

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

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2018

OR

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

OR

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

Date of event requiring this shell company report . . . . .

For the transition period from to

Commission file number: 001-34754

**China New Borun Corporation**

(Exact name of Registrant as specified in its charter)

**Not applicable**

(Translation of Registrant's name into English)

**Cayman Islands**

(Jurisdiction of incorporation or organization)

**Bohai Industrial Park, Yangkou Town, Shouguang, Shandong, People's Republic of China 262715**

(Address of principal executive offices)

**Mr. Jinmiao Wang**

**Chief Executive Officer**

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**Bohai Industrial Park, Yangkou Town**

**Shouguang, Shandong**

**People's Republic of China 262715**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

**Title of each class:**

American Depositary Shares, each representing one ordinary shares, par value \$0.001 per share

**Trading Symbol(s)**

BORN

**Name of each exchange on which registered:**

New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

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**None**  
(Title of Class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.  
25,725,000 Ordinary Shares, par value \$0.001 per share, as of December 31, 2018

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of the Securities Exchange Act 1934.

Yes  No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

<sup>†</sup> The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicated by check mark which financial statement item the registrant has elected to follow.  
 Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**CHINA NEW BORUN CORPORATION**  
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## INTRODUCTION

Unless the context otherwise requires, references in this annual report on Form 20-F 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 one ordinary share;
- “BDO” is to our predecessor independent auditor BDO China Shu Lun Pan Certified Public Accountants LLP;
- “CAGR” is to compound annual growth rate;
- “China” or the “PRC” are to the People’s Republic of China, excluding, for the purposes of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;
- “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;
- “we,” “us,” “our Company,” “our” and “New Borun” are to China New Borun Corporation and its consolidated subsidiaries; and
- “WWC” is to our current independent auditor WWC P.C. Certified Public Accountants.

Discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

We completed our initial public offering of 5,725,000 ADSs on June 16, 2010. Our ADSs are listed on the NYSE, under the symbol “BORN.”

Unless otherwise noted, all translations from RMB to U.S. dollars were made at a rate of RMB 6.87832 to \$1.00 as published by OANDA on December 31, 2018. We make no representation that the RMB amounts referred to in this annual report could have been or could be converted into U.S. dollars at any particular rate or at all. See also Item 3.A, “Key Information - Selected Financial Data - Exchange Rate Information.”

## FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F, including in particular Item 3.D, “Key information — Risk Factors,” Item 4, “Information on the Company” and Item 5, “Operating and Financial Review and Prospects,” contains statements that relate to future events, including our future operating results and conditions, our prospects and our future financial performance and condition. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward- looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as “anticipates,” “believes,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “might,” “plans,” “possible,” “potential,” “predicts,” “projects,” “seeks,” “should,” “will,” “would,” negatives of such terms or other expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, without limitation, statements relating to:

- 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 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.

The forward-looking statements contained in this annual report speak only as of the date of this annual report 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 annual report. 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 annual report or to reflect the occurrence of unanticipated events. All forward-looking statements contained in this annual report are qualified by reference to this cautionary statement.



**PART I.**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

The following selected audited consolidated statements of income data for each of the years ended December 31, 2016, 2017 and 2018, and the selected audited balance sheet data as of December 31, 2017 and 2018 are derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The selected historical consolidated statements of income data for the years ended December 31, 2014 and 2015 and the selected historical consolidated balance sheet data as of December 31, 2014, 2015 and 2016 set forth below are derived from our audited historical consolidated financial statements, which are not included in this annual report. 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 Item 5, “Operating and Financial Review and Prospects” and our consolidated financial statements and related notes included elsewhere in this annual report. Our audited consolidated financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). The independent registered public accounting firms BDO audited our financial statements for the year ended December 31, 2016. WWC audited our financial statements for the years ended December 31, 2017 and 2018. Our historical results for any period are not necessarily indicative of results to be expected in any future period.

**Selected Audited Consolidated Statement of Income Data:**

	Year ended December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 \$
<b>Revenues</b>	2,433,820,369	2,652,043,999	2,132,680,185	2,140,871,979	1,803,881,198	262,256,112
<b>Cost of goods sold</b>	2,173,381,791	2,372,269,654	1,950,614,338	1,907,898,919	1,662,560,180	241,710,246
<b>Gross profit</b>	260,438,578	279,774,345	182,065,847	232,973,060	141,321,018	20,545,866
<b>Selling, general and administrative expenses</b>	48,301,996	55,464,807	52,578,452	52,673,366	56,459,649	8,208,350
<b>Impairment loss of property, plant and equipment</b>	—	7,020,788	—	—	49,995,656	7,268,586
<b>Operating income</b>	212,136,582	217,288,750	129,487,395	180,299,694	34,865,713	5,068,930
<b>Other expenses/ (income)</b>	106,522,384	45,482,552	44,539,451	(55,350,231)	57,558,326	8,368,079
<b>Income/(loss) before income taxes</b>	105,614,198	171,806,198	84,947,944	235,649,925	(22,692,613)	(3,299,149)
Income tax expense	26,403,549	42,951,549	21,236,986	58,912,481	16,522,472	2,402,109
<b>Net income/(loss)</b>	79,210,649	128,854,649	63,710,958	176,737,444	(39,215,085)	(5,701,258)
Net income/(loss) attributable to ordinary Shareholders	79,210,649	128,854,649	63,710,958	176,737,444	(39,215,085)	(5,701,258)
<b>Earnings/(loss) per share</b>						
Basic and diluted	3.08	5.01	2.48	6.87	(1.52)	(0.22)
<b>Weighted average ordinary shares outstanding:</b>						
Basic and diluted	25,725,000	25,725,000	25,725,000	25,725,000	25,725,000	25,725,000

**Selected Audited Consolidated Balance Sheet Data:**

	As of December 31,					
	2014 RMB	2015 RMB	2016 RMB	2017 RMB	2018 RMB	2018 \$
Total current assets	2,051,768,837	1,965,152,188	2,143,937,990	2,303,541,262	2,390,149,076	347,490,292
Total assets	3,295,335,194	3,090,589,440	3,150,638,724	3,197,224,839	3,116,020,852	453,020,695
Total liabilities	1,618,990,637	1,285,441,479	1,281,839,231	1,151,626,526	1,109,679,872	161,330,095
Total shareholders' equity	1,676,344,557	1,805,147,961	1,868,799,493	2,045,598,313	2,006,340,980	291,690,600

**Exchange Rate Information**

Our business is conducted in China and all of our revenue and the majority of our expenses are denominated in Renminbi. This annual report contains translations of Renminbi amounts into U.S. dollars at specified rates. Unless otherwise noted, all translations from Renminbi to U.S. dollar amounts were made at a rate of RMB 6.87832 to USD 1.00 as published by OANDA on December 31, 2018. We make no representation that the Renminbi or U.S. dollar amounts referred to in this annual report could have been or could be converted into U.S. dollars or Renminbi, as the case may be, at any particular rate or at all.

The following table sets forth information concerning exchange rates between the Renminbi and the U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we used in this annual report or will use in the preparation of our periodic reports or any other information to be provided to you.

Period	Exchange Rate			
	Period End	Average <sup>(1)</sup>	Low	High
		(RMB per \$1.00)		
Year ended December 31, 2014	6.1190	6.1429	6.1710	6.0930
2015	6.4936	6.2284	6.4936	6.1079
2016	6.9370	6.6585	6.9508	6.4579
2017	6.7423	6.8993	6.5342	6.5342
2018	6.8632	6.6119	6.2997	6.9350
Most recent six months				
October 2018	6.9646	6.9172	6.8792	6.9646
November 2018	6.9357	6.9350	6.8976	6.9670
December 2018	6.8632	6.8844	6.8476	6.9431
January 2019	6.7025	6.7953	6.7025	6.8632
February 2019	6.6901	6.7276	6.6857	6.7765
March 2019	6.7335	6.7104	6.6850	6.7335
April 2019	6.7286	6.7149	6.6911	6.7310

(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: the People's Bank of China Statistical Release

**B. Capitalization and Indebtedness**

Not applicable.

### C. Reasons for the Offer and Use of Proceeds

Not applicable.

### D. 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 annual report 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 annual report.*

### RISKS RELATED TO OUR COMPANY

***If we fail to accurately project demand for our key products, i.e., edible alcohol and its by-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.***

Historically, edible alcohol production capacity has exceeded actual market demand. We initially 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 Item 4.B, “Information on the Company — Business Overview — Regulation”), the in-principle suspension in approvals for new corn deep-processing production projects, and the growth in demand for edible alcohol driven by the PRC Chinese *baijiu* industry. However, starting from the fourth quarter of 2012, the industry faced headwind from a PRC government ban on serving high-end *baijiu* at official banquets as well as consumers’ concerns caused by media reports of traces of plasticizers found in bottled *baijiu*, which resulted in a decline in sales of *baijiu* and also the demand for edible alcohol. Although we were able to operate at full capacity from 2007 to 2011, we did not fully utilize our production capacity for the seven years ended December 31, 2018. In 2018, we utilized approximately 75.9% of our total production capacity since our Shouguang facility was damaged by the heavy rain and flood in 2018. If supply of edible alcohol in the PRC is not in fact reduced or if the PRC government begins to approve new edible alcohol production capacities or there is no, or little, growth in demand for edible alcohol, we may encounter difficulties in selling our production output, which would materially and adversely affect our business, financial condition and results of operations.

Currently, purchase orders from our customers 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, 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 may continue to expand our production capacity. 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.

***Rising prices of our raw materials for our key products could yield lower margins 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 key 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 most of the rising costs on to our customers depends on a variety of factors, including but not limited to 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 and 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. In addition, 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 for our key products, 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 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. Our extended inability to obtain and process corn of the required quality would also reduce our annual production. Furthermore, if we experience a shortage in our supply of corn in the future, irrespective of quality, our production capacities and results of operations would be materially and adversely affected.

In addition, 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 five 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-fired 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 would negatively 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 in general. For example, as we advance and improve our methods of producing higher quality products such as Grade A and Grade B edible alcohol, it may become more difficult to maintain our quality standards at all times. Additionally, if we are ever forced to down-grade our edible alcohol, 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 that limit production capacity and use of raw materials. 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.***

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 increases significantly, or may increase 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. 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. 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 per annum. 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 approximately 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, according to the 12th Five- Year Plan of Processing Industry of Grain and Oil, the PRC government continued to impose strict control on the amount of corn used for deep-processing. Any further downward limitation may adversely affect our ability to obtain an adequate level of corn at favorable prices.

In addition, the PRC government has in principle suspended the approval of applications for building new ethyl alcohol production projects. 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, at 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.

***Interruptions with our coal-fired 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-fired power- generating systems. 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 for when we carry out our annual full-scale inspection and maintenance program for our electricity supply systems (see “Business Overview - Our Supply of Electricity”). If the power-generating systems at our Shouguang facility or our Daqing facility experience unexpected stoppage 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 power- generating systems become operational. During such negotiations, we could be forced 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. 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 periods of severe winter weather 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. 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 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.***

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 Item 4.B, “Information on the Company — Business Overview — 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 subjects 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 annual report, we believe 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 perform corrective actions.

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. Except as described in this annual report, 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 and results of operations.***

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 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 into new provinces and regions may not be successful.***

We have continued with our plans to expand our sales and marketing and distribution efforts into provinces and regions beyond Shandong and Heilongjiang provinces in China, and have already commenced sales and marketing operations for edible alcohol in Sichuan Province, Anhui Province, Jiangsu Province, Hebei Province, Jilin Province and Liaoning 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 other 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 recruiting 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 provinces, 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 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 conducted 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 whom we have sale contracts, the termination of which could cause us to experience short-term or permanent losses that would have an adverse effect on our financial condition, results of operations and prospects.***

Although during the years ended December 31, 2016, 2017 and 2018, there was no single customer from which we generated more than 10% of total sales, we do rely on our relationships with certain customers, mainly *baijiu* distilleries, which account for approximately 36.0% of our total revenues for the year ended December 31, 2018. Additionally, during the years ended December 31, 2016, 2017 and 2018, aggregate sales to our five largest customers represented 20.7%, 21.3% and 24.4% 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 the agreements for supply of our products with such customers in the future in a satisfactory manner, if at all, 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 production capacity or potential investments or acquisitions we may pursue. We may need 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 or invest in new products, 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 acquisitions, the creation of strategic alliances in the edible alcohol production business and investments in new products, such as chemical products. For example, in 2017, we invested in and completed the construction of our 2-Acrylamido-2- Methyl Propane Sulfonic Acid (“AMPS”) manufacturing plant with an annual production capacity of 4,000 tons. AMPS is a chemical that is widely used in many fields, including oilfield chemistry, water treatment and synthetic fibers. Any acquisition or investment could require that our management manage new business relationships, manage new facilities and attract new customers. Furthermore, significant attention from our management may be required, 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 or investments 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 or investments 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 will continue to incur increased costs as a result of being a public company, which will adversely impact our results of operations.*

We became a public company following the completion of our initial public offering in June 2010 and have incurred, and expect to continue to incur, significant legal, accounting and other expenses that we did not incur as a private company. Moreover, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in July 2010, as well as rules subsequently implemented by the U.S. Securities and Exchange Commission, or the SEC, and the New York Stock Exchange, or the NYSE, have imposed additional requirements on corporate governance practices of public companies. As we expected, these rules and regulations have increased our legal and financial compliance costs and have made some corporate activities more time-consuming and costly. For example, as a result of becoming a public company, we added independent directors to our board and adopted policies regarding internal controls and disclosure controls and procedures. See also the risk factor entitled, “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.”

In addition, we incur 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 rules and regulations. We are currently evaluating and monitoring developments with respect to these 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 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 be exposed to potential risks relating to our internal control over financial reporting.***

We are subject to the Sarbanes-Oxley Act of 2002. As directed by Section 404 of the Sarbanes-Oxley Act of 2002, the SEC adopted rules requiring public companies to include a report of management on our internal controls over financial reporting in their annual reports. In addition, if we become an accelerated filer or a large accelerated filer for purposes of a future annual report, we will be required to include in such annual report a report of our independent registered public accounting firm that attests to and reports on management's assessment of the effectiveness of our internal controls over financial reporting as well as the operating effectiveness of our internal controls. Our management may conclude that our internal controls over our financial reporting are not effective. For the year ended December 31, 2018, our management identified a material weakness in our internal control over financial statement closing process, and as a result, concluded that our internal control over financial reporting was not effective (see Item 15, "Controls and Procedures — Management's Annual Report on Internal Control Over Financial Reporting." Even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may, if we are required to include an attestation report from them, 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.

We can provide no assurance that we will continue to be in compliance with all of the requirements imposed by Section 404 or that we will, if required, 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, if required, 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.

***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 and our "Borun" trademark as important to our business. In January 2012, the State Intellectual Property Office awarded a patent to us for the Borun wet process, our proprietary manufacturing method. We believe we are the only corn-based edible alcohol producer in China using the Borun wet process and the market recognizes our brand name products. Infringements of relevant intellectual property rights 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.



***Our business, financial condition and results of operations, as well as our ability to obtain financing, may be adversely affected by a downturn in the global or Chinese economy.***

In recent years, the PRC economy has seen a slowdown related to the international financial crisis in 2008, and a slower growth since then. For 2018, China's economic conditions remain uncertain and unpredictable. With the government lowering economic growth targets, there are forecasts predicting a further significant slowdown. The corn-based edible alcohol industry may be sensitive to economic downturns, and the macroeconomic environment in China may affect our business and prospects. A prolonged slowdown in China's economy may lead to a reduced level of corn-based edible alcohol purchases which could materially and adversely affect our business, financial condition and results of operations.

Moreover, a slowdown in the global or China's economy or the recurrence of any financial disruptions may have a material and adverse impact on financing available to us. The weakness in the economy could erode investors' confidence, which constitutes the basis of the credit markets. The recent financial turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

Although we are uncertain about the extent to which the recent global financial and economic crisis and slowdown of China's economy may impact our business in the short term and long term, there is a risk that our business, results of operations and prospects will be materially and adversely affected by any ongoing global economic downturn or slowdown in China's economy.

***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 Chief Executive Officer ("CEO"), Mr. Jinmiao Wang ("Mr. 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 customers. 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 the foregoing 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, or King River, beneficially owns 55.6% of our outstanding equity interests as of the date of this annual report. Accordingly, King River 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 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 and other restrictions in certain PRC loan agreements or bond indenture entered into by Shandong Borun Industrial Co., Ltd, or Shandong Borun, or 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:

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

The loan agreements contain the following financial covenants (as the case may be):

- at any time during the loan period, debt to asset ratio of Daqing Borun shall not be higher than 70%, the current ratio shall be less than 0.8 and contingent liabilities shall not exceed 50% of its total net assets and accumulated long-term investment shall not exceed 30% of its net assets; or
- debt-to-asset ratio of Shandong Borun shall not be higher than 70%; contingent liabilities of Shandong Borun shall not exceed 50% of its total net assets; and net operating cash flow shall not be negative for three consecutive years.

We obtained a short-term loan of RMB49,000,000 (\$7,123,833) from Daqing Rural Commercial Bank, which was guaranteed by a third party guarantor. Pursuant to the guarantee agreement we pledged certain of Daqing Borun's property, plant and equipment to the third party guarantor.

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.

Shandong Borun issued bonds through private placements on November 2, 2016 with a principal amount of RMB300.0 million (\$43.6 million), which were registered with the Shanghai Stock Exchange (the "2016 Bonds"). The proceeds from the issuance of the 2016 Bonds were used for our Company's working capital and capital expenditures. The Bonds were issued at face value of RMB100 (\$14.5) each, bear a fixed annual interest rate of 6.5%, with maturity on November 2, 2021, RMB 100.0 million (\$14.5 million) should be repaid at the end of each of the third, fourth and fifth year life of the 2016 Bonds.

