shares, the registration of transfer of ADSs or split-up or combination of ADRs, generally or in particular instances, may be suspended when the ADS register or any register for shares is closed or when any such action is deemed advisable by the depositary.

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if we are or it is prevented or delayed by law or circumstances beyond our control from performing our or its obligations under the deposit agreement;
- are not liable if we or it exercises discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement, or for any special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on your behalf or on behalf of any other person;
- may rely upon any documents we believe or it believes in good faith to be genuine and to have been signed or presented by the proper person.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

The depositary will not be responsible for failing to carry out instructions to vote the deposited securities or for the manner in which the deposited securities are voted or the effect of the vote.

The depositary may own and deal in deposited securities and in ADSs.

#### **Books of Depositary**

The depositary or its agent will maintain a register for the registration and registration of transfer of ADSs and combination and split-up of ADRs. You may inspect such records at such office during regular business hours, but solely for the purpose of communicating with other holders in the interest of business matters relating to the deposit agreement. Such register may be closed from time to time, when deemed expedient by the depositary or when requested by us.

#### **Pre-release of ADSs**

The depositary may deliver ADSs prior to the deposit with the custodian of shares (or rights to receive shares). This is called a pre-release of the ADSs. The depositary may also deliver shares upon cancellation of pre-released ADSs (even if the ADSs are canceled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the

depository. The depository may receive ADSs instead of shares to close out a pre-release. The depository may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depository in writing that it or its customer owns the shares or ADSs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the depository considers appropriate; and (3) the depository must be able to close out the pre-release on not more than five business days' notice. In addition, the depository will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depository may disregard the limit from time to time, if it thinks it is appropriate to do so.

The depository may retain for its own account any earnings on collateral for pre-released ADSs and its charges for issuance thereof. In addition, each pre-release may be subject to those indemnities and credit regulations as the depository may require.

#### **Our Fees and Expenses**

The Bank of New York Mellon, as depository, has agreed to reimburse us for expenses we incur that are related to establishment and maintenance of the ADS program, including investor relations expenses and stock market application and listing fees. There are limits on the amount of expenses for which the depository will reimburse us, but the amount of reimbursement available to us is not related to the amount of fees the depository collects from investors.



## SHARES ELIGIBLE FOR FUTURE SALE

Upon the closing of this offering, we will have \_\_\_\_\_ outstanding ADSs representing approximately \_\_\_\_\_ % of our ordinary shares in issue. All of the ADSs sold in this offering will be freely transferable by persons other than our "affiliates" without restriction or further registration under the Securities Act. Sales of substantial amounts of our ADSs in the public market could adversely affect prevailing market prices of our ADSs. Prior to this offering, there has been no public market for our ordinary shares or the ADSs, and although we have applied to list the ADSs on the New York Stock Exchange, we cannot assure you that a regular trading market will develop in the ADSs. We do not expect that a trading market will develop for our ordinary shares not represented by the ADSs.

### Lock-up Agreements

Our directors, executive officers and existing shareholders have signed lock-up agreements under which they have agreed, subject to some exceptions, not to transfer or dispose of, directly or indirectly, any of our ordinary shares, in the form of ADSs or otherwise, or any securities convertible into or exchangeable or exercisable for our ordinary shares, in the form of ADSs or otherwise, for a period of 180 days after the date of this prospectus. The 180-day lock-up period may be extended under certain circumstances described in "Underwriting." After the expiration of the lock-up period, the ordinary shares or ADSs held by our directors, executive officers or principal shareholders may be sold subject to the restrictions under Rule 144 under the Securities Act, or by means of registered public offerings.

In addition, through a letter agreement, we have agreed to instruct BNY Mellon, as depositary, not to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus unless we consent to such deposit or issuance, and not to provide consent without the prior written consent of Piper Jaffray. The 180-day period may be extended under certain circumstances described in "Underwriting." The foregoing does not affect the right of ADS holders to cancel their ADSs and withdraw the underlying ordinary shares.

### Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this prospectus a person who has beneficially owned our restricted securities for at least six months is entitled to sell the restricted securities without registration under the Securities Act, subject to certain restrictions. Persons who are our affiliates (including persons beneficially owning 10% or more of our outstanding shares) may sell within any three-month period a number of restricted securities that does not exceed the greater of the following:

- 1% of the number of our ordinary shares then outstanding, in the form of ADSs or otherwise, which will equal approximately \_\_\_\_\_ shares immediately after this offering; and
- the average weekly trading volume of our ADSs on the New York Stock Exchange during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Such sales are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted securities for more than six months but not more than one year may sell the restricted securities without registration under the Securities Act, subject to the availability of current public information about us. Persons who are not our affiliates and have beneficially owned our restricted

securities for more than one year may freely sell the restricted securities without registration under the Securities Act.

**Rule 701**

Beginning 90 days after the date of this prospectus, persons other than affiliates who purchased ordinary shares under a written compensatory plan or contract may be entitled to sell such shares in the United States in reliance on Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell these shares in reliance on Rule 144 subject only to its manner-of-sale requirements. However, the Rule 701 shares would remain subject to lock-up arrangements and would only become eligible for sale when the lock-up period expires.

## TAXATION

*The following summary of material Cayman Islands, People's Republic of China and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this prospectus, all of which are subject to change. This summary does not deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under U.S. state, local and other tax laws. To the extent the discussion relates to matters of Cayman Islands tax law, it constitutes the opinion of Maples and Calder, our Cayman Islands counsel.*

### **Cayman Islands Taxation**

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. No Cayman Islands stamp duty will be payable unless an instrument is executed in, brought to, or produced before a court of the Cayman Islands. The Cayman Islands are not parties to any double-tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **People's Republic of China Taxation**

The newly enacted PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations for the EIT Law issued by the PRC State Council, became effective as of January 1, 2008. The EIT Law provides that enterprises established outside of China whose "de facto management bodies" are located in China are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, a "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Currently no interpretation or application of the new EIT Law and its implementing rules is available for non-Chinese enterprise or group enterprise controlled entity. Therefore, although substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC resident enterprise.

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are "non-resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of ADSs or shares by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC "resident enterprise," it is unclear whether dividends we pay with respect to our ordinary shares or ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, would be treated as income derived from sources within the PRC and would be subject to PRC tax. It is also unclear whether, if we are considered a PRC "resident enterprise," holders of our ordinary shares or ADSs might be able to claim the benefit of income tax treaties entered into between China and other countries.

## United States Federal Income Taxation

The following summary describes the material United States federal income tax consequences of the ownership of our ordinary shares or ADSs as of the date hereof. The discussion is applicable to United States Holders (as defined below) who hold our ordinary shares or ADSs as capital assets. As used herein, the term "United States Holder" means a holder of an ordinary share or ADS that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws, including if you are:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organization;
- a person holding our ordinary shares or ADSs as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass-through entity for United States federal income tax purposes (or hold your ordinary shares or ADSs through a partnership or other pass-through entity); or
- a person whose "functional currency" is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, or the Code, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made to us by the depositary and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds ordinary shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our ordinary shares or ADSs, you should consult your tax advisors.

This summary does not contain a detailed description of all the United States federal income tax consequences to you in light of your particular circumstances nor does it address any United States federal tax laws other than United States federal income tax laws. If you are considering the purchase, ownership or disposition of our ordinary shares or ADSs, you should consult your own tax advisors concerning the United States federal tax consequences to you in light of your particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.

The U.S. Treasury has expressed concerns that intermediaries in the chain of ownership between the holder of an ADS and the issuer of the security underlying the ADS may be taking actions that are inconsistent with the claiming of foreign tax credits for United States Holders of ADSs. Such actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the analysis of the creditability of PRC taxes, if any, and the availability of the reduced tax rate for dividends received by certain non-corporate holders, each described below, could be affected by actions taken by intermediaries in the chain of ownership between the holder of an ADS and our company.

## **ADSs**

If you hold ADSs, for United States federal income tax purposes, you generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs. Accordingly, deposits or withdrawals of ordinary shares for ADSs will not be subject to United States federal income tax.

## **Taxation of Dividends**

Subject to the discussion under "[Passive Foreign Investment Company](#)" below, the gross amount of distributions on the ordinary shares or ADSs (including amounts withheld to reflect PRC withholding taxes) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of ordinary shares, or by the depositary, in the case of ADSs. Such dividends will not be eligible for the dividends-received deduction allowed to corporations under the Code.

With respect to non-corporate United States Holders, certain dividends received in taxable years beginning before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation. A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States. United States Treasury Department guidance indicates that our ADSs, which we intend to apply for listing on the New York Stock Exchange, but not our ordinary shares, will be readily tradable on an established securities market in the United States. There can be no assurance that our ADSs will be considered readily tradable on an established securities market in later years. A qualified foreign corporation also includes a foreign

corporation that is eligible for the benefits of certain income tax treaties with the United States. In the event that we are deemed to be a PRC "resident enterprise" under PRC tax law (see discussion under "Taxation—People's Republic of China Taxation"), we may be eligible for the benefits of the income tax treaty between the United States and the PRC and, if we are eligible for such benefits, dividends we pay on our ordinary shares, regardless of whether such ordinary shares are represented by ADSs, would be subject to the reduced rates of taxation. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as "investment income" pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. You should consult your own tax advisors regarding the application of these rules given your particular circumstances.

In the event that we are deemed to be a PRC "resident enterprise" under PRC tax law, you may be subject to PRC withholding taxes on dividends paid to you with respect to the ordinary shares or ADSs (see discussion under "Taxation—People's Republic of China Taxation"). In that case, however, you may be able to obtain a reduced rate of PRC withholding taxes under the treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your United States federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the ordinary shares or ADSs will be treated as foreign-source income and will generally constitute passive category income. Furthermore, in certain circumstances, if you have held the ordinary shares or ADSs for less than a specified minimum period during which you are not protected from risk of loss, or are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for any PRC withholding taxes imposed on dividends paid on the ordinary shares or ADSs. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Subject to the discussion under "—Passive Foreign Investment Company" below, to the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital to the extent of your adjusted basis in the ordinary shares or ADSs, as applicable, and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

### **Passive Foreign Investment Company**

Based on the projected composition of our income and valuation of our assets, including goodwill, we do not believe that we were considered to be a passive foreign investment company, or a PFIC, for United States federal income tax purposes for our taxable year ending December 31, 2009, and that we do not expect to become one for our taxable year ending December 31, 2010 or thereafter, although there can be no assurance in this regard.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income; or
- at least 50% of the value of our assets (based on an average of the quarterly values) is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

The determination of whether we are a PFIC is made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our income or asset composition. Because we have valued our goodwill based on the market value of our ordinary shares and ADSs, a decrease in the price of our ordinary shares or ADSs may result in our becoming a PFIC. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in the offering. If we are a PFIC for any taxable year during which you hold our ordinary shares or ADSs, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our ordinary shares or ADSs, you will be subject to special tax rules with respect to any "excess distribution" received and any gain realized from a sale or other disposition, including a pledge, of ordinary shares or ADSs. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the ordinary shares or ADSs will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ordinary shares or ADSs;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from us in taxable years beginning prior to January 1, 2011, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our ordinary shares or ADSs in any year in which we are classified as a PFIC. Further, if we are regarded as a PFIC, under Code Section 1298/(f) which was added to the Code on March 18, 2010, a U.S. Holder of ordinary shares or ADSs may be required to file an annual information report even if such person did not recognize gain on the sale of such PFIC stock, receive a distribution from such PFIC, or made a QEF election with respect to such PFIC.

If we are a PFIC for any taxable year during which you hold our ordinary shares or ADSs and any of our non-United States subsidiaries is also a PFIC, a United States Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of ADSs because we have applied

to list the ADSs on the New York Stock Exchange, which constitutes a qualified exchange, although there can be no assurance that the ADSs will be "regularly traded" for purposes of the mark-to-market election. It should be noted that we have applied to list only the ADSs, and not the ordinary shares, on the New York Stock Exchange. Consequently, if you are a holder of ordinary shares that are not represented by ADSs, you generally will not be eligible to make a mark-to-market election if we are or were to become a PFIC.

If you make an effective mark-to-market election, instead of applying the PFIC rules above you would include in each year as ordinary income the excess of the fair market value of your ADSs at the end of the year over your adjusted tax basis in the ADSs. You would be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the ADSs over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. If you make an effective mark-to-market election, any gain you recognize upon the sale or other disposition of ADSs would be treated as ordinary income and any loss would be treated as ordinary loss, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. Your adjusted tax basis in the ADSs would be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the ADSs are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisors about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

If we are or were to become a PFIC, the rules described above could be avoided if you elected to treat us as a "qualified electing fund" under Section 1295 of the Code. However, this option would not be available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding ordinary shares or ADSs if we are considered a PFIC in any taxable year.

### **Taxation of Capital Gains**

For United States federal income tax purposes and subject to the discussion under "—Passive Foreign Investment Company" above, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of ordinary shares or ADSs in an amount equal to the difference between the amount realized for the ordinary shares or ADSs and your tax basis in the ordinary shares or ADSs. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate United States Holders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as United States-source gain or loss. However, in the event that we are deemed to be a PRC "resident enterprise" under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. Under that treaty, if any PRC tax was to be imposed on any gain from the disposition of the ordinary shares or ADSs, the gain may be treated as PRC-source income. You are urged to consult your tax advisors regarding the tax consequences if a foreign tax is imposed on gain on a disposition of our ordinary shares or ADSs, including the availability of the foreign tax credit under your particular circumstances.

### **Information Reporting and Backup Withholding**

In general, information reporting will apply to dividends in respect of our ordinary shares or ADSs and to the proceeds from the sale, exchange or redemption of our ordinary shares or ADSs that are



paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. A backup withholding tax may apply to such payments if you fail to provide a correct taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income or otherwise fail to comply with the backup withholding rules. Backup withholding is not an additional tax. Rather, any amounts withheld as backup withholding may be credited against your United States federal income tax liability, if any, and you may obtain a refund of any excess withheld under the backup withholding rules by filing the appropriate claim for refund with, and provided the required information is properly furnished to, the Internal Revenue Service.

**PROSPECTIVE PURCHASERS OF OUR ADSS OR ORDINARY SHARES SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY ADDITIONAL TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF OUR ADSS OR ORDINARY SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR NON-U.S. JURISDICTION, INCLUDING ESTATE, GIFT, AND INHERITANCE LAWS.**

## UNDERWRITING

The underwriters named below have agreed to buy, subject to the terms of the purchase agreement, the number of ADSs listed opposite their names below. Piper Jaffray & Co. is acting as the representative of the underwriters named below. Subject to the terms and conditions described in the underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and the underwriters severally have agreed to purchase from us, the number of ADSs listed opposite their respective names below. Piper Jaffray & Co.'s address is Suite 800, 800 Nicollet Mall, Minneapolis, MN 55402.

<u>Underwriters</u>	<u>Number of ADSs</u>
Piper Jaffray & Co.	
Total	

The underwriters have advised us that they propose to offer the ADSs to the public at \$ \_\_\_\_\_ per ADS. The underwriters propose to offer the ADSs to certain dealers at the same price less a concession of not more than \$ \_\_\_\_\_ per ADS. The underwriters may allow and the dealers may reallow a concession of not more than \$ \_\_\_\_\_ per share on sales to certain other brokers and dealers. After the offering, these figures may be changed by the underwriters.

We have granted to the underwriters an option to purchase up to an additional \_\_\_\_\_ ADSs of from us at the same price to the public, and with the same underwriting discount, as set forth in the table above. The underwriters may exercise this option any time during the 30-day period after the date of this prospectus, but only to cover over-allotments, if any. To the extent the underwriters exercise the option, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional ADSs as it was obligated to purchase under the purchase agreement.

The following table shows the underwriting fees to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the over-allotment option.

	<u>No Exercise</u>	<u>Full Exercise</u>
Per ADS	\$ _____	\$ _____
Total	\$ _____	\$ _____

We have agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

We and each of our directors, executive officers and certain principal shareholders have agreed to certain restrictions on our ability to sell additional ADSs and other of our securities that they beneficially own, including securities that are convertible into our ordinary shares or ADSs and securities that are exchangeable or exercisable for our ordinary shares or ADSs, for a period of 180 days after the date of this prospectus. We have agreed not to directly or indirectly offer for sale, sell, contract to sell, grant any option for the sale of, or otherwise issue or dispose of, any of our ordinary shares or ADSs, options or warrants to acquire shares of our ordinary shares or ADSs, or any related security or instrument, without the prior written consent of Piper Jaffray. The agreements provide exceptions for (1) sales to underwriters pursuant to the purchase agreement, (2) our sales in connection with the exercise of options granted and the granting of options to purchase up to an

additional ordinary shares under the our existing stock option plans and (3) certain other exceptions. If (i) during the last 17 days of the 180 day lock up period, we issue an earnings release or material news or a material event occurs or (ii) before the expiration of the 180 day lock up period, we announce that we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the 180 day lock up period, the lock up restrictions will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Prior to the offering, there has been no established trading market for the ADSs. The initial public offering price for the ADSs offered by this prospectus was negotiated by us and the underwriters. The factors considered in determining the initial public offering price include the history of and the prospects for the industry in which we compete, our past and present operations, our historical results of operations, our prospects for future earnings, the recent market prices of securities of generally comparable companies and the general condition of the securities markets at the time of the offering and other relevant factors. There can be no assurance that the initial public offering price of the ADSs will correspond to the price at which the ADSs will trade in the public market subsequent to this offering or that an active public market for the ADSs will develop and continue after this offering.

To facilitate the offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the ADSs during and after the offering. Specifically, the underwriters may over-allot or otherwise create a short position in the ADSs for their own account by selling more shares of ADSs than have been sold to them by us. The underwriters may elect to cover any such short position by purchasing shares of ADSs in the open market or by exercising the over-allotment option granted to the underwriters. In addition, the underwriters may stabilize or maintain the price of the ADSs by bidding for or purchasing ADSs in the open market and may impose penalty bids. If penalty bids are imposed, selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if ADSs previously distributed in the offering are repurchased, whether in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the ADSs at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also effect the price of the ADSs to the extent that it discourages resales of the ADSs. The magnitude or effect of any stabilization or other transactions is uncertain. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

No action has been or will be taken by us or by any underwriter in any jurisdiction except in the United States that would permit a public offering of the ADSs, or the possession, circulation or distribution of a prospectus or any other material relating to us and the ADSs in any country or jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither this prospectus nor any other material or advertisements in connection with the ADSs may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

*Cayman Islands.* This prospectus does not constitute a public offer of the ADSs or ordinary shares, whether by way of sale or subscription, in the Cayman Islands. Each underwriter may not offer or sell, directly or indirectly, any ADSs or ordinary shares in the Cayman Islands.

*European Economic Area.* In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), an offer of the ADSs to the public may not be made in that Relevant Member State prior to the publication of a prospectus in relation to the ADSs which has been approved by the

competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the ADSs to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than A43,000,000 and (3) an annual net turnover of more than A50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer;
- or in any other circumstances which do not require the publication by the company of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of ADSs to the public" in relation to any ADSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe the ADSs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State. Buyers of ADSs sold by the underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Share Offering Price.

*United Kingdom.* Each Underwriter has severally represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the ADSs in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares in, from or otherwise involving the United Kingdom.

*France.* Neither this prospectus nor any offering material relating to ADSs has been or will be submitted to the "*Commission des Opérations de Bourse*" for approval ("*Visa*") in France, and the ADSs will not be offered or sold and copies of this prospectus or any offering material relating to the ADSs may not be distributed, directly or indirectly, in France, except to qualified investors ("*investisseurs qualifiés*") and/or a restricted group of investors ("*cercle restreint d'investisseurs*"), in each case acting for their account, all as defined in, and in accordance with, Article L. 411-1 and L. 411-2 of the Monetary and Financial Code and "*Décret*" no. 98-880 dated October 1, 1998.

*Germany.* This prospectus is not a Securities Selling Prospectus (*Verkaufsprospekt*) within the meaning of the German Securities Prospectus Act (*Verkaufsprospektgesetz*) of September 9, 1998, as

amended, and has not been filed with and approved by the German Federal Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) or any other German governmental authority. The ADSs may not be offered or sold and copies of this prospectus or any document relating to the ADSs may not be distributed, directly or indirectly, in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act. No steps will be taken that would constitute a public offering of the ADSs in Germany.

*Italy.* Each underwriter agrees that it will not make an offer of the ADSs to the public in the Republic of Italy, or Italy, other than:

- (a) to professional investors (*investitori qualificati*), as defined pursuant to Article 100, paragraph 1(a), of Legislative Decree No 58, 24 February 1998, or the Financial Services Act, as amended and restated from time to time; or
- (b) in any other circumstances provided under Article 100 paragraph 1 of the Financial Services Act and under Article 33, paragraph 1, of CONSOB Regulation No. 11971 of 14 May 1999, as amended, where exemptions from the requirement to publish a prospectus pursuant to Article 94 of the Financial Services Act are provided.

Moreover, and subject to the foregoing, each underwriter acknowledges that any offer, sale or delivery of the ADSs or distribution of copies of this prospectus or any other document relating to the ADSs in Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993, or the Banking Act, CONSOB Regulation No. 11522, 1 July 1998, all as amended; and
- (ii) in compliance with the so-called subsequent notification to the Bank of Italy, pursuant to Article 129 of the Banking Act, as applicable;
- (iii) in compliance with Article 100-bis of the Financial Services Act (if applicable); and
- (iv) in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB.

*Switzerland.* The ADSs may not be offered or sold to any investors in Switzerland other than on a non-public basis. This prospectus does not constitute a prospectus within the meaning of Article 652a and Article 1156 of the Swiss Code of Obligations (*Schweizerisches Obligationenrecht*). Neither this offering nor the ADSs have been or will be approved by any Swiss regulatory authority.

*Hong Kong.* The ADSs may not be offered or sold in Hong Kong, by means of any document, other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the ADSs may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to

"professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

*People's Republic of China.* This prospectus may not be circulated or distributed in the PRC and the ADSs may not be offered or sold, and will not offer or sell to any person for re-offering or resale, directly or indirectly, to any resident of the PRC except pursuant to applicable laws and regulations of the PRC. For the purpose of this paragraph, PRC does not include Taiwan and the special administrative regions of Hong Kong and Macau.

*Singapore.* This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the ADSs may not be circulated or distributed, nor may the ADSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA; (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the ADSs are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest howsoever described in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the ADSs pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

*Japan.* The ADSs have not been and will not be registered under the Securities and Exchange Law of Japan, or the Securities and Exchange Law, and ADSs will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan),

or to others for reoffering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

*Canada.* The ADSs may not be offered or sold, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which the offer or sale is made and only by a dealer duly registered under applicable laws in circumstances where an exemption from applicable registered dealer registration requirements is not available.

*United Arab Emirates.* The ADSs have not been offered or sold, and will not be offered or sold, directly or indirectly, in the United Arab Emirates, except: (1) in compliance with all applicable laws and regulations of the United Arab Emirates; and (2) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the United Arab Emirates. The information contained in this prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and is addressed only to persons who are sophisticated investors.

## EXPENSES RELATED TO THIS OFFERING

Set forth below is an itemization of the total expenses, excluding underwriting discount, which are expected to be incurred in connection with our offer and sale of the ADSs. With the exception of the SEC registration fee and the Financial Industry Regulatory Authority filing fee, all amounts are estimates.

Securities and Exchange Commission Registration Fee	\$ 6,560
New York Stock Exchange Listing Fee	74,640
Financial Industry Regulatory Authority Filing Fee	9,700
Printing and Engraving Expenses	200,000
Legal Fees and Expenses	630,000
Accounting Fees and Expenses	730,000
Miscellaneous	40,000
Total	<u>\$ 1,690,900</u>

## LEGAL MATTERS

We are being represented by K&L Gates LLP with respect to U.S. federal securities and New York State Law. Certain legal matters as to the United States federal and New York law in connection with this offering will be passed upon for the underwriters by DLA Piper Hong Kong. The validity of the ordinary shares represented by the ADSs offered in this offering and certain other legal matters as to Cayman Islands law will be passed upon for us by Maples and Calder, Hong Kong. Legal matters as to PRC law will be passed upon for us by The B&D Law Firm, Beijing, China and for the underwriters by Commerce and Finance Law Offices, Beijing, China. K&L Gates LLP may rely upon Maples and Calder with respect to matters governed by Cayman Islands law and the B&D Law Firm with respect to matters governed by PRC law. Piper Jaffray & Co. and DLA Piper Hong Kong may rely upon Commerce and Finance Law Offices with respect to matters governed by PRC law.

## EXPERTS

The consolidated financial statements of China New Borun and Subsidiaries for the years ended December 31, 2007, 2008, and 2009 appearing in this Prospectus and Registration Statement have been audited by BDO China Li Xin Da Hua CPA Co., Ltd., an independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The offices of BDO China Li Xin Da Hua CPA Co., Ltd. are located at 11/F B Block Union Square 5022, Binhe Road, Shenzhen, China 518033.

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-1, including relevant exhibits and schedules under the Securities Act with respect to underlying ordinary shares represented by the ADSs, to be sold in this offering. A related registration statement on Form F-6 is being filed to register the issuance of ADSs. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement. You should read the registration statement and its exhibits and schedules for further information with respect to us and our ADSs.

Immediately upon the closing of this offering, we will become subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with



the SEC. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Additional information may also be obtained over the Internet at the SEC's website at [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meeting and other reports and communications that are made generally available to our shareholders. The depositary will make such notices, reports and communications available to holders of ADSs and, upon our written request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depositary from us.

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

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**BDO China Li Xin Da Hua CPA Co., Ltd.**

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**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of  
China New Borun Corporation

We have audited the accompanying consolidated balance sheets of China New Borun Corporation and Subsidiaries (the "Company") as of December 31, 2007, 2008 and 2009 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2007, 2008 and 2009, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

*BDO China Li Xin Da Hua CPA Co., Ltd.*

**Shenzhen, People's Republic of China**  
April 27, 2010

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Amounts in RMB unless otherwise stated)

	Year ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
<b>Assets</b>				
Cash	25,234,304	20,878,871	105,785,067	\$ 15,497,600
Trade accounts receivable	40,908,652	38,733,910	71,397,615	10,459,810
Inventories	58,468,358	35,269,695	49,085,059	7,191,002
Advance to suppliers	2,056,645	2,515,217	9,352,257	1,370,113
Other receivables	57,350	5,260,239	15,190,678	2,225,447
Prepaid expenses	404,201	687,141	996,831	146,036
Deferred income taxes	—	1,640,997	—	—
Total current assets	127,129,510	104,986,070	251,807,507	36,890,008
Property, plant and equipment, net	120,951,161	309,786,576	461,978,632	67,680,252
Land use rights, net	17,542,304	32,561,369	27,120,739	3,973,211
Intangible assets, net	—	28,779,986	24,953,743	3,655,744
Total assets	265,622,975	476,114,001	765,860,621	\$ 112,199,215
<b>Liabilities and Shareholders' Equity</b>				
Trade accounts payable	55,917,537	24,987,338	41,750,889	\$ 6,116,540
Accrued expenses and other payables	31,997,051	57,839,153	34,683,542	5,081,168
Income taxes payable	3,152,845	6,199,770	30,016,801	4,397,486
Amount due to related party	—	1,407,960	—	—
Dividends payable	11,017,500	—	—	—
Short-term borrowings from banks	24,700,000	89,700,000	143,200,000	20,978,919
Total current liabilities	126,784,933	180,134,221	249,651,232	36,574,113
Total liabilities	126,784,933	180,134,221	249,651,232	36,574,113
<b>Commitments and Contingencies</b>				
<b>Shareholders' equity</b>				
Class A convertible preference share—par value of RMB0.0068259; 3,711.952 shares authorized, issued and outstanding	—	25	25	4
Class B convertible preference share—par value of RMB0.0068259; 1,065.330 shares authorized, issued and outstanding	—	—	7	1
Class C convertible preference share—par value of RMB0.0068259; 374.907 shares authorized, issued and outstanding	—	—	3	—
Ordinary share—par value of RMB0.0068259; 14,847,811 shares authorized, issued and outstanding	101,350	101,350	101,350	14,848
Subscription receivables	(101,350)	(101,375)	—	—
Additional paid-in capital	51,200,000	173,200,000	227,157,411	33,278,749
Retained earnings—appropriated	15,714,098	27,991,612	41,314,903	6,052,667
Retained earnings—unappropriated	71,923,944	94,776,558	247,863,898	36,312,266
Accumulated other comprehensive income (loss)	—	11,610	(228,208)	(33,433)
Total shareholders' equity	138,838,042	295,979,780	516,209,389	75,625,102
Total liabilities and shareholders' equity	265,622,975	476,114,001	765,860,621	\$ 112,199,215

See accompanying notes to consolidated financial statements.

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in RMB unless otherwise stated)

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Revenues	487,305,927	615,881,195	1,060,493,812	\$ 155,363,221
Cost of goods sold	387,729,613	493,847,780	811,865,247	118,938,931
Gross profit	99,576,314	122,033,415	248,628,565	36,424,290
<b>Operating expenses:</b>				
Selling	1,996,368	1,436,241	2,370,530	347,285
General and administrative	8,061,531	11,492,104	20,177,351	2,955,999
Total operating expenses	10,057,899	12,928,345	22,547,881	3,303,284
Operating income	89,518,415	109,105,070	226,080,684	33,121,006
<b>Other (income) expenses:</b>				
Interest income	(113,616)	(344,378)	(362,507)	(53,108)
Interest expense	2,350,000	2,983,610	9,961,785	1,459,410
Others, net	950	2,694,720	(6,191,254)	(907,024)
Total other expense, net	2,237,334	5,333,952	3,408,024	499,278
Income before income taxes	87,281,081	103,771,118	222,672,660	32,621,728
Income tax expense	28,557,072	26,640,990	56,262,029	8,242,434
Net income	58,724,009	77,130,128	166,410,631	24,379,294
Amortization of preference share discount	—	(42,000,000)	—	—
Participation in undistributed earnings by preference shareholders	—	(7,026,026)	(42,868,951)	(6,280,337)
Net income attributable to common shareholders	58,724,009	28,104,102	123,541,680	\$ 18,098,957
<b>Earnings per share:</b>				
Basic and Diluted	3.96	1.89	8.32	\$ 1.22
<b>Weighted average ordinary shares outstanding:</b>				
Basic and diluted	14,847,811	14,847,811	14,847,811	14,847,811

See accompanying notes to consolidated financial statements.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(Amounts in RMB unless otherwise stated)**

	Class A Convertible Preference Share		Class B Convertible Preference Share		Class C Convertible Preference Share		Ordinary Share		Additional Paid-in Capital	Subscription Receivables	Appropriated Retained Earnings	Unappropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
<b>Balance as of January 1, 2007</b>	—	—	—	—	—	—	14,847,811	101,350	51,200,000	(101,350)	7,017,172	32,914,361	—	91,131,533
Net income	—	—	—	—	—	—	—	—	—	—	—	58,724,009	—	58,724,009
Transfer to statutory reserves	—	—	—	—	—	—	—	—	—	—	8,696,926	(8,696,926)	—	—
Dividends distribution	—	—	—	—	—	—	—	—	—	—	—	(11,017,500)	—	(11,017,500)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Balance as of December 31, 2007</b>	—	—	—	—	—	—	14,847,811	101,350	51,200,000	(101,350)	15,714,098	71,923,944	—	138,838,042
Capital contribution	—	—	—	—	—	—	—	—	10,000,000	—	—	—	—	10,000,000
Issuance of preference shares	3,711,952	25	—	—	—	—	—	—	112,000,000	(25)	—	(42,000,000)	—	70,000,000
Net income	—	—	—	—	—	—	—	—	—	—	—	77,130,128	—	77,130,128
Transfer to statutory reserves	—	—	—	—	—	—	—	—	—	—	12,277,514	(12,277,514)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	11,610	11,610
<b>Balance as of December 31, 2008</b>	3,711,952	25	—	—	—	—	14,847,811	101,350	173,200,000	(101,375)	27,991,612	94,776,558	11,610	295,979,780
Capital contribution-ordinary shares shareholder	—	—	—	—	—	—	—	—	(94,313)	101,350	—	—	—	7,037
Capital contribution-preference shares shareholder	—	—	—	—	—	—	—	—	1,734	25	—	—	—	1,759
Issuance of preference shares	—	—	1,065,330	7	374,907	3	—	—	54,049,990	—	—	—	—	54,050,000
Net income	—	—	—	—	—	—	—	—	—	—	—	166,410,631	—	166,410,631
Transfer to statutory reserves	—	—	—	—	—	—	—	—	—	—	13,323,291	(13,323,291)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	(239,818)	(239,818)
<b>Balance as of December 31, 2009</b>	3,711,952	25	1,065,330	7	374,907	3	14,847,811	101,350	227,157,411	—	41,314,903	247,863,898	(228,208)	516,209,389
<b>Balance as of December 31, 2009 (\$)</b>	3,711,952	4	1,065,330	1	374,907	—	14,847,811	14,848	33,278,749	—	6,052,667	36,312,266	(33,433)	75,625,102
<b>(unaudited)</b>														

See accompanying notes to consolidated financial statements.

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in RMB unless otherwise stated)

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Net income	58,724,009	77,130,128	166,410,631	\$ 24,379,294
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	13,010,919	13,125,666	23,849,605	3,493,987
Amortization expense	192,141	518,721	4,497,143	658,835
Loss (gain) from disposal of production equipment	—	2,530,030	(3,991,554)	(584,766)
Deferred income taxes	—	(642,375)	1,640,997	240,407
Changes in operating assets and liabilities:				
Trade accounts receivable	(40,172,613)	2,174,742	(32,663,705)	(4,785,260)
Inventories	(31,627,031)	23,198,663	(13,815,364)	(2,023,962)
Prepaid expenses and other current assets	(1,250,538)	(6,305,802)	(9,123,426)	(1,336,588)
Trade accounts payable	45,204,754	(30,930,199)	13,840,970	2,027,714
Accrued expenses and other payables	(5,209,027)	118,380	17,885,628	2,620,259
Income tax payable	557,072	3,046,925	23,816,458	3,489,131
Amounts due to related party	—	1,407,960	(1,407,960)	(206,267)
Net cash provided by operating activities	39,429,686	85,372,839	190,939,423	27,972,784
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(4,206,268)	(130,538,366)	(175,502,478)	(25,711,258)
Asset acquisition	—	(93,184,016)	(45,815,984)	(6,712,080)
Purchases of land use rights	(11,200,000)	—	—	—
Proceeds from sale of equipment and land use right	—	—	7,966,257	1,167,063
Net cash used in investing activities	(15,406,268)	(223,722,382)	(213,352,205)	(31,256,275)
<b>Cash flows from financing activities:</b>				
Capital contribution	—	10,000,000	—	—
Receipt from subscription receivable	—	—	8,796	1,289
Proceeds from issuances of convertible preference shares	—	70,000,000	54,050,000	7,918,370
Short-term borrowings (payments), net	(15,300,000)	65,000,000	53,500,000	7,837,794
Dividend payments	(5,355,901)	(11,017,500)	—	—
Net cash provided by financing activities	(20,655,901)	133,982,500	107,558,796	15,757,453
Effect of foreign currency exchange translation	—	11,610	(239,818)	(35,134)
Net increase (decrease) in cash	3,367,517	(4,355,433)	84,906,196	12,438,828
Cash—beginning of year	21,866,787	25,234,304	20,878,871	3,058,772
Cash—end of year	25,234,304	20,878,871	105,785,067	\$ 15,497,600
<b>Supplemental disclosure of cash flow information:</b>				
Income taxes	28,000,000	24,236,439	56,262,029	\$ 8,242,434
Interest	2,332,848	2,701,184	9,961,785	\$ 1,459,410
<b>Non-cash investing activities:</b>				
Asset acquisition	—	(45,815,984)	—	\$ —
Accrued fixed asset purchases	3,246,900	23,111,464	7,697,900	\$ 1,127,749
Disposal of production equipment	540,913	211,243	(3,991,554)	\$ (584,766)

See accompanying notes to consolidated financial statements.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Amounts in RMB unless otherwise stated)**

**1. Description of business**

The accompanying consolidated financial statements include the financial statements of China New Borun Corporation ("New Borun"), Golden Direction Limited ("Golden Direction"), China High Enterprises Limited ("China High"), Weifang Great Chemical, Inc. ("WGC"), Shandong Borun Industrial Co., Ltd. ("Shandong Borun") and Daqing Borun Biotechnology Co., Ltd ("Daqing Borun").

New Borun, the holding company, was incorporated in Cayman Islands on December 21, 2009.

Golden Direction was incorporated in the British Virgin Islands on March 28, 2008. Effective as of March 31, 2010, New Borun consummated a share exchange agreement with Golden Direction whereby New Borun acquired 100% of the voting capital stock of Golden Direction. As of the date of that agreement, (1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction held approximately 74.24% of the voting capital stock of China High Enterprises Limited, or China High, our Hong Kong holding company. Effective as of March 31, 2010, New Borun and Golden Direction consummated a share exchange agreement whereby New Borun through Golden Direction acquired the remaining 25.76% equity interest of China High.

China High was incorporated in Hong Kong's Special Administrative Region on July 15, 2008.

WGC was established as a limited liability company on March 21, 2001 in China's Shandong Province under the laws of the PRC. For restructuring and reorganization purposes, pursuant to an equity interest acquisition agreement, China High acquired all of the equity interests of WGC on October 27, 2008.

In December 2008, China High through WGC acquired a 100% equity interest in Shandong Borun, the operating company. Shandong Borun was the predecessor of the Company and operated all of the business of the Company prior to a restructuring in 2008 (the "Restructuring"). Shandong Borun was set up in the city of Shouguang in China's Shandong Province by Mr. Jinmiao Wang ("Mr. Wang") and his family members (collectively the "Wang Family") on December 1, 2000. The establishment of China High and the acquisition of Shandong Borun through WGC will be counted as a recapitalization or reorganization of Shandong Borun since the stockholders consisted of the same majority shareholders (no change in control) and there was no change in management immediately following the completion of the transaction in accordance with the provisions of FASB ASC 805-50-15-6, "Business Combinations".

On July 9, 2008, Shandong Borun acquired all of the equity interests in Daqing Borun, a company formerly called Daqing Anxin Tongwei Alcohol Manufacturing Co., Ltd. (Anxin Tongwei), a limited liability company established under the laws of the PRC on September 20, 2004 in Daqing city, Heilongjiang Province, China. The total purchase price of RMB139,000,000 was allocated based on the estimated fair values of the assets acquired and liabilities assumed at the date of purchase in accordance with ASC 805, Business Combinations. Anxin Tongwei began production of edible alcohol in 2005. Primary due to fundamental problems associated with its manufacturing process, Anxin Tongwei ceased production and applied for bankruptcy on July 26, 2007. On July 1, 2008, the Court made the verdict to approve that certain Acquisition Agreement between Shandong Borun and Anxin Tongwei on June 26, 2008, and on July 9, 2008 the parties completed the acquisition pursuant to which Anxin Tongwei became a wholly-owned subsidiary of Shandong Borun. As of the acquisition



CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**1. Description of business (Continued)**

date, Anxin Tongwei had been idle for more than one year, with no management personnel or production, employees, and no revenue. Accordingly, under Emerging Issues Task Force ("EITF") 98-3, since the acquired set of assets exclude several key items (employees, processes and customers), the Company concluded that the acquired set of assets does not constitute a business, and as a result, accounted for the transaction as an asset acquisition. Subsequent to the acquisition, Anxin Tongwei changed its name to Daqing Borun Biotechnology Co., Ltd.

New Borun, Golden Direction, China High, WGC, Shangdong Borun and Daqing Borun are collectively referred to as the "Company".

The establishment of New Borun on December 21, 2009 and acquisition through share exchange between New Borun, Golden Direction and China High effective as of March 31, 2010 will be accounted for as a recapitalization or reorganization since the stockholders consisted of the same majority shareholders (no change in control) and there was no change in management immediately following the completion of the transaction in accordance with the provision of FASB ASC 805-50-15-6, "Business Combinations". Accordingly, the transaction is treated as a recapitalization or reorganization of China High and the assets and liabilities and the historical operations that are reflected in the financial statements are those of China High and its subsidiaries and are recorded at the historical cost basis. New Borun, Golden Direction and China High are holding companies. Financial statements and financial information presented for prior years have been retrospectively adjusted to furnish comparative information for periods during which Golden Direction, China High, WGC and Shangdong Borun were under common control.

The Company develops and operates its business through Shandong Borun and Daqing Borun. The Company is principally engaged in manufacture and distribution of edible alcohol and its by-products, including Distillers Dried Grains with Solubles high-protein feed ("DDGS Feed"), and corn germ in the People's Republic of China ("PRC").

**2. Summary of significant accounting policies**

***Principles of Consolidation and Presentation***

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). The consolidated financial statements include the financial statements of the New Borun, Golden Direction, China High, WGC, Shangdong Borun and Daqing Borun. All significant inter-company transactions and balances have been eliminated upon consolidation.

***Segment Reporting***

The Company operates and manages its business as a single segment. As the Company primarily generates its revenues from customers in the PRC, no geographical segments are presented.

***Foreign Currency Translation***

The Company's financial statements are presented in Chinese Renminbi ("RMB"), which is the Company's reporting currency. The functional currency of the Company's subsidiary in Hong Kong is

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

the U.S. dollar while the functional currency of the Company's subsidiaries in the PRC is RMB. In accordance with ASC 830, Foreign Currency Matters, the assets and liabilities of the Company's subsidiary in Hong Kong are translated at the current exchange rate in effect at the balance sheet dates, and revenues and expenses are translated at the average exchange rates in effect during the reporting periods to RMB. Gains and losses resulting from foreign currency translation to reporting currency are recorded in accumulated other comprehensive income in the statements of changes in shareholders' equity for the periods presented.

In accordance with ASC 830, the Company translates the assets and liabilities into RMB using the rate of exchange prevailing at the applicable balance sheet date and the statements of income and cash flows are translated at an average rate during the reporting period. Adjustments resulting from the translation from Hong Kong Dollar into RMB are recorded in shareholders' equity as part of accumulated other comprehensive income.

***Convenience Translation into United States Dollar Amounts (Unaudited)***

The Company reports its financial statements using the RMB. The Dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader, and have been converted at the rate of RMB6.8259 to one Dollar (\$), which is the noon buying rate of the U.S. Federal Reserve Bank of New York in effect on December 31, 2009. Such translations should not be construed as representations that the RMB amounts represent, have been, or could be, converted into, \$ at that or any other rate.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

***Revenue Recognition***

The Company recognizes revenue in accordance with ASC 605, Revenue Recognition, when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Delivery occurs upon receipt of products by the customers at the customers' warehouse or designated destination, or at the time products are picked up by the customers at the Company's warehouse.

***Cost of Goods Sold***

The Company's cost of goods sold includes product costs, shipping and handling costs, and costs related to inventory adjustments, including write downs for excess and obsolete inventory. Product costs include raw materials, production overhead costs, amortization of production license, and depreciation of property, plant and equipment used directly or indirectly for production.

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**2. Summary of significant accounting policies (Continued)****Research and development costs**

Research and development costs are expensed as incurred. The Company did not incur any material research and development costs for the years ended December 31, 2007, 2008, and 2009.

**Advertising Expenses**

Costs associated with advertising are expensed as incurred. The Company did not incur any advertising expenses for the years ended December 31, 2007, 2008, and 2009.

**Shipping and Handling Costs**

The Company records all charges for outbound shipping and handling as revenue. All corresponding shipping and handling costs are classified as cost of goods sold.

**Inventories**

Inventories are stated at the lower of cost or market determined using the weighted average method which approximates cost and estimated net realizable value. Cost of work in progress and finished goods comprise direct material, direct production costs and an allocated portion of production overhead costs based on normal operating capacity.

**Property, Plant, and Equipment**

Property, plant, and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method (after taking into account their respective estimated residual value) over the estimated useful lives as follows.

Buildings and improvements	20 to 30 Years
Machinery	10 Years
Office equipment and furnishing	3 to 5 Years
Motor vehicles	4 to 5 Years

**Land Use Rights**

According to the laws of the PRC, the government owns all the land in the PRC. Companies or individuals are authorized to possess and use the land only through the land use rights granted by the government. The land use rights represent cost of the rights to use the land in respect of properties located in the PRC. Land use rights are carried at cost and amortized on a straight-line basis over the period of rights of 50 years.

**Intangible Assets**

Intangible assets include production license for use in the production and distribution of edible alcohol and is accounted for under ASC 350-30, General Intangibles Other Than Goodwill. The current production license for use in the production and distribution of edible alcohol will expire October 2011 with expected renewal extending additional 5 years. The production license renewal is normally subject to inspection and renewed for every five years with small renewal application fee cost. Based

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

on the Company's historical experience in renewing or extending the production and distribution of edible alcohol, the Company does not expect to incur significant cost to renew and any material modifications to the existing terms of the production license, and to have any difficulties of renewing the production and distribution of edible alcohol. The remaining useful life of the production license is estimated as 7.7 years, starting from the date it is expected to contribute to the future cash flows of the Company to the expiration date of next renewed license. Amortization expense is calculated on a straight-line basis over the useful life of the production license which include additional five year expected renewal period.

**Impairment of Long-Lived Assets**

The Company, in accordance with ASC 360, Property, Plant, and Equipment, reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

An impairment loss would be recognized when estimated discounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The Company performed impairment of long-lived assets test and no impairment losses were deemed required and as a result, the Company did not record any impairment losses for the years ended December 31, 2007, 2008, and 2009.

**Retirement and Other Postretirement Benefits**

Full time employees of the Company in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require the Company to make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Company accounts the mandated defined contribution plan under the vested benefit obligations approach based on the guidance of ASC 715, Compensation—Retirement Benefits.

The total amounts for such employee benefits which were expensed were nil, RMB633,679 and RMB2,016,583 (\$295,431) for the years ended December 31, 2007, 2008 and 2009, respectively.

**Appropriated Retained Earnings**

The income of the Company's PRC subsidiaries is distributable to their shareholder after transfer to reserves as required by relevant PRC laws and regulations and the subsidiary's Articles of Association. As stipulated by the relevant laws and regulations in the PRC, these PRC subsidiaries are required to maintain reserves which are non-distributable to shareholders. Appropriations to the reserves are approved by the respective boards of directors.

Reserves include statutory surplus reserves and discretionary reserves. Statutory surplus reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of shareholders, provided that the balance after such conversion is not less than 25% of the registered capital. The appropriation to the statutory surplus reserves must not be less than 10% of net profit after taxation. Such appropriation may cease to apply if the balance of the fund is equal to 50% of the entity's registered capital. The annual appropriations of reserves of WGC, Shandong Borun and Daqing Borun are 10%, 15% and 10% of the net profit after taxation.

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

*Dividends*

The Company provides discretionary dividend payments based on the Company's Board of Director's approval. The Board of Director's of the Company approved dividend payment of RMB3,617,981 as of December 31, 2006 which was paid in fiscal year 2007 and dividend payment of RMB11,017,500 as of December 31, 2007 which was paid in the first quarter of fiscal year 2008.

*Income Taxes*

The Company follows ASC 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company adopted ASC 740-10-25 on January 1, 2007, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25.

*Earning per share*

Earnings per share is calculated in accordance with ASC 260, "Earnings Per Share". Basic earnings per share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. The Two-Class Method prescribed under EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128", is used to calculate earnings per share data for preference shares that are participating securities. The preference shareholders participate in undistributed earnings with ordinary share holders. The preference shareholder is entitled to receive dividends, when declared, on a basis equivalent to holders of ordinary shares. The holder is also entitled to undistributed earnings proportionate to its ownership interest. Undistributed earnings for a period are allocated to the preference shareholder based on its contractual participation rights to share in those current earnings as if all of the earnings for the period had been distributed.

Diluted income per share is computed using the more dilutive of (a) the two-class method or (b) the if-converted method. Diluted earnings per ordinary share also reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. There are no other dilutive securities besides the preference shares for any of the years presented. Earnings per share is calculated on an as-if converted basis results the same as earnings per share calculated using the Two-Class Method for all periods presented.

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

	Year Ended December 31,			
	2007	2008	2009	2009 (Unaudited)
	(RMB)	(RMB)	(RMB)	(\$)
Net income	58,724,009	77,130,128	166,410,631	24,379,294
Amortization of preference share discount	—	(42,000,000)	—	—
Undistributed earnings available to common and preference shareholders	58,724,009	35,130,128	166,410,631	24,379,294
Participation in undistributed earnings by preference shareholder	—	(7,026,026)	(42,868,951)	(6,280,337)
Undistributed earnings available to common shareholder	58,724,009	28,104,102	123,541,680	18,098,957
<b>Numerator:</b>				
Numerator for basic and diluted earnings per share	58,724,009	28,104,102	123,541,680	\$ 18,098,957
<b>Denominator:</b>				
Weighted average number ordinary shares outstanding—basic and diluted	14,847,811	14,847,811	14,847,811	14,847,811
<b>Earnings per share:</b>				
Basic and diluted	3.96	1.89	8.32	\$ 1.22

*Concentrations of Credit Risk and Risk Factors*

**Trade Accounts Receivable**—Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers dispersed across diverse markets and generally short payment terms. Credit is extended based on an evaluation of the customer's financial condition and collateral generally is not required. The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will record a specific allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected.

**Revenues**—Substantially all of the Company's revenues are derived from sales of edible alcohol and its by-products, including DDGS Feed, and corn germ in PRC. Any significant decline in market acceptance of the Company's products or in the financial condition of our existing customers could impair our ability to operate effectively.

*Recently Issued Accounting Pronouncements*

In April 2009, the FASB issued three related staff positions to clarify the application of FASB ASC 820 to fair value measurements in the current economic environment, modify the recognition of other-than-temporary impairments of debt securities, and require companies to disclose the fair value

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

of financial instruments in interim periods. The final staff positions are effective for interim and annual periods ending after June 15, 2009.

- FASB ASC 820 (Transitional 820-10-65-4)—which provides guidance on how to determine the fair value of assets and liabilities under FASB ASC 820 in the current economic environment and reemphasizes that the objective of a fair value measurement remains the price that would be received to sell an asset or paid to transfer a liability at the measurement date.
- FASB ASC 320—which modifies the requirements for recognizing other-than-temporarily impaired debt securities and significantly changes the existing impairment model for such securities. It also modifies the presentation of other-than-temporary impairment losses and increases the frequency of and expands already required disclosures about other-than-temporary impairment for debt and equity securities.
- FASB ASC 820-10-50—which requires disclosures of the fair value of financial instruments within the scope of FASB ASC 820 in interim financial statements, adding to the current requirement to make those disclosures in annual financial statements. The staff position also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period.

In June 2009, the Financial Accounting Standards Board ("FASB") issued its final Statement of Financial Accounting Standards ("SFAS") No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162" ("SFAS No. 168"). SFAS No. 168 established the FASB Accounting Standards Codification ("ASC") as the single source of authoritative GAAP to be applied by nongovernmental entities in the preparation of financial statements. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance in the ASC carries an equal level of authority. The ASC supersedes all previously existing non-SEC accounting and reporting standards. The ASC simplifies user access to all authoritative GAAP by reorganizing previously issued GAAP pronouncements into approximately 90 accounting topics within a consistent structure, without creating new accounting and reporting guidance. The ASC became effective for financial statements issued for interim and annual periods ending after September 15, 2009; accordingly, the Company adopted the ASC in the third quarter of fiscal 2009. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the ASC, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the ASC. In the discussion that follows, the Company will refer to ASC citations that relate to ASC Topics and their descriptive titles, as appropriate, and will no longer refer to citations that relate to accounting pronouncements superseded by the ASC.

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**2. Summary of significant accounting policies (Continued)**

In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. The Company's management evaluated all events or transactions that occurred after December 31, 2009 up through April 27, 2010, the date the Company issued the financial statements. During these periods, the Company did not have any material recognizable subsequent events required to be disclosed other than those disclosed in Note 16 to the consolidated financial statements for the year ended December 31, 2009.

In June 2009, the FASB issued ASC 860, which eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor's interest in transferred financial assets. FASB ASC 860 will be effective for transfers of financial assets in fiscal years beginning after November 15, 2009 and in interim periods within those fiscal years with earlier adoption prohibited. The Company will adopt FASB ASC 860 on October 1, 2010.

In September 2009, the FASB issued new accounting guidance related to the revenue recognition of multiple element arrangements. The new guidance states that if vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, companies will be required to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. The accounting guidance will be applied prospectively and will become effective during the first quarter of 2011. Early adoption is allowed. The Company will adopt this guidance beginning January 1, 2010 and the Company does not expect this accounting guidance to materially impact the Company's consolidated financial statements.

In January 2010, the FASB issued new accounting guidance related to the disclosure requirements for fair value measurements and provides clarification for existing disclosures requirements. More specifically, this update will require (a) an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers; and (b) information about purchases, sales, issuances and settlements to be presented separately (i.e. present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This guidance clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. The new disclosures and clarifications of existing disclosure are effective for fiscal years beginning after December 15, 2009, except for the disclosure requirements for related to the purchases, sales, issuances and settlements in the rollforward activity of Level 3 fair value measurements. Those disclosure requirements are effective for fiscal years ending after December 31, 2010. The Company does not believe the adoption of this guidance will have a material impact to the Company's consolidated financial statements.



CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**3. Fair value measurements**

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2—Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company adopted ASC 820, Fair Value Measurements and Disclosures, on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company has not adopted ASC 820 for non financial assets and non financial liabilities, as these items are not recognized at fair value on a recurring basis. The adoption of ASC 820 for all financial assets and liabilities did not have any impact on the Company's consolidated financial statements and the Company does not expect to have any impact on the Company's consolidated financial statements if ASC 820 for nonfinancial assets and liabilities is adopted.

Financial instruments include cash, accounts receivable, prepayments and other receivables, short-term borrowings from banks, accounts payable and accrued expenses and other payables. The carrying amounts of cash, accounts receivable, prepayments and other receivables, short-term loans, accounts payable and accrued expenses approximate their fair value due to the short term maturities of these instruments.

**4. Acquisition**

On July 9, 2008, Shandong Borun acquired all of the equity interests in Anxin Tongwei which changed its name to be Daqing Borun Biotechnology Co., Ltd. subsequent to the acquisition. The total purchase

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

## 4. Acquisition (Continued)

consideration was approximately RMB139,000,000. The purchase consisted of cash payment and short term payable arrangement. The Company fully paid the consideration amount as of November 30, 2009. The total consideration paid by the Company amounted to RMB 93,184,016 and RMB 45,815,984 (\$6,712,080) for the year ended December 31, 2008 and 2009, respectively.

Anxin Tongwei was incorporated in Heilongjiang Province, PRC on September 20, 2004. It began production of edible alcohol in 2005. Primarily due to fundamental problems associated with its manufacturing process, Anxin Tongwei ceased production in June 2007 and filed for bankruptcy protection in July 2007.

As of the acquisition date, Anxin Tongwei had been idle for more than one year, with no management personnel or production employees, and no revenue. According to Emerging Issues Task Force ("EITF") 98-3, since the acquired set of assets exclude several key items (employees, processes and customers), the Company concluded that the acquired set of assets does not constitute a business, and as a result, accounted for the transaction as an asset acquisition.

The total purchase price of RMB139,000,000 was allocated based on the estimated fair values of the assets acquired and liabilities assumed at the date of purchase, determined in part by independent appraisal, in accordance with ASC 805, Business Combinations. The operations of the acquired assets since the date of acquisition are included in the consolidated financial statements.

The cost of the assets acquired was allocated to the individual assets acquired based on their relative fair values as follows:

	July 8, 2008 (RMB)
<b>Assets:</b>	
Property, plant, and equipment	97,093,229
Land use rights	7,249,645
Intangible asset—production license	28,779,986
Deferred income tax—net loss carryforward	998,622
Deductible value added tax carryforward	5,717,004
<b>Total assets</b>	<b>139,838,486</b>
<b>Liabilities:</b>	
Tax payable	838,486
<b>Total liabilities</b>	<b>838,486</b>
<b>Aggregate purchase price</b>	<b>139,000,000</b>

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

## 5. Trade accounts receivable

Trade accounts receivable at end of years presented consisted of the following:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Trade accounts receivable	40,908,652	38,733,910	71,397,615	\$ 10,459,810
Less: Allowance for doubtful accounts	—	—	—	—
Trade accounts receivable, net	40,908,652	38,733,910	71,397,615	\$ 10,459,810

## 6. Inventories

Inventories consisted of the following:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Raw materials	18,528,601	33,710,611	30,929,453	\$ 4,531,191
Work-in-process	829,169	349,980	1,871,888	274,233
Finished goods	39,110,588	1,209,104	16,283,718	2,385,578
Total inventories	58,468,358	35,269,695	49,085,059	\$ 7,191,002

The Company did not have any inventory reserve as of December 31, 2007 and 2008 and 2009.

## 7. Property, plant and equipment, net

Property, plant and equipment consisted of the following:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Buildings and improvements	23,486,139	27,173,149	107,361,881	\$ 15,728,604
Machinery	125,683,330	125,683,330	349,662,684	51,225,873
Office equipment and furnishing	188,180	188,180	3,643,543	533,782
Motor vehicles	1,570,112	1,570,112	851,805	124,790
Construction in progress	794,938	199,034,830	50,864,853	7,451,743
Total	151,722,699	353,649,601	512,384,766	75,064,792
Depreciation and amortization	(30,771,538)	(43,863,025)	(50,406,134)	(7,384,540)
Property, plant, and equipment, net	120,951,161	309,786,576	461,978,632	\$ 67,680,252

Certain buildings with an aggregate carrying value of RMB8,914,612 (\$1,305,998) were pledged as collateral for bank loans as of December 31, 2009.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in RMB unless otherwise stated)

**8. Land use rights, net**

Land use rights consisted of the following:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Land use right	18,006,800	33,544,586	28,244,886	\$ 4,137,899
Less—Amortization	(464,496)	(983,217)	(1,124,147)	(164,688)
Land use rights, net	<u>17,542,304</u>	<u>32,561,369</u>	<u>27,120,739</u>	<u>\$ 3,973,211</u>

As of December 31, 2009, certain land use rights with an aggregate carrying value of RMB18,825,793 (\$2,757,994) were pledged as collateral for short-term bank loans.

Future amortization of land use rights is as follows:

Years Ending December 31,	(RMB) Amount
2010	564,898
2011	564,898
2012	564,898
2013	564,898
2014	564,898
Thereafter	24,296,249
Total	<u>27,120,739</u>

**9. Intangible assets, net**

Intangible assets consisted of the following:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Production license	—	28,779,986	28,779,986	\$ 4,216,292
Less—Amortization	—	—	(3,826,243)	(560,548)
Intangible assets, net	<u>—</u>	<u>28,779,986</u>	<u>24,953,743</u>	<u>\$ 3,655,744</u>

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

9. Intangible assets, net (Continued)

Future amortization of intangible assets is as follows:

Years Ending December 31,	(RMB) Amount
2010	3,826,243
2011	3,826,243
2012	3,826,243
2013	3,826,243
2014	3,826,243
Thereafter	5,822,528
<b>Total</b>	<b>24,953,743</b>

10. Short-term borrowings

Short-term borrowings consisted of the following:

	Year ended December 31,						
	2007		2008		2009		
	Rate	Bal.	Rate	Bal.	Rate	Bal.	
		(RMB)		(RMB)		(RMB)	Bal. (\$)
<b>Shandong Borun</b>							
<b>From Financial institutions</b>							
Industrial & Commercial Bank of China		—	9.71%	10,000,000	6.37%	10,000,000	1,465,008
Industrial & Commercial Bank of China		—		—	5.84%	20,000,000	2,930,017
Agricultural Bank of China	7.96%	4,700,000	9.71%	4,700,000	6.37%	4,700,000	688,554
Agricultural Bank of China	9.48%	10,000,000		—	6.37%	10,000,000	1,465,008
Agricultural Bank of China	8.89%	10,000,000	8.30%	10,000,000	6.37%	10,000,000	1,465,008
Agricultural Bank of China		—		—	6.37%	20,000,000	2,930,017
<b>From third party</b>							
Shanghai Zhonglu Group		—	30.00%	40,000,000		—	—
<b>Sub-total</b>		<b>24,700,000</b>		<b>64,700,000</b>		<b>74,700,000</b>	<b>10,943,612</b>
<b>Daqing Borun:</b>							
<b>From Financial institutions</b>							
Daqing Commercial Bank		—	4.86%	25,000,000	6.90%	55,000,000	8,057,546
Agricultural Development Bank of China		—		—	5.31%	13,500,000	1,977,761
<b>Sub-total</b>		<b>—</b>		<b>25,000,000</b>		<b>68,500,000</b>	<b>10,035,307</b>
<b>Total</b>		<b>24,700,000</b>		<b>89,700,000</b>		<b>143,200,000</b>	<b>20,978,919</b>

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**10. Short-term borrowings (Continued)**

As of December 31, 2009, short-term bank loan of RMB20,000,000(\$2,930,017) from Industrial & Commercial Bank of China was secured by the Company's land use rights with a carrying value of RMB10,695,991(\$1,566,976); and short-term bank loan of RMB13,500,000 (\$1,977,761) from Agricultural Development Bank of China was secured by the Company's buildings and land use right with total carrying value of RMB8,576,848 (\$1,256,515) and RMB8,039,497 (\$1,177,793), respectively. All other short-term bank borrowings were secured by third party guarantees.

Except of interest rate for short-term bank loan of RMB55,000,000 (\$8,057,546) from Daqing Commercial Bank which was fixed at 6.90% per annum, interest rates for all other short-term bank loans are subject to be adjusted periodically in accordance with interest rate published by the People's Bank of China.

All of the above short-term loans are fixed term loans with a period of 12 months or less. Interest is payable on a monthly or quarterly basis. All short-term loans mature at various dates within one year. These facilities contain no specific renewal terms or any requirement for the maintenance of financial covenants. The Company has traditionally and successfully negotiated the renewal of certain facilities shortly before they mature.

**11. Accrued expenses and other payables**

Accrued expenses consisted of the following:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Advance from customers	—	184,016	—	\$ —
Payroll and welfare payable	1,184,073	2,030,596	7,906,391	1,158,293
Daqing acquisition payable	—	45,815,984	—	—
Other payables and accruals	30,812,978	9,808,557	26,777,151	3,922,875
<b>Total</b>	<b>31,997,051</b>	<b>57,839,153</b>	<b>34,683,542</b>	<b>\$ 5,081,168</b>

**12. Shareholders' equity**

For the purpose of reorganization ("Reorganization"), the Company consummated a series share exchange agreements in 2010.

Effective as of March 31, 2010, New Borun consummated a share exchange agreement with Golden Direction Limited whereby New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to King River Holding Limited ("King River"), a British Virgin Islands company which is 100% controlled and owned by Mrs. Shan Junqin, a member of the Wang Family, of 14,847,810 additional ordinary shares. As of the date of that agreement (1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction holds approximately 74.24% of the voting capital stock of China High.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Amounts in RMB unless otherwise stated)****12. Shareholders' equity (Continued)**

Effective as of March 31, 2010, New Borun and Golden Direction consummated a share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. All the exiting preference shareholders of China High exchanged all their respective shares of China High for shares of the Company. The rights of the preference shares issued by the Company are the same as those originally issued by China High. Pursuant to the exchange, New Borun issued (i) 3,711,952 of its Class A convertible preference shares, which are automatically convertible into 3,711,952 of its ordinary shares upon the closing of initial public offering ("IPO"), to one of China High's private equity investors, Star Elite Enterprises Limited, or Star Elite, a British Virgin Islands company, (ii) 1,065,330 shares of its Class B convertible preference shares, which are automatically convertible into 1,065,330 ordinary shares upon the closing of IPO, to one of China High's private equity investors, Earnstar Holding Limited, or Earnstar, a British Virgin Islands company and (iii) 374,907 shares of its Class C convertible preference shares, which are automatically convertible into 374,907 ordinary shares upon the closing of IPO, to one of China High's private equity investors, TDR Advisors Inc., or TDR, a British Virgin Islands company. Upon the consummation of this exchange, Golden Direction continues to be a wholly-owned subsidiary of New Borun and China High became a wholly-owned subsidiary of Golden Direction.

All share and per share data before March 31, 2010, the effective date of the Company's reorganization, are presented to give retroactive effect to the reorganization described above.

**Convertible preference share**

On October 10, 2008, China High issued 2,000 Class A convertible preference share ("SEE Preference A Share") to Star Elite with a par value of RMB0.88 in exchange for RMB1,759 preference share subscription receivable and RMB70,000,000 cash. The terms of the SEE Preference A Share are as follows:

**Voting, Liquidity, and Ownership Rights**—The holder is entitled to the number of votes and ownership shares equal to the number of ordinary share. The preference shareholder is entitled to vote on all matters submitted to a vote of shareholders. The holder has the same liquidity rights as the common shareholder.

**Conversion Rights**—The holder is entitled covert SEE Preference A Share to ordinary share anytime.

**Dividends**—The holder is entitled to receive dividends, when declared, on an as-converted basis. The holder is also entitled to undistributed earnings proportionate to its ownership interest.

**Additional Shares Rights**—The holder is entitled to receive additional ordinary shares from other ordinary share holders if China High does not meet the minimum net income requirement based on an agreed upon formula in the Class A convertible preference share agreement. Such shares are not to be issued by the Company but a transfer of ordinary share from current ordinary share shareholders to the holder of Class A convertible preference share which is a transaction outside the Company level.

On June 12, 2009, China High authorized and issued 563 Class B convertible preference share ("Earnstar Preference Share") to Earnstar with par value RMB0.88 in exchange for RMB40,000,000 cash. On September 22, 2009, China High authorized and issued an additional 202 Class C

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**12. Shareholders' equity (Continued)**

convertible preference share ("TDR Preference Share") to TDR in exchange for RMB14,050,000 cash. An additional 11 Earnstar Preference Shares was authorized and issued to Earnstar in no consideration as result of anti-dilution. The Class B convertible preference share and Class C convertible preference share have the same terms as Class A convertible preference share with exception to minimum net income requirement whereas such requirement threshold is different.

The Company recognized a beneficial conversion feature discount on the Class A convertible preference share at its intrinsic value, which was the fair value of the ordinary share at the commitment date for the Class A convertible preference share investment, less the effective conversion price but limited to the RMB70,000,000 of proceeds received from the sale in accordance with ASC 470-20, Debt with Conversion and Other Options. The Company recognized RMB42,000,000 beneficial conversion feature as an increase in additional paid-in capital in the accompanying consolidated balance sheets on the date of issuance of the Class A convertible preference share since these shares were convertible to ordinary share at the issuance date. The fair value of the Company's Class A convertible preference share, Class B convertible preference share and Class A convertible preference share was valued by an independent valuation firm. Based on the fair value valuation performed, the issuance price of Class A convertible preference share was approximately RMB56,000 per share and was issued at RMB35,000 per share at the date of issuance. The approximated fair value for Class B convertible preference share and Class C convertible preference share was approximately RMB71,000 and RMB66,000, respectively.

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company amortized the convertible preference share discount of RMB42,000,000 which was recorded as a reduction of net income attributable to common shareholder resulting from recognition of the embedded beneficial conversion feature of the SEE Preference Shares on the date of issuance because Class A convertible preference share were not mandatorily redeemable and are immediately convertible into ordinary share.

**13. Restricted net assets**

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A wholly-owned foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign



## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**13. Restricted net assets (Continued)**

invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. WGC was established as a wholly-owned foreign invested enterprise and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide statutory common reserve at least 10% of its annual after-tax profit until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. A domestic enterprise is also required to provide for discretionary surplus reserve, at the discretion of the board of directors, from the profits determined in accordance with the enterprise's PRC statutory accounts. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Shandong Borun and Daqing Borun were established as domestic invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

As a result of these PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as general reserve fund, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company.

Amounts restricted include paid-in capital and statutory reserve funds of the Company's PRC subsidiaries as determined pursuant to the PRC accounting standards and regulations, totaling approximately RMB66,914,098, RMB105,815,914 and RMB119,139,205 (\$17,453,992) as of December 31, 2007, 2008 and 2009 respectively.

**14. Income taxes**

The following table represents the Company's effective tax rate reconciliation for the periods presented:

	Year Ended December 31,		
	2007	2008	2009
Statutory tax rate	33%	25%	25%
Expenses not deductible	1%	1%	—
Income not subject to tax	(1)%	—	—
Effective tax rate	<u>33%</u>	<u>26%</u>	<u>25%</u>

The provision for income taxes consists of taxes on income from operations plus changes in deferred taxes for the periods presented:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Current tax expenses	28,557,072	27,283,365	54,621,032	\$ 8,002,027
Deferred tax benefits	—	(642,375)	1,640,997	240,407
Income tax expense	<u>28,557,072</u>	<u>26,640,990</u>	<u>56,262,029</u>	<u>\$ 8,242,434</u>

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in RMB unless otherwise stated)

**14. Income taxes (Continued)**

The following represents the significant components of deferred tax assets:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Tax deductible operating loss carryforward	—	998,622	—	\$ —
Net operating loss in current period	—	642,375	—	—
Total deferred tax assets	—	1,640,997	—	—
Less—valuation allowance	—	—	—	—
Total	—	1,640,997	—	\$ —

The balances of deferred tax assets as of December 31, 2008, mainly consist of deferred tax assets arising from the tax deductible net operating loss carry forward allowed by the tax authority as a result of acquisition of Anxin Tongwei, and the accumulate net operating loss of Daqing Borun in 2008. As Daqing Borun start to generate profit in 2009, such deferred tax assets has been fully utilized ended December 31, 2009.

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

15. Parent company condensed financial information

Condensed Balance Sheets:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
<b>Assets</b>				
Total current assets	—	—	—	—
Investment in subsidiaries	138,838,042	295,979,780	516,209,389	75,625,102
Total assets	138,838,042	295,979,780	516,209,389	\$ 75,625,102
<b>Liabilities and Shareholders' Equity</b>				
Total current liabilities	—	—	—	—
Total liabilities	—	—	—	—
Shareholders' equity				
Class A convertible preference share—par value of RMB0.0068259; 3,711.952 shares authorized, issued and outstanding	—	25	25	4
Class B convertible preference share—par value of RMB0.0068259; 1,065.330 shares authorized, issued and outstanding	—	—	7	1
Class C convertible preference share—par value of RMB0.0068259; 374.907 shares authorized, issued and outstanding	—	—	3	—
Ordinary share—par value of RMB0.0068259; 14,847,811 shares authorized, issued and outstanding	101,350	101,350	101,350	14,848
Subscription receivables	(101,350)	(101,350)	—	—
Additional paid-in capital	51,200,000	173,200,000	227,157,411	33,278,749
Retained earnings—appropriated	15,714,098	27,991,612	41,314,903	6,052,667
Retained earnings—unappropriated	71,923,944	94,776,558	247,863,898	36,312,266
Accumulated other comprehensive income (loss)	—	11,610	(228,208)	(33,433)
Total shareholders' equity	138,838,042	295,979,780	516,209,389	75,625,102
Total liabilities and shareholders' equity	138,838,042	295,979,780	516,209,389	\$ 75,625,102

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

## 15. Parent company condensed financial information (Continued)

## Condensed Statements of Income:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Operating income (loss)	—	—	—	\$ —
Equity in profit of subsidiaries	58,724,009	77,130,128	166,410,631	24,379,294
Net income attributable to common shareholders	58,724,009	77,130,128	166,410,631	\$ 24,379,294

## Condensed Statements of Cash Flows:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Net income	58,724,009	77,130,128	166,410,631	\$ 24,379,294
Adjustments to reconcile net income to net cash provided by operating activities:				
Equity in profit of subsidiaries	(58,724,009)	(77,130,128)	(166,410,631)	(24,379,294)
Changes in operating assets and liabilities:	—	—	—	—
Net cash provided by operating activities	—	—	—	—
<b>Cash flows from investing activities:</b>				
Net cash used in investing activities	—	—	—	—
<b>Cash flows from financing activities:</b>				
Net cash provided by financing activities	—	—	—	—
Effect of foreign currency exchange translation	—	—	—	—
Net increase in cash	—	—	—	—
Cash—beginning of year	—	—	—	—
Cash—end of year	—	—	—	—

## 16. Comprehensive income

Total comprehensive income includes, in addition to net income, changes in equity that are excluded from the consolidated statements of income and are recorded directly into a separate section of

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**16. Comprehensive income (Continued)**

shareholders' equity on the consolidated balance sheets. Comprehensive income and its components consist of the following:

	Year Ended December 31,			
	2007	2008	2009	2009
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Net income	58,724,009	77,130,128	166,410,631	\$ 24,379,294
Foreign currency translation adjustment	—	11,610	(239,818)	(35,134)
Comprehensive income	58,724,009	77,141,738	166,170,813	\$ 24,344,160

**17. Commitments and contingencies**

As of December 31, 2007, 2008, and 2009, capital commitment for purchase of property, plant and equipment were RMB26,400,500, RMB95,627,578, and RMB 64,230,000 (\$9,409,748), respectively.

The Company did not have any significant lease commitment as of December 31, 2007, 2008, and 2009.

As of December 31, 2009, the Company was not any party to any legal proceedings or threatened legal proceedings, the adverse outcome of which, individually or in the aggregate, it believes would have a material adverse effect on its business, financial condition and results of operations.

As of December 31, 2009, short-term bank loan of RMB20,000,000(\$2,930,017) from Industrial & Commercial Bank of China, which was matured and fully paid off in January 10, 2010, was secured by the Company's land use rights with a carrying value of RMB10,695,991(\$1,566,976); and short-term bank loan of RMB13,500,000 (\$1,977,761) from Agricultural Development Bank of China was secured by the Company's buildings and land use right with total carrying value of RMB8,576,848 (\$1,256,515) and RMB8,039,497 (\$1,177,793), respectively. All other short-term bank borrowings were secured by third party guarantees.

The Company is a guarantor to a third party, LiFeng Chemical Corporation, in the amount of RMB10,000,000 short-term bank loan that mature on March 25, 2010. Such amount has been fully paid off by March 31, 2010.

**18. Subsequent events**

In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. The Company's management evaluated all events or transactions that occurred after December 31, 2009 up through April 27, 2010, the date the Company issued the financial statements during these periods, the Company did not have any material

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

**18. Subsequent events (Continued)**

recognizable subsequent events required to be disclosed other than those disclosed in this note to the financial statements for the year ended December 31, 2009.

For the purpose of reorganization, the Company consummated a series share exchange agreements in the first quarter of 2010. Upon the consummation of all these exchanges, Golden Direction became a wholly-owned subsidiary of New Borun and China High became a wholly-owned subsidiary of Golden Direction.

Pursuant to the reorganization, the Company has issued 14,847,811 ordinary shares to King River which is 100% controlled and owned by Mrs. Shan Junqin, a member of the Wang Family, and 5,152,189 convertible preference shares to the three private equity investors of China High. All the 5,152,189 preference shares will be automatically converted into 5,152,189 ordinary shares upon the consummation of IPO.

The establishment of New Borun on December 21, 2009 and acquisition through share exchange between New Borun, Golden Direction and China High effective as of March 31, 2010 will be accounted for as a recapitalization or reorganization since the stockholders consisted of the same majority shareholders (no change in control) and there was no change in management immediately following the completion of the transaction in accordance with the provision of FASB ASC 805-50-15-b, "Business Combinations". Accordingly, the transaction is treated as a recapitalization or reorganization of China High and the assets and liabilities and the historical operations that are reflected in the financial statements are those of China High and its subsidiaries and are recorded at the historical cost basis. New Borun, Golden Direction and China High are holding companies. Financial statements and financial information presented for prior years have been retrospectively adjusted to furnish comparative information for periods during which Golden Direction, China High, WGC and Shandong Borun were under common control.

American Depositary Shares

# CHINA NEW BORUN CORPORATION

Representing

Ordinary Shares



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## PROSPECTUS

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Until \_\_\_\_\_, 2010, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

**Piper Jaffray**

, 2010

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**PART II**  
**INFORMATION NOT REQUIRED IN THE PROSPECTUS**

**Item 6. Indemnification of directors and officers**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our amended and restated memorandum and articles of association permit indemnification of officers and directors against all actions, proceedings, costs, charges, expenses, losses, damages or liabilities incurred or sustained in their capacities as such unless such losses or damages arise from actual, fraud or wilful neglect or default of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our amended and restated memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

**Item 7. Recent sales of unregistered securities**

The information below sets forth the date of issuance, title, amount and purchasers of, and consideration paid for, our securities sold within the last three years that were not registered under the Securities Act. All such securities were issued outside the United States pursuant to Regulation S of the Securities Act.

On October 10, 2008, China High issued 2,000 preference shares to Star Elite as consideration for Star Elite's capital contribution to China High of RMB70,000,000 (\$10,225,057.94).

In July 2008, China High issued 8,000 ordinary shares to Golden Direction as consideration for the acquisition by WGC (China High's wholly-owned subsidiary) of all of the equity interests in Shandong Borun.

On June 12, 2009, China High issued 563 preference shares to Earnstar as consideration for Earnstar's capital contribution to China High of RMB40,000,000 (\$5,860,033.11).

On September 22, 2009, China High issued 202 preference shares to TDR as consideration for TDR's capital contribution of RMB14,050,000 (\$2,058,336.63), and issued an additional 11 preference shares to Earnstar for no consideration in accordance with certain anti-dilution provisions set forth in an investment agreement by and between China High and TDR (such investment agreement has subsequently been terminated and replaced with the Shareholders Agreement, dated as of March 31, 2010).