***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 prolonged 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. If our operating results for any period fall below our expectations or the expectations of investors or research analysts, the price of our ADSs is 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 may adopt certain corporate governance practices that 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 United States Securities Exchange Act of 1934, as amended, or 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.

***The consummation of the proposed going-private transaction is uncertain, and the announcement and pendency of the transaction could materially and adversely affect our business, results of operations and financial condition.***

In January 2018, we received a non-binding preliminary proposal with respect to a going-private transaction. For more details, see “Item 4.A. History and Development of the Company — Proposed Going-private Transaction.” There can be no assurance that any definitive offer will be made, that any agreement will be executed or that any proposed going-private transaction will be approved or consummated. The process of consummating the proposed going-private transaction or any other significant strategic transaction involving our Company could cause disruptions in our business and divert our management’s attention and other resources from day- to-day operations, which could have an adverse effect on our business, results of operations and financial condition. Additionally, current and prospective employees and members of management could become uncertain about their future roles with us in the event the going-private transaction is completed. This uncertainty could adversely affect our ability to retain and hire employees and members of management. In addition, the announcement and pendency of the proposed going-private transaction could have an adverse effect on our relationships with customers and third-party service providers.

If the going-private transaction is not completed, you will not receive the proposed transaction consideration and the price of our ADSs could decline. Additionally, the ongoing business of our Company could be adversely affected and, without realizing the benefits of having completed the going-private transaction, our Company will be subject to a number of risks, including payment of certain costs relating to the going-private transaction, even if the going-private transaction is not completed, such as legal, financial advisor and printing fees.

## **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 generally and by continued economic growth in China as a whole.

***The PRC 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 PRC 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 otherwise disclosed in this annual report, we believe 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 generally and by continued economic growth in China as a whole. The Chinese economy differs from the economies of most developed countries in many aspects, including the:

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

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 PRC 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.

***We may become subject to PRC taxation on our worldwide income, which could result in a material adverse effect on our financial results and might result in you becoming subject to withholding taxes on any dividends we may declare.***

The PRC Enterprise Income Tax Law and Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (which we collectively refer to as 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. Currently, there are no further detailed rules or precedents applicable to us governing the procedures and specific criteria for determining “de facto management bodies” for companies like ours, uncertainty exists regarding the interpretation and implementation of the EIT Law, and as a result it is uncertain whether we will be deemed to be a PRC resident enterprise. 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, 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 shares (including ADSs) 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,” dividends we pay with respect to our ADSs, or the gain you may realize from the transfer of our ordinary shares or ADSs, may be treated as income derived from sources within the PRC and may 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, including the United States. “Item 10.E. Additional Information — Taxation — People’s Republic of China Taxation”

***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. 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. Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all and may have retroactive effect. As a result, we may not be aware of our violation of any of these policies and rules until sometime after the violation. In addition, any administrative and court proceedings in China may be protracted, resulting 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 the PBOC 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, the PBOC revalued RMB by reference to a basket of foreign currencies, including the U.S. dollar, the floating range of the trading prices of the US Dollar against the RMB in the inter-bank spot foreign exchange market expanded from 0.3% to 0.5%. As a result, the value of RMB appreciated by 2% on that day. The PBOC allowed the official RMB exchange rate to float against a basket of foreign currencies, and the RMB has further appreciated significantly against the U.S. dollar. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the RMB fluctuated against the U.S. dollar, at times significantly and unpredictably, and in recent years the RMB had depreciated significantly against the U.S. dollar. From October 1, 2016, the RMB joined the International Monetary Fund (IMF)'s basket of currencies that make up the Special Drawing Right (SDR), along with the U.S. dollar, the Euro, the Japanese yen and the British pound. In the fourth quarter of 2016, the RMB depreciated significantly in the backdrop of a surging U.S. dollar and persistent capital outflows of China. This depreciation halted in 2017, and the RMB appreciated approximately 7% against the U.S. dollar during this one-year period. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system and there is no guarantee that the RMB will not appreciate or depreciate significantly in value against the U.S. dollar in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

All of our net revenues and most of our expenses are denominated in Renminbi. Any significant revaluation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, an appreciation of Renminbi against the U.S. dollar would reduce the amount of Renminbi we would receive if we need to convert U.S. dollars into Renminbi. Conversely, a significant depreciation of the Renminbi against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

Limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. We did not enter into any hedging transactions to hedge our exposure to the risks relating to fluctuations in exchange rates. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited, and we may not be able to successfully hedge our exposure at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency.



***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 or eliminate our PRC subsidiaries' ability to distribute profits to us, limit our ability to inject capital into our PRC subsidiaries, require changes in our ownership structure, or may otherwise expose us to liability under 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, effective as of November 1, 2005. The policy announced in this notice and its implementation rules requires 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. On 4 July 2014, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-Trip Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles, or the SAFE Circular No. 37, which became effective and superseded the Circular 75 on the same date. Pursuant to Circular No. 37, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, that is directly established or controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the SPV, including, among other things, a change of the SPV's PRC resident shareholder(s), name of the SPV, term of operation, or any increase or reduction of the SPV's registered capital, share transfer or swap, and merger or division. Failure to comply with the requirements of the above mentioned SAFE regulations 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 such SPV.

We understand that none of our shareholders prior to our initial public offering was a PRC citizen. Our PRC counsel for our initial public offering had advised that none of these shareholders was 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 to the SAFE regulations, we cannot provide any assurance that our shareholders who may spend a 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 or eliminate our PRC subsidiaries' ability to make distributions or pay dividends or require changes to our ownership structure, all of which could adversely affect our business and prospects and prevent you from receiving any dividends on your ADSs.

Furthermore, as these foreign exchange regulations are still relatively new and their interpretation and implementation has been constantly evolving, it is unclear how these regulations, and any future regulation concerning offshore or cross-border transactions, will be interpreted, amended and implemented by the relevant government authorities. For example, we may be subject to a more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign- currency- denominated borrowings, which may adversely affect our financial condition and results of operations. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the foreign exchange regulations. This may restrict our ability to implement our acquisition strategy and 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.***

In December 2006, the PBOC promulgated the Administrative Measures of Foreign Exchange Matters for Individuals, which set forth the respective requirements for foreign exchange transactions by individuals (both PRC or non-PRC citizens) under either the current account or the capital account. In January 2007, SAFE issued implementing rules for the Administrative Measures of Foreign Exchange Matters for Individuals, which, among other things, specified approval requirements for certain capital account transactions such as a PRC citizen's participation in the employee stock ownership plans or stock option plans of an overseas publicly-listed company. On February 15, 2012, SAFE issued the "Circular on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Share Incentive Plan of Overseas Listed Companies", also known as "Circular 7."

Pursuant to Circular 7, PRC citizens who participate in the share incentive plan of an overseas listed company are required, through a PRC subsidiary of such overseas listed company or other qualified PRC traders designated lawfully by the PRC subsidiary, to register with SAFE or its local branches and complete certain other procedures related to the share incentive plan. In addition, the PRC subsidiary or other qualified PRC agent is required to open foreign currency accounts to handle transactions relating to the share incentive plan. We may adopt an equity compensation plan after this annual report and may make option grants to some of our directors and senior officers, most of whom are PRC citizens. We believe the registration and approval requirements contemplated in Circular 7 will be burdensome and time-consuming. If it is determined that any of our equity compensation plans fail 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, 2018, we carried up to RMB1,798.9 million (\$261.5 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.***

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Substantially all of our revenues and operating expenses are denominated in Renminbi. The Renminbi is currently freely convertible under the "current account," which includes, among others, dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes, among others, foreign direct investment and loans.

Currently, Shandong Borun may purchase foreign exchange for settlement of “current account transactions,” including payment of dividends to us. Shandong Borun may also retain foreign exchange in its current account, subject to a ceiling approved by SAFE 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. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

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 SAFE or its local branches and, if we finance our Chinese subsidiaries by means of capital contributions, those capital contributions must be submitted for record-filing to the Ministry of Commerce or its local branches. Our ability to use the U.S. dollar proceeds of future financings 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 United States.***

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 “M&A Rules”), which became effective on September 8, 2006 and was amended on June 22, 2009. The 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 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 for our initial public offering, we were and are not required to obtain the approval of CSRC under the M&A Rules in connection with our initial public offering due to the fact that (1) we were and are not an SPV and (2) the acquisitions among China High Enterprises Limited, or 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 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.

***Compliance with certain PRC regulations with respect to acquisitions may be time-consuming, and any failure of which may result in our inability to undertake acquisitions and grow our business.***

The 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. In addition, Notice of the General Office of the State Council on the Establishment of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors and Provisions of the Ministry of Commerce on the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors which respectively became effective on March 4, 2011 and September 1, 2011 require acquisitions by foreign investors of PRC companies engaged in military related industries or certain other industries that are crucial to national security and that the actual control right may be obtained by foreign investors be subject to security review before consummation of any such acquisition. We may grow our business in part by acquiring other businesses. Complying with the requirements of the M&A Rules and security review in completing these acquisitions could be time-consuming, and any required approval processes, including approval from CSRC, MOFCOM, State Administration of Foreign Exchange or SAT, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

***Under the EIT Law, we may be classified as a PRC "resident enterprise," which could result in unfavorable tax consequences to us and our shareholders and have a material adverse effect on our results of operations and the value of your investment.***

Under the EIT Law, an enterprise established outside the PRC with "de facto management bodies" within the PRC should be considered a "PRC resident enterprise" and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. Under the implementation regulations to the EIT Law, 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 properties of an enterprise. In addition, a circular issued by the State Administration of Taxation on April 22, 2009 known as Circular 82 sets out the standards and procedures for recognizing the location of the "effective management" of an enterprise registered outside of the PRC and funded by Chinese enterprises as controlling investors. This circular specifies that an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its "de facto management body" in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the places where senior management and senior management departments that are responsible for daily production, operation and management of the enterprise perform their duties are mainly located within the territory of the PRC; (ii) decisions relating to the enterprise's financial and human resource matters are made or are subject to approval by organizations or personnel located within the PRC; (iii) the enterprise's primary assets, accounting books and records, company seals, and the files of the minutes of the board of directors and shareholders' meetings, are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC.

Given that our Cayman holding company is incorporated and controlled by non-PRC citizens instead of PRC enterprises or PRC enterprise groups, it is unclear whether Circular 82 applies to us, and we are not aware of any clear guidance regarding the criteria pursuant to which the PRC tax authorities will determine the tax residency of an overseas company controlled by non-PRC citizens under the applicable PRC laws and regulations. Furthermore, we are not aware of any offshore holding company with a corporate structure similar to ours ever having been deemed a PRC resident enterprise by the PRC tax authorities. However, as the tax resident status of an enterprise is subject to determination by the PRC tax authorities, our subsidiaries all operate in the PRC and uncertainties remain with respect to the interpretation of the term "de facto management body" as applicable to our offshore entity, we may be considered a resident enterprise and may therefore be subject to the enterprise income tax at 25% on our global income. If we earn income outside of the PRC, the imposition of a tax on our global income could raise our effective tax rate and have a material adverse effect on our results of operations.

If we are classified as a PRC resident enterprise, dividends we pay to non-PRC resident enterprise shareholders will be subject to PRC withholding tax, and while our holding company is incorporated in the Cayman Islands, we expect that we would deduct the appropriate withholding taxes from any dividend that we paid. Further, foreign ADS holders may be subject to PRC tax on gains realized on the sale or other disposition of ADSs or ordinary shares, if such income is regarded as income sourced from within the PRC. Any such tax may reduce the returns on your investment in our ADSs. Although our company is incorporated in the Cayman Islands, it remains unclear whether gains realized by our foreign ADS holders will be regarded as income from sources within the PRC if we are classified as a PRC resident enterprise, and it is unclear whether our non-PRC shareholders would be able to claim the benefits of any tax treaties between their tax residence and the PRC in the event that we are treated as a PRC resident enterprise.

***Substantial uncertainties exist with respect to the enactment timetable, interpretation and implementation of the draft PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.***

In January 2015, MOFCOM published a draft of the proposed Foreign Investment Law, or Draft FIL. If enacted, the Draft FIL would replace the major existing laws regulating foreign investment in China, such as the Law of the PRC on Sino-Foreign Equity Joint Ventures, the Law of the PRC on Sino-Foreign Contractual Joint Ventures, and the Law of the PRC on Wholly Foreign-Owned Enterprises, and harmonize the regulations governing both foreign invested enterprises and PRC domestic entities. According to the definition set forth in the draft Foreign Investment Law, FIEs refer to enterprises established in China pursuant to PRC law that are solely or partially invested by foreign investors. Once an entity falls within the definition of FIE, it may be subject to foreign investment “restrictions” or “prohibitions” set forth in a “negative list” to be separately issued by the State Council later. Such FIEs will be subject to entry clearance and other approvals that are not required for PRC domestic entities, unless, such foreign investors can demonstrate that the ultimate controlling person(s) is/are of PRC nationality (either a PRC citizen, or the PRC government and/or its branches or agencies). Because the negative list has yet to be published, it is unclear whether it will differ from the current list of industries subject to restrictions or prohibitions on foreign investment.

There is substantial uncertainty regarding the Draft FIL, including, the content of its final form and the timing of its adoption and implementation. If the enacted version of the Foreign Investment Law and the final “negative list” mandate further actions, such as MOFCOM market entry clearance, to be completed by companies with non-PRC shareholders like us, we face uncertainties as to whether such clearance can be timely obtained, or at all. The draft Foreign Investment Law, if enacted as proposed, may materially impact the viability of our current corporate structure, corporate governance and business operations in many aspects.

The draft Foreign Investment Law, if enacted as proposed, may also materially impact our corporate governance practice and increase our compliance costs. For instance, the draft Foreign Investment Law imposes stringent and periodic information reporting requirements on foreign investors and the applicable FIEs. Aside from investment implementation report and investment amendment report that are required at each investment and alteration of investment specifics, an annual report is mandatory, and large foreign investors meeting certain criteria are required to report on a quarterly basis. Any company found to be non-compliant with these information reporting obligations may potentially be subject to fines and/or administrative or criminal liabilities, and the persons directly responsible may be subject to criminal liabilities.

***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 (1993), as amended, 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 us to our non-PRC resident shareholders may become subject to taxes under PRC tax laws.***

The EIT Law and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC 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 we are considered a PRC-resident enterprise for tax purposes, any dividends distributed by us to our non- PRC resident enterprises 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 any tax treaty between the PRC and the jurisdiction in which the non-PRC resident enterprises shareholder resides. It is unclear whether, if we are considered a PRC resident enterprise, holders of our ADSs or ordinary shares would be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or areas (although we do not expect to withhold at treaty rates if any withholding is required).

It is uncertain as to how the aforementioned laws and regulations will be implemented by the relevant PRC tax authorities. If our dividend payments to our 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 ADSs.

***We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies, and heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.***

The State Administration of Taxation has issued several rules and notices to tighten the scrutiny over acquisition transactions in recent years, including the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises issued in December 2009, or SAT Circular 698, the Notice on Several Issues Regarding the Income Tax of Non-PRC Resident Enterprises promulgated issued in March 2011, or SAT Circular 24, and the Notice on Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-PRC Resident Enterprises issued in February 2015, or SAT Circular 7. Pursuant to these rules and notices, if a non-PRC resident enterprise indirectly transfers PRC taxable properties, referring to properties of an establishment or a place in the PRC, real estate properties in the PRC or equity investments in a PRC tax resident enterprise, by disposing of equity interest in an overseas holding company, excluding trading of a public overseas company's shares through stock exchanges without a reasonable commercial purpose and resulting in the avoidance of PRC enterprise income tax, such indirect transfer should be deemed as a direct transfer of PRC taxable properties and gains derived from such indirect transfer may be subject to the PRC withholding tax at a rate of up to 10%. SAT Circular 7 sets out several factors to be taken into consideration by tax authorities in determining whether an indirect transfer has a reasonable commercial purpose. An indirect transfer satisfying all the following criteria will be deemed to lack reasonable commercial purpose and be taxable under PRC law: (i) 75% or more of the equity value of the intermediary enterprise being transferred is derived directly or indirectly from the PRC taxable properties; (ii) at any time during the one-year period before the indirect transfer, 90% or more of the asset value of the intermediary enterprise (excluding cash) is comprised directly or indirectly of investments in the PRC, or 90% or more of its income is derived directly or indirectly from the PRC; (iii) the functions performed and risks assumed by the intermediary enterprise and any of its subsidiaries that directly or indirectly hold the PRC taxable properties are limited and are insufficient to prove their economic substance; and (iv) the foreign tax payable on the gain derived from the indirect transfer of the PRC taxable properties is lower than the potential PRC income tax on the direct transfer of such assets. Nevertheless, the indirect transfer falling into the safe harbor available under SAT Circular 7 may not be subject to PRC tax and the scope of the safe harbor includes qualified group restructuring as specifically set out in SAT Circular 7, public market trading and tax treaty exemptions.

In October 2017, the SAT released the Public Notice Regarding Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source, or SAT Public Notice 37, effective from December 2017. SAT Public Notice 37 replaced a series of important circulars, including but not limited to SAT Circular 698, and revised the rules governing the administration of withholding tax on China-source income derived by a nonresident enterprise. SAT Public Notice 37 provides for certain key changes to the current withholding regime, such as (i) the withholding obligation for a non-resident enterprise deriving dividend arises on the date on which the payment is actually made rather than on the date of the resolution that declared the dividends, (ii) non-resident enterprises are not obligated to report to the taxes authorities if their withholding agents fail to perform the withholding obligation.