Upon the incorporation of New Borun on December 21, 2009, we issued one ordinary share originally having a par value of \$1.00, to Mrs. Shan Junqin on December 21, 2009 (we subsequently changed the par value of our ordinary shares to \$0.001 per share). On March 9, 2010 Mrs. Shan transferred her one share of New Borun to King River. Effective as of March 31, 2010, New Borun consummated a share exchange agreement with Golden Direction, a British Virgin Islands company beneficially owned by Mrs. Shan Junqin, a member of the Wang Family, whereby New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to King River of 14,847,810 ordinary shares, par value \$0.001 per share. As of the date of that agreement,



(1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction held approximately 74.24% of the voting capital stock of China High.

Effective as of March 31, 2010, New Borun and Golden Direction consummated a share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing the exchange, New Borun issued (i) 3,711,952 of its Class A convertible preference shares, par value \$0.001 per share, which are automatically convertible into 3,711,952 of its ordinary shares upon the closing of this offering, to one of our private equity investors, Star Elite, (ii) 1,065,330 shares of its Class B convertible preference shares, par value \$0.001 per share, which are automatically convertible into 1,065,330 ordinary shares upon the closing of this offering, to one of China High's private equity investors, Earnstar and (iii) 374,907 shares of its Class C convertible preference shares, par value \$0.001 per share, which are automatically convertible into 374,907 ordinary shares upon the closing of this offering, to one of China High's private equity investors, TDR. Upon the consummation of this exchange, Golden Direction continues to be a wholly-owned subsidiary of New Borun and China High became a wholly-owned subsidiary of Golden Direction.

In connection with and as contemplated by the Exchange, New Borun, King River, Star Elite, Earnstar and TDR entered into a shareholders agreement effective as of March 31, 2010 which sets forth the preference rights held by each of Star Elite, Earnstar and TDR in New Borun. The shareholders agreement provides for the automatic conversion of each Class A, B and C convertible preference share into ordinary shares upon the closing of this offering and therefore, unless otherwise stated, the information herein assumes that such Class A, B and C convertible preference shares have been fully converted into ordinary shares.

None of our existing shareholders has voting rights that will differ from the voting rights of other shareholders after the closing of this offering. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

As of the date of this prospectus, none of our outstanding ordinary shares or Class A, B or C convertible preference shares are held by record holders in the United States.

Certain of our major shareholders and their affiliates have indicated their desire to subscribe for the ADSs offered in this offering. None of such shareholders or their affiliates is currently under any obligation or has any contractual right to purchase any ADSs in this offering, and their interest in purchasing ADSs in this offering is not a commitment to do so.

#### Item 8. Exhibits

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
1.1	Form of Underwriting Agreement	To be filed by amendment
2.3	Equity Purchase Agreement, dated June 26, 2008, by and among Shandong Borun, Yan Zherian, Daqing Jiulong Fine Chemical Limited and Heilongjiang Jiyang Law Firm pursuant to which Shandong Borun acquired Daqing Borun	Provided herewith
2.4	Equity Transfer Agreements, each dated November 30, 2008, pursuant to which WGC acquired Shandong Borun	Provided herewith
2.5	Equity Interest Transfer Agreement, dated September 30, 2008, by and between Mr. Pan Gang and China High pursuant to which China High acquired WGC	Provided herewith

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
3.1	Certificate of Incorporation of China New Borun Corporation	Provided herewith
3.2	Memorandum and Articles of Association of China New Borun Corporation	Provided herewith
3.3	Amended and Restated Memorandum and Articles of Association of China New Borun Corporation	Provided herewith
4.1	Form of American Depositary Receipt	(Included in Exhibit 4.3)
4.2	Specimen Certificate for Ordinary Shares of China New Borun Corporation	To be filed by amendment
4.3	Form of Deposit Agreement among China New Borun Corporation, the Depositary and Holders and Beneficial Owners of the American Depositary Shares issued thereunder	To be filed by amendment
4.4	Shareholders Agreement, dated March 31, 2010, by and among China New Borun Corporation, King River Holding Limited, Star Elite, Earnstar and TDR Advisors	Provided herewith
5.1	Opinion of Maples and Calder regarding the validity of the ordinary shares being registered	To be filed by amendment
8.1	Opinion of Maples and Calder regarding certain Cayman Islands tax matters (contained in Exhibit 5.1)	(Included in Exhibit 5.1)
8.2	Opinion of K&L Gates LLP regarding certain U.S. federal tax matters	To be filed by amendment
10.1	Share Exchange Agreement, dated as of February 28, 2010, by and among China New Borun Corporation, Golden Direction Limited, Star Elite, Earnstar and TDR Advisors	Provided herewith
10.2	Share Exchange Agreement, dated March 15, 2010, by and among China New Borun Corporation, Mrs. Shan Junqin, Golden Direction Limited and China High Enterprises Limited	Provided herewith
10.3	Mortgage Contract, dated on or about August 26, 2009, by and between Daqing Borun and the Agricultural Development Bank of China	Provided herewith
10.4	Form of Independent Director Agreement	Provided herewith
10.5	Form of Indemnification Agreement	Provided herewith
21.1	Subsidiaries of the Registrant	Provided herewith
23.1	Consent of BDO China Li Xin Da Hua CPA Co., Ltd.	Provided herewith
23.2	Consent of Maples and Calder (contained in Exhibit 5.1)	To be filed by amendment
23.3	Consent of Frost & Sullivan	Provided herewith
23.4	Consent of B&D Law Firm	To be filed by amendment
24.1	Power of Attorney (included on signature page)	Provided herewith
99.1	Opinion of B&D Law Firm	To be filed by amendment

**Item 9. Undertakings**

The undersigned registrant hereby undertakes to provide to the underwriter, at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant under the provisions described in Item 6, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant under Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this Registration Statement on Form F-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in Shouguang, Shandong Province, China, on April 27, 2010.

CHINA NEW BORUN CORPORATION

By: /s/ Jinniao Wang

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Name: Jinniao Wang

Title: President & Chief Executive Officer

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**POWER OF ATTORNEY**

We, the undersigned officers and directors of China New Borun Corporation hereby severally constitute and appoint Jinmiao Wang and Bing Yu, and each of them singly (with full power to each of them to act alone), our true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution in each of them for him and in his name, place and stead, and in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement on Form F-1 (or any other Registration Statement for the same offering that is to be effective upon filing pursuant to Rule 462(b) under the Securities Act), and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as full to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them or their or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement on Form F-1 has been signed by the following persons in the capacities held on April 27, 2010.

<u>Signature</u>	<u>Title</u>
<u>/s/ Jinmiao Wang</u> Jinmiao Wang	President, Chief Executive Officer and Chairman of the Board (Principal Executive Officer)
<u>/s/ Bing Yu</u> Bing Yu	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Hengxiu Song</u> Hengxiu Song	Chief Operations Officer and Director
<u>/s/ Rongjian Wang</u> Rongjian Wang	Financial Controller and Director
<u>/s/ Rong Chen</u> Rong Chen	Director
<u>/s/ Yibin Wei</u> Yibin Wei	Director
<u>/s/</u> Ruiping Wang	Director
<u>/s/</u> Binbin Jiang	Director*
<u>/s/</u> Ray Chadwick	Director*
<u>/s/</u> Lucy Guo	Director*

\* Mr. Chadwick, Mr. Jiang and Ms. Guo shall serve as our independent directors effective upon the closing of this offering.

**SIGNATURE OF AUTHORIZED REPRESENTATIVE OF THE REGISTRANT**

Pursuant to the Securities Act, the undersigned, the duly authorized representative in the United States of China New Borun Corporation, has signed this registration statement or amendment thereto in the City of Newark, Delaware, on April 27, 2010.

AUTHORIZED U.S. REPRESENTATIVE

By: /s/ DONALD J. PUGLISI

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Name: Donald J. Puglisi

Title: Managing Director, Puglisi & Associates

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CHINA NEW BORUN CORPORATION

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Document</u>
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23.4*	Consent of B&D Law Firm
24.1**	Power of Attorney (included on signature page)
99.1*	Opinion of B&D Law Firm

\* To be filed by amendment

\*\* Provided herewith





## Equity Purchase Agreement

In respect of

**Daqing Anxin Tongwei Alcohol Manufacturing Limited**

**Signed on June 26, 2008**

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This Equity Purchase Agreement (hereinafter referred to as this "Agreement") was entered into at Daqing Hotel, Daqing City on June 26, 2008, by and among the following parties:

- (A) Yan Zhen'an, Chinese nationality with ID No. 230621196712083938 and address in Room 502 Entrance 4 Dianxin Apartment, Minzhu Street, Zhaozhou Town, Zhaozhou County, Daqing;
- Daqing Jiulong Fine Chemical Limited, a company duly incorporated and existing under the Chinese laws, with the legal address in Daqing Linyuan Chemical Park;
- (Hereinafter referred to as the "Original Investors")
- (B) Heilongjiang Siyang Law Firm, a law firm duly incorporated and existing under the Chinese laws with the legal address in No. 107 Longfeng Street, Longfeng District, Daqing (hereinafter referred to as the "Manager");
- (C) Shandong Borun Industrial Co., Ltd (or its designated affiliated company), a company duly incorporated and existing under the Chinese laws with the legal address in Bohai Industrial Park of Shouguang, Shandong Province (hereinafter referred to as the "New Investor").

### 1. General Provisions

#### 1.1 Whereas

- (a) Daqing Anxin Tongwei Alcohol Manufacturing Limited (hereinafter referred to as the "Company") is a limited liability company funded and established by the Original Investors, of which Yan Zhen'an holds 70% equities and Daqing Jiulong Fine Chemical Limited holds 30%.
- (b) The People's Court of Datong District, Daqing (hereinafter referred to as the "People's Court of Datong District") has accepted the Company's application for bankruptcy on July 26, 2007 and also designated the Manager;
- (c) The People's Court of Datong District has approved the Company's reorganization plan, the Manager is looking for the new investor and the Original Investors are willing to transfer all the equities to the New Investor; and
- (d) The New Investor agrees to accept all the Company's equities held by the Original Investors (hereinafter referred to as the "Equity") and become the new investor of the Company.

### 2. Equity Transfer

#### 2.1 Equity Transfer

In accordance with the terms and conditions of this Agreement, the Original Investors transfer to the New Investor and the New Investor accepts from the Original Investors

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all the 100% equities of the Company.

#### 2.2 Equity Purchase Price and Debts Assumption

In accordance with the Company's reorganization plan, the equity transfer price shall be RMB zero. The New Investor shall assume the Company's debts totaling RMB139 million (hereinafter referred to as the "Reorganization Debts") as ruled and confirmed by the People's Court of Datong District, Daqing, and the difference, if any, between the debts as announced in the original reorganization plan and the aforesaid Reorganization Debts shall be settled through the coordination of related creditors by the People's Court of Datong District and the Manager, and shall be irrelevant to the New Investor.

The New Investor shall, in accordance with the stipulations of this Agreement, pay the Reorganization Debts to the account of the People's Court of Datong District, and the People's Court of Datong District and the Manager shall be responsible for distributing them to the relevant creditors.

#### 2.3 Terms and Time Limit of Payment of Reorganization Debts

The New Investor shall pay the Reorganization Debts to the account of the People's Court of Datong District in three installments in accordance with the following stipulations:

- The payment for the first installment shall be RMB20 million, of which the New Investor shall pay RMB10 million as the security deposit within 10 days after the conclusion of this Agreement and RMB10 million within 10 days after the hand-over date, and the security deposit shall be directly converted as the payment for the first installment.

2. The payment for the second installment shall be RMB89 million, which the New Investor shall pay within six months after the relevant rulings by the People's Court of Datong District take effect.
  - (1) Within three months after the verdict takes effect, Daqing Anxin Tongwei Alcohol Manufacturing Limited after its equity change registration (Daqing Borun Bio-Technology Limited) shall sign an Loan Extension Agreement with the three guarantee creditors including Daqing Commercial Bank Co., Ltd., the Business Department of the Agricultural Development Bank of China Daqing Branch and Daqing Industrial and Commercial Investment Co., Ltd., to extend or onlend the above secured debts for at least 3 years, and the interest incurred as of the date of loan transfer (extension) shall be assumed by Daqing Anxin Tongwei Alcohol Manufacturing Limited after its equity change registration (Daqing Borun Bio-Technology Limited).
  - (2) Within 6 months after the verdict takes effect or within 1 month after the certificates and approval documents listed in the following paragraph are obtained (whichever is later), the New Investor shall pay the balance of the second installment, i.e. RMB 41, 198, 317 yuan to the People's Court of Datong District. If the New Company fails to receive the following certificates and approval documents within 6 months, the New Investor may apply to this court for ruling on postponed payment so as to pay the amount in a lump sum after receiving the following certificates:

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The valid National Production License for Industrial Products (Edible Alcohol) that has passed the annual review; the validly renewed Hygiene License; the written reply to the environmental impact assessment of Phase I Project after the rename of the Company; the filing on records concerning the Company's obtaining the Business License that has passed the latest annual review and the completion of the new capital verification report; the filing on records of the rename of the Confirmation of Filing On Records of Daqing Enterprise Investment Project (1 Million Tons/Year Corn Deep-Processing Expansion Project) (Qing Tong Jing Ji Bei An [2006] No. 7); and the State Land Use Certificate for the 139,319.5 square meters of land obtained by the Company for Phase III Project.

3. The payment for the third installment shall be RMB30 million, which the New Investor shall pay within twelve months after the verdict of the People's Court of Datong District takes effect.

The New Investor shall pay RMB30 million to the account of this Court within twelve months after the verdict takes effect. But under the following circumstances, the New Investor may apply for the payment after it is ruled by the People's Court that the New Investor has obtained relevant written replies:

- (1) Within 12 months after the verdict of the court takes effect, phases 1, 2 and 3 of the environmental project have been completed resulting in emissions that meet the national standard, but no official written response to the trial run and final acceptance of environmental protection has been received by the Company;
- (2) Within 12 months after the verdict of the court takes effect, the Company has completed phases 1, 2 and 3 of the environmental project, with emissions meeting the national standard, but only the official written response to the trial operation has been received. The New Investor may apply to this court for a ruling about postponed payment of RMB 10 million yuan, which will be paid to this court after the New Company has obtained the official written response to the final acceptance of environmental protection.

### 3. Taking Effect

This Agreement shall take effect as of the date when the People's Court of Datong District issues the rulings, approves the amount of reorganization debts and payment time limit and confirms the New Investor's purchase of all the Company's equity.

### 4. Asset Handover and Equity Change

The Original Investors and the Manager shall deliver to the New Investor all the Company's account books, bills, files and drawings (including but not limited to the design and construction drawings for Phase I, Phase II and Phase III Projects), bank accounts and filed chops (handling chop and signature change with banks), the Company's certificates, licenses and seals and the Company's assets (see Appendix I: Lists of the Company's Assets) within 3 days after this Agreement takes effect; meanwhile, both parties shall complete the handling of the change registration of the Company's legal representative, equity and name (the name of the Company shall be modified as Daqing Borun Bio-Technology Limited (subject to the name approved by

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the industrial and commercial administration authority)) and the filing on records of the change of the Board of Directors, the Board of Supervisors and the Articles of Association to make the New Investor become the only shareholder of the Company and obtain the modified Business License. The date when the New Investor obtains the aforesaid assets and the modified Business License shall be the hand-over date.

### 5. Other Clauses

#### 5.1 Representations and Warranties of the Original Investors and the Manager

- (a) During the period of being the shareholders of the Company, the Original Investors have not been engaged in any act unfavorable to the Company's interests either in their capacity as the shareholder or through their designated directors, managers or other personnel, including but not limited to such acts as providing guarantees to others in the name of the Company without the Company's participation in the real transactions and signing contracts with others in the name of the Company. If any interest of the Company is damaged due to any illegal act during the period of being the shareholders of the Company, the Original Investors shall compensate the New Investor.
- (b) During the due diligence by the New Investor in the Company, the copies of the documents provided by the Original Investors and the Manager to the auditors, assessors and lawyers of the New Investor are all in conformity with the originals, all the signatures and seals are truthful and valid, and all the documents are truthful, complete and accurate, free from anything hidden, omitted or false. In case of any reduction of the relevant assets and properties during the handover, the New Investor shall be entitled to deduct the relevant amount from the reorganization debts.
- (c) The New Investor shall assume the reorganization debts totaling RMB139 million after the bankruptcy of Daqing Anxin Tongwei Alcohol Manufacturing Limited. If there is any difference with the amount of repayment as determined according to the organization plan, the shortage shall be assumed by the Original Investors. With regard to the debts reduced or exempted according to the reorganization plan, as of the completion of the execution of the relevant rulings by the Court, the New Investor shall no longer assume the repayment responsibility.
- (d) In the event that any debt or asset take-back rights arise from any lawsuit, arbitration and enforcement proceeding involving the New Investor or the Company that have actually occurred or may occur before the hand-over date, or that any unregistered creditor claims any creditor's rights to the New Investor or the Company after the hand-over date for any debts and debt-related interest, overdue penalty, default penalty or liquidated damages that existed before the hand-over date, the Original Investors shall settle and handle the aforesaid claims, and neither the New Investor nor

any losses suffered as a result thereof.

## 5.2 Cancellation of the Contract

Where the Agreement entered into by and between the New Investor and the People's Government of Datong District is cancelled according to law, this Agreement shall also be cancelled.

## 5.3 Settlement of Disputes

If any dispute in respect of this Agreement remains unresolved after friendly consultations, it shall be submitted to the Shanghai Sub-Commission of China International Economic and Trade Arbitration Commission for arbitration. The award of the arbitration shall be final and binding upon both parties.

## 5.4 Appendices

The Appendices to this Agreement shall be a part of this Agreement, same as the official text of this Agreement.

## 5.5 Counterparts

This Agreement shall be executed in six counterparts, one for each of the Parties to this Agreement, and the other two for handling the bankruptcy and reorganization of the Company.

## Appendix I: Lists of the Company's Assets

The list of fixed assets including machine equipment and projects under construction (including the warehouse (with a floor area of 444 square meters) in Phase III Project); the list of State land use rights for Phase I, Phase II and Phase III Projects and of the premises; and the list of inventories of the Company.

- I. The list of fixed assets of Phase I, Phase II and Phase III Projects as listed in the Detailed List for Asset Assessment of Daqing Anxin Tongwei Alcohol Manufacturing Limited (Wei Zhen Zi Ping Zi No. 19 (2008) issued by Weifang Zhengde Asset Assessment Firm;
- II. The warehouse (with a floor area of about 444 square meters) in Phase III Project;
- III. The land use rights under the State Land Use Certificate (Da Qing Guo Yong No. 020306 (2005) ratified by the People's Government of Daqing on July 11, 2005;
- IV. The land use rights under the State Land Use Certificate (Da Qing Guo Yong No. 004126 (2006) ratified by the People's Government of Daqing on July 11, 2005;
- V. The land use rights under the Construction Land Planning License (No. 200605) for the land for Phase III Project and under the Letter on Preliminary Examination Opinions on Land Use for 1 Million Tons/Year Corn Deep-Processing Expansion Project (Qing Guo Tu Zi Yu Shen Zi No. 122 [2006]) issued by the State Land Resources Administration of Daqing on October 17, 2006;
- VI. List of Premises:

No.	Serial No. of Premises Ownership Certificate
1	Qing Fang Quan Zheng Da Tong Qu Zi No. NA251433
2	Qing Fang Quan Zheng Da Tong Qu Zi No. NA251441
3	Qing Fang Quan Zheng Da Tong Qu Zi No. NA251423
4	Qing Fang Quan Zheng Da Tong Qu Zi No. NA251404
5	Qing Fang Quan Zheng Da Tong Qu Zi No. NA251427
6	Qing Fang Quan Zheng Da Tong Qu Zi No. NA251458
7	Qing Fang Quan Zheng Da Tong Qu Zi No. NA251417
8	Qing Fang Quan Zheng Da Tong Qu Zi No. NA200942
9	Qing Fang Quan Zheng Da Tong Qu Zi No. NA200941
10	Qing Fang Quan Zheng Da Tong Qu Zi No. NA200940
11	Qing Fang Quan Zheng Da Tong Qu Zi No. NA200938
12	Qing Fang Quan Zheng Da Tong Qu Zi No. NA200936
13	Qing Fang Quan Zheng Da Tong Qu Zi No. NA200934

- Value VII. List of inventories including but not limited to coal, steel products and a number of parts and components.

IN WITNESS WHEREOF, the Parties have caused their respective duly authorized representatives to sign this Agreement, all as of the date first written above.

**The Original Investors:**

Yan Zhen'an

By: /s/ Authorized Person

Daqing Jiulong Fine Chemical Limited (official seal)

By: /s/ Authorized Person

**The New Investor:** Shandong Borun Industrial Co., Ltd (official seal)

By: /s/ Authorized Person

**The Manager:** Heilongjiang Siyang Law Firm (official seal)

By: /s/ Authorized Person

Equity Transfer Agreement  
of Shandong Borun Industrial Limited

Name of Transferor: He Xiuni

Name of Transferee: Weifang Great Chemical Inc.

Executed at: 3rd Floor Meeting Room of Shandong Borun Industrial Limited

Executed on: November 30, 2008

In accordance with the relevant stipulations of the Contract Law of the People's Republic of China and Company Law of the People's Republic of China, and the resolutions adopted at the meeting of the Board of Shareholders of Shandong Borun Industrial Limited convened on November 30, 2008, on the basis of equality, voluntariness and mutual consultation, the Transferor and Transferee hereby enter into these agreements as follows in respect of the equity transfer:

1. Share and Price of the Transferred Equity:

The Transferor hereby transfers to the Transferee his equity in Shandong Borun Industrial Limited in an amount equal to RMB4,370,000, accounting for 5.71% of the registered capital, at a transfer price of RMB4,370,000.

2. Date and Method of Equity Transfer Closing

The transfer price shall be paid in cash before November 30, 2008.

3. Rights and Obligations of the Transferee under the Articles of Association of the Company

The rights and obligations of the Transferor to Shandong Borun Industrial Limited in respect of this transfer shall all be assumed by the Transferee.

Transferor:

Transferee

By: /s/ Wang Shan

By: Weifang Great Chemical Inc. (sealed)

/s/ Authorized Person

1

Equity Transfer Agreement  
of Shandong Borun Industrial Limited

Name of Transferor: He Xiuni

Name of Transferee: Weifang Great Chemical Inc.

Executed at: 3rd Floor Meeting Room of Shandong Borun Industrial Limited

Executed on: November 30, 2008

In accordance with the relevant stipulations of the Contract Law of the People's Republic of China and Company Law of the People's Republic of China, and the resolutions adopted at the meeting of the Board of Shareholders of Shandong Borun Industrial Limited convened on November 30, 2008, on the basis of equality, voluntariness and mutual consultation, the Transferor and Transferee hereby enter into these agreements as follows in respect of the equity transfer:

4. Share and Price of the Transferred Equity:

The Transferor hereby transfers to the Transferee his equity in Shandong Borun Industrial Limited in an amount equal to RMB10,930,000, accounting for 14.29% of the registered capital, at a transfer price of RMB10,930,000.

5. Date and Method of Equity Transfer Closing

The transfer price shall be paid in cash before November 30, 2008.

6. Rights and Obligations of the Transferee under the Articles of Association of the Company

The rights and obligations of the Transferor to Shandong Borun Industrial Limited in respect of this transfer shall all be assumed by the Transferee.

Transferor:

Transferee

By: /s/ He Xiuni

By: Weifang Great Chemical Inc. (sealed)

/s/ Authorized Person

2

Equity Transfer Agreement  
of Shandong Borun Industrial Limited

Name of Transferor: Wang Jinmiao

Name of Transferee: Weifang Great Chemical Inc.

Executed at: 3rd Floor Meeting Room of Shandong Borun Industrial Limited

Executed on: November 30, 2008

In accordance with the relevant stipulations of the Contract Law of the People's Republic of China and Company Law of the People's Republic of China, and the resolutions adopted at the meeting of the Board of Shareholders of Shandong Borun Industrial Limited convened on November 30, 2008, on the basis of equality, voluntariness and mutual consultation, the Transferor and Transferee hereby enter into these agreements as follows in respect of the equity transfer:

7. Share and Price of the Transferred Equity:

The Transferor hereby transfers to the Transferee his equity in Shandong Borun Industrial Limited in an amount equal to RMB56,140,000, accounting for 73.38% of the registered capital, at a transfer price of RMB56,140,000.

8. Date and Method of Equity Transfer Closing

The transfer price shall be paid in cash before November 30, 2008.

9. Rights and Obligations of the Transferee under the Articles of Association of the Company

The rights and obligations of the Transferor to Shandong Borun Industrial Limited in respect of this transfer shall all be assumed by the Transferee.

Transferor:

Transferee

By: /s/ Wang Jinmiao

By: Weifang Great Chemical Inc. (sealed)

/s/ Authorized Person

Equity Transfer Agreement  
of Shandong Borun Industrial Limited

Name of Transferor: Wang Peili

Name of Transferee: Weifang Great Chemical Inc.

Executed at: 3rd Floor Meeting Room of Shandong Borun Industrial Limited

Executed on: November 30, 2008

In accordance with the relevant stipulations of the Contract Law of the People's Republic of China and Company Law of the People's Republic of China, and the resolutions adopted at the meeting of the Board of Shareholders of Shandong Borun Industrial Limited convened on November 30, 2008, on the basis of equality, voluntariness and mutual consultation, the Transferor and Transferee hereby enter into these agreements as follows in respect of the equity transfer:

10. Share and Price of the Transferred Equity:

The Transferor hereby transfers to the Transferee his equity in Shandong Borun Industrial Limited in an amount equal to RMB2,530,000, accounting for 3.31% of the registered capital, at a transfer price of RMB2,530,000.

11. Date and Method of Equity Transfer Closing

The transfer price shall be paid in cash before November 30, 2008.

12. Rights and Obligations of the Transferee under the Articles of Association of the Company

The rights and obligations of the Transferor to Shandong Borun Industrial Limited in respect of this transfer shall all be assumed by the Transferee.

Transferor:

Transferee

By: /s/ Wang Peili

By: Weifang Great Chemical Inc. (sealed)

/s/ Authorized Person

Equity Transfer Agreement  
of Shandong Borun Industrial Limited

Name of Transferor: Wang Peiren

Name of Transferee: Weifang Great Chemical Inc.

Executed at: 3rd Floor Meeting Room of Shandong Borun Industrial Limited

Executed on: November 30, 2008

In accordance with the relevant stipulations of the Contract Law of the People's Republic of China and Company Law of the People's Republic of China, and the resolutions adopted at the meeting of the Board of Shareholders of Shandong Borun Industrial Limited convened on November 30, 2008, on the basis of equality, voluntariness and mutual consultation, the Transferor and Transferee hereby enter into these agreements as follows in respect of the equity transfer:

13. Share and Price of the Transferred Equity:

The Transferor hereby transfers to the Transferee his equity in Shandong Borun Industrial Limited in an amount equal to RMB2,530,000, accounting for 3.31% of the registered capital, at a transfer price of RMB2,530,000.

14. Date and Method of Equity Transfer Closing

The transfer price shall be paid in cash before November 30, 2008.

15. Rights and Obligations of the Transferee under the Articles of Association of the Company

The rights and obligations of the Transferor to Shandong Borun Industrial Limited in respect of this transfer shall all be assumed by the Transferee.

Transferor:

Transferee

By: /s/ Wang Peiren

By: Weifang Great Chemical Inc. (sealed)

/s/ Authorized Person



## EQUITY INTEREST TRANSFER AGREEMENT

**Transferor:** PAN GANG (hereinafter referred to as the “**Party A**”), male, France nationality, born on November 18,1970, with his passport number of 97FC84743 and address at 7 RUE DE PRAGUE 75012 PARIS FRANCE.

**Transferee:** [China High Enterprises Limited.] (hereinafter referred to as “**Party B**”), a company with its legal address at Room 1703 Floor 17, Vicwood Plaza, 199 Des Voeux Road Central, Sheung Wan, HK. Legal Representative: LI ZI WEN, Title: President, Nationality: America.

The Parties, through consultations, agree as follows with respect to shareholding transfer of equity interest of [Weifang Great Chemical Inc.] held by Mr. PAN GANG.

### Article 1 Representations and Warranties

- 1.1 Party A is a natural person with full capacity and has good credit status and capacity for the execution and performance of this Agreement. All the signatures of Party A in this Agreement as well as any other documents relating to the equity transfer provided herein are true. Party A shall assume all the liabilities and responsibilities arising out of the signatures herein.
- 1.2 Party B is a limited liability company duly organized, validly existing. It has already got full necessary enterprise power and authorization and has good credit status and capacity for the execution and performance of this Agreement.
- 1.3 Party A is the shareholder of [Weifang Great Chemical Inc.] holding 100% of the equity interest of the company.
- 1.4 Party A is the legal owner of the equity interest transferred herein and has full and unencumbered title to the transferred equity interest, which shall be free and clean of any mortgage, pledge or any other types of encumbrances and is not involved in any dispute or law suits. All and any of the rights and liabilities occurs prior to the delivery of the transferred equity interest referring to the Party A and [Weifang Great Chemical Inc.] shall be born by Party A.
- 1.5 Its execution and performance of this Agreement will not violate the followings:
  - 1.5.1 Article of association of [Weifang Great Chemical Inc.];

- 
- 1.5.2 Any agreement or contract in effect entered into by the parties;
  - 1.5.3 Other documentation binding to the property or acts of the parties respectively.

### Article 2 Equity Interest Transfer

- 2.1 Subject to the terms of this Agreement, Party A hereby agrees to sell to Party B, and Party B agrees to purchase from Party A the 100% equity interest of [Weifang Great Chemical Inc.].
- 2.2 The transferred equity interest shall include all the rights and interests affiliated with it and shall be free and clean of any mortgage, pledge or any other types of encumbrances without any defects under it.
- 2.3 Upon the delivery of the transferred equity interest subject to the provisions herein Party B shall own 100% of the equity interest of [Weifang Great Chemical Inc.].
- 2.4 Party B shall have the rights and bear the responsibilities based on the proportion of the equity interest held by it after the delivery of the transferred equity interest.

### Article 3 Shares and Price of Equity Interest Transfer

- 3.1 Both parties agree that the total purchase price for the transferred equity interest shall be US\$ 160,000.00. Party B shall buy 100% of the equity interest of [Weifang Great Chemical Inc.] held by Party A at the price of US\$ 160,000.00.
- 3.2 Party B shall pay the price of the transferred equity transfer to Party A in cash of US dollars (or any other freely convertible currency agreed by both parties).

### Article 4 Time Limit and Manner of Equity Interest Transfer

- 4.1 The price of equity interest transfer shall be paid in a lump sum by Party B to Party A in the currency amount provided in Article 3 herein in US dollars (or any other freely convertible currency agreed by both parties) within 3 business days after the effectiveness of this agreement and upon the completion of the modification registration procedure of the equity interest transfer and acquirement of the updated business license and also the new chop of [Weifang Great Chemical Inc.].
- 4.2 Party A shall return the original shareholder investment certificate to shareholder investment certificate and [Weifang Great Chemical Inc.] shall issue a new

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shareholder investment certificate to Party B. [Weifang Great Chemical Inc.] shall destroy the original chop after using the new one in front of the representatives of both parties and a written certification record shall be made.

### Article 5 Effectiveness of Agreement

This agreement shall come into effect subject to the following conditions:

- 5.1 The equity interest transfer under this agreement has been approved by the organ of authority of each party respectively.
- 5.2 Board of directors has approved the equity interest transfer under this agreement;
- 5.3 The component authority has approved the equity interest transfer under this agreement.

### Article 6 Rights of Agreement

Any party shall not transfer the rights and responsibilities under this agreement without the prior written consent of the other party.

**Article 7 Tax and other fees**

Both parties agree that the party shall pay tax and other expenses or fees arising out of the execution of this agreement respectively.

**Article 8 Breach of Agreement**

In the event that either Party fails to fulfill its obligations and/or liabilities under this Agreement, it shall be liable towards the other Party for damages and losses incurred or suffered from such breach. Should Party A breach this agreement it should instantly return to Party B the payment already paid by Party B and pay liquidated damages to Party B, which shall be 15% of the total transfer price under this agreement. Should Party B breach the agreement it should return to Party B the payment already paid by Party B. Party B shall pay Party A liquidated damages, which shall be 15% of the total transfer price under this agreement.

**Article 9 Applicable Law and Settlement of Disputes**

This Agreement shall be governed by and interpreted in accordance with the laws of People's Republic of China. In the event a dispute arises in connection with this

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Agreement, the parties shall attempt to settle such dispute through friendly consultations. If no mutually acceptable settlement of such dispute is reached, any party shall submit such dispute to the Arbitration Commission of Weifang. Such arbitration shall be conducted in accordance with the Arbitration Rules of the commission being in force at the time. The arbitral award is final and binding upon both parties.

**Article 10 Force Majeure**

10.1 "Force Majeure" shall mean all events which are beyond the control of the Parties to this agreement, and which are unforeseen, unavoidable or insurmountable, and which prevent total or partial performance by either of the Parties. Such events shall include earthquakes, typhoons, flood, fire, war, strikes, riots, changes in laws and regulations any other similar instances.

10.2 If an event of Force Majeure occurs, the Party affected by such an event under this Contract shall inform the other Parties in the most prompt way and shall furnish within seven (7) days thereafter sufficient proof of the occurrence and duration of such Force Majeure issued by the government indicating the details of such Force Majeure and the reasons of failure or partially failure or delay of the implementation of this agreement. Then the parties shall conduct the consultations to decide whether to postpone the perform of this agreement or terminate this agreement.

**Article 11 MISCELLANEOUS**

11.1 This agreement shall become effective after the legal representatives or authorized representatives of both parties sign it and seal it and upon the approval of the competent authority. This agreement may be signed via facsimile and such signature has the equivalent legal effect as the signature face to face.

11.2 All notices delivering from one party to the other party in connection with this agreement shall be in writing and delivered by courier, facsimile, email or by post, and address to the other Party. The date of receipt of a notice or communication hereunder shall be deemed to be the day the letter arrives at the other party in the case of a courier service or the day the sender receives the answer code in the case of fax or email or seven (7) working days after dispatch in the case of a post service

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11.3 Any amendment to this agreement shall be agreed by both parties in writing and subject to the approval of the competent authority. Any amendment to this agreement or supplemental agreement shall be an integral part of this Agreement.

**Article 12 Counterparts**

This Agreement is executed in octuplicate, one for each party, one for [Weifang Great Chemical Inc.] and the other five copies for competent authority for approval and records. All of the copies shall have equal validity and effect.

**Transferor :** /s/ PANG GANG

Execution time: September 30, 2008                      Address: Hong Kong

**Transferee:**

/s/ Legal Representative: China High Enterprises Limited (Signature)

Execution time: September 30, 2008                      Address: Hong Kong

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MC-234966

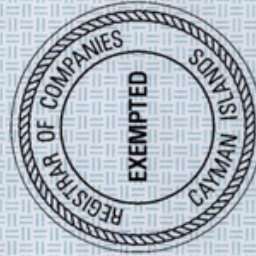
# Certificate Of Incorporation

I, **MELANIE E. RIVERS-WOODS** Assistant Registrar of Companies of the Cayman Islands  
DO HEREBY CERTIFY, pursuant to the Companies Law CAP. 22, that all requirements of the said  
Law in respect of registration were complied with by

**China New Borun Corporation**

an Exempted Company incorporated in the Cayman Islands with Limited Liability with effect from  
the 21st day of December Two Thousand Nine

Given under my hand and Seal at George Town in the  
Island of Grand Cayman this 21st day of December  
Two Thousand Nine



Assistant Registrar of Companies,  
Cayman Islands.

THE COMPANIES LAW (2009 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES

MEMORANDUM AND ARTICLES OF ASSOCIATION

OF

CHINA NEW BORUN CORPORATION

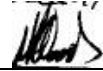
THE COMPANIES LAW (2009 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES

MEMORANDUM OF ASSOCIATION

OF

CHINA NEW BORUN CORPORATION

REGISTERED AND FILED  
AS NO: 234966 THIS 21<sup>ST</sup> DAY  
OF December, 2009



Asst. Registrar of Companies  
Cayman Islands

- 1 The name of the Company is **China New Borun Corporation**.
- 2 The Registered Office of the Company shall be at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place within the Cayman Islands as the Directors may decide.
- 3 The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by law.
- 4 The liability of each Member is limited to the amount unpaid on such Member's shares.
- 5 The share capital of the Company is US\$50,000 divided into 50,000 shares of a par value of US\$1.00 each.
- 6 The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
- 7 Capitalised terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.

[SEAL]

WE, the subscriber to this Memorandum of Association, wish to be formed into a company pursuant to this Memorandum of Association, and we agree to take the number of shares shown opposite our name.

Dated this 21st day of December 2009.

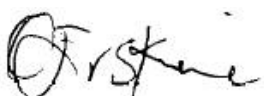
**Signature and Address of Subscriber**

**Number of Shares Taken**

Mapcal Limited  
of PO Box 309, Ugland House  
Grand Cayman  
KY1-1104  
Cayman Islands

One

acting by:



Witness to the above signature

[SEAL]

SIG.



Melanie E. Rivers-Woods  
Assistant Registrar

Date. December 21<sup>st</sup> 2009

THE COMPANIES LAW (2009 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES

REGISTERED AND FILED  
AS NO: 234966 THIS 21<sup>ST</sup> DAY  
OF DECEMBER, 2009

[SEAL]

ARTICLES OF ASSOCIATION

OF  
CHINA NEW BORUN CORPORATION



Asst. Registrar of Companies  
Cayman Islands

1 Interpretation

1.1 In the Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

- “Articles” means these articles of association of the Company.
- “Auditor” means the person for the time being performing the duties of auditor of the Company (if any).
- “Company” means the above named company.
- “Directors” means the directors for the time being of the Company.
- “Dividend” means any dividend (whether interim or final) resolved to be paid on Shares pursuant to the Articles.
- “Electronic Record” has the same meaning as in the Electronic Transactions Law.
- “Electronic Transactions Law” means the Electronic Transactions Law (2003 Revision) of the Cayman Islands.
- “Member” has the same meaning as in the Statute.
- “Memorandum” means the memorandum of association of the Company.
- “Ordinary Resolution” means a resolution passed by a simple majority of the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.
- “Register of Members” means the register of Members maintained in accordance with the Statute and includes (except where otherwise stated) any duplicate register of Members.

[SEAL]

- “Registered Office” means the registered office for the time being of the Company.
- “Seal” means the common seal of the Company and includes every duplicate seal.
- “Share” means a share in the Company and includes a fraction of a share in the Company.
- “Special Resolution” has the same meaning as in the Statute, and includes a unanimous written resolution.
- “Statute” means the Companies Law (2009 Revision) of the Cayman Islands.
- “Subscriber” means the subscriber to the Memorandum.

1.2 In the Articles:

- (a) words importing the singular number include the plural number and vice versa;
- (b) words importing the masculine gender include the feminine gender;

- (c) words importing persons include corporations as well as any other legal or natural person;
- (d) “written” and “in writing” include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;
- (e) “shall” shall be construed as imperative and “may” shall be construed as permissive;
- (f) references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced;
- (g) any phrase introduced by the terms “including”, “include”, “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;
- (h) the term “and/or” is used herein to mean both “and” as well as “or.” The use of “and/or” in certain contexts in no respects qualifies or modifies the use of the terms “and” or “or” in others. The term “or” shall not be interpreted to be exclusive and the term “and” shall not be interpreted to require the conjunctive (in each case, unless the context otherwise requires);
- (i) headings are inserted for reference only and shall be ignored in construing the Articles;
- (j) section 8 of the Electronic Transactions Law shall not apply;
- (k) the term “clear days” in relation to the period of a notice means that period excluding the day when the notice is received or deemed to be received and the day for which it is given or on which it is to take effect; and

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- (l) the term “holder” in relation to a Share means a person whose name is entered in the Register of Members as the holder of such Share.

## 2 Commencement of Business

- 2.1 The business of the Company may be commenced as soon after incorporation of the Company as the Directors shall see fit.
- 2.2 The Directors may pay, out of the capital or any other monies of the Company, all expenses incurred in or about the formation and establishment of the Company, including the expenses of registration.

## 3 Issue of Shares

- 3.1 Subject to the provisions, if any, in the Memorandum (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the Directors may allot, issue, grant options over or otherwise dispose of Shares (including fractions of a Share) with or without preferred, deferred or other rights or restrictions, whether in regard to Dividend or other distribution, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper, and may also (subject to the Statute and the Articles) vary such rights. Notwithstanding the foregoing, the Subscriber shall have the power to:
  - (a) issue one Share to itself;
  - (b) transfer that Share by an instrument of transfer to any person; and
  - (c) update the Register of Members in respect of the issue and transfer of that Share.

- 3.2 The Company shall not issue Shares to bearer.

## 4 Register of Members

The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute.

## 5 Closing Register of Members or Fixing Record Date

- 5.1 For the purpose of determining Members entitled to notice of, or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any Dividend or other distribution, or in order to make a determination of Members for any other purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period which shall not in any case exceed forty days.
- 5.2 In lieu of, or apart from, closing the Register of Members, the Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment thereof, or for the purpose of determining the Members entitled to receive payment of any Dividend or other distribution, or in order to make a determination of Members for any other purpose.

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- 5.3 If the Register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a Dividend or other distribution, the date on which notice of the meeting is sent or the date on which the resolution of the Directors resolving to pay such Dividend or other distribution is passed, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

## 6 Certificates for Shares

- 6.1 A Member shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other person authorised by the

Directors. The Directors may authorise certificates to be issued with the authorised signature(s) affixed by mechanical process. All certificates for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and subject to the Articles no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.

- 6.2 The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.
- 6.3 If a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the Directors may prescribe, and (in the case of defacement or wearing out) upon delivery of the old certificate.
- 6.4 Every share certificate sent in accordance with the Articles will be sent at the risk of the Member or other person entitled to the certificate. The Company will not be responsible for any share certificate lost or delayed in the course of delivery.

## 7 Transfer of Shares

- 7.1 Subject to Article 3.1, Shares are transferable subject to the consent of the Directors who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason. If the Directors refuse to register a transfer they shall notify the transferee within two months of such refusal.
- 7.2 The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by or on behalf of the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members.

## 8 Redemption and Repurchase of Shares

- 8.1 Subject to the provisions of the Statute the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company. The redemption of such Shares shall be effected in such manner as the Company may, by Special Resolution, determine before the issue of the Shares.

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- 8.2 Subject to the provisions of the Statute, the Company may purchase its own Shares (including any redeemable Shares) provided that the Members shall have approved the manner of purchase by Ordinary Resolution.
- 8.3 The Company may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.

## 9 Variation of Rights of Shares

- 9.1 If at any time the share capital of the Company is divided into different classes of Shares, all or any of the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound up, be varied without the consent of the holders of the issued Shares of that class where such variation is considered by the Directors not to have a material adverse effect upon such rights; otherwise, any such variation shall be made only with the consent in writing of the holders of not less than two thirds of the issued Shares of that class, or with the sanction of a resolution passed by a majority of not less than two thirds of the votes cast at a separate meeting of the holders of the Shares of that class. For the avoidance of doubt, the Directors reserve the right, notwithstanding that any such variation may not have a material adverse effect, to obtain consent from the holders of Shares of the relevant class. To any such meeting all the provisions of the Articles relating to general meetings shall apply *mutatis mutandis*, except that the necessary quorum shall be one person holding or representing by proxy at least one third of the issued Shares of the class and that any holder of Shares of the class present in person or by proxy may demand a poll.
- 9.2 For the purposes of a separate class meeting, the Directors may treat two or more or all the classes of Shares as forming one class of Shares if the Directors consider that such class of Shares would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes of Shares.
- 9.3 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

## 10 Commission on Sale of Shares

The Company may, in so far as the Statute permits, pay a commission to any person in consideration of his subscribing or agreeing to subscribe (whether absolutely or conditionally) or procuring or agreeing to procure subscriptions (whether absolutely or conditionally) for any Shares. Such commissions may be satisfied by the payment of cash and/or the issue of fully or partly paid-up Shares. The Company may also on any issue of Shares pay such brokerage as may be lawful.

## 11 Non Recognition of Trusts

The Company shall not be bound by or compelled to recognise in any way (even when notified) any equitable, contingent, future or partial interest in any Share, or (except only as is otherwise provided by the Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the holder.

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## 12 Lien on Shares

- 12.1 The Company shall have a first and paramount lien on all Shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or

jointly with any other person, whether a Member or not, but the Directors may at any time declare any Share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such Share shall operate as a waiver of the Company's lien thereon. The Company's lien on a Share shall also extend to any amount payable in respect of that Share.

- 12.2 The Company may sell, in such manner as the Directors think fit, any Shares on which the Company has a lien, if a sum in respect of which the lien exists is presently payable, and is not paid within fourteen clear days after notice has been received or deemed to have been received by the holder of the Shares, or to the person entitled to it in consequence of the death or bankruptcy of the holder, demanding payment and stating that if the notice is not complied with the Shares may be sold.
- 12.3 To give effect to any such sale the Directors may authorise any person to execute an instrument of transfer of the Shares sold to, or in accordance with the directions of, the purchaser. The purchaser or his nominee shall be registered as the holder of the Shares comprised in any such transfer, and he shall not be bound to see to the application of the purchase money, nor shall his title to the Shares be affected by any irregularity or invalidity in the sale or the exercise of the Company's power of sale under the Articles.
- 12.4 The net proceeds of such sale after payment of costs, shall be applied in payment of such part of the amount in respect of which the lien exists as is presently payable and any balance shall (subject to a like lien for sums not presently payable as existed upon the Shares before the sale) be paid to the person entitled to the Shares at the date of the sale.

### **13 Call on Shares**

- 13.1 Subject to the terms of the allotment and issue of any Shares, the Directors may make calls upon the Members in respect of any monies unpaid on their Shares (whether in respect of par value or premium), and each Member shall (subject to receiving at least fourteen clear days' notice specifying the time or times of payment) pay to the Company at the time or times so specified the amount called on the Shares. A call may be revoked or postponed, in whole or in part, as the Directors may determine. A call may be required to be paid by instalments. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the Shares in respect of which the call was made.
- 13.2 A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.
- 13.3 The joint holders of a Share shall be jointly and severally liable to pay all calls in respect thereof.
- 13.4 If a call remains unpaid after it has become due and payable, the person from whom it is due shall pay interest on the amount unpaid from the day it became due and payable until it is paid at such rate as the Directors may determine (and in addition all expenses that have been incurred by the Company by reason of such non-payment), but the Directors may waive payment of the interest or expenses wholly or in part.

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- 13.5 An amount payable in respect of a Share on issue or allotment or at any fixed date, whether on account of the par value of the Share or premium or otherwise, shall be deemed to be a call and if it is not paid all the provisions of the Articles shall apply as if that amount had become due and payable by virtue of a call.
- 13.6 The Directors may issue Shares with different terms as to the amount and times of payment of calls, or the interest to be paid.
- 13.7 The Directors may, if they think fit, receive an amount from any Member willing to advance all or any part of the monies uncalled and unpaid upon any Shares held by him, and may (until the amount would otherwise become payable) pay interest at such rate as may be agreed upon between the Directors and the Member paying such amount in advance.
- 13.8 No such amount paid in advance of calls shall entitle the Member paying such amount to any portion of a Dividend or other distribution payable in respect of any period prior to the date upon which such amount would, but for such payment, become payable.

### **14 Forfeiture of Shares**

- 14.1 If a call or instalment of a call remains unpaid after it has become due and payable the Directors may give to the person from whom it is due not less than fourteen clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any expenses incurred by the Company by reason of such non-payment. The notice shall specify where payment is to be made and shall state that if the notice is not complied with the Shares in respect of which the call was made will be liable to be forfeited.
- 14.2 If the notice is not complied with, any Share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Directors. Such forfeiture shall include all Dividends, other distributions or other monies payable in respect of the forfeited Share and not paid before the forfeiture.
- 14.3 A forfeited Share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the Directors think fit. Where for the purposes of its disposal a forfeited Share is to be transferred to any person the Directors may authorise some person to execute an instrument of transfer of the Share in favour of that person.
- 14.4 A person any of whose Shares have been forfeited shall cease to be a Member in respect of them and shall surrender to the Company for cancellation the certificate for the Shares forfeited and shall remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of those Shares together with interest at such rate as the Directors may determine, but his liability shall cease if and when the Company shall have received payment in full of all monies due and payable by him in respect of those Shares.
- 14.5 A certificate in writing under the hand of one Director or officer of the Company that a Share has been forfeited on a specified date shall be conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the Share. The certificate shall (subject to the execution of an instrument of transfer) constitute a good title to the Share and the person to whom the Share is sold or otherwise disposed of shall not be bound to see to the application of the purchase money, if any, nor shall his title to the Share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the Share.

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14.6 The provisions of the Articles as to forfeiture shall apply in the case of non payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the par value of the Share or by way of premium as if it had been payable by virtue of a call duly made and notified.

## 15 Transmission of Shares

15.1 If a Member dies the survivor or survivors (where he was a joint holder) or his legal personal representatives (where he was a sole holder), shall be the only persons recognised by the Company as having any title to his Shares. The estate of a deceased Member is not thereby released from any liability in respect of any Share, for which he was a joint or sole holder.

15.2 Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may be required by the Directors, elect, by a notice in writing sent by him to the Company, either to become the holder of such Share or to have some person nominated by him registered as the holder of such Share. If he elects to have another person registered as the holder of such Share he shall sign an instrument of transfer of that Share to that person. The Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution, as the case may be.

15.3 A person becoming entitled to a Share by reason of the death or bankruptcy or liquidation or dissolution of a Member (or in any other case than by transfer) shall be entitled to the same Dividends, other distributions and other advantages to which he would be entitled if he were the holder of such Share. However, he shall not, before becoming a Member in respect of a Share, be entitled in respect of it to exercise any right conferred by membership in relation to general meetings of the Company and the Directors may at any time give notice requiring any such person to elect either to be registered himself or to have some person nominated by him be registered as the holder of the Share (but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution or any other case than by transfer, as the case may be). If the notice is not complied with within ninety days of being received or deemed to be received (as determined pursuant to the Articles) the Directors may thereafter withhold payment of all Dividends, other distributions, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

## 16 Amendments of Memorandum and Articles of Association and Alteration of Capital

16.1 The Company may by Ordinary Resolution:

- (a) increase its share capital by such sum as the Ordinary Resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;
- (b) consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;
- (c) convert all or any of its paid-up Shares into stock, and reconvert that stock into paid-up Shares of any denomination;

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- (d) by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value; and
  - (e) cancel any Shares that at the date of the passing of the Ordinary Resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled.

16.2 All new Shares created in accordance with the provisions of the preceding Article shall be subject to the same provisions of the Articles with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the Shares in the original share capital.

16.3 Subject to the provisions of the Statute and the provisions of the Articles as regards the matters to be dealt with by Ordinary Resolution, the Company may by Special Resolution:

- (a) change its name;
- (b) alter or add to the Articles;
- (c) alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and
- (d) reduce its share capital or any capital redemption reserve fund.

## 17 Offices and Places of Business

Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its Registered Office. The Company may, in addition to its Registered Office, maintain such other offices or places of business as the Directors determine.

## 18 General Meetings

18.1 All general meetings other than annual general meetings shall be called extraordinary general meetings.

18.2 The Company may, but shall not (unless required by the Statute) be obliged to, in each year hold a general meeting as its annual general meeting, and shall specify the meeting as such in the notices calling it. Any annual general meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the Registered Office on the second Wednesday in December of each year at ten o'clock in the morning. At these meetings the report of the Directors (if any) shall be presented.

18.3 The Directors may call general meetings, and they shall on a Members' requisition forthwith proceed to convene an extraordinary general meeting of the Company.

18.4 A Members' requisition is a requisition of Members holding at the date of deposit of the requisition not less than ten per cent. in par value of the issued Shares which as at that date carry the right to vote at general meetings of the Company.

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- 18.5 The Members' requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.
- 18.6 If there are no Directors as at the date of the deposit of the Members' requisition or if the Directors do not within twenty-one days from the date of the deposit of the Members' requisition duly proceed to convene a general meeting to be held within a further twenty-one days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said twenty-one day period.
- 18.7 A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

## **19 Notice of General Meetings**

- 19.1 At least five clear days' notice shall be given of any general meeting. Every notice shall specify the place, the day and the hour of the meeting and the general nature of the business to be conducted at the general meeting and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this Article has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:
- (a) in the case of an annual general meeting, by all of the Members entitled to attend and vote thereat; and
- (b) in the case of an extraordinary general meeting, by a majority in number of the Members having a right to attend and vote at the meeting, together holding not less than ninety five per cent. in par value of the Shares giving that right.
- 19.2 The accidental omission to give notice of a general meeting to, or the non receipt of notice of a general meeting by, any person entitled to receive such notice shall not invalidate the proceedings of that general meeting.

## **20 Proceedings at General Meetings**

- 20.1 No business shall be transacted at any general meeting unless a quorum is present. Two Members being individuals present in person or by proxy or if a corporation or other non-natural person by its duly authorised representative or proxy shall be a quorum unless the Company has only one Member entitled to vote at such general meeting in which case the quorum shall be that one Member present in person or by proxy or (in the case of a corporation or other non-natural person) by its duly authorised representative or proxy.
- 20.2 A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.

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- 20.3 A resolution (including a Special Resolution) in writing (in one or more counterparts) signed by or on behalf of all of the Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations or other non-natural persons, signed by their duly authorised representatives) shall be as valid and effective as if the resolution had been passed at a general meeting of the Company duly convened and held.
- 20.4 If a quorum is not present within half an hour from the time appointed for the meeting to commence or if during such a meeting a quorum ceases to be present, the meeting, if convened upon a Members' requisition, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and/or place or to such other day, time and/or place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting to commence, the Members present shall be a quorum.
- 20.5 The Directors may, at any time prior to the time appointed for the meeting to commence, appoint any person to act as chairman of a general meeting of the Company or, if the Directors do not make any such appointment, the chairman, if any, of the board of Directors shall preside as chairman at such general meeting. If there is no such chairman, or if he shall not be present within fifteen minutes after the time appointed for the meeting to commence, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.
- 20.6 If no Director is willing to act as chairman or if no Director is present within fifteen minutes after the time appointed for the meeting to commence, the Members present shall choose one of their number to be chairman of the meeting.
- 20.7 The chairman may, with the consent of a meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.
- 20.8 When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice of an adjourned meeting.
- 20.9 A resolution put to the vote of the meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands, the chairman demands a poll, or any other Member or Members collectively present in person or by proxy (or in the case of a corporation or other non-natural person, by its duly authorised representative or proxy) and holding at least ten per cent. in par value of the Shares giving a right to attend and vote at the meeting demand a poll.
- 20.10 Unless a poll is duly demanded and the demand is not withdrawn a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost or not carried by a particular majority, an entry to that effect in the minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
- 20.11 The demand for a poll may be withdrawn.

- 20.12 Except on a poll demanded on the election of a chairman or on a question of adjournment, a poll shall be taken as the chairman directs, and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.
- 20.13 A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such date, time and place as the chairman of the general meeting directs, and any business other than that upon which a poll has been demanded or is contingent thereon may proceed pending the taking of the poll.
- 20.14 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall be entitled to a second or casting vote.

## 21 Votes of Members

- 21.1 Subject to any rights or restrictions attached to any Shares, on a show of hands every Member who (being an individual) is present in person or by proxy or, if a corporation or other non-natural person is present by its duly authorised representative or by proxy, shall have one vote and on a poll every Member present in any such manner shall have one vote for every Share of which he is the holder.
- 21.2 In the case of joint holders the vote of the senior holder who tenders a vote, whether in person or by proxy (or, in the case of a corporation or other non-natural person, by its duly authorised representative or proxy), shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.
- 21.3 A Member of sound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person on such Member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.
- 21.4 No person shall be entitled to vote at any general meeting unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.
- 21.5 No objection shall be raised as to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time in accordance with this Article shall be referred to the chairman whose decision shall be final and conclusive.
- 21.6 On a poll or on a show of hands votes may be cast either personally or by proxy (or in the case of a corporation or other non-natural person by its duly authorised representative or proxy). A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a Member appoints more than one proxy the instrument of proxy shall state which proxy is entitled to vote on a show of hands and shall specify the number of Shares in respect of which each proxy is entitled to exercise the related votes.
- 21.7 On a poll, a Member holding more than one Share need not cast the votes in respect of his Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him, a proxy appointed under one

or more instruments may vote a Share or some or all of the Shares in respect of which he is appointed either for or against a resolution and/or abstain from voting a Share or some or all of the Shares in respect of which he is appointed.

## 22 Proxies

- 22.1 The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation or other non natural person, under the hand of its duly authorised representative. A proxy need not be a Member.
- 22.2 The Directors may, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the instrument appointing a proxy shall be deposited and the place and the time (being not later than the time appointed for the commencement of the meeting or adjourned meeting to which the proxy relates) at which the instrument appointing a proxy shall be deposited. In the absence of any such direction from the Directors in the notice convening any meeting or adjourned meeting or in an instrument of proxy sent out by the Company, the instrument appointing a proxy shall be deposited physically at the Registered Office not less than 48 hours before the time appointed for the meeting or adjourned meeting to commence at which the person named in the instrument proposes to vote.
- The chairman may in any event at his discretion declare that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted, or which has not been declared to have been duly deposited by the chairman, shall be invalid.
- 22.3 The instrument appointing a proxy may be in any usual or common form (or such other form as the Directors may approve) and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.
- 22.4 Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

## 23 Corporate Members

Any corporation or other non-natural person which is a Member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member.

**24 Shares that May Not be Voted**

Shares in the Company that are beneficially owned by the Company shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding Shares at any given time.

**25 Directors**

There shall be a board of Directors consisting of not less than one person (exclusive of alternate Directors) provided however that the Company may by Ordinary Resolution increase or reduce the limits in the number of Directors. The first Directors of the Company shall be determined in writing by, or appointed by a resolution of, the Subscriber.

**26 Powers of Directors**

- 26.1 Subject to the provisions of the Statute, the Memorandum and the Articles and to any directions given by Special Resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.
- 26.2 All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine by resolution.
- 26.3 The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.
- 26.4 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

**27 Appointment and Removal of Directors**

- 27.1 The Company may by Ordinary Resolution appoint any person to be a Director or may by Ordinary Resolution remove any Director.
- 27.2 The Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles as the maximum number of Directors.

**28 Vacation of Office of Director**

The office of a Director shall be vacated if:

- (a) the Director gives notice in writing to the Company that he resigns the office of Director; or
- (b) the Director absents himself (for the avoidance of doubt, without being represented by proxy or an alternate Director appointed by him) from three consecutive meetings of the board of Directors without special leave of absence from the Directors, and the Directors pass a resolution that he has by reason of such absence vacated office; or
- (c) the Director dies, becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- (d) the Director is found to be or becomes of unsound mind; or
- (e) all of the other Directors (being not less than two in number) determine that he should be removed as a Director, either by a resolution passed by all of the other Directors at a meeting of the Directors duly convened and held in accordance with the Articles or by a resolution in writing signed by all of the other Directors.

**29 Proceedings of Directors**

- 29.1 The quorum for the transaction of the business of the Directors may be fixed by the Directors, and unless so fixed shall be two if there are two or more Directors, and shall be one if there is only one Director. A person who holds office as an alternate Director shall, if his appointor is not present, be counted in the quorum. A Director who also acts as an alternate Director shall, if his appointor is not present, count twice towards the quorum.
- 29.2 Subject to the provisions of the Articles, the Directors may regulate their proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall have a second or casting vote. A Director who is also an alternate Director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.
- 29.3 A person may participate in a meeting of the Directors or committee of Directors by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other at the same time. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors the meeting shall be deemed to be held at the place where the chairman is located at the start of the meeting.
- 29.4 A resolution in writing (in one or more counterparts) signed by all the Directors or all the members of a committee of the Directors or, in the case of a resolution in writing relating to the removal of any Director or the vacation of office by any Director, all of the Directors other than the Director who is the

subject of such resolution (an alternate Director being entitled to sign such a resolution on behalf of his appointor and if such alternate Director is also a Director, being entitled to sign such resolution both on behalf of his appointor and in his capacity as a Director) shall be as valid and effectual as if it had been passed at a meeting of the Directors, or committee of Directors as the case may be, duly convened and held.

- 29.5 A Director or alternate Director may, or other officer of the Company on the direction of a Director or alternate Director shall, call a meeting of the Directors by at least two days' notice in writing to every Director and alternate Director which notice shall set forth the general nature of the

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business to be considered unless notice is waived by all the Directors (or their alternates) either at, before or after the meeting is held. To any such notice of a meeting of the Directors all the provisions of the Articles relating to the giving of notices by the Company to the Members shall apply *mutatis mutandis*.

- 29.6 The continuing Directors (or a sole continuing Director, as the case may be) may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to the Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of increasing the number of Directors to be equal to such fixed number, or of summoning a general meeting of the Company, but for no other purpose.

- 29.7 The Directors may elect a chairman of their board and determine the period for which he is to hold office; but if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for the meeting to commence, the Directors present may choose one of their number to be chairman of the meeting.

- 29.8 All acts done by any meeting of the Directors or of a committee of the Directors (including any person acting as an alternate Director) shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any Director or alternate Director, and/or that they or any of them were disqualified, and/or had vacated their office and/or were not entitled to vote, be as valid as if every such person had been duly appointed and/or not disqualified to be a Director or alternate Director and/or had not vacated their office and/or had been entitled to vote, as the case may be.

- 29.9 A Director but not an alternate Director may be represented at any meetings of the board of Directors by a proxy appointed in writing by him. The proxy shall count towards the quorum and the vote of the proxy shall for all purposes be deemed to be that of the appointing Director.

### **30 Presumption of Assent**

A Director or alternate Director who is present at a meeting of the board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director or alternate Director who voted in favour of such action.

### **31 Directors' Interests**

- 31.1 A Director or alternate Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.
- 31.2 A Director or alternate Director may act by himself or by, through or on behalf of his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.
- 31.3 A Director or alternate Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be

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interested as a shareholder, a contracting party or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.

- 31.4 No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding office or of the fiduciary relationship thereby established. A Director (or his alternate Director in his absence) shall be at liberty to vote in respect of any contract or transaction in which he is interested provided that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote thereon.

- 31.5 A general notice that a Director or alternate Director is a shareholder, director, officer or employee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure for the purposes of voting on a resolution in respect of a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

### **32 Minutes**

The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any class of Shares and of the Directors, and of committees of the Directors, including the names of the Directors or alternate Directors present at each meeting.

### **33 Delegation of Directors' Powers**

- 33.1 The Directors may delegate any of their powers, authorities and discretions, including the power to sub-delegate, to any committee consisting of one or more Directors. They may also delegate to any managing director or any Director holding any other executive office such of their powers, authorities and discretions as they consider desirable to be exercised by him provided that an alternate Director may not act as managing director and the appointment of a

managing director shall be revoked forthwith if he ceases to be a Director. Any such delegation may be made subject to any conditions the Directors may impose and either collaterally with or to the exclusion of their own powers and any such delegation may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of a committee of Directors shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

- 33.2 The Directors may establish any committees, local boards or agencies or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any person to be a member of such committees, local boards or agencies. Any such appointment may be made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and any such appointment may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of any such committee, local board or agency shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

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- 33.3 The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.
- 33.4 The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under the Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him.
- 33.5 The Directors may appoint such officers of the Company (including, for the avoidance of doubt and without limitation, any secretary) as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of his appointment an officer of the Company may be removed by resolution of the Directors or Members. An officer of the Company may vacate his office at any time if he gives notice in writing to the Company that he resigns his office.

#### **34 Alternate Directors**

- 34.1 Any Director (but not an alternate Director) may by writing appoint any other Director, or any other person willing to act, to be an alternate Director and by writing may remove from office an alternate Director so appointed by him.
- 34.2 An alternate Director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present, to sign any written resolution of the Directors, and generally to perform all the functions of his appointor as a Director in his absence.
- 34.3 An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.
- 34.4 Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.
- 34.5 An alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him.

#### **35 No Minimum Shareholding**

The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed a Director is not required to hold Shares.

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#### **36 Remuneration of Directors**

- 36.1 The remuneration to be paid to the Directors, if any, shall be such remuneration as the Directors shall determine. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company or the discharge of their duties as a Director, or to receive a fixed allowance in respect thereof as may be determined by the Directors, or a combination partly of one such method and partly the other.
- 36.2 The Directors may by resolution approve additional remuneration to any Director for any services which in the opinion of the Directors go beyond his ordinary routine work as a Director. Any fees paid to a Director who is also counsel, attorney or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.

#### **37 Seal**

- 37.1 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer of the Company or other person appointed by the Directors for the purpose.
- 37.2 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.
- 37.3 A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

### **38 Dividends, Distributions and Reserve**

- 38.1 Subject to the Statute and this Article and except as otherwise provided by the rights attached to any Shares, the Directors may resolve to pay Dividends and other distributions on Shares in issue and authorise payment of the Dividends or other distributions out of the funds of the Company lawfully available therefor. A Dividend shall be deemed to be an interim Dividend unless the terms of the resolution pursuant to which the Directors resolve to pay such Dividend specifically state that such Dividend shall be a final Dividend. No Dividend or other distribution shall be paid except out of the realised or unrealised profits of the Company, out of the share premium account or as otherwise permitted by the Statute.
- 38.2 Except as otherwise provided by the rights attached to any Shares, all Dividends and other distributions shall be paid according to the par value of the Shares that a Member holds. If any Share is issued on terms providing that it shall rank for Dividend as from a particular date, that Share shall rank for Dividend accordingly.
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- 38.3 The Directors may deduct from any Dividend or other distribution payable to any Member all sums of money (if any) then payable by him to the Company on account of calls or otherwise.
- 38.4 The Directors may resolve that any Dividend or other distribution be paid wholly or partly by the distribution of specific assets and in particular (but without limitation) by the distribution of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees in such manner as may seem expedient to the Directors.
- 38.5 Except as otherwise provided by the rights attached to any Shares, Dividends and other distributions may be paid in any currency. The Directors may determine the basis of conversion for any currency conversions that may be required and how any costs involved are to be met.
- 38.6 The Directors may, before resolving to pay any Dividend or other distribution, set aside such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the discretion of the Directors, be employed in the business of the Company.
- 38.7 Any Dividend, other distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any Dividends, other distributions, bonuses, or other monies payable in respect of the Share held by them as joint holders.
- 38.8 No Dividend or other distribution shall bear interest against the Company.
- 38.9 Any Dividend or other distribution which cannot be paid to a Member and/or which remains unclaimed after six months from the date on which such Dividend or other distribution becomes payable may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend or other distribution shall remain as a debt due to the Member. Any Dividend or other distribution which remains unclaimed after a period of six years from the date on which such Dividend or other distribution becomes payable shall be forfeited and shall revert to the Company.

### **39 Capitalisation**

The Directors may at any time capitalise any sum standing to the credit of any of the Company's reserve accounts or funds (including the share premium account and capital redemption reserve fund) or any sum standing to the credit of the profit and loss account or otherwise available for distribution; appropriate such sum to Members in the proportions in which such sum would have been divisible amongst such Members had the same been a distribution of profits by way of Dividend or other distribution; and apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give

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effect to such capitalisation, with full power given to the Directors to make such provisions as they think fit in the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental or relating thereto and any agreement made under such authority shall be effective and binding on all such Members and the Company.

### **40 Books of Account**

- 40.1 The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books of account shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.
- 40.2 The Directors shall determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.
- 40.3 The Directors may cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

### **41 Audit**

- 41.1 The Directors may appoint an Auditor of the Company who shall hold office on such terms as the Directors determine.
- 41.2 Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.
- 41.3 Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next extraordinary general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

## 42 Notices

- 42.1 Notices shall be in writing and may be given by the Company to any Member either personally or by sending it by courier, post, cable, telex, fax or e-mail to him or to his address as shown in the Register of Members (or where the notice is given by e-mail by sending it to the e-mail address

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provided by such Member). Any notice, if posted from one country to another, is to be sent by airmail.

- 42.2 Where a notice is sent by courier, service of the notice shall be deemed to be effected by delivery of the notice to a courier company, and shall be deemed to have been received on the third day (not including Saturdays or Sundays or public holidays) following the day on which the notice was delivered to the courier. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre paying and posting a letter containing the notice, and shall be deemed to have been received on the fifth day (not including Saturdays or Sundays or public holidays in the Cayman Islands) following the day on which the notice was posted. Where a notice is sent by cable, telex or fax, service of the notice shall be deemed to be effected by properly addressing and sending such notice and shall be deemed to have been received on the same day that it was transmitted. Where a notice is given by e-mail service shall be deemed to be effected by transmitting the e-mail to the e-mail address provided by the intended recipient and shall be deemed to have been received on the same day that it was sent, and it shall not be necessary for the receipt of the e-mail to be acknowledged by the recipient.
- 42.3 A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under the Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.
- 42.4 Notice of every general meeting shall be given in any manner authorised by the Articles to every holder of Shares carrying an entitlement to receive such notice on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member where the Member but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

## 43 Winding Up

- 43.1 If the Company shall be wound up the liquidator shall apply the assets of the Company in satisfaction of creditors' claims in such manner and order as such liquidator thinks fit. Subject to the rights attaching to any Shares, in a winding up:
- (a) if the assets available for distribution amongst the Members shall be insufficient to repay the whole of the Company's issued share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them; or
  - (b) if the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the Company's issued share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise.

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- 43.2 If the Company shall be wound up the liquidator may, subject to the rights attaching to any Shares and with the sanction of a Special Resolution of the Company and any other sanction required by the Statute, divide amongst the Members in kind the whole or any part of the assets of the Company (whether such assets shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

## 44 Indemnity and Insurance

- 44.1 Every Director and officer of the Company (which for the avoidance of doubt, shall not include auditors of the Company), together with every former Director and former officer of the Company (each an "**Indemnified Person**") shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or wilful default. No Indemnified Person shall be liable to the Company for any loss or damage incurred by the Company as a result (whether direct or indirect) of the carrying out of their functions unless that liability arises through the actual fraud or wilful default of such Indemnified Person. No person shall be found to have committed actual fraud or wilful default under this Article unless or until a court of competent jurisdiction shall have made a finding to that effect.
- 44.2 The Company shall advance to each Indemnified Person reasonable attorneys' fees and other costs and expenses incurred in connection with the defence of any action, suit, proceeding or investigation involving such Indemnified Person for which indemnity will or could be sought. In connection with any advance



of any expenses hereunder, the Indemnified Person shall execute an undertaking to repay the advanced amount to the Company if it shall be determined by final judgment or other final adjudication that such Indemnified Person was not entitled to indemnification pursuant to this Article. If it shall be determined by a final judgment or other final adjudication that such Indemnified Person was not entitled to indemnification with respect to such judgment, costs or expenses, then such party shall not be indemnified with respect to such judgment, costs or expenses and any advancement shall be returned to the Company (without interest) by the Indemnified Person.

44.3 The Directors, on behalf of the Company, may purchase and maintain insurance for the benefit of any Director or other officer of the Company against any liability which, by virtue of any rule of law, would otherwise attach to such person in respect of any negligence, default, breach of duty or breach of trust of which such person may be guilty in relation to the Company.

**45 Financial Year**

Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

**46 Transfer by Way of Continuation**

If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of

continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

Dated this 21st day of December 2009.

Mapcal Limited  
of PO Box 309, Umland House  
Grand Cayman  
KY1-1104  
Cayman Islands

acting by:

  
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Witness to the above signature

[SEAL]

**CERTIFIED TO BE A TRUE AND CORRECT COPY**

**SIG.**

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**Melanie E. Rivers-Woods  
Assistant Registrar**

**Date.** December 21<sup>st</sup> 2009

**THE COMPANIES LAW (2009 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES**

**AMENDED AND RESTATED**

**MEMORANDUM AND ARTICLES OF ASSOCIATION**

**OF**

**CHINA NEW BORUN CORPORATION**

(adopted by Special Resolution passed on 30 March 2010)

**THE COMPANIES LAW (2009 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES**

**AMENDED AND RESTATED  
MEMORANDUM OF ASSOCIATION  
OF**

**CHINA NEW BORUN CORPORATION**

(adopted by Special Resolution passed on 30 March 2010)

- 1 The name of the Company is **China New Borun Corporation**.
- 2 The Registered Office of the Company shall be at the offices of Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands, or at such other place within the Cayman Islands as the Directors may decide.
- 3 The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by law.
- 4 The liability of each Member is limited to the amount unpaid on such Member's shares.
- 5 The share capital of the Company is US\$105,000 divided into (a) 100,000,000 ordinary shares with a par value of US\$0.001 each and (b) 5,000,000 Preference Shares with a par value of US\$0.001 each.
- 6 The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.
- 7 Capitalised terms that are not defined in this Memorandum of Association bear the same meaning as those given in the Articles of Association of the Company.

**THE COMPANIES LAW (2009 REVISION)  
OF THE CAYMAN ISLANDS  
COMPANY LIMITED BY SHARES**

**AMENDED AND RESTATED  
ARTICLES OF ASSOCIATION  
OF**

**CHINA NEW BORUN CORPORATION**

(adopted by Special Resolution passed on 30 March 2010)

**1 Interpretation**

- 1.1 In the Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

<b>“Articles”</b>	means these articles of association of the Company.
<b>“Auditors”</b>	means the auditors of the Company as may from time to time be appointed in accordance with these Articles.
<b>“Board”</b>	means the board of Directors from time to time of the Company.
<b>“Business Day”</b>	means any day (excluding Saturdays, Sundays and public holidays in Hong Kong and New York) on which banks generally are open for business in Hong Kong and New York.
<b>“China High”</b>	means China High Enterprises Limited, a company incorporated in Hong Kong under registration number 1256980 and with its registered office at Room 904, Harvest Building, 29-35 Wing Kut Street, Central,

Hong Kong.

“Class A Director”	means a Director from time to time appointed by the Class A Shareholder pursuant to Article 34.1.
“Class A Preference Shares”	means Preference Shares designated as Class A Preference Shares, with a par value of US\$0.001 per share in the capital of the Company and having the rights, preference and privileges provided for under these Articles.
“Class A Shareholder”	means Star Elite Enterprises Limited, a company incorporated in the British Virgin Islands.

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“Class B Director”	means a Director from time to time appointed by the Class B Shareholder pursuant to Article 34.1.
“Class B Preference Shares”	means Preference Shares designated as Class B Preference Shares, with a par value of US\$0.001 per share in the capital of the Company and having the rights, preference and privileges provided for under these Articles.
“Class B Shareholder”	means Earnstar Holdings Limited, a company incorporated in the British Virgin Islands.
“Class C Director”	means a Director from time to time appointed by the Class C Shareholder pursuant to Article 34.1.
“Class C Preference Shares”	means Preference Shares designated as Class C Preference Shares, with a par value of US\$0.001 per share in the capital of the Company and having the rights, preference and privileges provided for under these Articles.
“Class C Shareholder”	means TDR Advisors Inc., a company incorporated in the British Virgin Islands.
“Company”	means the above named company.
“Directors”	means the directors for the time being of the Company including where applicable any alternate director.
“Dividend”	means any dividend (whether interim or final) resolved to be paid on Shares pursuant to the Articles.
“Electronic Record”	has the same meaning as in the Electronic Transactions Law.
“Electronic Transactions Law”	means the Electronic Transactions Law (2003 Revision) of the Cayman Islands.
“Golden Direction”	means Golden Direction Limited, a company incorporated in the British Virgin Islands under registration number 1472637 and with its registered office at ILS Fiduciary (B.V.I.) Limited, Mill Mall, Suite 6, Wickhams Cay 1, P.O. Box 3085, Road Town, Tortola, British Virgin Islands.
“Group”	means the Company and each of its subsidiaries which shall include, without limitation, the following: <ul style="list-style-type: none"><li>(i) Golden Direction;</li><li>(ii) China High;</li><li>(iii) Weifang Great Chemical Inc., a company organised under the laws of the PRC which is wholly owned by China High (“<b>Weifang</b>”);</li></ul>

	(iv) Shandong Borun Industrial Co., Ltd., a company organised under the laws of the PRC which is wholly owned by Weifang (“ <b>Shandong Borun</b> ”); and
	(v) Daqing Borun Biotechnology Co., Ltd., a company organised under the laws of the PRC which is wholly owned by Shandong Borun (“ <b>Daqing Borun</b> ”),
	and “ <b>Group Company</b> ” means any member of the Group.
“Investors”	means the Class A Shareholder, the Class B Shareholder and the Class C Shareholder (and each, an “ <b>Investor</b> ”).
“Member”	has the same meaning as in the Statute.
“Memorandum”	means the memorandum of association of the Company.
“Ordinary Director”	means a Director from time to time appointed by Ordinary Resolution pursuant to Article 34.2.
“Ordinary Resolution”	means a resolution passed by a simple majority of the Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority regard shall be had to the number of votes to which each Member is entitled by these Articles.
“Ordinary Shareholder”	means King River Holding Limited, a company incorporated in the British Virgin Islands.