Under SAT Circular 7 and SAT Public Notice 37, the entities or individuals obligated to pay the transfer price to the transferor are the withholding agents and must withhold the PRC income tax from the transfer price if the indirect transfer is subject to the PRC enterprise income tax. If the withholding agent fails to do so, the transferor should report to and pay the tax to the PRC tax authorities. In the event that neither the withholding agent nor the transferor fulfills their obligations under SAT Circular 7 and SAT Public Notice 37, according to the applicable law, apart from imposing penalties such as late payment interest on the transferor, the tax authority may also hold the withholding agent liable and impose a penalty of 50% to 300% of the unpaid tax on the withholding agent. The penalty imposed on the withholding agent may be reduced or waived if the withholding agent has submitted the relevant materials in connection with the indirect transfer to the PRC tax authorities in accordance with SAT Circular 7.

However, as these rules and notices are relatively new and there is a lack of clear statutory interpretation, we face uncertainties on the reporting and consequences on future private equity financing transactions, share exchange or other transactions involving the transfer of shares in our company by investors that are non-PRC resident enterprises, or sale or purchase of shares in other non-PRC resident companies or other taxable assets by us. Our company and other non-resident enterprises in our group may be subject to filing obligations or being taxed if our company and other non-resident enterprises in our group are transferors in such transactions, and may be subject to withholding obligations if our company and other non-resident enterprises in our group are transferees in such transactions. For the transfer of shares in our company by investors that are non-PRC resident enterprises, our PRC subsidiaries may be requested to assist in the filing under the rules and notices. As a result, we may be required to expend valuable resources to comply with these rules and notices or to request the relevant transferors from whom we purchase taxable assets to comply, or to establish that our company and other non-resident enterprises in our group should not be taxed under these rules and notices, which may have a material adverse effect on our financial condition and results of operations. There is no assurance that the tax authorities will not apply the rules and notices to our offshore restructuring transactions where non-PRC residents were involved if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-PRC resident investors may be at risk of being taxed under these rules and notices and may be required to comply with or to establish that we should not be taxed under such rules and notices, which may have a material adverse effect on our financial condition and results of operations or such non-PRC resident investors' investments in us. We have conducted acquisition transactions in the past and may conduct additional acquisition transactions in the future. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on potential acquisitions we may pursue in the future.

***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 is subject to change, as, among other things, the regulations and policies of applicable governmental authorities may change. If these permits expire without renewal, we may not be allowed to operate our business for an extended period of time, or our operations may cease entirely. 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 incur 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 may be revoked and the land users may be 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 operations.

***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 Labor Contract Law, which became effective on January 1, 2008. On December 28, 2012, the Standing Committee of the National People's Congress of China promulgated the Decision on Revising the Labor Contract Law, which became effective on July 1, 2013. The 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 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 PRC 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 PRC 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.



***Our auditor, like other independent registered public accounting firms operating in the PRC, is not permitted to be subject to inspection by the Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.***

The independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and relevant professional standards. However, as our auditor is located and performs audit work in the PRC, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in the PRC, is currently not inspected by the PCAOB.

Inspections of other firms that the PCAOB has conducted outside of the PRC have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in the PRC makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of the PCAOB inspections.

#### **RISKS RELATED TO OUR ORDINARY SHARES AND ADSs**

***You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited because we are incorporated under Cayman Islands law, we conduct substantially all of our operations in China and substantially all of our directors and officers reside outside the United States.***

We are incorporated in the Cayman Islands and conduct substantially all of our operations in China through our PRC subsidiaries and consolidated affiliated entity. Substantially all of our directors and officers reside outside the United States and a substantial portion of their assets are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals in the Cayman Islands or in China in the event that you believe your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits.

Our corporate affairs are governed by our memorandum and articles of association, as amended and restated from time to time, and by the Companies Law (2010 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against us and our directors, actions by minority shareholders and the fiduciary responsibilities of our directors 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 provides persuasive, but not binding, authority in 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 precedents in the United States. In particular, the Cayman Islands has a less developed body of securities laws than the United States and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts.

As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

***We believe we were a passive foreign investment company, or PFIC, for 2018 and we may be a PFIC for 2019, which could result in adverse U.S. tax consequences to U.S. investors.***

Based on the projected composition of our income and valuation of our assets, we believe we were a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2018, and we may be a PFIC for our taxable year ending December 31, 2019 or thereafter, although there can be no assurance in either regard. In general, we will be a PFIC for any taxable year in which at least 75% of our gross income is “passive income,” as defined for this purpose, 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.” The determination of whether we are a PFIC must be made annually. The composition of our income and assets will be affected by how, and how quickly, we spend the proceeds of any debt issuance or other capital we may raise in the future. Assuming we are treated as a PFIC for any taxable year during which you hold our 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 for this purpose any pledge) of our 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 in our 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 in our ADSs; the amount allocated to the current taxable year will be treated as ordinary income; and the amount allocated to each other year will be subject to tax at the highest tax rate on ordinary income in effect for that year and that tax will be subject to an interest charge. In addition, non-corporate U.S. investors will not be eligible for the reduced rates of taxation applicable to “qualified dividends” received from us, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. In certain circumstances, in lieu of being subject to the excess distribution rules, 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, including the New York Stock Exchange, although there can be no assurance that our ADSs will be “regularly traded” for purposes of the mark-to-market election. If you make a mark-to-market election, such election is generally irrevocable unless our ADSs cease to be regularly traded or the Internal Revenue Service consents to the revocation of the election. Additionally, assuming we are a PFIC for any taxable year during which you hold our ADSs, you will be subject to special information reporting requirements. For more information on the U.S. tax consequences arising from our classification as a PFIC, please see “Item 10.E. Additional Information — Taxation — United States Taxation — Passive Foreign Investment Company Considerations.”

***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 contain certain provisions that could 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.

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.

***The market price for our ADSs has been and is likely to continue to be highly volatile, which could result in substantial losses to you.***

The market price for our ADSs has been and is likely to continue 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, our competitors or our industry;
- 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 and changes of our expected results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other edible alcohol producers;
- announcements by us or our competitors of new services, acquisitions, strategic relationships, joint ventures or capital investments; addition or departure of our executive officers, senior management personnel and key research personnel;
- detrimental negative publicity about us, our competitors or our industry;
- fluctuations of exchange rates between the Renminbi and the U.S. dollar;
- 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.

***Future issuances of ordinary shares or ADSs may depress the trading price of our ADSs.***

Any issuance of equity securities 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.

***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, United States 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 of 1933, as amended, or 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.

***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, the minimum notice period required to convene a general meeting is 21 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 depositary 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 depositary 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 transfer 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 dilution to our shareholders or increase our debt service obligations.***

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.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

***Reorganization of Shandong Borun into China High***

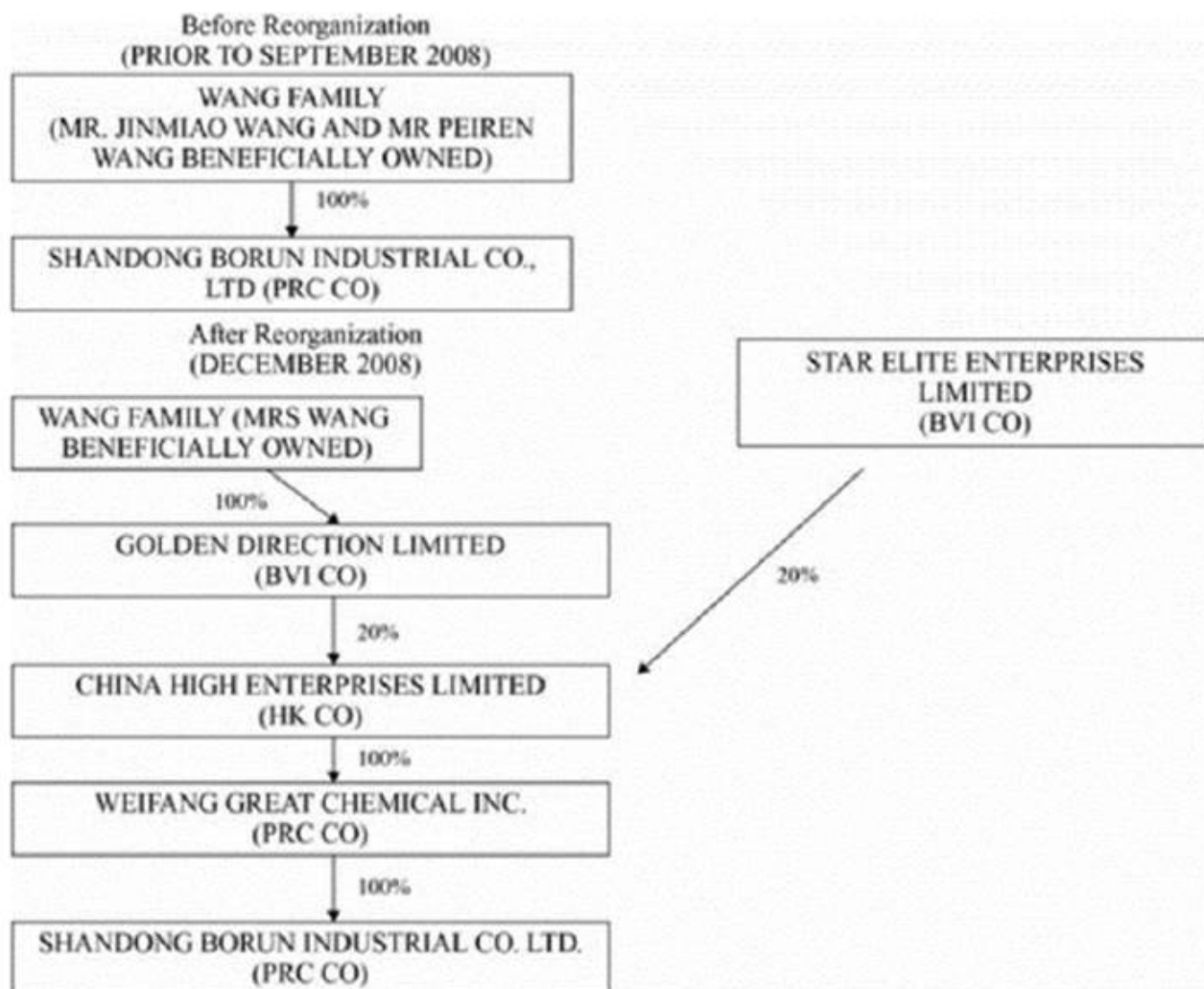
Shandong Borun, our predecessor company which had been controlled by our CEO, Mr. Wang and his father, Mr. Peiren Wang (together with Mr. Wang and Mrs. Shan Junqin (“Mrs. Wang”), the “Wang family”), since the incorporation of Shandong Borun, in December 2000, underwent a corporate reorganization between September and December 2008 for the purpose of facilitating investments into Shandong Borun by unrelated off-shore (non- PRC) private equity investors.

In September 2008, Golden Direction Limited, or Golden Direction, beneficially owned by Mr. Wang’s mother, Mrs. Wang, acquired the sole share (an ordinary share) of capital of China High, a Hong Kong holding company, from an unrelated party, and in October 2008 China High issued an additional 7,999 ordinary shares to Golden Direction in preparation for and pursuant to the reorganization. China High was previously incorporated in Hong Kong’s Special Administrative Region on July 15, 2008.

On September 30, 2008, China High acquired all of the equity interests of WGC, a PRC limited liability company, from an unrelated party pursuant to an equity interest acquisition agreement for cash consideration of \$160,000 and in October 2008 obtained all requisite approvals from the government for such transaction. WGC was previously established as a limited liability company on March 21, 2001 in China's Shandong Province under the laws of the PRC.

In December 2008, WGC acquired 100% of the equity interests in Shandong Borun. The cash consideration paid by WGC for Shandong Borun was equivalent not to the fair market value of Shandong Borun, but rather to the registered capital of Shandong Borun, or RMB76,500,000 (\$11,121,902). Such acquisition was approved by the PRC governmental authorities and no member of the Wang Family or any other party received any compensation or any return on investment in connection with the reorganization. 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.

The result of this reorganization was to maintain Wang Family control of Shandong Borun, while creating a corporate structure which allowed offshore foreign investment in us in compliance with PRC law. Set forth below are charts showing our corporate structure before and after the reorganization.



The 2008 reorganization enabled us to raise capital through the issuance of China High capital stock to our three previously unrelated private equity investors, namely (a) Star Elite Enterprises Limited, or Star Elite, which had made its investment in October 2008, (b) Earnstar Holding Limited, or Earnstar, which had made its investment in June 2009 and (c) TDR Advisors, Inc., or TDR, which had made its investment in September 2009. Prior to Star Elite’s investment in October 2008, Golden Direction was the sole shareholder of China High since September 2008. These initial investments of approximately \$16.9 million made by Star Elite, Earnstar and TDR between October 2008 and September 2009 were made at arms’ length by sophisticated investors after a series of negotiations and performance of due diligence, including reviews of our management accounts, and the per share price of capital stock in China High issued in connection with each investment was based on the price to earnings ratio at the time of issuance. Each of our investment transactions with Star Elite in October 2008, Earnstar in June 2009 and TDR in September 2009 was made at fair market value at the time of each investment or at a discount to fair market value with a beneficial conversion feature recognized for the intrinsic value of the conversion feature in accordance with accounting rule Accounting Standards Codification (“ASC”) 470-20 (EITF 98-5 and 00-27).



### ***Acquisition of Daqing Borun***

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. 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 RMB139,000,000 (\$20,208,423) for Daqing Borun.

Anxin Tongwei began production of edible alcohol in 2005; however due to operation and financing problems, Anxin Tongwei ceased production and applied for bankruptcy. 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. Subsequent to the acquisition, we spent more than a year and approximately RMB 110.0 million (\$16.0 million) in facility improvements, including improvements to machinery and equipment, in order to replace the previous owner's "dry" method manufacturing process with our in-house developed Borun wet process (see "Information on the Company — Business Overview — Our Key Production Technology" which compares our method with the traditional "dry" method). We also changed the name of Anxin Tongwei to Daqing Borun Biotechnology Co., Ltd., since we regard "corn deep-processing" as a part of the biotechnology field.

### ***Reorganization of China High into New Borun***

Effective as of March 31, 2010, our Hong Kong holding company, China High, and its controlling shareholder, Golden Direction, a company beneficially owned by Mrs. Wang, a member of the Wang Family, underwent a corporate reorganization with China High's minority shareholders Star Elite, Earnstar and TDR (further details of which are set out below) for purposes of listing our securities on a national securities exchange in the United States as a foreign private issuer and for other tax reasons. No member of the Wang Family or any other party received any compensation or any return on investment in connection with the reorganization.

In connection with such reorganization, Mrs. Wang, a member of the Wang Family, incorporated New Borun in the Cayman Islands on December 21, 2009, as a result of which Mrs. Wang ultimately received the sole initial subscriber share of New Borun. On March 9, 2010, Mrs. Wang transferred such sole share to King River, a British Virgin Islands company owned and controlled by Mrs. Wang.

By resolution of the shareholders passed on March 12, 2010, the authorized share capital of New Borun was converted from shares having a par value of \$1.00 to shares having a par value of \$0.001. As a consequence of this variation of share capital, the initial subscriber share (with a par value of \$1.00) held by King River was repurchased by New Borun, and one new share (with a par value of \$0.001) was issued by New Borun to King River.

On March 15, 2010, New Borun signed, and effective as of March 31, 2010 New Borun consummated, a share exchange agreement with Golden Direction and King River, whereby New Borun acquired 100% of the voting share capital of Golden Direction from King River in exchange for the issuance by New Borun to King River of an additional 14,847,810 ordinary shares. Such additional shares were issued to King River on March 17, 2010, following which King River held 14,847,811 ordinary shares of New Borun, representing 100% of its issued share capital. As of the consummation of the share exchange pursuant to the share exchange agreement, Golden Direction became a wholly owned subsidiary of New Borun and Golden Direction held approximately 74.24% of the voting capital of China High.