<b>“Ordinary Shares”</b>	means the ordinary shares with a par value of US\$0.001 each in the capital of the Company issued subject to and in accordance with the provisions of the Statute and of these Articles and having the rights provided for under these Articles.
<b>“Original Issue Price”</b>	in the case of each Class A Preference Share, US\$0.001, in the case of each Class B Preference Share, US\$0.001, and in the case of each Class C Preference Share, US\$0.001.
<b>“Preference Shareholders”</b>	means Persons registered as the holders of Preference Shares in the Register of Members.
<b>“Preference Shares”</b>	means a Preference Share of any series with a par value of US\$0.001 per share in the capital of the Company having the rights, preference and privileges provided for under these Articles, and includes, without limitation, the Class A Preference Shares, the Class B Preference Shares and the Class C Preference Shares.
<b>“Qualified Public Offering”</b>	means a firm commitment underwritten public offering of Ordinary Shares of the Company made pursuant to an effective registration statement under the United States Securities Act of

1933 (the “**Securities Act**”), as amended, on the New York Stock Exchange or the Nasdaq Global Market, or an offering or listing substantially equivalent to the foregoing on another stock exchange. The P/E ratio of each share of the Company should be not lower than nine (9) times calculated pursuant to its net profits in the fiscal year of 2009 and the market capitalization of all its shares or relevant securities should be not less than two hundred million US dollars (USD 200,000,000).

<b>“Register of Members”</b>	means the register of Members maintained in accordance with the Statute and includes (except where otherwise stated) any duplicate register of Members.
<b>“Registered Office”</b>	means the registered office for the time being of the Company.
<b>“RMB”</b>	means Renminbi, the lawful currency of the People’s Republic of China.
<b>“Seal”</b>	means the common seal of the Company and includes every duplicate seal.
<b>“Share”</b>	means a share or shares in the capital of the Company, including the Ordinary Shares and the Preference Shares, and includes a fraction of a share.
<b>“Shareholders Agreement”</b>	means the shareholders agreement relating to the Company between the Company, the Ordinary Shareholder and the Investors dated 28 February 2010.
<b>“Special Resolution”</b>	a resolution which has been (a) passed by a majority of not less than two-thirds of such Members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, or (b) approved in writing by all of the Members entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Members aforesaid.
<b>“Statute”</b>	means the Companies Law (2009 Revision) of the Cayman Islands.
<b>“Subscriber”</b>	means the subscriber to the Memorandum.
<b>“USD” or “US\$”</b>	means United States dollars, the lawful currency of the United States of America.

1.2 In the Articles:

- (a) words importing the singular number include the plural number and vice versa;

- (b) words importing the masculine gender include the feminine gender;
- (c) words importing persons include corporations as well as any other legal or natural person;
- (d) “written” and “in writing” include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;
- (e) “shall” shall be construed as imperative and “may” shall be construed as permissive;
- (f) references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced;
- (g) any phrase introduced by the terms “including”, “include”, “in particular” or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;
- (h) the term “and/or” is used herein to mean both “and” as well as “or.” The use of “and/or” in certain contexts in no respects qualifies or modifies the use of the terms “and” or “or” in others. The term “or” shall not be interpreted to be exclusive and the term “and” shall not be interpreted to require the conjunctive (in each case, unless the context otherwise requires);
- (i) headings are inserted for reference only and shall be ignored in construing the Articles;

- (j) section 8 of the Electronic Transactions Law shall not apply;
- (k) the term “clear days” in relation to the period of a notice means that period excluding the day when the notice is received or deemed to be received and the day for which it is given or on which it is to take effect; and
- (l) the term “holder” in relation to a Share means a person whose name is entered in the Register of Members as the holder of such Share.

## 2 Commencement of Business

- 2.1 The business of the Company may be commenced as soon after incorporation of the Company as the Directors shall see fit.
- 2.2 The Directors may pay, out of the capital or any other monies of the Company, all expenses incurred in or about the formation and establishment of the Company, including the expenses of registration.

## 3 Issue of Shares

- 3.1 Subject to the provisions, if any, in the Memorandum (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the Directors may allot, issue, grant options over or otherwise dispose of Shares (including fractions of a Share) with or without preferred, deferred or other rights or restrictions, whether in regard to Dividend or other distribution, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper, and may also (subject

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to the Statute and the Articles) vary such rights. Notwithstanding the foregoing, the Subscriber shall have the power to:

- (a) issue one Share to itself;
- (b) transfer that Share by an instrument of transfer to any person; and
- (c) update the Register of Members in respect of the issue and transfer of that Share.

- 3.2 The Company shall not issue Shares to bearer.

## 4 Adjustments to Investors' Share Proportions; Anti-dilution

### 4.1 *Adjustments to Investors' Share Proportions*

- (a) If the audited net profit of the Group for the fiscal year ended December 31, 2009 is less than RMB110,000,000, then the Class A Shareholder's Share proportion in the Company (calculated on a fully diluted basis) shall be increased to such percentage which is equal to RMB110,000,000 divided by the audited net profit for the fiscal year ended December 31, 2009, multiplied by the Class A Shareholder's current Share proportion. In the event that the Class A Shareholder is entitled to increase its Share proportion in accordance with this Article 4.1(a), the Ordinary Shareholder shall transfer to the Class A Shareholder without consideration that number of its Ordinary Shares equal to the difference between the Class A Shareholder's existing Share proportion and such increased percentage calculated in accordance with this Article 4.1(a) (such increased percentage is referred to in this Article 4.1 as the “**2010 Adjustment Percentage**”) within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2009.
- (b) If the audited net profit of the Group for the fiscal year ended December 31, 2010 is less than RMB170,000,000, then the Class A Shareholder's Share proportion in the Company (calculated on a fully diluted basis) shall be increased to such percentage which is equal to RMB170,000,000 divided by the audited net profit for the fiscal year ended December 31, 2010, multiplied by the 2010 Adjustment Percentage. In the event that the Class A Shareholder is entitled to increase its Share proportion in accordance with this Article 4.1(b), the Ordinary Shareholder shall transfer to the Class A Shareholder without consideration that number of its Ordinary Shares equal to the difference between the 2010 Adjustment Percentage and such increased percentage calculated in accordance with this Article 4.1(b) (such increased percentage is referred to in this Article 4.1 as the “**2011 Adjustment Percentage**”) within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2010.
- (c) Regardless of any adjustments made to the Class A Shareholder's Share proportions as contemplated by Articles 4.1(a) and (b) above: (i) after the adjustment contemplated by Article 4.1(a) above, the Company shall ensure that the net profit of the Group attributable to the Class A Shareholder is not less than RMB22,000,000 (20% of Shares upon investment by the Class A Shareholder multiplied by RMB110,000,000 for the fiscal year ended December 31, 2009), and if it is below RMB22,000,000, then the Class A Shareholder's Share proportion shall be increased to ensure that the net profit of the Group attributable to the Class A Shareholder is not less than RMB22,000,000 and (ii) after the adjustment contemplated by Article 4.1(b) above, the Company shall ensure that the net profit of the Group attributable to the Class A Shareholder is not less than

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RMB34,000,000 (20% of Shares upon investment by the Class A Shareholder multiplied by RMB170,000,000 for the fiscal year ended December 31, 2010), and if it is below RMB34,000,000, then the Class A Shareholder's Share proportion shall be increased to ensure that the net profit of the Group attributable to the Class A Shareholder is not less than RMB34,000,000. Any increases in the Class A Shareholder's Share proportion in accordance with this Article 4.1(c) shall be effected through the transfer of Ordinary Shares held by the Ordinary Shareholder in the same manner as set forth in Articles 4.1 (b) and (c) above.

- (d) If the audited net profit of the Group for the fiscal year ended December 31, 2009 is less than RMB150,000,000, then the valuation basis of the Shares held by the Class B Shareholder and Class C Shareholder shall be adjusted to each be equal to the audited net profit for the fiscal year ended December 31, 2009 divided by RMB150,000,000, multiplied by RMB750,000,000 (the “**2010 Adjusted Valuation**”). The Ordinary Shareholder shall, within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2009, transfer to each of the Class B Shareholder and Class C Shareholder without consideration that number of its Ordinary Shares equal to: that number of Ordinary Shares to

which such Investor's Preference Shares are convertible into (referred to hereinafter as such Investor's "**Target Shares**") divided by that figure equal to the 2010 Adjusted Valuation divided by RMB750,000,000, minus the number of such Investor's Target Shares.

- (e) If the audited net profit of the Group for the fiscal year ended December 31, 2010 is less than RMB220,000,000, then the valuation basis of the Shares held by the Class B Shareholder and Class C Shareholder shall be adjusted to each be equal to (a) the audited net profit for the fiscal year ended December 31, 2009 divided by RMB150,000,000, multiplied by RMB750,000,000 or (b) the audited net profit for the fiscal year ended December 31, 2010 divided by RMB220,000,000, multiplied by RMB750,000,000, whichever is lower (the "**2011 Adjusted Valuation**"). The Ordinary Shareholder shall, within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2010, transfer to each of the Class B Shareholder and Class C Shareholder without consideration that number of its Ordinary Shares equal to: that number of such Investor's Target Shares divided by that figure equal to the 2011 Adjusted Valuation divided by RMB750,000,000, minus the number of such Investor's Target Shares.
- (f) If the audited net profit of the Group records a loss in either the fiscal year ended December 31, 2009 or in the fiscal year ending December 31, 2010, then the aggregate Share proportion (calculated on a fully diluted basis) held by the Investors in the Company shall be increased to 45%, and the proportion of the number of Shares held by each Investor in the Company after such increase shall remain the same. Under no circumstances would an Investor's Share proportion (calculated on a fully diluted basis) be decreased as a result of the terms of this provision. The Ordinary Shareholder shall, within three Business Days of the issuance of the Auditor's audit report for the applicable fiscal year, transfer to each Investor that number of its Ordinary Shares required in order to effect the increase contemplated by this Article 4.1(f).
- (g) If the Investors are entitled to an increase in their Share proportions in accordance with the terms of this Article 4.1 one year prior to the closing of a Qualified Public Offering and the adjustment has not been made, then the Investors shall still have the right to adjust its Share proportion after the closing of a Qualified Public Offering.

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- (h) The Company shall ensure to the Class C Shareholder that the Group's valuation prior to any Qualified Public Offering (and excluding any funds generated by such Qualified Public Offering) will not be lower than RMB1,500,000,000. In the event that the Group's valuation is below RMB1,500,000,000, then the Ordinary Shareholder shall be obligated to compensate the Class C Shareholder with an amount equal to the difference between such valuations in the form of cash or in Ordinary Shares at the option of the Class C Shareholder.

#### 4.2 Anti-Dilution Rights

- (a) In the event that the Company issues any New Securities (as defined below), each Investor shall have the right to receive from the Company that number Shares for no consideration that would cause such Investor to continue to hold, after any such issuance(s), the same Share proportion held by such Investor immediately prior to any such issuance(s). In the event that the Company is prohibited by law to issue such new Shares to the Investors in accordance with this Article 4.2(a), then the Ordinary Shareholder shall be obligated to transfer that number its Ordinary Shares to the Investors so as to give effect the rights set forth in this Article 4.2(a).

"**New Securities**" means any Shares, whether now authorized or not, and rights, options or warrants to purchase securities of any type whatsoever that are, or may become, convertible or exchangeable into Shares, excluding:

- (i) Shares issued upon the conversion of the Preference Shares held by any Investor;
  - (ii) The issuance of shares under the employee stock ownership plan, or under the other incentive stock mechanism approved by the board of directors and investors;
  - (iii) Shares issuable pursuant to and/or in accordance with the terms of the Shareholders Agreement; and
  - (iv) Shares issuable to any new investor as contemplated by Article 4.2(b).
- (b) In the event that the Company enters into any subsequent equity financings whereby the Company issues Shares to any new investor: (i) the Class B Shareholder and the Class C Shareholder shall each be entitled to acquire that number of Shares which would cause such Investor to continue to hold, after the issuance of Shares to such new investor, the same Share proportion (calculated on a fully diluted basis) held by such Investor immediately prior to any such issuance(s); such Investors shall be entitled to acquire such new Shares from the Company at the same price per Share which had been offered to and purchased by such new investor, (ii) the Class A Shareholder's Share proportion (calculated on a fully diluted basis) shall be diluted in proportion to the Ordinary Shareholder's Share proportion (calculated on a fully diluted basis) and (iii) the Investors shall have the right to demand that the Company and the Ordinary Shareholder amend the these Articles to include any terms granted to any new investor that are more favourable than those originally provided in these Articles.

4.3 The provisions set out in this Article 4 shall terminate upon the closing of a Qualified Public Offering.

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## 5 Information and Inspection Rights

5.1 For so long as any Investor holds any Shares, the Company will deliver to that Investor:

- (a) audited annual consolidated financial statements, prepared in accordance with generally accepted accounting principles and audited by an accounting firm mutually agreed upon by the Company and the Investors, within 90 days after the end of each financial year;
- (b) unaudited monthly consolidated financial statements and management reports, prepared in accordance with generally accepted accounting principles, within 21 days of the end of each month;
- (c) annual budget plan for the following financial year as approved by the Board, within 30 days prior to the end of each financial year; and
- (d) copies of all other documents which have been delivered to any other Member, within 14 days of delivering such documents to such other Member.

5.2 For so long as any Investor holds any Shares, that Investor and its authorized representatives shall have the right to inspect the facilities, sites and other premises owned or used by the Company and each other Group Company, at any time during regular working hours on reasonable prior notice to the respective Group Company.

5.3 The provisions set out in this Article 5 shall terminate upon the closing of a Qualified Public Offering.

## 6 Protective Provisions; Restrictive Covenants

6.1 For so long as any Preference Share remains outstanding, and subject to the Statute, none of the matters set out below in relation to the Company or any other Group Company shall take place (whether by merger, amalgamation, consolidation, scheme of arrangement, amendment or otherwise and whether in a single transaction or in a series of related transactions), and no obligation or liability in connection therewith shall be entered into or accepted by or on behalf of the Company or any other Group Company and no other step in relation thereto is taken, without the same having first been approved by the unanimous approval (by vote or by written resolution) of all the Directors:

- (a) any authorization, creation (by newly characterization or by other means), issue of the Company's securities or undertaking any liabilities of issuing any securities of the Company, or increase of the registered capital of the subsidiaries of the Company;
- (b) increase or decrease of the total shares owned by investors;
- (c) amend, delete or create any clauses in the Memorandum or these Articles or other constitutional documents of any Group Company;
- (d) declare or pay dividends of the Company;
- (e) increase the number of directors on the board of directors of any Group Company;

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- (f) engage in any liquidation, merge or sale or purchase of substantial assets of the Company and/or its related companies, or change in the controlling power within the Company and/or its related companies;
- (g) increase the number of issued shares in respect of the Employee Share Option Plan or similar plan;
- (h) employ any senior management personnel whose annual remuneration is more than HK\$400,000.00. Increase the annual remuneration of the Company's senior management whose annual remuneration is more than HK\$400,000.00 or the equivalent amount of RMB with over 50% increment;
- (i) allow or by other means transfer any of the Company's patents, copyrights, trademarks or other intellectual properties other than in the normal course of the business;
- (j) incur any liabilities exceeding HK\$5,000,000 or the equivalent amount of RMB by borrowing or other means, or incur any liabilities with the Company's patents, copyrights, trademarks or other intellectual properties as collateral;
- (k) issue of any loans exceeding HK\$1,000,000.00 or the equivalent in RMB to any directors, company's management or employees or related parties; or issue any loans or loan guarantees exceeding HK\$300,000.00 or the equivalent in RMB to any related parties;
- (l) purchase of any real properties exceeding HK\$5,000,000.00 or the equivalent in RMB;
- (m) involve in any single transactions or series of transactions exceeding the aggregate value of HK\$5,000,000.00 or the equivalent amount of RMB other than in the normal course of the Company;
- (n) approve the annual budget of the Company;
- (o) appoint or reappoint the companies general manager, assistant general manager and chief financial officer;
- (p) appoint or reappoint the Company's auditors;
- (q) change the nature and structure (including the shareholding structure) of the Company and its subsidiaries; and
- (r) involve in any behaviour adversely affect the ownership rights, preferential rights or any other privileges entitled to and received by the investors, where such adverse effect is reasonably foreseeable.

The provisions of this Article 6.1 shall not apply to any matter which, pursuant to the Statute, may be effected by Special Resolution of the Members.

6.2 The rights attached to any class of Preference Shares may, whether or not the Company is being wound up, be varied only with the consent in writing of the holders of not less than two-thirds of the issued Preference Shares of that class, or with the sanction of a resolution passed by a majority of not less than two-thirds of the votes cast at a separate meeting of the holders of the Preference Shares of that class.

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6.3 In the event that the Company adopts an employee stock ownership plan, the total number of Shares issuable under such plan shall not exceed 2% of the issued and outstanding Shares then outstanding of the Company without the prior written consent of each of the Investors.

6.4 The provisions set out in this Article 6 shall terminate upon the closing of a Qualified Public Offering.

## 7 Distribution of Retained Profits

- 7.1 The retained profits of the Company should be enjoyed by all the Members in proportion to their respective Share proportions (calculated on a fully-diluted basis).
- 7.2 The Company and the Members shall procure that the Auditors shall, at the expense of the Company, be instructed to certify the amount of the profits for each financial year which are available for distribution by the Company at the same time as they sign their report on the audited accounts of the Company for the financial year in question.
- 7.3 In respect of each financial year (insofar as is lawful), unless otherwise agreed unanimously by the Investors, the Group's profits available for distribution shall be distributed to the Members by way of dividend, subject to such reasonable and proper reserves being retained for working capital requirements and other liabilities of the Group as the Board may consider appropriate, as follows:
- (a) Each Investor shall be entitled to receive cash dividends pro rata to their Share holdings in the Company calculated on an as-converted basis, prior and in preference to any dividends payable to any other holders of Shares.
  - (b) After all dividends payable to the Investors under sub-clause (a) above have been paid in full, the balance of the dividends payable to any other holders of Shares, whether in cash, property or authorized Shares, shall then be paid to all other holders of Shares, pro-rata to their holdings in the Company (on an as-converted basis, if applicable).
- 7.4 So long as the closing of a Qualified Public Offering occurs prior to September 30, 2010, no dividends shall be paid in respect of the Group's profits prior to September 30, 2010.
- 7.5 Except for Article 7.4 above, the provisions set out in this Article 7 shall terminate upon the closing of a Qualified Public Offering.

## **8 Right of First Refusal; Investors' Co-Sale Rights**

- 8.1 Each Member (each a "**Selling Shareholder**") shall not, directly or indirectly, transfer, sell, pledge or otherwise dispose of any Shares or any interest therein ("**Transfer**") except in compliance with this Article 8.
- 8.2 If any Selling Shareholder proposes a Transfer, then such Selling Shareholder shall give each of the Company and each other Shareholder a written notice of such Selling Shareholder's intention to make such Transfer (the "**Transfer Notice**"), which Transfer Notice shall include (i) a description of the Shares to be transferred (the "**Offered Shares**"), (ii) the identity of the prospective transferee(s), and (iii) the consideration and the material terms and conditions upon which the proposed Transfer is to be made. The Transfer Notice shall certify that such Selling Shareholder has received a firm offer from the prospective transferee(s) and in good faith

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believes a binding agreement for the Transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed Transfer.

### **8.3 Right of First Refusal**

Each Member entitled to receive a Transfer Notice (a "**ROFR Holder**") who notifies such Selling Shareholder and the Company in writing within 20 Business Days after receipt of the Transfer Notice (the "**First Refusal Period**") shall have the right, exercisable upon such written notice to the Selling Shareholder (the "**Purchase Notice**"), to purchase up to its ROFR Pro Rata Share (as defined below) of the Offered Shares on the same terms and conditions as set forth in the Transfer Notice (each a "**Purchasing Holder**"). "**ROFR Pro Rata Share**" shall mean the ratio of (a) the number of Ordinary Shares (calculated on an as-converted to Ordinary Shares basis) held by the relevant ROFR Holder, to (b) the total number of Ordinary Shares (calculated on an as-converted to Ordinary Shares basis) held by all ROFR Holders on the date of the Transfer Notice. The Purchase Notice shall state (i) whether the Purchasing Holder desires to purchase up to its ROFR Pro Rata Share of the Offered Shares, and (ii) whether the Purchasing Holder desires to purchase the maximum amount of the Offered Shares available including its ROFR Pro Rata Share of amounts not purchased by other ROFR Holders. A ROFR Holder who either does not deliver a Purchase Notice within the First Refusal Period or indicates in the Purchase Notice that such ROFR Holder elects not to purchase any of the Offered Shares shall be referred to herein as a "**Non-Purchasing Holder**". To the extent that any Purchasing Holder does not exercise its right of first refusal to the full extent of its ROFR Pro Rata Share of the Offered Shares, the Selling Shareholder and the remaining Purchasing Holders shall, within 10 Business Days after the end of the First Refusal Period, make such adjustments to each exercising Purchasing Holder's pro rata share of the Offered Shares so that any remaining Offered Shares may be allocated to the remaining Purchasing Holders on a pro rata basis. Each Purchasing Holder who sets forth in the Purchase Notice a desire to purchase the maximum amount of Offered Shares available shall be entitled to purchase his, her or its pro rata share of each Non-Purchasing Holder's ROFR Pro Rata Share of the Offered Shares.

### **8.4 Investors' Co-Sale Rights**

If the Selling Shareholder is the Ordinary Shareholder, then:

- (a) The Ordinary Shareholder shall not be entitled to transfer any Shares in the Company without the prior written consent of the Class B Shareholder and the Class C Shareholder.
- (b) Each Investor entitled to receive the Transfer Notice (a "**Co-Sale Right Holder**") may, by giving written notice to the Selling Shareholder (the "**Co-Sale Notice**") within 20 Business Days after its receipt of the Transfer Notice, notify the Selling Shareholder that such Co-Sale Right Holder wishes to sell a portion of its Shares and the number of such Shares to be sold. Such Co-Sale Right Holder who notifies such Selling Shareholder (a "**Co-Sale Participant**") shall therefore have the right to participate in the sale of Offered Shares, to the extent the ROFR Holders do not exercise their respective rights of first refusal as to all of the Offered Shares pursuant to Article 8.3 (the "**Remaining Shares**"), on the same terms and conditions as specified in the Transfer Notice.
- (c) Each Co-Sale Participant may sell all or any part of that number of Ordinary Shares (issuable upon conversion of its Preference Shares) equal to the product obtained by multiplying (i) the Remaining Shares, by (ii) a fraction, the numerator of which shall be the

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number of Shares owned by such Co-Sale Participant and the denominator of which shall be the total number of Shares held by all the Co-Sale Right Holders and the Selling Shareholder on the date of the Transfer Notice on an as-converted to Ordinary Shares basis. To the extent one or more Co-Sale Participants exercise their right under this Article 8.4, the number of Remaining Shares that the Selling Shareholder may sell in the transaction shall be correspondingly reduced.

- (d) Each Co-Sale Participant shall effect its participation in the sale by promptly delivering to the Selling Shareholder instruments of transfer in favour of the prospective purchaser (together with the relevant share certificates, if any have been issued), in respect of:
- (1) the type and number of the Shares which such Co-Sale Participant elects to sell; or
  - (2) the number of the Preference Shares which are at such time convertible into the number of Ordinary Shares which such Co-Sale Participant elects to sell; provided, however, that if the prospective third party purchaser objects to the transfer of such Preference Shares in lieu of Ordinary Shares, such Co-Sale Participant shall first convert such Preference Shares into Ordinary Shares and transfer Ordinary Shares as provided in this Article 8.4. The Company agrees to make any such conversion concurrent with the actual transfer of such Preference Shares or Ordinary Shares to the purchaser and contingent upon such transfer.
- (e) The Shares which the Co-Sale Participant elects to sell shall be transferred to the prospective purchaser in consummation of the sale of the Offered Shares upon the terms and conditions specified in the Transfer Notice, and such Selling Shareholder shall concurrently therewith remit to such Co-Sale Participant that portion of the sale proceeds to which such Co-Sale Participant is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase Shares from a Co-Sale Participant exercising its rights of co-sale hereunder, such Selling Shareholder shall not sell to such prospective purchaser or purchasers any Shares unless and until, simultaneously with such sale, such Selling Shareholder shall purchase such Shares from such Co-Sale Participant for the same consideration and on the same terms and conditions as the proposed Transfer described in the Transfer Notice.

#### 8.5 *Non-Exercise of Rights*

To the extent that the ROFR Holders and the Co-Sale Right Holders have not exercised their rights to purchase the Offered Shares or their rights to participate in the sale of the Offered Shares, the Selling Shareholder shall have a period of 45 Business Days from the expiration of such rights to sell any remaining Offered Shares, upon terms and conditions (including the purchase price) no more favorable to the purchaser than those specified in the Transfer Notice, to the third-party transferee(s) identified in the Transfer Notice. The third-party transferee(s) shall, as a condition to the effectiveness of transfer of the Offered Shares, furnish the Company, the ROFR Holders and the Co-Sale Right Holders with a deed of adherence to the Shareholders Agreement (the “**Deed of Adherence**”) agreeing to be bound by and comply with the Shareholders Agreement. In the event a Selling Shareholder does not consummate the sale or disposition of the Offered Shares within the 45 Business Day period from the expiration of these rights, the ROFR Holders’ right of first refusal and the Co-Sale Right Holders’ co-sale rights hereunder shall continue to be applicable to any subsequent disposition of the Shares by such Selling

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Shareholder. Furthermore, the exercise or non-exercise to purchase Shares from a Selling Shareholder or participate in the sale of Equity Securities by a Selling Shareholder shall not adversely affect the ROFR Holders’ rights to make subsequent purchases from any Selling Shareholder of Shares or the Co-Sale Right Holders’ subsequent participation in sales of Shares by any Selling Shareholder hereunder. Any proposed Transfer on terms and conditions different than those described in the Transfer Notice, as well as any subsequent proposed Transfer of any of the Selling Shareholders’ Equity Securities shall again be subject to the first refusal and co-sale rights hereunder and shall require compliance by the relevant Selling Shareholder with the procedures described in this Article 8.

- 8.6 The provisions set out in this Article 8 shall terminate upon the closing of a Qualified Public Offering.

### 9 **Participation Rights**

- 9.1 Each Investor shall have the right (a “**Participation Right**”) to purchase such Investor’s Pro Rata Share (as defined below) of all of the New Securities that the Company may from time to time issue with the exception of any securities (including, but not limited to, options and shares) issuable to employees, consultants, officers or directors of the Company pursuant to any stock option, share purchase, share bonus or other equity incentive plans, agreements or arrangements of the Company, each as approved by the Board.
- 9.2 For the purposes of these Articles:
- (a) “**Pro Rata Share**” means, for the purposes of an Investor’s Participation Right, the ratio of (a) the number of Equity Securities (as defined below) (calculated on an as-converted to Ordinary Shares basis) held by such Investor, to (b) the total number of all Equity Securities (calculated on an as-converted to Ordinary Shares, fully-diluted basis) issued and outstanding immediately prior to the issuance of New Securities giving rise to the Participation Rights; and
  - (b) “**Equity Securities**” means, with respect to any given Shareholder or Investor, all Ordinary Shares of the Company or securities convertible into or exercisable for Ordinary Shares of the Company now owned or subsequently acquired by such Shareholder or Investor from time to time.
- 9.3 In the event that the Company proposes to undertake an issuance of New Securities (in a single transaction or a series of related transactions), it shall give to each Investor written notice of its intention to issue New Securities (the “**Participation Notice**”), describing the amount and type of New Securities, the price and the general terms upon which the Company proposes to issue such New Securities. Each Investor shall have 20 Business Days from the date of receipt of the Participation Notice (the “**Participation Period**”) to give written notice to the Company that it agrees to purchase all or any portion of such Investor’s Pro Rata Share of such New Securities for the price and upon the terms and conditions specified in the Participation Notice. If any Investor fails to give such written notice to the Company within the Participation Period, then such Investor shall forfeit its Participation Right hereunder.
- 9.4 If any Investor fails or declines to exercise all or any portion of its Participation Right within the Participation Period, the Company shall promptly give notice (the “**Second Participation Notice**”) to all the other Investors who exercised all or any portion of their Participation Rights (the “**Rights Participants**”), setting forth (A) the additional number of New Securities which have

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not been subscribed for by the other Investors (“**Additional Shares**”) and (B) the Rights Participant’s pro rata entitlement to such Additional Shares (the “**Oversubscription Share**”), which shall be the quotient of (1) the number of Equity Securities (calculated on an as-converted to Ordinary Shares basis) held by such Rights Participant, divided by (b) the total number of Equity Securities (calculated on an as-converted to Ordinary Shares basis) held by all Rights Participants immediately prior to the issuance of New Securities giving rise to the Participation Rights. Each Rights Participant shall have 10 Business Days from the date of the Second Participation Notice (the “**Second Participation Period**”) to give a written notice to the Company of the number of Additional Shares that it proposes to buy which shall not exceed such Rights Participant’s Oversubscription Share (the “**Additional Number**”). If any Rights Participant fails to give such written notice to the Company within the Second Participation Period, then such Rights Participant shall forfeit its right to purchase any of the Additional Shares.

9.5 Upon the expiration of the Second Participation Period, or in the event no Investor exercises its Participation Rights within the Participation Period following the issuance of the Participation Notice, the Company shall have 45 Business Days thereafter to sell the New Securities described in the Participation Notice (with respect to which Participation Rights hereunder were not exercised) at the same or higher price and otherwise upon terms not materially more favorable to the purchasers thereof than specified in the Participation Notice. In the event that the Company has not issued and sold such New Securities within such 45 Business Day period, then the Company shall not thereafter issue or sell any New Securities without again first offering such New Securities to the Investors pursuant to this Article 9.

9.6 The provisions set out in this Article 9 shall terminate upon the closing of a Qualified Public Offering.

## 10 Conversion Rights

10.1 Upon the closing of a Qualified Public Offering, 100% of the Preference Shares held by the Investors shall automatically convert into Ordinary Shares as contemplated in this Article 10 and in the manner and subject to any applicable adjustments set forth in the applicable subsections of Articles 10.2 and 10.2(a) below.

10.2 Subject to the Statute, any Preference Share may, at the option of the holder thereof, be converted at any time prior to the closing of a Qualified Public Offering, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares in the manner set out in this Article 10:

- (a) The number of Ordinary Shares to which a holder shall be entitled upon conversion of any Preference Share shall be determined by dividing the applicable Original Issue Price for such Preference Share by the applicable Conversion Price for such Preference Share (the “**Conversion Ratio**”), determined as hereafter provided, in effect on the date the Conversion Notice. The initial Conversion Price for any Preference Share shall be the Original Issue Price applicable to such Preference Share multiplied by 0.001, such that the initial Conversion Ratio shall be 1:1,000 (to the intent and effect that each Preference Share shall be converted into 1,000 Ordinary Shares), provided however that the Conversion Price shall be subject to adjustment as set forth in this Article.
- (b) A holder of any Preference Shares shall be entitled to exercise its right to convert such Preference Shares prior to the closing of a Qualified Public Offering by delivering a written notice to the Company that such holder has elected to convert such Preference Shares,

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stating the number and Class of Preference Shares being converted (a “**Conversion Notice**”), together with the related share certificates and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising the right to convert. A Conversion Notice once given may not be withdrawn without the consent in writing of the Company.

- (c) Conversion of the Preference Shares in respect of which the right to convert shall have been duly exercised and which are due to be converted (the “**Relevant Shares**”) shall be effected by way of redemption of the Relevant Shares and the issue of the applicable number of new Ordinary Shares.
- (d) Fractions of Ordinary Shares arising on conversion will not be issued upon conversion of any Preference Shares, provided that all Ordinary Shares (including fractions thereof) issuable upon conversion of more than 1 Preference Share held by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall at the discretion of the Board either (i) pay cash equal to such fraction multiplied by the applicable Conversion Price for the Preference Shares, or (ii) issue one whole Ordinary Share for each fractional share to which the holder would otherwise be entitled.
- (e) The conversion shall take effect, and all necessary allotments of Ordinary Shares arising therefrom shall be made, not later than 5 Business Days after the date of receipt by the Company of the relevant duly executed Conversion Notice and the original certificates in respect of the Relevant Shares (or, in the case of a conversion upon the closing of a Qualified Public Offering pursuant to Article 10.1, simultaneously with the closing of the Qualified Public Offering). The Company shall not later than the 20 Business Days following the date of such conversion send to each holder a definitive share certificate for the Ordinary Shares resulting from conversion and, if appropriate, certificates for any unconverted Preference Shares comprised in the certificate surrendered by him.
- (f) The dividends on Preference Shares which are converted shall cease to accrue with effect from the date of conversion. The Ordinary Shares resulting from conversion shall carry the right to receive all dividends and other distributions declared made or paid in respect of Ordinary Shares in the Company by reference to a record date on or after the relevant date of conversion and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares in the Company then in issue and fully paid.

10.3 Adjustments to Conversion Price

- (a) *Adjustment for Share Splits and Combinations*

If the Company shall at any time, or from time to time, effect a subdivision of the outstanding Ordinary Shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately decreased. Conversely, if the Company shall at any time, or from time to time, consolidate the outstanding Ordinary Shares into a smaller number of shares, the Conversion Price in effect immediately prior to the consolidation shall be proportionately increased. Any adjustment under this sub-clause shall become effective at the close of business on the date the subdivision or consolidation becomes effective.

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(b) *Adjustments for Dividends*

If the Company at any time, or from time to time, makes a dividend or other distribution payable in shares of the Company other than Ordinary Shares, then, and in each such event, provision shall be made so that, upon conversion of any Preference Share thereafter, the holder of such Preference Shares shall receive, in addition to the number of Ordinary Shares issuable thereon, the amount of shares of the Company which the holder of such Preference Share would have received had the Preference Shares been converted into Ordinary Shares immediately prior to such event, all subject to further adjustment as provided herein.

(c) *Sale of Shares below the Conversion Price*

If the Company shall issue additional shares for a consideration per share (the “**Future Issuance Price**”) less than the Conversion Price in effect on the date of, and immediately prior to, such issuance, then and in such event, the Conversion Price shall be reduced concurrently with such issuance to a price equal to the Future Issuance Price.

(d) *Other Dilutive Events*

In case any event shall occur as to which the other provisions of this Article 10.3 are not strictly applicable, but the failure to make any adjustment to the Conversion Price would not fairly protect the conversion rights of the applicable Class of Preference Shares in accordance with the essential intent and principles hereof, then, in each such case, the Company, in good faith, shall determine the appropriate adjustment to be made, on a basis consistent with the essential intent and principles established in this Article 10.3, necessary to preserve, without dilution, the conversion rights of such series of Preference Shares.

10.4 In the case of any adjustment or readjustment of the Applicable Conversion Price, the Company, at its sole expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall deliver such certificate to each registered holder of the Preference Shares at the holder’s address as shown in the Company’s Register of Members (or such other address as such holder of Preference Shares may have provided to the Company). The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Company for any Ordinary Shares issued or sold or deemed to have been issued or sold, (ii) the number of Ordinary Shares issued or sold or deemed to be issued or sold, (iii) the Conversion Price in effect before and after such adjustment or readjustment, and (iv) the number of Ordinary Shares and the type and amount, if any, of other property which would be received upon conversion of the Preference Shares after such adjustment or readjustment.

## 11 Register of Members

The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute.

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## 12 Closing Register of Members or Fixing Record Date

12.1 For the purpose of determining Members entitled to notice of, or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any Dividend or other distribution, or in order to make a determination of Members for any other purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period which shall not in any case exceed forty days.

12.2 In lieu of, or apart from, closing the Register of Members, the Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment thereof, or for the purpose of determining the Members entitled to receive payment of any Dividend or other distribution, or in order to make a determination of Members for any other purpose.

12.3 If the Register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a Dividend or other distribution, the date on which notice of the meeting is sent or the date on which the resolution of the Directors resolving to pay such Dividend or other distribution is passed, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

## 13 Certificates for Shares

13.1 A Member shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other person authorised by the Directors. The Directors may authorise certificates to be issued with the authorised signature(s) affixed by mechanical process. All certificates for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and subject to the Articles no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.

13.2 The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

13.3 If a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the Directors may prescribe, and (in the case of defacement or wearing out) upon delivery of the old certificate.

13.4 Every share certificate sent in accordance with the Articles will be sent at the risk of the Member or other person entitled to the certificate. The Company will not be responsible for any share certificate lost or delayed in the course of delivery.

## 14 Transfer of Shares

14.1 Subject to Article 3.1, Shares are transferable subject to the consent of the Directors who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason. If

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the Directors refuse to register a transfer they shall notify the transferee within two months of such refusal.

14.2 The instrument of transfer of any Share shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by or on behalf of the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members.

## 15 Redemption and Repurchase of Shares

15.1 Subject to the provisions of the Statute the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company. The redemption of such Shares shall be effected in such manner as the Company may, by Special Resolution, determine before the issue of the Shares.

15.2 Subject to the provisions of the Statute, the Company may purchase its own Shares (including any redeemable Shares) provided that the Members shall have approved the manner of purchase by Ordinary Resolution.

15.3 The Company may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.

## 16 Variation of Rights of Shares

16.1 Without prejudice to the provisions of Article 6.2, if at any time the share capital of the Company is divided into different classes of Shares, all or any of the rights attached to any class (unless otherwise provided by the terms of issue of the Shares of that class) may be varied only with the consent in writing of the holders of not less than two-thirds of the issued Shares of that class, or with the sanction of a resolution passed by a majority of not less than two-thirds of the votes cast at a separate meeting of the holders of the Shares of that class. To any such meeting all the provisions of the Articles relating to general meetings shall apply *mutatis mutandis*, except that the necessary quorum shall be one person holding or representing by proxy at least one third of the issued Shares of the class.

16.2 For the purposes of a separate class meeting, the Directors may treat two or more or all the classes of Shares as forming one class of Shares if the Directors consider that such class of Shares would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes of Shares.

16.3 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

## 17 Commission on Sale of Shares

The Company may, in so far as the Statute permits, pay a commission to any person in consideration of his subscribing or agreeing to subscribe (whether absolutely or conditionally) or procuring or agreeing to procure subscriptions (whether absolutely or conditionally) for any Shares. Such commissions may be satisfied by the payment of cash and/or the issue of fully or

partly paid-up Shares. The Company may also on any issue of Shares pay such brokerage as may be lawful.

## 18 Non Recognition of Trusts

The Company shall not be bound by or compelled to recognise in any way (even when notified) any equitable, contingent, future or partial interest in any Share, or (except only as is otherwise provided by the Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the holder.

## 19 Lien on Shares

19.1 The Company shall have a first and paramount lien on all Shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any Share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such Share shall operate as a waiver of the Company's lien thereon. The Company's lien on a Share shall also extend to any amount payable in respect of that Share.

19.2 The Company may sell, in such manner as the Directors think fit, any Shares on which the Company has a lien, if a sum in respect of which the lien exists is presently payable, and is not paid within fourteen clear days after notice has been received or deemed to have been received by the holder of the Shares, or to the person entitled to it in consequence of the death or bankruptcy of the holder, demanding payment and stating that if the notice is not complied with the Shares may be sold.

19.3 To give effect to any such sale the Directors may authorise any person to execute an instrument of transfer of the Shares sold to, or in accordance with the directions of, the purchaser. The purchaser or his nominee shall be registered as the holder of the Shares comprised in any such transfer, and he shall not be bound to see to the application of the purchase money, nor shall his title to the Shares be affected by any irregularity or invalidity in the sale or the exercise of the Company's power of sale under the Articles.

19.4 The net proceeds of such sale after payment of costs, shall be applied in payment of such part of the amount in respect of which the lien exists as is presently payable and any balance shall (subject to a like lien for sums not presently payable as existed upon the Shares before the sale) be paid to the person entitled to the Shares at the date of the sale.

## 20 Call on Shares

20.1 Subject to the terms of the allotment and issue of any Shares, the Directors may make calls upon the Members in respect of any monies unpaid on their Shares (whether in respect of par value or premium), and each Member shall (subject to receiving at least fourteen clear days' notice specifying the time or

times of payment) pay to the Company at the time or times so specified the amount called on the Shares. A call may be revoked or postponed, in whole or in part, as the Directors may determine. A call may be required to be paid by instalments. A person upon whom a call is made shall remain liable for calls made upon him notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

- 20.2 A call shall be deemed to have been made at the time when the resolution of the Directors authorising such call was passed.
- 20.3 The joint holders of a Share shall be jointly and severally liable to pay all calls in respect thereof.
- 20.4 If a call remains unpaid after it has become due and payable, the person from whom it is due shall pay interest on the amount unpaid from the day it became due and payable until it is paid at such rate as the Directors may determine (and in addition all expenses that have been incurred by the Company by reason of such non-payment), but the Directors may waive payment of the interest or expenses wholly or in part.
- 20.5 An amount payable in respect of a Share on issue or allotment or at any fixed date, whether on account of the par value of the Share or premium or otherwise, shall be deemed to be a call and if it is not paid all the provisions of the Articles shall apply as if that amount had become due and payable by virtue of a call.
- 20.6 The Directors may issue Shares with different terms as to the amount and times of payment of calls, or the interest to be paid.
- 20.7 The Directors may, if they think fit, receive an amount from any Member willing to advance all or any part of the monies uncalled and unpaid upon any Shares held by him, and may (until the amount would otherwise become payable) pay interest at such rate as may be agreed upon between the Directors and the Member paying such amount in advance.
- 20.8 No such amount paid in advance of calls shall entitle the Member paying such amount to any portion of a Dividend or other distribution payable in respect of any period prior to the date upon which such amount would, but for such payment, become payable.

## **21 Forfeiture of Shares**

- 21.1 If a call or instalment of a call remains unpaid after it has become due and payable the Directors may give to the person from whom it is due not less than fourteen clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any expenses incurred by the Company by reason of such non-payment. The notice shall specify where payment is to be made and shall state that if the notice is not complied with the Shares in respect of which the call was made will be liable to be forfeited.
- 21.2 If the notice is not complied with, any Share in respect of which it was given may, before the payment required by the notice has been made, be forfeited by a resolution of the Directors. Such forfeiture shall include all Dividends, other distributions or other monies payable in respect of the forfeited Share and not paid before the forfeiture.
- 21.3 A forfeited Share may be sold, re-allotted or otherwise disposed of on such terms and in such manner as the Directors think fit and at any time before a sale, re-allotment or disposition the forfeiture may be cancelled on such terms as the Directors think fit. Where for the purposes of its disposal a forfeited Share is to be transferred to any person the Directors may authorise some person to execute an instrument of transfer of the Share in favour of that person.
- 21.4 A person any of whose Shares have been forfeited shall cease to be a Member in respect of them and shall surrender to the Company for cancellation the certificate for the Shares forfeited and shall remain liable to pay to the Company all monies which at the date of forfeiture were

payable by him to the Company in respect of those Shares together with interest at such rate as the Directors may determine, but his liability shall cease if and when the Company shall have received payment in full of all monies due and payable by him in respect of those Shares.

- 21.5 A certificate in writing under the hand of one Director or officer of the Company that a Share has been forfeited on a specified date shall be conclusive evidence of the facts stated in it as against all persons claiming to be entitled to the Share. The certificate shall (subject to the execution of an instrument of transfer) constitute a good title to the Share and the person to whom the Share is sold or otherwise disposed of shall not be bound to see to the application of the purchase money, if any, nor shall his title to the Share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the Share.
- 21.6 The provisions of the Articles as to forfeiture shall apply in the case of non payment of any sum which, by the terms of issue of a Share, becomes payable at a fixed time, whether on account of the par value of the Share or by way of premium as if it had been payable by virtue of a call duly made and notified.

## **22 Transmission of Shares**

- 22.1 If a Member dies the survivor or survivors (where he was a joint holder) or his legal personal representatives (where he was a sole holder), shall be the only persons recognised by the Company as having any title to his Shares. The estate of a deceased Member is not thereby released from any liability in respect of any Share, for which he was a joint or sole holder.
- 22.2 Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may be required by the Directors, elect, by a notice in writing sent by him to the Company, either to become the holder of such Share or to have some person nominated by him registered as the holder of such Share. If he elects to have another person registered as the holder of such Share he shall sign an instrument of transfer of that Share to that person. The Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution, as the case may be.
- 22.3 A person becoming entitled to a Share by reason of the death or bankruptcy or liquidation or dissolution of a Member (or in any other case than by transfer) shall be entitled to the same Dividends, other distributions and other advantages to which he would be entitled if he were the holder of such Share. However, he shall not, before becoming a Member in respect of a Share, be entitled in respect of it to exercise any right conferred by membership in relation to general meetings of the Company and the Directors may at any time give notice requiring any such person to elect either to be registered himself or to have some person nominated by him be registered as the holder of the Share (but the Directors shall, in either case, have the same right to decline or suspend registration

as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution or any other case than by transfer, as the case may be). If the notice is not complied with within ninety days of being received or deemed to be received (as determined pursuant to the Articles) the Directors may thereafter withhold payment of all Dividends, other distributions, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

## **23 Amendments of Memorandum and Articles of Association and Alteration of Capital**

23.1 The Company may by Ordinary Resolution:

- (a) increase its share capital by such sum as the Ordinary Resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;
- (b) consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;
- (c) convert all or any of its paid-up Shares into stock, and reconvert that stock into paid-up Shares of any denomination;
- (d) by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value; and
- (e) cancel any Shares that at the date of the passing of the Ordinary Resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled.

23.2 All new Shares created in accordance with the provisions of the preceding Article shall be subject to the same provisions of the Articles with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the Shares in the original share capital.

23.3 Subject to the provisions of the Statute and the provisions of the Articles as regards the matters to be dealt with by Ordinary Resolution, the Company may by Special Resolution:

- (a) change its name;
- (b) alter or add to the Articles;
- (c) alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and
- (d) reduce its share capital or any capital redemption reserve fund.

## **24 Offices and Places of Business**

Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its Registered Office. The Company may, in addition to its Registered Office, maintain such other offices or places of business as the Directors determine.

## **25 General Meetings**

25.1 All general meetings other than annual general meetings shall be called extraordinary general meetings.

25.2 The Company may, but shall not (unless required by the Statute) be obliged to, in each year hold a general meeting as its annual general meeting, and shall specify the meeting as such in the

notices calling it. Any annual general meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the Registered Office on the second Wednesday in December of each year at ten o'clock in the morning. At these meetings the report of the Directors (if any) shall be presented.

25.3 The Directors may call general meetings, and they shall on a Members' requisition forthwith proceed to convene an extraordinary general meeting of the Company.

25.4 A Members' requisition is a requisition of either (a) Members holding at the date of deposit of the requisition not less than ten per cent. in par value of the issued Shares which as at that date carry the right to vote at general meetings of the Company or (b) any Investor.

25.5 The Members' requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.

25.6 If there are no Directors as at the date of the deposit of the Members' requisition or if the Directors do not within twenty-one days from the date of the deposit of the Members' requisition duly proceed to convene a general meeting to be held within a further twenty-one days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said twenty-one day period.

25.7 A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

## **26 Notice of General Meetings**

- 26.1 At least five clear days' notice shall be given of any general meeting. Every notice shall specify the place, the day and the hour of the meeting and the general nature of the business to be conducted at the general meeting and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this Article has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:
- (a) in the case of an annual general meeting, by all of the Members entitled to attend and vote thereat; and
  - (b) in the case of an extraordinary general meeting, by a majority in number of the Members having a right to attend and vote at the meeting, together holding not less than ninety five per cent. in par value of the Shares giving that right.
- 26.2 The accidental omission to give notice of a general meeting to, or the non receipt of notice of a general meeting by, any person entitled to receive such notice shall not invalidate the proceedings of that general meeting.

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## 27 Proceedings at General Meetings

- 27.1 No business shall be transacted at any general meeting unless a quorum is present. Two Members being individuals present in person or by proxy or if a corporation or other non-natural person by its duly authorised representative or proxy and holding in aggregate not less than fifty percent (50%) of the issued and outstanding Shares shall be a quorum unless the Company has only one Member entitled to vote at such general meeting in which case the quorum shall be that one Member present in person or by proxy or (in the case of a corporation or other non-natural person) by its duly authorised representative or proxy.
- 27.2 A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.
- 27.3 A resolution (including a Special Resolution) in writing (in one or more counterparts) signed by or on behalf of all of the Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations or other non-natural persons, signed by their duly authorised representatives) shall be as valid and effective as if the resolution had been passed at a general meeting of the Company duly convened and held.
- 27.4 If a quorum is not present within half an hour from the time appointed for the meeting to commence or if during such a meeting a quorum ceases to be present, the meeting, if convened upon a Members' requisition, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and/or place or to such other day, time and/or place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting to commence, the Members present shall be a quorum.
- 27.5 The Directors may, at any time prior to the time appointed for the meeting to commence, appoint any person to act as chairman of a general meeting of the Company or, if the Directors do not make any such appointment, the chairman, if any, of the board of Directors shall preside as chairman at such general meeting. If there is no such chairman, or if he shall not be present within fifteen minutes after the time appointed for the meeting to commence, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.
- 27.6 If no Director is willing to act as chairman or if no Director is present within fifteen minutes after the time appointed for the meeting to commence, the Members present shall choose one of their number to be chairman of the meeting.
- 27.7 The chairman may, with the consent of a meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.
- 27.8 When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice of an adjourned meeting.
- 27.9 A resolution put to the vote of the meeting shall be decided on a poll in accordance with Article 28.1.

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- 27.10 In the case of an equality of votes, the chairman shall be entitled to a second or casting vote.

## 28 Votes of Members

- 28.1 Subject to any provisions to the contrary in these Articles, or as required by the Statute, at all general meetings of the Company:
- (a) the holder of each Ordinary Share issued and outstanding shall have one vote in respect of each Ordinary Share held; and
  - (b) the holder of each Preference Share shall be entitled to such number of votes as equals the whole number of Ordinary Shares into which such holder's collective Preference Shares are convertible immediately after the close of business on the record date of the determination of the Members entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Members is first solicited. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all shares into which the Preference Shares held by each holder could be converted) shall be rounded down to the nearest whole number.
- 28.2 Subject to any provisions to the contrary in these Articles, or as required by the Statute, the holders of Preference Shares shall vote together with the holders of Ordinary Shares (on an as-converted to Ordinary Shares basis), and not as a separate class or series, on all matters put before the Members, and shall be entitled to the notice of any shareholders' meeting.
- 28.3 In the case of joint holders the vote of the senior holder who tenders a vote, whether in person or by proxy (or, in the case of a corporation or other non-natural person, by its duly authorised representative or proxy), shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.

- 28.4 A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote by his committee, receiver, curator bonis, or other person on such Member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.
- 28.5 No person shall be entitled to vote at any general meeting unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.
- 28.6 No objection shall be raised as to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time in accordance with this Article shall be referred to the chairman whose decision shall be final and conclusive.
- 28.7 Votes may be cast either personally or by proxy (or in the case of a corporation or other non-natural person by its duly authorised representative or proxy). A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a Member appoints more than one proxy the instrument of proxy shall state which proxy is entitled to vote and shall specify the number of Shares in respect of which each proxy is entitled to exercise the related votes.

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- 28.8 A Member holding more than one Share need not cast the votes in respect of his Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him, a proxy appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he is appointed either for or against a resolution and/or abstain from voting a Share or some or all of the Shares in respect of which he is appointed.

## 29 Proxies

- 29.1 The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation or other non natural person, under the hand of its duly authorised representative. A proxy need not be a Member.
- 29.2 The Directors may, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the instrument appointing a proxy shall be deposited and the place and the time (being not later than the time appointed for the commencement of the meeting or adjourned meeting to which the proxy relates) at which the instrument appointing a proxy shall be deposited. In the absence of any such direction from the Directors in the notice convening any meeting or adjourned meeting or in an instrument of proxy sent out by the Company, the instrument appointing a proxy shall be deposited physically at the Registered Office not less than 48 hours before the time appointed for the meeting or adjourned meeting to commence at which the person named in the instrument proposes to vote.
- The chairman may in any event at his discretion declare that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted, or which has not been declared to have been duly deposited by the chairman, shall be invalid.
- 29.3 The instrument appointing a proxy may be in any usual or common form (or such other form as the Directors may approve) and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked.
- 29.4 Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

## 30 Corporate Members

Any corporation or other non-natural person which is a Member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member.

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## 31 Shares that May Not be Voted

Shares in the Company that are beneficially owned by the Company shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding Shares at any given time.

## 32 Directors

Until the closing of a Qualified Public Offering, the Board shall consist of not more than 9 Directors, each of whom shall serve a one year term until his or her successor is elected at an annual or special meeting of the Members called for the purpose of electing Directors, and shall meet at least twice a year and once every half a year, after which the Board may determine the number of Directors, term limits and the frequency of Board meetings at the sole discretion of the Board in accordance with these Articles and applicable law.

## 33 Powers of Directors

- 33.1 Subject to the provisions of the Statute, the Memorandum and the Articles and to any directions given by Special Resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.
- 33.2 All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine by resolution.



- 33.3 The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.
- 33.4 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### **34 Appointment and Removal of Directors**

- 34.1 Subject to Article 34.4, each Investor shall have the right to appoint a Director at an annual or special meeting of the Members called for the purpose of electing Directors (the “**Appointment Right**”) as follows:
- (a) If the Company has seven or more directors, the Class A Shareholder shall be entitled to appoint 2 Directors (each, a “**Class A Director**”) and to remove or substitute any such Class A Director so appointed; if the Company has less than 7 directors, the Class A Shareholder shall be entitled to appoint 1 Class A Director and to remove or substitute such Class A Director so appointed;

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- (b) the Class B Shareholder shall be entitled to appoint 1 Director (the “**Class B Director**”), and to remove or substitute any Class B Director so appointed; and
- (c) the Class C Shareholder shall be entitled to appoint 1 Director (the “**Class C Director**”), and to remove or substitute any Class A Director so appointed.

Each Investor’s Appointment Right shall be exercised by the relevant Investor delivering a written notice to the Company, and any such appointment, removal or substitution of the Director as specified therein shall be effective (without the requirement for any further approval or action on the part of the Members or the Board) forthwith upon delivery of such written notice to the Company.

- 34.2 The remaining Directors of the Board (the “**Ordinary Directors**”) shall be appointed and may be removed by an Ordinary Resolution of the Company.
- 34.3 The quorum for the transaction of business at any meeting of the Board of Directors shall include at least 1 Class A Director, 1 Class B Director and 1 Class C Director being present at the time when the relevant business is transacted. A person who holds office as an alternate Director shall, if such person’s appointor is not present, be counted in the quorum. A Director who also acts as an alternate Director shall, if such Director’s appointor is not present, count twice towards the quorum.
- 34.4 Each Investor’s Appointment Right shall terminate upon the closing of a Qualified Public Offering. Thereafter, the Class A Director(s), the Class B Director and the Class C Director shall serve until the next annual meeting of the Members when their successors shall be duly elected by Ordinary Resolution.
- 34.5 Upon the termination of the Appointment Right of each Investor, such Investor shall have the right to nominate one Director candidate at the next annual general meeting of the Members of the Company in accordance with the election procedures set forth in these Articles. Such nominating right does not guarantee that such Director candidate will be elected to serve as a Director of the Company.
- 34.6 If the Company sets up a compensation committee of the Board, each of the Investors shall have the right to designate persons to become members of such compensation committee and to examine, approve and formulate the share equity policy of the Company (including employee stock ownership plans) and to examine and approve the compensation of the Company’s senior management (including, without limitation, the Company’s Chief Executive Officer, Chief Operating Officer, Chief Technology Officer and Chief Financial Officer).
- 34.7 If the Company sets up a financial committee, an execution committee, an audit committee or a listing committee of the Board, each of the Investors shall have the right to designate persons to become members of such committees.
- 34.8 All reasonable expenses incurred by the Class C Director in its capacity as the Class C Director, including, without limitation, expenses relating to the attendance by the Class C Director of all Board meetings, shall be borne by the Company.
- 34.9 With the exception of Articles 34.4 and 34.5, the provisions set out in this Article 34 shall terminate upon the closing of a Qualified Public Offering.

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#### **35 Vacation of Office of Director**

The office of a Director shall be vacated if:

- (a) the Director gives notice in writing to the Company that he resigns the office of Director; or
- (b) the Director absents himself (for the avoidance of doubt, without being represented by proxy or an alternate Director appointed by him) from three consecutive meetings of the board of Directors without special leave of absence from the Directors, and the Directors pass a resolution that he has by reason of such absence vacated office; or
- (c) the Director dies, becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- (d) the Director is found to be or becomes of unsound mind;
- (e) all of the other Directors (being not less than two in number) determine that he should be removed as a Director, either by a resolution passed by all of the other Directors at a meeting of the Directors duly convened and held in accordance with the Articles or by a resolution in writing signed by all of the other Directors;

(f) the Director, being a Class A Director, Class B Director or Class C Director, is removed by the Member who appointed such Director giving notice in writing to the Company to remove such Director in accordance with Article 34.1; or

(g) the Director, being an Ordinary Director, is removed by Ordinary Resolution pursuant to Article 34.2.

### **36 Proceedings of Directors**

36.1 Subject to the provisions of these Articles, the Directors may regulate their proceedings as they think fit. Questions arising at any meeting shall be decided by a majority of votes. In the case of an equality of votes, the chairman shall not have a second or casting vote. A Director who is also an alternate Director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.

36.2 A person may participate in a meeting of the Directors or committee of Directors by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other at the same time. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors the meeting shall be deemed to be held at the place where the chairman is located at the start of the meeting.

36.3 A resolution in writing (in one or more counterparts) signed by all the Directors or all the members of a committee of the Directors or, in the case of a resolution in writing relating to the removal of any Director or the vacation of office by any Director, all of the Directors other than the Director who is the subject of such resolution (an alternate Director being entitled to sign such a resolution on behalf of his appointor and if such alternate Director is also a Director, being entitled to sign such resolution both on behalf of his appointor and in his capacity as a Director) shall be as valid

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and effectual as if it had been passed at a meeting of the Directors, or committee of Directors as the case may be, duly convened and held.

36.4 A Director or alternate Director may, or other officer of the Company on the direction of a Director or alternate Director shall, call a meeting of the Directors by at least two days' notice in writing to every Director and alternate Director which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors (or their alternates) either at, before or after the meeting is held. To any such notice of a meeting of the Directors all the provisions of the Articles relating to the giving of notices by the Company to the Members shall apply *mutatis mutandis*.

36.5 The continuing Directors (or a sole continuing Director, as the case may be) may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to the Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of increasing the number of Directors to be equal to such fixed number, or of summoning a general meeting of the Company, but for no other purpose.

36.6 The Directors may elect a chairman of their board and determine the period for which he is to hold office; but if no such chairman is elected, or if at any meeting the chairman is not present within five minutes after the time appointed for the meeting to commence, the Directors present may choose one of their number to be chairman of the meeting.

36.7 All acts done by any meeting of the Directors or of a committee of the Directors (including any person acting as an alternate Director) shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any Director or alternate Director, and/or that they or any of them were disqualified, and/or had vacated their office and/or were not entitled to vote, be as valid as if every such person had been duly appointed and/or not disqualified to be a Director or alternate Director and/or had not vacated their office and/or had been entitled to vote, as the case may be.

36.8 A Director but not an alternate Director may be represented at any meetings of the board of Directors by a proxy appointed in writing by him. The proxy shall count towards the quorum and the vote of the proxy shall for all purposes be deemed to be that of the appointing Director.

### **37 Presumption of Assent**

A Director or alternate Director who is present at a meeting of the board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director or alternate Director who voted in favour of such action.

### **38 Directors' Interests**

38.1 A Director or alternate Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

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38.2 A Director or alternate Director may act by himself or by, through or on behalf of his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.

38.3 A Director or alternate Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a shareholder, a contracting party or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.

38.4 No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding office or of the fiduciary relationship thereby established. A Director (or his alternate Director in his absence) shall be

at liberty to vote in respect of any contract or transaction in which he is interested provided that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote thereon.

- 38.5 A general notice that a Director or alternate Director is a shareholder, director, officer or employee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure for the purposes of voting on a resolution in respect of a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

## **39 Minutes**

The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any class of Shares and of the Directors, and of committees of the Directors, including the names of the Directors or alternate Directors present at each meeting.

## **40 Delegation of Directors' Powers**

- 40.1 The Directors may delegate any of their powers, authorities and discretions, including the power to sub-delegate, to any committee consisting of one or more Directors. They may also delegate to any managing director or any Director holding any other executive office such of their powers, authorities and discretions as they consider desirable to be exercised by him provided that an alternate Director may not act as managing director and the appointment of a managing director shall be revoked forthwith if he ceases to be a Director. Any such delegation may be made subject to any conditions the Directors may impose and either collaterally with or to the exclusion of their own powers and any such delegation may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of a committee of Directors shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.
- 40.2 The Directors may establish any committees, local boards or agencies or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any person to be a member of such committees, local boards or agencies. Any such appointment may be

made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and any such appointment may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of any such committee, local board or agency shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

- 40.3 The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.
- 40.4 The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under the Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him.
- 40.5 The Directors may appoint such officers of the Company (including, for the avoidance of doubt and without limitation, any secretary) as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of his appointment an officer of the Company may be removed by resolution of the Directors or Members. An officer of the Company may vacate his office at any time if he gives notice in writing to the Company that he resigns his office.

## **41 Alternate Directors**

- 41.1 Any Director (but not an alternate Director) may by writing appoint any other Director, or any other person willing to act, to be an alternate Director and by writing may remove from office an alternate Director so appointed by him.
- 41.2 An alternate Director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present, to sign any written resolution of the Directors, and generally to perform all the functions of his appointor as a Director in his absence.
- 41.3 An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.
- 41.4 Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.
- 41.5 An alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him.

## **42 No Minimum Shareholding**

The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed a Director is not required to hold Shares.

## **43 Remuneration of Directors**

- 43.1 The remuneration to be paid to the Directors, if any, shall be such remuneration as the Directors shall determine. The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of Directors or committees of Directors, or general meetings of the Company, or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in

connection with the business of the Company or the discharge of their duties as a Director, or to receive a fixed allowance in respect thereof as may be determined by the Directors, or a combination partly of one such method and partly the other.

43.2 The Directors may by resolution approve additional remuneration to any Director for any services which in the opinion of the Directors go beyond his ordinary routine work as a Director. Any fees paid to a Director who is also counsel, attorney or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.

#### **44 Seal**

44.1 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer of the Company or other person appointed by the Directors for the purpose.

44.2 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.

44.3 A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

#### **45 Dividends, Distributions and Reserve**

45.1 Subject to the Statute, Article 7 and this Article 45 and except as otherwise provided by the rights attached to any Shares, the Directors may resolve to pay Dividends and other distributions on Shares in issue and authorise payment of the Dividends or other distributions out of the funds of the Company lawfully available therefor. A Dividend shall be deemed to be an interim Dividend unless the terms of the resolution pursuant to which the Directors resolve to pay such Dividend specifically state that such Dividend shall be a final Dividend. No Dividend or other distribution shall be paid except out of the realised or unrealised profits of the Company, out of the share premium account or as otherwise permitted by the Statute.

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45.2 The Directors may deduct from any Dividend or other distribution payable to any Member all sums of money (if any) then payable by him to the Company on account of calls or otherwise.

45.3 The Directors may resolve that any Dividend or other distribution be paid wholly or partly by the distribution of specific assets and in particular (but without limitation) by the distribution of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees in such manner as may seem expedient to the Directors.

45.4 Except as otherwise provided by the rights attached to any Shares, Dividends and other distributions may be paid in any currency. The Directors may determine the basis of conversion for any currency conversions that may be required and how any costs involved are to be met.

45.5 The Directors may, before resolving to pay any Dividend or other distribution, set aside such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the discretion of the Directors, be employed in the business of the Company.

45.6 Any Dividend, other distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any Dividends, other distributions, bonuses, or other monies payable in respect of the Share held by them as joint holders.

45.7 No Dividend or other distribution shall bear interest against the Company.

45.8 Any Dividend or other distribution which cannot be paid to a Member and/or which remains unclaimed after six months from the date on which such Dividend or other distribution becomes payable may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend or other distribution shall remain as a debt due to the Member. Any Dividend or other distribution which remains unclaimed after a period of six years from the date on which such Dividend or other distribution becomes payable shall be forfeited and shall revert to the Company.

#### **46 Capitalisation**

The Directors may at any time capitalise any sum standing to the credit of any of the Company's reserve accounts or funds (including the share premium account and capital redemption reserve fund) or any sum standing to the credit of the profit and loss account or otherwise available for distribution; appropriate such sum to Members in the proportions in which such sum would have been divisible amongst such Members had the same been a distribution of profits by way of Dividend or other distribution; and apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give

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effect to such capitalisation, with full power given to the Directors to make such provisions as they think fit in the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental or relating thereto and any agreement made under such authority shall be effective and binding on all such Members and the Company.

#### **47 Books of Account**

- 47.1 The Directors shall cause proper books of account to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books of account shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.
- 47.2 The Directors shall determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.
- 47.3 The Directors may cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

#### **48 Audit**

- 48.1 The Directors may appoint an Auditor of the Company who shall hold office on such terms as the Directors determine.
- 48.2 Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.
- 48.3 Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next extraordinary general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

#### **49 Notices**

- 49.1 Notices shall be in writing and may be given by the Company to any Member either personally or by sending it by courier, post, cable, telex, fax or e-mail to him or to his address as shown in the Register of Members (or where the notice is given by e-mail by sending it to the e-mail address

provided by such Member). Any notice, if posted from one country to another, is to be sent by airmail.

- 49.2 Where a notice is sent by courier, service of the notice shall be deemed to be effected by delivery of the notice to a courier company, and shall be deemed to have been received on the third day (not including Saturdays or Sundays or public holidays) following the day on which the notice was delivered to the courier. Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre paying and posting a letter containing the notice, and shall be deemed to have been received on the fifth day (not including Saturdays or Sundays or public holidays in the Cayman Islands) following the day on which the notice was posted. Where a notice is sent by cable, telex or fax, service of the notice shall be deemed to be effected by properly addressing and sending such notice and shall be deemed to have been received on the same day that it was transmitted. Where a notice is given by e-mail service shall be deemed to be effected by transmitting the e-mail to the e-mail address provided by the intended recipient and shall be deemed to have been received on the same day that it was sent, and it shall not be necessary for the receipt of the e-mail to be acknowledged by the recipient.
- 49.3 A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under the Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.
- 49.4 Notice of every general meeting shall be given in any manner authorised by the Articles to every holder of Shares carrying an entitlement to receive such notice on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member where the Member but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

#### **50 Winding Up**

- 50.1 If the Company shall be wound up the liquidator shall apply the assets of the Company in satisfaction of creditors' claims in such manner and order as such liquidator thinks fit. Subject to the rights attaching to any Shares, in a winding up:
- (a) if the assets available for distribution amongst the Members shall be insufficient to repay the whole of the Company's issued share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them; or
  - (b) if the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the Company's issued share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise.

- 50.2 If the Company shall be wound up the liquidator may, subject to the rights attaching to any Shares and with the sanction of a Special Resolution of the Company and any other sanction required by the Statute, divide amongst the Members in kind the whole or any part of the assets of the Company (whether such assets shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon

such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

## **51 Indemnity and Insurance**

- 51.1 Every Director and officer of the Company (which for the avoidance of doubt, shall not include auditors of the Company), together with every former Director and former officer of the Company (each an “**Indemnified Person**”) shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses, whatsoever which they or any of them may incur as a result of any act or failure to act in carrying out their functions other than such liability (if any) that they may incur by reason of their own actual fraud or wilful default. No Indemnified Person shall be liable to the Company for any loss or damage incurred by the Company as a result (whether direct or indirect) of the carrying out of their functions unless that liability arises through the actual fraud or wilful default of such Indemnified Person. No person shall be found to have committed actual fraud or wilful default under this Article unless or until a court of competent jurisdiction shall have made a finding to that effect.
- 51.2 The Company shall advance to each Indemnified Person reasonable attorneys’ fees and other costs and expenses incurred in connection with the defence of any action, suit, proceeding or investigation involving such Indemnified Person for which indemnity will or could be sought. In connection with any advance of any expenses hereunder, the Indemnified Person shall execute an undertaking to repay the advanced amount to the Company if it shall be determined by final judgment or other final adjudication that such Indemnified Person was not entitled to indemnification pursuant to this Article. If it shall be determined by a final judgment or other final adjudication that such Indemnified Person was not entitled to indemnification with respect to such judgment, costs or expenses, then such party shall not be indemnified with respect to such judgment, costs or expenses and any advancement shall be returned to the Company (without interest) by the Indemnified Person.
- 51.3 The Directors, on behalf of the Company, may purchase and maintain insurance for the benefit of any Director or other officer of the Company against any liability which, by virtue of any rule of law, would otherwise attach to such person in respect of any negligence, default, breach of duty or breach of trust of which such person may be guilty in relation to the Company.

## **52 Financial Year**

Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

## **53 Transfer by Way of Continuation**

If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of

continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

**Shareholders Agreement****March 31, 2010****In respect of****China New Borun Corporation****Between****(1) China New Borun Corporation****(2) King River Holding Limited****(3) Star Elite Enterprises Limited****(4) Earnstar Holdings Limited****(5) TDR Advisors Inc.**


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**This Shareholders' Agreement** (this "**Agreement**") is made this 31st day of March, 2010

**Between:**

- (1) **China New Borun Corporation**, an exempted company incorporated in the Cayman Islands, the registered office of which is at PO Box 309, Uglan House, Grand Cayman, KY1-1104, Cayman Islands (the "**Company**");
- (2) **King River Holding Limited**, a company incorporated in the British Virgin Islands, the registered office of which is at Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands which is 100% owned by Mrs. Shan Junqin (the "**Ordinary Shareholder**");
- (3) **Star Elite Enterprises Limited**, a company incorporated in the British Virgin Islands, the registered office of which is at OMC CHAMBERS, WICKHAMS CAY 1, ROAD TOWN, TORTOLA, BRITISH VIRGIN ISLANDS (the "**Class A Shareholder**");
- (4) **Earnstar Holdings Limited**, a company incorporated in the British Virgin Islands, the registered office of which is at Trident Trust Company (B.V.I.) Limited, Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands (the "**Class B Shareholder**"); and
- (5) **TDR Advisors Inc.**, a company incorporated in the British Virgin Islands, the registered office of which is at Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands (the "**Class C Shareholder**").

**Whereas:**

- (A) As at the date of this Agreement, the issued share capital of the Company consists of 14,847,811 Ordinary Shares held by the Ordinary Shareholder.
- (B) Upon Completion (as defined below), the Company will issue and allot Preference Shares to the Investors.
- (C) The purpose of this Agreement is for the parties to record their agreement in relation to the Shareholders' rights and obligations as shareholders of the Company.

**IT IS HEREBY AGREED:****1 DEFINITIONS AND INTERPRETATION**

1.1 In this Agreement the following words and expressions shall (except where the context otherwise requires) have the following meanings:-

"Articles"	the Company's memorandum and articles of association, as amended from time to time;
"Auditors"	the auditors of the Company as may from time to time be appointed in accordance with this Agreement;
"Board"	the board of Directors from time to time of the Company;

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"Business Days"	any day (excluding Saturdays, Sundays and public holidays in Hong Kong and New York) on which banks generally are open for business in Hong Kong and New York;
"China High"	China High Enterprises Limited, a company incorporated in Hong Kong under registration number 1256980 and with its registered office at Room 904, Harvest Building, 29-35 Wing Kut Street, Central, Hong Kong;

“Class A Director”	a Director from time to time appointed by the Class A Shareholder pursuant to Clause 3.2;
“Class B Director”	a Director from time to time appointed by the Class B Shareholder pursuant to Clause 3.2;
“Class C Director”	a Director from time to time appointed by the Class C Shareholder pursuant to Clause 3.2;
“Completion”	completion by the performance of all the obligations of the parties hereto under Clause 2;
“Director”	any director for the time being of the Company, including where applicable any alternate director;
“Exchange Act”	the Securities Exchange Act of 1934, as amended;
“Golden Direction”	Golden Direction Limited, a company incorporated in the British Virgin Islands under registration number 1472637 and with its registered office at ILS Fiduciary (B.V.I.) Limited, Mill Mall, Suite 6, Wickhams Cay 1, P.O. Box 3085, Road Town, Tortola, British Virgin Islands;
“Group”	the Company and each of its subsidiaries which, after Completion, shall include, without limitation, the following: <ul style="list-style-type: none"> <li>(i) Golden Direction;</li> <li>(ii) China High;</li> <li>(iii) Weifang Great Chemical Inc., a company organised under the laws of the PRC which is wholly owned by China High (“<b>Weifang</b>”);</li> <li>(iv) Shandong Borun Industrial Co., Ltd., a company organised under the laws of the PRC which is wholly owned by Weifang (“<b>Shandong Borun</b>”) and</li> <li>(v) Daqing Borun Biotechnology Co., Ltd., a company organised under the laws of the PRC which is wholly owned by Shandong Borun (“<b>Daqing Borun</b>”),</li> </ul>

and “**Group Company**” means any member of the Group;

“Holder”	any person owning or having the rights to acquire Registrable Securities or any permitted assignee of record of such Registrable Securities to whom rights under Section 13.1 in this Agreement and in <u>Exhibit C</u> have been duly assigned in accordance with this Agreement;
“Investors”	the Class A Shareholder, the Class B Shareholder and the Class C Shareholder (and each, an “ <b>Investor</b> ”);
“Liquidation Event”	any consolidation, amalgamation or merger of the Company with or into any Person, or any other corporate reorganization, including a sale or acquisition of equity securities of the Company, in which the shareholders of the Company immediately before such transaction own less than 50% of the Company’s voting power immediately after such transaction (excluding any transaction effected solely for tax purposes or to change the Company’s domicile); or a sale of all or substantially all of the assets of the Company;
“majority of the Investors”	holders of at least a majority of the outstanding Class A Preference Shares, Class B Preference Shares and Class C Preference Shares (voting separately as a single class and on an as converted to Ordinary Shares basis) from time to time;
“Ordinary Resolution”	means a resolution passed by a simple majority of the Shareholders as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Shareholder is entitled by the Articles;
“Ordinary Shares”	an ordinary share with a par value of US\$[0.001] per share in the capital of the Company having the rights attaching to it as set out herein;
“Original Issue Price”	in the case of each Class A Preference Share, US\$[0.001], in the case of each Class B Preference Share, US\$[0.001], and in the case of each Class C Preference Share, US\$[0.001];
“Preference Shares”	a Preference share of any series with a par value of US\$[0.001] per share in the capital of the Company having the rights, preference and privileges attaching to it set out herein, and includes the Class A Preference Shares, the Class B Preference Shares and the Class C Preference Shares.

“Qualified Public Offering”	a firm commitment underwritten public offering of Ordinary Shares of the Company made pursuant to an effective registration statement under the United States Securities Act of 1933 (the “ <b>Securities Act</b> ”), as amended, on the New York Stock Exchange or the Nasdaq Global Market, or an offering or listing substantially equivalent to the foregoing on another stock exchange. The P/E ratio of each share of the Company should be not lower than nine (9) times calculated pursuant to its net profits in the fiscal year of 2009 and the market capitalization of all its shares or relevant securities should be not less than two hundred million US dollars (USD 200, 000, 000).
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“Registrable Securities”	(1) any Ordinary Shares of the Company issued or issuable pursuant to conversion of any Preference Shares, (2) any Ordinary Shares of the Company issued (or issuable upon the conversion or exercise of any warrant, right or other security which is issued) as a dividend or other distribution with respect to, or in exchange for or in replacement of, any Preference Shares, and (3) any other Ordinary Shares owned or hereafter acquired by the Investor. Notwithstanding the foregoing, “Registrable Securities” shall exclude any Registrable Securities sold by a person in a transaction in which rights under <u>Exhibit C</u> are not assigned in accordance with this Agreement and any Registrable Securities which are sold in a registered public offering under the Securities Act or analogous statute of another jurisdiction, or sold pursuant to Rule 144 promulgated under the Securities Act or analogous rule of another jurisdiction;
“SEC”	the U.S. Securities and Exchange Commission;
“Selling Expenses”	all underwriting discounts and selling commissions applicable to the sale of Registrable Securities pursuant to Section 2 of <u>Exhibit C</u> .
“Share Exchange Agreement”	the share exchange agreement entered into on February 28, 2010, by and between the Company, Golden Direction Limited, China High and the Investors;
“Shareholders”	the members of the Company, including the Ordinary Shareholder and each of the Investors, and any person or persons to whom they may properly transfer their Shares pursuant to the provisions of this Agreement and the Articles (and each, a “Shareholder”);
“Shares”	a share or shares in the capital of the Company, including the Ordinary Shares and the Preference Shares, and includes a fraction of a share;
“Special Resolution”	a resolution which has been (a) passed by a majority of not less than two-thirds of such Shareholders as, being

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entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, or (b) approved in writing by all of the Shareholders entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of the Shareholders aforesaid.

“Statute” the Companies Law (2009 Revision) of the Cayman Islands as amended and every statutory modification or re-enactment thereof for the time being in effect.

- 1.2 In this Agreement, unless the context otherwise requires, any reference to a “Clause” or a “Schedule” is a reference to a clause or a schedule of this Agreement and, unless otherwise indicated, includes all the sub-clauses of that clause. The Schedules form an integral part of this Agreement.
- 1.3 In this Agreement, words importing the singular include the plural and vice versa, words importing gender or the neuter include both genders and the neuter and references to persons include bodies corporate or unincorporate.
- 1.4 The clause headings in this Agreement are for convenience only and shall not affect its interpretation.
- 1.5 References herein to statutory provisions shall be construed as references to those provisions as respectively amended or re-enacted (whether before or after the date hereof) from time to time and shall include any provision of which they are re-enactments (whether with or without modification) and any subordinate legislation made pursuant thereto.
- 1.6 Where any obligation in this Agreement is expressed to be made, undertaken or given by two or more parties, they shall be jointly and severally responsible in respect of it.
- 1.7 References to persons shall include bodies corporate, unincorporated associations and partnerships and references to “the parties” or “a party” shall mean the parties or a party (as the case may be) to this Agreement.