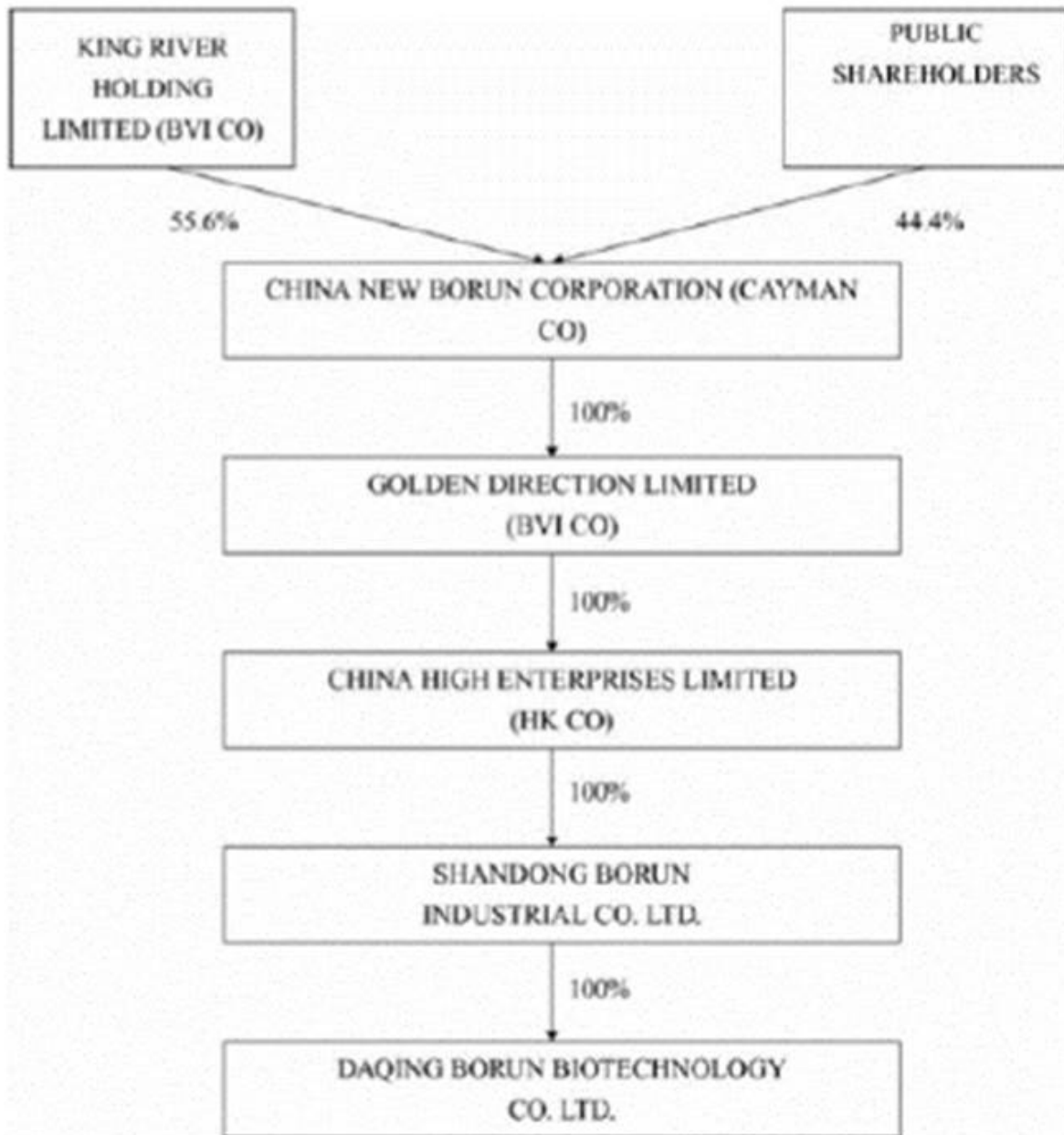
On February 28, 2010 New Borun and Golden Direction signed, and effective as of March 31, 2010 New Borun and Golden Direction consummated, a second share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing that exchange, New Borun issued (i) 3,711,952 of its Class A convertible preference shares, which were automatically convertible into 3,711,952 of its ordinary shares upon the closing of the initial public offering, to Star Elite, one of our private equity investors which is wholly owned by Ms. Ping Chen, (ii) 1,065,330 shares of its Class B convertible preference shares, which were automatically convertible into 1,065,330 ordinary shares upon the closing of the initial public offering, to Earnstar, one of our private equity investors which is wholly owned by Ms. Yibin Wei, who became a Director of New Borun effective April 23, 2010 in connection with the exchange and (iii) 374,907 shares of its Class C convertible preference shares, which were automatically convertible into 374,907 ordinary shares upon the closing of the initial public offering to TDR, one of our private equity investors which is wholly owned by Mr. Ruiping Wang, who became a Director of New Borun effective April 23, 2010 in connection with the exchange. Such reorganization did not result in any change in control as the previous shareholders of China High received their pro rata ownership percentages in New Borun upon the completion of the reorganization.

In connection with and as contemplated by the exchange agreement described in the paragraph above, New Borun (i) entered into a shareholders agreement, effective as of March 31, 2010, with Star Elite, Earnstar, TDR and King River, which sets forth the preference rights held by each of Star Elite, Earnstar and TDR in New Borun and (ii) adopted its Amended and Restated Memorandum and Articles of Association with effect from March 30, 2010, which sets forth the rights attaching to the preference shares held by each of Star Elite, Earnstar and TDR. The shareholders agreement and the Amended and Restated Memorandum and Articles of Association provide for the automatic conversion of each Class A, B and C preference share into ordinary shares, and each of the preference shareholders have agreed to waive all conditions in the shareholders agreement and in the Amended and Restated Memorandum and Articles of Association so that all of their preference shares automatically convert into ordinary shares upon the closing of the initial public offering.

As of November 15, 2012, WGC has merged with and into Shandong Borun and Shandong Borun was reorganized into a wholly owned subsidiary of China High.

We now function exclusively through (1) Golden Direction, (2) China High, (3) China High's wholly owned subsidiary and our chief operating company, Shandong Borun and (4) 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.

Our corporate structure is as follows



### ***Proposed Going-private Transaction***

On January 10, 2018, our board of directors received a preliminary non-binding proposal letter from Mr. Jinmiao Wang, our chief executive officer and chairman of our board of directors, and King River Holding Limited, a British Virgin Island company and a majority shareholder of our Company, proposing to acquire all of our outstanding ordinary shares in a going-private transaction for US\$1.67 per ADS, or US\$1.67 per ordinary share, in cash.

On February 2, 2018, a special committee of our board of directors (the “Special Committee”), consisting solely of independent directors, was formed and proceeded to consider the proposed going-private transaction, while considering other strategic options available to us. The Special Committee intends to retain independent legal and financial advisors to assist it in evaluating the proposal. As of the date of this annual report, the Special Committee is still in the process of carefully considering and evaluating the proposal as well as our strategic alternatives.

If completed, the going-private transaction will result in us becoming a privately-held company and our ADSs will no longer be listed on the NYSE. See “Item 3.D. Risk Factors — Risks Related to Our Business — The consummation of the proposed going-private transaction is uncertain, and the announcement and pendency of the transaction could materially and adversely affect our business, results of operations and financial condition.”

### ***Recent Development of our Business***

Between January 1, 2018 and December 31, 2018, we:

- successfully purchased 238,724 tons of corn from granaries pursuant to our framework agreements with them and local farmers in the harvest season of 2018.

Between January 1, 2019 and April 30, 2019, we

- successfully complete our corn sourcing plan by purchasing another 231,506 tons of corn from granaries pursuant to our framework agreements with them and local farmers.

### ***Capital Expenditures***

Our capital expenditures were RMB3.6 million (\$0.5 million), RMB1.0 million (\$0.2 million) and RMB nil in 2016, 2017 and 2018, respectively, which related primarily to purchasing equipment for expansion and upgrade of our edible alcohol facilities, plant and equipment for chemical plant at our Shouguang facility. We expect to incur capital expenditures ranging from RMB50.0 million (\$7.3 million) to RMB100.0 million (\$14.5 million) for 2019, which related primarily to the replace of our damaged Shouguang production facilities.

### ***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, Ugland 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 annual report.

## B. Business Overview

### Overview

We are a leading producer and distributor of corn-based edible alcohol in the PRC 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 beverages are 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, and consumption of *baijiu* has grown with the expansion of the PRC economy.

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 edible alcohol we supply to them is critical to achieving these taste and flavor profiles.

During the production of edible alcohol, we also produce DDGS feed, corn germ, crude corn oil and liquid carbon dioxide as by-products which are sold separately from our edible alcohol. In July 2010, we completed construction of our liquid carbon dioxide plant at our Shouguang facility, which manufactures liquid carbon dioxide from waste carbon dioxide emitted during our production process, in order to create an additional stream of revenue. Our liquid carbon dioxide plant began contributing revenue in July 2010 and completed the improvement of our liquid carbon dioxide facility at Shouguang with 40,000 tons per annum capacity in August 2011. In March 2011, we completed the installation of our crude corn oil facility in our Daqing facility and started producing and selling crude corn oil by deep-processing corn germ into crude corn oil. Additionally, we completed the crude corn oil facility in our Shouguang facility and began producing and selling crude corn oil in September 2011. We ceased the production and sale of corn germ from September 2011.

In China, edible alcohol can be classified into Grades A, B and C. Currently, we sell all three Grades of edible alcohol. From August 2011, we began to produce Grade A edible alcohol at our Daqing facility by upgrading our Grade B edible alcohol after the completion of the Grade A edible alcohol facility with annual capacity of 50,000 tons.

In January 2012 the State Intellectual Property Office awarded a patent to us for the Borun wet process, our proprietary manufacturing method. Based upon our knowledge of our industry and the patent approval we obtained from the State Intellectual Property Office of the PRC of for the Borun wet process, we believe our in-house and exclusively developed Borun wet process has a higher production yield, is more environmentally friendly and has a higher energy efficiency as compared to other producers of commercially available corn-based edible alcohol in China. Based upon our knowledge of our industry and our approved patent, we believe we are the only corn-based edible alcohol producer in China utilizing our method.

In addition to the production of edible alcohol and the related by-products including DDGS, crude corn oil and liquid carbon dioxide, we started to produce and sell CPE products and foam insulation products in 2013. We completed the construction of our CPE product manufacturing plant with an annual production capacity of 12,500 tons and our new foam insulation products manufacturing plant with an annual production capacity of 40,000 cubic meters, both situated at our Shouguang facility, in July and September 2013, respectively. In 2014, we further invested in our CPE production line and expanded the annual production capacity with additional 12,500 tons of CPE products. We began generating revenue from sales of our CPE and foam insulation products in December 2013. However, due to the weak market demand of foam insulation products, in 2015, after a comprehensive review, we concluded that the foam insulation market will likely face intense price competition, while we would need to spend a significant amount of additional R&D in order to effectively compete in terms of product variety. Consequently, we disposed of all long-lived assets related to our foam business in 2016 and exited the foam insulation market. In 2017, we invested in and completed the construction of our AMPS manufacturing plant with an annual production capacity of 4,000 tons. AMPS is a chemical that is widely used in many fields, including oilfield chemistry, water treatment and synthetic fibers.

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 400,689.81 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), 25,000 tons of CPE products and 4,000 tons of AMPS products. Our Daqing facility occupies a site area of 219,156.4 square meters and currently has an annual production capacity of 220,000 tons of corn-based edible alcohol (50,000 tons of Grade A edible alcohol, 140,000 tons of Grade B edible alcohol and 30,000 tons of Grade C edible alcohol). We expanded the production capacity of the Daqing facility with the use of the net proceeds from our June 2010 initial public offering, in addition to cash generated from our operations and bank loans, through the construction of Phase III. 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 are the second largest edible alcohol producer in China, based on current total production capacity.

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, we secured corns in advance during the harvest season. In 2018, we continued to execute our sourcing strategy to pre-purchase corns in advance to meet our production needs during the non-harvest season. As of April 30, 2019, we successfully purchased 470,230 tons of corn, which will substantially satisfy our corn consumption requirements at our Shouguang and Daqing facilities during the coming non-harvest season.

## ***Our Competitive Strengths***

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

We believe that we are currently the second largest producer of edible alcohol in China in terms of total production capacity and production output of edible alcohol. We believe 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 the patent we have already obtained from the State Intellectual Property Office of the PRC on our application for a patent of invention for our Borun wet process, we believe we are the only corn-based edible alcohol manufacturer that utilizes such a technology in China. Compared to the dry milling process used by other edible alcohol 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. Corn germ produced by our Borun wet process is further refined into crude corn oil, providing an additional revenue stream.

### ***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 and Heilongjiang provinces. The location of our production facilities in Shandong and Heilongjiang provinces enables us to gain access to the *baijiu* distilleries, potential customers as well as a stable supply and lower cost of 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, including an additional 110,000 tons over the current production capacity of 220,000 tons. We believe 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 we are in an advantageous position to respond to any growth in market demand for edible alcohol.

### ***Corn Sourcing Expertise***

We secure corns in advance during the harvest season when the price of corn is historically the lowest during the year to meet our production needs. As of April 30, 2019, we successfully purchased 470,230 tons of corn during the harvest season which should fully accommodate our production needs for the rest of the year. We intend to continue this sourcing strategy in the future and we believe this 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. 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 our management team's knowledge of the edible alcohol industry will enable us to continue to respond effectively to challenges created by changing market conditions.

### ***Our Strategies***

#### ***Continuously Improve Product Mix***

We will shift our product mix to higher grade and higher price edible alcohol, as well as sell more valuable by-products. We completed construction of our Daqing Phase III facility to produce Grade B edible alcohol with additional annual capacity of 120,000 tons in January 2011. We upgraded our edible alcohol production at Daqing facility to Grade A edible alcohol with annual capacity of 50,000 tons and started producing and selling Grade A edible alcohol in August 2011. We also constructed in our Shouguang facility a system to produce liquid carbon dioxide using the carbon dioxide collected during the production of edible alcohol. The Phase I carbon dioxide facility was completed in July 2010 and the Phase II facility was completed in August 2011. In addition, we installed facilities in our Daqing facility and Shouguang facility to further process corn germ to crude corn oil. Crude corn oil has historically sold at higher prices than corn germ. In addition to shifting our product mix in line with our existing edible alcohol production facilities, we invested in our new chemical product segment, including the construction of our CPE and AMPS plants to further diversify our product mix. Due to weak market demand, we exited the foam insulation market in 2016 and CPE market in 2018.

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

We currently sell a large portion of our corn-based edible alcohol in Shandong and Heilongjiang Provinces, and of which sales are mainly made to local distilleries of medium to high quality *baijiu*. We intend to continue to expand our sales of edible alcohol in western and southern provinces such as Sichuan, Anhui and Jiangsu Provinces where we believe 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. We also plan to expand our sales to other provinces to diversify our customer base.



We believe Sichuan Province is the largest *baijiu* production base in China. From December 2009, we started selling edible alcohol to customers in Sichuan Province and we have achieved significant progress with our sales in Sichuan Province, particularly since 2012, as we significantly increased the volume of edible alcohol sales to this region. We started selling edible alcohol in Anhui and Jiangsu Provinces in 2010 and we aim to further expand our business in those regions.

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.

### ***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.

Leveraging our past success, we intend to continue to invest in research and development, especially in process technology, to improve our products and sustain our competitive edge.

### ***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 liquid carbon dioxide as by-products. Based on our production record during the year ended December 31, 2018, approximately 3.01 tons of corn produced 1.0 ton of edible alcohol, 0.86 ton of DDGS feed and 0.86 ton of liquid carbon dioxide.

With the commencement of our new chemical product segment in 2013, we began to produce and sell CPE products, foam insulation products and most recently, AMPS products. However, due to weak market demand of foam insulation products, in 2016, after a comprehensive review, we exited the foam insulation market.

### ***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, 2016, 2017 and 2018, sales of edible alcohol accounted for 68.6%, 67.3% and 71.0% 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 A edible alcohol, which has alcohol concentration of 99.5%, at Phase II of our Daqing facility with the capacity of 50,000 tons. We produce Grade B edible alcohol, which has alcohol concentration of 95.5%, at Phase II of our Shouguang facility, Phase II of our Daqing facility and Phase III of our Daqing facility, with the capacities of 90,000 tons, 20,000 tons and 120,000 tons, respectively. In addition, we produce Grade C edible alcohol, which has alcohol concentration of 95%, at Phase I of our Shouguang facility with the capacity of 70,000 tons and at Phase I of our Daqing facility with the capacity of 30,000 tons. In general, higher grade edible alcohol commands a higher market price than lower grade edible alcohol. The principal market for our edible alcohol is comprised of sales to producers of intermediate and high grade *baijiu*. During the years ended December 31, 2016, 2017 and 2018, the sale of edible alcohol to distilleries of *baijiu* contributed to 47.8%, 50.7% and 51.3% of our edible alcohol sales revenue, respectively.

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, 2016, 2017 and 2018, revenue generated from the sale of edible alcohol to the chemical industry contributed 46.6%, 46.8% and 45.7% 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, 2016, 2017 and 2018, 5.6%, 2.6% and 3.0% 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, 2016, 2017 and 2018 was approximately, RMB4,307 (\$626), RMB4,008 (\$583) and RMB4,489 (\$653) 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 and fish. During the years ended December 31, 2016, 2017 and 2018, sales of DDGS feed contributed to 21.9%, 23.3% and 23.5 % of our revenues, respectively. The average selling price of our DDGS feed per ton for each of the years ended December 31, 2016, 2017 and 2018 was approximately RMB1,595 (\$232), RMB1,617 (\$235) and RMB1,718 (\$250), respectively.

### ***Crude Corn Oil***

Crude corn oil is used to produce edible corn oil, which is sold to corn oil producers. In 2011, we installed the crude corn oil facilities in both our Daqing and Shouguang facilities, and began producing crude corn oil by deep-processing corn germ into crude corn oil. During the years ended December 31, 2016 and 2017, the sales of crude corn oil contributed 3.9% and 3.1% of our revenue, respectively. We temporarily ceased our production of crude oil in 2017. The average selling price of our crude corn oil per ton for each of the years ended December 31, 2016 and 2017 was approximately RMB6,370 (\$926) and RMB6,239 (\$907), respectively.

### ***Liquid Carbon Dioxide***

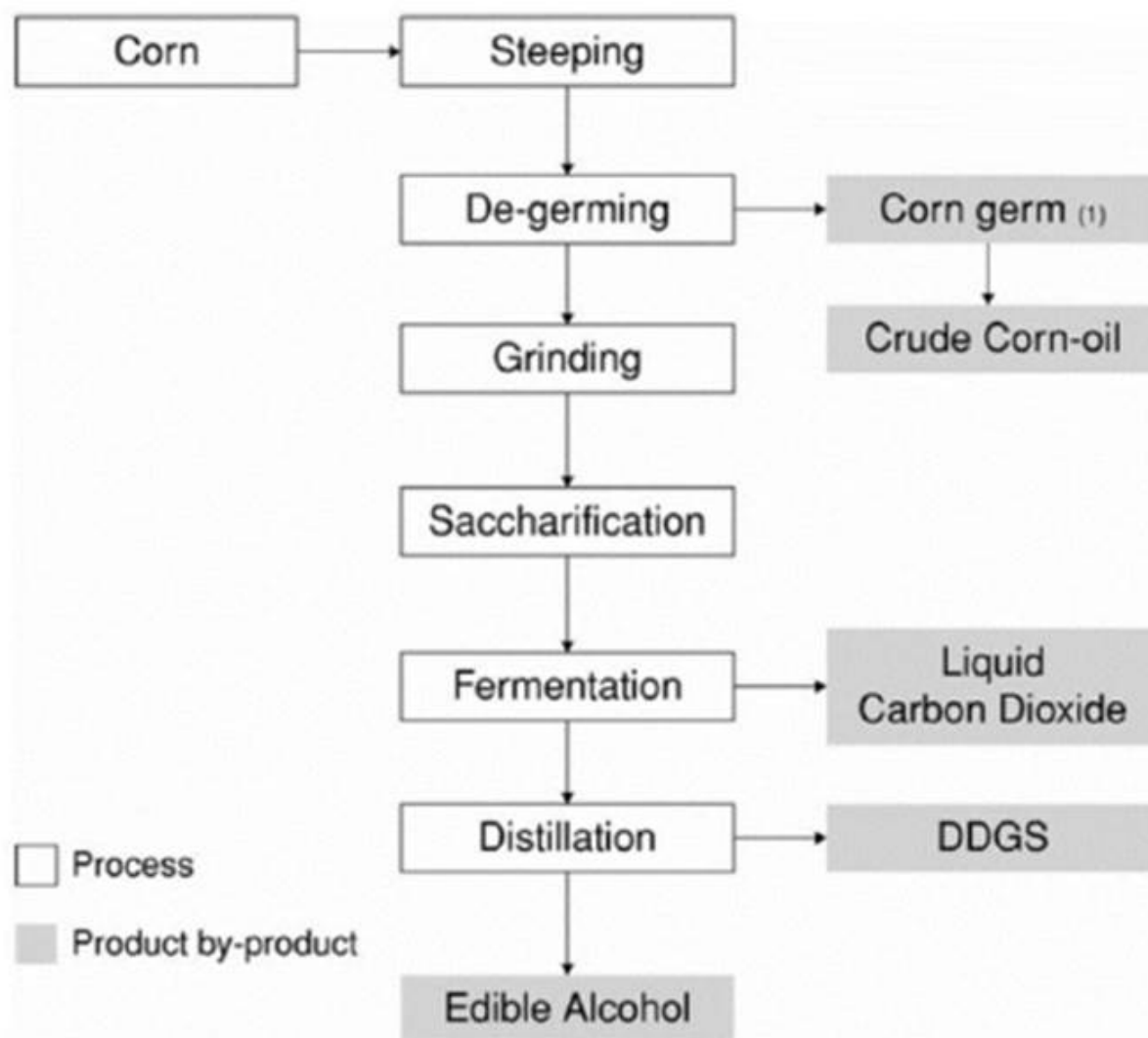
Liquid carbon dioxide is used extensively in oil exploitation to enhance oil recovery, especially in the tertiary phase of oil exploitation, and as a food additive by the food and beverage industry. Our Shouguang facility has commenced production of liquid carbon dioxide from July 2010. In 2011, we installed the Phase II liquid carbon dioxide facility in our Shouguang facility, which began to generate revenue in August 2011. During the process of fermenting corn, waste carbon dioxide is generated and discharged into the atmosphere. During the years ended December 31, 2016, 2017 and 2018, sales of liquid carbon dioxide contributed to 1.0%, 1.1% and 1.3% of our revenues, respectively. The average selling price of our liquid carbon dioxide per ton for each of the years ended December 31, 2016, 2017 and 2018 was approximately RMB173 (\$25), RMB195 (\$28) and RMB327 (\$48). Our liquid carbon dioxide production lines not only generate revenue but also serve to reduce air pollution by recycling carbon dioxide.

### ***Chemical Products***

Our chemical product segment includes: CPE products, foam insulation products and most recently, AMPS products. CPE products being special synthetic rubber are widely used as raw materials. We completed the construction of our CPE manufacturing plant in July 2013 with an annual production capacity of 12,500 tons at our Shouguang facility. We further expanded our CPE manufacturing plant and increased the annual production capacity to 25,000 tons in 2014. For the years ended December 31, 2016 and 2017, sales of our CPE products contributed to about 4.6% and 3.3% of our total revenues, respectively. We temporarily ceased our production of CPE in 2018. The average selling price of our CPE products per ton for the years ended December 31, 2016 and 2017 was approximately RMB8,251 (\$1,200) and RMB7,708 (\$1,121), respectively. With respect to our foam insulation business, we decided to exit the market in 2016, in view of weak market demand, after a comprehensive review. We took steps to fully write-down the production lines for foam insulation products as a one-time, non-cash impairment of approximately RMB7.0 million (\$1.0 million) in 2015 and disposed of the relevant production lines. However, we expanded into manufacturing and sales of AMPS products in 2017. For the years ended December 31, 2017 and 2018, sales of our AMPS products contributed to about 1.8% and 4.3% of our total revenues, respectively. AMPS is a chemical that is widely used in many fields, including oilfield chemistry, water treatment and synthetic fibers. The average selling price of our AMPS products per ton for the years ended December 31, 2017 and 2018 was approximately RMB16,702 (\$2,428) and RMB20,103 (\$2,923), respectively.

**Our Key Production Technology**

Our production technology for our key product, edible alcohol, is a nimble departure from the traditional dry milling adopted in China comprising 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 is a simplified flowchart of our Borun wet process.



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.

(1) We ceased corn germ production and sales from September 2011.

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 patented Borun wet process, we believe we are the only edible alcohol manufacturer that utilizes such a technology in China. The State Intellectual Property Office of the PRC has approved our application for a patent of invention for our Borun 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 six- tower fermentation and distillation equipment to produce Grade A edible alcohol and utilize five-tower fermentation and distillation equipment which enables us to produce 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. To satisfy the electricity demand from our Phase III Daqing facility, we constructed additional coal-fired power-generating systems. 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 our Borun wet process is an environmentally clean production technology with little pollution or discharge. We produce excess heat, solid waste (carbon soot, sulfur dioxide, nitrogenoxide) from coal burning, wastewater and generate carbon dioxide and methane in our production process. The solid waste and 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 a 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 annual report, we are currently in full compliance with relevant PRC 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 RMB1,066,400 (\$155,038), RMB1,608,400 (\$233,836) and RMB1,761,200 (\$256,051), during the fiscal years ended December 31, 2016, 2017 and 2018, respectively, on Company-sponsored research and development activities, including, without limitation, all activities in respect of our in-house developed Borun wet process.

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 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 is licensed to produce 160,000 tons of edible alcohol per year. Our Daqing facility has a government-issued production license to produce 330,000 tons of edible alcohol; however its current production capacity is 220,000 tons.

Our Shouguang facility is located 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 an area of 4,312,985 square feet (approximately 400,689.81 square meters) and employs 665 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 70,000 tons per annum while the second production line was completed in August 2009 to produce Grade B edible alcohol with a designed capacity of 90,000 tons per annum. Currently, annual production capacity of our Shouguang facility is 160,000 tons of edible alcohol. We believe our Shouguang facility is the largest edible alcohol manufacturer in Shandong Province.

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 an area of 2,358,978 square feet (219,156.4 square meters) and employs 467 company- trained employees. Based on our understanding of this industry, we believe the Daqing facility is one of the largest private enterprises and edible alcohol manufacturers in Heilongjiang Province.



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 increased to 100,000 tons of edible alcohol. Upon completion of our Phase III Daqing facility in January 2011, our annual production capacity at that facility increased to 220,000 tons of edible alcohol.

In addition to the production facilities of edible alcohol and its by-products including DDGS feed, crude corn oil and liquid carbon dioxide, we completed the construction of our CPE and foam insulation products manufacturing plants at our Shouguang facility in July and September 2013, respectively. In 2017, we invested in and completed the construction of our AMPS manufacturing plant.

The following table summarizes the actual production level for each of our products during the years ended December 31, 2016, 2017 and 2018:

	Year ended December 31,		
	2016	2017 (tons)	2018
Edible alcohol	337,959	353,702	288,416
DDGS feed	295,962	305,178	255,563
Liquid carbon dioxide	120,852	118,200	71,422
Crude corn oil	13,021	10,440	—
CPE	11,394	7,860	—
AMPS	—	2,346	3,946

(1) We temporarily ceased our crude corn oil and CPE production in 2018. As such, the production level for crude corn oil and CPE products was nil in 2018.

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

Our customers are primarily local *baijiu* distilleries and chemical industries in Shandong and Heilongjiang provinces. Currently, we sell over 51.7% of our edible alcohol to 23 customers mainly in Shandong and Heilongjiang provinces.

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 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. We have also successfully developed customers in Anhui, Jiangsu, Hebei, Jilin and Liaoning provinces.

During the years ended December 31, 2016, 2017 and 2018, there was no single customer from which we generated more than 10% of total sales.

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 deliver to a certain portion of our edible alcohol customers who will be liable for the shipping costs under agreed special arrangements. For DDGS feed, crude corn oil, liquid carbon dioxide, and chemical products, all of our customers come to our facilities to pick up their orders and we have never been responsible for 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 payment after they acknowledge their acceptance of such products (usually within 60 days of receipt of the products by such customers).

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 we believe 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 them would have a material adverse effect on our business.

**Our Sales and Marketing**



We have a sales and marketing team of 24 employees, with a sales manager overseeing our overall sales and marketing initiatives.

We do not sell our products through distributors. Our sales teams in Shandong Province and Heilongjiang Province market our products directly to our customers. However, as part of our strategy to diversify the geographical spread of our customer base, we have expanded our sales of edible alcohol to customers in Sichuan, Anhui, Jiangsu, Hebei, Jilin and Liaoning provinces. We expect to continue to sell more edible alcohol to other provinces in the future.

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 60 days after their receipt of our products, resulting in a short accounts receivable cycle. For new customers, we may also require a prepayment before delivery of our products.

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

We secure corns in advance during the harvest season.

Starting from November 2009, we entered into framework agreements with local granaries in Heilongjiang Province, as corn prices were generally the lowest in the Northeastern region of China, to engage them to purchase corn for us from local farmers during the harvest season and store them for subsequent delivery to substantially satisfy the corn requirements of our Shouguang facility and Daqing facility during the non-harvest season. Such supply contracts provide us access to corn at prices which we believe have historically been lower than the market price in the off season and times of high price volatility due to crop failures and other factors. Contractual terms under the framework agreements included, among others, basis of purchase price and additional costs, the total quantity of corn we intend to purchase in the coming harvest season, the standard of corn quality, the delivery schedule, and the payment milestones. These terms are to be re-negotiated, updated and agreed before the harvest season, usually around November, every year.

Starting from November 2013, we entered into new purchase arrangements with local granaries. We fully settled the corn price (i.e. purchase cost) before the granaries executed the procurements per our agreed schedule. In prior years, we did not pay for the corn (with the exception of a 10% deposit) until the corn was delivered to our manufacturing facilities, and the granaries retained the risks and rewards of ownership of the corns purchased under the framework agreement until our receipt of such delivery. Due to this change, we initiated a “bill and hold” arrangement with the granaries whereby we take possession of the corn upon purchase and storage of the corn by the granary. Under this new policy, after the corn is collected from the local farmers as planned, both the quantity and quality of corn is inspected and acknowledged by one of our employees assigned to the granaries’ warehouses. The corn is then separately stored and distinguished from other inventory of the granaries, and subject to supervision by our designated employee. Therefore, once the stock-in processes are completed, the granaries neither retain any specific performance obligations nor have the right to sell the collected corn on behalf of us to any third party. As the granaries’ sole obligation is to manage the storage of corn for us, the significant risks and rewards of ownership of the purchased corn are considered to be transferred to us upon our payment to the granaries. In addition, we also bear the risk of loss in the event of a decline in the market value of the collected corn. The custodial risks of the collected corn are properly insured by the granaries and us. Upon the delivery of corn, we pay to the granaries a fixed handling fee of RMB124 (\$18.0) per ton as stipulated in the framework agreement, mainly for the storage of our corn at the granaries’ warehouses.

As of December 31, 2018, 238,724 tons of corn were collected by the granaries on behalf of us. By the end of April 2019, we successfully purchased 470,230 tons of corn through the granaries and local farmers, which should substantially satisfy our corn consumption at our Shouguang and Daqing facilities during the coming non-harvest season.

Formerly, we maintained an inventory of about half a month's corn requirement at our Shouguang facility and Daqing facility. During the years ended December 31, 2016, 2017 and 2018, corn accounted for approximately 79.9%, 82.3% and 84.7% of our cost of goods sold, 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 the Inner Mongolia Autonomous Region. In general, from June through September, coal prices are lower as compared to coal prices from October through July. Therefore, we purchase larger quantities from June through September and stock our reserves. During the years ended December 31, 2016, 2017 and 2018, coal accounted for approximately 6.5%, 6.7% and 6.1% of our cost of goods sold, respectively.

### ***Seasonality***

We believe our business is not seasonal in nature.

### ***Competition***

There is no dominant leader in our industry in the PRC 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 Item 3.D, “Key Information — 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 “Information on the Company — Business Overview — Regulation — 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 and continually assessed so as to comply with all the required procedures and the relevant operating guidelines.

## ***Intellectual Property***

We have obtained two Trademark Registration Certificates from the Trademark Office of the State Administration for Industry and Commerce in respect of our two trademark applications, respectively and our applications for other trademarks are still pending approval.

On January 11, 2012, the State Intellectual Property Office of the PRC approved our application for a patent of invention for our Borun wet process and based upon our knowledge of our industry, we believe we are the only corn-based edible alcohol producer in China using the Borun wet process. For a description of our Borun wet process technology, please see the subsection above entitled “Information on the Company — Business Overview — Our Key Production Technology”.

Furthermore, we registered the domain name of [www.chinanewborun.com](http://www.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 five Land Use Right Certificates covering an area of approximately 4,312,985 square feet (400,689.8 square meters) and 28 Property Ownership Certificates covering a construction area of approximately 377,489 square feet (35,070.0 square meters). For our Daqing facility, we have three Land Use Right Certificates covering an area of approximately 2,358,978 square feet (219,156.4 square meters) and 39 Property Ownership Certificates covering a construction area of approximately 1,011,825.56 feet (94,000.9 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 any of the following cases, the relevant land administrative department may recover the land use right of State-owned land where: (1) land is to be used for the sake of the public interest; (2) land is to be used 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 and 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 us.

### **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, 2018, were approximately RMB 1,718.9 million (\$249.9 million) on our property and facilities and machinery, and approximately RMB79.9 million (\$11.6 million) on our inventory. 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 annual report, our Shouguang facility had 652 full-time employees and our Daqing facility had 457 full-time employees for a total of 1,109 full-time employees, which is comprised of 855 manufacturing staff, 230 management and administrative personnel, and 24 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-owned apartment buildings. With respect to our Shouguang facility, we have chosen a piece of land and intend to construct dormitories for our employees in the city of Shouguang. 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, and occupational injury 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 fines arising from such delinquent payments. Such late payments were fully settled and clearance from the relevant authorities was obtained on January 2010. Since 2010, we made the monthly social insurance and housing fund payments in accordance with PRC laws and such payments were recorded as part of staff costs in our financial statements. Total contributions to such funds were approximately RMB10.5 million (\$1.5 million), RMB11.3 million (\$1.6 million) and RMB13.4 million (\$2.0 million) for the years ended December 31, 2016, 2017 and 2018, respectively. As of December 31, 2018, our Company has no payment obligation related to such social insurance which remains unpaid or is delinquent. 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, 2018, we have paid RMB229,578 (\$33,377) and RMB6,640,166 (\$965,376) for group casualty insurance and pension insurance, respectively.

### ***Legal Proceedings***

We are not a party to any material legal proceedings.

## **REGULATION**

### ***Introduction***

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

With respect to its current business operations, we are mainly subject to the following laws, regulations and rules:

### ***Business Licenses***

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 incorporation and, on November 15, 2012, the Shouguang Administration for Industry and Commerce extended the business term of Shandong Borun to March 26, 2062. 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.

Shandong Borun and Daqing Borun can only conduct business within their registered business scopes as specified on their business licenses. Shandong Borun's license includes production and sale of edible ethanol, food additives liquid carbon dioxide, corn oil, germ meal, single feed (maize alcohol jees), chlorinated polymer related product, sale of high-molecular polymer materials (exclusive of dangerous chemicals), wholesale of glucoamylase, amylase, the purchase of foodstuffs and the import and export of goods (exclusive of distribution business) subject to the approval of PRC government in case of quota license and special regulations of the PRC. Daqing Borun's license includes ethyl alcohol (Work Safety License expires on November 21, 2017), production and sale of edible alcohol, edible vegetable oil and single feed, purchase of corn, rice, soybean and coarse cereals, sale of grain, complex fertilizer, compound fertilizer and bulk-blended fertilizer, and the import and export business. Any further amendment to the scope of our business will require additional applications and government approval or registration.



## **Industry Policy**

On March 27, 2011, the National Development and Reform Commission of the PRC, or the NDRC, issued the Guidance Catalogue on the Adjustment of Industrial Structure (2011 Version) which was amended in 2013, in which the production of alcohol line falls under the restricted industry item and the production of alcohol line with production capacity less than 30,000 tons per year (except for alcohol extracted from waste sugar) falls under the eliminative 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 (2006 -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. On August 6, 2012, the State Council issued a “Notification on the Issuing of 12<sup>th</sup> Five-Year Work Plan on Saving Energy and Reducing Emission” which stipulates the increasing elimination of alcohol line with production capacities less than 30,000 tons per year of edible alcohol (except for alcohol extracted from waste sugar) and the total target of elimination of 1 million tons during the 12<sup>th</sup> Five- Year Plan period (2011-2015).

The export rebate rate of alcohol was cut to zero from 13.0 percent in 2006, then raised to 5.0 percent in June 2009 to boost China’s alcohol export. Seeing the great increase of alcohol export may endanger local supply, the government dropped the export rebate rate to zero in 2010. However, the export rebate rate of undenatured ethyl alcohol of an alcoholic strength by volume of 80% vol. or higher was raised again in 2015 and was 13.0 percent from January 1 to December 31 of 2015.

Starting from September 2010, the alcohol industry applies the Cleaner Production Standard for Alcohol Industry (HJ 581-2010) to regulate the pollution caused by the production process.