## 2 COMPLETION

2.1 Completion shall occur on the Closing Date (as defined in the Share Exchange Agreement), when each of the following matters shall be effected:

- (a) each of the Investors shall transfer to Golden Direction its entire interest in the shareholding of China High (representing approximately 25.76% of the entire issued share capital of China High), as follows:

<u>Transferor</u>	<u>Shares to be transferred to Golden Direction</u>	<u>Percentage of China High Shares</u>
Class A Shareholder	2,000 preference shares of China High	Approximately 18.56%
Class B Shareholder	574 preference shares of China High	Approximately 5.33%
Class C Shareholder	202 preference shares of China High	Approximately 1.87%

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- (b) the Company shall issue and allot Preference Shares to the Investors, credited as fully paid, so that immediately following the Closing Date, the Investors shall hold the following Preference Shares (representing approximately 25.76% of the entire issued share capital of the Company calculated on a fully-diluted basis):

<u>Investors</u>	<u>Number of Preference</u>	<u>Number of Ordinary Shares Into Which</u>	<u>Percentage of New Borun Shares,</u>
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	Shares to be Issued	Preference Shares are Convertible	Calculated on a Fully-Diluted Basis, Immediately After Issuance
Class A Shareholder	3,711.952 Class A Shares	3,711,952 Ordinary Shares (subject to adjustment in accordance with this Agreement)	Approximately 18.56%
Class B Shareholder	1,065.330 Class B Shares	1,065,330 Ordinary Shares (subject to adjustment in accordance with this Agreement)	Approximately 5.33%
Class C Shareholder	374.907 Class C Shares	374,907 Ordinary Shares (subject to adjustment in accordance with this Agreement)	Approximately 1.87%

For the avoidance of doubt, attached hereto as Exhibit A is an Equity Ownership Table which sets forth the equity ownership of the Investors in China High immediately prior to the Closing Date, and the equity ownership of the Investors in New Borun immediately after the Closing Date.

(c) each of the persons nominated pursuant to Clause 3 below shall be appointed as a Director.

2.2 Each of the matters set out in Clause 2.1 shall occur simultaneously, and shall be conditional upon each other such matter occurring simultaneously therewith.

### 3 BOARD OF DIRECTORS; BOARD COMMITTEES

3.1 Until the closing of a Qualified Public Offering, the Board shall consist of 9 Directors, each of whom shall serve a one year term until his or her successor is elected at an annual or special meeting of the shareholders of the Company called for the purpose of electing Directors, and shall meet at least twice a year and once every half a year, after which the Board may determine the number of Directors, term limits and the frequency of Board meetings at the sole discretion of the Board in accordance with the Articles and applicable law.

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3.2 Subject to Clause 3.5, each Investor shall have the right to appoint a Director at an annual or special meeting of the shareholders of the Company called for the purpose of electing Directors (the “**Appointment Right**”) as follows:

- (a) If the Company has seven or more directors, the Class A Shareholder shall be entitled to appoint 2 Directors (each, a “**Class A Director**”) and to remove or substitute any such Class A Director so appointed; if the Company has less than 7 directors, the Class A Shareholder shall be entitled to appoint 1 Class A Director and to remove or substitute such Class A Director so appointed;
- (b) the Class B Shareholder shall be entitled to appoint 1 Director (the “**Class B Director**”), and to remove or substitute any Class B Director so appointed; and
- (c) the Class C Shareholder shall be entitled to appoint 1 Director (the “**Class C Director**”), and to remove or substitute any Class A Director so appointed.

The first Class A Director shall be Mr. Rong Chen, the first Class B Director shall be Mr. Yibin Wei and the first Class C Director shall be Ruiping Wang, each of whom shall be appointed upon the Closing Date in accordance with Clause 2.1(c).

Thereafter, each Investor’s Appointment Right shall be exercised by the relevant Investor delivering a written notice to the Company, and any such appointment, removal or substitution of the Director as specified therein shall be effective (without the requirement for any further approval or action on the part of the Shareholders or the Board) forthwith upon delivery of such written notice to the Company.

3.3 The remaining Directors of the Board (the “**Ordinary Directors**”) shall be appointed and may be removed by an Ordinary Resolution of the Company.

3.4 The quorum for the transaction of business at any meeting of the Board of Directors shall include at least 1 Class A Director, 1 Class B Director and 1 Class C Director being present at the time when the relevant business is transacted. A person who holds office as an alternate Director shall, if such person’s appointor is not present, be counted in the quorum. A Director who also acts as an alternate Director shall, if such Director’s appointor is not present, count twice towards the quorum.

3.5 Each Investor’s Appointment Right shall terminate upon the closing of a Qualified Public Offering. Thereafter, the Class A Director, the Class B Director and the Class C Director shall serve until the next annual meeting of the shareholders when their successors are duly elected and qualified.

3.6 Upon the termination of the Appointment Right of each Investor, such Investor shall have the right to nominate one Director candidate at the next annual meeting of the shareholders of the Company in accordance with the election procedures set forth in the Articles. Such nominating right does not guarantee that such Director candidate will be elected to serve as a Director of the Company.

3.7 If the Company sets up a compensation committee of the Board, each of the Investors shall have the right to designate persons to become members of such compensation committee and to examine, approve and formulate the share equity policy of the Company (including employee stock ownership plans) and to examine and approve the compensation of the Company’s senior management (including, without limitation, the Company’s Chief Executive Officer, Chief Operating Officer, Chief Technology Officer and Chief Financial Officer).

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3.8 If the Company sets up a financial committee, an execution committee, an audit committee or a listing committee of the Board, each of the Investors shall have the right to designate persons to become members of such committees.

3.9 All reasonable expenses incurred by the Class C Director in its capacity as the Class C Director, including, without limitation, expenses relating to the attendance by the Class C Director of all Board meetings, shall be borne by the Company.

3.10 With the exception of Clauses 3.1, 3.5 and 3.6, the rights set forth in this Clause 3 shall terminate upon the closing of a Qualified Public Offering.

#### 4 ADJUSTMENT TO INVESTORS' SHARE PROPORTIONS; ANTI-DILUTION

##### 4.1 Adjustments to Investors' Share Proportions

(a) If the audited net profit of the Group for the fiscal year ended December 31, 2009 is less than RMB110,000,000, then the Class A Shareholder's Share proportion in the Company (calculated on a fully diluted basis) shall be increased to such percentage which is equal to RMB110,000,000 divided by the audited net profit for the fiscal year ended December 31, 2009, multiplied by the Class A Shareholder's current Share proportion. In the event that the Class A Shareholder is entitled to increase its Share proportion in accordance with this Clause 4.1(a), the Ordinary Shareholder shall transfer to the Class A Shareholder without consideration that number of its Ordinary Shares equal to the difference between the Class A Shareholder's existing Share proportion and such increased percentage calculated in accordance with this Clause 4.1(a) (such increased percentage is referred to in this Clause 4.1 as the "**2010 Adjustment Percentage**") within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2009.

(b) If the audited net profit of the Group for the fiscal year ended December 31, 2010 is less than RMB170,000,000, then the Class A Shareholder's Share proportion in the Company (calculated on a fully diluted basis) shall be increased to such percentage which is equal to RMB170,000,000 divided by the audited net profit for the fiscal year ended December 31, 2010, multiplied by the 2010 Adjustment Percentage. In the event that the Class A Shareholder is entitled to increase its Share proportion in accordance with this Clause 4.1(b), the Ordinary Shareholder shall transfer to the Class A Shareholder without consideration that number of its Ordinary Shares equal to the difference between the 2010 Adjustment Percentage and such increased percentage calculated in accordance with this Clause 4.1(b) (such increased percentage is referred to in this Clause 4.1 as the "**2011 Adjustment Percentage**") within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2010.

(c) Regardless of any adjustments made to the Class A Shareholder's Share proportions as contemplated by Clauses 4.1(a) and (b) above: (i) after the adjustment contemplated by Clause 4.1(a) above, the Company shall ensure that the net profit of the Group attributable to the Class A Shareholder is not less than RMB22,000,000 (20% of Shares upon investment by the Class A Shareholder multiplied by RMB110,000,000 for the fiscal year ended December 31, 2009), and if it is below RMB22,000,000, then the Class A Shareholder's Share proportion shall be increased to ensure that the net profit of the Group attributable to the Class A Shareholder is not less than RMB22,000,000 and (ii) after the adjustment contemplated by Clause 4.1(b) above, the Company shall ensure that the net profit of the Group attributable to the Class A Shareholder is not less than RMB34,000,000 (20% of Shares upon investment by the Class A Shareholder multiplied by RMB170,000,000 for the fiscal year ended December 31, 2010), and if it is below RMB34,000,000, then the Class A Shareholder's Share proportion shall be increased to ensure that the net profit of the Group attributable to the Class A Shareholder is not less than RMB34,000,000. Any increases in the Class A Shareholder's Share proportion in

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accordance with this Clause 4.1(c) shall be effected through the transfer of Ordinary Shares held by the Ordinary Shareholder in the same manner as set forth in Clauses 4.1(a) and (b) above.

(d) If the audited net profit of the Group for the fiscal year ended December 31, 2009 is less than RMB150,000,000, then the valuation basis of the Shares held by the Class B and Class C Shareholders shall be adjusted to each be equal to the audited net profit for the fiscal year ended December 31, 2009 divided by RMB150,000,000, multiplied by RMB750,000,000 (the "**2010 Adjusted Valuation**"). The Ordinary Shareholder shall, within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2009, transfer to each of the Class B and Class C Shareholders without consideration that number of its Ordinary Shares equal to: that number of Ordinary Shares to which such Investors' Preference Shares are convertible into (referred to hereinafter as such Investor's "**Target Shares**") divided by that figure equal to the 2010 Adjusted Valuation divided by RMB750,000,000, minus the number of such Investor's Target Shares.

(e) If the audited net profit of the Group for the fiscal year ended December 31, 2010 is less than RMB220,000,000, then the valuation basis of the Shares held by the Class B and Class C Shareholders shall be adjusted to each be equal to (a) the audited net profit for the fiscal year ended December 31, 2009 divided by RMB150,000,000, multiplied by RMB750,000,000 or (b) the audited net profit for the fiscal year ended December 31, 2010 divided by RMB220,000,000, multiplied by RMB750,000,000, whichever is lower (the "**2011 Adjusted Valuation**"). The Ordinary Shareholder shall, within three Business Days of the issuance of the Auditor's audit report for the fiscal year ended December 31, 2010, transfer to each of the Class B and Class C Shareholders without consideration that number of its Ordinary Shares equal to: that number of such Investor's Target Shares divided by that figure equal to the 2011 Adjusted Valuation divided by RMB750,000,000, minus the number of such Investor's Target Shares.

(f) If the audited net profit of the Group records a loss in either the fiscal year ended December 31, 2009 or in the fiscal year ending December 31, 2010, then the aggregate Share proportion (calculated on a fully diluted basis) held by the Investors in the Company shall be increased to 45%, and the proportion of the number of Shares held by each Investor in the Company after such increase shall remain the same. Under no circumstances would an Investor's Share proportion (calculated on a fully diluted basis) be decreased as a result of the terms of this provision. The Ordinary Shareholder shall, within three Business Days of the issuance of the Auditor's audit report for the applicable fiscal year, transfer to each Investor that number of its Ordinary Shares required in order to effect the increase contemplated by this Clause 4.1(f).

(g) If the Investors are entitled to an increase in their Share proportions in accordance with the terms of this Clause 4.1 one year prior to the closing of a Qualified Public Offering and the adjustment has not been made, then the Investors shall still have the right to adjust its Share proportion after the closing of a Qualified Public Offering.

(h) The Company shall ensure to the Class C Shareholder that the Group's valuation prior to any Qualified Public Offering (and excluding any funds generated by such Qualified Public Offering) will not be lower than RMB1,500,000,000. In the event that the Group's valuation is below RMB1,500,000,000, then the Ordinary Shareholder shall be obligated to compensate the Class C Shareholder with an amount equal to the difference between such valuations in the form of cash or in Ordinary Shares at the option of the Class C Shareholder.

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##### 4.2 Anti-Dilution Rights

(a) In the event that the Company issues any New Securities (as defined below), each Investor shall have the right to receive from the Company that number Shares for no consideration that would cause such Investor to continue to hold, after any such issuance(s), the same Share proportion held by such Investor immediately prior to any such issuance(s). In the event that the Company is prohibited by law to issue such new Shares to the Investors in

accordance with this Clause 4.2(a), then the Ordinary Shareholder shall be obligated to transfer that number its Ordinary Shares to the Investors so as to give effect the rights set forth in this Clause 4.2(a).

“**New Securities**” means any Shares, whether now authorized or not, and rights, options or warrants to purchase securities of any type whatsoever that are, or may become, convertible or exchangeable into Shares, excluding:

- (i) Shares issued upon the conversion of the Preference Shares held by any Investor;
- (ii) The issuance of shares under the employee stock ownership plan, or under the other incentive stock mechanism approved by the board of directors and investors ;
- (iii) Shares issuable pursuant to and/or in accordance with the terms of this Agreement; and
- (iv) Shares issuable to any new investor as contemplated by Clause 4.2(b) herein below.

(b) In the event that the Company enters into any subsequent equity financings whereby the Company issues Shares to any new investor: (i) the Class B and Class C Shareholders shall each be entitled to acquire that number of Shares which would cause such Investor to continue to hold, after the issuance of Shares to such new investor, the same Share proportion (calculated on a fully diluted basis) held by such Investor immediately prior to any such issuance(s); such Investors shall be entitled to acquire such new Shares from the Company at the same price per Share which had been offered to and purchased by such new investor, (ii) the Class A Shareholder’s Share proportion (calculated on a fully diluted basis) shall be diluted in proportion to the Ordinary Shareholder’s Share proportion (calculated on a fully diluted basis) and (iii) the Investors shall have the right to demand that the Company and the Ordinary Shareholder amend this Agreement to include any terms granted to any new investor that are more favourable than those provided in this Agreement.

4.3 The provisions set out in this Clause 4 shall terminate upon the closing of a Qualified Public Offering.

## 5 INFORMATION AND INSPECTION RIGHTS

5.1 Each of the Shareholders undertakes to the others and to the Company that it shall exercise all its powers in relation to the Company so as to procure (insofar as it is able) that, and the Company undertakes to each of the Investors (insofar as it is legally able so to do) that, for so long as any Investor holds any Shares, the Company will deliver to that Investor:

- (a) audited annual consolidated financial statements, prepared in accordance with generally accepted accounting principles and audited by an accounting firm mutually agreed upon by the Company and the Investors, within 90 days after the end of each financial year;

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- (b) unaudited monthly consolidated financial statements and management reports, prepared in accordance with generally accepted accounting principles, within 21 days of the end of each month;
- (c) annual budget plan for the following financial year as approved by the Company’s Board, within 30 days prior to the end of each financial year; and
- (d) copies of all other documents which have been delivered to any other shareholder, within 14 days of delivering such documents to such other shareholder.

5.2 Each of the Shareholders undertakes to the others and to the Company that it shall exercise all its powers in relation to the Company so as to procure (insofar as it is able) that, and the Company undertakes to each of the Investors (insofar as it is legally able so to do) that, for so long as any Investor holds any Shares, that Investor and its authorized representatives shall have the right to inspect the facilities, sites and other premises owned or used by the Company and each other Group Company, at any time during regular working hours on reasonable prior notice to the respective Group Company.

5.3 The provisions set out in this Clause 5 shall terminate upon the closing of a Qualified Public Offering.

## 6 PROTECTIVE PROVISIONS; RESTRICTIVE COVENANTS

6.1 Each of the Shareholders undertakes to the others and to the Company that it shall exercise all its powers in relation to the Company so as to procure (insofar as it is able) that, and the Company undertakes to each of the Shareholders (insofar as it is legally able so to do) that, for so long as any Preference Share remains outstanding, none of the matters set out below in relation to the Company or any other Group Company shall take place (whether by merger, amalgamation, consolidation, scheme of arrangement, amendment or otherwise and whether in a single transaction or in a series of related transactions), and no obligation or liability in connection therewith shall be entered into or accepted by or on behalf of the Company or any other Group Company and no other step in relation thereto is taken, without the same having first been approved by the unanimous approval (by vote or by written resolution) of all the Directors:

- (a) any authorization, creation (by newly characterization or by other means), issue of the Company’s securities or undertaking any liabilities of issuing any securities of the Company, or increase of the registered capital of the subsidiaries of the Company;
- (b) increase or decrease of the total shares owned by investors;
- (c) amend, delete or create any clauses in the Company’s Memorandum or the Articles of Association or other basic files and/or documents;
- (d) declare or pay dividends of the Company;
- (e) increase the number of the Board of Directors in any companies;
- (f) involve in any liquidation, merge or sale or purchase of substantial assets of the Company and/or its related companies, or change in the controlling power within the Company and/or its related companies;
- (g) increase the number of issued shares in respect of the Employee Share Option Plan or similar plan;

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- (h) employ any senior management personnel whose annual remuneration is more than HK\$400,000.00. Increase the annual remuneration of the Company's senior management whose annual remuneration is more than HK\$400,000.00 or the equivalent amount of RMB with over 50% increment;
  - (i) allow or by other means transfer any of the Company's patents, copyrights, trademarks or other intellectual properties other than in the normal course of the business.
  - (j) incur any liabilities exceeding HK\$5,000,000 or the equivalent amount of RMB by borrowing or other means, or incur any liabilities with the Company's patents, copyrights, trademarks or other intellectual properties as collateral;
  - (k) issue of any loans exceeding HK\$1,000,000.00 or the equivalent in RMB to any directors, company's management or employees or related parties; or issue any loans or loan guarantees exceeding HK\$300,000.00 or the equivalent in RMB to any related parties;
  - (l) purchase of any real properties exceeding HK\$5,000,000.00 or the equivalent in RMB;
  - (m) involve in any single transactions or series of transactions exceeding the aggregate value of HK\$5,000,000.00 or the equivalent amount of RMB other than in the normal course of the Company;
  - (n) approve the annual budget of the Company;
  - (o) appoint or reappoint the companies general manager, assistant general manager and chief financial officer;
  - (p) appoint or reappoint the Company's auditors;
  - (q) change the nature and structure(including the shareholding structure) of the Company and its subsidiaries; and
  - (r) involve in any behaviour adversely affect the ownership rights, preferential rights or any other privileges entitled to and received by the investors, where such adverse effect is reasonably foreseeable.
- 6.2 The rights attached to any class of Preference Shares may, whether or not the Company is being wound up, be varied only with the consent in writing of the holders of not less than two-thirds of the issued Preference Shares of that class, or with the sanction of a resolution passed by a majority of not less than two-thirds of the votes cast at a separate meeting of the holders of the Preference Shares of that class.
- 6.3 In the event that the Company adopts an employee stock ownership plan, the total number of Shares issuable under such plan shall not exceed 2% of the issued and outstanding Shares then outstanding of the Company without the prior written consent of each of the Investors.
- 6.4 Mrs. Shan Junqin shall be prohibited from directly or indirectly assigning or transferring any of her shares in the Ordinary Shareholder without the prior written consent of the Class B and the Class C Shareholders.
- 6.5 The provisions set out in this Clause 6 shall terminate upon the closing of a Qualified Public Offering.

## 7 RETAINED PROFITS; DIVIDENDS

- 7.1 The retained profits of the Company should be enjoyed by all the Shareholders in proportion to their respective Share proportions (calculated on a fully-diluted basis).
- 7.2 The parties shall procure that the Auditors shall, at the expense of the Company, be instructed to certify the amount of the profits for each financial year which are available for distribution by the Company at the same time as they sign their report on the audited accounts of the Company for the financial year in question.
- 7.3 The parties shall procure that in respect of each financial year (insofar as is lawful), unless otherwise agreed unanimously by the Investors, the Group's profits available for distribution shall be distributed to the Shareholders by way of dividend, subject to such reasonable and proper reserves being retained for working capital requirements and other liabilities of the Group as the Board may consider appropriate, as follows:
- (a) Each Investor shall be entitled to receive cash dividends pro rata to their Share holdings in the Company calculated on an as-converted basis, prior and in preference to any dividends payable to any other holders of Shares.
  - (b) After all dividends payable to the Investors under sub-clause (a) above have been paid in full, the balance of the dividends payable to any other holders of Shares, whether in cash, property or authorized Shares, shall then be paid to all other holders of Shares, pro-rata to their holdings in the Company (on an as-converted basis, if applicable).
- 7.4 The parties hereto hereby agree that so long as the closing of a Qualified Public Offering occurs prior to September 30, 2010, no dividends shall be paid in respect of the Group's profits prior to September 30, 2010.
- 7.5 Except for Clause 7.4 above, the provisions set out in this Clause 7 shall terminate upon the closing of a Qualified Public Offering.

## 8 RIGHT OF FIRST REFUSAL; INVESTORS' CO-SALE RIGHTS

- 8.1 Each Shareholder (each a "Selling Shareholder") agrees not to, directly or indirectly, transfer, sell, pledge or otherwise dispose of any Shares or any interest therein ("Transfer") except in compliance with this Clause 8.
- 8.2 If any Selling Shareholder proposes a Transfer, then such Selling Shareholder shall give each of the Company and each other Shareholder a written notice of such Selling Shareholder's intention to make such Transfer (the "Transfer Notice"), which Transfer Notice shall include (i) a description of the Shares to be transferred (the "Offered Shares"), (ii) the identity of the prospective transferee(s), and (iii) the consideration and the material terms and conditions upon

which the proposed Transfer is to be made. The Transfer Notice shall certify that such Selling Shareholder has received a firm offer from the prospective transferee(s) and in good faith believes a binding agreement for the Transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed Transfer.

### 8.3 Right of First Refusal

Each Shareholder entitled to receive a Transfer Notice (a “**ROFR Holder**”) who notifies such Selling Shareholder and the Company in writing within 20 Business Days after receipt of the Transfer Notice (the “**First Refusal Period**”) shall have the right,

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exercisable upon such written notice to the Selling Shareholder (the “**Purchase Notice**”), to purchase up to its ROFR Pro Rata Share (as defined below) of the Offered Shares on the same terms and conditions as set forth in the Transfer Notice (each a “**Purchasing Holder**”). “**ROFR Pro Rata Share**” shall mean the ratio of (a) the number of Ordinary Shares (calculated on an as-converted to Ordinary Shares basis) held by the relevant ROFR Holder, to (b) the total number of Ordinary Shares (calculated on an as-converted to Ordinary Shares basis) held by all ROFR Holders on the date of the Transfer Notice. The Purchase Notice shall state (i) whether the Purchasing Holder desires to purchase up to its ROFR Pro Rata Share of the Offered Shares, and (ii) whether the Purchasing Holder desires to purchase the maximum amount of the Offered Shares available including its ROFR Pro Rata Share of amounts not purchased by other ROFR Holders. A ROFR Holder who either does not deliver a Purchase Notice within the First Refusal Period or indicates in the Purchase Notice that such ROFR Holder elects not to purchase any of the Offered Shares shall be referred to herein as a “**Non-Purchasing Holder**”. To the extent that any Purchasing Holder does not exercise its right of first refusal to the full extent of its ROFR Pro Rata Share of the Offered Shares, the Selling Shareholder and the remaining Purchasing Holders shall, within 10 Business Days after the end of the First Refusal Period, make such adjustments to each exercising Purchasing Holder’s pro rata share of the Offered Shares so that any remaining Offered Shares may be allocated to the remaining Purchasing Holders on a pro rata basis. Each Purchasing Holder who sets forth in the Purchase Notice a desire to purchase the maximum amount of Offered Shares available shall be entitled to purchase his, her or its pro rata share of each Non-Purchasing Holder’s ROFR Pro Rata Share of the Offered Shares.

### 8.4 Investors’ Co-Sale Rights

If the Selling Shareholder is the Ordinary Shareholder, then:

- (a) The Ordinary Shareholder shall not be entitled to transfer any Shares in the Company without the prior written consent of the Class B and the Class C Shareholders.
- (b) Each Investor entitled to receive the Transfer Notice (a “**Co-Sale Right Holder**”) may, by giving written notice to the Selling Shareholder (the “**Co-Sale Notice**”) within 20 Business Days after its receipt of the Transfer Notice, notify the Selling Shareholder that such Co-Sale Right Holder wishes to sell a portion of its Shares and the number of such Shares to be sold. Such Co-Sale Right Holder who notifies such Selling Shareholder (a “**Co-Sale Participant**”) shall therefore have the right to participate in the sale of Offered Shares, to the extent the ROFR Holders do not exercise their respective rights of first refusal as to all of the Offered Shares pursuant to Clause 8.3 (the “**Remaining Shares**”), on the same terms and conditions as specified in the Transfer Notice.
- (c) Each Co-Sale Participant may sell all or any part of that number of Ordinary Shares (issuable upon conversion of its Preference Shares) equal to the product obtained by multiplying (i) the Remaining Shares, by (ii) a fraction, the numerator of which shall be the number of Shares owned by such Co-Sale Participant and the denominator of which shall be the total number of Shares held by all the Co-Sale Right Holders and the Selling Shareholder on the date of the Transfer Notice on an as-converted to Ordinary Shares basis. To the extent one or more Co-Sale Participants exercise their right under this Clause 8.4, the number of Remaining Shares that the Selling Shareholder may sell in the transaction shall be correspondingly reduced.
- (d) Each Co-Sale Participant shall effect its participation in the sale by promptly delivering to the Selling Shareholder instruments of transfer in favour of the

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prospective purchaser (together with the relevant share certificates, if any have been issued), in respect of:

- (1) the type and number of the Shares which such Co-Sale Participant elects to sell; or
- (2) the number of the Preference Shares which are at such time convertible into the number of Ordinary Shares which such Co-Sale Participant elects to sell; provided, however, that if the prospective third party purchaser objects to the transfer of such Preference Shares in lieu of Ordinary Shares, such Co-Sale Participant shall first convert such Preference Shares into Ordinary Shares and transfer Ordinary Shares as provided in this Clause 8.4. The Company agrees to make any such conversion concurrent with the actual transfer of such Preference Shares or Ordinary Shares to the purchaser and contingent upon such transfer.
- (e) The Shares which the Co-Sale Participant elects to sell shall be transferred to the prospective purchaser in consummation of the sale of the Offered Shares upon the terms and conditions specified in the Transfer Notice, and such Selling Shareholder shall concurrently therewith remit to such Co-Sale Participant that portion of the sale proceeds to which such Co-Sale Participant is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase Shares from a Co-Sale Participant exercising its rights of co-sale hereunder, such Selling Shareholder shall not sell to such prospective purchaser or purchasers any Shares unless and until, simultaneously with such sale, such Selling Shareholder shall purchase such Shares from such Co-Sale Participant for the same consideration and on the same terms and conditions as the proposed Transfer described in the Transfer Notice.

### 8.5 Non-Exercise of Rights

To the extent that the ROFR Holders and the Co-Sale Right Holders have not exercised their rights to purchase the Offered Shares or their rights to participate in the sale of the Offered Shares, the Selling Shareholder shall have a period of 45 Business Days from the expiration of such rights to sell any remaining Offered Shares, upon terms and conditions (including the purchase price) no more favorable to the purchaser than those specified in the Transfer Notice, to the third-party transferee(s) identified in the Transfer Notice. The third-party transferee(s) shall, as a condition to the effectiveness of transfer of the Offered Shares, furnish the Company, the ROFR Holders and the Co-Sale Right Holders with a deed of adherence (the “**Deed of Adherence**”) in the form of

Exhibit B attached hereto agreeing to be bound by and comply with this Agreement. In the event a Selling Shareholder does not consummate the sale or disposition of the Offered Shares within the 45 Business Day period from the expiration of these rights, the ROFR Holders' right of first refusal and the Co-Sale Right Holders' co-sale rights hereunder shall continue to be applicable to any subsequent disposition of the Shares by such Selling Shareholder. Furthermore, the exercise or non-exercise to purchase Shares from a Selling Shareholder or participate in the sale of Equity Securities by a Selling Shareholder shall not adversely affect the ROFR Holders' rights to make subsequent purchases from any Selling Shareholder of Shares or the Co-Sale Right Holders' subsequent participation in sales of Shares by any Selling Shareholder hereunder. Any proposed Transfer on terms and conditions different than those described in the Transfer Notice, as well as any subsequent proposed Transfer of any of the Selling Shareholders' Equity Securities shall again be subject to the first refusal and co-sale rights hereunder and shall require compliance by the relevant Selling Shareholder with the procedures described in this Clause 8.

8.6 The provisions set out in this Clause 8 shall terminate upon the closing of a Qualified Public Offering.

## 9. PARTICIPATION RIGHTS

9.1 Each Investor shall have the right (a "**Participation Right**") to purchase such Investor's Pro Rata Share (as defined below) of all of the New Securities that the Company may from time to time issue with the exception of any securities (including, but not limited to, options and shares) issuable to employees, consultants, officers or directors of the Company pursuant to any stock option, share purchase, share bonus or other equity incentive plans, agreements or arrangements of the Company, each as approved by the Board.

9.2 For the purposes of this Agreement:

- (a) "**Pro Rata Share**" means, for the purposes of an Investor's Participation Right, the ratio of (a) the number of Equity Securities (as defined below) (calculated on an as-converted to Ordinary Shares basis) held by such Investor, to (b) the total number of all Equity Securities (calculated on an as-converted to Ordinary Shares, fully-diluted basis) issued and outstanding immediately prior to the issuance of New Securities giving rise to the Participation Rights; and
- (b) "**Equity Securities**" means, with respect to any given Shareholder or Investor, all Ordinary Shares of the Company or securities convertible into or exercisable for Ordinary Shares of the Company now owned or subsequently acquired by such Shareholder or Investor from time to time.

9.3 In the event that the Company proposes to undertake an issuance of New Securities (in a single transaction or a series of related transactions), it shall give to each Investor written notice of its intention to issue New Securities (the "**Participation Notice**"), describing the amount and type of New Securities, the price and the general terms upon which the Company proposes to issue such New Securities. Each Investor shall have 20 Business Days from the date of receipt of the Participation Notice (the "**Participation Period**") to give written notice to the Company that it agrees to purchase all or any portion of such Investor's Pro Rata Share of such New Securities for the price and upon the terms and conditions specified in the Participation Notice. If any Investor fails to give such written notice to the Company within the Participation Period, then such Investor shall forfeit its Participation Right hereunder.

9.4 If any Investor fails or declines to exercise all or any portion of its Participation Right within the Participation Period, the Company shall promptly give notice (the "**Second Participation Notice**") to all the other Investors who exercised all or any portion of their Participation Rights (the "**Rights Participants**"), setting forth (A) the additional number of New Securities which have not been subscribed for by the other Investors ("**Additional Shares**") and (B) the Rights Participant's pro rata entitlement to such Additional Shares (the "**Oversubscription Share**"), which shall be the quotient of (1) the number of Equity Securities (calculated on an as-converted to Ordinary Shares basis) held by such Rights Participant, divided by (b) the total number of Equity Securities (calculated on an as-converted to Ordinary Shares basis) held by all Rights Participants immediately prior to the issuance of New Securities giving rise to the Participation Rights. Each Rights Participant shall have 10 Business Days from the date of the Second Participation Notice (the "**Second Participation Period**") to give a written notice to the Company of the number of Additional Shares that it proposes to buy which shall not exceed such Rights Participant's Oversubscription Share (the "**Additional Number**"). If any Rights Participant fails to give such written notice to the Company within the

Second Participation Period, then such Rights Participant shall forfeit its right to purchase any of the Additional Shares.

9.5 Upon the expiration of the Second Participation Period, or in the event no Investor exercises its Participation Rights within the Participation Period following the issuance of the Participation Notice, the Company shall have 45 Business Days thereafter to sell the New Securities described in the Participation Notice (with respect to which Participation Rights hereunder were not exercised) at the same or higher price and otherwise upon terms not materially more favorable to the purchasers thereof than specified in the Participation Notice. In the event that the Company has not issued and sold such New Securities within such 45 Business Day period, then the Company shall not thereafter issue or sell any New Securities without again first offering such New Securities to the Investors pursuant to this Clause 9.

9.6 The provisions set out in this Clause 9 shall terminate upon the closing of a Qualified Public Offering

## 10. CONVERSION RIGHTS

10.1 Upon the closing of a Qualified Public Offering, 100% of the Preference Shares held by the Investors (representing approximately 25.76% of the entire issued share capital of the Company as set forth in Clause 2.1 above) shall automatically convert into Ordinary Shares as contemplated by Clause 2.1(b) above and in the manner and subject to any applicable adjustments set forth in the applicable subsections of Clauses 10.2 and 10.3 below.

10.2 Subject to the Statute, any Preference Share may, at the option of the holder thereof, be converted at any time prior to the closing of a Qualified Public Offering, without the payment of any additional consideration, into fully-paid and non-assessable Ordinary Shares in the manner set out in this Clause 10:

- (a) The number of Ordinary Shares to which a holder shall be entitled upon conversion of any Preference Share shall be determined by dividing the applicable Original Issue Price for such Preference Share by the applicable Conversion Price for such Preference Share (the "**Conversion Ratio**"), determined as hereafter provided, in effect on the date the Conversion Notice. The initial Conversion Price for any Preference Share shall be the Original Issue Price applicable to such Preference Share multiplied by 0.001, such that the initial Conversion Ratio shall be 1:1,000 (to the intent and effect that each Preference Share shall be converted into 1,000 Ordinary Shares), provided however that the Conversion Price shall be subject to adjustment as set forth in this Clause.

- (b) A holder of any Preference Shares shall be entitled to exercise its right to convert such Preference Shares prior to the closing of a Qualified Public Offering by delivering a written notice to the Company that such holder has elected to convert such Preference Shares, stating the number and Class of Preference Shares being converted (a “**Conversion Notice**”), together with the related share certificates and such other evidence (if any) as the Directors may reasonably require to prove the title of the person exercising the right to convert. A Conversion Notice once given may not be withdrawn without the consent in writing of the Company.
- (c) Conversion of the Preference Shares in respect of which the right to convert shall have been duly exercised and which are due to be converted (the “**Relevant**

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**Shares**”) shall be effected by way of redemption of the Relevant Shares and the issue of the applicable number of new Ordinary Shares.

- (d) Fractions of Ordinary Shares arising on conversion will not be issued upon conversion of any Preference Shares, provided that all Ordinary Shares (including fractions thereof) issuable upon conversion of more than 1 Preference Share held by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. In lieu of any fractional shares to which the holder would otherwise be entitled, the Company shall at the discretion of the Board either (i) pay cash equal to such fraction multiplied by the applicable Conversion Price for the Preference Shares, or (ii) issue one whole Ordinary Share for each fractional share to which the holder would otherwise be entitled.
- (e) The conversion shall take effect, and all necessary allotments of Ordinary Shares arising therefrom shall be made, not later than 5 Business Days after the date of receipt by the Company of the relevant duly executed Conversion Notice and the original certificates in respect of the Relevant Shares (or, in the case of a conversion upon the closing of a Qualified Public Offering pursuant to Clause 10.1, simultaneously with the closing of the Qualified Public Offering). The Company shall not later than the 20 Business Days following the date of such conversion send to each holder a definitive share certificate for the Ordinary Shares resulting from conversion and, if appropriate, certificates for any unconverted Preference Shares comprised in the certificate surrendered by him.
- (f) The dividends on Preference Shares which are converted shall cease to accrue with effect from the date of conversion. The Ordinary Shares resulting from conversion shall carry the right to receive all dividends and other distributions declared made or paid in respect of Ordinary Shares in the Company by reference to a record date on or after the relevant date of conversion and shall rank *pari passu* in all other respects and form one class with the Ordinary Shares in the Company then in issue and fully paid.

### 10.3 Adjustments to Conversion Price

#### (a) *Adjustment for Share Splits and Combinations*

If the Company shall at any time, or from time to time, effect a subdivision of the outstanding Ordinary Shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately decreased. Conversely, if the Company shall at any time, or from time to time, consolidate the outstanding Ordinary Shares into a smaller number of shares, the Conversion Price in effect immediately prior to the consolidation shall be proportionately increased. Any adjustment under this sub-clause shall become effective at the close of business on the date the subdivision or consolidation becomes effective.

#### (b) *Adjustments for Dividends*

If the Company at any time, or from time to time, makes a dividend or other distribution payable in shares of the Company other than Ordinary Shares, then, and in each such event, provision shall be made so that, upon conversion of any Preference Share thereafter, the holder of such Preference Shares shall receive, in addition to the number of Ordinary Shares issuable thereon, the amount of shares of the Company which the holder of such Preference Share would have received had the Preference Shares been converted into Ordinary Shares immediately prior to such event, all subject to further adjustment as provided herein.

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#### (c) *Sale of Shares below the Conversion Price*

If the Company shall issue additional shares for a consideration per share (the “**Future Issuance Price**”) less than the Conversion Price in effect on the date of, and immediately prior to, such issuance, then and in such event, the Conversion Price shall be reduced concurrently with such issuance to a price equal to the Future Issuance Price.

#### (d) *Other Dilutive Events*

In case any event shall occur as to which the other provisions of this Clause 10.3 are not strictly applicable, but the failure to make any adjustment to the Conversion Price would not fairly protect the conversion rights of the applicable Class of Preference Shares in accordance with the essential intent and principles hereof, then, in each such case, the Company, in good faith, shall determine the appropriate adjustment to be made, on a basis consistent with the essential intent and principles established in this Clause 10.3, necessary to preserve, without dilution, the conversion rights of such series of Preference Shares.

- 10.4 In the case of any adjustment or readjustment of the Applicable Conversion Price, the Company, at its sole expense, shall compute such adjustment or readjustment in accordance with the provisions hereof and prepare a certificate showing such adjustment or readjustment, and shall deliver such certificate to each registered holder of the Preference Shares at the holder’s address as shown in the Company’s Register of Members (or such other address as such holder of Preference Shares may have provided to the Company). The certificate shall set forth such adjustment or readjustment, showing in detail the facts upon which such adjustment or readjustment is based, including a statement of (i) the consideration received or deemed to be received by the Company for any Ordinary Shares issued or sold or deemed to have been issued or sold, (ii) the number of Ordinary Shares issued or sold or deemed to be issued or sold, (iii) the Conversion Price in effect before and after such adjustment or readjustment, and (iv) the number of Ordinary Shares and the type and amount, if any, of other property which would be received upon conversion of the Preference Shares after such adjustment or readjustment.



- 111 Subject to any provisions to the contrary in this Agreement or in the Articles, or as required by the Statute, at all general meetings of the Company:
- (a) the holder of each Ordinary Share issued and outstanding shall have one vote in respect of each Ordinary Share held; and
  - (b) the holder of each Preference Share shall be entitled to such number of votes as equals the whole number of Ordinary Shares into which such holder's collective Preference Shares are convertible immediately after the close of business on the record date of the determination of the Shareholders entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the Shareholders is first solicited. Fractional votes shall not, however, be permitted and any fractional voting rights available on an as converted basis (after aggregating all shares into which the Preference Shares held by each holder could be converted) shall be rounded down to the nearest whole number.
- 11.2 Subject to any provisions to the contrary in this Agreement or in the Articles, or as required by the Statute, the holders of Preference Shares shall vote together with the holders of Ordinary Shares (on an as-converted to Ordinary Shares basis), and not as a

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separate class or series, on all matters put before the Shareholders, and shall be entitled to the notice of any shareholders' meeting.

## 12 REGISTRATION RIGHTS; RESTRICTIONS ON SALE OF SHARES

- 12.1 The registration rights of the Class B and Class C Shareholders with respect to the Company and the rights and obligations of the parties with respect to registration of the Company's Ordinary Shares are set forth on Exhibit C attached hereto. The rights set forth in Exhibit C shall terminate upon the earlier of: (a) the date of the completion of a Liquidation Event, (b) as to any Holder, when all Registrable Securities held by such Holder (together with any affiliate of such Holder with whom such Holder must aggregate its sales under SEC Rule 144) could be sold without restriction under SEC Rule 144 within a ninety (90) day period and (c) the date that is five (5) years following the closing of a Qualified Public Offering.
- 12.2 Each Investor hereby agrees to be bound by the six month Lock-Up Agreement in the form of Exhibit C to the Share Exchange Agreement.

## 13 SUCCESSORS AND ASSIGNMENT

Except as expressly provided herein, this Agreement shall be binding upon and enure for the benefit of the successors in title and permitted assignees of the parties hereto. None of the Shareholders shall assign or transfer or purport to assign or transfer any of its rights or obligations hereunder without the prior written consent of the other Shareholders.

## 14 WAIVER AND FORBEARANCE

No failure to exercise or delay in exercising any right or remedy under this Agreement shall constitute a waiver thereof and no waiver by either Shareholder of any breach or non-fulfilment by the other Shareholder of any provision of this Agreement shall be deemed to be a waiver of any subsequent or other breach of that or any other provision hereof and no single or partial exercise of any right or remedy under this Agreement shall preclude or restrict the further exercise of any such right or remedy. The rights and remedies of the Shareholders provided in this Agreement are cumulative and not exclusive of any rights and remedies provided by law.

## 15 VARIATION

No variation of this Agreement shall be valid unless it is in writing and signed by or on behalf of each of the parties hereto.

## 16 SEVERANCE

- 16.1 If any provision of this Agreement shall be found by any court or administrative body of competent jurisdiction to be invalid or unenforceable, such invalidity or unenforceability shall not affect the other provisions of this Agreement which shall remain in full force and effect.
- 16.2 If any provision of this Agreement is so found to be invalid or unenforceable but would be valid or enforceable if some part of the provision were deleted, the provision in question shall apply with such modification(s) as may be necessary to make it valid.

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## 17 ENTIRE AGREEMENT

This Agreement, and the documents referred to in it, constitutes the entire agreement and understanding of the parties and supersedes any previous agreement between the parties relating to the subject matter of this Agreement.

## 18 ANNOUNCEMENTS

- 18.1 Subject to Clauses 18.2 and 18.3, none of the parties shall issue any press release or other public document containing, or make any public statement containing, or otherwise disclose to any person who is not a party, information which relates to or is connected with or arises out of this Agreement or the matters contained in it, without the prior written approval of the other parties as to its content and the manner and extent of its publication. The parties shall consult together upon the form of any such press release, document or statement and the other party shall promptly provide such information and comment as the party issuing such press release, document or statement may from time to time reasonably request.
- 18.2 The provisions of Clause 18.1 shall not apply to disclosure of matters required to be made:
- (a) by virtue of the regulations of any stock exchange;
  - (a) by any court or governmental or administrative authority competent to require the same; or
  - (c) by any applicable law or regulation (including securities laws or regulations).

18.3 Notwithstanding Clause 18.1, any party may disclose matters relating to, connected with or arising out of this Agreement or the matters contained in it to its professional advisers to the extent necessary for such advisers properly to provide their services to that party Provided that such disclosure is on terms that it is confidential and gives notice of the provisions of this clause. Not later than the time when any disclosure permitted hereunder is made, the party making such disclosure shall give written notice thereof to the other party, including details of the information disclosed and the identity of the person to whom the disclosure is made.

## 19 COUNTERPARTS

This Agreement may be executed in any number of counterparts each of which when executed by one or more parties hereto shall constitute an original document but all of which shall together constitute one and the same instrument.

## 20 NOTICES

20.1 Any notice or other communication given under this Agreement shall be in writing and may be served by delivering it personally or sending it by pre-paid recorded delivery or registered post (or registered airmail in the case of an address for service outside the Cayman Islands) or fax or e-mail to the address and for the attention of the relevant party set out in Clause 20.2 (or as otherwise notified by that party hereunder). Any such notice shall be deemed to have been received:

- (a) if delivered personally, at the time of delivery;
- (b) in the case of pre-paid recorded delivery or registered post, 48 hours from the date of posting;
- (c) in the case of registered airmail, five days from the date of posting;

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- (d) in the case of fax, at the time of transmission; and
- (e) at the time of receipt which means at the time the e-mail enters the receiving party's information processing system.

20.2 The addresses, fax numbers and e-mail addresses of the parties for the purposes of Clause 20.1 are:

### **CHINA NEW BORUN CORPORATION**

Address: Bohai Industrial Park (Yangkou Town), Shouguang, Shandong 262715, The People's Republic of China

For the attention of: WANG Jinmiao

Fax number: +86-536-5451199

email address: jinmiao.wang@chinanewborun.com

### **KING RIVER HOLDING LIMITED**

Address: Bohai Industrial Park (Yangkou Town), Shouguang, Shandong 262715, The People's Republic of China

For the attention of: WANG Jinmiao

Fax number: +86-536-5451199

email address: jinmiao.wang@chinanewborun.com

### **STAR ELITE ENTERPRISES LIMITED**

Address: Floor 5, No. 832 Huamu Road, Pudong New Area., Shanghai 201204, The People's Republic of China

For the attention of: WU Kezhong, LU Jun

Fax number: +86-21-50453554

email address: kwu@preipo.cn

### **EARNSTAR HOLDINGS LIMITED**

Address: Room 4006A, China Resources Building No. 26, Harbor Road, Wanchai, Hong Kong

For the attention of: WEI Yi Bin

Fax number: 00852-25118818

email address: weiyibin@hotmail.com

### **TDR ADVISORS INC.**

Address: Room 1601, Fuchun Dongfang Building, No. 7006 Shennan Road, Futian District, Shenzhen, The People's Republic of China

For the attention of: GUO Xun

Fax number: +86-755-3337 1191

email address: henry.guo@tdrcap.com

or such other address, fax number or email address as may be notified in writing from time to time by the relevant party to the other parties.

20.3 In proving such service it shall be sufficient to prove that the envelope containing such notice was addressed to the address of the relevant party set out in Clause 20.2 (or as otherwise notified by that party hereunder) and delivered either to that address or into the custody of the postal authorities as a pre-paid recorded delivery, registered post or airmail letter, or that the notice was transmitted by fax to the fax number of the relevant party set out in Clause 20.2 (or as otherwise notified by that party hereunder), or any e-

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mail to the e-mail address of the relevant party set out in Clause 20.2 (or as otherwise notified by that party hereunder).

## 21 GOVERNING LAW

This Agreement shall be governed by, enforced, and construed under and in accordance with the laws of the United States of America and, with respect to matters of State law, with the laws of the State of New York. Venue for all matters shall be in the City of New York, New York, without giving effect to principles of conflicts of law thereunder. Each of the parties irrevocably consents and agrees that any legal or equitable action or proceedings arising under or in connection with this Agreement shall be brought exclusively in the federal courts of the United States sitting in New York City, New York. By execution and delivery of this Agreement, each party hereto irrevocably submits to and accepts, with respect to any such action or proceeding, generally and unconditionally, the jurisdiction of the aforesaid court, and irrevocably waives any and all rights such party may now or hereafter have to object to such jurisdiction. **EACH PARTY (ON BEHALF OF ITSELF AND, TO THE FULLEST EXTENT PERMITTED BY LAW, ON BEHALF OF ITS RESPECTIVE EQUITY HOLDERS) HEREBY WAIVES ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED UPON, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.**

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As witness the hands of the parties or their duly authorised representatives the day and year first above written

**COMPANY:**

SIGNED by Shan Junqin )  
for and on behalf of )  
**CHINA NEW BORUN CORPORATION** ) /s/ Shan Junqin  
In the presence of: ) *Director*

\_\_\_\_\_  
*Witness*

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As witness the hands of the parties or their duly authorised representatives the day and year first above written

**ORDINARY SHAREHOLDER**

SIGNED by )  
for and on behalf of Shan Junqin )  
**KING RIVER HOLDING LIMITED** ) /s/ Shan Junqin  
In the presence of: ) *Director*

\_\_\_\_\_  
*Witness*

As witness the hands of the parties or their duly authorised representatives the day and year first above written

**CLASS A SHAREHOLDER**

SIGNED by )  
for and on behalf of Chen Ping )  
**STAR ELITE ENTERPRISES LIMITED** ) /s/ Chen Ping  
In the presence of: ) *Director*

\_\_\_\_\_  
*Witness*

As witness the hands of the parties or their duly authorised representatives the day and year first above written

**CLASS B SHAREHOLDER**

SIGNED by \_\_\_\_\_ )  
 for and on behalf of Wei Yibin \_\_\_\_\_ )  
**EARNSTAR HOLDINGS LIMITED** \_\_\_\_\_ ) /s/ Wei Yibin  
 In the presence of: \_\_\_\_\_ ) *Director*

\_\_\_\_\_  
*Witness*

**As witness** the hands of the parties or their duly authorised representatives the day and year first above written

**CLASS C SHAREHOLDER**

SIGNED by \_\_\_\_\_ )  
 for and on behalf of Wang Ruiping \_\_\_\_\_ )  
**TDR ADVISORS INC.** \_\_\_\_\_ ) /s/ Wang Ruiping  
 In the presence of: \_\_\_\_\_ ) *Director*

\_\_\_\_\_  
*Witness*

**EXHIBIT A**  
**EQUITY OWNERSHIP TABLE**

<b>Stockholder</b>	<b>Shares Held in China High (Pre-Exchange)</b>	<b>Percentage of Total Equity in China High (Pre-Exchange)</b>	<b>Exact Number of New Borun Ordinary Shares Each Stockholder is Entitled To Be Issued (Post-Exchange/IPO)</b>	<b>Number/Type of New Borun Shares To Be Issued Post-Exchange (Actual)</b>	<b>Number of Ordinary Shares Into Which Preference Shares are Convertible Post Exchange/IPO (Actual)</b>	<b>Percentage of Total Equity in New Borun (Post-Exchange)</b>
Ordinary Shareholder (King River Holding Limited, which is 100% owned by Mrs. Shan Junqin)	8,000 (ordinary shares)	74.23904974016%	14,847,809.948032	14,847,811 (ordinary shares)	N/A	74.239055%
Class A Shareholder (Star Elite)	2,000 (preference shares)	18.55976243504%	3,711,952.487008	3,711.952 (class A convertible preference shares)	3,711,952	18.55976%
Class B Shareholder (Earnstar)	574 (preference shares)	5.32665181885%	1,065,330.36377	1,065.330 (class B convertible preference shares)	1,065,330	5.32665%
Class C Shareholder (TDR Advisors)	202 (preference shares)	1.87453600593%	374,907.201186	374.907 (class C convertible preference shares)	374,907	1.874535%
<b>Total:</b>	<b>10,776 (total shares)</b>	<b>100%</b>	<b>20,000,000</b>	<b>N/A</b>	<b>N/A</b>	<b>100%</b>

**EXHIBIT B****FORM OF DEED OF ADHERENCE**

**THIS DEED OF ADHERENCE** is made on [ ]

**BY:**

[ ], a [citizen of [ ] with [ ] passport No. [ ] and [his] residential address at [ ] / company incorporated under the laws of [ ] with its registered address at [ ] (the "New Shareholder")

**IN FAVOUR OF:**

Each of the parties to the shareholders agreement dated March 31, 2010 (the “**Shareholders Agreement**”), by and between, amongst others, China New Borun Corporation, the Ordinary Shareholder (as defined therein), the Investors (as defined therein) and other parties thereto, and their respective successors and permitted assignees (together, the “**Existing Parties**”, and each an “**Existing Party**”);

**WHEREAS:**

- (A) On March 31, 2010, the Existing Parties entered into the Shareholders Agreement.
- (B) [ ] (the “**Transferor**”) intends to transfer [ ] Ordinary / Series [ ] Preference Shares of the Company, par value US\$0.001 per share (the “**Transferred Shares**”), to the New Shareholder (the “**Transfer**”).
- (C) In accordance with the terms of the Shareholders Agreement, the New Shareholder has agreed to enter into this Deed upon the completion of the Transfer.

**NOW THIS DEED WITNESSES** as follows:-

**1. Interpretation**

In this Deed, except as the context may otherwise require, all words and expressions defined in the Shareholders Agreement shall have the same meanings when used herein.

**2. Adherence**

- 2.1 The New Shareholder hereby covenants to each Existing Party to observe, adhere to, perform and be fully bound by all duties, burdens and obligations of the Transferee as a holder of the Transferred Shares imposed pursuant to the provisions of the Shareholders Agreement and all documents expressed in writing to be supplemental or ancillary thereto as if such New Shareholder had been an original party to the Shareholders Agreement since the date thereof.
- 2.2 The New Shareholder shall be entitled to all rights, benefits and interests of the Transferee as a holder of the Transferred Shares granted pursuant to the provisions of the Shareholders Agreement and all documents expressed in writing to be supplemental or ancillary thereto as if such New Shareholder had been an original party to the Shareholders Agreement since the date thereof.

**3. Enforceability**

Each Existing Party shall be entitled to enforce the Shareholders Agreement, as amended from time to time, against the New Shareholder as if the New Shareholder had been an original party to the Shareholders Agreement since the date thereof.

**4. Same Agreement**

This Deed shall be read as one with the Shareholders Agreement so that any reference in either Transaction Agreement to “this Agreement” and similar expressions shall include this Deed.

**5. Notice**

The New Shareholder’s address for notices, demands and all other communications under the Shareholders Agreement is as follows:

**[Insert the New Shareholder’s name]**

- Address:
- For the attention of:
- Fax number:
- e-mail address:

**6. Governing Law**

This Deed shall be governed by, enforced, and construed under and in accordance with the laws of the United States of America and, with respect to matters of State law, with the laws of the State of New York.

**In witness whereof** this document has been executed and delivered as a Deed the day and year first above written

EXECUTED as a Deed by )  
 [ ] ) \_\_\_\_\_  
 acting by **[name of director]** and ) Director  
**[name of director or secretary]** ) \_\_\_\_\_  
 Directory/Secretary

## 1. **Applicability of Rights; Non-U.S. Registrations.**

- 1.1 The Holders shall be entitled to the following rights with respect to any potential public offering of the Company's Ordinary Shares in the United States and shall be entitled to reasonably analogous or equivalent rights with respect to any other offering of Company securities in any other jurisdiction pursuant to which the Company undertakes to publicly offer or list such securities for trading on a recognized securities exchange.
- 1.2 For purposes of this Exhibit C and the Agreement to which this Exhibit C is made a part, reference to registration of securities under the Securities Act and the Exchange Act shall be deemed to mean the equivalent registration in a jurisdiction other than the United States as designated by such Holders, it being understood and agreed that in each such case all references in this Agreement to the Securities Act, the Exchange Act and rules, forms of registration statements and registration of securities thereunder, U.S. law and the SEC, shall be deemed to refer, to the equivalent statutes, rules, forms of registration statements, registration of securities and laws of and equivalent government authority in the applicable non-U.S. jurisdiction.

## 2. **Form F-3 Registration.**

In case the Company shall receive from any Holder or Holders of a majority of all Registrable Securities then outstanding a written request or requests that the Company effect a registration on Form F-3 (or an equivalent registration in a jurisdiction outside of the United States) and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company will:

### 2.1 Notice.

Promptly give written notice of the proposed registration and the Holder's or Holders' request therefor, and any related qualification or compliance, to all other Holders of Registrable Securities; and

### 2.2 Registration.

As soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within twenty (20) days after the Company provides the notice contemplated by Section 2.1 herein above; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance pursuant to this Section 2:

- (a) if Form F-3 is not available for such offering by the Holders;
- (b) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public of less than US\$10,000,000;
- (c) if the Company shall furnish to the Holders a certificate signed by the President or Chief Executive Officer of the Company stating that in the good faith judgment

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of the Board of Directors of the Company, it would be materially detrimental to the Company and its shareholders for such Form F-3 Registration to be effected at such time, in which event the Company shall have the right to defer the filing of the Form F-3 registration statement no more than once during any twelve (12) month period for a period of not more than sixty (60) days after receipt of the request of the Holder or Holders under this Section 2; provided that the Company shall not register any of its other shares during such sixty (60) day period.

- (d) if the Company has, within the six (6) month period preceding the date of such request, already effected a registration under the Securities Act other than a registration from which the Registrable Securities of Holders have been excluded (with respect to all or any portion of the Registrable Securities the Holders requested be included in such registration); or
- (e) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

### 2.3 Not a Demand Registration.

Form F-3 registrations shall not be deemed to be demand registrations. Except as otherwise provided herein, there shall be no limit on the number of times the Holders may request registration of Registrable Securities under this Section 2.

## 3. **Expenses.**

All registration expenses incurred in connection with any registration pursuant to Section 2 (but excluding Selling Expenses) shall be borne by the Company. Each Holder participating in a registration pursuant to Section 2, shall bear such Holder's proportionate share (based on the total number of shares sold in such registration other than for the account of the Company) of all Selling Expenses or other amounts payable to underwriter(s) or brokers, in connection with such offering by the Holders. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 2 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered; provided, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business, or prospects of the Company not known to the Holders at the time of their request for such registration and have withdrawn their request for registration with reasonable promptness after learning of such material adverse change, then the Holders shall not be required to pay any of such expenses.

## 4. **Obligations of the Company.**

Whenever required to effect the registration of any Registrable Securities under this Agreement the Company shall, as expeditiously as reasonably possible:

### 4.1 Registration Statement.

Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to ninety (90) days or, in the case of Registrable Securities registered under Form F-3 in accordance with Rule 415 under the

Securities Act or a successor rule, until the distribution contemplated in the registration statement has been completed; provided, however, that (a) such ninety (90) day period shall be extended for a period of time equal

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to the period any Holder refrains from selling any securities included in such registration at the request of the underwriter(s), and (b) in the case of any registration of Registrable Securities on Form F-3 which are intended to be offered on a continuous or delayed basis, such ninety (90) day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold.

4.2 Amendments and Supplements.

Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement.

4.3 Prospectuses.

Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration.

4.4 Blue Sky.

Use its best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act.

4.5 Underwriting.

In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in usual and customary form, with the managing underwriter(s) of such offering.

4.6 Notification.

Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of (a) the issuance of any stop order by the SEC in respect of such registration statement, or (b) the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

4.7 Opinion and Comfort Letter.

Furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriter(s) for sale, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective, (a) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to

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the underwriters, if any, and (b) letters dated as of (i) the effective date of the registration statement covering such Registrable Securities and (ii) the closing date of the offering from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

5. Furnish Information.

It shall be a condition precedent to the obligations of the Company to take any action pursuant to Sections 2 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be required to timely effect the Registration of their Registrable Securities.

6. Indemnification.

In the event any Registrable Securities are included in a registration statement under Section 2:

6.1 By the Company.

To the extent permitted by law, the Company will indemnify and hold harmless each Holder, its partners, officers, directors, legal counsel, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other United States federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"):

- (a) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;
- (b) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or

- (c) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any United States federal or state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any United States federal or state securities law in connection with the offering covered by such registration statement;

and the Company will reimburse each such Holder, its partner, officer, director, legal counsel, underwriter or controlling person for any legal or other expenses reasonably incurred by them, as incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 6.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection

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with such registration by such Holder or any partner, officer, director, counsel, underwriter or controlling person of such Holder.

#### 6.2 By Selling Holders.

To the extent permitted by law, each selling Holder will, if Registrable Securities held by Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's partners, directors, officers, legal counsel or any person who controls such Holder within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, legal counsel, controlling person, underwriter or other such Holder, partner or director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other United States federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 6.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided further, that in no event shall any indemnity under this Section 6.2 exceed the net proceeds received by such Holder in the registered offering out of which the applicable Violation arises.

#### 6.3 Notice.

Promptly after receipt by an indemnified party under this Section 6 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnified party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Section 6 to the extent the indemnifying party is prejudiced as a result thereof, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 6.

#### 6.4 Contribution.

In order to provide for just and equitable contribution to joint liability under the Securities Act in any case in which either (i) any indemnified party makes a claim for

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indemnification pursuant to this Section 6 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 6 provides for indemnification in such case, or (ii) contribution under the Securities Act may be required on the part of any indemnified party in circumstances for which indemnification is provided under this Section 6; then, and in each such case, the indemnified party and the indemnifying party will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that a Holder (together with its related persons) is responsible for the portion represented by the percentage that the public offering price of its Registrable Securities offered by and sold under the registration statement bears to the public offering price of all securities offered by and sold under such registration statement, and the Company and other selling Holders are responsible for the remaining portion. The relative fault of the indemnifying Party and of the indemnified Party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying Party or by the indemnified Party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case: (a) no Holder will be required to contribute any amount in excess of the net proceeds to such Holder from the sale of all such Registrable Securities offered and sold by such Holder pursuant to such registration statement; and (b) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

#### 6.5 Survival.

The obligations of the Company and Holders under this Section 6 shall survive the completion of any offering of Registrable Securities in a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

#### 7. No Registration Rights to Third Parties.



Without the prior written consent of the Holders of a majority in interest of the Registrable Securities then outstanding, the Company covenants and agrees that it shall not grant, or cause or permit to be created, for the benefit of any person or entity any registration rights of any kind (whether similar to the demand, "piggyback" or Form F-3 registration rights or otherwise) relating to any securities of the Company which are senior to, or on a parity with, those granted to the Holders of Registrable Securities.

**8. Rule 144 Reporting.**

With a view to making available the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration or pursuant to a registration on Form F-3, after such time as a public market exists for the Ordinary Shares, the Company agrees to:

- 8.1 Make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

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- 8.2 File with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

- 8.3 So long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request (a) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the Company's initial public offering), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or its qualification as a registrant whose securities may be resold pursuant to Form F-3 (at any time after it so qualifies), (b) a copy of the most recent annual or quarterly report of the Company, and (c) such other reports and documents of the Company as a Holder may reasonably request in availing itself of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to Form F-3.

**9. Market Stand-Off.**

Each Shareholder agrees that, so long as it holds any voting securities of the Company, upon request by the Company or the underwriters managing the initial public offering of the Company's securities, it will not sell or otherwise transfer or dispose of any securities of the Company (other than those permitted to be included in the registration and other transfers to Affiliates permitted by law) without the prior written consent of the Company or such underwriters, as the case may be, for a period of time specified by the representative of the underwriters not to exceed one hundred and eighty (180) days from the effective date of the registration statement covering such initial public offering or the pricing date of such offering as may be requested by the underwriters. The foregoing provision of this Section 9 shall not apply to the sale of any securities of the Company to an underwriter pursuant to any underwriting agreement, and shall only be applicable to the Holders if all officers, directors and holders of one percent (1%) or more of the Company's outstanding share capital enter into similar agreements, and if the Company or any underwriter releases any officer, director or holder of one percent (1%) or more of the Company's outstanding share capital from his or her sale restrictions so undertaken, then each Holder shall be notified prior to such release and shall itself be simultaneously released to the same proportional extent. The Company shall require all future acquirers of the Company's securities holding at least one percent (1%) of the then outstanding share capital of the Company to execute prior to a Qualified Public Offering a market stand-off agreement containing substantially similar provisions as those contained in this Section 9.

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**SHARE EXCHANGE AGREEMENT**

By and Among

**CHINA NEW BORUN CORPORATION,****GOLDEN DIRECTION LIMITED**

and

**STAR ELITE ENTERPRISES LIMITED,****EARNSTAR HOLDING LIMITED,****TDR ADVISORS, INC.**

and

**CHINA HIGH ENTERPRISES LIMITED**

Dated as of February 28, 2010

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## SHARE EXCHANGE AGREEMENT

**THIS SHARE EXCHANGE AGREEMENT** (this "Agreement") is entered into as of this 28th day of February, 2010, by and among **CHINA NEW BORUN CORPORATION**, a company organized under the laws of the Cayman Islands ("New Borun"), **GOLDEN DIRECTION LIMITED**, a company organized under the laws of the British Virgin Islands and a wholly-owned subsidiary of New Borun ("Golden Direction"), **STAR ELITE ENTERPRISES LIMITED**, a company organized under the laws of the British Virgin Islands ("Star Elite"), **EARNSTAR HOLDING LIMITED**, a company organized under the laws of the British Virgin Islands ("Earnstar"), **TDR ADVISORS INC.**, a company organized under the laws of the British Virgin Islands ("TDR"), and together with Star Elite and Earnstar, the "Stockholders") and **CHINA HIGH ENTERPRISES LIMITED**, a Hong Kong investment holding company ("China High"), upon the following premises:

### RECITALS:

**WHEREAS**, Star Elite owns 2,000 of the 2,776 preference shares issued and outstanding of China High, which is equivalent to approximately 18.56% of the aggregate issued and outstanding shares of capital stock of China High calculated on a fully diluted basis; and

**WHEREAS**, Earnstar owns 574 of the 2,776 preference shares issued and outstanding of China High, which is equivalent to approximately 5.33% of the aggregate issued and outstanding shares of capital stock of China High calculated on a fully diluted basis; and

**WHEREAS**, TDR owns 202 of the 2,776 preference shares issued and outstanding of China High, which is equivalent to approximately 1.87% of the aggregate issued and outstanding shares of capital stock of China High on a fully diluted basis; and

**WHEREAS**, Golden Direction owns 8,000 of the 8,000 ordinary shares issued and outstanding of China High, which such ordinary shares are equivalent to approximately 74.24% of the aggregate issued and outstanding shares of capital stock of China High calculated on a fully diluted basis; and

**WHEREAS**, the parties hereto desire that, in exchange for the assignment and transfer by the Stockholders to Golden Direction of 100% of the preference shares owned by the Stockholders of China High, which such preference shares represent approximately 25.76% of the aggregate issued and outstanding shares of capital stock of China High (the "Exchange"), New Borun shall issue:

(a) 3,711.952 newly-issued shares of New Borun's Class A convertible preference shares to Star Elite, which shall be automatically convertible into 3,711,952 newly-issued shares of New Borun Ordinary Shares upon the closing of a Qualified Public Offering (as such term is defined in the Shareholders Agreement, which is defined in Section 3.01(b)(i) below),

(b) 1,065.330 newly-issued shares of New Borun's Class B convertible preference shares to Earnstar, which shall be automatically convertible into 1,065,330 newly-issued shares of New Borun Ordinary Shares upon the closing of a Qualified Public Offering and

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(c) 374.907 newly issued shares of New Borun's Class C convertible preference shares to TDR, which shall be automatically convertible into 374,907 newly-issued shares of New Borun Ordinary Shares upon the closing of a Qualified Public Offering; and

**WHEREAS**, upon the consummation of the Exchange, the parties hereto desire that China High be a wholly-owned subsidiary of Golden Direction.

### AGREEMENT:

**NOW THEREFORE**, on the stated premises and for and in consideration of the mutual covenants and agreements hereinafter set forth and the mutual benefits to the parties to be derived herefrom, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by all parties hereto, and intending to be legally bound hereby, New Borun, Golden Direction, the Stockholders and China High hereby agree as follows:

## ARTICLE I REPRESENTATIONS, COVENANTS, AND WARRANTIES OF CHINA HIGH AND THE STOCKHOLDERS

As an inducement to, and to obtain the reliance of New Borun and Golden Direction, except as set forth in those schedules prepared by China High which are attached and made a part hereto (the "China High Schedules"), China High hereby represents and warrants to New Borun and Golden Direction as follows as of the date hereof:

Section 1.01 Organization. China High is a company duly organized, validly existing, and in good standing under the laws of the Hong Kong Special Administrative Region and has the corporate power and is duly authorized under all applicable laws, regulations, ordinances and orders of public authorities to carry on its business in all material respects as it is now being conducted. Included in Item 1.01 of the China High Schedules are complete and correct copies of China High's Certificate of Incorporation as in effect on the date hereof and the Amended and Restated Memorandum and Articles of Association of China High (together, the "China High Charter"). The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of the China High Charter. China High has taken all actions required by law, from its China High Charter, or otherwise to authorize the execution and delivery of this Agreement. China High has full power, authority, and legal right and has taken all action required by law, the China High Charter, and otherwise to consummate the transactions herein contemplated.

Section 1.02 Capitalization. The authorized capitalization of China High consists of Eight Thousand (8,000) ordinary shares of capital stock, par value HK\$1.00 per share (the "China High Ordinary Shares") and Two Thousand Seven Hundred Seventy-Six (2,776) preference shares of capital stock, par value HK\$1.00 per share (the "China High Preference Shares" and together with the China High Ordinary Shares, the "China High Capital Stock"). There are Eight Thousand (8,000) China High Ordinary Shares currently issued and outstanding, of which Golden Direction owns Eight Thousand (8,000). There are Two Thousand Seven Hundred Seventy-Six (2,776) China High Preference Shares currently issued and outstanding, of which Star Elite owns Two Thousand (2,000), Earnstar owns Five Hundred Seventy-Four (574)

and TDR owns Two Hundred Two (202). All of the issued and outstanding shares of China High Capital Stock are legally issued, fully paid and non-assessable and not issued in violation of the preemptive or other rights of any person. With the exception of those rights currently held by the Stockholders pursuant to those certain investment agreements and related documentation and instruments entered into by and between or among the Stockholders and China High, together with all amendments and supplements thereto which are also set forth in Item 1.02 of the China High Schedules and which shall be terminated on the Closing Date: (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of China High Capital Stock, or contracts, commitments, understandings or arrangements by which China High is or may become bound to issue additional shares of China High Capital Stock or options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of China High Capital Stock, (ii) there are no outstanding debt securities and (iii) there are no agreements or arrangements under which China High is obligated to register the sale of any of their securities.

Section 1.03 Subsidiaries. China High has one subsidiary, Weifang Great Chemical Inc. (“Weifang”), a wholly-foreign owned entity organized as a limited liability company under the laws of The People’s Republic of China (the “PRC”). Weifang’s wholly-owned and chief operating subsidiary is Shandong Borun Industrial Co., Ltd., a company organized under the laws of the PRC (“Shandong Borun”). Shandong Borun owns one subsidiary, Daqing Borun Biotechnology Co., Ltd., a company organized under the laws of the PRC (“Daqing Borun”). Shandong Borun and Daqing Borun are in the business of manufacturing and selling edible alcohol, DDGS Feed and corn germ in the PRC. Beyond these entities, China High does not have any other subsidiaries and does not own, beneficially or of record, any shares of any other corporation. For purposes hereinafter, the term “China High” also includes Weifang, Shandong Borun and Daqing Borun, except that the term “China High” does not include any other entity when such term is used to describe or discuss the China High Financial Statements (as such term is defined below).

Section 1.04 Financial Statements.

(a) Included in Item 1.04(a) of the China High Schedules are (i) the audited consolidated balance sheets of China High as of December 31, 2006, 2007 and 2008, and the related audited consolidated statements of income, shareholders’ equity and cash flows for the years ended December 31, 2006, 2007 and 2008 together with the notes to such statements (the “China High Annual Financial Statements”).

(b) Included in Item 1.04(b) of the China High Schedules are: (i) the unaudited consolidated balance sheets of China High at September 30, 2008 and 2009, and the related unaudited consolidated statements of income, shareholders’ equity and cash flows for the nine months ended September 30, 2008 and 2009, together with notes to such statements (together with the China High Annual Financial Statements, the “China High Financial Statements”).

(c) All such China High Financial Statements have been prepared in accordance with generally accepted accounting principles of the United States (“GAAP”).

consistently applied throughout the periods involved. China High’s balance sheets are true and accurate and present fairly as of their respective dates the financial condition of China High. As of the date of such balance sheets, except as and to the extent reflected or reserved against therein, China High had no other liabilities or obligations (absolute or contingent) which should be reflected in the balance sheets or the notes thereto prepared in accordance with GAAP, and all assets reflected therein are properly reported and present fairly the value of the assets of China High in accordance with GAAP. China High’s statements of operations, stockholders’ equity and cash flows reflect fairly the information required to be set forth therein by GAAP.

(d) China High has no liabilities with respect to the payment of any federal, state, county, local or other domestic or foreign taxes (including any deficiencies, interest or penalties), except for taxes accrued but not yet due and payable (if any).

(e) All of China High’s assets are reflected in the China High Financial Statements, and, except as set forth in the China High Financial Statements or the notes thereto, China High has no material liabilities, direct or indirect, matured or unmatured, contingent or otherwise.

Section 1.05 Absence of Certain Changes or Events. Since September 30, 2009:

(a) there has not been any material adverse change in the business, operations, properties, assets, or condition (financial or otherwise) of China High;

(b) China High has not (i) amended the China High Charter beyond that which has been provided for in connection with this Agreement; (ii) declared or made, or agreed to declare or make, any payment of dividends or distributions of any assets of any kind whatsoever to stockholders or purchased or redeemed, or agreed to purchase or redeem, any of its capital stock; (iii) made any material change in its method of management, operation or accounting, (iv) entered into any other material transaction other than sales in the ordinary course of its business; or (v) made any increase in or adoption of any profit sharing, bonus, deferred compensation, insurance, pension, retirement, or other employee benefit plan, payment, or arrangement made to, for, or with its officers, directors, or employees; and

(c) China High has not (i) granted or agreed to grant any options, warrants or other rights for its stocks, bonds or other corporate securities calling for the issuance thereof, (ii) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) except as disclosed herein and except liabilities incurred in the ordinary course of business; (iii) sold or transferred, or agreed to sell or transfer, any of its assets, properties, or rights or canceled, or agreed to cancel, any debts or claims; or (iv) issued, delivered, or agreed to issue or deliver any stock, bonds or other corporate securities including debentures (whether authorized and unissued or held as treasury stock) except in connection with this Agreement.

(d) Except as set forth in the China High Financial Statements, there are no material actions, suits, proceedings, or investigations pending or, to the knowledge of

China High after reasonable investigation, threatened by or against China High or affecting China High or its properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind. China High does not have any knowledge of any material default on its part with respect to any judgment, order, injunction, decree, award, rule, or regulation of any court, arbitrator, or governmental agency or instrumentality or of any circumstances which, after reasonable investigation, would result in the discovery of such a default.

Section 1.06 Contracts. All contracts, agreements, franchises, license agreements, and other commitments to which China High is a party or by which its properties are bound and which are material to the operations of China High taken as a whole are valid and enforceable by China High in all respects, except as limited by bankruptcy and insolvency laws and by other laws affecting the rights of creditors generally.

Section 1.07 No Conflict With Other Instruments. The execution of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in the breach of any term or provision of, constitute a default under, or terminate, accelerate or modify the terms of any indenture, mortgage, deed of trust, or other material agreement, or instrument to which China High is a party or to which any of its assets, properties or operations are subject.

Section 1.08 Compliance With Laws and Regulations. To the best of its knowledge, China High has complied with all applicable foreign and domestic statutes and regulations of any federal, state, provincial or other governmental entity or agency thereof, except to the extent that noncompliance would not materially and adversely affect the business, operations, properties, assets, or condition of China High or except to the extent that noncompliance would not result in the occurrence of any material liability for China High.

Section 1.09 Approval of Agreement. The board of directors of China High has unanimously authorized the execution and delivery of this Agreement by China High and has approved this Agreement and the transactions contemplated hereby.

Section 1.10 Valid Obligation. This Agreement and all agreements and other documents executed by China High in connection herewith constitute the valid and binding obligation of China High, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights generally and subject to the qualification that the availability of equitable remedies is subject to the discretion of the court before which any proceeding therefore may be brought.

Section 1.11 Information. The information concerning China High set forth in this Agreement and in the China High Schedules is complete and accurate in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact required to make the statements made, in light of the circumstances under which they were made, not misleading.

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Section 1.12 Representations and Warranties of the Stockholders. Each Stockholder severally, but not jointly, represents and warrants to New Borun as of the date hereof and as of the Closing Date as follows:

(a) Organization; Authority. Such Stockholder is a company incorporated, validly existing and in good standing under the laws of the British Virgin Islands, with full right, corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and performance by such Stockholder of the transactions contemplated by this Agreement have been duly authorized by all necessary corporate or similar action on the part of such Stockholder. This Agreement has been duly executed by such Stockholder, and is the valid and legally binding obligation of such Stockholder, enforceable against it in accordance with its terms.

(b) No Conflicts. The execution, delivery and performance of this Agreement by such Stockholder and the consummation by such Stockholder of the transactions contemplated hereby do not and will not: (i) conflict with or violate any provision of such Stockholder's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) conflict with or result in a violation of or default (or be an event that with notice or lapse of time or both would become a conflict, violation or default) under any contract or agreement applicable to such Stockholder or any law, rule, regulation, order, decree, ruling or pronouncement to which such Stockholder is subject or by which any property or asset of such Stockholder is bound or affected.

(c) No General Solicitation. Such Stockholder is not acquiring the securities of New Borun hereunder as a result of any advertisement, article, notice or other communication regarding such securities published in any newspaper, magazine or similar media or broadcast over television, radio the internet or presented at any seminar or any other general advertisement.

(d) Investment Intent. Such Stockholder: (i) is acquiring the securities of New Borun hereunder as a principal for its own account and not with a view to or for distributing or reselling them in violation of any applicable law, rule or regulation, (ii) has no present intention of distributing any of such securities in violation of any applicable law, rule or regulation and (iii) has no direct or indirect arrangement or understandings with any other persons to distribute or regarding their distribution of such securities.

(e) Approval of Agreement. The board of directors (or equivalent) of each Stockholder has unanimously authorized the execution and delivery of this Agreement by such Stockholder and has approved this Agreement and the transactions contemplated hereby.