Overall, we believe 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. Therefore, we have reason to believe 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 the NDRC on September 5, 2007, the amount of corn used for “deep-processing” cannot exceed 26% of the total corn consumption in the 11<sup>th</sup> Five-Year Period. During the 11<sup>th</sup> Five-Year Period, construction projects for corn deep-processing which have received approval but have not begun shall discontinue plans for construction. Since the production of edible alcohol using corn is a form of “deep- processing” work, this policy may limit our ability to obtain our primary raw material (corn). We believe more than 30.0% of total corn consumption was used for corn deep-processing in 2011, which goes beyond the government plan to restrain the deep processing ratio below 26 percent. The State Administration of Grain issued the 12th Five-Year Plan for Grain and Oil Processing on January 13, 2012 (the “12th Five-Year Plan”) which requires the continuous control of the excessive corn deep- processing growth and the reasonable rate between the amount of total yield and the total corn consumption till the end of the 12th Five-Year. The 26% ratio has not been changed in the 12th Five-Year Plan, however, it is uncertain whether the PRC governmental entities will change the ratio or what ratio the PRC government is expected to apply in the next few years.

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

### **Alcohol and Liquid Carbon Dioxide Production**

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, the Circular on Issues Concerning the Production License of Edible Alcohol Product issued by the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) of PRC on December 29, 2010 and the Circular on the Promulgation of Catalogue of Products subject to Production License issued by AQSIQ of the PRC on December 5, 2007 and last amended in 2012, 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 Administrative Measures on the Production License of Feed and Feed Additives issued on May 2, 2012 by the Ministry of Agriculture, as amended on December 31, 2013, and on May 1, 2016, an applicant for the establishment of a feed production enterprise shall obtain a production certificate. The feed and feed additives production enterprises also required an annual filing before the end of February each year. The Regulation on the Administration of Feeds and Feed Additives, issued on May 29, 1999 and last amended on March 1, 2017, further provides that feed products must be granted quality certificates before such products may be commercialized. According to the Administrative Measures on the Production License of Feed and Feed Additives issued on May 2, 2012 by the Ministry of Agriculture, as amended on December 31, 2013, and on May 1, 2016, an applicant for the establishment of a feed production enterprise shall obtain a production certificate. The feed and feed additives production enterprises also required an annual filing before the end of February each year. The Regulation on the Administration of Feeds and Feed Additives, issued on May 29, 1999 and last amended on March 1, 2017, further provides that feed products must be granted quality certificates before such products may be commercialized.

### **Food Additives Production**

According to the Provisions on the Supervision and Administration of Production of Food Additives promulgated on April 4, 2010 by the AQSIQ, an applicant for the establishment of a food additives production enterprise shall obtain a production certificate.

### **Food Production**

According to the Measures for the Administration of Food Production Licenses promulgated on April 7, 2010 by the AQSIQ and effective on June 1, 2010 and last amended in August 2015 and the Rules on the Review of Food Production License Regarding 26 Kinds of Food Such as Edible Vegetable Oil promulgated by the AQSIQ on December 27, 2006, and Administrative Measures for Food Production Licensing promulgated by the SFDA on August 31 2015 and became effective on October 1 2015, an applicant for the establishment of a vegetable oil production enterprise shall obtain a production certificate.

### **Grain Purchase**

According to the Regulation on Administration of Grain Distribution promulgated by the State Council on May 26, 2004 and amended on July 18, 2013 and February 6, 2016, enterprises engaged in business of purchase, sale, storage, transport, processing as well as import and export of grain which includes wheat, rice, corn, coarse cereals shall obtain qualification for grain purchase. According to the Provisional Measures on Administration of Examination and Approval for Qualification of Grain Purchasers jointly promulgated by the State Grain Administration and State Administration of Industry and Commerce on July 9, 2004, enterprises engaged in grain purchase shall obtain a grain purchase certificate from the authority responsible for examination and approval of qualification of grain purchase at the level equal to the registration authority with which the enterprise shall go through the registration of establishment.

### **Environmental Regulations**

Our production processes generate noise, wastewater, gaseous and other industrial wastes. The major PRC environmental regulations applicable to us include, among others, 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 must obtain Pollution Discharging Permit from the competent authority and 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 but not limit to orders to make corrections, imposition of fines, consecutive punishment by day based on the original fines, orders to restrict production and suspend production for renovation, 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, or the WSL, was adopted at the 28<sup>th</sup> meeting of the Standing Committee of the Ninth People's Congress on June 29, 2002, became effective as of November 1, 2002, and last amended on August 31, 2014. 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, or RWSL, was promulgated by the State Council on January 13, 2004 and last amended in July, 2014. 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. If an enterprise strictly abides by the relevant laws and regulations on work safety and is free of any fatal accident during its work safety license validity period, it will be granted a review-free three-year license extension, with the consent of 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 was amended in 2011. 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 July 1, 2012, the SAWS issued the Administration Rules for the Registration of Dangerous Chemicals, according to which the enterprises should complete registration for the production and import of dangerous chemicals listed in the Dangerous Chemicals Catalogue. In addition, the SAWS issued the Administration Rules for the Operation License of Dangerous Chemicals on July 17, 2012 and amended in 2015, according to which, an Operation License is required for the operation of dangerous chemicals. 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 amended on December 28, 2012. 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. 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. 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 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, in some circumstances, 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.

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, 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.

On 4 July 2014, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Round-Trip Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles, or the SAFE Circular No. 37, which became effective and superseded the SAFE Circular No. 75 on the same date. Pursuant to Circular No. 37, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle, that is directly established or controlled by the PRC resident for the purpose of conducting investment or financing; and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the SPV, including, among other things, a change of the SPV's PRC resident shareholder(s), name of the SPV, term of operation, or any increase or reduction of the SPV's registered capital, share transfer or swap, and merger or division.

Pursuant to Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment, which was promulgated on February 13, 2015 and implemented on June 1, 2015, the initial foreign exchange registration for establishing or taking control of a SPV by domestic residents can be conducted with a qualified bank, instead of the local foreign exchange bureau.

We understand that none of our shareholders prior to our initial public offering was a PRC citizen. Our PRC counsel for our initial public offering advised that none of these shareholders was subject to the requirement of the SAFE registration under Circular No. 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 shareholders who may spend a 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 on January 1, 2006 and 28 December 2013, Wholly Foreign Owned Enterprise Law (1986), as latest amended in 2016, Implementation Rules of Wholly Foreign Owned Enterprise Law (1990), as amended in 2001 and 2014, Chinese-Foreign Joint Venture Law (1979), as amended in 2001, and Implementation Regulation of Chinese-Foreign Joint Venture Law (1983), as amended in 2001, 2014 and 2016. 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 us in the PRC are enterprise income tax and value-added 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 PRC 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, which shall be taxed at the reduced rate up to 10%.

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income (referred to as the 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 shall meet all of the following requirements: (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; and (3) directly own such percentage in the Chinese resident company at anytime within the 12 consecutive months prior to the reception of such dividends.



According to The Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (referred to as the 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 Interim 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, and latest amended in February 2016, 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%.

#### ***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 the M&A Rules to more effectively regulate foreign investment in PRC domestic enterprises. The M&A Rules took effect on September 8, 2006 and was amended on June 22, 2009. The M&A Rules 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 M&A Rules is currently unclear. However, our PRC counsel for our initial public offering advised us that based on their understanding of the current PRC laws, rules and regulations and the M&A Rules, the M&A Rules does not require that we obtain prior CSRC approval for the listing and trading of our ADSs on the NYSE, because the acquisitions among China High, WGC and Shandong Borun are governed by the PRC laws, regulations, rules and circulars related to foreign investment enterprises instead of the M&A Rules.

Our PRC counsel for our initial public offering had 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 M&A Rules. See Item 3.D, "Key Information — Risk Factors — Risks Related To Operating 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 United States.*"

## **Tort Liability Law**

The Tort Liability Law of the People’s Republic of China, which was passed during the 12<sup>th</sup> 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.

### **C. Organizational Structure**

See Item 4.A, “History and Development of the Company” for more information.

### **D. Property, Plant and Equipment**

See Item 4.B, “Business Overview” for more information.

## **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

## **ITEM 5. 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 Item 3.A. “Key Information — Selected Financial Data” and our consolidated financial statements and related notes included elsewhere in this annual report. The discussion in this section contains forward-looking statements that involve risks and uncertainties. See “Forward - Looking Statements.” 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 Item 3.D, “Key Information — Risk Factors” and elsewhere in this annual report.

### **A. Operating Results**

#### **Overview**

We are a leading producer and distributor of corn-based edible alcohol in the PRC 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, and consumption of *baijiu* has grown with the expansion of the PRC economy.

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 edible alcohol we supply to them is critical to achieving these taste and flavor profiles.

During the production of edible alcohol, we also produce DDGS feed, liquid carbon dioxide, and crude corn oil as by-products which are sold separately from our edible alcohol.

In China, edible alcohol can be classified into Grades A, B and C. 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 including 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 220,000 tons of corn-based edible alcohol including 50,000 tons of Grade A edible alcohol, 140,000 tons of Grade B edible alcohol and 30,000 tons of Grade C edible alcohol. We believe we are the largest corn-based edible alcohol private producer operating in Shandong Province and Heilongjiang Province. Our Daqing facility is licensed to build up to a production capacity of 330,000 tons of edible alcohol.

By September 2013, Shandong Borun had completed the construction of plants and production lines for our CPE and foam insulation businesses. CPE can be used in a wide variety of applications, including cables & wires, flame-resistant acrylonitrile butadiene styrene thermoplastic elastomers, rubber products, magnetic rubber stripes and polyvinyl chloride profiles. Foam insulation can be formed in different shapes for various construction needs, and it offers excellent benefits, such as heat insulation, anti-corrosion and oil resistance. We expanded our CPE manufacturing plant, and increased our annual production capacity of CPE products by another 12,500 tons in 2014 and we currently have an annual production capacity of 25,000 tons of CPE. Due to the weak market demand, we fully wrote down of the production lines for foam insulation in 2015. We have disposed the production lines and exited the foam insulation business in 2016. In 2017, we invested in and completed the construction of AMPS manufacturing plant with an annual production capacity of 4,000 tons. AMPS is widely used in many areas, including oilfield chemistry, water treatment and synthetic fibers. In 2018, certain fixed assets at our Shouguang facility were damaged by heavy rains and flooding. We assessed the damage and determined that the best course of action was to record full impairment for the damaged production lines and procure newer more efficient lines to replace those were damaged.

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

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

#### ***Utilization of Production Capacity***

Currently, we have a total annual production capacity of 380,000 tons of edible alcohol. While the PRC edible alcohol market is characterized by total production capacity exceeding market demand, we operated our facilities at full capacity from 2007 to 2011. However, due to the challenging macro-economic conditions in the PRC and the weakening demand for edible alcohol, we were not able to fully utilize our optimal production capacity, and utilization rates in 2016 and 2017 were approximately 88.9% and 93.1%, respectively. Due to the damage by heavy rains and flooding in our Shouguang facility in 2018, our production utilization dropped to approximately 75.9%. In addition to that, to date, we have not experienced any difficulty in selling 100% of our production output, even in the economic downturn. Sales to distilleries of *baijiu* contributed to most of our revenue generated from edible alcohol, representing 47.8%, 50.7% and 51.3% in 2016, 2017 and 2018, respectively. In addition, a portion of our customers are in the chemical industry and use edible alcohol for chemical products such as acetic acid and glycol. In 2016, 2017 and 2018, revenue generated from the sales of edible alcohol to the chemical industry contributed to 46.6%, 46.8% and 45.7% of our edible alcohol sales revenue, respectively.

We believe we have been able to operate efficiently in recent years due to our large production volume and high quality of our product making us a key supplier for *baijiu* producers, who are willing to maintain long-term relationships with us in order to secure supply of our product.

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

The overall supply of edible alcohol outpaced the demand for edible alcohol, and there is excess production capacity in China currently. 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 our knowledge of our industry, 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.

Our revenues are primarily derived from sales of edible alcohol and most of our sales of edible alcohol are to *baijiu* producers. During the past few years, the *baijiu* industry experienced rapid growth and industry demand for edible alcohol increased greatly and as a result, we were able to operate at full capacity from 2007 to 2011. However, in the fourth quarter of 2012, the PRC *baijiu* industry faced headwind from a government ban on serving high-end *baijiu* at official banquets as well as consumers' concerns caused by media reports of traces of plasticizers found in bottled *baijiu*, which caused a sales decline for *baijiu* and reduced the demand for edible alcohol. As a result, there was downward pressure on the demand for edible alcohol in 2013 and 2014, moreover this trend continued in 2015. In 2015, we shifted our customers demographics partially from the *baijiu* industry to the chemical industry in order to improve our sales volume. In 2018, revenue generated from the sales of edible alcohol to the chemical industry contributed to 45.7% of our total edible alcohol sales revenue. However, *baijiu* being the most popular and traditional alcoholic beverage in China, consumption of *baijiu* is already associated with most of the people's daily lives. Moreover, the primary consumer group of *baijiu* in China consists of the general population in the age group of 35 to 44 years, also the PRC's largest population age group. Thus, we believe that the foregoing factors that have softened demand for *baijiu* are temporary and demand for *baijiu* will recover gradually.

#### **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.

The PRC government used to coordinate 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. However, since April of 2016, the PRC government cancelled the national corn reserve purchase program, and the market price of corn decreased substantially in comparison with the same period in previous years. 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.

We secure corns in advance during the harvest season. Starting from November 2009, we entered into framework agreements with local granaries in Heilongjiang Province, as corn prices are generally the lowest in the Northeastern region of China, to engage them to purchase corn for us from local farmers during the harvest season and store them for subsequent delivery to us to substantially satisfy the corn requirements of our Shouguang facility and Daqing facility during the non-harvest season. Such supply contracts provide us access to corn at prices which we believe have historically been lower than the market price in the off season and times of high price volatility due to crop failures and other factors. Contractual terms under the framework agreements included, among others, basis of purchase price and additional costs, the total quantity of corn we intend to purchase in the coming harvest season, the standard of corn quality, the delivery schedule, and the payment milestones. These terms are to be re-negotiated, updated and agreed before the harvest season, usually around November, every year.

Starting from November 2013, we entered into new purchase arrangements with local granaries. We fully settled the corn price (i.e. purchase cost) before the granaries executed the procurements per our agreed schedule. In prior years, we did not pay for the corn (with the exception of a 10% deposit) until the corn was delivered to our manufacturing facilities, and the granaries retained the risks and rewards of ownership of the corns purchased under the framework agreement until our receipt of such delivery. Due to this change, we initiated a “bill and hold” arrangement with the granaries whereby we take possession of the corn upon purchase and storage of the corn by the granary. Under this new policy, after the corn is collected from the local farmers as planned, both the quantity and quality of corn is inspected and acknowledged by one of our employees assigned to the granaries’ warehouses. The corn is then separately stored and distinguished from other inventory of the granaries, and subject to supervision by our designated employee. Therefore, once the stock-in processes are completed, the granaries neither retain any specific performance obligations nor have the right to sell the collected corn on behalf of us to any third party. As the granaries’ sole obligation is to manage the storage of corn for us, the significant risks and rewards of ownership of the purchased corn are considered to be transferred to us upon our payment to the granaries. In addition, we also bear the risk of loss in the event of a decline in the market value of the collected corn. The custodial risks of the collected corn are properly insured by the granaries and us. Upon the delivery of corn, we pay to the granaries a fixed handling fee of RMB124 (\$18.0) per ton as stipulated in the framework agreement, mainly for the storage of our corn at the granaries’ warehouses.

As of December 31, 2018, 238,724 tons of corn were collected by the granaries on behalf of us. By the end of April 2019, we successfully purchased 470,230 tons of corn through the granaries, which will substantially satisfy our corn consumption requirements at our Shouguang and Daqing facilities during the coming non-harvest season.

### ***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 currently. Our sales teams in Shandong Province and 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 for 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% and byproducts, including DDGS feed and corn germ.

As a part of our development strategy, we built Phase II of our Shouguang Facility and Phase II and Phase III of our Daqing Facility to produce Grade A and Grade B edible alcohol, which has an alcohol concentration of 99.5% and 95.5%, respectively, and began selling Grade A and Grade B edible alcohol in August 2011 and August 2009, respectively. The majority of our production capacity is used to produce Grade B edible alcohol. In connection with our business growth plan, we also intend to expand into key strategic markets for Grade B edible alcohol. We have already commenced sales operations in Sichuan, Jilin, Liaoning, Jiangsu, Anhui and Hebei provinces. We anticipate our results of operations will be positively affected as we improve our product mix and our sales network. As part of the expansion plan, our 100,000 ton liquid carbon dioxide production line in the Shouguang facility was completed and started to generate revenue in July 2010. In August 2011, we improved the liquid carbon dioxide production line in the Shouguang facility, which increased its annual production capacity to 140,000 tons. We also began deep-processing corn germ into crude corn oil in our Daqing facility from March 2011 and began producing crude corn oil in our Shouguang facility in September 2011, which further improved our product mix. In addition to modifying our product mix based on our existing edible alcohol production facilities, we invested in foam insulation and CPE manufacturing plants to further improve and diversify our product mix. These plants, completed in July and September 2013, respectively, currently have annual production capacities of 25,000 tons of CPE products and 40,000 cubic meters of foam insulation products. However, due to weak market demand of foam insulation products, we eventually exited the foam insulation market after disposing of all long-lived assets related to our foam insulation business in 2016. In 2017, we invested in and completed the construction of an AMPS manufacturing plant with an annual production capacity of 4,000 tons. AMPS is a chemical that is widely used in many fields, including oilfield chemistry, water treatment and synthetic fibers.

## **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, liquid carbon dioxide and crude corn oil, together with our new chemical products.