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## ARTICLE II REPRESENTATIONS, COVENANTS, AND WARRANTIES OF NEW BORUN

As an inducement to, and to obtain the reliance of China High and the Stockholders, except as set forth in those schedules prepared by New Borun which are attached and made a part hereto (the "New Borun Schedules"), New Borun represents and warrants to China High and the Stockholders as follows:

Section 2.01 Organization. New Borun is an exempted company incorporated, validly existing, and in good standing under the laws of the Cayman Islands and has the corporate power and is duly authorized under all applicable laws, regulations, ordinances, and orders of public authorities to carry on its business in all material respects as it is now being conducted. Set forth in Item 2.01 of the New Borun Schedules is a complete and correct copy of the Certificate of Incorporation and Memorandum and Articles of Association of New Borun, both dated as of the date hereof (together, the "New Borun Charter"). The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of the New Borun Charter. New Borun has taken all action required by law, the New Borun Charter or otherwise to authorize the execution and delivery of this Agreement, and New Borun has full power, authority, and legal right and has taken all action required by law, the New Borun Charter or otherwise to consummate the transactions herein contemplated.

Section 2.02 Capitalization. New Borun's authorized share capital consists of (a) One Hundred Million (100,000,000) New Borun Ordinary Shares with a par value of US\$0.001 each, of which Fourteen Million Eight Hundred Forty-Seven Thousand Eight Hundred Eleven (14,847,811) shares were issued and outstanding prior to the transaction contemplated by the Exchange and (b) Five Million (5,000,000) preference shares with a par value of US\$0.001 each ("New Borun Preference Shares"), zero (0) of which were issued or outstanding immediately preceding the consummation of the Exchange.

Section 2.03 Subsidiaries and Predecessor Corporations. New Borun does not have any predecessors or subsidiaries and does not own, beneficially or of record, any shares of any other corporation except that New Borun owns 100% of Golden Direction.

Section 2.04 No Financial Statements.

(a) New Borun has not had any operations since its incorporation and no financial statements have been prepared with the exception of those financial statements set forth in Item 2.04 of the New Borun Schedules.

(b) New Borun has no liabilities with respect to the payment of any federal, state, county, local or other taxes (including any deficiencies, interest or penalties).

(c) New Borun has timely filed all income and/or franchise tax returns required to be filed by it from its inception to the date hereof. Each of such income and/or franchise tax returns reflects the taxes due for the period covered thereby, except for amounts which, in the aggregate, are immaterial.

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(d) New Borun has no liabilities, direct or indirect, matured or unmatured, contingent or otherwise.

Section 2.05 Options or Warrants. There are no existing options, warrants, calls, or commitments of any character relating to the authorized and unissued stock of New Borun.

Section 2.06 Absence of Certain Changes or Events. Since its inception:

(a) There has not been any business or operations of New Borun and New Borun owns no assets or properties;

(b) New Borun has not (i) amended the New Borun Charter beyond that which has been provided for in connection with this Agreement; (ii) declared or made, or agreed to declare or make any payment of dividends or distributions of any assets of any kind whatsoever; (iii) made any material change in its method of management, operation or accounting; (iv) entered into any transactions or agreements other than in connection with this Agreement and the transactions contemplated herein; or (v) made any adoption of any profit sharing, bonus, deferred compensation, insurance, pension, retirement, or other employee benefit plan, payment, or arrangement, made to, for or with its officers, directors, or employees; and

(c) New Borun has not (i) granted or agreed to grant any options, warrants, or other rights for its stock, bonds, or other corporate securities calling for the issuance thereof; (ii) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) except liabilities incurred in the ordinary course of business; (iii) sold or transferred, or agreed to sell or transfer, any of its assets, properties, or rights, or canceled, or agreed to cancel, any debts or claims; or (iv) issued, delivered or agreed to issue or deliver, any stock, bonds or other corporate securities including debentures (whether authorized and unissued or held as treasury stock), except in connection with this Agreement.

Section 2.07 Litigation and Proceedings. There are no actions, suits, proceedings or investigations pending or threatened by or against New Borun or affecting New Borun or its properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind. New Borun has no knowledge of any default on its part with respect to any judgment, order, writ, injunction, decree, award, rule or regulation of any court, arbitrator, or governmental agency or instrumentality or any circumstance which after reasonable investigation would result in the discovery of such default.

Section 2.08 Contracts. Except as set forth in Item 2.08 of the New Borun Schedules:

(a) New Borun is not a party to any contract, franchise, license agreement, agreement, debt instrument or other commitments or instruments whether such agreement is in writing or oral.

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(b) New Borun is not a party to or bound by any charter or other corporate restriction or any judgment, order, writ, injunction, decree, or award; and

(c) New Borun is not a party to any oral or written (i) contract for the employment of any officer or employee; (ii) profit sharing, bonus, deferred compensation, stock option, severance pay, pension benefit or retirement plan; (iii) agreement, contract, or indenture relating to the borrowing of money; (iv) guaranty of any obligation; (v) collective bargaining agreement; or (vi) agreement with any present officer or director of New Borun.

Section 2.09 No Conflict With Other Instruments. The execution of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in the breach of any term or provision of, constitute a default under, or terminate, accelerate or modify the terms of, any indenture, mortgage, deed of trust, or other material agreement or instrument to which New Borun is a party or to which any of its assets, properties or operations are subject.

Section 2.10 Compliance With Laws and Regulations. New Borun has materially complied with all applicable statutes and regulations of any applicable governmental entity or agency thereof.

Section 2.11 Approval of Agreement. The sole director of New Borun has authorized the execution and delivery of this Agreement by New Borun and has approved this Agreement and the transactions contemplated hereby.

Section 2.12 Material Transactions or Affiliations. Except as set forth in Item 2.12 of the New Borun Schedules, there exists no contract, agreement or arrangement between New Borun and any person who was at the time of such contract, agreement or arrangement an officer, director, or person owning of record or known by New Borun to own beneficially, five percent (5%) or more of the issued and outstanding common stock of New Borun and which is to be performed in whole or in part after the date hereof or was entered into prior to the date hereof since inception. Neither any officer, director, nor five percent (5%)

stockholder of New Borun has, or has had since inception of New Borun, any known interest, direct or indirect, in any such transaction with New Borun which was material to the business of New Borun. New Borun has no commitment, whether written or oral, to lend any funds to, borrow any money from, or enter into any other transaction with, any such affiliated person.

Section 2.13 Valid Obligation. This Agreement and all agreements and other documents executed by New Borun in connection herewith constitute the valid and binding obligation of New Borun, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights generally and subject to the qualification that the availability of equitable remedies is subject to the discretion of the court before which any proceeding therefore may be brought.

Section 2.14 Information. The information concerning New Borun set forth in this Agreement and the New Borun Schedules is complete and accurate in all material respects and does not contain any untrue statements of a material fact or omit to state a material fact

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required to make the statements made, in light of the circumstances under which they were made, not misleading.

### ARTICLE III PLAN OF EXCHANGE AND RELATED AGREEMENTS

#### Section 3.01 The Closing.

(a) The closing (the "Closing") of the Exchange will occur at the offices of New Borun's U.S. securities counsel, K&L Gates LLP, located at 200 South Biscayne Boulevard, Suite 3900, Miami, Florida 33131-2399 on such date that all of the conditions set forth in Articles VI and VII have been satisfied or waived (the "Closing Date"). The Closing may be undertaken remotely by delivery of facsimile/email and/or pdf signatures and documents.

(b) On the Closing Date, the Stockholders shall assign and transfer, free and clear of all liens, pledges, encumbrances, charges, restrictions or known claims of any kind, nature, or description, 100% of the China High Preference Shares to Golden Direction in exchange for the issuance by New Borun of the following:

(i) Three Thousand Seven Hundred Eleven and 952/1000 (3,711.952) newly-issued shares of Class A convertible New Borun Preference Shares to Star Elite, which shall be automatically convertible into Three Million Seven Hundred Eleven Thousand Nine Hundred Fifty-Two (3,711,952) newly-issued New Borun Ordinary Shares pursuant to the terms and conditions set forth in that certain Shareholders Agreement, of even date with this Agreement, by and among the Stockholders and New Borun in the form of Exhibit A attached hereto (the "Shareholders Agreement"), which such Shareholders Agreement shall contain rights substantially similar to those rights held by each Stockholder in China High as of the date of the execution of such Shareholders Agreement;

(ii) One Thousand Sixty-Five and 330/1000 (1,065.330) newly-issued Class B convertible New Borun Preference Shares to Earnstar, which shall be automatically convertible into One Million Sixty-Five Thousand Three Hundred Thirty (1,065,330) newly-issued New Borun Ordinary Shares pursuant to the terms and conditions set forth in the Shareholders Agreement; and

(iii) Three Hundred Seventy-Four and 907/1000 (374.907) newly issued Class C convertible New Borun Preference Shares to TDR, which shall be automatically convertible into Three Hundred Seventy-Four Thousand Nine Hundred Seven (374,907) newly-issued New Borun Ordinary Shares pursuant to the terms and conditions set forth in the Shareholders Agreement.

(c) On the Closing Date, New Borun shall adopt by special resolution an amended and restated New Borun Charter memorializing the preference rights of each Stockholder as set forth in the Shareholders Agreement and file such special resolution, together with the amended and restated New Borun Charter with the Registrar of

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Companies in the Cayman Islands not later than five (5) business days following the Closing Date.

(d) As a result of the Exchange as contemplated herein:

(i) the Stockholders, collectively, will beneficially own approximately 25.76% of the issued share capital of New Borun on the Closing Date, of which approximately 18.56% will be owned by Star Elite, approximately 5.33% will be owned by Earnstar and approximately 1.87% will be owned by TDR, calculated on a fully-diluted basis,

(ii) all of the shares of China High Capital Stock shall be held by Golden Direction, and

(iii) there shall be Fourteen Million Eight Hundred Forty-Seven Thousand Eight Hundred Eleven (14,847,811) New Borun Ordinary Shares issued and outstanding, Three Thousand Seven Hundred Eleven and 952/1000 (3,711.952) Class A convertible New Borun Preference Shares issued and outstanding, One Thousand Sixty-Five and 330/1000 (1,065.330) Class B convertible New Borun Preference Shares issued and outstanding and Three Hundred Seventy-Four and 907/1000 (374.907) Class C convertible New Borun Preference Shares issued and outstanding.

Section 3.02 Stockholder Directorships; Appointment of Certain Directors. The Shareholders Agreement shall provide that: (i) each holder of New Borun Preference Shares shall have the right to appoint one (1) director (hereinafter, a "Stockholder Director") at each annual or special meeting of the stockholders of New Borun called for the purpose of electing directors (the "Appointment Right"), (ii) the Appointment Right shall terminate upon the closing of a Qualified Public Offering (as such term is defined in the Shareholders Agreement) after which each Stockholder Director shall serve until the next annual meeting of the shareholders of New Borun when their successors are duly elected and qualified. On the Closing Date, Star Elite shall nominate Mr. Rong Chen, Earnstar shall nominate Mr. Yibin Wei and TDR shall nominate Mr. Ruiping Wang to serve as initial Stockholder Directors of New Borun, and New Borun shall effect the appointments of such Stockholder Directors to the board of directors of New Borun, effective as of the Closing Date. New Borun shall draft all necessary instruments to effect the appointments described in this Section 3.02.

Section 3.03 Termination of Investment Agreements. Effective as of the Closing Date, each Stockholder and China High hereby agree and acknowledge that the terms set forth in this Agreement, in the Shareholders Agreement and in each document made a part hereof shall amended and restate and



supersede in all respect all prior agreements, understandings and negotiations, written or oral, with respect to each of Stockholder's rights against China High and New Borun, including, without limitation, each of those investment agreements and related documentation and instruments entered into by and between or among the Stockholders and China High, together with all amendments and supplements thereto which are listed in Item 1.02 of the China High Schedules, all of which will be deemed to be terminated and of no further force or effect effective as of the Closing Date. The parties hereto also agree to enter into

separate termination agreements to that end in a form and in substance which is reasonably acceptable to New Borun.

Section 3.04 Closing Events. On the Closing Date, New Borun, China High and the Stockholders shall execute, acknowledge, and deliver (or shall ensure to be executed, acknowledged, and delivered), any and all certificates, opinions, financial statements, schedules, agreements, resolutions, rulings or other instruments required by this Agreement to be so delivered on or prior to the Closing Date, together with such other items as may be reasonably requested by the parties hereto and their respective legal counsel in order to fully effectuate or evidence the transactions contemplated hereby.

Section 3.05 Termination. This Agreement may only be terminated prior to the Closing Date by (a) New Borun in the event that China High or the Stockholders fail to meet all non-waived conditions set forth in Article VI herein in all material respects and (b) China High or the Stockholders only in the event that New Borun fails to meet all non-waived conditions set forth in Article VII herein in all material respects. If this Agreement is terminated pursuant this Section 3.05, this Agreement shall be of no further force or effect, and no obligation, right or liability shall arise hereunder, except as set forth herein below.

#### ARTICLE IV COVENANTS OF CHINA HIGH AND THE STOCKHOLDERS

Section 4.01 Access and Investigation. Between the date of this Agreement and the Closing Date, China High will (a) afford New Borun and its agents, advisors and attorneys during normal business hours, and upon reasonable notice, full and free access to China High's senior personnel, properties, contracts, books and records, and other documents and data, (b) furnish new Borun and its agents, advisors and attorneys with copies of all such contracts, books and records, and other existing documents and data as New Borun may reasonably request and (c) furnish New Borun and its agents, advisors and attorneys with such additional financial, operating, and other data and information as New Borun may reasonably request.

Section 4.02 Delivery of Books and Records. On or prior to the Closing Date, China High shall deliver to New Borun the originals of the corporate minute books, books of account, contracts, records, and all other books or documents of China High now in the possession of China High or its representatives.

Section 4.03 Operation of the Business of China High.

(a) Between the date of this Agreement and the Closing Date, China High will:

- (i) conduct its business only in the ordinary course of business consistent with past practice;
- (ii) use its best efforts to preserve intact its current business organization and business relationships and those of Weifang, Shandong Borun and Daqing Borun, including, without limitation, their respective relationships with suppliers, customers, landlords, creditors, officers, employees and agents;

- (iii) not create any new, or capitalize or conduct any business through, any subsidiary;
- (iv) not issue any equity securities (or any interest therein); and
- (v) not perform any act that would require the consent of the Stockholders or any of them.

(b) Notwithstanding the foregoing, between the date of this Agreement and the Closing Date, China High will not directly or indirectly, without the prior written consent of New Borun, engage in any transaction with, or enter into any agreement with any officer, director or Stockholder of China High, or any affiliate thereof.

Section 4.04 No Transfers of Interests. Between the date of this Agreement and the Closing Date, no Stockholder shall assign, transfer, mortgage, pledge or otherwise dispose of any or all of its China High Capital Stock (or any interest therein) or grant any person the option or right to acquire any China High Capital Stock (or any interest therein).

Section 4.05 Required Filings and Approvals. As promptly as possible after the date of this Agreement, China High will make all filings and obtain all approvals required to be made by it in order to consummate the transactions contemplated by this Agreement. Between the date of this Agreement and the Closing Date, China High and the Stockholders will (i) cooperate with New Borun with respect to all filings that New Borun elects to make or is required to make in connection with the transactions contemplated by this Agreement and (ii) cooperate with New Borun in obtaining any consents or approvals required to be obtained by New Borun in connection herewith.

Section 4.06 Notification. Between the date of this Agreement and the Closing Date, China High and the Stockholders will promptly notify New Borun in writing if China High or the Stockholders becomes aware of any fact or condition that causes or constitutes a breach of any of the representations and warranties of China High or the Stockholders, as the case may be, as of the date of this Agreement, or if China High or any Stockholder becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in the Schedules to this Agreement if such Schedules were dated the date of the occurrence or discovery of any such fact or condition, China High or the Stockholders, as the case may be, will promptly deliver to New Borun a supplement to the Schedules to this Agreement specifying such change; provided, however, that such delivery shall not materially adversely affect any rights of New Borun set forth herein. During the same period, China High and the Stockholders will promptly notify New Borun of the occurrence of any breach of any covenant of China High or the Stockholders in this Article IV or in Article III herein or of the occurrence of any event that may make the satisfaction of the conditions in Article VI impossible or unlikely.

Section 4.07 Indemnification. China High and the Stockholders hereby jointly and severally agree to indemnify New Borun and each of the officers, attorneys, agents and directors of New Borun as of the date of execution of this Agreement against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever) (as used in this paragraph alone, a “Loss”), to which it or they may become subject arising out of or based on any inaccuracy appearing in or misrepresentations made under Article I of this Agreement. The indemnification provided for in this paragraph shall survive the Closing and the consummation of the transactions contemplated hereby and termination of this Agreement for two (2) years following the Closing Date.

Section 4.08 Releases. On or prior to the Closing Date, each Stockholder shall execute a Release in the form of Exhibit B attached hereto.

Section 4.09 Lock-Up Agreements. On the date hereof, each Stockholder shall execute a Lock-Up Agreement in the form of Exhibit C attached hereto.

Section 4.10 Approval by China High and the Stockholders. This Agreement and the transactions contemplated hereby shall have been approved by the board of directors of China High and by each of the Stockholders prior to the date hereof.

Section 4.11 Director’s Certificate of China High. On the date hereof, China High shall deliver to New Borun a certificate, executed by a Director (or equivalent thereof) of China High certifying attached copies of (i) the organizational documents of China High, (ii) the resolutions of China High’s board of directors approving this Agreement and the transactions contemplated hereby and (iii) the incumbency of each authorized officer of China High signing this Agreement and any other agreement or instrument contemplated hereby to which China High is a party.

Section 4.12 Director’s Certificate of each Stockholder. On the date hereof, each Stockholder shall deliver to New Borun a certificate, executed by such Stockholder’s Director (or equivalent thereof) certifying attached copies of (i) the resolutions of such Stockholder’s board of directors (or equivalent thereof) approving this Agreement and the transactions contemplated hereby and (ii) the incumbency of each authorized officer of such Stockholder signing this Agreement and any other agreement or instrument contemplated hereby to which such Stockholder is a party.

Section 4.13 Good Standing Certificates. China High shall deliver to New Borun a certificate of good standing from the Registrar of Companies of Hong Kong or the similar document from the Registered Agent of Hong Kong, dated as of a date within ten (10) business days prior to the Closing Date certifying that China High is in good standing as a company in Hong Kong. Each Stockholder shall deliver a certificate of good standing (or the equivalent from the appropriate authority in the British Virgin Islands, dated within ten (10) business days of the Closing Date certifying that such Stockholder is in good standing as a company in the British Virgin Islands.

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Section 4.14 Shareholders Agreement. Each of the Stockholders shall execute the Shareholders Agreement contemporaneously with the Closing of this Agreement, which such Shareholders Agreement shall contain rights which are substantially similar to those rights held by the Stockholders in China High.

Section 4.15 Closing Conditions. Between the date of this Agreement and the Closing Date, each of China High and the Stockholders will use its best efforts to cause the conditions in Article VI to be satisfied as promptly as possible.

## ARTICLE V COVENANTS OF NEW BORUN AND GOLDEN DIRECTION

Section 5.01 Access and Investigation. Between the date of this Agreement and the Closing Date, New Borun will (a) afford China High, the Stockholders and each of their respective agents, advisors and attorneys during normal business hours and upon reasonable notice, full and free access to New Borun’s senior personnel, properties, contracts, books and records, and other documents and data, (b) furnish China High, the Stockholders and each of their respective agents, advisors and attorneys with copies of all such contracts, books and records, and other existing documents and data as China High may reasonably request and (c) furnish China High, the Stockholders and each of their respective agents, advisors and attorneys with such additional financial, operating, and other data and information as China High or the Stockholders may reasonably request.

Section 5.02 Issuance of Securities in New Borun. Between the date of this Agreement and the Closing Date, New Borun will not issue any equity securities (or any interest therein).

Section 5.03 Required Filings and Approvals. As promptly as practicable after the date of this Agreement, New Borun will make all filings required to be made by it in order to consummate the transactions contemplated by this Agreement. Between the date of this Agreement and the Closing Date, New Borun will cooperate with China High with respect to all filings that China High elects to make or is required to make in connection with the transactions contemplated by this Agreement, and cooperate with China High in obtaining any consents or approvals required to be obtained by China High in connection herewith.

Section 5.04 Notification. Between the date of this Agreement and the Closing Date, New Borun will promptly notify China High and the Stockholders in writing if New Borun becomes aware of any fact or condition that causes or constitutes a breach of any of the representations and warranties of New Borun, as of the date of this Agreement, or if New Borun becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in the Schedules to this Agreement if the Schedules to the Agreement were dated the date of the occurrence or discovery of any such fact or condition, New Borun will promptly deliver to China High and the Stockholders a supplement to the Schedules to the Agreement specifying such change; provided, however, that such delivery shall not materially adversely affect any

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rights of China High and the Stockholders set forth herein. During the same period, New Borun will promptly notify China High and the Stockholders of the occurrence of any breach of any covenant of New Borun in this Article V or of the occurrence of any event that may make the satisfaction of the conditions in Article VII impossible or unlikely.

Section 5.05 Indemnification. New Borun hereby agrees to indemnify China High and each of the officers, attorneys, agents, and directors of China High, and the Stockholders as of the date of execution of this Agreement against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever) (as used in this paragraph alone, a “Loss”) to which it or they may become subject arising out of or based on any inaccuracy appearing in or misrepresentation made under Article II of this Agreement. The indemnification provided for in this paragraph shall survive the Closing hereunder and the consummation of the transactions contemplated hereby and termination of this Agreement for two (2) years following the Closing Date.

Section 5.06 Approval by New Borun and Golden Direction. This Agreement and the transactions contemplated hereby shall have been approved by the boards of directors of New Borun and Golden Direction prior to the date hereof.

Section 5.07 Shareholders Agreement. New Borun and Golden Direction shall execute the Shareholders Agreement contemporaneously with the Closing of this Agreement, which such Shareholders Agreement shall contain rights which are substantially similar to those rights held by the Stockholders in China High.

Section 5.08 Closing Conditions. Between the date of this Agreement and the Closing Date, New Borun and Golden Direction will use its best efforts to cause the conditions in Article VII to be satisfied as promptly as possible.

## ARTICLE VI CONDITIONS PRECEDENT TO OBLIGATIONS OF NEW BORUN AND GOLDEN DIRECTION

The obligations of New Borun and Golden Direction under this Agreement are subject to the satisfaction, on or before the Closing Date, of the following conditions (any of which may be waived by New Borun, in whole or in part):

Section 6.01 Accuracy of Representations. The representations and warranties made by China High and the Stockholders in this Agreement were true when made and shall be true at the Closing Date with the same force and effect as if such representations and warranties were made at and as of the Closing Date (except for changes therein permitted by this Agreement).

Section 6.02 Performance by China High and the Stockholders.

(a) All of the covenants and obligations that China High and the Stockholders are required to perform or to comply with pursuant to this Agreement at or prior to the

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Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Each document required to be delivered by China High and the Stockholders pursuant to this Agreement at or prior to Closing must have been delivered.

Section 6.03 Consents. All consents, waivers, approvals, authorizations or orders pursuant to all contracts, licenses, laws, rules or regulations, permits, trademarks and other intangibles required to be obtained, and all filings required to be made, by China High and/or the Stockholders for the authorization, execution and delivery of this Agreement and the consummation by them of the transactions contemplated by this Agreement or for the continued operation of China High as presently operated as a wholly-owned subsidiary of Golden Direction after the Closing Date to the extent required by law, shall have been obtained and made by China High and/or the Stockholders, as the case may be; it being understood that all consents, waivers, approvals, authorizations or orders of the Hong Kong Special Administrative Region, the PRC or any other subdivision thereof are required to be delivered as promptly as possible.

Section 6.04 Officer's Certificate of China High. China High shall have delivered to New Borun a certificate dated as of the Closing Date and signed by a duly authorized officer of China High to the effect that (a) each of the conditions set forth in Sections 6.01, 6.02 and 6.03 have been fully satisfied and (b) no litigation, proceeding, investigation, or inquiry is pending, or to the best knowledge of China High threatened, which might result in an action to enjoin or prevent the consummation of the transactions contemplated by this Agreement, or, to the extent not disclosed in the China High Schedules, by or against China High, which might result in any material adverse change in any of the assets, properties, business, or operations of China High.

Section 6.05 Officer's Certificates of the Stockholders. Each Stockholder shall have delivered to New Borun a certificate dated as of the Closing Date executed by an authorized officer of the Stockholder certifying the satisfaction of the conditions specified in Sections 6.01, 6.02 and 6.03 herein above.

Section 6.06 Good Standing Certificates. On the Closing Date, each Stockholder shall deliver to New Borun a certificate of good standing, dated as of a date within ten (10) business days of the Closing Date, certifying that such Stockholder is in good standing as a company in the British Virgin Islands.

Section 6.07 No Governmental Prohibition. No order, statute, rule, regulation, executive order, injunction, stay, decree, judgment or restraining order shall have been enacted, entered, promulgated or enforced by any court or governmental or regulatory authority or instrumentality which prohibits the consummation of the transactions contemplated hereby.

Section 6.08 Additional Documents. China High and the Stockholders shall have delivered to New Borun such other documents as New Borun may have reasonably requested for the purpose of (i) evidencing the accuracy of any of the representations and warranties of China High and the Stockholders in this Agreement, (ii) evidencing the

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performance of, or compliance by China High and the Stockholders with, any covenant or obligation required to be performed or complied with hereunder by China High or the Stockholders, as the case may be, (iii) evidencing the satisfaction of any condition referenced herein (including, without limitation such opinions of the British Virgin Islands, Hong Kong or PRC counsel to China High and the Stockholders that all consents and approvals of all governmental authorities of the British Virgin Islands, Hong Kong, the PRC or any other subdivision thereof necessary or required to consummate the transactions contemplated herein, free and clear of all encumbrances have been obtained and are in full force and effect) or (iv) otherwise facilitating the consummation or performance of any of the transactions contemplated by this Agreement.

**ARTICLE VII  
CONDITIONS PRECEDENT TO OBLIGATIONS OF CHINA HIGH  
AND THE STOCKHOLDERS**

The obligations of China High and the Stockholders under this Agreement are subject to the satisfaction, at or before the Closing Date, of the following conditions (any of which may be waived by China High and the Stockholders, in whole or in part):

Section 7.01 Accuracy of Representations. The representations and warranties made by New Borun in this Agreement were true when made and shall be true at the Closing Date with the same force and effect as if such representations and warranties were made at and as of the Closing Date (except for changes therein permitted by this Agreement).

Section 7.02 Performance by New Borun.

(a) All of the covenants and obligations that New Borun and Golden Direction are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Each document required to be delivered by New Borun and Golden Direction pursuant to this Agreement at or prior to Closing must have been delivered.

Section 7.03 Consents. All consents, waivers, approvals, authorizations or orders pursuant to all contracts, licenses, laws, rules or regulations, permits, trademarks and other intangibles required to be obtained, and all filings required to be made, by New Borun and Golden Direction for the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement to the extent required by law, shall have been obtained and made by New Borun and Golden Direction.

Section 7.04 Officer's Certificates. New Borun and Golden Direction each shall have delivered to China High and the Stockholders a certificate dated as of the Closing Date and signed by a duly authorized officer of each of New Borun and Golden Direction to the effect that (a) each of the conditions set forth in Sections 7.01, 7.02 and 7.03 have been fully satisfied and (b) no litigation, proceeding, investigation, or inquiry is pending, or to the best knowledge of New Borun and Golden Direction threatened, which might result in an action to enjoin or prevent

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the consummation of the transactions contemplated by this Agreement, or, to the extent not disclosed in the New Borun Schedules, by or against New Borun or Golden Direction, which might result in any material adverse change in any of the assets, properties, business, or operations of New Borun.

Section 7.05 Director's Certificates. On the Closing Date, New Borun and Golden Direction shall each deliver to China High and the Stockholders a certificate, executed by such company's sole director certifying attached copies of (i) the organizational documents of such company and (ii) the resolutions of such company's board of directors approving this Agreement and the transactions contemplated hereby.

Section 7.06 Good Standing Certificate. On the Closing Date, New Borun shall deliver to China High and the Stockholders a certificate of good standing from the Registrar of Companies, dated as of a date within ten (10) business days of the Closing Date, certifying that New Borun is in good standing as a company in the Cayman Islands.

Section 7.07 Good Standing Certificate. On the Closing Date, Golden Direction shall deliver to China High and the Stockholders a certificate of good standing, dated as of a date within ten (10) business days of the Closing Date, certifying that Golden Direction is in good standing as a company in the British Virgin Islands.

Section 7.08 Shareholders Agreement. New Borun and Golden Direction shall have executed the Shareholders Agreement, which such Shareholders Agreement shall contain rights which are substantially similar to those rights held by the Stockholders in China High.

Section 7.09 Additional Documents. New Borun and Golden Direction shall have delivered such other documents as China High and/or the Stockholders may have reasonably requested prior to the date hereof for the purpose of (i) evidencing the accuracy of any of the representations and warranties of New Borun in this Agreement, (ii) evidencing the performance of, or compliance by New Borun and Golden Direction with, any covenant or obligation required to be performed or complied with hereunder by New Borun and Golden Direction, (iii) evidencing the satisfaction of any condition referenced herein or (iv) otherwise facilitating the consummation or performance of any of the transactions contemplated by this Agreement.

**ARTICLE VIII  
MISCELLANEOUS**

Section 8.01 Brokers. The parties hereto hereby agree that there were no finders or brokers involved in bringing the parties together or who were instrumental in the negotiation, execution or consummation of this Agreement.

Section 8.02 Governing Law; Jurisdiction; Venue; Waiver of Jury Trial. This Agreement shall be governed by, enforced, and construed under and in accordance with the laws of the United States of America and, with respect to matters of State law, with the laws of the State of New York. Venue for all matters shall be in the City of New York, New York, without giving effect to principles of conflicts of law thereunder. Each of the parties irrevocably consents and agrees that any legal or equitable action or

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proceedings arising under or in connection with this Agreement shall be brought exclusively in the federal courts of the United States sitting in New York City, New York. By execution and delivery of this Agreement, each party hereto irrevocably submits to and accepts, with respect to any such action or proceeding, generally and unconditionally, the jurisdiction of the aforesaid court, and irrevocably waives any and all rights such party may now or hereafter have to object to such jurisdiction. **EACH PARTY (ON BEHALF OF ITSELF AND, TO THE FULLEST EXTENT PERMITTED BY LAW, ON BEHALF OF ITS RESPECTIVE EQUITY HOLDERS) HEREBY WAIVES ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED UPON, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.**

Notices. Any notice or other communications required or permitted hereunder shall be in writing and shall be sufficiently given if personally delivered to it or sent by telecopy, overnight courier or registered mail or certified mail, postage prepaid, addressed as follows:

If to New Borun, to: China New Borun Corporation  
Bohai Industrial Park (Yangkou Town)  
Shouguang, Shandong 262715  
The People's Republic of China  
Attention: WANG Jinmiao  
Telephone: +86-536-5451199/5451006  
Facsimile: +86-536-5451199

With copies to: K&L Gates LLP  
Wachovia Financial Center  
200 South Biscayne Blvd., Suite 3900  
Miami, FL 33131  
Attention: Clayton E. Parker, Esq.  
Telephone: (305) 539-3300  
Facsimile: (305) 358-7095

If to Golden Direction, to: Golden Direction Limited  
Bohai Industrial Park (Yangkou Town)  
Shouguang, Shandong 262715  
The People's Republic of China  
Attention: WANG Jinmiao  
Telephone: +86-536-5451199/5451006  
Facsimile: +86-536-5451199

If to Star Elite, to: Star Elite Enterprises Limited  
Floor 5  
No. 832 Huamu Road, Pudong New Area  
Shanghai 201204  
The People's Republic of China  
Attention: WU Kezhong, LU Jun

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Telephone: +86-21-50591378  
Facsimile: +86-21-50453554

If to Earnstar Holding Limited, to: Earnstar Holding Limited  
Room 4006A  
China Resources Building No. 26  
Harbor Road, Wanchai  
Hong Kong  
Attention: WEI Yi Bin  
Telephone: 00852-69448409  
Facsimile: 00852-25118818

If to TDR Advisors, to: TDR Advisors, Inc.  
Room 1601  
Fuchun Dongfang Building  
No. 7006 Shennan Road, Futian District  
Shenzhen, The People's Republic of China  
Attention: GUO Xun  
Telephone: +86-755-3337 1196  
Facsimile: +86-755-3337 1191

If to China High, to: China High Enterprises Limited  
Bohai Industrial Park (Yangkou Town)  
Shouguang, Shandong 262715  
The People's Republic of China  
Attention: WANG Rongjian  
Telephone: +86-536-5451199  
Facsimile: +86-536-5451199

or such other addresses as shall be furnished in writing by any party in the manner for giving notices hereunder, and any such notice or communication shall be deemed to have been given (i) receipt, if personally delivered, (ii) on the day after dispatch, if sent by overnight courier and (iii) upon dispatch, if transmitted by facsimile or telecopy and receipt is confirmed by telephone.

Section 8.03 Attorney's Fees. In the event that either party institutes any action or suit to enforce this Agreement or to secure relief from any default hereunder or breach hereof, the prevailing party shall be reimbursed by the losing party for all costs, including reasonable attorney's fees, incurred in connection therewith and in enforcing or collecting any judgment rendered therein.

Section 8.04 Confidentiality. Each party hereto agrees with the other that, unless and until the transactions contemplated by this Agreement have been consummated, it and its representatives will hold in strict confidence all data and information obtained with respect to another party or any subsidiary thereof from any representative, officer, director or employee, or from any books or records or from personal inspection, of such other party, and shall not use such

or (ii) to the extent that such data or information must be used or disclosed in order to consummate the transactions contemplated by this Agreement. In the event of the termination of this Agreement, each party shall return to the other party all documents and other materials obtained by it or on its behalf and shall destroy all copies, digests, work papers, abstracts or other materials relating thereto, and each party will continue to comply with the confidentiality provisions set forth herein.

Section 8.05 Public Announcements and Filings. The parties hereto hereby acknowledge and agree that this Agreement will be filed as an Exhibit to New Borun's registration statement on Form F-1 to be filed with the U.S. Securities and Exchange Commission (the "Commission") in connection with the initial public offering of American Depositary Shares representing New Borun Ordinary Shares, and that such registration statement will be made publicly available upon such filing. With the exception of such filing, and unless required by applicable law or regulatory authority, including, without limitation, the Commission, none of the parties will issue any report, statement or press release to the general public, to the general trade or trade press, or to any third party (other than its advisors and representatives in connection with the transactions contemplated hereby) or file any document, relating to this Agreement and the transactions contemplated hereby, except as may be mutually agreed by the parties. Copies of any such filings, public announcements or disclosures, including any announcements or disclosures mandated by law or regulatory authorities with the exception of any such filings, announcements or disclosures made to the Commission, shall be delivered to each party at least one (1) business day prior to the release thereof.

Section 8.06 Recitals. The recitals to this Agreement are true and correct and are incorporated herein, in their entirety, by this reference.

Section 8.07 Third Party Beneficiaries. This Agreement is strictly between New Borun, Golden Direction, the Stockholders and China High, and, except as specifically provided herein, including, without limitation, those persons indemnified pursuant to Sections 4.07 and 5.05 herein, no director, officer, stockholder (other than the Stockholders), employee, agent, independent contractor or any other person or entity shall be deemed to be a third party beneficiary of this Agreement.

Section 8.08 Expenses. Subject to Section 8.03 above, whether or not the Exchange is consummated, New Borun will bear all expenses, including legal, accounting and professional fees, incurred in connection with the Exchange or any of the other transactions contemplated hereby.

Section 8.09 Survival; Termination. The representations, warranties, and covenants of the respective parties shall survive the Closing Date and the consummation of the transactions herein contemplated for a period of two (2) years.

Section 8.10 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall be but a single instrument. In the event that any counterpart signature is delivered by facsimile or other electronic transmission, such signature shall create a valid and binding obligation of the

party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or other electronic signature page were an original thereof.

Section 8.11 Amendment or Waiver. Every right and remedy provided herein shall be cumulative with every other right and remedy, whether conferred herein, at law, or in equity, and may be enforced concurrently herewith, and no waiver by any party of the performance of any obligation by the other shall be construed as a waiver of the same or any other default then, theretofore, or thereafter occurring or existing. At any time prior to the Closing Date, this Agreement may be amended by a writing signed by all parties hereto, with respect to any of the terms contained herein, and any term or condition of this Agreement may be waived or the time for performance may be extended by a writing signed by the party or parties for whose benefit the provision is intended.

Section 8.12 Best Efforts. Subject to the terms and conditions herein provided, each party shall use its best efforts to perform or fulfill all conditions and obligations to be performed or fulfilled by it under this Agreement so that the transactions contemplated hereby shall be consummated as soon as practicable. Each party also agrees that it shall use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective this Agreement and the transactions contemplated herein.

Section 8.13 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the parties hereto will be entitled to specific performance of their respective obligations hereunder. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

Section 8.14 Construction. The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise this Agreement and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of Agreements or any amendments hereto or the transactions contemplated hereby.

Section 8.15 Entire Agreement. This Agreement represents the entire agreement between the parties relating to the subject matter thereof and supersedes all prior agreements, understandings and negotiations, written or oral, with respect to such subject matter.

[Remainder of Page Intentionally Left Blank]

**IN WITNESS WHEREOF**, the corporate parties hereto have caused this Share Exchange Agreement to be executed by their respective officers, hereunto duly authorized, as of the date first-above written.

**CHINA NEW BORUN CORPORATION**

By: /s/ Shan Junqin  
Name: Shan Junqin  
Title: Director

**GOLDEN DIRECTION LIMITED**

By: /s/ Shan Junqin  
Name: Shan Junqin  
Title: Director

**STAR ELITE ENTERPRISES LIMITED**

By: /s/ Chen Ping  
Name: Chen Ping  
Title: Director

**EARNSTAR HOLDING LIMITED**

By: Wei Yibin  
Name: Wei Yibin  
Title: Director

**TDR ADVISORS, INC.**

By: /s/ Wang Ruiping  
Name: Wang Ruiping  
Title: Director

**CHINA HIGH ENTERPRISES LIMITED**

By: /s/ Shan Junqin  
Name: Shan Junqin  
Title: Director

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**CHINA HIGH SCHEDULES**

- Item 1.01** Certificate of Incorporation of China High  
Please see Annex A attached hereto.  
Amended and Restated Memorandum and Articles of Association of China High  
Please see Annex B attached hereto.
- Item 1.02** Investment agreements and related documentation and instruments entered into by and between or among the Stockholders and China High:  
Please see Annex C attached hereto.
- Item 1.04(a)** Audited Consolidated Financial Statements of China High for the years ended December 31, 2006, 2007 and 2008  
Please see Annex D attached hereto.
- Item 104(b)** Unaudited Consolidated Financial Statements of China High for the nine(9) months ended September 30, 2008 and 2009  
Please see Annex E attached hereto.

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**NEW BORUN SCHEDULES**

- Item 2.01** Certificate of Incorporation  
Please see Exhibit 3.1 to the Company's Registration Statement on Form F-1 as filed with the SEC on April 27, 2010.  
Memorandum and Articles of Association  
Please see Exhibits 3.2 and 3.3 to the Company's Registration Statement on Form F-1 as filed with the SEC on April 27, 2010.
- Item 2.04** Audited Balance Sheet of China New Borun Corporation and Pro Forma Financial Statements
- Item 2.08** Contracts:  
None.

(1) Share Exchange Agreement, dated March 15, 2010, by and among China New Borun Corporation, King River Holding Limited, Golden Direction Limited and China High Enterprises Limited (please see Exhibit 2.2 to the Company's Registration Statement on Form F-1 as filed with the SEC on April 23, 2010)

(2) Shareholders Agreement, dated March 31, 2010, by and among China New Borun Corporation, King River Holding Limited, Star Elite Enterprises Limited, Earnstar Holding Limited and TDR Advisors, Inc. (please see Exhibit 4.4 to the Company's Registration Statement on Form F-1 as filed with the SEC on April 23, 2010)

## ANNEX A



No. 1256980

編號

## CERTIFICATE OF INCORPORATION

## 公司註冊證書

\*\*\*

I hereby certify that  
本人謹此證明

CHINA HIGH ENTERPRISES LIMITED  
華飛企業有限公司

is this day incorporated in Hong Kong under the Companies Ordinance

於本日在香港根據《公司條例》(第32章)

(Chapter 32) and that this company is limited.

註冊成為有限公司。

Issued on 15 July 2008.

本證書於二〇〇八年七月十五日發出。

Ms. Fanny Wing-chi LAM  
for Registrar of Companies  
Hong Kong

香港公司註冊處處長  
(林詠芝 代行)

Note註:

Registration of a company name with the Companies Registry does not confer any trade mark rights or any other intellectual property rights in respect of the company name or any thereof.

公司名稱獲公司註冊處註冊，並不表示獲授予該公司名稱或其任何部分的商標權或任何其他知識產權。

## ANNEX B

## AMENDED AND RESTATED MEMORANDUM

AND

## ARTICLES OF ASSOCIATION

OF



華飛企業有限公司

(adopted by a special resolution dated 30<sup>th</sup> September, 2009)

Hong Kong

CERTIFIED TRUE COPY

For and on behalf of  
ILS CORPORATE SERVICES LIMITED

\_\_\_\_\_  
/s/ Authorized Person  
Authorized Signature(s)

ILS CORPORATE SERVICES LIMITED  
Secretary



No. 1256980

編號

CERTIFICATE OF INCORPORATION  
公司註冊證書

\*\*\*

I hereby certify that  
本人謹此證明

CHINA HIGH ENTERPRISES LIMITED  
華飛企業有限公司

is this day incorporated in Hong Kong under the Companies Ordinance

於本日在香港根據《公司條例》(第32章)

(Chapter 32) and that this company is limited.

註冊成為有限公司。

Issued on 15 July 2008.

本證書於二〇〇八年七月十五日發出。

\_\_\_\_\_  
Ms. Fanny Wing-chi LAM  
for Registrar of Companies  
Hong Kong  
香港公司註冊處處長  
(林詠芝 代行)

Note 註:

Registration of a company name with the Companies Registry does not confer any trade mark rights or any other intellectual property rights in respect of the company name or any part thereof.

公司名稱獲公司註冊處註冊，並不表示獲授予該公司名稱或其任何部分的商標權或任何其他知識產權。

AMENDED AND RESTATED MEMORANDUM

AND

ARTICLES OF ASSOCIATION

OF

CHINA HIGH ENTERPRISES LIMITED

華飛企業有限公司

(adopted by a special resolution dated 30<sup>th</sup> September, 2009)

Hong Kong

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THE COMPANIES ORDINANCE (Chapter 32)

Private Company Limited by Shares

AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION  
OF

CHINA HIGH ENTERPRISES LIMITED

華飛企業有限公司

(adopted by a special resolution dated 30<sup>th</sup> September 2009)

First:- The name of the Company is “CHINA HIGH ENTERPRISES LIMITED

華飛企業有限公司”.

Second:- The Registered Office of the Company is situated in Hong Kong.

Third:- The liability of the members is limited.

Fourth:- The Share Capital of the Company is HK\$ 10776 divided into 8,000 ordinary shares of HK\$1.00 each, 2776 Series A Preference Shares of HK\$1.00 each with the power for the company to increase or reduce the said capital and to issue any part of its capital, original or increased, with or without preference, priority or special privileges, or subject to any postponement of rights or to any conditions or restrictions and so that, unless the conditions of issue shall otherwise expressly declare, every issue of shares, whether declared to be preference or otherwise, shall be subject to the power hereinbefore contained.

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I/We the undersigned, whose names, addresses and descriptions are hereto subscribed, am desirous of being formed into a Company in pursuance of this Memorandum of Association, and we respectively agree to take the number of share in the capital of the Company set opposite to my respective name:-

Names, Addresses and Description of Members	Number of Share taken by each Member
For and on behalf of ARSD06 LIMITED	1

(Sd.) Leung Wah Lok

/s/ Authorized Person

Authorized Signature  
Room 904, Harvest Building,  
29-35 Wing Kut Street,  
Central,  
Hong Kong.  
Corporation

Dated the 30<sup>th</sup> day of September 2009

WITNESS to the above signature(s):

(Sd.)Leung Wai Fun Fanny  
Merchant

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Room 904, Harvest Building,  
29-35 Wing Kut Street,  
Central,  
Hong Kong**THE COMPANIES ORDINANCE (Chapter 32)**

Company Limited by Shares

**RESTATED  
ARTICLES OF ASSOCIATION  
OF  
CHINA HIGH ENTERPRISES LIMITED****華飛企業有限公司****( As adopted by special resolution passed on the 25<sup>th</sup> September,2009 )****PRELIMINARY**

1. The regulations in Table A in the First Schedule to the Ordinance shall not apply to the Company.

**INTERPRETATION**

2. (a) In these Articles, save where the context otherwise requires:

“the Company”	means the above named Company;
“the Ordinance”	means the Companies Ordinance ( Chapter 32 of the Laws of Hong Kong ), and includes every other Ordinance incorporated therewith or substituted therefor, and in the case of any such substitution the references in these Articles to the provisions of the Ordinance shall be read as references to the provisions substituted therefor in the new Ordinance;
“the Board” and “the Directors”	means the Directors for the time being of the Company or the Directors present at a duly convened meeting of Directors at which a quorum is present;
“Dividend”	includes bonuses, distributions in specie and in kind, capital distributions and capitalization issues;
“month”	means calendar month;
“Ordinary Shares”	means the ordinary shares of nominal value of HK\$1.00 each in the capital of the Company;

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“Investors”	means the holder of Series A Preference Shares and any person to whom he or she or it shall have transferred any part o their respective shareholding in the Company;
“the Office”	means the registered office of the Company for the time being;
“paid up”	includes credited as paid up;
“the Register”	means the register of members of the Company kept pursuant to the Ordinance and includes any branch register kept pursuant to the Ordinance;
“the Secretary”	means the secretary for the time being of the Company;
“the Seal”	means the common seal of the Company or any official seal that the Company may have as permitted by the Ordinance;
“Series A Preference Shares”	means the Series A Preference Shares of nominal value of HK\$1.00 each in the capital of the Company
“Shares”	means Ordinary Shares and Series A Preference Shares.

“Shareholdings”	means the respective shareholding held by the holders of Series A Preference Shares or holder of Ordinary Shares;
“Investors Agreements”	means the Investment Agreement and the Supplementary Agreement (referred to as “the Investment Agreement 1”) dated at the date of 5th November, 2008 by and among Golden Direction Limited(“GD”), China High Enterprises Limited(“the company”) and Star Elite Enterprises Limited(“SEE”),as well as the Investment Agreement (referred to as “Investment Agreement 2”) dated 8th June, 2009 by and among GD, the Company, SEE, EH and LI ZI WEN as well as the Investment Agreement (referred to as “Investment Agreement 3”) dated 26th June, 2009 by and among GD, the Company, SEE, EH, TDR and LI, ZI WEN.The Investment Agreement 1 and the Investment

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Agreement 2 and Investment Agreement 3 are collectively referred to as “Investment Agreement”.

the Investment Agreement and the Supplemental Agreement collectively be referred as the “Investors Agreements”

“Subsidiaries”	means the subsidiaries of the Company;
“these Articles	means the Articles of Association in their present form or as altered from time to time;
“in writing” and “written”	includes cable, telex, facsimile messages, electronic messages and any mode of mode of reproducing words in a legible and non-transitory from.

- (b) In these Articles, if not inconsistent with the subject or context, words importing the singular number only shall include the plural number and vice versa, and words importing any gender shall include all genders and vice versa.
- (c) Subject as aforesaid, any words defined in the Ordinance or any statutory modification thereof in force at the date at which these Articles become binding on the Company shall, if not inconsistent with the subject or context, bear the same meaning in these Articles.
- (d) The headings are inserted for convenience only and shall not affect the construction of these Articles.
- (e) Earnstar Holding Limited (“EH”) agreed to act in accordance with the Investment Agreement entered into with China High Enterprises Limited (“the Company”) dated 8<sup>th</sup>, June, 2009. The Share Structure of the Company is as follows after the completion of the foregoing subscription. The nature of the stock held by EH is Series A Preference Shares

TDR Advisors Inc. (“TDR”) agrees to act in accordance with the Investment Agreement entered into with China High Enterprises Limited (“the Company”) dated June 26, 2009. The Share Structure of the Company is as follows after the completion of the foregoing subscription. The nature of the stock held by TDR is Series A Preference Share.

<u>Ordinary Shares</u>	<u>No. of Shares</u>
Golden Direction Limited	8,000
<b>Total Ordinary Share</b>	<b>8,000</b>
<u>Series A Preference Shares</u>	
Star Elite Enterprises Limited	2,000
Earnstar Holding Limited	574
TDR Advisors Inc.	202
<b>Total Series A Preference Shares</b>	<b>2776</b>
<b>Total Shares</b>	<b>10776</b>

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### PRIVATE COMPANY

3. The Company is a private company, and accordingly:

- (a) any invitation to the public to subscribe for any shares or debentures of the Company is prohibited;
- (b) the number of the members of the Company (not including persons who are in the employment of the Company, and persons who, having been formerly in the employment of the Company, were, while in such employment, and have continued after the determination of such employment to be, members of the Company) shall be limited to 50 PROVIDED that where two or more persons hold one or more shares in the Company jointly they shall, for the purposes of this Article, be treated as a single member;
- (c) the right to transfer the shares of the Company shall be restricted in manner hereinafter prescribed; and
- (d) the Company shall not have power to issue share warrants to bearer.

### THE OFFICE

4. The Office shall be at such place in Hong Kong as the Directors or Secretary shall from time appoint.

## SHARES

5. (a) Subject to the provisions of Section 57B of the Ordinance, and save as provided by contract or these Articles to contrary, all unissued shares shall be at the disposal of the Directors who may allot, grant options over, or otherwise deal with or dispose of the same to such persons, at such times, for such consideration and generally upon such terms and conditions as they think proper, but so that no shares of any class shall be issued at a discount except in accordance with Section 50 of the Ordinance.
- (b) The Company may give such financial assistance for purposes of acquiring shares in the

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Company as is not prohibited by the Ordinance.

- (c) For purposes of Article 8(b) the Directors are authorised to make statutory declarations or take such other steps as may be required by the Ordinance in relation to the giving of financial assistance to acquire shares in the Company.
6. The Company may make arrangements on the issue of shares for a difference between the holders of such shares in the amount of calls to be paid and the time of payment of such calls.
7. If by the conditions of allotment of any shares the whole or part of the amount or issue price thereof shall be payable by installments, every such installment shall, when due, be paid to the Company by the person who for the time being is the registered holder of shares, or his legal personal representative.
8. (a) Subject to sections 49 to 49S of the Ordinance, the Company may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the shareholder. The redemption of shares may be affected upon such terms and in such manner as the Company before or upon issue of the shares shall by ordinary resolution determine.
- (b) Subject to sections 49 to 49S of the Ordinance and these Articles, the Company may purchase its own shares (including redeemable shares) and without prejudice to the generality of the foregoing the Company may purchase its own shares (including any redeemable shares) in order to:
- (i) settle or compromise a debt or claim;
  - (ii) eliminate a fractional share or fractional entitlement;
  - (iii) fulfill an agreement in which the Company has an option or is obliged to purchase shares under an employee share scheme which had previously been approved by the Company in general meeting;
  - (iv) comply with an order of court under section 8(4), 47G(6), or 168A(2) of the Ordinance.
- (c) Subject to sections 49I to 49O of the Ordinance and these Articles the Company may make a payment in respect of the redemption or purchase under section 49A or (as the case may be) section 49B of its own shares otherwise than out of its distributable profits or the proceeds of a fresh issue of shares.
- (d) For purposes of Article 8(c), the Directors are, subject to of these Articles, authorised to make statutory declarations or take such other steps as many be required by the Ordinance in relation to the redemption or purchase by the Company of its own shares out of capital.
9. Subject to the provisions of these Articles, the Company shall not, except as required by law, be

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bound by or required in any way to recognize any contingent, future, partial or equitable interest in any share or in any fractional part of a share, or any other right in respect of any share, or any other to or in respect of any such share on the part of any person (even when having notice thereof) except an absolute right to the entirety thereof in the registered holder.

10. The Company may in connection with the issue of any shares exercise all powers of paying interest out of capital and of paying commission and brokerage conferred or permitted by the Ordinance.
11. No person shall become a member until his name shall have been entered into Register.

## JOINT HOLDERS OF SHARES

12. Where two or more persons are registered as the holding of any share they are deemed to hold the same as joint tenants with benefit of survivorship, subject to the following provisions:
- (a) the Company shall not be bound to register more than three persons as the holders of any shares except in the case of the legal personal representative of a deceased member;
  - (b) the joint holders of any shares shall be liable severally as well as jointly in respect of all payments which ought to be made in respect of such shares;
  - (c) on the death of any one of such joint holders the survivor or survivors shall be the only person or persons recognized by the Company as having any title to such shares, but the Directors may require such evidence of death as they may deem fit;
  - (d) any one of such joint holders may give effectual receipts for any dividend, return of capital or other payment in the share; and
  - (e) the Company shall be at liberty to treat the person whose name stands first in the Register as one of the joint holders of any shares as solely entitled to delivery of the certificate relating to such shares, or to receive notices from the Company, and to attend and vote at general meetings of the Company, and any notice given to such person shall be deemed notice to all the joint holders; but any one of such joint holders may be appointed the proxy of the persons entitled to

vote on behalf such joint holders, and as such proxy to attend and vote at general meetings of the Company, and if more than one of such joint holders be present whose name stands first in the Register in respect of such shares shall alone be entitled to vote in respect thereof.

## SHARE CERTIFICATES

13. Every member shall, without payment, be entitled to receive within two months after allotment or lodgment of an instrument of transfer duly stamped, or within such other period as the conditions of issue may provide, a certificate for all his shares of any particular class, or several certificates, each for one or more of his shares, upon payment of such fee, not exceeding two dollars for every

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certificate after the first, as the Directors shall from time to time determine, provided that in the event of a member transferring part of the shares represented by a certificate in his name a new certificate in respect of the balance thereof shall be issued in his name without payment and, in the case of joint holders, the Company shall not be bound to issue more than one certificate for all the shares of any particular class registered in their joint names.

14. Every share certificate shall be issued under the Seal and shall specify the number and class of shares, and, if required, the distinctive numbers thereof comprised therein, the amount paid up thereon and, if appropriate, whether such shares carry no voting rights. No certificate shall be issued in respect of more than one class of shares. If there shall be more than one class of shares then certificate of every class shall state thereon that the share capital is divided into different classes and the nominal value of the voting rights attaching to each class.
15. If any share certificate shall be worn out, defaced, destroyed or lost, it may be renewed on such evidence being produced as the Directors shall require, and in case of wearing out or defacement, on delivery up of the old certificate, and in case of destruction or loss, on the execution of such indemnity (if any), as the Directors may from time to time require. In case of destruction or loss, the person to whom such renewed certificate is given shall also bear and pay to the Company all expenses incidental to the investigation by the Company of the evidence of such destruction or loss and of such indemnity.

## CONVERSION RIGHTS OF SERIES A SERIES A SERIES A PREFERENCE SHARES

16. The holders of the Series A Preference Shares shall have conversion rights as follows (the "Conversion Rights"):

- (a) Right to Convert. Each Series A Preference Share, at the option of its holder, at the office of the Company, at any time after the date of issuance of such shares, shall be convertible into such number of fully paid Ordinary Shares as jointly determined by the Company and the respective holder of the Series A Preference Shares.

The conversion shall be based on the following principles: Except those circumstances regulated in the Investment Agreement, the shareholding of SEE in the Company shall be 18.56% after all its Series A Preference Shares have been converted into ordinary shares and the shareholding of EH in the Company shall be 5.33% after all its Series A Preference Shares have been converted into ordinary shares and the shareholding proportion of TDR in the Company shall be 1.87% after all its Series A Preference Shares have been converted into ordinary shares.

- (b) Automatic Conversion. Each Series A Preference Share automatically shall be converted into Ordinary Shares at the then effective and applicable conversion price immediately upon the closing of a firm commitment underwritten public offering of the Ordinary Shares on an internationally recognized stock exchange at a per-share price of no less than a pre-determined ratio of the Original Issue Price (adjusted to reflect share splits, share dividends, combinations, consolidations, recapitalizations and the like.)

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In any event, the conversion should not affect the agreed shareholding proportion between the original shareholders and the Series A Preference Shareholders in the Investors Agreements.

- (c) Mechanics of Conversion. No fractional shares of Ordinary Shares shall be issued upon conversion of any Series A Preference Shares. In lieu of any fractional share to which the holder would otherwise be entitled (after aggregating all shares into which the Series A Preference Shares held by such holder could be converted), the Company shall pay each equal to such fraction multiplied by the then fair market value of the Ordinary Shares, as determined by the Board, before any holder of Series A Preferences Shares shall be entitled or certificates therefore, duly endorsed, at the office of the Company or of any transfer agent for Series A Preference Shares, and shall give written notice to the Company at such office that he elects to convert the same, the Company shall, as soon as practicable thereafter, issue and deliver at such, office to such holder of Series A Preference Shares, a certificate or certificates for the number of Ordinary Shares to which such holder shall be entitled, together with a check payable to the holder in the amount of any cash amounts payable as the result of a conversion into fractional Ordinary Shares. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of be converted, or in the case of conversion pursuant to Article 16.2, on the effective date of the offering as provided in article date of the offering as provided in Article 16.1above. And the person or persons entitled to receive the Ordinary Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Ordinary Shares on such date; provided, that if any such conversion is made in connection with any transaction that would, if completed, constitute a liquidation of the Company for purposes of Article 113 hereof, or in connection with any public offering of the Company's securities then such conversion may be made contingent upon, and effective only as of, the closing of such transaction or offering.
- (d) Adjustments to conversion price for diluting issues.
- (i) Special definitions, for purposes of this Article 16(d) the following definitions shall apply;
- (1) "Options" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either ordinary shares or convertible securities.
  - (2) "Original issue date" shall mean the date that shares of the Series A Preference Shares are first issued.
  - (3) "Convertible securities" shall mean any evidences of indebtedness, shares (other than Ordinary Shares) or other securities convertible into or exchangeable for Ordinary Shares.
  - (4) "Additional ordinary shares" shall mean all Ordinary Shares issued (or, pursuant to Article 16(d) (iii) deemed to be issued) by the company after the original issue date, other than Ordinary Shares issued or issuable (or pursuant to Article 16(d) (iii) deemed to be issued);
    - (A) upon conversion of the Series A Preference Shares;
    - (B) to officers directors or employees of, or consultants to, the company pursuant to a share grant, option plan or purchase plan or other share incentive program or

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- agreement approved by a majority of the Board.
- (C) to any bank, equipment lesser, creditor, landlord, supplier or customer pursuant to a transaction that is for primarily non-financing purposes and approved by a majority of the Board; or
- (D) pursuant to acquisitions incenses joint ventures or transactions with strategic partners which are for primarily non-financing purposes and approved by a majority of the Board.
- (ii) No Adjustment of conversion price. No adjustment in the Conversion Price of Series A Preference Share shall be made in respect of the issuance of Additional Ordinary Shares unless the consideration per share for an Additional Ordinary Share issued or deemed to be issued by the Company is less than the Conversion Price in effect on the date of and immediately prior to such issue.
- (iii) Deemed issue of additional Ordinary Shares.
- (1) Options and convertible securities, in the event, at any time or from time to time after the original issue date, the Company shall issue any options or convertible securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such options or convertible securities, then the maximum number of Ordinary Shares issuable upon the exercise of such options or in the case of convertible. Securities and options therefore, the conversion or exchange of such convertible securities, shall be deemed to be additional Ordinary Shares issued as of the time of such issue or in case such a record date shall have been fixed as of the close of business on such record date provided that additional Ordinary Shares shall not be deemed to have been issued as to the be deemed to have been issued as to the Series A Preference Shares unless the consideration per share (determined pursuant to Article 16(d)(v) hereof) of such Additional Ordinary Shares would be less than the Conversion Price in effect on the date of, and immediately prior to, such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Ordinary Shares are deemed to be issued;
- (A) no further adjustment in the Conversion Price shall be made upon the subsequent issue of convertible securities or shares of Ordinary Shares upon the exercise of such options or conversion or exchange of such convertible securities; and
- (B) if such options or convertible securities by their terms provide with the passage of time or otherwise for any change in the consideration payable to the Company or in the number of Ordinary Shares issuable (including a change resulting from the extirpation of such options or the rights of conversion or exchange of such convertible securities) upon

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the exercise conversion or exchange thereof, the conversion price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto) and any subsequent adjustments based thereon, shall upon any such change becoming effective, be recomputed to reflect such change insofar as it affects such options or the rights of conversion or exchange under such convertible securities.

- (2) Share Dividends. In the event the Company at any time or from time to time after the Original Issue Date shall declare or pay any dividend on the Ordinary Shares payable in Ordinary Shares, options or convertible securities additional ordinary shares shall be deemed to have been issued immediately after the close of business on the record date for the determination of holders or any class of securities entitled to receive such dividend.
- (iv) Adjustment of conversion price upon issuance of additional Ordinary Shares. In the event the Company shall issue additional Ordinary Shares (including additional Ordinary Shares deemed to be issued pursuant to Article 16(d)(iii) without consideration or for a consideration per share less than the conversion price in effect on the date of and immediately prior to such issue then, and in such event the conversion price shall be reduced concurrently with such issue to a price (calculated to the nearest cent) equal to the amount of consideration per share received by the Company a result of such issuance of additional Ordinary Shares.
- (v) Determination of consideration, for purposes of this Article 16(d) the consideration received by the company for the issue of any additional Ordinary Shares shall be computed as follows:
- (I) Cash and Property; such consideration shall;
- (A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company excluding amounts paid or payable for accrued interest or accrued dividends and provided further that no deduction shall be made for any reasonable and customary commissions or expenses paid or incurred by the Company for any underwriting of the issue or otherwise in connection therewith;
- (B) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board provided that such fair market value shall not exceed the aggregate current market price of the Ordinary Shares being issued; and
- (C) in the event Additional Ordinary Shares are issued together with other shares or securities or other assets of the Company for consideration which covers both, be computed as the portion of such consideration so received in respect of the Additional Ordinary Shares computed as provided in clauses (A) and (B) above by the Board.

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- (2) Options and Convertible Securities. The consideration per share received by the Company for Additional Ordinary Shares deemed to have been issued pursuant to Article 16(iii), relating to Options and Convertible Securities, shall be determined by dividing (x) the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise such Options or the conversion or exchange of such Convertible Securities or, in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities, and the conversion or exchange of such Convertible Securities by (y) the maximum number of Ordinary Shares (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(3) Share Dividends. Any additional shares of Ordinary Shares deemed to have been issued relating to a share dividend shall be deemed to have been issued for no consideration.

- (e) Adjustment for share splits and combinations. If the Company at any time or from time to time effects a subdivision of the outstanding Ordinary Shares the conversion price then in effect immediately before that subdivision shall be proportionately decreased provided however that if the company simultaneously effects the same subdivision of the outstanding Series A Preference Shares as is undertaken with respect to the Ordinary Shares then both the original issue price and the conversion price shall be proportionately decreased conversely ,if the Company at any time or from time to time combines the outstanding Ordinary Shares the conversion price then in effect immediately before the combination shall be proportionately increased; provided, however ,that if the Company simultaneously effects the same combination of the outstanding Series A Preference Shares, then outstanding Series A Preference Shares as is undertaken with respect to the Ordinary Shares ,then both the original issue price and the conversion price shall be proportionately increased. Any adjustment under this Article 16(e) shall become effective at the close of business on the date the subdivision or combination becomes effective.
- (f) Adjustment for Certain Dividends and Distributions. In the event the Company at any time or from time to time makes, or fixes a record date for the determination of holders of Ordinary Shares entitled to receive, a dividend or other distribution payable in additional ordinary shares, then and in each such event the conversion price then in effect shall be decreased as of the time of such issuance or ,in the event such a record date is fixed, as of the close of business on such record date, by multiplying the conversion price then in effect by a fraction (1) the numerator of which is the total number of Ordinary Shares issued and outstanding immediately prior to the time of such issuance on the close of business on such record date,

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and(2) the denominator of which shall be the total number of ordinary shares issued and outstanding immediately prior to the time of such issuance on the close of business on such record date, plus the number of Ordinary Shares issuable in payment of such dividend or distribution; provided, however, that if such record date is fixed and such dividend is no fully paid or if such distribution is not fully made on the date fixed therefore, the conversion price shall be recomputed accordingly as of the close of business on such record date and thereafter the conversion price shall be adjusted pursuant to this Article 16(f) as of the time of actual payment of such dividends or distributions.

- (g) Adjustments for Other Distributions. In the event the Company shall declare a distribution to holders of Ordinary Shares payable in securities of other persons, evidences of indebtedness issued by the Company or other persons, assets(excluding cash dividends) or options or rights not referred to in Articles 16(e)and 16(f), then, in each such case for the purpose of this Article 16(g), the holders of the Series A Preference Shares shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of Ordinary Shares of the Company into which their Series A Preference Shares are convertible as of the record date fixed for the determination of the holders of Ordinary Shares of the Company entitled to receive such distribution.
- (h) Adjustments for Reclassification. If the Ordinary Shares issuable upon the conversion of the Series A Preference Shares are changed into the same or a different number of shares of any class or classes of shares, whether by recapitalization, reclassification or otherwise (other than a subdivision or combination of shares or a share dividend, as provided for elsewhere in this Article 16), then and in any such event each holder of Series A Preference Shares shall have the right thereafter to convert such shares into the kind and amount of shares and other securities and property receivable upon such reclassification or other change, by holders of the number of the Ordinary Shares into which such Series A Preference Shares might have been converted immediately prior to such reclassification or change, all subject to further adjustment as provided herein.
- (i) No Impairment. The Company will not, by amendment of its Articles of Association or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action ,avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Article 16 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Series A Preference Shares against impairment.
- (j) Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Article 16, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Series A Preference Shares a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is

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based. The Company shall, upon the written request at any time of any holder of the Series A Preference Shares, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price and the Original Issue Price at the time in effect, and (iii) the number of Ordinary Shares and the amount, if any, of other property which at the time would be received upon the conversion of the Series A Preference Shares.

- (k) Notices of Record Date. In the event that the Company shall propose at any time:
- (i) to declare any dividend or distribution upon its Ordinary Shares, whether in cash, property, shares or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus;
  - (ii) to offer for subscription pro rate to the holders of any class or series of its shares any additional shares of any class or series or other rights;
  - (iii) to effect any reclassification or recapitalization of its outstanding Ordinary Shares involving a change in the Ordinary Shares ;or
  - (iv) to merge or consolidate with or into any other company, or sell ,lease or convey all or substantially all its property or business, or to liquidate ,dissolve or wind up;

then, in connection with each such event, the Company shall send to the holders of the Series A Preference Shares:

- (1) at least twenty (20) days' prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights and a description thereof (and specifying the date on which the holders of Ordinary Shares shall be entitled thereto) or for determining rights to vote in respect of the matters referred to in (iii) and (iv) above; and
- (2) in the case of the matters referred to in (iii) and (iv) above, at least twenty (20) days' prior written notice of the date when the same shall take place (and specifying the date on which the holders of Ordinary Shares shall be entitled to exchange their Ordinary Shares for securities or other property



deliverable upon the occurrence of such event).

Each such written notice shall be given by first class mail, postage prepaid, addressed to the holders of Series A Preference Shares at the address for each such holder as shown on the books of the Company.

- (l) Reservation of Shares Issuable. The Company shall at all times reserve and keep available out of its authorized but unissued Ordinary Shares, solely for the purpose of effecting the conversion of the Series A Preference Shares, such number of its Ordinary Shares as shall from time to time be sufficient to effect the conversion of all outstanding Series A Preference Shares, and if at any time the number of authorized but unissued Ordinary Shares shall not be sufficient to effect the conversion of all then outstanding Series A Preference Shares, the Company will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued Ordinary Shares to such number of shares as shall be

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sufficient for such purpose.

- (m) Right of Buy Back. In the event the Company fails to qualify for an initial public offering within the stipulated months following the first date of the execution of the Investors Agreements, the Investors at anytime after the expiration of the such period shall be entitled to the right to require the holder of the Ordinary Shares to purchase all or part of their shares in accordance with the following amounts, whichever is higher:
- i) specified times in the Investors Agreements of the Original Price of each Share plus the annual accrued dividends and all accrued but unpaid dividends payable to the Investors (in accordance with their corresponding Shareholdings they request to be buy-back), in which the interim dividends shall be calculated in accordance with the relevant portion of the dividends of such year; or
  - ii) the fair market value of the Shareholdings of the Investors (in respect of their corresponding Shareholdings they request to be buy-back) which shall be determined by an independent third party which is approved by the Investors and the Company.
- (n) Right of Inspection. The Investor shall be entitled to inspection and the Company shall provide to the Investors of the following documents:
- (i) the annual financial statements audited by an accounting firm approved by the Investors and the Company within 90 days following the end of each financial year;
  - (ii) the monthly unaudited financial statements prepared in accordance with the PRC GAAP within 21 days following the end of each financial month; and
  - (iii) the annual financial budget of the next financial year within 30 days prior to the end of each financial year.

#### CALLS ON SHARES

17. (a) The Directors may from time to time make calls upon the members in respect of all monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium) but subject always to the terms of issue of such shares, and any such call may be made payable by installments .
- (b) Each member shall, subject to receiving at least fourteen days notice specifying the time or times and place for payment, pay to the Company the amount called on his shares and at the time or times and place so specified. The non-receipt of a notice of any call by, or the accidental omission to give notice of a call to, any of the members shall not invalidate the call.
18. A call shall be deemed to have been made at the time when the resolution of the Directors authorizing such call was passed. A call may be revoked, varied or postponed as the Directors may determine.
19. If any part of a sum called in respect of any shares or any installment of a call be not paid before or on the day appointed for payment thereof, the person from whom the sum is due shall be liable to

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pay interest on the outstanding part thereof at such rate as the Directors shall determine from the day appointed for the payment of such call or installment to the time of discharge thereof in full; but the Directors may, if they shall think fit, waive the payment of such interest or any part thereof.

20. If, by the terms of the issue of any shares or otherwise, any amount is made payable upon allotment or at any fixed time, whether on account of the nominal amount of the shares or by way of premium, every such amount shall be payable as if it were a call duly made and payable on the date on which by the terms of the issue the same becomes payable; and all the provisions thereof with respect to the payment of calls and interest thereon, or to the forfeiture of shares for non-payment of calls, shall apply to every such amount and the shares in respect of which it is payable in the case of non-payment thereof .
21. The Directors may, if they shall think fit, receive from any member willing to advance the same all or any part of the monies uncalled and unpaid upon any shares held by him; and upon all or any of the monies so paid in advance the Directors may (until the same would, but for such payment in advance, become presently payable) pay interest at such rate as may be agreed upon between the member paying the monies in advance and the Directors. The Directors may also at any time repay the amount so advanced upon giving to such member one month's notice in writing.
22. On the trial or hearing of any action for the recovery of any money due for any call, it shall be sufficient to prove that the name of the member sued is entered in the Register as the holder, or one of the holders, of the shares in respect of which such debt accrued; that the resolution making the call is duly recorded in the resolution making the call is duly recorded in the Minute Book; and that notice of such call was duly given to the member sued in pursuance of these Articles; and it shall not be necessary to prove the appointment of the Directors who made such call, nor any other matters whatsoever, but the proof of the matters aforesaid shall be conclusive evidence of the debt.
23. No member shall, unless the Directors otherwise determine. Be entitled to receive any dividend, or, subject to the Ordinance, to receive notice of or to be present or vote at any general meeting, either personally or (save as proxy for another member ) by proxy, or to exercise any privileges as a member, or be reckoned in a quorum, until he shall have paid all calls or other sums for the time being due and payable on every share held by him, whether alone or jointly with any other person, together with interest and expenses(if any).

#### FORFEITURE

24. If any member fails to pay in full any call or installment of a call on the day appointed for payment thereof, the Directors may at any time thereafter, during such time as any part of the call or installment remains unpaid serve a notice on him requiring him to pay so much of the call or installment as is unpaid together with

interest accrued and any expenses incurred by reason of such non-payment.

25. The notice shall name a further day (not being less than fourteen days from the date of the notice) on or before which such call or installment or part thereof required by the notice is to be made,

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and shall state that in the event of non-payment at or before the time appointed the shares in respect of which the call was made will be liable to be forfeited.

- 25E. The provisions of these regulations as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

#### TRANSFER OF SHARES

26. Pre-emption Rights.

The Company shall not issue any Shares to any person (the “**New Subscriber**”) unless there shall be Shares not taken up by the existing holders unless the Company has first made an offer in writing to the Investors in the proportion of their respective Shareholdings in the Company and if there is a New Subscriber present, on terms identical to or more favourable terms than the terms offered to the New Subscriber.

In the event the existing holders offer to sell all or part of their Shares to a third party, such offer shall not be valid or effective until first giving an option to the Investors to decide whether to (i) purchase such shares with the identical terms offered to the third party; or (ii) sell their Series A Preference Shares to the third party with the identical terms offered to the third party in accordance with the Investors’ respective Shareholdings.

#### AMENDMENTS OF MEMORANDUM AND ARTICLES OF ASSOCIATION AND ALTERATION OF CAPITAL

26. No resolution of the members shall be passed or other decision or action taken by or on behalf of the following matters with respect to the Company without affirmative vote or consent recording in writing of all the Investors and the Company shall procure that no resolution of the members shall be passed or other decision of action taken by or on behalf of the Subsidiaries concerning any of the following matters with respect to the Subsidiaries without the affirmation vote or consent recorded in writing of the Investors:

- 26.1 increase the share capital by such sum as the resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;
- 26.2 consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;

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- 26.3 by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value;
- 26.4 cancel any Shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person.

27. Subject to the provisions of the Ordinance and the provisions of these Articles as regards the matters to be dealt with by Ordinary Resolution, no resolution of the members shall be passed or other decision or action taken by or on behalf of the following matters with respect to the Company without affirmative vote or consent recording in writing of all Investors and the Company shall procure that no resolution shall be passed or other decision of action taken by or on behalf of the Subsidiaries concerning any of the following matters with respect to the Subsidiaries without the affirmation vote or consent recorded in writing of the Investors :

- 27.1 change its name
- 27.2 alter or add to these Articles;
- 27.3 alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and
- 27.4 reduce its share capital and any capital redemption reserve fund.

#### REGISTERED OFFICE

28. Subject to the provisions of the Ordinance, the Company may by resolution of the Directors change the location of its Registered Office.

#### GENERAL MEETINGS

29. All general meetings other than annual general meetings shall be called extraordinary general meetings.
30. The Company shall, if required by the Ordinance, in each year hold a general meeting as its annual general meeting, and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the Directors shall appoint. At these meetings, the report of the Directors (if any) shall be presented.
31. The Company may hold an annual general meeting, but shall not (unless required by Ordinance) be obliged to hold an annual general meeting.
32. The Directors may call general meetings, and they shall on a member’s requisition forthwith proceed to convene an extraordinary general meeting of the Company.

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33. A member's requisition is a requisition of member's of the Company holding, on the date of deposit of the requisition, not less than either (i) a majority of the voting power of all of the Ordinary Shares, or (ii) a majority of the voting power of all the Series A Preference Shares (on an as-if-converted basis) of the Company entitled to attend and vote at general meetings of the Company.
34. The requisition must state the objects of the meeting and must be signed by the requisitioners and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitioners.
35. If the Directors do not within twenty-one (21) days from the date of the deposit of the requisition duly proceed to convene a general meeting to be held within a further twenty-one (21) days, the requisitioners, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three (3) months after the expiration of the said twenty-one (21) days.
36. A general meeting convened as aforesaid by requisitioners shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

#### **NOTICE OF GENERAL MEETINGS**

37. At least five (5) days' notice shall be given of any general meeting unless such notice is waived either before, at or after such meeting both (i) by the members (or their proxies) holding a majority of the aggregate voting power of all of the Ordinary Shares entitled to attend and vote thereat, and (ii) by the members (or their proxies) holding a majority of the aggregate voting power of all the Series A Preference Shares (on an as-if-converted basis) of the Company entitled to attend and vote thereat. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in the manner hereinafter mentioned or in such other manner, if any, as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of the Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed both (i) by the members (or their proxies) holding a majority of the aggregate voting power of all of the Ordinary Shares entitled to attend and vote thereat, and (ii) by the Members (or their proxies) holding a majority of the aggregate voting power of all the Series A Preference Shares (on an as-if-converted basis) of the Company entitled to attend and vote thereat.
38. The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings of that meeting.

39. The officer of the Company who has charge of the Register of Members of the Company shall prepare and make, at least two (2) days before every general meeting, a complete list of the members entitled to vote at the general meeting, arranged in alphabetical order, and showing the address of each member and the number of shares registered in the name of each member. Such list shall be open to examination by any member for any purpose germane to the meeting, during ordinary business hours, for a period of at least two (2) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any member of the Company who is present.

#### **PROCEEDINGS AT GENERAL MEETINGS**

40. No business shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. The holders of a majority of the aggregate voting power of all of the Ordinary Shares entitled to notice of and to attend and vote at such general meeting and the holders of a majority of the aggregate voting power of all the Series A Preference Shares (on an as-if-converted basis) entitled to notice of and to attend and vote at such general meeting, together, present in person or by proxy or if a company or other non-natural person by its duly authorised representative shall be a quorum.
41. A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.
42. Subject to Articles 26 and 27, a resolution in writing (in one or more counterparts) shall be as valid and effective as if the resolution had been passed at a duly convened and held general meeting of the Company if:
  - 42.1 in the case of a Special Resolution, it is signed by all members required for such Special Resolution to be deemed effective under the Ordinance; or
  - 42.2 in the case of any resolution passed other than as a Special Resolution, it is signed by members for the time being holding Shares carrying in aggregate not less than the minimum number of votes that would be necessary to authorize or take such action at a general meeting at which all Shares entitled to vote thereon were present and voted (calculated in accordance with Article 51) (or, being companies, signed by their duly authorised representative).
43. A quorum, once established, shall not be broken by the withdrawal of enough votes to leave less than a quorum and the votes present may continue to transact business until adjournment. If, however, such quorum shall not be present or represented at any general meeting, the members (or their proxies) holding a majority of the aggregate voting power of all of the Shares (whether

Preference or Ordinary) of the Company represented at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted that might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each member entitled to vote thereat.

44. The chairman, if any, of the Board of Directors shall preside as chairman at every general meeting of the Company, or if there is no such chairman, or if he or she shall not be present within ten (10) minutes after the time appointed for the holding of the meeting, or is unwilling or unable to act, the Directors present shall elect one of their number, or shall designate a member, to be chairman of the meeting.

45. With the consent of a general meeting at which a quorum is present, the chairman may (and shall, if so directed by the meeting), adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty (30) days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice.
46. A resolution put to the vote of the meeting shall be decided on a show of hands unless before or on the declaration of the result of the show of hands, the chairman demands a poll, or any other member or members collectively present in person or by proxy and holding at least a majority of the aggregate voting power of all of the Shares (whether Preference or Ordinary) of the Company entitled to attend and vote at the meeting demand a poll.
47. Unless a poll is duly demanded, a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost or not carried by a particular majority and an entry to that effect in the minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
48. The demand for a poll may be withdrawn.
49. Except on a poll demanded on the election of a chairman or on a question of adjournment, a poll shall be taken as the chairman directs, and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.
50. A poll demanded on the election of a chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the general meeting directs, and any business other than that upon which a poll has been demanded or is contingent thereon may proceed pending the taking of the poll.

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### VOTES OF MEMBERS

51. Except as otherwise required by law or these Articles, the Ordinary Shares and the Series A Preference Shares shall vote together on an as-if-converted basis on all matters submitted to a vote of members. Each Ordinary Share issued and outstanding shall have one vote and each Series A Preference Share issued and outstanding shall have the number of votes equal to the number of Ordinary Shares into which such Series A Preference Shares are convertible pursuant to Article 16.
52. In the case of joint holders of record, the vote of the senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.
53. A member of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his or her committee, receiver, curator bonis or other person on such member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.
54. No Person shall be entitled to vote at any general meeting or at any separate meeting of the holders of a class of Shares unless he or she is registered as a member on the record date for such meeting nor unless all calls or other monies then payable by such member in respect of Shares have been paid.
55. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time shall be referred to the chairman whose decision shall be final and conclusive.
56. On a poll or on a show of hands, votes may be cast either personally or by proxy. A member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a member appoints more than one proxy, the instrument of proxy shall state which proxy is entitled to vote on a show of hands.
57. A member holding more than one Share need not cast the votes in respect of his or her Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him or her, a proxy appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he or she is appointed either for or against a resolution and/or abstain from voting.

### PROXIES

58. The instrument appointing a proxy shall be in writing, be executed under the hand of the appointer or of his or her attorney duly authorised in writing, or, if the appointer is a corporation, under the

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hand of an officer or attorney duly authorised for that purpose. A proxy need not be a member of the Company.

59. The instrument appointing a proxy shall be deposited at the Registered Office or at such other place as is specified for that purpose in the notice convening the meeting, no later than the time for holding the meeting or adjourned meeting. The chairman may in any event, at his or her discretion, direct that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted shall be invalid.
60. The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.
61. Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting or adjourned meeting at which it is sought to use the proxy.

### CORPORATE MEMBERS

62. Any corporation or other non-natural person that is a member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or any class of members, and the Person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he or she represents as the corporation could exercise if it were an individual Member.

#### **SHARES THAT MAY NOT BE VOTED**

63. Shares in the Company that are beneficially owned by the Company or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding Shares at any given time.

#### **APPOINTMENT OF DIRECTORS**

64. The number of members comprising the Board of Directors shall be six (6), GD shall appoint three (3), SEE and EH and TDR shall each have one(1). The meeting of the Board of Directors shall be held at least twice a year and once every half of a year. The minimum number of members attending the meeting shall be (four), which shall include the directors appointed by SEE and EH and TDR. All expenses incurred due to the activities of the Board of Directors,

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including, but not limited to, the expenses for attending the meeting of the Board of Directors, shall be borne by the Company.

#### **POWERS OF DIRECTORS**

64. Subject to the provisions of the Ordinance, the Memorandum and these Articles and to any directions given by Special Resolution, the business of the Company shall be managed by or under the direction of the Directors who may exercise all the powers of the Company; provided, however, that the Company shall not carry out any action inconsistent with Articles 26 and 27. No alteration of the Memorandum or these Articles and no such direction shall invalidate any prior act of the Directors that would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.
65. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine.
66. The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his or her spouse or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.
67. The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture shares, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

#### **VACATION OF OFFICE AND REMOVAL OF DIRECTOR**

68. The office of a Director shall be vacated if:
- 69.1 a Director gives notice in writing to the Company that he or she resigns the office of Director; or
  - 69.2 if the Director dies, becomes bankrupt or makes any arrangement or composition with such Director's creditors generally; or
  - 69.3 if the Director is found to be or becomes of unsound mind.
  - 69.4 any Director who shall have been elected by a specified group of Members may be removed during the aforesaid term of office, either for or without cause, by, and only by, the affirmative vote of the holders of a majority of the Shares of such specified group, given at a special meeting of such members duly called or by an action by written

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consent for that purpose. Any vacancy in the Board of Directors caused as a result of one or more of the events set out in Article 69.1 to 69.3 of any such Director who shall have been elected by a specified group of Members, may be filled by, and only by, the vote of the holders of a majority of the Shares of such specified group given at a special meeting of such members or by an action by written consent, unless otherwise agreed upon among such members.

#### **PROCEEDINGS OF DIRECTORS**

69. A Director may by a written instrument appoint an alternate who need not be a Director and an alternate is entitled to attend meetings in the absence of the Director who appointed him and to vote or consent in place of the Director. At all meetings of the Board of Directors a majority of the number of Directors elected in accordance with Article 64 that includes the Series A Directors nominated by the holders of the Series A Preference Shares shall be necessary and sufficient to constitute a quorum for the transaction of business, and the vote of a majority of the Directors present (in person or in alternate) at any meeting at which there is a quorum, shall be the act of the Board of Directors, except as may be otherwise specifically provided by the Ordinance, the Memorandum or these Articles. If a quorum shall not be present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting, until a quorum shall be present. If only one Director is elected, such sole Director shall constitute a quorum.
70. Subject to the provisions of these Articles, the Directors may regulate their proceedings as they think fit, provided however that the board meetings shall be held at least once every three (3) months and that a written notice of each meeting, agenda of the business to be transacted at the meeting and all documents and materials to be circulated at or presented to the meeting shall be sent to all Directors entitled to receive notice of the meeting at least three (3) days before the meeting and a copy of the minutes of the meeting shall be sent to such Persons at least three (3) days prior to the next regularly scheduled board meeting.

71. A person may participate in a meeting of the Directors or committee of the Board of Directors by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other at the same time. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors, the meeting shall be deemed to be held at the place where the chairman is at the start of the meeting.
72. Subject to Article 77A, a resolution in writing (in one or more counterparts) signed by all the Directors or all the members of a committee of the Board of Directors shall be as valid and effectual as if it had been passed at a meeting of the Directors, or committee of the Board of Directors as the case may be, duly convened and held.
73. Meetings of the Board of Directors may be called by the President, Chief Executive Officer or the Series A Director of the holders of the Series A Preference Shares on forty-eight (48) hours' notice to each Director, either personally, by telephone, by mail, by E-mail or by telegram; meetings shall

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be called by the President, Chief Executive Officer or the Secretary in like manner and on like notice on the written request of one (1) Director unless the board consists of only one Director; in which case meetings shall be called by the President, Chief Executive Officer or Secretary in like manner or on like notice on the written request of the sole Director.

74. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors, the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.
75. The Directors may elect a chairman of their board and determine the period for which he or she is to hold office; but if no such chairman is elected, or if at any meeting the chairman shall not be present within ten (10) minutes after the time appointed for holding the same, the Directors present may choose one of their members to be chairman of the meeting.
76. All acts done by any meeting of the Directors or of a committee of the Board of Directors shall, notwithstanding that it be afterwards discovered that there were some defects in the appointment of any Director or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director.
- 77A. No resolution shall be passed or no actions shall be taken with respect to the following matters by the Board of Directors without the consent of all the directors:
  - 1) any authorization, creation (by newly characterization or by other means), issue of the company's securities or undertaking any liabilities of issuing any securities of the Company, or increase of the registered capital of the subsidiaries of the Company;
  - 2) increase or decrease of the total shares owned by SEE, EH and TDR;
  - 3) amend, delete or create any clauses in the Company's Memorandum or the Articles of Association or other basic files and/or documents;
  - 4) declare or pay dividends of the Company;
  - 5) increase the number of the Board of Directors in any companies;
  - 6) involve in any liquidation, merge or sale or purchase of substantial assets of the Company and/or its related companies, or change in the controlling power within the Company and/or its related companies;
  - 7) increase the number of issued shares in respect of the Employee Share Option Plan or similar plan;
  - 8) employ any senior management personnel whose annual remuneration is more than HK\$400,000.00. Increase the annual remuneration of the Company's senior management whose annual remuneration is more than HKD400,000.00 or the equivalent amount of RMB with over 50% increment;
  - 9) allow or by other means transfer any of the Company's patents, copyrights, trademarks or other intellectual properties other than in the normal course of the business.
  - 10) incur any liabilities exceeding HKD5,000,000 or the equivalent amount of RMB by borrowing or other means, or incur any liabilities with the Company's patents, copyrights, trademarks or other intellectual properties as collateral;

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- 11) issue of any loans exceeding HKD1,000,000.00 or the equivalent in RMB to any directors, company's management or employees or related parties; or issue any loans or loan guarantees exceeding HKD300,000.00 or the equivalent in RMB to any related parties;
  - 12) purchase of any real properties exceeding HKD5,000,000.00 or the equivalent in RMB;
  - 13) involve in any single transactions or series of transactions exceeding the aggregate value of HKD5,000,000.00 or the equivalent amount of RMB other than in the normal course of the Company;
  - 14) approve the annual budget of the Company;
  - 15) appoint or reappoint the companies general manager, assistant general manager and chief financial officer;
  - 16) appoint or reappoint the Company's auditors;
  - 17) change the nature and structure(including the shareholding structure) of the Company and its subsidiaries; and
  - 18) involve in any behaviour adversely affect the ownership rights, preferential rights or any other privileges entitled to and received by the SEE, EH and TDR, where such adverse effect is reasonably foreseeable.

#### **PRESUMPTION OF ASSENT**

77. A Director of the Company who is present at a meeting of the Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless the Director's dissent shall be entered in the minutes of the meeting or unless the Director shall file his or her written dissent from such action with the person acting as the chairman or secretary of the meeting before the adjournment thereof or shall forward such dissent by registered post to such Person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

#### **DIRECTORS' INTERESTS**

78. Subject to Article 84, a Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his or her office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.
79. Subject to Article 84, a Director may act by himself or herself or his or her firm in a professional capacity for the Company and such Director or firm shall be entitled to remuneration for professional services as if such Director were not a Director.

80. Subject to Article 84, a Director of the Company may be or become a director or other officer of or otherwise interested in any Company promoted by the Company or in which the Company may be interested as member or otherwise, and no such Director shall be accountable to the Company for any remuneration or other benefits received by such Director as a director or officer of, or from his or her interest in, such other Company.

81. In addition to any further restrictions set forth in these Articles, no person shall be disqualified from the office of Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director shall be in any way interested (each, an **“Interested Transaction”**) be or be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such Interested Transaction by reason of such Director holding office or of the fiduciary relation thereby established, so long as the material facts of the interest of each Director in the agreement or transaction and his interest in or relationship to any other party to the agreement or transaction are disclosed in good faith or are known by the other Directors.

#### MINUTES

82. The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any series of Shares and of the Directors, and of committees of the Board of Directors including the names of the Directors present at each meeting.

#### DELEGATION OF DIRECTORS' POWERS

83. Subject to these Articles, including but not limited to Article 85, the Board of Directors may approve the delegation of any of their powers to any committee consisting of one or more Directors. The Board of Directors (including the affirmative vote of the Director of holders of the Series A Preference Shares) may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another Director to act at the meeting in the place of the absent or disqualified member if such other Director's appointment is approved or ratified by the Board of Directors (including the affirmative vote of the Director of holders of the Series A Preference Shares). Any committee, to the extent allowed by law and provided in the resolution establishing such committee (which resolution shall include the affirmative vote of the Director of holders of the Series A Preference Shares), shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Company. Each committee shall keep regular minutes and report to the Board of Directors when required. The Board of Directors (including the affirmative vote of the Director of holders of the Series A Preference Shares) may also delegate to any managing Director or any Director holding any other executive office such of their powers as they consider desirable to be exercised by such Person provided that the appointment of a managing Director shall be revoked forthwith if he or she ceases to be a Director. Any such delegation may be made subject to any conditions the Board of Directors may impose and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such

conditions, the proceedings of a committee of the Board of Directors shall be governed by the Articles regulating the proceedings of Board of Directors, so far as they are capable of applying.

#### 84. Board Committees.

- a) Subject to these Articles, including but not limited to Article 85(b), the Board of Directors may establish any committees, local boards or agencies or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any Person to be a member of such committees or local boards. Any such appointment may be made subject to any conditions the Board of Directors may impose and either collaterally with or to the exclusion of their own powers and may be revoked or altered. Subject to any such conditions, the proceedings of a committee of the Board of Directors shall be governed by the Articles regulating the proceedings of the Board of Directors, so far as they are capable of applying. No committee created by the Board of Directors shall have more than three (3) members and the holders of a majority of the then outstanding Series A Preference Shares, voting together as a separate class and on an as-if-converted into Ordinary Shares basis, shall have the right, but not the obligation, to appoint one (1) member to each committee.
- b) The Company shall establish and maintain a Compensation Committee of the Board of Directors (the **“Compensation Committee”**) and an Audit Committee of the Board of Directors (the **“Audit Committee”**). Each of the Compensation Committee and Audit Committee shall be comprised of no more than three (3) members of the Board of Directors, of which one (1) shall be designated and appointed by the holders of the then outstanding Series A Preference Shares.
85. The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.
86. The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of Persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him or her.
87. Subject to these Articles, including but not limited to Articles 85(b) and 87, the Directors may appoint such officers as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the

Directors may think fit. Unless otherwise specified in the terms of an officer's appointment, an officer may be removed by resolution of the Directors or members.

## **NO MINIMUM SHAREHOLDING**

88. Subject to the approval by a majority of the Directors (including the consent of the Director of holders of the Series A Preference Shares), the Company in a general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed, a Director is not required to hold Shares.

## **REMUNERATION OF DIRECTORS**

89. The remuneration to be paid to the Directors, if any, shall be such remuneration as determined by the Board of Directors (including the consent of the Director of holders of the Series A Preference Shares). The Directors shall also be entitled to be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board of Directors or committees of the Board of Directors, or general meetings of the Company, or separate meetings of the holders of any class of Shares or debentures of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Board of Directors, or a combination partly of one such method and partly the other.
90. The Directors may be resolution approve additional remuneration to any Director for any services other than his or her ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his or her remuneration as a Director. Notwithstanding the above, the Director of holders of the Series A Preference Shares and Joint Director shall be entitled to reimbursement from the Company for all reasonable, documented expenses incurred in their service as Directors.

## **SEAL**

91. The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Board of Directors authorised by the Board of Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer or other person appointed by the Directors for the purpose.
92. The Company may have for use in any place or places outside Hong Kong a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.
93. A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his or her signature alone to any document of the Company

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required to be authenticated by him or her under seal or to be filed with the Registrar of Companies in Hong Kong or elsewhere whosoever.

## **DIVIDENDS, DISTRIBUTIONS AND RESERVE**

94. Subject to the Ordinance and these Articles, the Directors may declare dividends and distributions on Shares in issue and authorise payment of the dividends or distributions out of the assets of the Company lawfully available therefor. No dividend or distribution shall be paid except out of the realised or unrealised profits of the Company, or out of the share premium account or as otherwise permitted by the Ordinance.
95. All dividends and distributions shall be declared and paid according to the provisions of these Articles .
96. Subject to Article 77A, the Directors may, if they think fit, from time to time, pay to the members such interim dividends as appear to the Directors to be justified by the profits of the Company. If at any time the share capital of the Company is divided into different classes the Directors may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferred rights as well as in respect of those shares which confer on the holders thereof preferential or special rights in regard to the dividend, and provided that the Directors act bona fide they shall not incur any responsibility to the holders of shares conferring a preference for any damage that they may suffer by reason of the payment of an interim dividend on any shares having deferred or non-preferred rights. The Directors may deduct from any dividend or distribution payable to any member all sums of money (if any) then payable by such member to the Company on account of calls or otherwise.
97. Subject to the provisions of these Articles, the Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of shares, debentures or securities of any other Company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any members upon the basis of the value so fixed in order to adjust the rights of all members and may vest any such specific assets in trustees as may seem expedient to the Directors.
98. Any dividend, distribution, interest or other monies payable in cash in respect of Shares may be paid by wire transfer to the holder or by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such Person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses or other monies payable in respect of the Share held by them as joint holders.

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99. No dividend or distribution shall bear interest against the Company, except as expressly provided in these Articles.

100. Any dividend that cannot be paid to a member and/or that remains unclaimed after six (6) months from the date of declaration of such dividend may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the dividend shall remain as a debt due to the member. Any dividend that remains unclaimed after a period of six (6) years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

101(a)

- 1) Right of Sale



EH, SEE and TDR shall be entitled to sell all or part of their Series A Preference Shares to a third party. Whereas when EH, SEE and TDR sell all or part of their Preference Shares to a third party, other shareholders of the Company shall be entitled to the right of preemption. Such Right of Sale shall terminate upon qualified IPO of the Company.

2) Right of Joint-Sale

In the event GD sell all or part of its shares, EH, SEE and TDR shall be entitled to the same terms and conditions to sell their shares with GD in accordance with their corresponding proportion of the shareholding in the Company.

Such Right of Joint-Sale shall terminate upon qualified IPO of the Company.

3) Right of Preemption

In the event GD sell all or part of their shares, EH, SEE and TDR shall be entitled to the right of preemption with the same price.

Such Right of Preemption shall terminate upon qualified IPO of the Company.

4) Right to Dividends

The Company shall issue dividends to its shareholders annually unless SEE, EH and TDR agree not to do so. If the Company realized qualified IPO before 31 December, 2009, SEE, EHL and TDR agree that the Company is not obliged to distribute dividends; if the Company fails to complete qualified IPO before 31 December, 2009, the clause of Right to Dividends shall still be valid and effective.

The Company shall not issue any dividends to any other shareholders by the way of cash, property, or authorized shares before SEE, EH and TDR have received full amounts of dividends.

5) Preferential Right of Subscription

Where the company proposes a new share offering of any number to any third party (other

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than for employees' share option), SEE, EH and TDR shall be entitled to have the first priority to purchase such new shares in accordance with their corresponding proportion of shareholding at the same price. After the first preferential purchase right has been exercised, other shareholders shall be entitled to have the second priority to purchase the remaining proportion of such new shares.

Such Preferential Right of Subscription shall terminate upon qualified IPO of the Company.

6) Rights to Information

A. Information for financial situation. As long as SEE, EH and TDR holds any Series A Preference Shares of the Company, the Company shall deliver to SEE, EH and TDR the following documents relevant to the Company (or to its associated/related Companies)

1 the annual financial statements audited by the accounting firm approved by SEE, EH and TDR which shall be submitted to SEE, EH, and TDR within 90 days following the end of each financial year.

2 The monthly unaudited financial statements prepared in accordance with the HK or PRC GAAP, which shall be submitted to SEE, EH and TDR within 21 days following the end of each financial month.

3 The annual financial budget of next financial year, which shall be submitted to SEE, EH and TDR prior to the end of each financial year.

B. Right of Inspection. SEE, EH and TDR shall be entitled to the right of inspection for any facilities and fields owned by the Company and its subsidiaries, provided that SEE, EH and TDR shall inform the Company to be inspected two business days in advance.

C. Information for qualified IPO. EH and TDR shall be entitled to participate entirely in the whole process of the Company's IPO for the purpose of fully understanding of its arrangements and progress so that EH may provide relevant suggestions regarding the IPO.

101(b) Anti-Dilution clause

According to the Investment Agreement 1, SEE shall be entitled to adjust its proportion of shareholding by means of diluting the shareholding proportion of other shareholders (that is, by means of solely issuing shares to SEE by the Company), or by free transferring of the corresponding shares of GD to SEE. In the event SEE adjusts its proportion of shareholding by means of diluting the shareholding proportion of other shareholders (that is, by means of solely issuing shares to SEE by the Company), EH and TDR shall be entitled to acquire the newly issued shares for zero consideration to ensure their proportion of shareholding in the Company stays to be 5.33% and 1.87% after the completion of the foregoing adjustment.

According to the Investment Agreement 2, EH shall be entitled to adjust its proportion of shareholding by means of diluting the shareholding proportion of other shareholders (that is, by means of solely issuing shares to EH by the Company), or by free transferring of the

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corresponding shares of GD to EH. In the event EH adjusts its proportion of shareholding by means of diluting the shareholding proportion of other shareholders (that is, by means of solely issuing shares to EH by the Company), TDR shall be entitled to acquire the newly issued shares for zero consideration to ensure its proportion of shareholding stays to be 1.87% after the completion of the foregoing adjustment.

In the event the above adjustment is not enforceable due to the restriction of the legal system, EH and TDR shall be entitled to request GD to undertake the said anti-dilution responsibility as an alternative. To achieve this goal and to protect the well-structured anti-dilution provision, GD shall transfer its shares to EH and TDR with zero consideration to ensure its proportion of shareholding stays to be 5.33% and 1.87% after the completion of the foregoing adjustment.

In the event Company issues any new shares (or convertible bonds), and the unit price for such shares ("New Price") is less than the unit price agreed under the Investment Agreements, the anti-dilution provision shall be applicable. EH and TDR shall be entitled to acquire the newly issued shares for zero consideration,

and the average price paid for the shares of EH and TDR shall be equal to the new price after such issue of new shares, except as the new shares issued under the Employee Option Plan, or the issued shares approved by the all the directors of the Company under any other incentive plan.

In the event the above policy is not enforceable due to the restriction of the legal system, EH and TDR shall be entitled to request GD to undertake the said anti-dilution duty as an alternative. To achieve this goal and to protect the well-structured anti-dilution provision, GD shall transfer its shares to EH and TDR with zero consideration to ensure the average price paid for the shares of EH and TDR (including the shares acquired in accordance with the Investment Agreements) shall be equal to the new price after such transfer of new shares.

In the event the Company sets up an Employee Share Option Plan, as a measurement to protect anti-dilution agreement, EH and TDR shall be entitled to further acquire the issued shares of the Company at zero consideration to ensure its proportion of ownership not less than 5.33% and 1.87%.

In the event the above policy is not enforceable due to the restrictions of the legal system, EH and TDR shall be entitled to request GD to undertake the said anti-dilution duty as an alternative. To achieve this goal and to protect the well-structured anti-dilution provision, GD shall transfer its shares to EH and TDR with zero consideration to ensure the proportion of ownership of EH not less than 5.33% and 1.87%.

No matter what make the proportion of shareholding of EH less than 5.33%, and the proportion of shareholding of TDR less than 1.87%, EH and TDR shall be entitled to further acquire the shares of the Company with the corresponding rational consideration to ensure their proportion of shareholding not less than that described in the "First" of the Amendment

of Articles of Association.

Such clause of Anti-Dilution shall terminate upon qualified IPO of the Company.

#### **CAPITALIZATION**

101. Subject to these Articles, the Directors may capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to members in the proportions in which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend and to apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event, the Directors shall do all acts and things required to give effect to such capitalization, with full power to the Directors to make such provisions as they think fit for the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the members interested into an agreement with the Company providing for such capitalization and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

#### **BOOKS OF ACCOUNT**

102. Subject to Article 16(m), the Directors shall cause proper books of account to be kept at such place as they may from time to time designate with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions. Subject to the Investors' Right Agreement, the Directors shall from time to time determine whether and to what extent and at what times and places, and under what conditions or regulations, the accounts and books of the Company or any of them shall be open to inspection of members not being Directors and no such member shall have any right of inspecting any account or book or document of the Company except as conferred by the Ordinance or authorized by the Directors or the Company in general meeting.

103. The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

#### **AUDIT**

104. The Directors may appoint an Auditor of the Company who shall hold office until removed from office by a resolution of the Directors, and may fix the Auditor's remuneration.

105. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.

106. Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a Company that is registered with the Registrar of Companies as an ordinary Company, and at the next extraordinary general meeting following their appointment in the case of a Company that is registered with the Registrar of Companies as an exempted Company and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

#### **NOTICES**

107. Except as otherwise provided in these Articles, notices shall be in writing. Notice may be given by the Company to any member either personally or by sending it by next-day or second-day courier service, fax, electronic mail or similar means to such member or to such Member's address as shown in the Register of members (or where the notice is given by electronic mail by sending it to the electronic mail address provided by such member).

108. Where a notice is sent by next-day or second-day courier service, service of the notice shall be deemed to be effected by properly addressing, pre-paying and sending by next-day or second-day service through an internationally-recognized courier a letter containing the notice, with a confirmation of delivery, and to have been effected at the expiration of two (2) days (not including Saturdays or Sundays or public holidays) after the letter containing the same is sent as aforesaid. Where a notice is sent by fax, service of the notice shall be deemed to be effected by properly addressing and sending such notice and shall be deemed to have been received on the same day that it was transmitted. Where a notice is given by electronic mail, service shall be deemed to be effected by transmitting

the electronic mail to the electronic mail address provided by the intended recipient and shall be deemed to have been received on the same day that it was sent and it shall not be necessary for the receipt of the electronic mail to be acknowledged by the recipient.

109. A notice may be given by the Company to the person or persons that the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a member in the same manner as other notices that are required to be given under these Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company, by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

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110. Notice of every general meeting shall be given in any manner hereinbefore authorised to every person shown as a member in the Register of members on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of members and every Person upon whom the ownership of a Share devolves by reason of his or her being a legal personal representative or a trustee in bankruptcy of a member of record where the member of record but for his or her death or bankruptcy would be entitled to receive notice of the meeting, and no other Person shall be entitled to receive notices of general meetings.
111. Whenever any notice is required by law or these Articles to be given to any Director, member of a committee or Member, a waiver thereof in writing, signed by the Person or Persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

#### **WINDING UP**

112. If the Company shall be wound up, assets available for distribution amongst the members shall be distributed, the holders of Series A Preference Shares shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus of the Company to the holders of the Ordinary Shares, by reason of their shareholding thereof, the amount of specified times of the Original Issue Price per share for each Series A Preference Share, then held by them and, in addition, an amount equal to all dividend but unpaid dividends on such Series A Preference Shares.
113. Subject to Article 16, if the Company shall be wound up, the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Ordinance, divide amongst the members in kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for that purpose value any assets and, determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any asset upon which there is a liability.

#### **INDEMNITY**

114. To the maximum extent permitted by applicable law, the Directors and officers for the time being of the Company and any trustee for the time being acting in relation to any of the affairs of the Company and their heirs, executors, administrators and personal representatives respectively shall be indemnified out of the assets of the Company from and against all actions, proceedings, costs, charges, losses, damages and expenses that they or any of them shall or may incur or sustain by reason of any act done or omitted in or about the execution of their duty in their respective offices or trusts, except such (if any) as they shall incur or sustain by or through their own fraud or dishonesty, and no such Director or officer or trustee shall be answerable for the acts, receipts,

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neglects or defaults of any other Director or officer or trustee or for joining in any receipt for the sake of conformity or for the solvency or honesty of any banker or other Persons with whom any monies or effects belonging to the Company may be lodged or deposited for safe custody or for any insufficiency of any security upon which any monies of the Company may be invested or for any other loss or damage due to any such cause as aforesaid or which may happen in or about the execution of his or her office or trust unless the same shall happen through the fraud or dishonesty of such Director or officer or trustee. Except with respect to proceedings to enforce rights to indemnification pursuant to this Article, the Company shall indemnify any such indemnitee pursuant to this Article in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors. The right to indemnification conferred in this Article 115 shall include the right to be paid by the Company the expenses incurred in defending any such proceeding in advance of its final disposition to the maximum extent provided by, and subject to the requirements of, applicable law, so long as the indemnitee agrees with the Company to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Article.

115. To the maximum extent permitted by applicable law, the Directors and officers for the time being of the Company and any trustee for the time being acting in relation to any of the affairs of the Company and their heirs, executors, administrators and personal representatives respectively shall not be personally liable to the Company or its members for monetary damages for breach of their duty in their respective offices, except such (if any) as they shall incur or sustain by or through their own fraud or dishonesty respectively.

#### **FISCAL YEAR**

116. Unless the Directors otherwise prescribe, the fiscal year of the Company shall end on the 31st of December in each year and, following the year of incorporation, shall begin on the 1st of January in each year.

#### **NON-COMPETITION**

117. The Company together with other members holding majority Shares of the Company shall not directly or indirectly carry on or engage or involved in any business which may compete with the Company's business.

#### **INCONSISTENCIES**

118. In the event of any inconsistencies in respect of the rights of Series A Preference Share between these Articles and the Investors Agreements, the Investors Agreements shall prevail.

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I/We the undersigned, whose names, addresses and descriptions are hereto subscribed, am desirous of being formed into a Company in pursuance of this Memorandum of Association, and we respectively agree to take the number of share in the capital of the Company set opposite to my respective name:-

Names, Addresses and Description of Members

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For and on behalf of  
ARSD06 LIMITED

(Sd.) Leung Wah Lok

/s/ Authorized Person

Authorized Signature  
Room 904, Harvest Building,  
29-35 Wing Kut Street,  
Central,  
Hong Kong.  
Corporation

Dated the 30<sup>th</sup> the day of September 2009  
WITNESS to the above signature(s):

(Sd.)Leung Wai Fun Fanny  
Merchant  
Room 904, Harvest Building,  
29-35 Wing Kut Street,  
Central,  
Hong Kong

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**ANNEX C**

Set forth below is a complete list of all Investment Agreements and related instruments entered into by and between or among the Stockholders and China High, all of which have terminated as of March 31, 2010 and replaced with the Shareholders Agreement, dated March 31, 2010, by and among China New Borun Corporation, King River Holding Limited, Star Elite Enterprises Limited, Earnstar Holding Limited and TDR Advisors, Inc.:

- 1) Investment Agreement, dated November 5, 2008, by and among Golden Direction, China High and Star Elite
- 2) Supplementary Agreement to Investment Agreement, dated November 5, 2008, by and among Golden Direction, China High and Star Elite
- 3) Supplementary Agreement II, dated November 5, 2008, by and among Golden Direction, China High and Star Elite
- 4) Supplementary Agreement, undated, by and among Golden Direction, China High and Star Elite
- 5) Investment Agreement, dated June 8, 2009, by and among Golden Direction, China High, Star Elite, Earnstar and Li Zi Wen
- 6) Supplementary Agreement I, dated June 8, 2009, by and among Golden Direction, China High, Star Elite, Earnstar and Li Zi Wen
- 7) Supplementary Agreement, undated, by and among Golden Direction, China High, Star Elite, Earnstar and Li Zi Wen
- 8) Investment Agreement, dated June 26, 2009, by and among Golden Direction, China High, Star Elite, Earnstar, TDR and Li Zi Wen
- 9) Confirmation Letter, dated June 26, 2009, by and among Golden Direction, China High, Star Elite, Earnstar, TDR and Li Zi Wen
- 10) Supplementary Agreement I, dated June 26, 2009, by and among Golden Direction, China High, Star Elite, Earnstar, TDR and Li Zi Wen
- 11) Supplementary Investment Agreement, dated June 30, 2009, by and among Golden Direction, China High, Star Elite, Earnstar, TDR and Li Zi Wen

**ANNEX D**

**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Amounts in RMB unless otherwise stated)**

	December 31,			September 30,		
	2007 (RMB)	2006 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Assets						
Cash	25,234,304	20,878,871	\$ 3,058,637	96,317,394	115,970,899	\$ 16,989,086
Trade accounts receivable	40,908,652	38,733,910	5,674,300	17,520,217	44,273,079	6,485,758
Inventories	58,468,358	35,269,695	5,166,812	32,975,352	37,800,547	5,537,568
Prepaid expenses and other current assets	2,518,196	8,462,597	1,239,723	18,318,382	9,022,667	1,321,770

Deferred income taxes	—	1,640,997	240,397	1,564,047	—	—
Total current assets	127,129,510	104,986,070	15,379,869	166,695,392	207,067,192	30,334,182
Property, plant and equipment, net	120,951,161	309,786,576	45,381,995	243,148,618	446,690,082	65,437,591
Land use rights, net	17,542,304	32,561,369	4,770,058	32,668,495	31,929,000	4,677,419
Intangible assets, net	—	28,779,986	4,216,106	28,779,986	25,902,804	3,794,615
Total assets	265,622,975	476,114,001	69,748,028	471,292,491	711,589,078	104,243,807
<b>Liabilities and Shareholders' Equity</b>						
Trade accounts payable	55,917,537	24,987,338	\$ 3,660,505	66,308,518	63,564,834	\$ 9,311,892
Accrued expenses and other payables	31,997,051	57,839,153	8,473,111	106,421,864	26,837,005	3,931,471
Income taxes payable	3,152,845	6,199,770	908,232	7,047,226	22,116,778	3,239,984
Amount due to related party	—	1,407,960	206,258	500,000	908,040	133,023
Dividends payable	11,017,500	—	—	—	—	—
Short-term borrowings	24,700,000	89,700,000	13,140,547	24,700,000	143,200,000	20,977,997
Total current liabilities	126,784,933	180,134,221	26,388,653	204,977,608	256,626,657	37,594,367
Total liabilities	126,784,933	180,134,221	26,388,653	204,977,608	256,626,657	37,594,367
<b>Commitments and Contingencies</b>						
<b>Shareholders' equity</b>						
Convertible preferred series A share—par value of RMB0.88; 2,000 shares authorized, issued and outstanding	—	1,759	258	—	1,759	258
Convertible preferred series B share—par value of RMB0.88; 776 shares authorized, issued and outstanding	—	—	—	—	683	100
Common share—par value of RMB0.88; 8,000 shares authorized, issued and outstanding	7,037	7,037	1,031	7,037	7,037	1,031
Subscription receivables	(7,037)	(8,796)	(1,289)	(7,037)	—	—
Additional paid-in capital	51,200,000	173,200,000	25,372,828	131,200,000	227,249,317	33,290,750
Retained earnings—appropriated	15,714,098	27,991,612	4,100,612	15,714,098	27,991,612	4,100,612
Retained earnings—unappropriated	71,923,944	94,776,558	13,884,234	119,400,785	199,940,851	29,290,213
Accumulated other comprehensive income (loss)	—	11,610	1,701	—	(228,838)	(33,524)
Total shareholders' equity	138,838,042	295,979,780	43,359,375	266,314,883	454,962,421	66,649,410
Total liabilities and shareholders' equity	265,622,975	476,114,001	\$ 69,748,028	471,292,491	711,589,078	\$ 104,243,807

See accompanying notes to consolidated financial statements.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCO., 3**  
(Amounts in RMB unless otherwise stated)

	Year ended December 31,				Nine-months Ended September 30,		
	2006 (RMB)	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Revenues	271,808,571	487,305,927	615,881,195	\$ 90,223,140	441,388,902	677,831,182	\$ 99,298,465
Cost of good sold	216,829,009	387,729,613	493,847,780	72,345,929	362,270,916	522,039,815	76,475,904
Gross profit	54,979,562	99,576,314	122,033,415	17,877,211	79,117,986	155,791,367	22,822,561
<b>Operating expenses:</b>							
Selling	1,651,222	1,996,368	1,436,241	210,401	1,064,323	1,998,781	292,810
General and administrative	6,765,806	8,061,531	11,492,104	1,683,529	8,307,013	9,943,767	1,456,706
Total operating expenses	8,417,028	10,057,899	12,928,345	1,893,930	9,371,336	11,942,548	1,749,516
Operating income	46,562,534	89,518,415	109,105,070	15,983,281	69,746,650	143,848,819	21,073,045
<b>Other (income) expenses:</b>							
Interest income	(106,696)	(113,616)	(344,378)	(50,449)	(280,307)	(246,793)	(36,154)
Interest expense	1,180,000	2,350,000	2,983,610	437,082	2,280,000	6,933,800	1,015,763
Others, net	—	950	2,694,720	394,761	2,704,720	(1,417,541)	(207,662)
Total other expense, net	1,073,304	2,237,334	5,333,952	781,394	4,704,413	5,269,466	771,947
Income before income taxes	45,489,230	87,281,081	103,771,118	15,201,887	65,042,237	138,579,353	20,301,098
Income tax expense	15,504,371	28,557,072	26,640,990	3,902,756	17,565,396	33,415,060	4,895,119
Net income	29,984,859	58,724,009	77,130,128	11,299,131	47,476,841	105,164,293	15,405,979
Amortization of preferred share discount	—	—	(42,000,000)	(6,152,764)	—	—	—
Participation in undistributed earnings by preferred shareholders	—	—	(9,049,521)	(1,325,704)	—	(27,090,322)	(3,968,580)
Net income attributable to common shareholders	29,984,859	58,724,009	26,080,607	\$ 3,820,663	47,476,841	78,073,971	\$ 11,437,399
<b>Earnings Per share:</b>							
Basic	3,748.11	7,340.50	3,260.08	\$ 477.58	5,934.61	9,759.25	\$ 1,429.68
Diluted	3,748.11	7,340.50	3,121.56	\$ 457.29	5,934.61	7,633.36	\$ 1,118.24
<b>Weighted average common shares outstanding:</b>							
Basic	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Diluted	8,000	8,000	8,355	8,355	8,000	10,228	10,228

See accompanying notes to consolidated financial statements.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Amounts in RMB unless otherwise stated)

	Convertible Preferred Series A Share		Convertible Preferred Series B Share		Common Share		Additional Paid-in Capital	Subscription Receivables	Appropriated Retained Earnings	Unappropriated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount						
<b>Balance as of January 1, 2006</b>	—	—	—	—	8,000	7,037	11,100,000	(7,037)	2,295,386	11,269,269	—	24,664,655
Capital contributions	—	—	—	—	—	—	40,100,000	—	—	—	—	40,100,000
Net income	—	—	—	—	—	—	—	—	29,984,859	—	—	29,984,859
Transfer to statutory reserves	—	—	—	—	—	—	—	—	4,721,786	(4,721,786)	—	—
Dividends distribution	—	—	—	—	—	—	—	—	—	(3,617,981)	—	(3,617,981)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—
<b>Balance as of December 31, 2006 (Audited)</b>	—	—	—	—	8,000	7,037	51,200,000	(7,037)	7,017,172	32,914,361	—	91,131,533
Net income	—	—	—	—	—	—	—	—	—	58,724,009	—	58,724,009
Transfer to statutory reserves	—	—	—	—	—	—	—	—	8,696,926	(8,696,926)	—	—
Dividends distribution	—	—	—	—	—	—	—	—	—	(11,017,500)	—	(11,017,500)

Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—
<b>Balance as of December 31, 2007 (Audited)</b>	—	—	—	—	8,000	7,037	51,200,000	(7,037)	15,714,098	71,923,944	—	138,838,042
Capital contribution	—	—	—	—	—	—	10,000,000	—	—	—	—	10,000,000
Issuance of preferred shares	2,000	1,759	—	—	—	—	112,000,000	(1,759)	—	(42,000,000)	—	70,000,000
Net income	—	—	—	—	—	—	—	—	—	77,130,128	—	77,130,128
Transfer to statutory reserves	—	—	—	—	—	—	—	—	12,277,514	(12,277,514)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	11,610	11,610
<b>Balance as of December 31, 2008 (Audited)</b>	<u>2,000</u>	<u>1,759</u>	<u>—</u>	<u>—</u>	<u>8,000</u>	<u>7,037</u>	<u>173,200,000</u>	<u>(8,796)</u>	<u>27,991,612</u>	<u>94,776,558</u>	<u>11,610</u>	<u>295,979,780</u>
<b>Balance as of December 31, 2008 (\$)</b>	<u>2,000</u>	<u>258</u>	<u>—</u>	<u>—</u>	<u>8,000</u>	<u>1,031</u>	<u>25,372,828</u>	<u>(1,289)</u>	<u>4,100,612</u>	<u>13,884,234</u>	<u>1,701</u>	<u>43,359,375</u>
<b>Balance as of December 31, 2008 (Audited)</b>	2,000	1,759	—	—	8,000	7,037	173,200,000	(8,796)	27,991,612	94,776,558	11,610	295,979,780
Capital contribution-common shares shareholder	—	—	—	—	—	—	—	7,037	—	—	—	7,037
Capital contribution-preferred shares shareholder	—	—	—	—	—	—	—	1,759	—	—	—	1,759
Issuance of preferred shares	—	—	776	683	—	—	54,049,317	—	—	—	—	54,050,000
Net income	—	—	—	—	—	—	—	—	—	105,164,293	—	105,164,293
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	(240,448)	(240,448)
<b>Balance as of September 30, 2009 (Unaudited)</b>	<u>2,000</u>	<u>1,759</u>	<u>776</u>	<u>683</u>	<u>8,000</u>	<u>7,037</u>	<u>227,249,317</u>	<u>—</u>	<u>27,991,612</u>	<u>199,940,851</u>	<u>(228,838)</u>	<u>454,962,421</u>
<b>Balance as of September 30, 2009 (\$)</b>	<u>2,000</u>	<u>258</u>	<u>776</u>	<u>100</u>	<u>8,000</u>	<u>1,031</u>	<u>33,290,750</u>	<u>—</u>	<u>4,100,612</u>	<u>29,290,213</u>	<u>(33,524)</u>	<u>66,649,440</u>

See accompanying notes to consolidated financial statements.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts in RMB unless otherwise stated)

	Year ended December 31,				Nine-months Ended September 30,		
	2006 (RMB)	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Net income	29,984,859	58,724,009	77,130,128	\$ 11,299,131	47,476,841	105,164,293	\$ 15,405,979
Adjustments to reconcile net income to net cash provided by operating activities:							
Depreciation and amortization	7,575,298	13,010,919	13,125,666	1,922,836	9,915,565	17,179,162	2,516,651
Amortization expense	136,140	192,141	518,721	75,990	411,595	3,509,551	514,130
Loss from disposal of production equipment	—	—	2,530,030	370,635	2,530,030	(22,808)	(3,341)
Deferred income taxes	—	—	(642,375)	(94,104)	(565,425)	1,640,997	240,397
Changes in operating assets and liabilities:							
Trade accounts receivable	711,262	(40,172,613)	2,174,742	318,588	23,388,435	(5,539,169)	(811,457)
Inventories	(21,015,645)	(31,627,031)	23,198,663	3,398,474	25,493,006	(2,530,852)	(370,756)
Prepaid expenses and other current assets	13,771,100	(1,250,538)	(6,305,802)	(923,765)	(8,266,127)	(560,070)	(82,047)
Trade accounts payable	774,809	45,204,754	(30,930,199)	(4,531,101)	10,390,981	38,577,496	5,651,387
Accrued expenses and other payables	5,193,577	(5,209,027)	118,380	17,342	(7,356,613)	27,537	4,035
Income tax payable	2,595,773	557,072	3,046,925	446,357	3,894,381	15,917,008	2,331,752
Amounts due to related party	—	—	1,407,960	206,258	500,000	(499,920)	(73,235)
Net cash provided by operating activities	<u>39,727,173</u>	<u>39,429,686</u>	<u>85,372,839</u>	<u>12,506,641</u>	<u>107,812,669</u>	<u>172,863,225</u>	<u>25,323,495</u>
<b>Cash flows from investing activities:</b>							
Purchases of property, plant and equipment	(94,709,234)	(4,206,268)	(130,538,366)	(19,123,137)	(76,932,093)	(146,659,099)	(21,484,737)
Asset acquisition	—	—	(93,184,016)	(13,650,936)	(28,779,986)	(30,000,000)	(4,394,832)
Purchases of land use rights	—	(11,200,000)	—	—	—	(8,428,687)	(1,234,755)
Net cash used in investing activities	<u>(94,709,234)</u>	<u>(15,406,268)</u>	<u>(223,722,382)</u>	<u>(32,774,073)</u>	<u>(105,712,079)</u>	<u>(185,087,786)</u>	<u>(27,114,324)</u>

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
(Amounts in RMB unless otherwise stated)

	Year ended December 31,				Nine-months Ended September 30,		
	2006 (RMB)	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
<b>Cash flows from financing activities:</b>							
Capital contribution	40,100,000	—	10,000,000	\$ 1,464,944	10,000,000	—	\$ —
Receipt from subscription receivable	—	—	—	—	—	7,037	1,031
Proceeds from issuances of convertible preferred shares	—	—	70,000,000	10,254,607	70,000,000	54,050,000	7,918,022
Short-term borrowings (payments), net	32,000,000	(15,300,000)	65,000,000	9,522,136	—	53,500,000	7,837,450
Dividend payments	—	(5,355,901)	(11,017,500)	(1,614,003)	(11,017,500)	—	—
Net cash provided by financing activities	<u>73,100,000</u>	<u>(20,655,901)</u>	<u>133,982,500</u>	<u>19,627,684</u>	<u>68,982,500</u>	<u>107,557,037</u>	<u>15,756,503</u>
Effect of foreign currency exchange translation	—	—	11,610	1,701	—	(240,448)	(35,225)
Net increase (decrease) in cash	<u>18,117,939</u>	<u>3,367,517</u>	<u>(4,355,433)</u>	<u>(638,047)</u>	<u>71,083,090</u>	<u>95,092,028</u>	<u>13,930,499</u>
Cash—beginning of year	<u>3,748,848</u>	<u>21,866,787</u>	<u>25,234,304</u>	<u>3,696,684</u>	<u>25,234,304</u>	<u>20,878,871</u>	<u>3,058,637</u>
Cash—end of year	<u>21,866,787</u>	<u>25,234,304</u>	<u>20,878,871</u>	<u>3,058,637</u>	<u>96,317,394</u>	<u>115,970,899</u>	<u>16,989,086</u>
<b>Supplemental disclosure of cash flow information:</b>							
Income taxes	15,500,000	28,000,000	24,236,439	\$ 3,550,502	14,236,439	16,154,424	\$ 2,366,532
Interest	1,179,635	2,332,848	2,701,184	\$ 395,708	2,320,194	7,364,771	\$ 1,078,898
<b>Non-cash investing activities:</b>							
Asset acquisition	—	—	(45,815,984)	\$ (6,711,785)	(110,220,014)	—	\$ —
Accrued fixed asset purchases	(25,622,446)	3,246,900	23,111,464	\$ 3,385,670	(26,571,860)	(9,999,262)	\$ (1,591,383)

See accompanying notes to consolidated financial statements.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in RMB unless otherwise stated)**

**1. Description of business**

The accompanying consolidated financial statements include the financial statements of China High Enterprises Limited (“China High”), Weifang Great Chemical, Inc. (“WGC”), Shandong Borun Industrial Co., Ltd. (“Shandong Borun”) and Daqing Borun Biotechnology Co., Ltd (“Daqing Borun”).

China High, the holding company, was incorporated in Hong Kong’s Special Administrative Region on July 15, 2008.

WGC was established as a limited liability company on March 21, 2001 in China’s Shandong Province under the laws of the PRC. For restructuring and reorganization purposes, pursuant to an equity interest acquisition agreement. China High acquired all of the equity interests of WGC on October 27, 2008.

In December 2008, China High through WGC acquired 100% equity interests in Shandong Borun, the operating company. Shandong Borun was the predecessor of the Company and operated all of the business of the Company prior to a restructuring in 2008 (the “Restructuring”). Shandong Borun was set up in the city of Shouguang in China’s Shandong Province by Mr. Jinmiao Wang (“Mr. Wang”) and his family members (collectively the “Wang Family”) on December 1, 2000.

On July 9, 2008, Shandong Borun acquired all of the equity interests in Daqing Borun, a company formerly called Daqing Anxin Tongwei Alcohol Manufacturing Co., Ltd., (Anxin Tongwei), a limited liability company established under the laws of the PRC on September 20, 2004 in Daqing city, Heilongjiang Province, China. Anxin Tongwei began production of edible alcohol in 2005. Primary due to fundamental problems associated its manufacturing process, Anxin Tongwei ceased production and applied for bankruptcy on July 26, 2007. On July 1, 2008, the Court made the verdict to approve that certain Acquisition Agreement between Shandong Borun and Anxin Tongwei on June 26, 2008, and on July 9, 2009 the parties completed the acquisition pursuant to which Anxin Tongwei became a wholly-owned subsidiary of Shandong Borun. Subsequent to the acquisition, Anxin Tongwei changed its name to Daqing Borun Biotechnology Co., Ltd.

China High, WGC, Shangdong Borun and Daqing Borun are collectively referred to as the “Company”. The establishment and acquisition of China High, WGC and Shangdong Borun consisted of same majority shareholder and did not change control ownership.

The Company develops and operates its business through Shandong Borun and Daqing Borun. The Company is principally engaged in manufacture and distribution of edible alcohol and its by-products, including Distillers Dried Grains with Solubles high-protein feed (“DDGS Feed”), and corn germ in the People’s Republic of China (“PRC”).

**2. Summary of significant accounting policies**

***Principles of Consolidation and Presentation***

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the financial

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

**2. Summary of significant accounting policies (Continued)**

statements of the China High, WGC, Shangdong Borun and Daqing Borun. All significant inter-company transactions and balances have been eliminated upon consolidation.

The unaudited interim consolidated financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of the financial position as of September 30, 2009 and the statements of operations for the nine month periods ended September 30, 2008 and 2009, as well as the statements of cash flows for the nine months ended September 30, 2008 and 2009. Certain information and disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted.

These unaudited interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2008. The Company believes that these financial statements contain all adjustments necessary so that they are not misleading.

The results of operations for interim periods are not necessarily indicative of the results of operations that could be expected for the full year.

***Segment Reporting***

The Company operates and manages its business as a single segment. As the Company primarily generates its revenues from customers in the PRC, no geographical segments are presented.

***Foreign Currency Translation***

The Company’s financial statements are presented in Chinese Renminbi (“RMB”), which is the Company’s reporting currency. The functional currency of the Company’s subsidiary in Hong Kong is the U.S. dollar while the functional currency of the Company’s subsidiaries in the PRC is RMB. In accordance with ASC 830, Foreign Currency Matters, the assets and liabilities of the Company’s subsidiary in Hong Kong are translated at the current exchange rate in effect at the balance sheet dates, and revenues and expenses are translated at the average exchange rates in effect during the reporting periods to RMB. Gains and losses resulting from foreign

currency translation to reporting currency are recorded in accumulated other comprehensive income in the statements of changes in shareholders' equity for the periods presented.

In accordance with SFAS No. 52, the Company translates the assets and liabilities into RMB using the rate of exchange prevailing at the applicable balance sheet date and the statements of income and cash flows are translated at an average rate during the reporting period. Adjustments resulting from the translation from Hong Kong Dollar into RMB are recorded in Shareholders' equity as part of accumulated other comprehensive income.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

**2. Summary of significant accounting policies (Continued)**

***Convenience Translation into United States Dollar Amounts (Unaudited)***

The Company reports its financial statements using the RMB. The Dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader, and have been converted at the rate of RMB6.8262 to one Dollar (\$), which is the noon buying rate of the U.S. Federal Reserve Bank of New York in effect on September 30, 2009. Such translations should not be construed as representations that the RMB amounts represent, have been, or could be, converted into, \$ at that or any other rate.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

***Revenue Recognition***

The Company recognizes revenue in accordance with ASC 605, Revenue Recognition, when persuasive evidence of an arrangement exists, the price is fixed or determinable, collection is reasonably assured and delivery of products has occurred or services have been rendered. Delivery occurs upon receipt of products by the customers at the customers' warehouse or designated destination.

***Cost of Goods Sold***

The Company's cost of goods sold includes product costs, shipping and handling costs, and costs related to inventory adjustments, including write downs for excess and obsolete inventory. Product costs include raw materials, production overhead costs, amortization of production license, and depreciation of property, plant and equipment used directly or indirectly for production.

***Advertising Expenses***

Costs associated with advertising are expensed as incurred. The Company did not incur any advertising expenses for the years ended December 31, 2006, 2007, and 2008 and for the nine months ended September 30, 2008 and 2009.

***Shipping and Handling Costs***

The Company records all charges for outbound shipping and handling as revenue. All corresponding shipping and handling costs are classified as cost of goods sold.

***Inventories***

Inventories are stated at the lower of cost or market determined using the weighted average method which approximates cost and estimated net realizable value. Cost of work in progress and finished

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

**2. Summary of significant accounting policies (Continued)**

goods comprise direct material, direct production costs and an allocated portion of production overhead costs based on normal operating capacity.

***Property, Plant, and Equipment***

Property, plant, and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation is calculated using the straight-line method (after taking into account their respective estimated residual value) over the estimated useful lives as follows.

Buildings and improvements	20 to 30 Years
Machinery	10 Years
Office equipment and furnishing	3 to 5 Years
Motor vehicles	4 to 5 Years

***Land Use Rights***



According to the laws of the PRC, the government owns all the land in the PRC. Companies or individuals are authorized to possess and use the land only through the land use rights granted by the government. The land use rights represent cost of the rights to use the land in respect of properties located in the PRC. Land use rights are carried at cost and amortized on a straight-line basis over the period of rights of 50 years.

### **Intangible Assets**

Intangible assets include production license for use in the production and distribution of edible alcohol. The production license is normally subject to inspection and renewed for every five years. Amortization expense is calculated on a straight-line basis over the useful life of the production license.

### **Impairment of Long-Lived Assets**

The Company, in accordance with ASC 360, Property, Plant, and Equipment, reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable.

An impairment loss would be recognized when estimated discounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. The Company performed impairment of long-lived assets test and no impairment losses were deemed required and as a result, the Company did not record any impairment losses for the years ended December 31, 2006, 2007, and 2008 and for the nine months ended September 30, 2008 and 2009.

### **Retirement and Other Postretirement Benefits**

Full time employees of the Company in the PRC participate in a government mandated defined contribution plan, pursuant to which certain pension benefits, medical care, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require the Company

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

## **2. Summary of significant accounting policies (Continued)**

to make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Company accounts the mandated defined contribution plan under the vested benefit obligations approach based on the guidance of ASC 715, Compensation—Retirement Benefits.

The total amounts for such employee benefits which were expensed were nil, nil and RMB633,679 (\$92,830) for the years ended December 31, 2006, 2007 and 2008, respectively, and RMB520,522 and RMB1,346,583 (\$197,267) for the nine months ended September 30, 2008 and 2009.

### **Appropriated Retained Earnings**

The income of the Company's PRC subsidiaries is distributable to their shareholder after transfer to reserves as required by relevant PRC laws and regulations and the subsidiary's Articles of Association. As stipulated by the relevant laws and regulations in the PRC, these PRC subsidiaries are required to maintain reserves which are non-distributable to shareholders. Appropriations to the reserves are approved by the respective boards of directors.

Reserves include statutory surplus reserves and discretionary reserves. Statutory surplus reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of shareholders, provided that the balance after such conversion is not less than 25% of the registered capital. The appropriation to the statutory surplus reserves must not be less than 10% of net profit after taxation. Such appropriation may cease to apply if the balance of the fund is equal to 50% of the entity's registered capital. The annual appropriations of reserves of WGC, Shandong Borun and Daqing Borun are 10%, 15% and 10% of the net profit after taxation.

### **Dividends**

The Company provides discretionary dividend payments based on the Company's Board of Director's approval. The Board of Director's of the Company approved dividend payment of RMB3,617,981 as of December 31, 2006 which was paid in year 2007 and dividend payment of RMB11,017,500 as of December 31, 2007 which was paid in the first quarter of fiscal year 2008.

### **Income Taxes**

The Company follows ASC 740, Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company adopted ASC 740-10-25 on January 1, 2007, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. The Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

## **2. Summary of significant accounting policies (Continued)**

position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution. The Company did not recognize any additional liabilities for uncertain tax positions as a result of the implementation of ASC 740-10-25.

## Earnings per Share

The Company computes earnings per share in accordance with ASC 260, Earnings Per Share. Under the provisions of ASC 260, basic earnings per share is computed by dividing the net income attributable to holders of common shares for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing the net income attributable to holders of common shares for the period by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares consist of convertible preferred share (using the if-converted method).

	Year ended December 31,				Nine-months Ended September 30,		
	2006 (RMB)	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (RMB)
<b>Numerator:</b>							
Net income attributable in common shareholders	29,984,859	58,724,009	26,080,607	\$ 3,820,663	47,476,841	78,073,971	\$ 11,437,399
<b>Denominator:</b>							
Weighted average basic shares	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Weighted average dilutive potential shares:							
Convertible preferred series A share	—	—	355	355	—	2,000	2,000
Convertible preferred series B share	—	—	—	—	—	228	228
Denominator for diluted shares	8,000	8,000	8,355	8,355	8,000	10,228	10,228
<b>Earnings per share:</b>							
Basic	3,748.11	7,340.50	3,260.08	\$ 477.58	5,934.61	9,759.25	\$ 1,429.68
Diluted	3,748.11	7,340.50	3,121.56	\$ 457.29	5,934.61	7,633.36	\$ 1,118.24

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

## 2. Summary of significant accounting policies (Continued)

### Concentrations of Credit Risk and Risk Factors

**Trade Accounts Receivable**—Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers dispersed across diverse markets and generally short payment terms. Credit is extended based on an evaluation of the customer's financial condition and collateral generally is not required. The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will record a specific allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected.

**Revenues**—Substantially all of the Company's revenues are derived from sales of edible alcohol and its by-products, including DDGS Feed, and corn germ in PRC. Any significant decline in market acceptance of the Company's products or in the financial condition of our existing customers could impair our ability to operate effectively.

### Recently Issued Accounting Pronouncements

In December 2007, the FASB issued ASC 810-10-65, Consolidation, which applies to all companies that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding non-controlling interest in one or more subsidiaries or that deconsolidate a subsidiary. ASC 810-10-65 is effective for the Company on January 1, 2009. Earlier adoption is prohibited. The Company adopted ASC 810-10-65 on January 1, 2009 and the adoption of ASC 810-10-65 did not have any impact on its results of operations or financial position.

In May 2009, the FASB issued ASC 855, Subsequent Events, ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. The Company's management evaluated all events or transactions that occurred after December 31, 2008 up through January 19, 2010, the date the Company issued the financial statements. During these periods, the Company did not have any material recognizable subsequent events required to be disclosed other than those disclosed in Note 18 to the financial statements for the year ended December 31, 2008 and nine months ended September 30, 2009.

In April 2009, the FASB issued three related staff positions to clarify the application of FASB ASC 820 to fair value measurements in the current economic environment, modify the recognition of other-than-temporary impairments of debt securities, and require companies to disclose the fair value of financial instruments in interim periods. The final staff positions are effective for interim and annual periods ending after June 15, 2009.

- FASB ASC 820 (Transitional 820-10-65-4)—which provides guidance on how to determine the fair value of assets and liabilities under FASB ASC 820 in the current economic environment and reemphasizes that the objective of a fair value measurement remains the

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

## 2. Summary of significant accounting policies (Continued)

price that would be received to sell an asset or paid to transfer a liability at the measurement date.

- FASB ASC 320—which modifies the requirements for recognizing other-than-temporarily impaired debt securities and significantly changes the existing impairment model for such securities. It also modifies the presentation of other-than-temporary impairment losses and increases the frequency of and expands already required disclosures about other-than-temporary impairment for debt and equity securities.

- FASB ASC 820-10-50—which requires disclosures of the fair value of financial instruments within the scope of FASB ASC 820 in interim financial statements, adding to the current requirement to make those disclosures in annual financial statements. The staff position also requires that companies disclose the method or methods and significant assumptions used to estimate the fair value of financial instruments and a discussion of changes, if any, in the method or methods and significant assumptions during the period.

In June 2009, the Financial Accounting Standards Board (“FASB”) issued its final Statement of Financial Accounting Standards (“SFAS”) No. 168, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162” (“SFAS No. 168”). SFAS No. 168 established the FASB Accounting Standards Codification (“ASC”) as the single source of authoritative GAAP to be applied by nongovernmental entities in the preparation of financial statements. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All guidance in the ASC carries an equal level of authority. The ASC supersedes all previously existing non-SEC accounting and reporting standards. The ASC simplifies user access to all authoritative GAAP by reorganizing previously issued GAAP pronouncements into approximately 90 accounting topics within a consistent structure, without creating new accounting and reporting guidance. The ASC became effective for financial statements issued for interim and annual periods ending after September 15, 2009; accordingly, the Company adopted the ASC in the third quarter of fiscal 2009. Following SFAS No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the ASC, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the ASC. In the discussion that follows, the Company will refer to ASC citations that relate to ASC Topics and their descriptive titles, as appropriate, and will no longer refer to citations that relate to accounting pronouncements superseded by the ASC.

In June 2009, the FASB issued ASC 860, which eliminates the concept of a qualifying special-purpose entity, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor’s interest in transferred financial assets. FASB ASC 860 will be effective for transfers of financial assets in fiscal years beginning after November 15, 2009 and in interim periods within those fiscal years with earlier adoption prohibited. The Company will adopt FASB ASC 860 on October 1, 2010.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

### 3. Fair value measurements

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

- Level 1-Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2-Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.
- Level 3-Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company adopted ASC 820, Fair Value Measurements and Disclosures, on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The Company has not adopted ASC 820 for non financial assets and non financial liabilities, as these items are not recognized at fair value on a recurring basis. The adoption of ASC 820 for all financial assets and liabilities did not have any impact on the Company’s consolidated financial statements and the Company does not expect to have any impact on the Company’s consolidated financial statements if ASC 820 for nonfinancial assets and liabilities is adopted.

Financial instruments include cash, accounts receivable, prepayments and other receivables, short-term borrowings from banks, accounts payable and accrued expenses and other payables. The carrying amounts of cash, accounts receivable, prepayments and other receivables, short-term loans, accounts payable and accrued expenses approximate their fair value due to the short term maturities of these instruments.

### 4. Acquisition

On July 9, 2008, Shandong Borun acquired all of the equity interests in Anxin Tongwei which changed its name to be Daqing Borun Biotechnology Co., Ltd. subsequent to the acquisition. The total purchase

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

### 4. Acquisition (Continued )

consideration was approximately RMB139,000,000. The purchase consisted of cash payment and short term payable arrangement. The Company fully paid the consideration amount as of November 30, 2009.

Anxin Tongwei was incorporated in Heilongjiang Province, PRC on September 20, 2004. It began production of edible alcohol in 2005. Primarily due to fundamental problems associated with its manufacturing process, Anxin Tongwei ceased production in June 2007 and filed for bankruptcy protection in July 2007.

As of the acquisition date, Anxin Tongwei had been idle for more than one year, with no management personnel or production employees, and no revenue. According to Emerging Issues Task Force (“EITF”) 98-3, since the acquired set of assets exclude several key items (employees, processes and customers), the Company concluded that the acquired set of assets does not constitute a business, and as a result, accounted for the transaction as an asset acquisition.

The total purchase price of RMB139,000,000 was allocated based on the estimated fair values of the assets acquired and liabilities assumed at the date of purchase, determined in part by independent appraisal, in accordance with ASC 805, Business Combinations. The operations of the acquired assets since the date of acquisition are included in the consolidated financial statements.

The cost of the assets acquired was allocated to the individual assets acquired based on their relative fair values as follows:

	July 8, 2008 (RMB)
<b>Assets:</b>	
Property, plant, and equipment	97,093,229
Land use rights	7,249,645
Intangible asset—production license	28,779,986
Deferred income tax—net loss carryforward	998,622
Deductible value added tax carryforward	5,717,004
<b>Total assets</b>	<b>139,838,486</b>
<b>Liabilities:</b>	
Tax payable	838,486
<b>Total liabilities</b>	<b>838,486</b>
<b>Aggregate purchase price</b>	<b>139,000,000</b>

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Amounts in RMB unless otherwise stated)

**5. Inventories**

Inventories consisted of the following:

	December 31,			September 30,		
	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Raw materials	18,528,601	33,710,611	\$ 4,938,415	17,317,866	32,079,587	\$ 4,699,480
Work-in-process	829,169	349,980	51,270	1,514,353	1,917,902	280,961
Finished goods	39,110,588	1,209,104	177,127	14,143,113	3,803,058	557,127
<b>Total inventories</b>	<b>58,468,358</b>	<b>35,269,695</b>	<b>\$ 5,166,812</b>	<b>32,975,352</b>	<b>37,800,547</b>	<b>\$ 5,537,568</b>

The Company did not have any inventory reserve as of December 31, 2007 and 2008 and September 30, 2008 and 2009.

**6. Property, plant and equipment, net**

Property, plant and equipment consisted of the following:

	December 31,			September 30,		
	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Buildings and improvements	23,486,139	27,173,149	\$ 3,980,714	24,045,955	120,727,215	\$ 17,685,860
Machinery	125,683,330	125,683,330	18,411,903	125,683,330	347,760,178	50,944,915
Office equipment and furnishing	188,180	188,180	27,567	188,180	777,817	113,946
Motor vehicles	1,570,112	1,570,112	230,013	1,570,112	2,272,654	332,931
Construction in progress	794,938	199,034,830	29,157,485	132,348,144	36,171,596	5,298,936
<b>Total</b>	<b>151,722,699</b>	<b>353,649,601</b>	<b>51,807,682</b>	<b>283,835,721</b>	<b>507,709,460</b>	<b>74,376,588</b>
Depreciation and amortization	(30,771,538)	(43,863,025)	(6,425,687)	(40,687,103)	(61,019,378)	(8,938,997)
<b>Property, plant, and equipment, net</b>	<b>120,951,161</b>	<b>309,786,576</b>	<b>\$ 45,381,995</b>	<b>243,148,618</b>	<b>446,690,082</b>	<b>\$ 65,437,591</b>

Certain buildings with an aggregate carrying value of RMB8,914,612 (\$1,305,941) were pledged as collateral for bank loans as of September 30, 2009.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Amounts in RMB unless otherwise stated)

**7. Land use rights, net**

Land use rights consisted of the following:

	Decemebtr 31,			September 30,		
	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Land use right	18,006,800	33,544,586	\$ 4,914,094	33,544,586	33,544,586	\$ 4,914,094
Less—Amortization	(464,496)	(983,217)	(144,036)	(876,091)	(1,615,586)	(236,675)
Land use rights, net	17,542,304	32,561,369	\$ 4,770,058	32,668,495	31,929,000	\$ 4,677,419

As of September 30, 2009, certain land use rights with an aggregate carrying value of RMB18,825,793 (\$2,757,873) were pledged as collateral for short-term bank loans.

Future amortization of land use rights is as follows:

Years Ending December 31,	(RMB) Amount
2009	843,159
2010	843,159
2011	843,159
2012	843,159
2013	843,159
Thereafter	28,345,574
Total	32,561,369

## 8. Intangible assets, net

Intangible assets consisted of the following:

	December 31,			September 30,		
	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Production license	—	28,779,986	\$ 4,216,106	28,779,986	28,779,986	\$ 4,216,106
Less—Amortization	—	—	—	—	(2,877,182)	(421,491)
Land use rights, net	—	28,779,986	\$ 4,216,106	28,779,986	25,902,804	\$ 3,794,615

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Amounts in RMB unless otherwise stated)

## 8. Intangible assets, net (Continued)

Future amortization of intangible assets is as follows:

Years Ending December 31,	(RMB) Amount
2009	3,826,243
2010	3,826,243
2011	3,826,243
2012	3,826,243
2013	3,826,243
Thereafter	9,648,771
Total	28,779,986

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Amounts in RMB unless otherwise stated)

## 9. Short-term borrowings

Short-term borrowings consisted of the following:

	Year Ended December 31,					Nine Months Ended September 30,				
	2007		2008		Bal \$	2008		2009		Bal \$
Rate	Bal. RMB	Rate	Bal. RMB	Rate		Bal. RMB	Rate	Bal. RMB		
					(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		
<b>Shandong Borun</b>										
<b>From Financial institutions</b>										
Industrial & Commercial Bank of China	—	9.71%	10,000,000	1,464,944	9.71%	10,000,000	6.37%	10,000,000	1,464,944	
Industrial & Commercial Bank of China	—	—	—	—	—	—	5.84%	20,000,000	2,929,888	
Agricultural Bank of China	7.96%	4,700,000	9.71%	4,700,000	688,524	9.71%	4,700,000	6.37%	4,700,000	
Agricultural Bank of China	9.48%	10,000,000	—	—	—	9.48%	10,000,000	6.37%	10,000,000	
Agricultural Bank of China	8.89%	10,000,000	8.30%	10,000,000	1,464,944	—	8.30%	10,000,000	1,464,944	
Agricultural Bank of China	—	—	—	—	—	—	6.37%	20,000,000	2,929,888	
<b>From third party</b>										
Shanghai Zhonglu Group	—	30.00%	40,000,000	5,859,776	—	—	—	—	—	
<b>Sub-total</b>	<b>24,700,000</b>		<b>64,700,000</b>	<b>9,478,188</b>	<b>24,700,000</b>		<b>74,700,000</b>	<b>10,943,152</b>		
<b>Daqing Borun:</b>										
<b>From Financial institutions</b>										
Daqing Commercial Bank	—	4.86%	25,000,000	3,662,359	—	—	5.31%	25,000,000	3,662,359	

Daqing Commercial Bank	—	—	—	—	6.90%	30,000,000	4,394,832
Agricultural Development Bank of China	—	—	—	—	—	—	—
<b>Sub-total</b>	—	25,000,000	3,662,359	—	—	13,500,000	1,977,674
<b>Total</b>	24,700,000	89,700,000	13,140,547	24,700,000	—	143,200,000	20,977,997

As of September 30, 2009, short-term bank loan of RMB20,000,000 (\$2,929,888) from Industrial & Commercial Bank of China was secured by the Company's land use rights with a carrying value of RMB10,752,000 (\$1,575,108); and short-term bank loan of RMB13,500,000 (\$1,977,674) from Agricultural Development Bank of China was secured by the Company's buildings and land use right with total carrying value of RMB8,914,612 (\$1,305,941) and RMB8,073,793 (\$1,182,765), respectively. All other short-term bank borrowings were secured by third party guarantees.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Amounts in RMB unless otherwise stated)

**9. Short-term borrowings (Continued)**

Except of interest rate for short-term bank loan of RMB30,000,000 (\$4,394,832) from Daqing Commercial Bank which was fixed at 6.90% per annum and interest rate for short-term loan of RMB40,000,000 (\$5,859,776) from Shanghai Zhonglu Group was fixed at 30.00% per annum, interest rates for all other short-term bank loans are subject to be adjusted periodically in accordance with interest rate published by the People's Bank of China.

All of the above short-term loans are fixed term loans with a period of 12 months or less. Interest is payable on a monthly or quarterly basis. All short-term loans mature at various dates within one year. These facilities contain no specific renewal terms or any requirement for the maintenance of financial covenants. The Company has traditionally and successfully negotiated the renewal of certain facilities shortly before they mature.

**10. Accrued expenses and other payables**

Accrued expenses consisted of the following:

	December 31,			September 30,		
	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Advance from customers	—	184,016	\$ 26,957	—	4,479,998	\$ 656,295
Payroll and welfare payable	1,184,073	2,030,596	297,471	1,286,324	1,113,305	163,093
Daqing acquisition payable	—	53,103,761	7,779,403	104,118,875	7,287,777	1,067,618
Other payables and accruals	30,812,978	2,520,780	369,280	1,016,665	13,955,925	2,044,465
<b>Total</b>	<b>31,997,051</b>	<b>57,839,153</b>	<b>\$ 8,473,111</b>	<b>106,421,864</b>	<b>26,837,005</b>	<b>\$ 3,931,471</b>

Other payables and accruals is primarily composed of capital expenditures.

**11. Amount due to related party**

An amount due to related party is a non-interest bearing payable to one of the Company's director payable upon demand.

**12. Convertible preferred share**

On October 28, 2008, the Company issued 2,000 convertible preferred series A share ("SEE Preferred A Share") to Star Elite Enterprises Limited ("Star Elite") with a par value of RMB0.88 in exchange for RMB1,759 preferred share subscription receivable and RMB70,000,000 cash. The terms of the SEE Preferred A Share are as follows.

**Voting, Liquidity, and Ownership Rights**—The holder is entitled to the number of votes and ownership shares equal to the number of common share. The preferred shareholder is entitled to vote on all matters submitted to a vote of shareholders. The holder has the same liquidity rights as the common shareholder.

**Conversion Rights**—The holder is entitled convert SEE Preferred A Share to common share anytime.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(Amounts in RMB unless otherwise stated)

**12. Convertible preferred share (Continued)**

**Dividends**—The holder is entitled to receive dividends, when declared, on an as-converted basis. The holder is also entitled to undistributed earnings proportionate to its ownership interest.

**Additional Shares Rights**—The holder is entitled to receive additional common shares from other common share holders if the Company does not meet the minimum net income requirement based on an agreed upon formula in the preferred series A share agreement. Such shares are not to be issued by the Company but a transfer of common share from current common share shareholders to the holder of preferred series A share which is a transaction outside the Company level.

On June 16, 2009, China High authorized and issued 563 convertible preferred series B share ("Earnstar Preferred B Share") to Earnstar Holding Limited ("Earnstar") with par value RMB0.88 in exchange for RMB40,000,000 cash. On September 22, 2009, China High authorized and issued an additional 202 convertible preferred series B share ("TDR Preferred B Share") to TDR Advisors Inc ("TDR") in exchange for RMB14,050,000 cash. An additional 11 Earnstar Preferred Shares was authorized and issued to Earnstar in no consideration as result of anti-dilution. The preferred series B share have the same terms as preferred series A share with exception to minimum net income requirement whereas such requirement threshold is different.



Current tax expenses	15,504,371	28,557,072	27,283,365	\$ 3,996,860	18,130,821	31,774,063	\$ 4,654,722
Deferred tax benefits	—	—	(642,375)	(94,104)	(565,425)	1,640,997	240,397
Income tax expense	<u>15,504,371</u>	<u>28,557,072</u>	<u>26,640,990</u>	<u>\$ 3,902,756</u>	<u>17,565,396</u>	<u>33,415,060</u>	<u>\$ 4,895,119</u>

The following represents the significant components of deferred tax assets:

	December 31,			September 30,		
	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Taxes deductible operating loss carryforward	—	998,622	\$ 146,293	998,622	—	\$ —
Net operating loss in current period	—	642,375	94,104	565,425	—	—
Total deferred tax assets	—	1,640,997	240,397	1,564,047	—	—
Less—valuation allowance	—	—	—	—	—	—
Total	—	<u>1,640,997</u>	<u>\$ 240,397</u>	<u>1,564,047</u>	—	<u>\$ —</u>

The balances of deferred tax assets as of September 30, 2008 and December 31, 2008, mainly consist of deferred tax assets arising from the tax deductible net operating loss carry forward allowed by the tax authority as a result of acquisition of Anxin Tongwei, and the accumulate net operating loss of Daqing Borun in 2008. As Daqing Borun start to generate profit in 2009, such deferred tax assets has been fully utilized in the nine months ended September 30, 2009.