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 84.7% and 6.1% of our cost of goods sold in the year ended December 31, 2018, respectively. 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 and individually or collectively, are able to result in a positive or negative impact on the price of corn. Based on our production record during the year ended December 31, 2018, approximately 3.01 tons of corn produced 1.0 ton of edible alcohol. Our average per unit corn price is RMB1,639 (\$238), RMB1,469 (\$214) and RMB1,558 (\$227) in 2016, 2017 and 2018, respectively.

### ***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 market conditions. We achieved gross profit margin of 8.5%, 10.9% and 7.8% for the years ended December 31, 2016, 2017 and 2018, 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. In 2018, due to the damage of heavy rain and flooding to our Shouguang facility, we ceased our production in September in our Shouguang facility, which has a negative impact on our gross margin. However, in the same year, we maintained our production efficiency of using approximately 3.01 tons of corn to produce 1.0 ton of edible alcohol. Considering the combination of our production efficiencies, and our corn sourcing arrangements and production capacity, we believe that we are well able to effectively control our costs and protect our gross margins until the recovery of the edible alcohol market.

## **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.

### **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.

Our general and administrative expenses has increased after 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 Item 3.D, “Key Information — Risk Factors — *We incur increased costs as a result of being a public company, which adversely impact our results of operations.*”

### **Interest Expense**

Interest expense consists of interest expense associated with short-term and long-term borrowings from banks and the private- placement bond, and the amortization of debt insurance costs of the private-placement bond.

## **Income Taxes**

### **Hong Kong**

In accordance with the relevant tax laws and regulations of Hong Kong, a company, irrespective of its place of incorporation, is subject to Hong Kong profits tax if it carries on a trade, profession or business in Hong Kong and accrues profits from such trade, profession or business. No profits tax is levied on profits arising offshore, even if they are remitted from offshore to or through Hong Kong. Therefore, our subsidiary, China High, was not subject to profits tax for the years ended December 31, 2016, 2017 and 2018 as it has no business in Hong Kong and all its profits were not Hong Kong-sourced, being derived from its direct and indirect subsidiaries in the PRC. The profits tax rate on corporations for the years 2016, 2017 and 2018 was a flat rate of 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 enterprise income tax (“EIT”) at the applicable tax rate on its taxable income. The EIT was assessed at a rate of 25% of taxable income of Shandong Borun and Daqing Borun for the year of 2016, 2017 and 2018. There was no income tax incentive to our PRC entities from the local government in the years ended December 31, 2016, 2017 and 2018.

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

#### **Principles of Consolidation and Presentation**

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Our consolidated financial statements include the financial statements of New Borun, Golden Direction, China High, WGC, Shandong Borun and Daqing Borun. All significant inter-company transactions and balances have been eliminated upon consolidation.

#### **Segment Reporting**

We currently operate and manage our business as two reportable segments: “Corn-base edible alcohol and its by-products” and “Chemical products”. Our reportable segments are strategic business units that require different technology and marketing strategies and offer different products and services. Our chief operating decision maker, the Chief Executive Officer, receives and reviews the results of the operations of each separate segment, assesses and manages their performance and makes decisions. Most of the businesses were established as a unit, and the management at the time of the establishment was retained.

As we primarily generate our revenues from customers in the PRC, and all of our sales and all of our long-lived assets are located in the PRC, no geographical segments are presented.

#### **Revenue Recognition**

We recognize revenue in accordance with FASB ASC Topic 606, “Revenue from Contracts with Customers”. We recognize revenues when persuasive evidence of an arrangement exists, the price is fixed or determinable, no other significant obligations of the Company exist, 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.

Revenues presented on the consolidated statements of income and comprehensive income are net of sales taxes and surcharges.

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

Our 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.

#### **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. From November 2013, we initiated a “bill and hold” arrangement with the granaries whereby we took the possession of the corn upon purchase and storage of the corn by the granaries. Purchased corn are recognized as our inventories when the significant risks and rewards of ownership are considered to be transferred to us upon full payment of the corn price made to the granaries and the quantity and quality of the purchased corn had been inspected and acknowledged by one of our employees assigned to the granaries’ warehouses.

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

Property, plant and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. 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

Maintenance and repairs are charged directly to expense as incurred, whereas improvements and renewals are generally capitalized in their respective property accounts. When an item is retired or otherwise disposed of, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recognized in the consolidated statements of income and comprehensive income.



## **Income Taxes**

We follow FASB ASC Topic 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 have adopted FASB ASC Topic 740-10-25 since January 1, 2007, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax position. 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 performed self-assessment and our liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually five years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to our liability for income taxes. Any such adjustment could be material to our results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of December 31, 2017 and 2018, the management considered that we had no additional liabilities for uncertain tax positions affecting our consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in the future. There are no estimated interest costs and penalties provided in our consolidated financial statements for the years ended December 31, 2016, 2017, and 2018, respectively. Our tax positions related to open tax years are subject to examination by the relevant tax authorities the main authority being the China Tax Authority.

## **Value Added Tax**

All our subsidiaries in the PRC are subject to value added tax (“VAT”) imposed by the PRC government on the purchase and sales of goods, purchase of property, plant and equipment and freight expenses incurred. The output VAT is charged to customers who purchase goods from us and debited to trade accounts receivable and credited to VAT payable — output VAT. The input VAT is incurred when we purchase goods and property, plant and equipment from vendors and freight expenses incurred. The input VAT incurred is debited to VAT recoverable or VAT payable— input VAT and credited to payables accounts or cash and cash equivalent. VAT payable is computed on a monthly basis and payable in the following month based on the difference between the amount of output VAT and input VAT as of month-end. The applicable VAT rate ranges from 0% to 17% in general, depending on the type of product purchased and sold. If the amount of validated input VAT arising from purchasing goods and property, plant and equipment and freight expenses incurred exceeds that of output VAT for sales of goods during the month, the debit VAT payable balance as of month-end will be carried forward to be credited against future collection of output VAT in the following months, and will be reclassified as VAT recoverable under other receivables. In addition, input VAT is off-the-price and not included in the cost of inventory.

According to Cai Shui [2012] No. 38 issued by the PRC State Administration of Taxation, since July 2012, the input VAT paid for purchase of corns can only be offset against the output VAT when certain conditions are fulfilled and validated by the PRC Taxing Authority. Otherwise, the input VAT paid will be temporarily recorded as VAT recoverable under other receivables. As of December 31, 2017 and 2018, VAT recoverable consisted of input VAT paid for purchase of corn but not yet validated by the PRC Taxing Authority amounted to RMB45,179,459 (\$6,568,386) and RMB176,873,571 (\$25,714,647), respectively.

According to Cai Kuai [2013] No. 36, sales taxes and surcharges has been replaced with value-added taxes effective from May 1, 2016.

## **Recently Issued Accounting Pronouncements**

### Accounting Pronouncements Recently Adopted in the Consolidated Financial Statements for the Year ended December 31, 2018

In April 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-09, “*Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*” (“ASU 2016-09”), which simplifies several aspects of the accounting for employee stock-based payment transactions. The areas for simplification in ASU 2016-09 include the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU were effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company did not incur or have any outstanding stock-based compensation to our employee as of and during the year ended December 31, 2017, the adoption of ASU 2016-09 did not have an impact on the Company’s current consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, “*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*” (“ASU 2015-17”). Topic 740, *Income Taxes*, requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, the amendments in ASU 2015-17 require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of ASU 2015-17 did not have a material impact on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *“Inventory (Topic 330): Simplifying the Measurement of Inventory”* (“ASU 2015-11”). The amendments in this update require an entity to measure inventory within the scope of ASU 2015-11 (the amendments in ASU 2015-11 do not apply to inventory that is measured using last-in, first-out or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out or average cost) at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out or the retail inventory method. The amendments in ASU 2015-11 more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards (“IFRS”). ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The amendments in ASU 2015-11 should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of ASU 2015-11 did not have a material impact on the Company’s consolidated financial statements. The relevant descriptions have been included in the Company’s accounting policy of *“Inventories”*.

#### Recent Accounting Pronouncements Not Yet Adopted

In February 2018, the FASB issued ASU No. 2018-02, *“Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income”* (“ASU 2018-02”), which provides financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of ASU 2018-02 is permitted, including adoption in any interim period for the public business entities for reporting periods for which financial statements have not yet been issued. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company does not expect the adoption of ASU 2018-02 to have a material impact on its consolidated financial statements.

In February 2017, the FASB issued ASU No. 2017-05, *“Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets”* (“ASU 2017-05”), which clarifies the scope of nonfinancial asset guidance in Subtopic 610-20. This ASU also clarifies that derecognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers) should be accounted for in accordance with the derecognition and deconsolidation guidance in Subtopic 810-10. The amendments in this ASU also provide guidance on the accounting for so-called “partial sales” of nonfinancial assets within the scope of Subtopic 610-20 and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. The amendments in this ASU are effective for annual reporting reports beginning after December 15, 2017, including interim reporting periods within that reporting period. The Company does not expect the adoption of ASU 2017-05 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *“Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”* (“ASU 2017-04”), which removes Step 2 from the goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit’s carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. A business entity that is a U.S. Securities and Exchange Commission filer must adopt the amendments in this ASU for its annual or any interim goodwill impairment test in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, “*Statement of Cash Flows (Topic 230): Restricted Cash*” (“ASU 2016- 18”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end- of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-18 to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*” (“ASU 2016-15”), which addresses the following cash flow issues: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years and are effective for all other entities for fiscal years beginning after December 15, 2018 and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

## Results of Operations

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

	Year ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	\$
<b>Revenues</b>	2,132,680,185	2,140,871,979	1,803,881,198	262,256,112
<b>Cost of goods sold</b>	1,950,614,338	1,907,898,919	1,662,560,180	241,710,246
<b>Gross profit</b>	182,065,847	232,973,060	141,321,018	20,545,866
<b>Selling, general and administrative expenses</b>	52,578,452	52,673,366	56,459,649	8,208,350
<b>Impairment loss of PPE</b>	—	—	49,995,656	7,268,586
<b>Operating income</b>	129,487,395	180,299,694	34,865,713	5,068,930
<b>Other expenses/(income)</b>	44,539,451	(55,350,231)	57,558,326	8,368,079
<b>Income/(loss) before income taxes</b>	84,947,944	235,649,925	(22,692,613)	(3,299,149)
Income tax expense	21,236,986	58,912,481	16,522,472	2,402,109
<b>Net income/(loss)</b>	63,710,958	176,737,444	(39,215,085)	(5,701,258)

	Year ended December 31,			
	2016	2017	2018	2018
<b>Revenues</b>	100.0%	100.0%	100.0%	100.0%
<b>Cost of goods sold</b>	91.5%	89.1%	92.2%	92.2%
<b>Gross profit</b>	8.5%	10.9%	7.8%	7.8%
<b>Selling, general and administrative expenses</b>	2.5%	2.5%	3.1%	3.1%
<b>Impairment loss of PPE</b>	—	—	2.8%	2.8%
<b>Operating income</b>	6.1%	8.4%	1.9%	1.9%
<b>Other expenses/(income)</b>	2.1%	(2.6)%	3.2%	3.2%
<b>Income/(loss) before income taxes</b>	4.0%	11.0%	(1.3)%	(1.3)%
Income tax expense	1.0%	2.8%	0.9%	0.9%
<b>Net income/(loss)</b>	3.0%	8.2%	(2.2)%	(2.2)%

Revenues for the years ended December 31, 2016, 2017 and 2018 were comprised of the following:

	Year ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	\$
<b>Revenue by amount</b>				
Edible alcohol				
-Grade A	15,948,928	—	—	—
-Grade B	1,176,981,106	1,188,108,449	1,126,927,738	163,837,643
-Grade C	269,744,323	253,246,144	153,426,649	22,305,832
Total Edible Alcohol	1,462,674,357	1,441,354,593	1,280,354,387	186,143,475
DDGS feed	467,557,728	499,731,893	423,076,675	61,508,760
Liquid carbon dioxide	20,944,404	23,760,369	23,355,228	3,395,484
Crude corn oil	83,126,154	67,018,504	—	—
CPE	97,439,316	71,177,649	—	—
Foam Insulation	938,226	—	—	—
AMPS	—	37,828,971	77,094,908	11,208,392
<b>Total</b>	2,132,680,185	2,140,871,979	1,803,881,198	262,256,112
<b>Revenue by %</b>				
Edible alcohol	68.6%	67.3%	71.0%	71.0%
-Grade A	0.8%	—	—	—
-Grade B	55.2%	55.5%	62.5%	62.5%
-Grade C	12.6%	11.8%	8.5%	8.5%
DDGS feed	21.9%	23.3%	23.5%	23.5%
Liquid carbon dioxide	1.0%	1.1%	1.3%	1.3%
Crude corn oil	3.9%	3.1%	—	—
CPE	4.5%	3.4%	—	—
Foam Insulation	0.1%	—	—	—
AMPS	—	1.8%	4.3%	4.2%
<b>Total</b>	100.0%	100.0%	100.0%	100.0%

	Year ended December 31,		
	2016	2017	2018
	Metric Ton	Metric Ton	Metric Ton
<b>Volume sold</b>			
Edible alcohol			
-Grade A	3,186	—	—
-Grade B	273,546	295,984	250,685
-Grade C	62,888	63,622	34,522
Total Edible Alcohol	339,620	359,606	285,208
DDGS feed	293,058	308,973	246,246
Liquid carbon dioxide	120,852	121,727	71,442
Crude corn oil	13,049	10,742	—
CPE	11,810	9,234	—
Foam Insulation-main products	1,464	—	—
AMPS	—	2,265	3,835

	Year ended December 31,			
	2016	2017	2018	2018
	RMB	RMB	RMB	\$
<b>Average sales price</b>				
Edible alcohol				
-Grade A	5,006	—	—	—
-Grade B	4,303	4,014	4,495	654
-Grade C	4,289	3,981	4,444	646
Total Edible Alcohol	4,307	4,008	4,489	653
DDGS feed	1,595	1,617	1,718	250
Liquid carbon dioxide	173	195	327	48
Crude corn oil	6,370	6,239	—	—
CPE	8,251	7,708	—	—
Foam Insulation-main products	641	—	—	—
AMPS	—	16,705	20,103	2,923

## Results of Operations for the Year Ended December 31, 2017 Compared to the Year Ended December 31, 2018

### Revenues

Revenues decreased by RMB337.0 million (\$49.0 million), or 15.7%, to RMB1,803.9 million (\$262.3 million) for the year ended December 31, 2018 from RMB2,140.9 million (\$311.3 million) for the year ended December 31, 2017.

- The decrease in our edible alcohol sales by approximately RMB161.0 million (\$23.4 million), or 11.2%, from RMB1,441.4 million (\$209.6 million) in the year ended December 31, 2017 to RMB1,280.4 million (\$186.1 million) in the year ended December 31, 2018, primarily due to the lower sales volume of edible alcohol in 2018. In 2018, our Shouguang facility was damaged by the heavy rains and flooding, which has a negative impact on our production volume. Our production volume dropped in 2018, the actual production output for the year ended December 31, 2018 was 288,416 tons of edible alcohol, as compared to 353,702 tons for the year ended December 31, 2017, a decrease of 65,286 tons, or 18.5%. The weighted average sales price of edible alcohol increased due to higher corn costs in 2018.

- We sold approximately 285,208 tons of edible alcohol in the year ended December 31, 2018, compared to approximately 359,606 tons in the year ended December 31, 2017, a decrease of 74,398 tons or 20.7%. The decrease was primarily due to our decreased production volume of edible alcohol in 2018. The weighted average sales price of edible alcohol was approximately RMB4,489 (\$653) per ton in the year ended December 31, 2018 compared to RMB4,008 (\$583) per ton in the year ended December 31, 2017, an increase of RMB481 (\$70) per ton, or 12.0%.

- We currently sell Grade B and C edible alcohol. We shift in our production from Grade A to Grade B and did not sell Grade A edible alcohol in 2018 and 2017. Due to the lower sales volume of edible alcohol in 2018, our revenue for edible alcohol experienced a decrease in 2018. Our revenue from Grade B edible alcohol decreased by approximately RMB61.2 million (\$8.9 million), or 5.1%, to RMB1,126.9 million (\$163.8 million) for the year ended December 31, 2018, as compared to RMB1,188.1 million (\$180.1 million) for the year ended December 31, 2017. The weighted average sales price of Grade B edible alcohol was approximately RMB4,495 (\$654) per ton in the year ended December 31, 2018, as compared to RMB4,014 (\$584) per ton in the year ended December 31, 2017, an increase of RMB481 (\$70), or 12.0%. Our revenue from Grade C edible alcohol decreased by approximately RMB99.8 million (\$14.5 million), or 39.4%, to RMB153.4 million (\$22.3 million) for the year ended December 31, 2018, as compared to RMB253.2 million (\$36.8 million) for the year ended December 31, 2017. The weighted average sales price of Grade C edible alcohol was approximately RMB4,444 (\$646) per ton in the year ended December 31, 2018, as compared to RMB3,980 (\$579) per ton in the year ended December 31, 2017, a decrease of RMB464 (\$67) or 11.7%.
- We sold approximately 250,685 tons of Grade B edible alcohol and 34,522 tons of Grade C edible alcohol in the year ended December 31, 2018, as compared to approximately 295,984 tons of Grade B edible alcohol and 63,622 tons of Grade C edible alcohol in the year ended December 31, 2017. The sharp decrease in our sales volume of edible alcohol was mainly due to the lower production volume in Shouguang. Our Shouguang facility was damaged by heavy rain and flooding in 2018.