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Amounts in RMB unless otherwise stated)**

**15. Parent company condensed financial information**

**Condensed Balance Sheets:**

	December 31,			September 30,		
	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
<b>Assets</b>						
Cash	—	4,204	\$ 616	—	7,049	\$ 1,033
Total current assets	—	4,204	616	—	7,049	1,033
Investment in subsidiaries	138,838,042	296,883,536	43,491,770	266,314,883	455,863,412	66,781,430
Total assets	<u>139,838,042</u>	<u>296,887,740</u>	<u>\$ 43,492,386</u>	<u>266,314,883</u>	<u>455,870,461</u>	<u>\$ 66,782,463</u>
<b>Liabilities and Shareholders' Equity</b>						
Amount due to related party	—	907,960	\$ 133,011	—	908,040	\$ 133,023
Total current liabilities	—	907,960	133,011	—	908,040	133,023
Total liabilities	—	907,960	133,011	—	908,040	133,023
Shareholders' equity						
Convertible preferred series A share—par value of RMBO.88; 2,000 shares authorized issued and outstanding	—	1,759	258	—	1,759	258
Convertible preferred series B share—par value of RMBO.88; 776 shares authorized, issued and outstanding	—	—	—	—	683	100
Common share—par value of RMBO.88; 8,000 shares authorized, issued and outstanding	7,037	7,037	1,031	7,037	7,037	1,031
Subscription receivables	(7,037)	(8,796)	(1,289)	(7,037)	—	—
Additional paid-in capital	51,200,000	173,200,000	25,372,828	131,200,000	227,249,317	33,290,750
Retained earnings—appropriated	15,714,098	27,991,612	4,100,612	15,714,098	27,991,612	4,100,612
Retained earnings—unappropriated	71,923,944	94,776,558	13,884,234	119,400,785	199,940,851	29,290,213
Accumulated other comprehensive income (loss)	—	11,610	1,701	—	(228,838)	(33,524)
Total Shareholders' equity	<u>138,838,042</u>	<u>295,979,780</u>	<u>43,359,375</u>	<u>266,314,883</u>	<u>454,962,421</u>	<u>66,649,440</u>
Total liabilities and Shareholders' equity	<u>138,838,042</u>	<u>296,887,740</u>	<u>\$ 43,492,386</u>	<u>266,314,883</u>	<u>455,870,461</u>	<u>\$ 66,782,463</u>

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

**15. Parent company condensed financial information (Continued)**

**Condensed Statements of Income:**

	Year Ended December 31,				Nine-months Ended September 30,		
	2006 (RMB)	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Operating income (loss)	—	—	(915,366)	\$ (134,096)	—	11	\$ 2
Equity in profit of subsidiaries	29,984,859	58,724,009	78,045,494	11,433,227	47,476,841	105,164,282	15,405,977
Net income attributable to common shareholders	<u>24,984,859</u>	<u>58,724,009</u>	<u>77,130,128</u>	<u>\$ 11,299,131</u>	<u>47,476,841</u>	<u>105,164,293</u>	<u>\$ 15,405,979</u>

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**CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

**15. Parent company condensed financial information (Continued)**



## Condensed Statements of Cash Flows:

	Year Ended December 31,				Nine-months Ended September 30,		
	2006 (RMB)	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited) (RMB)	2009 (Unaudited) (RMB)	2009 (Unaudited) (\$)
Net income	29,984,859	58,724,009	77,130,128	\$ 11,299,131	47,476,841	105,164,293	\$ 15,405,979
Adjustments to reconcile net income to net cash provided by operating activities:							
Equity in profit of subsidiaries	(29,984,859)	(58,724,009)	(78,045,494)	(11,433,227)	(47,476,841)	(105,164,282)	(15,405,977)
Changes in operating assets and liabilities:							
Amount due to related party	—	—	907,960	133,011	—	80	12
Net cash provided by operating activities	—	—	(7,406)	(1,085)	—	91	14
<b>Cash flows from investing activities:</b>							
Investment in subsidiaries	—	—	—	—	—	(53,815,594)	(7,883,682)
Net cash used in investing activities	—	—	—	—	—	(53,815,594)	(7,883,682)
<b>Cash flows from financing activities:</b>							
Proceeds from issuance of common share and convertible preferred share	—	—	—	—	—	54,058,796	7,919,310
Net cash provided by financing activities	—	—	—	—	—	54,058,796	7,919,310
Effect of foreign currency exchange translation	—	—	11,610	1,701	—	(240,448)	(35,225)
Net increase in cash	—	—	4,204	616	—	2,845	417
<b>Cash—beginning of year</b>	—	—	—	—	—	4,204	616
<b>Cash—end of year</b>	—	—	\$ 4,204	616	—	7,049	\$ 1,033

## 16. Comprehensive income

Total comprehensive income includes, in addition to net income, changes in equity that are excluded from the consolidated statements of income and are recorded directly into a separate section of

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## CHINA HIGH ENTERPRISES LIMITED AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) (Amounts in RMB unless otherwise stated)

### 16. Comprehensive income (Continued)

Shareholder's equity on the consolidated balance sheets. Comprehensive income and its components consist of the following:

	Year Ended December 31,				Nine-months Ended September 30		
	2006 (RMB)	2007 (RMB)	2008 (RMB)	2008 (Unaudited) (\$)	2008 (Unaudited)	2009 (Unaudited)	2009 (Unaudited)
Net income	29,984,859	58,724,009	77,130,128	\$ 11,299,131	47,476,841	105,164,293	15,405,979
Foreign Currency translation adjustment	—	—	11,610	1,701	—	(240,448)	(35,225)
Comprehensive income	29,984,859	58,724,009	77,141,738	\$ 11,300,832	47,476,841	604,923,845	15,370,754

### 17. Commitments and contingencies

The Company is subject to various legal proceedings from time to time as part of its business. As of September 30, 2009 and December 31, 2008, the Company was not any party to any legal proceedings or threatened legal proceedings, the adverse outcome of which, individually or in the aggregate, it believes would have a material adverse effect on its business, financial condition and results of operations.

As of September 30, 2009, short-term bank loan of RMB20,000,000 (\$2,929,888) from Industrial & Commercial Bank of China was secured by the Company's land use rights with a carrying value of RMB10,752,000 (\$1,575,108); and short-term bank loan of RMB13,500,000 (\$1,977,674) from Agricultural Development Bank of China was secured by the Company's buildings and land use right with total carrying value of RMB8,914,612 (\$1,305,941) and RMB8,073,793 (\$1,182,765), respectively. All other short-term bank borrowings were secured by third party guarantees.

The Company is a guarantor to a third party, LiFeng Chemical Corporation, in the amount of RMB10,000,000 short-term bank loan that mature on March 25, 2010.

### 18. Subsequent events

In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. The Company's management evaluated all events or transactions that occurred after December 31, 2008 up through January 19, 2010, the date the Company issued the financial statements. During these periods, the Company did not have any material recognizable subsequent events required to be disclosed other than those disclosed in this note to the financial statements for the year ended December 31, 2008 and nine months ended September 30, 2009.

**ANNEX E**

**China New Borun Corporation**  
**Balance Sheet**  
(Amounts in RMB unless otherwise stated)

December 31,	2009 (RMB)	2009 (Unaudited) (\$)
<b>Assets</b>		
Cash and other current assets	—	\$ —
Deferred income taxes	—	—
Total current assets	—	—
Total assets	—	\$ —
<b>Liabilities and Shareholder's Equity</b>		
Accounts payable and other liabilities	—	\$ —
Total current liabilities	—	—
Total liabilities	—	—
<b>Shareholder's equity</b>		
Common share—par value of RMB6.8259; 1 share authorized, issued and outstanding	7	1
Subscription receivables	(7)	(1)
Additional paid-in capital	—	—
Retained earnings	—	—
Total shareholder's equity	—	—
Total liabilities and shareholder's equity	—	\$ —

See accompanying notes to financial statements.

**CHINA NEW BORUN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
(Amounts in RMB unless otherwise stated)

### 1. Description of business

China New Borun Corporation (“New Borun”) was incorporated in Cayman Islands on December 21, 2009. Upon the incorporation, New Borun issued one share of the ordinary share holder.

China New Borun is referred to as the “Company” or “New Borun”.

### 2. Summary of significant accounting policies

#### *Principles of Presentation*

The statement financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Separate statements of income, changes in shareholders’ equity and cash flows have not been presented in the financial statements because there have been no activities of the Company.

#### *Convenience Translation into United States Dollar Amounts (Unaudited)*

The Company reports its financial statements using the RMB. The Dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader, and have been converted at the rate of RMB6.8259 to one Dollar (\$), which is the noon buying rate of the U.S. Federal Reserve Bank of New York in effect on September 30, 2009. Such translations should not be construed as representations that the RMB amounts represent, have been, or could be, converted into, \$ at that or any other rate.

#### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

#### *Earnings per Share*

The Company computes earnings per share in accordance with ASC 260, Earnings Per Share. Under the provisions of ASC 260, basic earnings per share is computed by dividing the net income attributable to holders of common shares for the period by the weighted average number of common shares outstanding during the period.

### 3. Shareholder's equity

New Borun is authorized to issue 50,000 shares of common share of par value of RMB 6.8259. As of December 31, 2009, the Company has issued 1 share of common share in exchange for RMB 6.8259, which is beneficially owned by Mrs. Shan Jungin, the mother of Mr. Wang Jinmiao (“Mr. Wang”), Mr. Wang and his family members (the “Wang Family”).

New Borun plans to consummate a share exchange agreement with Golden Direction Limited, or Golden Direction, a British Virgin Islands company beneficially owned by the Wang Family whereby China New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the

**CHINA NEW BORUN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**(Amounts in RMB unless otherwise stated)**

### 3. Shareholder's equity (Continued)

issuance by New Borun to Mrs. Shan of 14,847,999 additional ordinary shares. As of the date of that agreement, (1) Golden Direction became a wholly-owned subsidiary of New Borun and (2) Golden Direction held 74.24% of the voting capital stock of China High Enterprises Limited, or China High, our Hong Kong holding company.

New Borun and Golden Direction will execute a share exchange agreement whereby Golden Direction shall acquire the remaining 25.76% of China High upon the satisfaction of certain conditions as set forth in that share exchange agreement. Upon closing the exchange, the Company shall issue (i) 3,712 of its Class A convertible preferred shares, which are automatically convertible into 3,712,000 of its ordinary shares upon the effectiveness of public offering, to one of China High's private equity investors, Star Elite Enterprises Limited, or Star Elite, a British Virgin Islands company, and (ii) 1,440 shares of its Class B convertible preferred shares, which are automatically convertible into 1,440,000 of its ordinary shares upon the effectiveness of public offering, of which 1,066 shares shall be issued to China High's private equity investor, Earnstar Holding Limited, or Earnstar, a British Virgin Islands company, and 374 shares shall be issued to China High's private equity investor TDR Advisors, Inc., or TDR, a British Virgin Islands company.

Upon the closing of above exchanges, Golden Direction will continue to be a wholly-owned subsidiary of New Borun and China High will be a wholly-owned subsidiary of Golden Direction. The whole restructuring will consist of the same majority of shareholder and will not change control ownership.

### 4. Subsequent events

In May 2009, the FASB issued ASC 855, Subsequent Events. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The standard, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. The Company's management evaluated all events or transactions that occurred after December 31, 2009 up through February 1, 2010, the date the Company issued the financial statements. During these periods, the Company did not have any material recognizable subsequent events required to be disclosed other than those disclosed in this note to the financial statements.

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## UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL DATA

The following unaudited condensed combined pro forma financial statements principally give effect to the following transactions, which we refer to as our reorganization and which are further described under "Our Corporate Structure and History":

- New Borun will consummate a share exchange agreement with Golden Direction Limited, or Golden Direction, a British Virgin Islands company beneficially owned by the Wang Family whereby New Borun will acquire 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to Mrs. Shan of 14,847,999 additional ordinary shares. As of the date of that agreement, (1) Golden Direction will become a wholly-owned subsidiary of New Borun and (2) Golden Direction will hold 74.24% of the voting capital stock of China High.
- New Borun and Golden Direction will execute a share exchange agreement whereby Golden Direction shall acquire the remaining 25.76% of China High upon the satisfaction of certain conditions as set forth in that share exchange agreement. Upon closing the exchange, the Company shall issue (i) 3,712 of its Class A convertible preferred shares, which are automatically convertible into 3,712,000 of its ordinary shares upon the effectiveness of this offering, to one of China High's private equity investors, Star Elite Enterprises Limited, or Star Elite, a British Virgin Islands company, and (ii) 1,440 shares of its Class B convertible preferred shares, which are automatically convertible into 1,440,000 of its ordinary shares upon the effectiveness of this offering, of which 1,066 shares shall be issued to China High's private equity investor, Earnstar Holding Limited, or Earnstar, a British Virgin Islands company, and 374 shares shall be issued to China High's private equity investor TDR Advisors, Inc., or TDR, a British Virgin Islands company.
- Upon the closing of the above exchange, Golden Direction will continue to be a wholly-owned subsidiary of New Borun and China High will be a wholly-owned subsidiary of Golden Direction. After the closing of the share exchanges, the shareholders of China High will become the shareholders in New Borun and their ownership interests in New Borun will be identical to that in China High.

The unaudited condensed combined pro forma statements of operations for the nine months ended September 30, 2009 and for the year ended December 31, 2008 give pro forma effect to the reorganization as if it had occurred on January 1, 2008. The unaudited condensed combined pro forma balance sheet as of September 30, 2009 gives pro forma effect to the reorganization as if it had occurred on such date. The unaudited condensed combined pro forma statements of operations and balance sheet are based on the historical financial statements of China High and New Borun for the nine months ended September 30, 2009 and for the year ended December 31, 2008.

The historical financial information has been adjusted to give effect to pro forma events that are related and/or directly attributable to the reorganization, are actually supportable and, in the case of the unaudited pro forma statement of operations data, are expected to have continuing impact on the combined results. The adjustments presented on the unaudited condensed combined pro forma financial information have been identified and presented in "Unaudited Condensed Combined Pro Forma Financial Data" to provide relevant information necessary for an accurate understanding of the combined company upon consummation of the reorganization.

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This information should be read together with the consolidated financial statements of China High and the notes thereto, the financial statements of New Borun and the notes thereto, included elsewhere in this prospectus.

The unaudited condensed combined pro forma financial statements are presented for informational purposes only and are subject to a number of uncertainties and assumptions and do not purport to represent what the companies' actual performance or financial position would have been had the transactions occurred on the dates indicated and does not purport to indicate the financial position or results of operations as of any future date or for any future period.

**SELECTED UNAUDITED CONDENSED COMBINED PRO FORMA BALANCE SHEETS**  
**September 30, 2009**  
**(Amounts in RMB, unless otherwise stated)**

	China High	New Borun	Pro Forma Adjustments	Pro Forma Combined
<b>Assets</b>				
Cash and cash equivalents	115,970,899	—	—	115,970,899
Trade accounts receivable	44,273,079	—	—	44,273,079
Inventories	37,800,547	—	—	37,800,547
Prepaid expenses and other current assets	9,022,667	—	—	9,022,667
Deferred income taxes	—	—	—	—
Total current assets	207,067,192	—	—	207,067,199
Property, plant and equipment, net	446,690,082	—	—	446,690,082
Land use rights, net	31,929,000	—	—	31,929,000
Intangible assets, net	25,902,804	—	—	25,902,804
Total assets	711,589,078	—	—	711,589,078
<b>Liabilities and Shareholders' Equity</b>				
Trade accounts payable	63,564,834	—	—	63,564,834
Accrued expenses and other payables	26,837,005	—	—	26,837,005
Income taxes payable	22,116,778	—	—	22,116,778
Amount due to related party	908,040	—	—	908,040
Dividends payable	—	—	—	—
Short-term borrowings	143,200,000	—	—	143,200,000
Total current liabilities	256,626,657	—	—	256,626,657
Total liabilities	256,626,657	—	—	256,626,657
<b>Shareholders' equity</b>				
Convertible preferred series A share	1,759	—	(1,759)(1)	25,338
			25,338(1)	
Convertible preferred series B share	683	—	(683)(2)	9,829
			9,829(2)	
Common share	7,037	7	(7,037)(3)	101,350,963
			(7)(3)	
			101,350,963(3)	
Subscription receivables	—	(7)	7(3)	—
Additional paid-in capital	227,249,317	—	(23,579)(1)	125,872,666
			(9,146)(2)	
			(101,343,926)(3)	
Retained earnings—appropriated	27,991,612	—	—	27,991,612
Retained earnings—unappropriated	199,940,851	—	—	199,940,851
Accumulated other comprehensive income (loss)	(228,838)	—	—	(228,838)
Total shareholders' equity	454,962,421	—	—	454,962,421
Total liabilities and shareholders' equity	711,589,078	—	—	711,589,078

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**SELECTED UNAUDITED CONDENSED COMBINED PRO FORMA STATEMENTS OF OPERATIONS**  
**Nine-months Ended September 30, 2009**  
**(Amounts in RMB, unless otherwise stated)**

	China High	New Borun	Pro forma Adjustments	Pro Forma Combined
Revenues	677,831,182	—	—	677,831,182
Cost of goods sold	522,039,815	—	—	522,039,815
Gross profit	155,791,367	—	—	155,791,367
Operating expenses:				
Selling	1,998,781	—	—	1,998,781
General and administrative	9,943,767	—	—	9,943,767
Total operating expenses	11,942,548	—	—	11,942,548
Operating income	143,848,819	—	—	143,848,819
Other (income) expense:				
Interest income	(246,793)	—	—	(246,793)
Interest expense	6,933,800	—	—	(6,933,800)
Others, net	(1,417,541)	—	—	(1,417,541)
Total other expense, net	5,269,466	—	—	5,269,466
Income before income taxes	138,579,353	—	—	138,579,353
Income tax expense	33,415,060	—	—	33,415,060
Net income	105,164,293	—	—	105,164,293
Participation in undistributed earnings by preferred shareholders	(27,090,322)	—	—	(27,090,322)
Net income attributable to common shareholders	78,073,971	—	—	78,073,971
Earnings per share:				
Basic	9,759.25	—	—	5.26
Diluted	7,633.36	—	—	4.11
Weighted average common shares outstanding:				

Basic	8,000	—	14,840,000	14,848,000(A)
Diluted	10,228	—	18,972,280	18,982,508(B)

Note A To reflect the common shares issued by New Borun to Wang Family.

Note B To reflect the common shares issued by New Borun taken into impact of conversion of preferred shares.

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**Pro Forma Adjustments:**

Note 1 To restate Class A convertible preferred shares (3,712) to be issued by New Borun to Star Elite with par value at RMB6.8259, and remove the historical preferred shares issued by China High on combine level.

Decrease Convertible preferred series A share	\$	(1,759)
Increase Convertible preferred series A share		25,338
Decrease APIC	\$	(23,579)

Note 2 To restate Class B convertible preferred shares (1,440) to be issued by New Borun to China High's private equity investors, Earnstar and TDR, with par value at RMB6.8259, and remove the historical preferred shares issued by China High on combine level

Decrease Convertible preferred series B share	\$	(683)
Increase Convertible preferred series B share		9,829
Decrease APIC	\$	(9,146)

Note 3 To adjust new shares (14,848,000) to be issued to Wang Family by New Borun with par value at RMB6.8259.

Decrease Common share	\$	(7,037)
Decrease Common share		(7)
Increase Common share	\$	101,350,963
Decrease Subscription receivable	\$	7
Decrease APIC		(101,343,926)

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**SELECTED UNAUDITED CONDENSED COMBINED PRO FORMA STATEMENT OF OPERATIONS**  
**Year Ended December 31, 2008**  
**(Amounts in RMB, unless otherwise stated)**

	China High	New Borun	Pro forma Adjustments	Pro Forma Combined
Revenues	615,881,195	—	—	615,881,195
Cost of goods sold	493,847,780	—	—	493,847,780
Gross profit	122,033,415	—	—	122,033,415
Operating expenses:				
Selling	1,436,241	—	—	1,436,241
General and administrative	11,492,104	—	—	11,492,104
Total operating expenses	12,928,345	—	—	12,928,345
Operating income	109,105,070	—	—	109,105,070
Other (income) expense:				
Interest income	(344,378)	—	—	(344,378)
Interest expense	2,983,610	—	—	(2,983,610)
Others, net	2,694,720	—	—	2,694,720
Total other expense, net	5,333,952	—	—	5,333,952
Income before income taxes	103,771,118	—	—	103,771,118
Income tax expense	26,640,990	—	—	26,640,990
Net income	77,130,128	—	—	77,130,128
Amortization of preferred share discount	(42,000,000)	—	—	(42,000,000)
Participation in undistributed earnings by preferred shareholders	(9,049,521)	—	—	(9,049,521)
Net income attributable to common shareholders	26,080,607	—	—	26,080,607
Earnings per share:				
Basic	3,260.08	—	—	1.76
Diluted	3,121.56	—	—	1.68
Weighted average common shares outstanding:				
Basic	8,000	—	14,848,000	14,848,000 (A)
Diluted	8,355	—	15,498,880	15,507,235 (B)

Note A To reflect the common shares issued by New Borun or Wang Family.

Note B To reflect the common shares issued by New Borun taken into impact of conversion of preferred shares.

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**EXHIBIT A**

**[FORM OF SHAREHOLDERS AGREEMENT]**

[Please see Exhibit 4.4 to the company's Registration Statement on Form F-1 as filed with SEC on April 27, 2010.]

**EXHIBIT B**

**FORM OF RELEASE**

This Release (this "Release") is being executed and delivered by \_\_\_\_\_, a British Virgin Islands company, in accordance with Section 4.08 of that certain Share Exchange Agreement, of even date herewith, (the "Exchange Agreement"), by and among China New Borun Corporation, a Cayman Islands company ("New Borun"), Golden Direction Limited, a company organized under the laws of the British Virgin Islands ("Golden Direction"), China High Enterprises Limited, a Hong Kong investment holding company ("China High", and together with New Borun and Golden Direction, the "Company"), Star Elite Enterprises Limited, a company organized under the laws of the British Virgin Islands, Earnstar Holding Limited, a company organized under the laws of the British Virgin Islands and TDR Advisors Inc., a company organized under the laws of the British Virgin Islands. Initially capitalized terms used but not defined in this Release have the respective meanings given to them in the Exchange Agreement.

The undersigned acknowledges that execution and delivery of this Release is a condition to the obligations of New Borun and Golden Direction to consummate the Exchange Agreement pursuant to the Exchange Agreement and that New Borun and Golden Direction are relying on this Release in consummating the Exchange Agreement.

The undersigned, for the payment of \$100 and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and intending to be legally bound, in order to induce New Borun and Golden Direction to consummate the Exchange Agreement pursuant to the Exchange Agreement, hereby agrees as follows:

Effective as of the Closing Date of the Exchange Agreement, the undersigned, including each of its predecessors, parent companies, affiliates, associates, subsidiaries, divisions, related entities, agents, former and current share or interest holders, former and current principals, officers, directors, managers, managing members, employees, attorneys, consultants, bankers, heirs, executors, administrators, successors, assigns and other legal representatives (collectively, the "**Releasing Parties**"), hereby unconditionally and irrevocably releases and forever discharges the Company, including their predecessors, parent companies, affiliates, associates, subsidiaries, divisions, related entities, agents, former and current share or interest holders, former and current principals, officers, directors, managers, managing members, employees, attorneys, consultants, bankers, heirs, executors, administrators, successors, assigns and other legal representatives (individually, a "**Released Party**" and collectively, "**Released Parties**") from all circumstances, demands, actions, causes of action, suits, debts, dues, bonds, executions, covenants, contracts, controversies, agreements, promises, sums of money, accounts, bills, reckonings, damages and any and all other claims, counterclaims, rights, defenses, rights of set-off, demands and liabilities whatsoever of every name and nature, known or unknown, suspected or unsuspected, contingent or fixed, both at law or in equity (a "**Claim**"), which the undersigned now has, has ever had or may hereafter have against the respective Released Parties for, upon, or by reason of any action, demand, cause of action, suit, controversy, proceeding and all other claims, counterclaims, rights, defenses and rights of set-off whatsoever of every name and nature, known or unknown, suspected or unsuspected, contingent or fixed, both at law or in equity whatsoever from the beginning of the world to the date of this Release, including, without limitation, any and all obligations of the Company to the Releasing Parties arising under any and all investment agreements, including, without limitation, any amendments, addendums and supplements thereto, which had previously been entered into and subsequently cancelled or terminated by and among the Company and the Releasing Parties; provided,

however, that nothing contained herein shall operate to release any obligations of the Company to the Releasing Parties arising under the Share Exchange Agreement or the Shareholders Agreement.

The undersigned hereby irrevocably covenants to refrain from, directly or indirectly, asserting any Claim, or commencing, instituting or causing to be commenced, any proceeding of any kind against any Released Party, based upon any Claim released hereby.

The undersigned hereby represents and warrants that he has not assigned, in whole or in part, to any other person or entity any Claim released hereby.

Without in any way limiting any of the rights and remedies otherwise available to any Released Party, the undersigned shall pay each Released Party for any losses, liabilities, claims or damages it may suffer, whether or not involving third party claims, directly or indirectly, as a result of (i) the assertion by or on behalf of the undersigned of any Claim released pursuant to this Release and (ii) the assertion by any third party of any Claim against any Released Party which Claim arises, directly or indirectly, as a result of any assertion by or on behalf of the undersigned or any of its representatives against such third party of any Claims released pursuant to this Release.

The undersigned hereby acknowledges that it understands and agrees that the execution of this Release does not constitute in any manner whatsoever an admission of liability on the part of the Released Parties for any matters covered by this Release, but that such liability is specifically denied.

If any provision of this Release is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Release will remain in full force and effect. Any provision of this Release held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

This Release may not be changed except in a writing signed by the person(s) against whose interest such change shall operate. This Release shall be governed by and construed under the laws of the State of New York without regard to principles of conflicts of law.

All words used in this Release will be construed to be of such gender or number as the circumstances require.

\* \* \* \* \*

By: \_\_\_\_\_  
Name:  
Title:

Agreed and acknowledged:

**CHINA NEW BORUN CORPORATION**

By: \_\_\_\_\_  
Name:  
Title:

**GOLDEN DIRECTION LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

**CHINA HIGH ENTERPRISES LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

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**EXHIBIT C**

**FORM OF LOCK-UP AGREEMENT**

, 2010

Piper Jaffray & Co.  
800 Nicollet Mall, Suite 800  
Minneapolis, MN 55042

Re: Public Offering of American Depositary Shares Representing  
Ordinary Shares of China New Borun Corporation

Ladies and Gentlemen,

The undersigned acknowledges and understands that the undersigned is executing this Lock-Up Agreement (this "Agreement") pursuant to Section 4.09 of that certain Share Exchange Agreement, dated February 28, 2010, by and among China New Borun Corporation, a Cayman Islands company (the "Company"), Golden Direction Limited, a company organized under the laws of the British Virgin Islands, Star Elite Enterprises Limited, a company organized under the laws of the British Virgin Islands, Earnstar Holding Limited, a company organized under the laws of the British Virgin Islands, TDR Advisors Inc., a company organized under the laws of the British Virgin Islands and China High Enterprises Limited, a Hong Kong investment holding company (the "Share Exchange Agreement").

The undersigned further acknowledges that the Company has filed a registration statement on Form F-1 (the "Registration Statement") with the U.S. Securities and Exchange Commission for the registration of American Depositary Shares (the "ADSs") representing ordinary shares of the Company, par value US\$0.001 per share (the "Shares"), to be sold pursuant to an initial public offering (the "Offering") to be underwritten by Piper Jaffray & Co. ("Piper Jaffray") and Newbridge Securities Corporation.

In accordance with the terms of the Share Exchange Agreement, and as an inducement for the Company and Piper Jaffray to proceed with the Offering, the undersigned irrevocably agrees, for the benefit of the Company and Piper Jaffray, that the undersigned will not (and will not announce or disclose any intention to), without the prior written consent of Piper Jaffray, for a period of 180 days subsequent to the initial date of effectiveness of the Registration Statement, directly or indirectly,

(a) offer, sell, assign, transfer, pledge, encumber, agree or contract to sell, grant an option to purchase or enter into any transaction or device that is designed to, or could reasonably be expected to, result in the disposition by any person at any time in the future of, or

(b) enter into any swap, derivative or transaction or other arrangement that transfers to another, in whole or in part, any of the economic benefits or risks of ownership of,

any ADSs or Shares, any option, right or warrant to purchase ADSs or Shares or any securities convertible into or exchangeable for ADSs or Shares (collectively, the "Restricted Securities"),

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including, but not limited to any of the Company's preference shares and Shares, that may be deemed to be beneficially owned (within the meaning of Rule 13d-3 of the Securities Exchange Act of 1934, as amended) by the undersigned on the date hereof or hereafter acquired. In addition, the undersigned agrees that, without the prior written consent of Piper Jaffray, the undersigned will not, during the period commencing on the date hereof and ending 180 days subsequent to the initial date of effectiveness of the Registration Statement, make any demand for or exercise any right with respect to, the registration of the Restricted Securities.

The undersigned agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of any Restricted Securities if such transfer would constitute a violation or breach of this Agreement.

If (i) the Company issues an earnings release or material news, or a material event relating to the Company occurs, during the last 17 days of the Lock-up Period, or (ii) prior to the expiration of the Lock-up Period, the Company announces that it will release earnings results during the 16-day period beginning on the last day of the Lock-up Period, the restrictions imposed by this agreement shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, unless Piper Jaffray waives such extension.

The undersigned, whether or not participating in the Offering, understands that the Company and Piper Jaffray will proceed with the Offering in reliance upon the representations set forth in this Agreement, and that, upon request, the undersigned will execute any additional documents necessary in connection with the enforcement hereof. The undersigned hereby represents and warrants that the undersigned has full power and authority to enter into this Agreement. This Agreement shall be binding upon the undersigned and the successors, heirs, personal representatives and assigns of the undersigned.

This Agreement shall only become effective upon the initial date of effectiveness of the Registration Statement.

Very truly yours,

By: \_\_\_\_\_

Name:

Title:



**SHARE EXCHANGE AGREEMENT**

By and Among

**CHINA NEW BORUN CORPORATION**

and

**KING RIVER HOLDING LIMITED**

and

**GOLDEN DIRECTION LIMITED**

Dated as of March 15, 2010

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## SHARE EXCHANGE AGREEMENT

**THIS SHARE EXCHANGE AGREEMENT** (this "Agreement") is entered into as of this 15th day of March, 2010, by and among **CHINA NEW BORUN CORPORATION**, a company organized under the laws of the Cayman Islands ("New Borun"), **GOLDEN DIRECTION LIMITED**, a limited liability company organized under the laws of the British Virgin Islands ("Golden Direction") and **KING RIVER HOLDING LIMITED**, a limited liability company organized under the laws of the British Virgin Islands and the sole shareholder of Golden Direction ("King River"), upon the following premises:

### RECITALS:

**WHEREAS**, King River owns 100% of the issued share capital of Golden Direction (the "Golden Direction Capital Stock"); and

**WHEREAS**, the parties hereto desire for Golden Direction to be a wholly-owned subsidiary of New Borun, whereby New Borun shall acquire from King River the Golden Direction Capital Stock in exchange for the issuance by New Borun to King River of 14,847,810 newly issued ordinary shares of New Borun, par value US\$0.001 per share ("New Borun Ordinary Shares").

### AGREEMENT:

**NOW THEREFORE**, on the stated premises and for and in consideration of the mutual covenants and agreements hereinafter set forth and the mutual benefits to the parties to be derived herefrom, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by all parties hereto, and intending to be legally bound hereby, New Borun, Golden Direction and King River hereby agree as follows:

## ARTICLE I REPRESENTATIONS, COVENANTS, AND WARRANTIES OF KING RIVER AND GOLDEN DIRECTION

As an inducement to, and to obtain the reliance of New Borun, except as set forth in those schedules prepared by Golden Direction which are attached and made a part hereto (the "Golden Direction Schedules"), Golden Direction and King River hereby represent and warrant to New Borun as follows as of the date hereof:

Section 1.01 Organization. Golden Direction is a company duly organized, validly existing, and in good standing under the laws of the British Virgin Islands and has the corporate power and is duly authorized under all applicable laws, regulations, ordinances and orders of public authorities to carry on its business in all material respects as it is now being conducted. Included in Item 1.01 of the Golden Direction Schedules are complete and correct copies of Golden Direction's Certificate of Incorporation and the Memorandum and Articles of Association of Golden Direction as in effect on the date hereof (together, the "Golden Direction Charter"). The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of the Golden Direction

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Charter. Golden Direction has taken all actions required by law, from its Golden Direction Charter, or otherwise to authorize the execution and delivery of this Agreement. Golden Direction has full power, authority, and legal right and has taken all action required by law, the Golden Direction Charter, and otherwise to consummate the transactions herein contemplated.

Section 1.02 Capitalization. Golden Direction is authorized to issue Fifty Thousand (50,000) ordinary shares, par value \$0.001 per share, of which one (1) share is currently issued and outstanding and held by King River. All of the issued and outstanding shares of such Golden Direction Capital Stock are legally issued, fully paid and non-assessable and not issued in violation of the preemptive or other rights of any person. Furthermore, (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of Golden Direction Capital Stock, or contracts, commitments, understandings or arrangements by which Golden Direction is or may become bound to issue additional shares of Golden Direction Capital Stock or options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of Golden Direction Capital Stock, (ii) there are no outstanding debt securities of Golden Direction and (iii) there are no agreements or arrangements under which Golden Direction is obligated to register the sale of any of their securities.

Section 1.03 Subsidiaries. Golden Direction does not have any subsidiaries and does not own, beneficially or of record, any shares of any corporation except that Golden Direction owns 8,000 ordinary shares of the 8,000 ordinary shares issued and outstanding of China High Enterprises Limited, a Hong Kong investment company ("China High"), which is equivalent to approximately 74.24% of the aggregate issued and outstanding shares of capital stock in China High calculated on a fully diluted basis.

Section 1.04 No Financial Statements.

- (a) Golden Direction has not had any operations since its incorporation and no financial statements have been prepared.
- (b) Golden Direction has no liabilities with respect to the payment of any federal, state, county, local or other taxes (including any deficiencies, interest or penalties).
- (c) Golden Direction has timely filed all income and/or franchise tax returns required to be filed by it from its inception to the date hereof. Each of such income and/or franchise tax returns reflects the taxes due for the period covered thereby, except for amounts which, in the aggregate, are immaterial.
- (d) Golden Direction has no liabilities, direct or indirect, matured or unmatured, contingent or otherwise.

Section 1.05 Absence of Certain Changes or Events. Since its inception:

- (a) There has not been any business or operations of Golden Direction and Golden Direction owns no assets or properties;

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(b) Golden Direction has not (i) amended the Golden Direction Charter beyond that which has been provided for in connection with this Agreement; (ii) declared or made, or agreed to declare or make any payment of dividends or distributions of any assets of any kind whatsoever; (iii) made any material change in its method of management, operation or accounting; (iv) entered into any transactions or agreements other than in connection with this Agreement and the transactions contemplated herein; or (v) made any adoption of any profit sharing, bonus, deferred compensation, insurance, pension, retirement, or other employee benefit plan, payment, or arrangement, made to, for or with its officers, directors, or employees; and

(c) Golden Direction has not (i) granted or agreed to grant any options, warrants, or other rights for its stock, bonds, or other corporate securities calling for the issuance thereof; (ii) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) except liabilities incurred in the ordinary course of business; (iii) sold or transferred, or agreed to sell or transfer, any of its assets, properties, or rights, or canceled, or agreed to cancel, any debts or claims; or (iv) issued, delivered or agreed to issue or deliver, any stock, bonds or other corporate securities including debentures (whether authorized and unissued or held as treasury stock), except in connection with this Agreement.

Section 1.06 Litigation and Proceedings. There are no actions, suits, proceedings or investigations pending or threatened by or against Golden Direction or affecting Golden Direction or its properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind. Golden Direction has no knowledge of any default on its part with respect to any judgment, order, writ, injunction, decree, award, rule or regulation of any court, arbitrator, or governmental agency or instrumentality or any circumstance which after reasonable investigation would result in the discovery of such default.

Section 1.07 Contracts. All contracts, agreements, franchises, license agreements, and other commitments to which Golden Direction is a party or by which its properties are bound and which are material to the operations of Golden Direction taken as a whole are valid and enforceable by Golden Direction in all respects, except as limited by bankruptcy and insolvency laws and by other laws affecting the rights of creditors generally.

Section 1.08 No Conflict With Other Instruments. The execution of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in the breach of any term or provision of, constitute a default under, or terminate, accelerate or modify the terms of any indenture, mortgage, deed of trust, or other material agreement, or instrument to which Golden Direction is a party or to which any of its assets, properties or operations are subject.

Section 1.09 Compliance With Laws and Regulations. To the best of its knowledge, Golden Direction has complied with all applicable foreign and domestic statutes and regulations of any federal, state, provincial or other governmental entity or agency thereof, except to the extent that noncompliance would not materially and adversely affect the business,

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operations, properties, assets, or condition of Golden Direction except to the extent that noncompliance would not result in the occurrence of any material liability for Golden Direction.

Section 1.10 Approval of Agreement. The board of directors of Golden Direction has unanimously authorized the execution and delivery of this Agreement by Golden Direction and has approved this Agreement and the transactions contemplated hereby.

Section 1.11 Valid Obligation. This Agreement and all agreements and other documents executed by Golden Direction in connection herewith constitute the valid and binding obligation of Golden Direction, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights generally and subject to the qualification that the availability of equitable remedies is subject to the discretion of the court before which any proceeding therefore may be brought.

Section 1.12 Information. The information concerning Golden Direction set forth in this Agreement and in the Golden Direction Schedules is complete and accurate in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact required to make the statements made, in light of the circumstances under which they were made, not misleading.

Section 1.13 Representations and Warranties of King River. In addition to the representations and warranties made by King River in Sections 1.01 through 1.12 hereof, King River represents and warrants to New Borun as of the date hereof and as of the Closing Date as follows:

(a) Authority. King River is a company duly organized, validly existing, and in good standing under the laws of the British Virgin Islands and has the corporate power and is duly authorized under all applicable laws, regulations, ordinances and orders of public authorities to carry on its business in all material respects as it is now being conducted. The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of King River's Certificate of Incorporation and the Memorandum and Articles of Association as in effect on the date hereof (the "King River Charter"). King River has taken all actions required by law, from its King River Charter, or otherwise to authorize the execution and delivery of this Agreement. King River has full power, authority, and legal right and has taken all action required by law, the King River Charter, and otherwise to consummate the transactions herein contemplated. .

(b) No Conflicts. The execution, delivery and performance of this Agreement by King River and the consummation by King River of the transactions contemplated hereby do not and will not conflict with or result in a violation of or default (or be an event that with notice or lapse of time or both would become a conflict, violation or default) under any contract or agreement applicable to King River or any law, rule, regulation, order, decree, ruling or pronouncement to which King River is subject or by which any property or asset of King River is bound or affected.

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(c) No General Solicitation. King River is not acquiring the securities of New Borun hereunder as a result of any advertisement, article, notice or other communication regarding such securities published in any newspaper, magazine or similar media or broadcast over television, radio the internet or presented at any seminar or any other general advertisement.

(d) Investment Intent. King River: (i) is acquiring the securities of New Borun hereunder as a principal for its own account and not with a view to or for distributing or reselling them in violation of any applicable law, rule or regulation, (ii) has no present intention of distributing any of such securities in violation of any applicable law, rule or regulation and (iii) has no direct or indirect arrangement or understandings with any other persons to distribute or regarding their distribution of such securities.

## ARTICLE II REPRESENTATIONS, COVENANTS, AND WARRANTIES OF NEW BORUN

As an inducement to, and to obtain the reliance of Golden Direction and King River, except as set forth in those schedules prepared by New Borun which are attached and made a part hereto (the "New Borun Schedules"), New Borun represents and warrants to Golden Direction and King River as follows:

Section 2.01 Organization. New Borun is an exempted company incorporated, validly existing, and in good standing under the laws of the Cayman Islands and has the corporate power and is duly authorized under all applicable laws, regulations, ordinances, and orders of public authorities to carry on its business in all material respects as it is now being conducted. Set forth in Item 2.01 of the New Borun Schedules is a complete and correct copy of the Memorandum and Articles of Association of New Borun as of the date hereof (the "New Borun Charter"). The execution and delivery of this Agreement does not, and the consummation of the transactions contemplated hereby will not, violate any provision of the New Borun Charter. New Borun has taken all action required by law, the New Borun Charter or otherwise to authorize the execution and delivery of this Agreement, and New Borun has full power, authority, and legal right and has taken all action required by law, the New Borun Charter or otherwise to consummate the transactions herein contemplated.

Section 2.02 Capitalization. New Borun's authorized share capital consists of (a) One Hundred Million (100,000,000) New Borun Ordinary Shares with a par value of \$0.001 each, of which one (1) share was issued and outstanding prior to the transaction contemplated by the Exchange and (b) Five Million (5,000,000) preference shares with a par value of US\$0.001 each ("New Borun Preference Shares"), zero (0) of which were issued or outstanding immediately preceding the consummation of the Exchange.

Section 2.03 Subsidiaries and Predecessor Corporations. New Borun does not have any predecessors or subsidiaries and does not own, beneficially or of record, any shares of any other corporation.

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Section 2.04 No Financial Statements.

(a) New Borun has not had any operations since its incorporation and no financial statements have been prepared.

(b) New Borun has no liabilities with respect to the payment of any federal, state, county, local or other taxes (including any deficiencies, interest or penalties).

(c) New Borun has timely filed all income and/or franchise tax returns required to be filed by it from its inception to the date hereof. Each of such income and/or franchise tax returns reflects the taxes due for the period covered thereby, except for amounts which, in the aggregate, are immaterial.

(d) New Borun has no liabilities, direct or indirect, matured or unmatured, contingent or otherwise.

Section 2.05 Options or Warrants. There are no existing options, warrants, calls, or commitments of any character relating to the authorized and unissued stock of New Borun.

Section 2.06 Absence of Certain Changes or Events. Since its inception:

(a) There has not been any business or operations of New Borun and New Borun owns no assets or properties;

(b) New Borun has not (i) amended the New Borun Charter beyond that which has been provided for in connection with this Agreement; (ii) declared or made, or agreed to declare or make any payment of dividends or distributions of any assets of any kind whatsoever; (iii) made any material change in its method of management, operation or accounting; (iv) entered into any transactions or agreements other than in connection with this Agreement and the transactions contemplated herein; or (v) made any adoption of any profit sharing, bonus, deferred compensation, insurance, pension, retirement, or other employee benefit plan, payment, or arrangement, made to, for or with its officers, directors, or employees; and

(c) New Borun has not (i) granted or agreed to grant any options, warrants, or other rights for its stock, bonds, or other corporate securities calling for the issuance thereof; (ii) borrowed or agreed to borrow any funds or incurred, or become subject to, any material obligation or liability (absolute or contingent) except liabilities incurred in the ordinary course of business; (iii) sold or transferred, or agreed to sell or transfer, any of its assets, properties, or rights, or canceled, or agreed to cancel, any debts or claims; or (iv) issued, delivered or agreed to issue or deliver, any stock, bonds or other corporate securities including debentures (whether authorized and unissued or held as treasury stock), except in connection with this Agreement.

Section 2.07 Litigation and Proceedings. There are no actions, suits, proceedings or investigations pending or threatened by or against New Borun or affecting New Borun or its properties, at law or in equity, before any court or other governmental agency or instrumentality, domestic or foreign, or before any arbitrator of any kind. New Borun has no knowledge of any default on its part with respect to any judgment, order, writ, injunction, decree,

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award, rule or regulation of any court, arbitrator, or governmental agency or instrumentality or any circumstance which after reasonable investigation would result in the discovery of such default.

Section 2.08 Contracts. Except as set forth in Item 2.08 of the New Borun Schedules:

(a) New Borun is not a party to any contract, franchise, license agreement, agreement, debt instrument or other commitments or instruments whether such agreement is in writing or oral.

(b) New Borun is not a party to or bound by any charter or other corporate restriction or any judgment, order, writ, injunction, decree, or award; and

(c) New Borun is not a party to any oral or written (i) contract for the employment of any officer or employee; (ii) profit sharing, bonus, deferred compensation, stock option, severance pay, pension benefit or retirement plan; (iii) agreement, contract, or indenture relating to the borrowing of money; (iv) guaranty of any obligation; (v) collective bargaining agreement; or (vi) agreement with any present officer or director of New Borun.

Section 2.09 No Conflict With Other Instruments. The execution of this Agreement and the consummation of the transactions contemplated by this Agreement will not result in the breach of any term or provision of, constitute a default under, or terminate, accelerate or modify the terms of, any indenture, mortgage, deed of trust, or other material agreement or instrument to which New Borun is a party or to which any of its assets, properties or operations are subject.

Section 2.10 Compliance With Laws and Regulations. New Borun has materially complied with all applicable statutes and regulations of any applicable governmental entity or agency thereof.

Section 2.11 Approval of Agreement. The sole director of New Borun has authorized the execution and delivery of this Agreement by New Borun and has approved this Agreement and the transactions contemplated hereby.

Section 2.12 Material Transactions or Affiliations. Except as set forth in Item 2.12 of the New Borun Schedules, there exists no contract, agreement or arrangement between New Borun and any person who was at the time of such contract, agreement or arrangement an officer, director, or person owning of record or known by New Borun to own beneficially, five percent (5%) or more of the issued and outstanding common stock of New Borun and which is to be performed in whole or in part after the date hereof or was entered into prior to the date hereof since inception. Neither any officer, director, nor five percent (5%) stockholder of New Borun has, or has had since inception of New Borun, any known interest, direct or indirect, in any such transaction with New Borun which was material to the business of New Borun. New Borun has no commitment, whether written or oral, to lend any funds to, borrow any money from, or enter into any other transaction with, any such affiliated person.

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Section 2.13 Valid Obligation. This Agreement and all agreements and other documents executed by New Borun in connection herewith constitute the valid and binding obligation of New Borun, enforceable in accordance with its terms, except as may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights generally and subject to the qualification that the availability of equitable remedies is subject to the discretion of the court before which any proceeding therefore may be brought.

Section 2.14 Information. The information concerning New Borun set forth in this Agreement and the New Borun Schedules is complete and accurate in all material respects and does not contain any untrue statements of a material fact or omit to state a material fact required to make the statements made, in light of the circumstances under which they were made, not misleading.

### ARTICLE III PLAN OF EXCHANGE AND RELATED AGREEMENTS

#### Section 3.01 The Closing.

(a) The closing (the "Closing") of the Exchange will occur at the offices of New Borun's U.S. securities counsel, K&L Gates LLP, located at 200 South Biscayne Boulevard, Suite 3900, Miami, Florida 33131-2399 on such date as shall be one (1) business day after all of the conditions set forth in Articles VI and VII have been satisfied or waived (the "Closing Date"). The Closing may be undertaken remotely by delivery of facsimile/email and/or pdf signatures and documents.

(b) On the Closing Date, King River shall assign and transfer, free and clear of all liens, pledges, encumbrances, charges, restrictions or known claims of any kind, nature, or description, all of the shares of Golden Direction Capital Stock, including voting power, of Golden Direction to New Borun. In exchange for the transfer of all of the Golden Direction Capital Stock by King River to New Borun, New Borun shall issue Fourteen Million Eight Hundred Forty-Seven Thousand Eight Hundred and Ten (14,847,810) newly-issued New Borun Ordinary Shares to King River.

(c) On the Closing Date, King River shall surrender its certificate or certificates representing 100% of the shares of Golden Direction Capital Stock to New Borun, New Borun's counsel or New Borun's registrar or transfer agent.

(d) As a result of the Exchange as contemplated herein, (i) King River will beneficially own 14,847,811 New Borun Ordinary Shares, representing 100% of the issued share capital of New Borun on the Closing Date and (ii) Golden Direction will be a wholly-owned subsidiary of New Borun.

Section 3.02 Closing Events. On the Closing Date, New Borun, Golden Direction and King River shall execute, acknowledge, and deliver (or shall ensure to be executed, acknowledged, and delivered), any and all certificates, opinions, financial statements, schedules, agreements, resolutions, rulings or other instruments required by this Agreement to be so delivered on or prior to the Closing Date, together with such other items as may be reasonably

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requested by the parties hereto and their respective legal counsel in order to fully effectuate or evidence the transactions contemplated hereby.

Section 3.03 Termination. This Agreement may only be terminated prior to the Closing Date by (a) New Borun in the event that Golden Direction or King River fail to meet all non-waived conditions set forth in Article VI herein in all material respects and (b) Golden Direction or King River only in the event that New Borun fails to meet all non-waived conditions set forth in Article VII herein in all material respects. If this Agreement is terminated pursuant this Section 3.06, this Agreement shall be of no further force or effect, and no obligation, right or liability shall arise hereunder, except as set forth herein below.

### ARTICLE IV COVENANTS OF GOLDEN DIRECTION AND KING RIVER

Section 4.01 Access and Investigation. Between the date of this Agreement and the Closing Date, Golden Direction will (a) afford New Borun and its agents, advisors and attorneys during normal business hours, and upon reasonable notice, full and free access to Golden Direction's properties, contracts, books and records, and other documents and data, (b) furnish New Borun and its agents, advisors and attorneys with copies of all such contracts, books and records, and other existing documents and data as New Borun may reasonably request and (c) furnish New Borun and its agents, advisors and attorneys with such additional financial, operating, and other data and information as New Borun may reasonably request.

Section 4.02 Delivery of Books and Records. On or prior to the Closing Date, Golden Direction shall deliver to New Borun the originals of the corporate minute books, books of account, contracts, records, and all other books or documents of Golden Direction now in the possession of Golden Direction or its representatives.

#### Section 4.03 Operation of the Business of Golden Direction.

(a) Between the date of this Agreement and the Closing Date, Golden Direction will:

- (i) conduct its business only in the ordinary course of business consistent with past practice;
- (ii) use its best efforts to preserve intact its current business organization and business relationships;
- (iii) not create any new, or capitalize or conduct any business through, any subsidiary;
- (iv) not issue any equity securities (or any interest therein); and
- (v) not perform any act that would require the consent of King River.

(b) Notwithstanding the foregoing, between the date of this Agreement and the Closing Date, Golden Direction will not directly or indirectly, without the prior

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written consent of New Borun, engage in any transaction with, or enter into any agreement with any officer, director or stockholder of Golden Direction, or any affiliate thereof.

Section 4.04 No Transfers of Interests. Between the date of this Agreement and the Closing Date, King River shall not assign, transfer, mortgage, pledge or otherwise dispose of any or all of the Golden Direction Capital Stock (or any interest therein) or grant any person the option or right to acquire any Golden Direction Capital Stock (or any interest therein).

Section 4.05 Required Filings and Approvals. As promptly as possible after the date of this Agreement, Golden Direction will make all filings and obtain all approvals required to be made by it in order to consummate the transactions contemplated by this Agreement. Between the date of this Agreement and the Closing Date, Golden Direction and King River will (i) cooperate with New Borun with respect to all filings that New Borun elects to make or is required to make in connection with the transactions contemplated by this Agreement and (ii) cooperate with New Borun in obtaining any consents or approvals required to be obtained by New Borun in connection herewith.

Section 4.06 Notification. Between the date of this Agreement and the Closing Date, Golden Direction and King River will promptly notify New Borun in writing if Golden Direction or King River becomes aware of any fact or condition that causes or constitutes a breach of any of the representations and warranties of Golden Direction or King River, as the case may be, as of the date of this Agreement, or if Golden Direction or King River becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in the Schedules to this Agreement if such Schedules were dated the date of the occurrence or discovery of any such fact or condition, Golden Direction or King River, as the case may be, will promptly deliver to New Borun a supplement to the Schedules to this Agreement specifying such change; provided, however, that such delivery shall not materially adversely affect any rights of New Borun set forth herein. During the same period, Golden Direction and King River will promptly notify New Borun of the occurrence of any breach of any covenant of Golden Direction or King River in this Article IV or in Article III herein or of the occurrence of any event that may make the satisfaction of the conditions in Article VI impossible or unlikely.

Section 4.07 Indemnification. Golden Direction and King River hereby jointly and severally agree to indemnify New Borun and each of the officers, attorneys, agents and directors of New Borun as of the date of execution of this Agreement against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever) (as used in this paragraph alone, a "Loss"), to which it or they may become subject arising out of or based on any inaccuracy appearing in or misrepresentations made under Article I of this Agreement. The indemnification provided for in this paragraph shall survive the Closing and the consummation of the transactions

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contemplated hereby and termination of this Agreement for two (2) years following the Closing Date.

Section 4.08 Approval by Golden Direction and King River. This Agreement and the transactions contemplated hereby shall have been approved by the board of directors of Golden Direction and by King River prior to the date hereof.

Section 4.09 Director's Certificate of Golden Direction. On the date hereof, Golden Direction shall deliver to New Borun a certificate, executed by Golden Direction's sole director certifying attached copies of (i) the organizational documents of Golden Direction and (ii) the resolutions of Golden Direction's board of directors approving this Agreement and the transactions contemplated hereby.

Section 4.10 Good Standing Certificate. On the date hereof, Golden Direction shall deliver to New Borun a certificate of good standing or the equivalent from the appropriate authority in the British Virgin Islands, dated as of a date within ten (10) business days prior to the date hereof certifying that Golden Direction is in good standing as a company in the British Virgin Islands.

Section 4.11 Closing Conditions. Between the date of this Agreement and the Closing Date, each of Golden Direction and King River will use its best efforts to cause the conditions in Article VI to be satisfied as promptly as possible.

## ARTICLE V COVENANTS OF NEW BORUN

Section 5.01 Access and Investigation. Between the date of this Agreement and the Closing Date, New Borun will (a) afford Golden Direction, King River and their respective agents, advisors and attorneys during normal business hours and upon reasonable notice, full and free access to New Borun's senior personnel, properties, contracts, books and records, and other documents and data, (b) furnish Golden Direction, King River and their respective agents, advisors and attorneys with copies of all such contracts, books and records, and other existing documents and data as Golden Direction may reasonably request and (c) furnish Golden Direction, King River and their respective agents, advisors and attorneys with such additional financial, operating, and other data and information as Golden Direction or King River may reasonably request.

Section 5.02 Issuance of Securities in New Borun. Between the date of this Agreement and the Closing Date, New Borun will not issue any equity securities (or any interest therein).

Section 5.03 Required Filings and Approvals. As promptly as practicable after the date of this Agreement, New Borun will make all filings required to be made by it in order to consummate the transactions contemplated by this Agreement. Between the date of this Agreement and the Closing Date, New Borun will cooperate with Golden Direction and King River with respect to all filings that Golden Direction and/or King River elects to make or is required to make in connection with the transactions contemplated by this Agreement, and

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cooperate with Golden Direction and/or King River in obtaining any consents or approvals required to be obtained by Golden Direction and/or King River in connection herewith.

Section 5.04 Notification. Between the date of this Agreement and the Closing Date, New Borun will promptly notify Golden Direction and King River in writing if New Borun becomes aware of any fact or condition that causes or constitutes a breach of any of the representations and warranties of New Borun, as of the date of this Agreement, or if New Borun becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition. Should any such fact or condition require any change in the Schedules to this Agreement if the Schedules to the Agreement were dated the date of the occurrence or discovery of any such fact or condition, New Borun will promptly deliver to Golden Direction and King River a supplement to the Schedules to the Agreement specifying such change; provided, however, that such delivery shall not materially adversely affect any rights of Golden Direction and King River set forth herein. During the same period, New Borun will promptly notify Golden Direction and King River of the occurrence of any breach of any covenant of New Borun in this Article V or of the occurrence of any event that may make the satisfaction of the conditions in Article VII impossible or unlikely.

Section 5.05 Indemnification. New Borun hereby agrees to indemnify Golden Direction and King River and each of their respective officers, attorneys, agents, and directors as of the date of execution of this Agreement against any loss, liability, claim, damage, or expense (including, but not limited to, any and all expense whatsoever reasonably incurred in investigating, preparing, or defending against any litigation, commenced or threatened, or any claim whatsoever) (as used in this paragraph alone, a “Loss”) to which it or they may become subject arising out of or based on any inaccuracy appearing in or misrepresentation made under Article II of this Agreement. The indemnification provided for in this paragraph shall survive the Closing hereunder and the consummation of the transactions contemplated hereby and termination of this Agreement for two (2) years following the Closing Date.

Section 5.06 Approval by New Borun. This Agreement and the transactions contemplated hereby shall have been approved by the board of directors of New Borun prior to the date hereof.

Section 5.07 Closing Conditions. Between the date of this Agreement and the Closing Date, New Borun will use its best efforts to cause the conditions in Article VII to be satisfied as promptly as possible.

## ARTICLE VI CONDITIONS PRECEDENT TO OBLIGATIONS OF NEW BORUN

The obligations of New Borun under this Agreement are subject to the satisfaction, on or before the Closing Date, of the following conditions (any of which may be waived by New Borun, in whole or in part):

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Section 6.01 Accuracy of Representations. The representations and warranties made by Golden Direction and King River in this Agreement were true when made and shall be true at the Closing Date with the same force and effect as if such representations and warranties were made at and as of the Closing Date (except for changes therein permitted by this Agreement).

Section 6.02 Performance by Golden Direction and King River.

(a) All of the covenants and obligations that Golden Direction and King River are required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Each document required to be delivered by Golden Direction and/or King River pursuant to this Agreement at or prior to Closing must have been delivered.

Section 6.03 Consents. All consents, waivers, approvals, authorizations or orders pursuant to all contracts, licenses, laws, rules or regulations, permits, trademarks and other intangibles required to be obtained, and all filings required to be made, by Golden Direction and/or King River for the authorization, execution and delivery of this Agreement and the consummation by them of the transactions contemplated by this Agreement or for the continued operation of Golden Direction as presently operated as a subsidiary of New Borun after the Closing Date to the extent required by law, shall have been obtained and made by Golden Direction and/or King River, as the case may be.

Section 6.04 Officer's Certificate. Golden Direction shall have delivered to New Borun a certificate dated as of the Closing Date and signed by a duly authorized officer of Golden Direction to the effect that (a) each of the conditions set forth in Sections 6.01, 6.02 and 6.03 have been fully satisfied and (b) no litigation, proceeding, investigation, or inquiry is pending, or to the best knowledge of Golden Direction threatened, which might result in an action to enjoin or prevent the consummation of the transactions contemplated by this Agreement, or, to the extent not disclosed in the Golden Direction Schedules, by or against Golden Direction, which might result in any material adverse change in any of the assets, properties, business, or operations of Golden Direction.

Section 6.05 Certificate of King River. King River shall have delivered to New Borun a certificate dated as of the Closing Date executed by King River certifying the satisfaction of the conditions specified in Sections 6.01, 6.02 and 6.03 herein above.

Section 6.06 No Governmental Prohibition. No order, statute, rule, regulation, executive order, injunction, stay, decree, judgment or restraining order shall have been enacted, entered, promulgated or enforced by any court or governmental or regulatory authority or instrumentality which prohibits the consummation of the transactions contemplated hereby.

Section 6.07 Additional Documents. Golden Direction and King River shall have delivered to New Borun such other documents as New Borun may have reasonably requested for the purpose of (i) evidencing the accuracy of any of the representations and

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warranties of Golden Direction and King River in this Agreement, (ii) evidencing the performance of, or compliance by Golden Direction and King River with, any covenant or obligation required to be performed or complied with hereunder by Golden Direction or King River, as the case may be, (iii) evidencing the satisfaction of any condition referenced herein (including, without limitation such opinions of PRC counsel to Golden Direction and King River that all consents and approvals of all governmental authorities of the British Virgin Islands necessary or required to consummate the transactions contemplated herein, free and clear of all encumbrances have been obtained and are in full force and effect) or (iv) otherwise facilitating the consummation or performance of any of the transactions contemplated by this Agreement.

## ARTICLE VII CONDITIONS PRECEDENT TO OBLIGATIONS OF GOLDEN DIRECTION AND KING RIVER

The obligations of Golden Direction and King River under this Agreement are subject to the satisfaction, at or before the Closing Date, of the following conditions (any of which may be waived by Golden Direction and King River, in whole or in part):

Section 7.01 Accuracy of Representations. The representations and warranties made by New Borun in this Agreement were true when made and shall be true at the Closing Date with the same force and effect as if such representations and warranties were made at and as of the Closing Date (except for changes therein permitted by this Agreement).



Section 7.02 Performance by New Borun.

(a) All of the covenants and obligations that New Borun is required to perform or to comply with pursuant to this Agreement at or prior to the Closing (considered collectively), and each of these covenants and obligations (considered individually), must have been duly performed and complied with in all material respects.

(b) Each document required to be delivered by New Borun pursuant to this Agreement at or prior to Closing must have been delivered.

Section 7.03 Consents. All consents, waivers, approvals, authorizations or orders pursuant to all contracts, licenses, laws, rules or regulations, permits, trademarks and other intangibles required to be obtained, and all filings required to be made, by New Borun for the authorization, execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement to the extent required by law, shall have been obtained and made by New Borun.

Section 7.04 Officer's Certificate. New Borun shall have delivered to Golden Direction and King River a certificate dated as of the Closing Date and signed by a duly authorized officer of New Borun to the effect that (a) each of the conditions set forth in Sections 7.01, 7.02 and 7.03 have been fully satisfied and (b) no litigation, proceeding, investigation, or inquiry is pending, or to the best knowledge of New Borun threatened, which might result in an action to enjoin or prevent the consummation of the transactions contemplated by this Agreement, or, to the extent not disclosed in the New Borun Schedules, by or against New

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Borun, which might result in any material adverse change in any of the assets, properties, business, or operations of New Borun.

Section 7.05 Director's Certificate. On the Closing Date, New Borun shall deliver to Golden Direction and King River a certificate, executed by New Borun's sole director certifying attached copies of (i) the organizational documents of New Borun and (ii) the resolutions of New Borun's board of directors approving this Agreement and the transactions contemplated hereby.

Section 7.06 Good Standing Certificate. On the Closing Date, New Borun shall deliver to Golden Direction and King River a certificate of good standing from the Registrar of Companies, dated as of a date within ten (10) business days of the Closing Date, certifying that New Borun is in good standing as a company in the Cayman Islands.

Section 7.07 Additional Documents. New Borun shall have delivered such other documents as Golden Direction and King River may have reasonably requested prior to the date hereof for the purpose of (i) evidencing the accuracy of any of the representations and warranties of New Borun in this Agreement, (ii) evidencing the performance of, or compliance by New Borun with, any covenant or obligation required to be performed or complied with hereunder by New Borun, (iii) evidencing the satisfaction of any condition referenced herein or (iv) otherwise facilitating the consummation or performance of any of the transactions contemplated by this Agreement.

## ARTICLE VIII MISCELLANEOUS

Section 8.01 Brokers. New Borun, Golden Direction and King River agree that there were no finders or brokers involved in bringing the parties together or who were instrumental in the negotiation, execution or consummation of this Agreement. New Borun, on the one hand, and Golden Direction and King River, on the other hand, agree to indemnify the other against any claim by any third person other than those described above for any commission, brokerage, or finder's fee arising from the transactions contemplated hereby based on any alleged agreement or understanding between the indemnifying party and such third person, whether express or implied from the actions of the indemnifying party.

Section 8.02 Governing Law; Jurisdiction; Venue; Waiver of Jury Trial. This Agreement shall be governed by, enforced, and construed under and in accordance with the laws of the United States of America and, with respect to matters of State law, with the laws of the State of New York. Venue for all matters shall be in the City of New York, New York, without giving effect to principles of conflicts of law thereunder. Each of the parties irrevocably consents and agrees that any legal or equitable action or proceedings arising under or in connection with this Agreement shall be brought exclusively in the federal courts of the United States sitting in New York City, New York. By execution and delivery of this Agreement, each party hereto irrevocably submits to and accepts, with respect to any such action or proceeding, generally and unconditionally, the jurisdiction of the aforesaid court, and irrevocably waives any and all rights such party may now or hereafter have to object to such jurisdiction. **EACH PARTY (ON BEHALF OF**

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**ITSELF AND, TO THE FULLEST EXTENT PERMITTED BY LAW, ON BEHALF OF ITS RESPECTIVE EQUITY HOLDERS) HEREBY WAIVES ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED UPON, ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.**

Notices. Any notice or other communications required or permitted hereunder shall be in writing and shall be sufficiently given if personally delivered to it or sent by telecopy, overnight courier or registered mail or certified mail, postage prepaid, addressed as follows:

If to New Borun, to:

China New Borun Corporation  
Bohai Industrial Park (Yangkou Town)  
Shouguang, Shandong 262715  
The People's Republic of China  
Attention: Mr. WANG Jinmiao  
Telephone: +86-536-5451199/5451006

With copies to:

K&L Gates LLP  
 Wachovia Financial Center  
 200 South Biscayne Blvd., Suite 3900  
 Miami, FL 33131  
 Attention: Clayton E. Parker, Esq.  
 Telephone: (305) 539-3300  
 Facsimile: (305) 358-7095

If to King River or Golden Direction, to:

Golden Direction Limited  
 Bohai Industrial Park (Yangkou Town)  
 Shouguang, Shandong 262715  
 The People's Republic of China  
 Attention: WANG Jinkun  
 Telephone: +86-536-5451199  
 Facsimile: +86-536-5451199

or such other addresses as shall be furnished in writing by any party in the manner for giving notices hereunder, and any such notice or communication shall be deemed to have been given (i) upon receipt, if personally delivered, (ii) on the day after dispatch, if sent by overnight courier and (iii) upon dispatch, if transmitted by facsimile or telecopy and receipt is confirmed by telephone.

Section 8.03 Attorney's Fees. In the event that either party institutes any action or suit to enforce this Agreement or to secure relief from any default hereunder or breach hereof, the prevailing party shall be reimbursed by the losing party for all costs, including reasonable attorney's fees, incurred in connection therewith and in enforcing or collecting any judgment rendered therein.

Section 8.04 Confidentiality. Each party hereto agrees with the other that, unless and until the transactions contemplated by this Agreement have been consummated, it and its representatives will hold in strict confidence all data and information obtained with respect to another party or any subsidiary thereof from any representative, officer, director or employee, or from any books or records or from personal inspection, of such other party, and shall not use

such data or information or disclose the same to others, except (i) to the extent such data or information is published, is a matter of public knowledge, or is required by law to be published; or (ii) to the extent that such data or information must be used or disclosed in order to consummate the transactions contemplated by this Agreement. In the event of the termination of this Agreement, each party shall return to the other party all documents and other materials obtained by it or on its behalf and shall destroy all copies, digests, work papers, abstracts or other materials relating thereto, and each party will continue to comply with the confidentiality provisions set forth herein.

Section 8.05 Public Announcements and Filings. The parties hereto hereby acknowledge and agree that this Agreement will be filed as an Exhibit to New Borun's registration statement on Form F-1 to be filed with the U.S. Securities and Exchange Commission (the "Commission") in connection with the initial public offering of American Depositary Shares representing New Borun Ordinary Shares, and that such registration statement will be made publicly available upon such filing. With the exception of such filing, and unless required by applicable law or regulatory authority, including, without limitation, the Commission, none of the parties will issue any report, statement or press release to the general public, to the general trade or trade press, or to any third party (other than its advisors and representatives in connection with the transactions contemplated hereby) or file any document, relating to this Agreement and the transactions contemplated hereby, except as may be mutually agreed by the parties. Copies of any such filings, public announcements or disclosures, including any announcements or disclosures mandated by law or regulatory authorities with the exception of any such filings, announcements or disclosures made to the Commission, shall be delivered to each party at least one (1) business day prior to the release thereof.

Section 8.06 Recitals. The recitals to this Agreement are true and correct and are incorporated herein, in their entirety, by this reference.

Section 8.07 Third Party Beneficiaries. This Agreement is strictly between New Borun, Golden Direction and King River, and, except as specifically provided herein, including, without limitation, those persons indemnified pursuant to Sections 4.07 and 5.05 herein, no director, officer, stockholder (other than King River), employee, agent, independent contractor or any other person or entity shall be deemed to be a third party beneficiary of this Agreement.

Section 8.08 Expenses. Subject to Section 8.04 above, whether or not the Exchange is consummated, each of New Borun, Golden Direction and King River will bear its own respective expenses, including legal, accounting and professional fees, incurred in connection with the Exchange or any of the other transactions contemplated hereby.

Section 8.09 Survival; Termination. The representations, warranties, and covenants of the respective parties shall survive the Closing Date and the consummation of the transactions herein contemplated for a period of two (2) years.

Section 8.10 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which taken together shall be but a single instrument. In the event that any counterpart signature is delivered by facsimile or

other electronic transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or other electronic signature page were an original thereof.

Section 8.11 Amendment or Waiver. Every right and remedy provided herein shall be cumulative with every other right and remedy, whether conferred herein, at law, or in equity, and may be enforced concurrently herewith, and no waiver by any party of the performance of any obligation by the other shall be construed as a waiver of the same or any other default then, theretofore, or thereafter occurring or existing. At any time prior to the Closing Date, this Agreement may be amended by a writing signed by all parties hereto, with respect to any of the terms contained herein, and any term or condition of this Agreement may be waived or the time for performance may be extended by a writing signed by the party or parties for whose benefit the provision is intended.

Section 8.12 Best Efforts. Subject to the terms and conditions herein provided, each party shall use its best efforts to perform or fulfill all conditions and obligations to be performed or fulfilled by it under this Agreement so that the transactions contemplated hereby shall be consummated as soon as practicable. Each party also agrees that it shall use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective this Agreement and the transactions contemplated herein.

Section 8.13 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the parties hereto will be entitled to specific performance of their respective obligations hereunder. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations described in the foregoing sentence and hereby agrees to waive in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

Section 8.14 Construction. The parties agree that each of them and/or their respective counsel has reviewed and had an opportunity to revise this Agreement and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of Agreements or any amendments hereto or the transactions contemplated hereby.

Section 8.15 Entire Agreement. This Agreement represents the entire agreement between the parties relating to the subject matter thereof and supersedes all prior agreements, understandings and negotiations, written or oral, with respect to such subject matter.

[Remainder of Page Intentionally Left Blank]

**IN WITNESS WHEREOF**, the corporate parties hereto have caused this Share Exchange Agreement to be executed by their respective officers, hereunto duly authorized, as of the date first-above written.

**CHINA NEW BORUN CORPORATION**

By: /s/ Shan Junqin

Name: Shan Junqin

Title: Director

**GOLDEN DIRECTION LIMITED**

By: /s/ Shan Junqin

Name: Shan Junqin

Title: Director

**KING RIVER HOLDING LIMITED**

By: /s/ Shan Junqin

Name: Shan Junqin

Title: Director

**GOLDEN DIRECTION SCHEDULES**

**Item 1.01 Certificate of Incorporation of Golden Direction**

**Please see Annex A attached hereto.**

Please see Annex B attached hereto.

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NEW BORUN SCHEDULES

Item 2.01 Memorandum and Articles of Association

Please see Exhibits 3.2 and 3.3 to the Company's Registration Statement on Form F-1 as filed with the SEC on April 27, 2010.

Item 2.08 Contracts:

None.

Item 2.12 Material Transactions or Affiliations:

(1) Share Exchange Agreement, dated February 28, 2010, by and among China New Borun Corporation, Golden Direction Limited, Star Elite Enterprises Limited, Earnstar Holding Limited and TDR Advisors, Inc. (please see Exhibit 2.1 to the Company's Registration Statement on Form F-1 as filed with the SEC on April 23, 2010)

(2) Shareholders Agreement, dated March 31, 2010, by and among China New Borun Corporation, King River Holding Limited, Star Elite Enterprises Limited, Earnstar Holding Limited and TDR Advisors, Inc. (please see Exhibit 4.4 to the Company's Registration Statement on Form F-1 as filed with the SEC on April 23, 2010)

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ANNEX A

TERRITORY OF THE BRITISH VIRGIN ISLANDS  
BVI BUSINESS COMPANIES ACT, 2004

CERTIFICATE OF INCORPORATION  
(SECTION 7)

The REGISTRAR of CORPORATE AFFAIRS, of the British Virgin Islands HEREBY CERTIFIES, that pursuant to the BVI Business Companies Act, 2004, all the requirements of the Act in respect of incorporation having been complied with,

**GOLDEN DIRECTION LIMITED**

BVI COMPANY NUMBER: 1472637

is incorporated in the BRITISH VIRGIN ISLANDS as a BVI BUSINESS COMPANY, this 28th day of March, 2008.



A handwritten signature in black ink, appearing to be "MEJ", written over a horizontal line.

for REGISTRAR OF CORPORATE AFFAIRS  
28th day of March, 2008

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ANNEX B

TERRITORY OF THE BRITISH VIRGIN ISLANDS  
THE BVI BUSINESS COMPANIES ACT (No. 16 of 2004)  
Memorandum  
and  
Articles of Association  
of

**GOLDEN DIRECTION LIMITED**

BVI BC No.:



ILS FIDUCIARY (B.V.I.) LIMITED  
MILL MALL, SUITE 6  
WICKHAMS CAY 1, PO BOX 3085  
ROAD TOWN, TORTOLA  
BRITISH VIRGIN ISLANDS

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TERRITORY OF THE VIRGIN ISLANDS  
THE BVI BUSINESS COMPANIES ACT, 2004  
MEMORANDUM OF ASSOCIATION  
OF  
**GOLDEN DIRECTION LIMITED**  
A COMPANY LIMITED BY SHARES

1. **NAME**

The name of the Company is GOLDEN DIRECTION LIMITED.

2. **INCORPORATION**

The Company is incorporated as a company limited by shares.

3. **REGISTERED OFFICE**

The first registered office of the Company shall be situated at ILS FIDUCIARY (B.V.I) LIMITED, Mill Mall, Suite 6, Wickhams Cay 1, P.O. Box 3085, Road Town, Tortola, British Virgin Islands.

4. **REGISTERED AGENT**

The first registered agent of the Company shall be at ILS FIDUCIARY (B.V.I) LIMITED of Mill Mall, Suite 6, Wickhams Cay 1, P.O. Box 3085, Road Town, Tortola, British Virgin Islands.

5. **OBJECTS AND POWERS**

- (a) The object for which the Company is incorporated is to engage without limitation in any act or activities which are not prohibited under any law for the time being in force in the British Virgin Islands.
- (b) The Company shall have full capacity, power, right and privilege to:
  - (i) engage in any business or businesses whatsoever, or in any act or activities which are not prohibited under any law for the time being in force in the British Virgin Islands;
  - (ii) carry on business with persons resident in the British Virgin Islands.

- (iii) carry on banking or trust business, pursuant to a license issued to it under the Banks and Trust Companies Act, 1990 and to act as trustee of a Virgin Islands Special Trust;
- (iv) carry on business as an insurance company or as a reinsurance company, insurance agent, or insurance broker, pursuant to a license issued to it under the Insurance Act, 1994;
- (v) carry on the business of company management pursuant to a license issued to it under the Company Management Act, 1990;
- (vi) act as a custodian of shares in a company incorporated under the laws of the British Virgin Islands, pursuant to a license issued to it under the Financial Services Commission Act, 2001;
- (vii) issue, cancel, and hold treasury shares, grant options over unissued shares in the Company and treasury shares, issue securities that are converted into shares, and give financial assistance to any person in connection with the acquisition of its own shares;
- (viii) issue debentures, guarantee a liability or obligation of any person and secure any of its obligations by mortgage, pledge or other charge of any of its assets;
- (ix) protect the assets of the Company for the benefit of the Company, its creditors and its members and, at the discretion of the directors, for any person having a direct or indirect interest in the Company;
- (x) buy, sell, underwrite, invest in, exchange or otherwise acquire and hold, manage, develop, deal with and turn to account any bonds, debentures, shares, (whether fully paid or not) stocks, options, commodities, futures, forward contracts, notes or securities of

Governments, States, municipalities, public authorities or public or private limited or unlimited companies in any part of the world, precious metals, gems, works of art and other articles of value and whether on a cash or margin basis and including short sales, and to lend money against the security of any of the aforementioned property;

- (xi) buy, own, hold, subdivide, lease, sell, rent, prepare building sites, construct, reconstruct, alter, improve, decorate, furnish, operate, maintain, reclaim or otherwise deal with and/or develop land and buildings and otherwise deal in real estate in all its branches, make advances upon the

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security of land or houses or other property or any interest therein, and whether erected or in course of erection and whether on first mortgage or charge or subject to prior mortgage or charge, and to develop land and buildings as may seem expedient to the Company;

- (xii) borrow or raise money by the issue of debentures, debenture stock (perpetual or terminable), bonds, mortgages, or any other securities founded or based upon all or any of the assets or property of the Company or without any such security and upon such terms as to priority or otherwise as the Company may think fit;
- (xiii) do all such other things as are incidental to, or which the company may think conducive to the attainment of all the above objects, powers, rights and privileges.

(c) For the purposes of Section 9(4) of the Act, there are no limitations on the business that the Company may carry on.

## 6. **SHARES IN THE COMPANY**

- (1) The Company shall be authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 for each share.
- (2) The shares in the Company shall be issued in the currency of the United States of America.
- (3) Shares in the Company shall be issued as registered shares only.
- (4) The shares may be divided into such number of classes and series as the directors may by resolution from time to time determine, and until so divided shall comprise one class and series.
- (5) The Company shall not be authorized to issue bearer shares; convert registered shares to bearer shares; or exchange registered shares for bearer shares.

## 7. **DESIGNATIONS, RIGHTS, PRIVILEGES, RESTRICTIONS AND CONDITIONS ATTACHING TO SHARES**

The directors shall by resolution have the power to issue any class or series of shares that the Company is authorized to issue, with or subject to any designations, powers, preferences, rights, qualifications, limitations and restrictions.

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## 8. **VARIATION OF CLASS RIGHTS**

If at any time the number of shares which the Company is authorised to issue is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) shall whether or not the Company is being wound up, be varied by way of resolution or with the consent in writing of the holders of not less than 51% of the issued shares of that class and of the holders of not less than 30% of the issued shares of any other class of shares which may be affected by such variation.

## 9. **RIGHTS NOT VARIED BY THE ISSUE OF SHARES PARI PASSU**

Rights conferred upon the holders of the shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the shares of that class, be deemed to be varied by the creation or issue of such further shares ranking pari passu therewith.

## 10. **AMENDMENTS**

- (1) The Company may by resolution of the members, or by a resolution of directors if no shares have been issued, amend this Memorandum of Association and the Articles of Association of the Company.
- (2) Amendments to this Memorandum of Association and to the Articles of Association may include changing the name of the Company; and increasing the number of shares which the Company is authorised to issue.
- (3) No amendment may be made by a Resolution of Directors:
  - (i) to restrict the rights or powers of members to amend the Memorandum of Association or the Articles of Association;
  - (ii) to change the percentage of members required to pass a resolution of members to amend the Memorandum of Association or Articles of Association;
  - (iii) to clauses 7, 8, 9, and 10 of this Memorandum of Association of the Company;
  - (iv) to prohibit members from amending the Memorandum of Association or Articles of Association; or
  - (v) to Regulations 122, 126, or 127 of the Articles of Association of the Company.

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(4) Where a resolution is passed to amend the Memorandum or Articles of Association, the Company shall file for registration with the Registrar of Corporate Affairs:

- (i) a notice of amendment in the approved form; or
- (ii) a restated Memorandum or Articles of Association incorporating the amendment made.

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We, ILS FIDUCIARY (BVI) LIMITED, Mill Mall, Suite 6, Wickhams Cay 1, P.O. Box 3085, Road Town, Tortola, British Virgin Islands for the purpose of incorporating a BVI Business Company under the laws of the British Virgin Islands hereby sign this Memorandum of Association the 28 March, 2008.

Incorporator

/s/ Bernadette Rawlins

**Bernadette Rawlins**

**Authorised Signatory**

ILS FIDUCIARY (B.V.I.) LIMITED

Mill Mall, Suite 6

Wickhams Cay 1

P.O. Box 3085

Road Town, Tortola

British Virgin Islands

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TERRITORY OF THE VIRGIN ISLANDS  
THE BVI BUSINESS COMPANIES ACT, 2004  
ARTICLES OF ASSOCIATION  
OF  
**GOLDEN DIRECTION LIMITED**  
A COMPANY LIMITED BY SHARES

**INTERPRETATION**

1. References in these Articles to the "Act" shall mean the BVI Business Companies Act, 2004 and shall include amendments to the Act and any regulations as may from time to time be made under the Act.
2. (1) The following Regulations shall constitute the Articles of the Company.  
(2) In these Articles words and expressions defined in the Act shall have the same meaning.  
(3) Unless otherwise required by the context, the singular shall include the plural and vice versa, and the masculine gender shall include the feminine and the neuter genders.  
(4) References to "person" shall include corporations and all other entities which are capable of having legal existence.

**ISSUE OF SHARES AND VARIATION OF RIGHTS**

3. (1) Subject to the provisions of these Articles, the unissued shares of the Company shall be at the disposal of the directors who may offer, allot, grant options over, or otherwise dispose of them to such persons at such times and for such consideration, and upon such terms and conditions as the directors may determine.  
(2) The directors shall not issue a share for a consideration which shall be less than the par value of the share.  
(3) Section 46 of the Act in respect of pre-emptive rights shall not apply to the issue, allotment, transfer, purchase, redemption, or acquisition of shares in the Company.  
(4) The Company shall not be authorized to issue bearer shares; convert registered shares to bearer shares; or exchange registered shares for bearer shares.  
(5) The directors shall issue no shares for a consideration other than money, unless the directors have passed a resolution stating:

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(a) the amount to be credited for the issue of the Shares;

- (b) their determination of the reasonable present cash value of the non-money consideration for the issue; and
  - (c) that, in their opinion, the present cash value of the non money consideration for the issue is not less than the amount to be credited for the issue of the Shares.
4. The directors may issue shares in the Company with such preferred, deferred or other special rights or such restrictions, whether in regard to dividend, voting, return of capital or otherwise as the directors may determine.
  5. The Company shall keep a register of members which shall contain the following:
    - (a) the names and addresses of the persons who hold registered shares in the Company;
    - (b) the number of each class and series of shares held by each shareholder;
    - (c) the date on which the name of each shareholder was entered in the register of members; and
    - (d) the date on which a person ceased to be a shareholder.
  6. (1) Every person whose name is entered as a member in the register of members, being the holder of shares shall, without payment, be entitled to a certificate signed by two directors or two officers or by one director or one officer of the Company or under the common seal of the Company with or without the signature of any director or officer of the Company.
  - (2) The certificate shall specify the share or shares held and the par value thereof (if any) provided that in respect of a share, or shares, held jointly by several persons, the Company shall not be bound to issue more than one certificate, and delivery of a certificate for a share to one of several joint holders shall be sufficient delivery to all.
  - (3) If a certificate is worn out or lost it may be renewed on production of the worn out certificate, or on satisfactory proof of its loss together with such indemnity as the directors may reasonably require.
  - (4) Any member receiving a share certificate shall indemnify and hold the Company and its officers harmless from any loss or liability which it or they may incur by reason of wrongful or fraudulent use or representation made by any person by virtue of the possession of such a certificate.
  7. A share issued by the Company upon conversion of, or in exchange for, another share or a debt obligation or other security in the Company, shall be treated for all purposes as having been issued for money equal to the consideration received or

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deemed to have been received by the Company in respect of the other share, debt obligation or security.

8. The Company may issue fractions of a share and a fractional share shall have the same corresponding fractional liabilities, limitations, preferences, privileges, qualifications, restrictions, rights and other attributes of a whole share of the same class or series of shares.
9. The consideration in respect of the shares constitutes capital to the extent designated by the directors and the excess constitutes surplus, except that the directors must designate as capital an amount of the consideration that is at least equal to the amount that the share is entitled to as a preference, if any, in the assets of the Company upon liquidation of the Company.
10. Subject to the provisions of the Act, shares may be issued on the terms that they are redeemable, or at the option of the Company be liable to be redeemed on such terms and in such manner as the directors before or at any time of the issue of the shares may determine.

#### **ACQUISITION OF OWN SHARES AND REDEMPTION OF SHARES**

11. (1) The directors may, in accordance with the Act, on behalf of the Company purchase, redeem, or otherwise acquire any of the Company's own shares for such consideration as they consider fit, and may either cancel or hold such shares as treasury shares.
- (2) The directors may dispose of any shares held as treasury shares on such terms and conditions as they may from time to time determine. Shares may be purchased or otherwise acquired in exchange for newly issued shares in the Company.
- (3) The directors may redeem any such share at a premium.
- (4) The directors shall by resolution determine whether sections 60, 61, and 62 of the Act shall apply to the acquisition of shares.
- (5) Upon cancellation of a share, the amount included as capital of the Company with respect to that share shall be deducted from the capital of the Company.

#### **NOTICE OF TRUST**

12. No notice of a trust, whether expressed, implied or constructive, shall be entered in the register of members.
13. Except as required by law, no person shall be recognized by the Company as holding any share upon any trust, and the Company shall not be bound by or be compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future, or partial interest in any share or any interest in any fractional part of a share.

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#### **TRANSFER OF SHARES**



14. (1) Registered shares in the Company may be transferred by a written instrument signed by the transferor and containing the name and address of the transferee or such other manner or form and subject to such evidence as the directors shall consider appropriate.
- (2) The Instrument of transfer shall be signed by the transferee if registration as a holder of the share imposes a liability to the Company on the transferee.
- (3) The Instrument of transfer of a registered share shall be sent to the Company for registration.
15. (1) The directors shall pass a resolution to register or refuse to register a transfer of shares.
- (2) The directors having resolved to register the shares shall enter the name of the transferee of the shares in the register of members.
- (3) If the directors of the Company are satisfied that an instrument of transfer relating to Shares has been signed but that the instrument has been lost or destroyed, they may resolve by Resolution:
  - (a) to accept such evidence of the transfer of shares as they consider appropriate; and
  - (b) that the transferee's name should be entered in the register of members notwithstanding the absence of the instrument of transfer.

#### **TRANSMISSION OF SHARES**

16. (1) The personal representative of a deceased member, the guardian of an incompetent member, or the trustee of a bankrupt member shall be the only person recognized by the Company as having any title to his share.
- (2) Such personal representative, guardian, or trustee shall not be entitled to exercise any rights as a member of the Company until that person has proceeded in the manner set out below.
- (3) The production to the Company of any document which is evidence of:
  - (a) a grant of probate of the will, or grant of letters of administration of the estate, or confirmation of the appointment as executor, of a deceased member; or
  - (b) the appointment of a guardian of an incompetent member; or
  - (c) the trustee of a bankrupt member; or

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- (d) any other documentation providing reasonable evidence of the applicants beneficial ownership of the shares, shall be accepted by the Company.
- (4) If the deceased, incompetent member or bankrupt member is domiciled outside the British Virgin Islands the Company shall accept the documents referred to in sub-regulation (3) above, if such documents are issued by a foreign court which had competent jurisdiction in the matter.
- (5) For the purposes of establishing whether or not a foreign court had competent jurisdiction in the matter the directors may obtain appropriate legal advice.
- (6) The directors may also require an indemnity to be given by the personal representative, guardian, or trustee of the member.
17. An application by any such person to be registered as a member shall for all purposes be deemed to be a transfer of shares of the deceased, incompetent, or bankrupt member and the directors shall treat it as such.
18. Any person who has become entitled to a share in consequence of the death, incompetence, or bankruptcy of any member may, instead of being registered himself, request in writing that some person to be named by him be registered as the transferee of such share and such request shall likewise be treated as if it were a transfer.
19. What amounts to incompetence on the part of a person is a matter to be determined by the court having regard to all the relevant evidence and the circumstances of the case.

#### **LIEN**

20. (1) The Company shall have a first and paramount lien on every share which has been registered in the name of a member, whether singly or jointly with any other person, for all the debts incurred before or after the notice to the Company of any interest of any person other than such member, and whether the time for the payment or discharge of the same shall have actually arrived or not, and notwithstanding that the same are joint debts or liabilities of such member or his estate and any other person, whether a member of the Company or not.
- (2) The Company's lien on a share shall extend to all dividends payable thereon.
- (3) The directors may at any time either generally, or in any particular case, waive any lien that has arisen or may declare any share to be wholly or in part exempt from the provisions of this regulation.
21. The Company may sell, in such manner as the directors may by resolution determine, any share on which the Company has a lien, but no sale shall be made

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unless the sum in respect of which the lien exists is payable nor until the expiration of twenty one days after a notice in writing, demanding payment of the sum payable and giving notice of the intention to sell in default of such payment, has been served on the holder for the time being of the share.

22. (1) The net proceeds of the sale by the Company of any share on which it has a lien shall be applied in or towards payment in respect of which the lien exists so far as the same is payable and any residue shall (subject to a like lien for debts or liabilities not payable as existed upon the share prior to the sale) be paid to the holder of the share immediately before such sale.
- (2) For giving effect to any such sale the directors may authorise some person to transfer the share sold to the purchaser thereof.
- (3) The purchaser shall be registered as the holder of the share and he shall not be bound to see the application of the purchase money, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the sale.

#### **MEETINGS OF MEMBERS**

23. The directors shall convene meetings of the members of the Company at such times and in such manner and place as the directors consider necessary or desirable, and they shall convene such a meeting upon the written request of members holding no less than 30% of the votes of the issued voting shares in the Company.
24. Seven days' notice at the least specifying the place, the day and the hour of the meeting and general nature of the business to be conducted shall be given in the manner hereinafter mentioned to such persons whose names on the date the notice is given appear as members in the register of members of the Company and who are entitled to vote.
25. A meeting of the members shall be deemed to have been validly held, notwithstanding that it is held in contravention of the requirement to give notice.
26. Notice of a meeting may be waived by an absolute majority in number of the members having a right to attend and vote at the meeting.
27. The inadvertent failure of the directors to give notice of a meeting to a member, or the fact that a member has not received the notice, does not invalidate the meeting.
28. A meeting of the members may on the application of a member, a director or the directors of the Company be ordered by the Court if:
  - (a) it is impracticable to call or conduct a meeting of the members of the Company in the manner specified in the Act or in these Articles; or
  - (b) if it is in the interest of the members of the Company that a meeting of members is held.

#### **PROCEEDINGS AT MEETINGS OF MEMBERS**

29. No business shall be transacted at any meeting unless a quorum of members is present at the time when the meeting proceeds to business. A quorum shall consist of the holder or holders present in person or by proxy of a majority in excess of 50% of the voting shares.
30. If, within half an hour from the time appointed for the meeting, a quorum is not present, the meeting shall be dissolved.
31. At every meeting the members present shall choose someone of their number to be the chairman. If the members are unable to choose a chairman for any reason, then the person representing the greatest number of shares entitled to vote and who is present at the meeting shall preside as chairman failing which the oldest individual person shall take the chair.
32. The chairman may, with the consent of the meeting, adjourn any meeting from time to time, and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.
33. At any meeting a resolution put to the vote shall be decided on a show of hands by a simple majority unless a poll is (before or on the declaration of the result of the show of hands) demanded:
  - (a) by the chairman; or
  - (b) by any member present in person, voting trustee, committee or by proxy and representing not less than one tenth of the shares entitled to vote.
34. Unless a poll be so demanded, a declaration by the chairman that a resolution has, on a show of hands, been carried, and an entry to that effect in the book containing the minutes of the proceedings of the Company, shall be sufficient evidence of the fact, without proof of the number or proportion of the votes recorded in favour of or against such resolution.
35. If a poll is duly demanded it shall be taken in such manner as the chairman directs, and the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.
36. The demand for a poll may be withdrawn.
37. In the case of an equality of votes, whether on a show of hands, or on a poll, the chairman of the meeting at which the show of hands takes place, or at which the poll is demanded, shall be entitled to a second or casting vote.

#### **VOTES OF MEMBERS**

38. At any meeting of members whether on a show of hands or on a poll, every member entitled to vote and who is present in person, by a voting trustee, by a committee, or by proxy shall have one vote for every voting share of which he is the holder.
39. A member may be represented at a meeting of members by a voting trustee, by a committee, or by proxy who may speak and vote on behalf of that member.

40. A resolution which has been notified to all members and which has been approved by a majority in excess of 50% of the votes of those members in the form of one or more documents in writing or by telex, telegram, cable, or other written electronic communication shall forthwith, without the need for any notice, become effectual as a resolution of the members.
41. If a committee shall be appointed for any member who is entitled to vote and who is of unsound mind that member may vote by his committee.
42. If two or more persons are jointly entitled to a share or shares and if more than one of such persons shall vote in person or by voting trustee or by committee or by proxy at any meeting of members, the vote of that person whose name appears first among such voting joint holders in the register of members shall alone be counted.
43. The instrument appointing a proxy shall be in such form as the chairman of the meeting shall accept as properly evidencing the wishes of the member appointing the proxy.
44. The instrument appointing a proxy shall be in writing under the hand of the appointer unless the appointer is a corporation or other form of legal entity other than one or more individuals holding as joint owners in which case the instrument appointing a proxy shall be in writing under the hand of an individual duly authorised by such corporation or legal entity to execute the same.
45. The chairman of any meeting at which a vote is cast by proxy so authorised may call for a notarially certified copy of such authority which shall be produced within seven days of being so requested or the vote or votes cast by such proxy shall be disregarded.
46. The instrument appointing a proxy shall be produced at the place appointed for the meeting before the time for holding the meeting at which the person named in such instrument proposes to vote.
47. A member of the Company shall be deemed to be present at a meeting of members if:
  - (a) he participates by telephone or other electronic means; and
  - (b) all members participating in the meeting are able to hear each other.

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#### **CORPORATIONS ACTING BY REPRESENTATIVES AT MEETINGS**

48. A corporation or other form of corporate legal entity which is a member of the Company may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual member of the Company.
49. An action that may be taken by members of the Company at a meeting of members may also be taken by a resolution of members consented to in writing, or by telex, telegram, cable, or other written electronic communication without the need for any notice.
50. A resolution consented to in writing may consist of several documents including electronic communication in like form each signed or assented to by one or more members.

#### **DIRECTORS**

51. The number of the directors shall be not less than one nor more than seven.
52. (1) The first director or directors shall be appointed by the first Registered Agent of the Company within such period after the date of incorporation as may be prescribed by law. Thereafter, the directors shall be elected by the members who are entitled to vote for such period as the members may determine.
  - (2) Where the Company has only one member who is an individual and that member is also the sole director of the Company, that sole member/director may, by instrument in writing, nominate a person who is not disqualified from being a director of the Company under the Act, as a reserve director of the Company to act in the place of the sole director/member.
  - (3) The nomination of a person as a reserve director of the Company shall cease if:
    - (a) before the death of the sole member/director who nominated him
      - (i) he resigns as a reserve director, or
      - (ii) the sole member/director revokes the nomination in writing; or
    - (b) the sole member/director who nominated him ceases to be the sole member/director of the Company for any reason other than the death of the sole member/director.
53. The directors shall only be removed by the members.

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54. A person shall not be appointed as a director of the Company or be nominated as a reserve director unless that person has consented in writing to be a director, or a reserve director as the case may be.
55. The Company shall keep and maintain a register of directors which shall contain:
  - (a) the names and addresses of the persons who are directors of the Company or who has been nominated as a reserve director of the Company;

- (b) the date on which each person whose name is entered in the register was appointed as a director of the Company or who has been nominated as a reserve director of the Company;
- (c) the date on which each person named as a director or who has been nominated as a reserve director of the Company ceased to be a director of the Company or a reserve director; and
- (d) such other information as may be prescribed by law.

56. Each director holds office until his successor takes office or until his earlier death, resignation, or removal.

57. A vacancy in the board of directors may be filled by a resolution of the members who are entitled to vote.

58. The office of director shall be vacated if the director:

- (a) dies; or
- (b) is removed from office by a resolution of members; or
- (c) becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- (d) becomes of unsound mind, or of such infirm health as to be incapable of managing his affairs; or
- (e) resigns his office by a notice in writing to the Company.

59. (1) A director shall not require a share qualification, but nevertheless shall be entitled to attend and speak at any meeting of the members.

(2) A trustee of designated shares in the Company which may be held under a Virgin Islands Special Trust shall not be a director of the Company.

60. (1) A director by writing under his hand deposited at the Registered Office of the Company, may from time to time appoint another director or another person to be his alternate.

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(2) Every such alternate shall be entitled to be given notice of meetings of the directors and to attend and vote as a director at any such meeting at which the director appointing him is not personally present and generally at such meeting to have and exercise all the powers, rights, duties and authorities of the director appointing him

61. Every such alternate shall be deemed to be an officer of the Company and shall not be deemed to be an agent of the director appointing him.

62. If undue delay or difficulty would be occasioned by giving notice to a director of a resolution of which his approval is sought, his alternate (if any) shall be entitled to signify approval of the same on behalf of that director.

63. The remuneration of an alternate shall be payable out of the remuneration payable to the director appointing him, and shall consist of such portion of the last mentioned remuneration as shall be agreed between such alternate and the director appointing him.

64. A director by writing under his hand deposited at the Registered Office of the Company may at any time revoke the appointment of an alternate appointed by him.

65. If a director shall die or cease to hold the office of director, the appointment of his alternate shall thereupon cease.

66. The directors may, by resolution, fix the emoluments of directors in respect of services rendered or to be rendered in any capacity to the Company. The directors may also be paid such traveling, hotel, and other expenses properly incurred by them in attending and returning from meetings of the directors, or any committee of the directors or meeting of the members, or in connection with the business of the Company as shall be approved by resolution of the directors.

67. A director who, by request, goes or resides abroad for any purposes of the Company, or who performs services which in the opinion of the Board go beyond the ordinary duties of a director, may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as shall be approved by resolution of the directors.

68. The Company may pay to a director who at the request of the Company holds any office (including a directorship) in, or renders services to, any company in which the Company may be interested, such remuneration (whether by way of salary, commission, participation in profits or otherwise) in respect of such office or services as shall be approved by resolution of the directors.

69. A director may hold any other office or position of profit under the Company (except that of auditor) in conjunction with his office of director, and may act in a professional capacity to the Company on such terms as to remuneration or otherwise as the directors shall determine.

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#### **CONFLICT OF INTEREST**

70. (1) A director may be or become a director or officer of, or otherwise be interested in any company promoted by the Company, or in which the Company may be interested, as a member or otherwise and no such director shall be accountable for any remuneration or other benefits received by him as director or officer or from his interest in such other company.

- (2) A director may also exercise the voting powers conferred by the shares in any other company held or owned by the Company in such manner in all respects as they think fit, including the exercise thereof in favour of any resolutions appointing them, or of their number, directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.
- (3) A director may vote in favour of the exercise of such voting rights in the manner aforesaid notwithstanding that he may be, or be about to become a director or officer of such other company, and as such in any other manner is, or may be, interested in the exercise of such voting rights in the manner aforesaid.
- (4) No director shall be disqualified by his office from contracting with the Company either as a vendor, purchaser or otherwise, nor shall any such contract or arrangement entered into by or on behalf of the Company in which any director shall in any way interested be voided, nor shall any director so contracting or being so interested be liable to account to the Company for any profit realized by any such contract or arrangement, by reason of such director holding that office or of the fiduciary relationship thereby established.
- (5) The nature of a director's interest must be declared by him at the meeting of the directors at which the question of entering into the contract or arrangement is first taken into consideration, and if the director was not at the date of the meeting interested in the proposed contract or arrangement, or shall become interested in a contract or arrangement after it is made, he shall forthwith after becoming so interested, advise the Company in writing of the fact and nature of his interest.
- (6) A general notice to the directors by a director that he is a member of a special firm or company, and is to be regarded as interested in any contract or transaction which may, after the date of notice, be made with such firm or company shall (if such director shall give the same at a meeting of the directors, or shall take reasonable steps to secure that the same is brought up and read at the next meeting of the directors after it is given) be a sufficient declaration of interest in relation to such contract or transaction with such firm or company.
- (7) A director may be counted as one of a quorum upon a motion in respect of any contract or arrangement which he shall make with the Company, or in which he is so interested as aforesaid, and may vote upon such motion.

### **POWERS OF DIRECTORS**

71. The business and affairs of the Company shall be managed by the directors who may pay all expenses incurred preliminary to and in connection with the formation and registration of the Company, and may exercise all such powers of the Company as are not by the Act or by these Articles required to be exercised by the members subject to any delegation of such powers as may be authorised by these Articles and to such requirements as may be prescribed by resolution of the members, but no requirement made by resolution of the members shall prevail if it be inconsistent with these Articles nor shall such requirement invalidate any prior act of the directors which would have been valid if such requirement had not been made.
72. The Board may entrust to and confer upon any director or officer any of the powers exercisable by it upon such terms and conditions and with such restrictions as it thinks fit, and either collaterally with, or to the exclusion of, its powers, and may from time to time revoke, withdraw, alter or vary all or any of such powers.
73. The directors may delegate any of their powers to committees consisting of such member or members of their body as they think fit. Any committee so formed shall in the exercise of powers so delegated conform to any regulations that may be imposed on it by the directors.
74. Subject to the provisions of the Act, the directors may from time to time by power of attorney appoint any company, firm or person or body of persons, whether nominated directly or indirectly by the directors, to be the attorney or attorneys of the Company for such purposes and with such powers authorities and discretions (not exceeding those vested in or exercisable by the directors under these Articles) and for such period and subject to such conditions as they think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorney to delegate all or any of the powers authorities and discretions vested in him.
75. Any director who is a body corporate may appoint any person its duly authorised representative for the purpose of representing it at Board meetings and of transacting any of the business of the directors.
76. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company, shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be, in such manner as the directors shall by resolution determine.
77. The directors may exercise all of the powers of the Company to borrow money and to mortgage or charge its undertakings, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party.
78. If the number of directors shall have been fixed at two or more persons and by reason of vacancies having occurred in the Board there shall be only one

continuing director, he shall be authorised to act alone only for the purpose of appointing another director.

### **PROCEEDINGS OF DIRECTORS**

79. (1) The meetings of the Board of Directors and any committee thereof shall be held at such place or places as the directors shall determine.  
(2) Any one or more directors may convene a meeting of directors.
80. A director may at any time summon a meeting of the directors.
81. A director shall be given no less than seven days' notice of a meeting of directors.
82. If the Company shall have only one director, the provisions hereinafter contained for meetings of the directors shall not apply but such sole director shall have full power to represent and act for the Company in all matters and in lieu of minutes of a meeting shall record in writing and sign a note or memorandum of

all matters requiring a resolution of the directors. Such note or memorandum shall constitute sufficient evidence of such resolution for all purposes.

83. The directors may elect a chairman of their meeting and determine the period for which he is to hold office; but if no such chairman is elected, or if at any meeting the chairman is not present at the time appointed for holding the same, the directors present may choose one of their number to be chairman for the meeting.
84. The directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit.
85. Questions arising at any meeting shall be decided by a majority of votes. In case of an equality in votes the Chairman shall have a second or casting vote.
86. A meeting of the directors held in contravention of the notice requirement shall be valid if a majority of the directors entitled to vote at the meeting have waived notice of the meeting.
87. The inadvertent failure to give notice of a meeting to a director, or the fact that a director has not received the notice, shall not invalidate the meeting.
88. A meeting of the directors is duly constituted for all purposes if at the commencement of the meeting there are present in person or by alternate, a majority of the total number of directors. If the total number of directors is two, a meeting shall be duly constituted for all purposes with both directors. If the total number of directors is three, a meeting of directors shall be duly constituted for all purposes if, at the commencement of that meeting, there are present in person, or by alternate, no less than two directors.
89. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting shall be dissolved.

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90. Any one or more members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.
91. A resolution approved by a majority of the directors for the time being entitled to receive notice of a meeting of the directors or of a committee of the directors and taking the form of one or more documents in writing or by telex, telegram, cable or other written or electronic communication shall be as valid and effectual as if it had been passed at a meeting of the directors or of such committee duly convened and held, without the need for notice.

#### **OFFICERS AND AGENTS**

92. The directors of the Company may, by resolution, appoint officers of the Company at such times as shall be considered necessary or expedient, and such officers may consist of a President, one or more Vice Presidents, a Secretary, and a Treasurer and such other officers as may from time to time be deemed desirable.
93. The officers shall perform such duties as shall be prescribed at the time of their appointment subject to any modifications in such duties as may be prescribed by the directors. In the absence of any specific allocation of duties it shall be the responsibility of the President to manage the day to day affairs of the Company, the Vice Presidents to act in order of seniority in the absence of the President, but otherwise to perform such duties as may be delegated to them by the President; the Secretary to maintain the registers, minute books and records (other than financial records) of the Company and to ensure compliance with all procedural requirements imposed on the Company by law; and the Treasurer to be responsible for the financial affairs of the Company.
94. A person may hold more than one office and no officer need be a director or member of the Company. The officers shall remain in the office until removed from office by the directors whether or not a successor is appointed.
95. An officer who is a body corporate may appoint any person its duly authorised representative for the purpose of representing it and of transacting any of the business of the Company.

#### **INDEMNITY**

96. Subject to the provisions of the Act and of any other statute for the time being in force every director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto, and no director or other officer shall be liable for any loss, damage, or misfortune which may happen to, or be incurred by the Company in the execution of the duties of his office, or in relation thereto.

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#### **SEAL**

97. (1) The Company shall have a Common Seal, an imprint of which shall be kept at the office of the registered agent of the Company.
  - (2) The directors shall provide for the safe custody of the common seal of the Company.
  - (3) The common seal when affixed to any instrument except as provided herein, shall be witnessed by a director or any other person so authorised from time to time by the directors to witness the application of the seal.
98. The directors may provide for a facsimile of the common seal and approve the signature of any director or authorised person which may be reproduced by printing or other means on any instrument and it shall have the same force and validity as if the seal had been affixed to such instrument and the same had been signed as hereinbefore described.

#### **DIVIDENDS AND RESERVES**

99. The directors may, by resolution, declare a dividend.

100. No dividend shall be declared and paid except out of surplus and unless the directors determine that immediately after the payment of the dividend
- (a) the Company will be able to satisfy its liabilities as they become due in the ordinary course of its business; and
  - (b) the realisable value of the assets of the Company will not be less than the sum of its total liabilities, other than deferred taxes, as shown in the books of account, and its capital.
101. The Directors may pay dividends in money, shares, or other property of the Company.
102. In computing the surplus for the purpose of resolving to declare and pay a dividend, the directors may include in their computation the net unrealised appreciation of the assets of the Company.
103. The directors may from time to time pay to the members such interim dividends as appear to the directors to be justified by the surplus of the Company.
104. Subject to the rights of the holders of shares entitled to special rights as to dividends, all dividends shall be declared and paid according to the par value of the shares in issue, excluding those shares which are held by the Company as treasury shares at the date of declaration of the dividend.

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105. The directors may, before recommending any dividend, set aside out of the profits of the Company such sums as they think proper as a reserve or reserves which shall, at their discretion, either be employed in the business of the Company or be invested in such investments as the directors may think fit.
106. If several persons are registered as joint holders of any share, any of them may give effectual receipt for any dividend or other monies payable on or in respect of the share.
107. Notice of any dividend that may have been declared shall be given to each member and all dividends unclaimed for three years after having been declared may be forfeited by the directors for the benefit of the Company.
108. No dividend shall bear interest against the Company.

#### **BOOKS AND RECORDS**

109. The Company shall keep such accounts and records as the directors consider necessary or desirable in order to reflect the financial position of the Company.
110. The Company shall keep minutes of all meetings of directors, members, committees of directors, committees of officers and committees of members, and copies of all resolutions consented to by the directors, members, committees of directors, committees of officers and committees of members.
111. The books, records, and minutes shall be kept at the Registered Office of the Company or at such other place as the directors may determine, and shall be open to the inspection of the directors at all times.
112. (1) The directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the books, records and minutes of the Company or any of them shall be open to the inspection of members not being directors, and no member (not being a director) shall have any right of inspecting any book, record, minute or document of the Company except as conferred by law or authorised by resolution of the directors.
- (2) The Company shall keep the following documents at the office of its registered agent:
- (a) the Memorandum of Association and the Articles of Association;
  - (b) the register of members, or a copy of the register of members;
  - (c) the register of directors, or a copy of the register of directors; and
  - (d) copies of all notices and other documents filed by the Company with the Registrar of Corporate Affairs in the previous 10 (ten) years.

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- (3) If the Company shall maintain only a copy of the register of members or a copy of the register of directors at the office of its registered agent, it shall within such period as may be prescribed by law, in either register, notify the registered agent in writing of the change.
- (4) The Company shall keep the following records at the office of its registered agent or at such other place or places:
- (a) minutes of meetings and resolutions of shareholders and classes of shareholders;
  - (b) minutes of meetings and Resolutions of Directors and committees of directors; and
  - (c) an impression of the Seal.
- (5) Where the original records referred to in these Regulations are maintained other than at the office of the registered agent of the Company, and the place at which the original records is changed, the Company shall within such time as may be prescribed by law provide the registered agent with the physical address of the new location of the records.
- (6) The records kept by the Company under this Regulation shall be in written form or either wholly or partly as electronic records complying with the requirements of the Electronic Transactions Act (No. 5 of 2001)

#### **REGISTER OF CHARGES**

113. The Company shall keep at the office of its registered agent a register of charges in which there shall be entered the following particulars regarding each charge created by the Company:
- (a) the date of creation of the charge;
  - (b) a short description of the liability secured by the charge;
  - (b) a short description of the property charged;
  - (c) the name and address of the trustee for the security or, if there is no such trustee, the name and address of the chargee;
  - (d) unless the charge is a security to bearer, the name and address of the holder of the charge; and
  - (e) details of any prohibition or restriction contained in the instrument creating the charge on the power of the Company to create any future charge ranking in priority to or equally with the charge.

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#### **AUDIT**

114. The directors may, by resolution call for the accounts of the Company to be examined by an auditor or auditors to be appointed by them at such remuneration as may from time to time be agreed.
115. The auditor may be a member of the Company but no director or officer shall be eligible to be an auditor of the Company during his continuance in office.
116. Every auditor of the Company shall have a right of access at all times to the books of accounts and vouchers of the Company, and shall be entitled to require from the officers of the Company such information and explanations as he may think necessary for the performance of his duties.
117. The report of the auditor shall be annexed to the accounts upon which he reports, and the auditor shall be entitled to receive notice of, and to attend, any meeting at which the Company's audited Profit and Loss Account and Balance Sheet are to be presented.

#### **NOTICES**

118. Any notice, information, or written statement required to be given to members shall be served by air-mail service addressed to each member at the address shown in the register of members.
119. All notices directed to be given to the members shall, with respect to any registered shares to which persons are jointly entitled, be given to whichever of such persons is named first in the register of members, and notice so given shall be sufficient notice to all the holders of such shares.
120. Any notice served by post shall be deemed to have been served within ten days of posting, and in proving such service it shall be sufficient to prove that the letter containing the notice was properly addressed and put into the Post Office.

#### **PENSION AND SUPERANNUATION FUND**

121. The directors may establish, maintain, or procure the establishment and maintenance of any non-contributory or contributory pension or superannuation fund for the benefit of, and give or procure the giving of donations, gratuities, pensions, allowances or emoluments to any directors, officers or any other persons who are or were at any time in the employment or service of the Company or any company which is a subsidiary of the Company or is allied to or associated with the Company or with any of its subsidiaries, and to the wives, widows, families and dependents of any such persons. The Company may any of the matters aforesaid either alone or in conjunction with any such other company as aforesaid. All persons described above shall be entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance, or emolument.

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#### **WINDING UP**

122. (1) The Company may voluntarily commence to wind up and dissolve by resolution of members.
- (2) If the Company has never issued shares, it may voluntarily commence to wind up and dissolve by a Resolution of Directors.
- (4) If the Company shall be wound up, the Liquidator may, in accordance with a resolution of members, divide amongst the members in specie or in kind the whole or any part of the assets of the Company and may for such purpose set such value as he deems fair upon any such property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members.
123. The Liquidator may vest the whole or any part of such assets in trustees upon such trust for the benefit of the contributors as the Liquidator shall think fit, but so that no member shall be compelled to accept any shares or other securities whereon there is any liability.

#### **ARBITRATION**

124. Whenever any difference arises between the Company on the one hand and any of the members, their personal representatives or assigns on the other hand touching the true intent and construction or the incidence or consequences of these presents or of the Act. The parties agree to refer the same to a single arbitrator, or failing that, be referred to two arbitrators, one to be chosen by each of the parties and the arbitrators shall before entering on the reference appoint an umpire.
125. If either party to the reference makes default in appointing an arbitrator either originally or by way of substitution (in the event that an appointed arbitrator shall die, be incapable of acting, or refuse to act) for ten days after the other party has given him notice to appoint the same, such other party may appoint an arbitrator



to set in the place of the arbitrator of the defaulting party.

#### **MERGER, CONSOLIDATION AND ARRANGEMENTS**

126. The Company may by resolution of members or by a resolution of Directors if no shares have been issued, merge, consolidate or arrange with other companies in the manner prescribed in the Act.

#### **CONTINUATION**

127. The Company may by a resolution of members or by a resolution of Directors if no shares have been issued, continue as a company incorporated under the laws of a jurisdiction outside the Virgin Islands.

We, ILS FIDUCIARY (BVI) LIMITED, Mill Mall, Suite 6, Wickhams Cay 1, P.O. Box 3085, Road Town, Tortola, British Virgin Islands for the purpose of incorporating a BVI Business Company under the laws of the British Virgin Islands hereby sign these Articles of Association the 28 March, 2008.

Incorporator

/s/ Bernadette Rawlins

**Bernadette Rawlins**

**Authorised Signatory**

ILS FIDUCIARY (B.V.I.) LIMITED

Mill Mall, Suite 6

Wickhams Cay 1

P.O. Box 3085

Road Town, Tortola

British Virgin Islands

**THE MAXIMUM MORTGAGE CONTRACT**  
AGRICULTURAL DEVELOPMENT BANK OF CHINA

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**Mortgagor (in full): Daqing Borun Biology Science and Technology Co., Ltd**

Business License Number: 230606100202936

Legal Representative (Main Responsible Officer): Wang Jinmiao

Address: Jubao Village, Zhusan Township, Datong District, Daqing

Postal code: 163000

Bank of Basic Deposit Account and Account Number: Datong Branch of Daqing Commercial Bank with the Account No. 09020120218000105

Tel and Fax: 0459-6989217

**Mortgagee (in full): [] Branch of Agricultural Development Bank of China**

Legal Representative (Main Responsible Officer): Wang Weidong

Address: Jianshe Road, [] District, Daqing City, Hei Longjiang Province

Postal code: 163316

Tel and Fax: 0459-6297123

In order to ensure the proper performance of the obligation of Daqing Borun Biology Science and Technology Co., Ltd (hereafter referred to as “**Debtor**”) under several business contracts (hereafter referred to as “**Principal Contracts**”), which were entered into between and by the Debtor and the Mortgagee, within the period provided in the Article 1 hereunder and within the limitation of the maximum amount of credit, to guarantee the realization of the credit of the Mortgagee, the Mortgagor is willing to provide security guarantees to the Mortgagee. To specify the rights and obligations of the both parties, the Mortgagor and Mortgagee enter into this Mortgage contract upon consensus through the consultation on the basis of equality in accordance with Contract Law of People’s Republic of China, Security Law of People’s Republic of China and other relevant laws and regulations.

**Article 1 Type and Amount of the Principal Credit to be Secured**

- 1.1 The principal credit to be secured hereunder refers to the credit, commencing from August 26, 2009 to August 25, 2010, formed when the Debtor managed the agreed business operation under the Principal Contracts at the Creditor’s, the maximum amount of the principal is RMB (in words) 13,500,000.00. The aforementioned period shall only refer to the execution date of the contracts excluding due time of the debt.
- 1.2 The business type of principal credit to be secured hereunder, which includes short-term grain loans to the leading enterprises, shall comply with the provisions under this Principal Contracts.

**Article 2 Duration of the Performance of the Liabilities by the Debtor**

Duration shall be provided in the Principal Contracts respectively.

**Article 3 Security Scope**

- 3.1 The scope to be secured hereunder shall include the principal, interest, compound interest, default interest, liquidated damages, damage awards and expenses incurred due to the realization of credit by the creditor and all other sums, including but not limited to expenses or fees of litigation, arbitration, property preservation, assessment, auction, execution, transfer and agency.
- 3.2 Regardless of whether there is the guarantee of real right under the credit secured, the Mortgagor shall fully bear joint and several liabilities in accordance with the type and amount of the principal credit provided in the Article 1 hereunder.

**Article 4 Mortgage Property**

- 4.1 The Mortgagor, of its own free will, mortgages to the Mortgagee all the properties listed in the Mortgage List hereunder, which shall constitute integral parts hereof.
- 4.2 The agreements with respect of the value of the mortgage properties under the Mortgage List shall not be regarded as the assessment basis when such mortgage properties are disposed and shall not constitute any constraint on the mortgagee regarding the enforcement of the mortgage right. The final value of the mortgage properties shall be subject to the net income of the actual disposal of the mortgage properties when such mortgage right is realized.

**Article 5 Effectiveness of the Mortgage Right**

The effectiveness of the mortgage right hereunder shall govern the ancillary components, accessory rights, subrogated rights, affiliated things, compounds, processed things and fructus.

## **Article 6 Mortgage Registration**

- 6.1 Should the mortgage properties hereunder be subject to the mortgage registration in accordance with laws and regulations, the Mortgagor shall, within fifteen (15) days after the execution of this Mortgage Contract, go to the competent authorities to handle the mortgage registration along together with the Mortgagee.
- 6.2 In the event the mortgage properties hereunder are not subject to the mortgage registration, however the two parties hereto voluntarily are willing to manage the mortgage registration, the Mortgagor shall, within fifteen (15) days after the execution of

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this Mortgage Contract, go to the competent authorities to handle the mortgage registration along together with the Mortgagee.

- 6.3 Where any changes occur to the items under the mortgage registration and such changes are subject to the registration of alteration, the Mortgagor shall, within fifteen (15) days after the alteration of the items under mortgage registration, go to the competent authorities to handle the mortgage registration of alteration along together with the Mortgagee.

## **Article 7 Occupation and Keeping of the Mortgaged Property**

- 7.1 The certificates of mortgage rights hereunder, the original copies of the mortgage registration documentation and other materials relating to the mortgaged properties shall be kept by the Mortgagee after confirmation by the Mortgagor and Mortgagee. The mortgagee shall keep such certificates and documents of mortgage rights appropriately. If, due to the improper care, such certificates and documents of mortgage rights are damaged or lost, the post-registration fees shall be borne by the Mortgagee.
- 7.2 The Mortgagor shall keep the mortgaged properties properly and maintain the mortgage properties intact, and shall accept supervision and inspection of the Mortgagee at any time.
- 7.3 Without the prior written consent of the Mortgagee, the Mortgagor shall not donate, alienate, lease, re-mortgage, pledge or otherwise dispose of the Mortgaged properties hereunder by any means. Where a mortgagor alienates, upon the prior written consent of the mortgagee, the mortgaged properties, the money generated from such alienation shall be used to pay off debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously.
- 7.4 In case the mortgaged properties are damaged or lost, the Mortgagor shall promptly take measures so as to prevent the expansion of the losses thereof and shall, at the same time, notice the Mortgagee. The insurance benefits and compensatory payment arising from or in connection with such losses shall be used to pay off principal debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously.
- 7.5 In case the value of the mortgaged properties reduces, the Mortgagor shall resume such mortgaged properties to the original value status or provide the necessary guarantee equal to the reduced value upon the confirmation of the Mortgagee. In case any such request of the Mortgagee is refused, the Mortgagee shall be entitled to exercise the mortgage right in advance. In case there are still losses after the excise of the mortgage right in advance, the Mortgagor shall undertake the compensation liabilities. Should the Mortgagor be indemnified against the losses in relation to the reduced value of the mortgaged properties, the Mortgagor shall provide security to the Mortgagee within the

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extent of the indemnity that it has thus obtained. The part of the mortgaged properties that have not reduced shall still constitute the security of the Principal Contract.

- 7.6 In the event that the mortgaged properties are expropriated as the needs of the state construction, the compensation thereof obtained by the Mortgagor shall be used to pay off debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously.

## **Article 8 Mortgage Insurance**

- 8.1 The mortgagor shall, within fifteen (15) days after the execution of this contract, go to relevant insurance institutions to make the mortgaged properties, which are considered by the Mortgagee as necessary and have access to the property insurance, covered by the property insurance in favor of the Mortgagee as the first beneficiary subject to the requirements of the Mortgagee with respect to the insurance type and amount. The period of the insurance shall not be shorter than of the performance period of this contract and the insurance amount shall not less than the principal and interest of the loan under the Principal Contract.
- 8.2 The mortgagor shall deliver to the Mortgagee the original copies of the insurance policies, which shall not include the provisions that constrain the rights and benefits of the Mortgagee.
- 8.3 The Mortgagor shall not cancel or otherwise terminate the insurance for any reason during the period of this contract. In case the Mortgagor cancels or otherwise terminates the insurance, the Mortgagee shall be entitled on their behalf to purchase the insurance with all cost thus incurred to be borne by the Mortgagor.
- 8.4 During the period of this contract, if insurance accidents occur to the mortgaged properties, the insurance compensation thereof obtained by the Mortgagor shall be used to pay off debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously.

## **Article 9 Enforcement of Mortgage Right**

- 9.1 Upon the expiration of the duration of the debts under the Principal Contract, or in case the credits secured by the maximum mortgage is confirmed, or when the Mortgagee requires to pay-off the credits under the Principal Contract in advance, should the Debtor fail to pay-off the principal and interest as well as all other expenses, the Mortgagee shall be entitled to auction or sell the mortgaged properties and be paid back first through the payment arising from such activities, or, through the consultation with the Mortgagor, realize its rights through converting the mortgaged properties into money.
- 9.2 Should the Mortgagee fail to be paid when the Principal Contract is terminated by the

Mortgagee in accordance with the provisions therein or laws and regulations, the Mortgagee shall be entitled to auction or sell the mortgaged properties and be paid back first through the payment arising from such activities, or, through the consultation with the Mortgagor, realize its rights through converting the mortgaged properties into money.

- 9.3 The part of payment incurred due to the disposition of the mortgaged properties hereunder exceeding the principal and interest and all other relevant expenses shall be attributed to the Mortgagee.
- 9.4 When the Mortgagee disposes the mortgaged properties hereunder the Mortgagor shall offer proper cooperation and shall not set any obstacle.

#### **Article 10 Representations and Warranties of the Mortgagor**

- 10.1 The Mortgagor understands and agrees any and all provisions hereof and, of its own will, provides the security for the Debtor. All the declaration of intention hereunder is true.
- 10.2 The Mortgagor is the complete, valid and legal owner of the mortgaged properties hereunder or the authorized business operator by the government and no any dispute regarding the ownership or the rights of business operation exists upon the mortgaged properties. Such properties are free to be mortgaged in compliance with laws and regulations without being subject to any limitations, upon which no such circumstances as cancellation from use, detention, custody, lease, tax or construction cost in default or other circumstances that may impact the realization of the mortgage right of the Mortgagee exist.
- 10.3 Should the Principal Contract be the Bank Acceptance Agreement, the Mortgagor undertakes that any disputes arising from or in connection with the bills or otherwise disputes occurring to the Debtor, the holder of the acceptance bills, endorser or other relevant persons shall not jeopardize the security liabilities borne by the Mortgagor to the Mortgagee in compliance with this contract.
- 10.4 The Mortgagor shall notice the Mortgagee in writing in the event the following issues occur:
- 10.4.1 In case that there are modifications with respect to the business operation system, including but not limited to contracting mechanism, lease, joint operation, merger, separation, joint stock enterprise reform, cooperation with foreign investors and so on, or business scope or registered capital modifications, shareholding changes, the Mortgagor shall notice the Mortgagee at least fifty (50) days in advance.
- 10.4.2 In case that there are significant economic disputes or disputes with respect to the ownership or preservation measures upon the mortgaged properties, bankruptcy, business close, dissolution, business cancellation and reorganization, cancellation of business license or changes of address,

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telephones and legal representatives, the Mortgagor shall notice the Mortgagee within five (5) days since the occurrence of the aforementioned issues.

- 10.5 Provided that the issues referred in Article 10.4.1 or some other issues occur to the Mortgagor during the valid period of this Contract, the Mortgagor shall undertake the security liabilities hereunder continuously.
- 10.6 In the event that the Debtor fails to perform the obligations, regardless of whether the Mortgagee possesses other security rights upon the credits under the Principal Contract, the Mortgagee shall be entitled to require the Mortgagor to bear the security obligations to the extent of the security hereunder.
- 10.7 In case that the mortgage right suffers or potentially will suffer the damages incurred from any other third party, the Mortgagor shall notice immediately or assist the Mortgagee to avoid such damages.
- 10.8 Should the agreement regarding the modification of this contract be reached between the Mortgagor and the Mortgagee, except for the extension of this contract or the increase of the credit under the Principal Contract, the Mortgagor shall still be liable for the security obligations within the extent of the obligations hereunder without being subject to the agreement of the Mortgagor.
- 10.9 All the relevant expenses hereunder, including but not limited to fees of legal counsel, identification, notarization, assessment, registration, transfer, custody or litigation shall be borne by the Mortgagor.

#### **Article 11 Default Liabilities**

- 11.1 Once this contract comes into effective, both parties hereunder shall perform such liabilities as agreed under this contract. Any party, which fails to perform such liabilities hereof or perform such liabilities incompletely as agreed under this contract, shall bear the liabilities for breach of this contract.
- 11.2 The Mortgagor shall indemnify the Mortgagee for all the economic losses incurred due to the false representations declared by the Mortgagor in the Article 10.1 and 10.2 hereunder.
- 11.3 In the event that this contract becomes invalid not caused by the faults of the Mortgagee, the Mortgagor and the Debtor shall bear the joint and several liabilities to indemnify the Mortgagee for all the economic losses. In case that the Mortgagor and the Debtor fail to undertake the joint and several liabilities, the Mortgagee shall be entitled to dispose of the mortgaged properties and be paid first within the extent of the suffered economic losses.

#### **Article 12 Effectiveness, Modification, and Termination of Contract**

- 12.1 This contract shall enter into effective on the date when both parties sign and stamp on

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it. Should the mortgage registration is required in compliance with laws and regulations it becomes valid upon the mortgage registration.

- 12.2 Upon the effectiveness of this contract, except as otherwise provided, neither the Mortgagor nor the Mortgagee could modify or terminate this contract without the prior consent of the other party. Provided that the modifications or the termination of this contract is needed, the notice shall be delivered in writing and the written agreements in respect thereof shall be reached upon consensus through the negotiation between two parties.

**Article 13 Resolution of Disputes**

13.1 Any disputes arising out of, or in connection with the execution of this contract shall be settled through the consultations between two parties; where the agreements fail to be reached through such consultation, such disputes shall be settled through the following ways as provided under Article 13.1.1:

13.1.1 Instituting a legal proceeding to the People's court located at the premise of the Mortgagee.

13.1.2 Submitting to [ ] commission of arbitration with the arbitration premise at [ ] in accordance with the arbitration rules at that time.

**Article 14 Miscellaneous**

14.1 During the valid period of this contract, prior to the confirmation of the maximum mortgage security, provided that the Mortgagee assigns any part of the principal credit in compliance with laws, the Mortgageor shall still undertake the liabilities of maximum mortgage security to the extent of the original mortgage security.

14.2 [ ]

14.3 [ ]

**Article 15 Supplementary**

15.1 Except as otherwise provided hereunder, all the notices between the Mortgageor and Mortgagee shall be delivered in writing. Upon any of the telexes and telegrams are sent, or the postal letters are delivered to the post offices by the Mortgagee to the Mortgageor, such telexes, telegrams and postal letters shall be deemed as reached by the Mortgageor.

15.2 The appendix hereto shall constitute integral parts hereof and shall be as valid and effective as this contract.

15.3 The contract is executed in quadruplicate. Each party hereto shall hold one (1) counterpart. The other two counterparts shall be submitted to the Housing Management

Bureau and Land Resources Bureau for each respectively. Each counterpart has equally authentic.

**Article 16 Special Instructions**

The Mortgagee has reminded the Mortgageor of understanding the provisions hereunder comprehensively and accurately and made explanations regarding the relevant provisions according to the requirements of the Mortgageor. There is no any discrepancy in connection with the understanding of the provisions hereof between the two parties.

The Mortgageor (seal)

The Mortgagee (seal)

Legal Representative (Main Responsible Officer) or Authorized Agent:

Legal Representative (Main Responsible Officer) Authorized Agent:

/s/ Authorized Person

/s/ Authorized Person

Date: September 30, 2008

Date: September 30, 2008

**List of Collateral**

To: Agricultural Development  
Bank of China

Submission Date : August, 2009

Unit: RMB

Land Owner	Land User	Land Use Certificate Available?	Land Area(m <sup>1</sup> )	Land Use Type (Grant, Allocate, Lease)	Collateral Value	Pricing per Unit	Collateral Rate	Location	Collateral Loan Amount
Stated-Owned	Daqing Borun Biotechnology Co., Ltd	Yes	61432.8	Grant	7433368.8	121	50%	Daqing City, Datong District	3000000
Total					7433368.8				3,000,000.00

Property Owner	Name of the Building (Application)	Property Certificate Available?	Building Area	Pricing Per Unit	Bulging Structure	Completion Time	Collateral Value	Collateral Rate	Collateral Loan Amount
	Zi Di No.NA352401 Office Building	Yes	2769.35	1654.5215			4581949	0.5	2250000
	Zi Di No.NA352402 Workshop	Yes	2106.08	1341.2786			2824840	0.5	1400000
	Zi Di No.NA352413 Workshop	Yes	4281.48	1341.2785			5742657	0.5	2800000
	Zi Di No.NA352411 Workshop	Yes	1771.35	1341.2787			2375874	0.5	1100000

Zi Di No.NA352408 Workshop	Yes	580.02	1089.9279	632180	0.5	300000
Zi Di No.NA352405 Boiler Plant	Yes	3694.99	1351.6207	4994225	0.5	2400000
Zi Di No.NA352399 Canteen	Yes	474.58	1122.9150	<u>532913</u>	0.5	<u>250000</u>
<b>Total</b>				<u>21684638</u>		<u>10500000</u>

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**FORM OF INDEPENDENT DIRECTOR AGREEMENT**

**THIS INDEPENDENT DIRECTOR AGREEMENT** (this "Agreement") is made and entered into this \_\_\_\_\_ day of \_\_\_\_\_, 2010, by and between **CHINA NEW BORUN CORPORATION**, a company established under the laws of the Cayman Islands (the "Company") and \_\_\_\_\_, an individual residing at \_\_\_\_\_ (the "Director").

**RECITALS:**

**WHEREAS**, the Company has confidentially submitted a Registration Statement on Form F-1 with the U.S. Securities and Exchange Commission for the purpose of completing an initial public offering (the "IPO") of American depository shares representing the Company's ordinary shares, par value US\$0.001 per share ("Common Stock"); and

**WHEREAS**, the Company [desires to appoint][has appointed] the Director to serve on the Company's board of directors (the "Board") and the Director desires to accept such appointment to serve on the Board; and

**WHEREAS**, the Director [has been][may be] appointed as a member of one or more committees of the Board; and

**WHEREAS**, the Director [has been][may be] appointed to serve as Chairman of one or more committees of the Board.

**AGREEMENT:**

**NOW, THEREFORE**, in consideration of the foregoing and the Director's services to the Company as a member of the Board, as a member of such Committees of the Board to which he may be appointed from time to time and as Chairman of one or more committees to which he may be appointed in such capacity from time to time, and intending to be legally bound hereby, the Company and the Director hereby agree as follows:

1. **Term.** The Company hereby appoints the Director, and the Director hereby accepts such appointment by the Company, for the purposes and upon the terms and conditions contained in this Agreement. The term of such appointment shall commence upon the date that the IPO has been officially completed (the "Commencement Date") and shall expire one (1) year from the Commencement Date (the "Expiration Date"), unless terminated prior to the Expiration Date pursuant to the Director's earlier resignation or removal from office in accordance with the Company's then current Certificate of Incorporation and Memorandum and Articles of Association. In the event that the Director's successor has not been elected and qualified as of the Expiration Date, the Director shall continue to serve hereunder until such successor has been duly elected and qualified.

2. **Compensation.** The Company agrees to compensate the Director, and the Director agrees to accept, an annual compensation fee in the amount of US\$ \_\_\_\_\_ for his service as (a) a member of the Board, (b) as a member of each committee of the Board to

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which he may be appointed and (c) as Chairman of each committee of the Board to which he may be appointed (collectively referred to hereinafter as the "Annual Fee"). The Annual Fee shall be payable in cash and shall be paid to the Director, pro rata, on the last day of each fiscal quarter. In the event that the Director serves less than a full year on the Board, the Company shall only be obligated to pay the pro rata portion of such Annual Fee to the Director for his services performed during such year.

3. **Independence.** The Director acknowledges that his appointment hereunder is contingent upon the Board's determination that he is "independent" with respect to the Company, as such term is defined by Section 303A.02 of the New York Stock Exchange's Listed Company Manual, and that his appointment may be terminated by the Company in the event that the Director does not maintain such independence.

4. **Duties.** The Director shall exercise his powers in good faith and in the best interests of the Company, including but not limited to, the following:

(a) **Conflicts of Interest.** In the event that the Director has a direct or indirect financial or personal interest in a contract or transaction to which the company is a party, or the Director is contemplating entering into a transaction that involves use of corporate assets or competition against the Company, the Director shall promptly disclose such potential conflict to the applicable Board committee and proceed as directed by such committee.

(b) **Corporate Opportunities.** Whenever the Director becomes aware of a business opportunity, related to the Company's business, which one could reasonably expect the Director to make available to the Company, the Director shall promptly disclose such opportunity to the applicable Board committee and proceed as directed by such committee.

(c) **Candor.** The Director shall ensure that, through the appropriate legal channels, he provides to the Company's shareholders all material relevant information known to him when a voting or investment decision has been submitted to the shareholders.

(d) **Confidentiality.** The Director agrees and acknowledges that, by reason of the nature of his duties as Director, he will have or may have access to and become informed of confidential and secret information which is a competitive asset of the Company ("Confidential Information"), including without limitation any lists of customers or suppliers, distributors, financial statistics, research data or any other statistics and plans or operation plans or other trade secrets of the Company and any of the foregoing which belong to any person or company but to which the Director has had access by reason of his relationship with the Company. The Director agrees faithfully to keep in strict confidence, and not, either directly or indirectly, to make known, divulge, reveal, furnish, make available or use (except for use in the regular course of his employment duties) any such Confidential Information. The Director acknowledges that all manuals, instruction books, price lists, information and records and other information and aids relating to the Company's business, and any and all other documents containing Confidential Information furnished to the Director by the Company or otherwise acquired or developed by the Director, shall at all times be the property of the Company. Upon termination of the Director's services hereunder, the Director shall return to the Company any such property or documents which are in his possession, custody or control, but his obligation of confidentiality shall survive

may have to the Company under general legal or equitable principles.

5. **Expenses.** Upon submission of adequate documentation by the Director to the Company, the Director shall be reimbursed for all reasonable expenses incurred by him in connection with his positions as a member of the Board and for his services as a member of each committee of the Board to which he may be appointed.

6. **Withholding.** The Director agrees to cooperate with the Company to take all steps necessary or appropriate for the withholding of taxes by the Company required under law or regulation in connection herewith, and the Company may act unilaterally in order to comply with such laws.

7. **Binding Effect.** This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns.

8. **Recitals.** The recitals to this Agreement are true and correct and are incorporated herein, in their entirety, by this reference.

9. **Validity.** The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

10. **Headings and Captions.** The titles and captions of paragraphs and subparagraphs contained in this Agreement are provided for convenience of reference only, and shall not be considered terms or conditions of this Agreement.

11. **Neutral Construction.** Neither party hereto may rely on any drafts of this Agreement in any interpretation of the Agreement. Both parties to this Agreement have reviewed this Agreement and have participated in its drafting and, accordingly, neither party shall attempt to invoke the normal rule of construction to the effect that ambiguities are to be resolved against the drafting party in any interpretation of this Agreement.

12. **Counterparts.** This Agreement may be executed in one (1) or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

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13. **Miscellaneous.** This Agreement shall be construed under the laws of the State of New York, without application to the principles of conflicts of laws. This Agreement constitutes the entire understanding between the parties with respect to its subject matter, and there are no prior or contemporaneous written or oral agreements, understandings, or representations, express or implied, directly or indirectly related to this Agreement that are not set forth or referenced herein. This Agreement supersedes all negotiations, preliminary agreements, and all prior and contemporaneous discussions and understandings of the parties hereto and/or their affiliates. The Director acknowledges that he has not relied on any prior or contemporaneous discussions or understandings in entering into this Agreement. The terms and provisions of this Agreement may be altered, amended or discharged only by the signed written agreement of the parties hereto.

[Remainder of Page Intentionally Left Blank]

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IN WITNESS WHEREOF, the parties hereto have executed this Independent Director Agreement as of the day and year first above written.

CHINA NEW BORUN CORPORATION, a  
Cayman Islands company

DIRECTOR:

By: \_\_\_\_\_  
Name: Mr. WANG Jinmiao  
Title: President and Chief Executive Officer

By: \_\_\_\_\_

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## FORM OF INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this “Agreement”) is entered into as of \_\_\_\_\_ by and between China New Borun Corporation, a Cayman Islands company (the “Company”) and the undersigned, a [director][officer] of the Company (“Indemnitee”).

### RECITALS

1. The Company recognizes that highly competent persons are becoming more reluctant to serve corporations as directors or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against risks of claims and actions against them arising out of their services to the Company.

2. The Board of Directors of the Company (the “Board”) has determined that the inability to attract and retain highly competent persons to serve the Company is detrimental to the best interests of the Company and its shareholders and that it is reasonable and necessary for the Company to provide adequate protection to such persons against risks of claims and actions against them arising out of their services to the Company.

3. The Company and Indemnitee do not regard the indemnities available under the Company’s current memorandum and articles of association (the “Articles of Association”) as adequate to protect Indemnitee against the risks associated with his or her service to the Company.

4. The Company is willing to indemnify Indemnitee to the fullest extent permitted by applicable law, and Indemnitee is willing to serve and continue to serve the Company on the condition that he or she be so indemnified.

### AGREEMENT

In consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

#### I. Definitions

The following terms shall have the meanings defined below:

*Disinterested Director* means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

*Change in Control* shall be deemed to have occurred if, on or after the date of this Agreement, (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), other than (a) a trustee or other fiduciary holding securities under an employee benefit plan of the Company acting in such capacity; (b) a corporation owned directly or indirectly by the shareholders of the Company in substantially the same proportions as their ownership of ordinary shares of the Company; or (c) any current beneficial shareholder or group, as defined by Rule 13d-5 of the Exchange Act, including the heirs, assigns and successors thereof, of beneficial ownership, within the meaning of Rule 13d-3 of the Exchange Act, of securities possessing more than 50% of the total combined voting power of the Company’s outstanding securities; hereafter becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 20% of the total combined voting power represented by the Company’s then outstanding ordinary shares, (ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by the Company’s shareholders was approved by a vote of at least two thirds

(2/3) of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof, or (iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation other than a merger or consolidation which would result in the ordinary shares of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into ordinary shares of the surviving entity) at least 80% of the total voting power represented by the ordinary shares of the Company or such surviving entity outstanding immediately after such merger or consolidation, or the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of (in one transaction or a series of related transactions) all or substantially all of the Company’s assets.

*Expenses* shall include damages, judgments, fines, penalties, settlements and costs, attorneys’ fees and disbursements and costs of attachment or similar bond, investigations, liabilities, losses, taxes, any expenses paid or incurred in connection with investigating, defending, being a witness in, participating in (including on appeal), or preparing for any of the foregoing in, any Proceeding, and any taxes, interests, assessments or other charges imposed as a result of the actual or deemed receipt of any payments under this Agreement.

*Indemnifiable Event* means any event or occurrence that takes place [either before or] after the execution of this Agreement, related to the fact that Indemnitee is or was a director or an officer of the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other entity, including services with respect to employee benefit plans, or was a director or officer of an entity that was a predecessor of the Company or another entity at the request of such predecessor entity, or related to anything done or not done by Indemnitee in any such capacity.

*Independent Counsel* means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

*Participant* means a person who is a party to, or witness or participant (including on appeal) in, a Proceeding.

*Proceeding* means any threatened, pending, or completed action, suit or proceeding, or any inquiry, hearing or investigation, whether civil, criminal, administrative, investigative or other, including any appeal thereof, in which Indemnitee may be or may have been involved as a party or otherwise by reason of an Indemnifiable Event, including, without limitation, any threatened, pending, or completed action, suit or proceeding by or in the right of the Company.

## II. Agreement To Indemnify

1. **General Agreement.** In the event Indemnitee was, is, or becomes a Participant in, or is threatened to be made a Participant in, a Proceeding, the Company shall indemnify the Indemnitee from and against any and all Expenses which Indemnitee incurs or becomes obligated to incur in connection with such Proceeding, to the fullest extent permitted by applicable law.

2. **Partial Indemnification.** If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of Expenses, but not for the total amount of Expenses, the Company shall indemnify the Indemnitee for the portion of such Expenses to which Indemnitee is entitled.

3. **Exclusions.** Notwithstanding anything in this Agreement to the contrary, Indemnitee shall not be entitled to indemnification under this Agreement:

(a) to the extent that payment is actually made to Indemnitee under a valid, enforceable and collectible insurance policy;

(b) to the extent that Indemnitee is indemnified and actually paid other than pursuant to this Agreement;

(c) in connection with any Proceeding initiated by Indemnitee against the Company, any director or officer of the Company or any other party, and not by way of defense, unless (i) the Company has joined in or the Reviewing Party (as hereinafter defined) has consented to the initiation of such Proceeding; or (ii) the Proceeding is one to enforce indemnification rights under this Agreement or any applicable law;

(d) for a disgorgement of profits made from the purchase and sale by the Indemnitee of securities pursuant to Section 16(b) of the Exchange Act or similar provisions of any applicable U.S. state statutory law or common law;

(e) for Expenses that have been finally judicially determined to have resulted from fraud, gross negligence, willful misconduct or a violation of fiduciary duty of the Indemnitee;

(f) for any judgment, fine or penalty which the Company is prohibited by applicable law from paying as indemnity;

(g) arising out of Indemnitee's personal tax matter; or

(h) arising out of Indemnitee's breach of an employment agreement with the Company (if any) or any other agreement with the Company or any of its subsidiaries.

4. **No Employment Rights.** Nothing in this Agreement is intended to create in Indemnitee any right to continued employment with the Company.

5. **Contribution.** If the indemnification provided in this Agreement is unavailable and may not be paid to Indemnitee for any reason other than those set forth in Section II. 3, then the Company shall contribute to the amount of Expenses paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and by the Indemnitee on the other hand from the transaction from which such Proceeding arose, and (ii) the relative fault of the Company on the one hand and of the Indemnitee on the other hand in connection with the events which resulted in such Expenses, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the Indemnitee on the other hand shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Expenses, judgments, fines or settlement amounts. The Company agrees that it would not be just and equitable if contribution pursuant to this Section II. 5 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

## III. Indemnification Process

1. **Notice and Cooperation By Indemnitee.** Indemnitee shall give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be given in accordance with Section VI.7 below. In addition, Indemnitee shall give the Company such information and cooperation as the Company may reasonably request.

2. **Indemnification Payment.**

(a) **Advancement of Expenses.** Indemnitee may submit a written request with reasonable particulars to the Company requesting that the Company advance to Indemnitee all Expenses that may be reasonably incurred in advance by Indemnitee in connection with a Proceeding. The Company shall, within 20 business days of receiving such a written request by Indemnitee, advance all requested Expenses to Indemnitee. Any excess of the advanced Expenses over the actual Expenses will be repaid to the Company.

(b) **Reimbursement of Expenses.** To the extent Indemnitee has not requested any advanced payment of Expenses from the Company, Indemnitee shall be entitled to receive reimbursement for the Expenses incurred in connection with a Proceeding from the Company as soon as practicable after Indemnitee makes a written request to the Company for reimbursement.

(c) **Determination by the Reviewing Party.** Notwithstanding the foregoing, (i) the obligations of the Company under Section II.1 shall be subject to the condition that the Reviewing Party shall not have determined (in a written opinion, in any case in which the Independent Counsel referred to in Section III.2(e) hereof is involved) that Indemnitee would not be permitted to be indemnified under applicable law or the Company's Articles of Association, and (ii) the obligation of the Company to make an advance payment of Expenses to Indemnitee pursuant to Section III. 2(a) shall be subject to the condition that, if, when and to the extent that the Reviewing Party determines that Indemnitee would not be permitted to be so indemnified under applicable law or the Company's Articles of Association, the Company shall be entitled to be reimbursed by Indemnitee (who hereby agrees to reimburse the Company) for all such amounts theretofore paid; provided, however, that if Indemnitee has commenced or thereafter commences legal proceedings in a court of competent jurisdiction to secure a determination that Indemnitee should be

indemnified under applicable law, any determination made by the Reviewing Party that Indemnitee would not be permitted to be indemnified under applicable law shall not be binding and Indemnitee shall not be required to reimburse the Company for any advanced Expenses until a final judicial determination is made with respect thereto (as to which all rights of appeal therefrom have been exhausted or lapsed). The Indemnitee's obligation to reimburse the Company for any advanced Expenses shall be unsecured and no interest shall be charged thereon. If there has not been a Change in Control, the Reviewing Party shall be selected by the Board, and if there has been such a Change in Control (other than a Change in Control which has been approved by a majority of the Company's Board who were directors immediately prior to such Change in Control), the Reviewing Party shall be the Independent Counsel referred to in Section III. 2(e) hereof.

(d) *Enforcement of Indemnification Rights.* If there has been no determination by the Reviewing Party or if the Reviewing Party determines that Indemnitee substantively would not be permitted to be indemnified in whole or in part under applicable law, or if Indemnitee has not otherwise been paid in full within 30 days after a written demand has been received by the Company, Indemnitee shall have the right to commence litigation in any court having subject matter jurisdiction thereof and in which venue is proper to recover the unpaid amount of the demand (an "Enforcement Proceeding") and, if successful in whole or in part, Indemnitee shall be entitled to be paid any and all Expenses in connection with such Enforcement Proceeding. The Company hereby consents to service of process and to appear in any such proceeding.

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(e) *Change in Control.* The Company agrees that if there is a Change in Control of the Company (other than a Change in Control which has been approved by a majority of the Company's Board who were directors immediately prior to such Change in Control) then, with respect to all matters thereafter arising concerning the rights of Indemnitees to payments of Expenses under this Agreement or any other agreement or under the Company's Articles of Association as now or hereafter in effect, Independent Counsel shall be selected by the Indemnitee and approved by the Company (which approval shall not be unreasonably withheld). Such counsel, among other things, shall render its written opinion to the Company and Indemnitee as to whether and to what extent Indemnitee would be permitted to be indemnified under applicable law, and the Company agrees to abide by such opinion. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all expenses (including attorneys' fees), claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

3. Assumption of Defense. In the event the Company is obligated under this Agreement to advance or bear any Expenses for any Proceeding against Indemnitee, the Company shall be entitled to assume the defense of such Proceeding, with counsel approved by Indemnitee, upon delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee in writing and the retention of such counsel by the Company, the Company will not be liable to Indemnitee under this Agreement for any fees of counsel subsequently incurred by Indemnitee with respect to the same Proceeding, unless (i) the employment of counsel by Indemnitee has been previously authorized by the Company, (ii) Indemnitee shall have reasonably concluded that, based on written advice of counsel, there may be a conflict of interest of such counsel retained by the Company between the Company and Indemnitee in the conduct of any such defense, or that counsel selected by the Company may not be adequately representing Indemnitee, or (iii) the Company ceases or terminates the employment of such counsel with respect to the defense of such Proceeding, in any of which events the fees and expenses of Indemnitee's counsel shall be at the expense of the Company. At all times, Indemnitee shall have the right to employ counsel in any Proceeding at Indemnitee's expense.

4. Defense to Indemnification, Burden of Proof and Presumptions. It shall be a defense to any action brought by Indemnitee against the Company to enforce this Agreement that it is not permissible under this Agreement or applicable law for the Company to indemnify the Indemnitee for the amount claimed. In connection with any such action or any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified under this Agreement, the burden of proving such a defense or determination shall be on the Company. Neither the failure of the Reviewing Party or the Company to have made a determination prior to the commencement of such action by Indemnitee that indemnification is proper under the circumstances because Indemnitee has met the standard of conduct set forth in applicable law, nor an actual determination by the Reviewing Party or the Company that Indemnitee had not met such applicable standard of conduct shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

5. No Settlement Without Consent. Neither party to this Agreement shall settle any Proceeding in any manner that would impose any damage, loss, penalty or limitation on Indemnitee without the other party's written consent. Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement.

6. Company Participation. Subject to Section II.5, the Company shall not be liable to indemnify the Indemnitee under this Agreement with regard to any judicial action if the Company was not given a reasonable and timely opportunity, at its expense, to participate in the defense, conduct and/or settlement of such action.

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#### **IV. Director and Officer Liability Insurance**

1. Liability Insurance. The Company shall obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company with coverage for losses incurred in connection with their services to the Company or to ensure the Company's performance of its indemnification obligations under this Agreement. To the extent the Company determines that it is no longer practicable for the Company to maintain such insurances, it shall notify promptly its directors and officers before it terminates such insurances and such termination must be approved by the majority of the Company's directors.

2. Coverage of Indemnitee. To the extent the Company maintains an insurance policy or policies providing directors' and officers' liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any of the Company's directors or officers.

3. No Obligation. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain any director and officer insurance policy if a majority of the Company's directors determines in good faith that such insurance is not reasonably available in the case that (i) premium costs for such insurance are disproportionate to the amount of coverage provided, (ii) the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or (iii) Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Company.

#### **V. Non-Exclusivity; Federal Preemption; Term**

1. Non-Exclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Articles of Association, any vote of shareholders or directors, applicable law or any written agreement between Indemnitee and the Company (including its subsidiaries and affiliates). The indemnification provided under this Agreement shall continue to be available to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he or she may have ceased to serve in any such capacity at the time of any Proceeding.

2. Federal Preemption. Notwithstanding the foregoing, both the Company and Indemnitee acknowledge that in certain instances, U.S. federal law or public policy may override applicable law and prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. Such instances include, but are not limited to, the U.S. Securities and Exchange Commission's prohibition on indemnification for liabilities arising under certain U.S. federal securities laws. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

3. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an officer and/or a director of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any Proceeding by reason of his or her former or current capacity at the Company or any other enterprise, including service with respect to employee benefit plans) at the Company's request, whether or not he or she is acting or serving in any such capacity at the time any Expense is incurred for which indemnification can be provided under this Agreement. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as an officer and/or a director of the Company or any other enterprise at the Company's request.

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## VI. Miscellaneous

1. Amendment of this Agreement. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall operate as a waiver of any other provisions (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided in this Agreement, no failure to exercise or any delay in exercising any right or remedy shall constitute a waiver.

2. Subrogation. In the event of payment to Indemnitee by the Company under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to bring suit to enforce such rights.

3. Assignment; Binding Effect. Neither this Agreement nor any of the rights or obligations hereunder may be assigned by either party hereto without the prior written consent of the other party; except that the Company may, without such consent, assign all such rights and obligations to a successor in interest to the Company which assumes all obligations of the Company under this Agreement in a written agreement in form and substance satisfactory to Indemnitee. Notwithstanding the foregoing, this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the parties hereto and the Company's successors (including any direct or indirect successor by purchase, merger, consolidation, or otherwise to all or substantially all of the business and/or assets of the Company) and assigns, as well as Indemnitee's spouses, heirs, and personal and legal representatives.

4. Severability and Construction. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to a court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. In addition, if any portion of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent permitted by applicable law. The parties hereto acknowledge that they each have opportunities to have their respective counsels review this Agreement. Accordingly, this Agreement shall be deemed to be the product of both of the parties hereto, and no ambiguity shall be construed in favor of or against either of the parties hereto.

5. Counterparts. This Agreement may be executed in two counterparts, both of which taken together shall constitute one instrument.

6. Governing Law. This agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, U.S.A., without giving effect to conflicts of law provisions thereof.

7. Notices. All notices, demands, and other communications required or permitted under this Agreement shall be made in writing and shall be deemed to have been duly given if delivered by hand, against receipt, on the date of delivery, or mailed, on the third business day after mailing, postage prepaid, certified or registered mail, return receipt requested, and addressed to the Company at:

China New Borun Corporation  
Bohai Industrial Park (Yangkou Town)  
Shouguang, Shandong 262715, PR China  
Attention: Mr. Jinmiao Wang

and to Indemnitee at:

[Name]  
[Address]

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[Address]  
[Address]

Notice of change of address shall be effective only when done in accordance with this Section.

8. Certain Relationships. The obligations and rights created under this Agreement shall not be affected by any amendment to the Company's Articles of Association or any other agreement or instrument to which Indemnitee is not a party, and shall not diminish any other rights which Indemnitee now or in the future has against the Company or any other person or entity.

9. Acknowledgment. The Company expressly acknowledges that it has entered into this Agreement and assumed the obligations imposed on the Company under this Agreement in order to induce Indemnitee to serve or to continue to serve as a director or officer and acknowledges that Indemnitee is relying on this Agreement in serving or continuing to serve in such capacity. The Company further agrees to stipulate in any court proceeding that the Company is bound by all of the provisions of this Agreement.

10. Period of Limitations. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, or Indemnitee's estate, heirs, executors, administrators or personal or legal representatives after the expiration of two years from the date of accrual of such cause of

action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

11. Entire Agreement. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(Signature page follows)

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IN WITNESS WHEREOF, the parties hereto execute this Agreement as of the date first written above.

COMPANY

CHINA NEW BORUN CORPORATION

\_\_\_\_\_  
Name:

Title:

INDEMNITTEE

\_\_\_\_\_  
Name:

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**BDO China Li Xin Da Hua CPA Co., Ltd.**

11th Floor B Block Union Square 5022  
Binhe Road Shenzhen 518033P.R.China  
Telephone : +86-755-82900952  
Fax : +86-755-82900965

**Consent Letter from Independently Registered Public Accountants**

China New Borun Corporation

We hereby consent to the use in the Prospectus constituting a part of this Registration Statement of our report dated April 23, 2010, relating to the consolidated financial statements of China New Borun and Subsidiaries, for each year for the three-year period ended December 31, 2009, which is contained in that Prospectus.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

*BDO China Li Xin Da Hua CPA Co., Ltd.*

**BDO China Li Xin Da Hua CPA Co., Ltd.**  
**Shenzhen, People's Republic of China**  
**April 27, 2010**

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弗若斯特沙利文(北京)咨询有限公司上海分公司  
中国上海市长乐路989号世纪商贸广场  
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Partnering with clients to create innovative growth strategies

January 12th, 2009

Shandong Borun Industrial Co., Ltd  
Bohai Industrial Park (South of Yangkou Town)  
Shouguang, Shandong 262715, China  
Tel: (86) 536-5451199  
Fax: (86) 536-5451199 5451006

Attention: Mr. Jinmiao Wang, CEO of Shandong Borun Industrial Co., Ltd

**Re: Letter of Authorization to Use Frost & Sullivan Research Data in Registration Statement and Roadshow**

Dear Mr. Wang:

Frost & Sullivan ("F&S") hereby consents to the quotation by Shandong Borun Industrial Co., Ltd in its Registration Statement (as may be amended or supplemented), to be submitted or filed with certain stock exchange, as well as roadshow and other fundraising activities, of research data, information, charts and graphs from F&S's industry research report and any of its supplements.

This consent will remain in effect from the date of this letter and for so long as the Registration Statement, including any post-effective amendment thereto, remains effective under the federal securities laws.

Kind regards,

**Frost & Sullivan**

By: [Seal]

Name: \_\_\_\_\_

Title: \_\_\_\_\_

*Palo Alto New York San Antonio Toronto London Oxford Paris Frankfurt Buenos Aires Mexico City São Paulo Mumbai Chennai Kuala Lumpur Singapore Tokyo  
Seoul Sydney Beijing Shanghai*