· The decrease in our revenue from DDGS feed by approximately RMB76.7 million (\$11.1 million), or 15.3%, to RMB423.1 million (\$61.5 million) for the year ended December 31, 2018, as compared to RMB499.7 million (\$72.7 million) for the year ended December 31, 2017, was primarily due to the decrease in our sales volume. The weighted average sales price of DDGS feed was approximately RMB1,718 (\$250) per ton for DDGS feed sales in the year ended December 31, 2018, as compared to RMB1,617 (\$235) per ton in the year ended December 31, 2017, representing an increase of RMB101 (\$15) per ton, or 6.2%. We sold approximately 246,246 tons of DDGS feed in the year ended December 31, 2018 compared to approximately 308,973 tons in the year ended December 31, 2017, a decrease of 62,727 tons, or 20.3%. The decrease in sales volume was mainly due to our lower production volume in 2018 in line with the decrease in edible alcohol.

- Our revenue from liquid carbon dioxide decreased by approximately RMB0.4 million (\$0.1 million), or 1.7%, to RMB23.4 million (\$3.4 million) for the year ended December 31, 2018 from RMB23.8 million (\$3.5 million) for the year ended December 31, 2017, mainly due to the combine effect of increase in the weighted average sales price and decrease in sales volume. The weighted average sales price of liquid carbon dioxide increased by RMB132 (\$19) or 67.7% to approximately RMB327 (\$48) per ton in the year ended December 31, 2018, as compared to RMB195 (\$28) per ton in the year ended December 31, 2017. We sold approximately 71,442 tons of liquid carbon dioxide in the year ended December 31, 2018 compared to approximately 121,727 tons in the year ended December 31, 2017, representing an decrease of 50,285 tons, or 41.3%.
- In 2017, we invested in and completed the construction of our AMPS manufacturing plant with an annual production capacity of 4,000 tons. AMPS is a chemical that is widely used in many fields, including oilfield chemistry, water treatment and synthetic fibers. Our revenue from AMPS increased by approximately RMB39.3 million (\$5.7 million), or 103.8%, to RMB77.1 million (\$11.2 million) for the year ended December 31, 2018 from RMB37.8 million (\$5.5 million) for the year ended December 31, 2017, mainly due to the increase in the weighted average sales price and sales volume. The weighted average sales price of AMPS increased by RMB3,401 (\$495) or 20.4% to approximately RMB20,103 (\$2,923) per ton in the year ended December 31, 2018, as compared to RMB16,702 (\$2,428) per ton in the year ended December 31, 2017. We sold approximately 3,835 tons of AMPS in the year ended December 31, 2018 compared to approximately 2,265 tons in the year ended December 31, 2017, representing an increase of 1,570 tons, or 69.3%.

### **Gross Profit**

Gross profit decreased by RMB91.7 million (\$13.3 million), or 39.3%, to RMB141.3 million (\$20.5 million), or 7.8% of revenues, for the year ended December 31, 2018, from RMB233.0 million (\$33.9 million), or 10.9% of revenues, for the year ended December 31, 2017, mainly due to the steeper decrease in utilization rate of edible alcohol and its by-products in 2018. The average price of our purchased corn was approximately RMB1,558 (\$227) per ton in the year ended December 31, 2018, an increase of RMB89 (\$13) per ton, or 6.1%, from RMB1,469 (\$214) per ton in the year ended December 31, 2017. The weighted average sales price of edible alcohol was approximately RMB4,489 (\$653) per ton in the year ended December 31, 2018, compared to RMB4,008 (\$583) per ton in the year ended December 31, 2017, a decrease of RMB481 (\$70) per ton, or 12.0%.

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

Selling, general and administrative expenses increased by RMB3.8 million (\$0.6 million), to RMB56.5 million (\$8.2 million), for the year ended December 31, 2018, from RMB52.7 million (\$7.7 million), for the year ended December 31, 2017. The increase was primarily due to the following:

- Selling expenses decreased 3.7% from RMB3.7 million (\$0.5 million) for the year ended December 31, 2017 to RMB3.5 million (\$0.5 million) for the year ended December 31, 2018.

- General and administrative expenses increased by RMB3.9 million (\$0.6 million), or 8.0%, from RMB49.0 million (\$7.1 million) for the year ended December 31, 2017 to RMB52.9 million (\$7.7 million) for the year ended December 31, 2018, primarily due to the increase in professional expenses.

#### ***Other Expenses/(income)***

Other expense was RMB57.6 million (\$8.4 million), primarily consisting of interest expense of RMB62.4 million (\$9.1 million), interest income of RMB3.8 million (\$0.6 million) and other income of RMB1.0 million (\$0.1 million) for the year ended December 31, 2018, as compared to other income of RMB55.4 million (\$8.1 million) for the year ended December 31, 2017, primarily consisting of interest expense of RMB66.1 million (\$9.6 million), interest income of RMB4.2 million (\$0.6 million), government subsidies received in December 2017 and recognized in income for corn processing of RMB117.2 million (\$17.0 million), and other income of RMB0.1million (\$0.1 million). We did not receive any government subsidies for processing corn in 2018.

#### ***Income Tax Expense***

We recorded RMB16.5 million (\$2.4 million) in income tax expense for the year ended December 31, 2018, compared to income tax expense of RMB58.9 million (\$8.6 million) for the year ended December 31, 2017. Since the effective tax rate remained relatively stable, the decrease is consistent with the decrease of our income before income tax expenses.

### **Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2017**

#### ***Revenues***

Revenues increased by RMB8.2 million (\$1.2 million), or 0.4%, to RMB2,140.9 million (\$311.3 million) for the year ended December 31, 2017 from RMB2,132.7 million (\$310.1 million) for the year ended December 31, 2016.

- The decrease in our edible alcohol sales by approximately RMB21.3 million (\$3.1 million), or 1.5%, from RMB1,462.6 million (\$212.6 million) in the year ended December 31, 2016 to RMB1,441.4 million (\$209.6 million) in the year ended December 31, 2017, primarily due to the lower weighted average sales price of edible alcohol in 2017. The weighted average sales price of edible alcohol decreased due to lower corn costs in 2017. We still did not operate at full capacity in 2017, but our actual production output for the year ended December 31, 2017 was 353,702 tons of edible alcohol, as compared to 337,959 tons for the year ended December 31, 2016, an increase of 15,743 tons, or 4.7%.
- We sold approximately 359,606 tons of edible alcohol in the year ended December 31, 2017, compared to approximately 339,620 tons in the year ended December 31, 2016, an increase of 19,986 tons or 5.9%. The increase was primarily due to our increased production volume of edible alcohol in 2017. The weighted average sales price of edible alcohol was approximately RMB4,008 (\$583) per ton in the year ended December 31, 2017 compared to RMB4,307 (\$626) per ton in the year ended December 31, 2016, a decrease of RMB299 (\$44) per ton, or 6.9%.



- We currently sell Grade A, B and C edible alcohol. Due to the lower weighted average sales price of edible alcohol in 2016, our revenue for edible alcohol experienced a slight decrease in 2017. We did not sell Grade A edible alcohol in 2017 due to our shift in production from Grade A to Grade B. Our revenue from Grade B edible alcohol increased by approximately RMB11.1 million (\$1.6 million), or 0.9%, to RMB1,188.1 million (\$172.7 million) for the year ended December 31, 2017, as compared to RMB1,177.0 million (\$171.1 million) for the year ended December 31, 2016. The weighted average sales price of Grade B edible alcohol was approximately RMB4,014 (\$584) per ton in the year ended December 31, 2017, as compared to RMB4,303 (\$626) per ton in the year ended December 31, 2016, a decrease of RMB289 (\$42), or 6.7%. Our revenue from Grade C edible alcohol decreased by approximately RMB16.5 million (\$2.4 million), or 6.1%, to RMB253.2 million (\$36.8 million) for the year ended December 31, 2017, as compared to RMB269.7 million (\$39.2 million) for the year ended December 31, 2016. The weighted average sales price of Grade C edible alcohol was approximately RMB3,981 (\$579) per ton in the year ended December 31, 2017, as compared to RMB4,289 (\$624) per ton in the year ended December 31, 2016, a decrease of RMB308 (\$45) or 7.2%.
- We sold approximately 295,984 tons of Grade B edible alcohol and 63,622 tons of Grade C edible alcohol in the year ended December 31, 2017, as compared to approximately 3,186 tons of Grade A edible alcohol, 273,546 tons of Grade B edible alcohol and 62,888 tons of Grade C edible alcohol in the year ended December 31, 2016. The sharp decrease in our sales volume of Grade A edible alcohol and the increase in Grade B edible alcohol were primarily attributable to our shift in production from Grade A edible alcohol to Grade B edible alcohol since February 2016, because the demand for Grade A edible alcohol was facing challenges.
- The increase in our revenue from DDGS feed by approximately RMB32.2 million (\$4.7 million), or 6.9%, to RMB499.7 million (\$72.6 million) for the year ended December 31, 2017, as compared to RMB467.6 million (\$68.0 million) for the year ended December 31, 2016, was primarily due to the increase in our sales volume. The weighted average sales price of DDGS feed was approximately RMB1,617 (\$235) per ton for DDGS feed sales in the year ended December 31, 2017, as compared to RMB1,595 (\$232) per ton in the year ended December 31, 2016, representing an increase of RMB22 (\$3) per ton, or 1.4%. We sold approximately 308,973 tons of DDGS feed in the year ended December 31, 2017 compared to approximately 293,058 tons in the year ended December 31, 2016, an increase of 15,916 tons, or 5.4%. The increase in sales volume was mainly due to our higher production volume in 2017.

Our revenue from liquid carbon dioxide decreased by approximately RMB2.8 million (\$0.4 million), or 13.4%, to RMB23.8 million (\$3.5 million) for the year ended December 31, 2017 to RMB20.9 million (\$3.0 million) for the year ended December 31, 2016, mainly due to the increase in the weighted average sales price. The weighted average sales price of liquid carbon dioxide increased by RMB22 (\$3) or 12.7% to approximately RMB195 (\$28) per ton in the year ended December 31, 2017, as compared to RMB173 (\$25) per ton in the year ended December 31, 2016. We sold approximately 121,727 tons of liquid carbon dioxide in the year ended December 31, 2017 compared to approximately 120,852 tons in the year ended December 31, 2016, representing an increase of 875 tons, or 0.7%.

Our revenue from crude corn oil decreased by approximately RMB16.1 million (\$2.3 million) or 19.4%, to RMB67.0 million (\$9.7 million) for the year ended December 31, 2017, compared to RMB83.1 million (\$12.1 million) for the year ended December 31, 2016, mainly due to the lower sales volume in 2017. Our sales volume was approximately 10,742 tons for the year ended December 31, 2017, as compared to 13,049 tons for the year ended December 31, 2016, representing a decrease of 2,307 tons, or 17.7%. The weighted average sales price was RMB6,239 (\$907) per ton in the year ended December 31, 2017 compared to RMB6,370 (\$926) per ton in the year ended December 31, 2016, a decrease of RMB131 (\$19) per ton or 2.1%.

We expanded our CPE annual production volume to 25,000 tons in 2015. Revenue from CPE decreased by approximately RMB26.3 million (\$3.8 million) or 27.0%, to RMB71.2 million (\$10.4 million) for the year ended December 31, 2017, as compared to RMB97.4 million (\$14.2 million) for the year ended December 31, 2016. The decrease was mainly due to the decrease in sales volume in 2017. Our sales volume was approximately 9,234 tons for the year ended December 31, 2017, as compared to 11,810 tons for the year ended December 31, 2016, representing a decrease of 2,576 tons, or 21.8%. The weighted average sales price was RMB7,708 (\$1,121) per ton in the year ended December 31, 2017 compared to RMB8,251 (\$1,200) per ton in the year ended December 31, 2016, a decrease of RMB543 (\$79) per ton or 6.6%. In 2016, we exited the foam insulation market and disposed of all long-lived assets related to our foam insulation business.

In 2017, we invested in and completed the construction of our AMPS manufacturing plant with an annual production capacity of 4,000 tons. AMPS is a chemical that is widely used in many fields, including oilfield chemistry, water treatment and synthetic fibers. For the year ended December 31, 2017, revenue from AMPS products was RMB37.8 million (\$5.5 million) and we sold approximately 2,265 tons with the average sales price being RMB16,705 (\$2,429).

### **Gross Profit**

Gross profit increased by RMB50.9 million (\$7.4 million), or 28.0%, to RMB233.0 million (\$33.9 million), or 10.9% of revenues, for the year ended December 31, 2017, from RMB182.1 million (\$26.5 million), or 8.5% of revenues, for the year ended December 31, 2016, mainly due to the steeper decrease in average selling prices of edible alcohol and its by-products, compared with the decrease in average corn cost. The average price of our purchased corn was approximately RMB1,496 (\$218) per ton in the year ended December 31, 2017, a decrease of RMB143 (\$21) per ton, or 8.7%, from RMB1,639 (\$238) per ton in the year ended December 31, 2016. The weighted average sales price of edible alcohol was approximately RMB4,008 (\$583) per ton in the year ended December 31, 2017, compared to RMB4,307 (\$626) per ton in the year ended December 31, 2016, a decrease of RMB299 (\$44) per ton, or 6.9%.

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

Selling, general and administrative expenses increased by RMB0.1 million (\$0.1 million), to RMB52.7 million (\$7.7 million), for the year ended December 31, 2017, from RMB52.6 million (\$7.6 million), for the year ended December 31, 2016. The increase was primarily due to the following:

- Selling expenses decreased 12.2% from RMB4.2 million (\$0.6 million) for the year ended December 31, 2016 to RMB3.7 million (\$0.5 million) for the year ended December 31, 2017.

General and administrative expenses increased by RMB0.6 million (\$0.1 million), or 1.2%, from RMB48.4 million (\$7.0 million) for the year ended December 31, 2016 to RMB49.0 million (\$7.1 million) for the year ended December 31, 2017, primarily due to the increase in professional expenses.

#### **Other Expenses/(income)**

Other income was RMB55.4 million (\$8.1 million), primarily consisting of interest expense of RMB66.1 million (\$9.6 million), interest income of RMB4.2 million (\$0.6 million), government subsidies received in December 2017 and recognized in income for corn processing of RMB117.2 million (\$17.0 million), and other income of RMB0.1million (\$0.1 million) for the year ended December 31, 2017, as compared to other expenses were RMB44.5 million (\$6.5 million) for the year ended December 31, 2016, primarily consisting of interest expense of RMB52.7 million (\$7.7 million), interest income of RMB4.0 million (\$0.6 million), non- operating income from the proceeds of equipment sales of RMB3.7 million (\$0.5 million), and other income of RMB0.2 (\$0.1 million). Interest expense increased to RMB66.1 million (\$9.6 million) for the year ended December 31, 2017 from RMB52.7 million (\$7.7 million) for the year ended December 31, 2016, primarily due to the issuance of our corporate bonds of RMB300.0 million (\$43.6 million) in November 2016.

#### **Income Tax Expense**

We recorded RMB58.9 million (\$8.6 million) in income tax expense for the year ended December 31, 2017, compared to income tax expense of RMB21.2 million (\$3.1 million) for the year ended December 31, 2016. Since the effective tax rate remained relatively stable, the decrease is consistent with the decrease of our income before income tax expenses.

### **B. Liquidity and Capital Resources**

Cash generated from our business is our primary source of liquidity. As of December 31, 2016, 2017 and 2018, we had approximately RMB795.3 million (\$115.6 million), RMB728.3 million (\$105.9 million) and RMB624.2 million (\$90.8 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 primarily include 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,			
	2016	2017	2018	2018
	RMB	RMB	RMB	\$
Net cash provided (used) by operating activities	159,931,964	140,311,845	(145,846,004)	(21,203,729)
Net cash used in investing activities	151,193	(950,000)	7,615,000	1,107,102
Net cash provided (used) by financing activities	139,615,291	(206,502,989)	34,193,359	4,971,180
Effect of foreign currency exchange translation	10	61,376	(36,333)	(5,282)
Net increase (decrease) in cash	299,698,458	(67,079,768)	(104,037,645)	(15,125,447)

#### **Net Cash Provided by Operating Activities**

Net cash provided by operating activities was RMB159.9 million (\$23.2 million) for the year ended December 31, 2016. Net cash provided by operating activities was RMB140.3 million (\$20.4 million) for the year ended December 31, 2017. Net cash used by operating activities was RMB145.8 million (\$21.2 million) for the year ended December 31, 2018. The decrease in net cash used by operating activities for the year ended December 31, 2018 compared to December 31, 2017 was primarily due to the decrease in net income and increase in inventory balance, offset by the decrease in upfront payment and trade accounts receivables. The decrease in net cash provided by operating activities for the year ended December 31, 2017 compared to December 31, 2016 was primarily due to the increase in trade accounts receivable, upfront payments made to granaries and income tax payable, offset by the increase in net income and a decrease in inventory balance.

### **Net Cash Provided by Financing Activities**

**Financing Activities**—Net cash provided by financing activities was RMB139.6 million (\$20.3 million) for the year ended December 31, 2016. Net cash used by financing activities was RMB206.5 million (\$30.0 million) for the year ended December 31, 2017. Net cash provided by financing activities was RMB34.2 million (\$5.0 million) for the year ended December 31, 2018. For the year ended December 31, 2016, net cash provided consisted of net borrowings of RMB68.0 million (\$9.9 million), settlement of corporate bonds of RMB221.3 million (\$32.2 million) and issuance of new bonds of RMB292.9 million (\$42.6 million). For the year ended December 31, 2017, net cash used mainly represented the net repayment of borrowings of RMB206.5 million (\$30.0 million). For the year ended December 31, 2018, net cash provided by financing activities mainly represented the proceeds from the borrowings.

**Financing Agreement**—As of December 31, 2016, 2017 and 2018, excluding bond payable of RMB300.0 million (\$43.6 million) we had approximately RMB905.2 million (\$131.6 million), RMB698.7 million (\$101.6 million) and RMB731.4 million (\$106.3 million) outstanding short-term and long-term borrowings, bearing weighted average interest rates at 4.83%, 4.63% and 4.91% per annum, respectively.

During the year ended December 31, 2018, we obtained the followings loans from Agricultural bank of China. The amount of RMB43,200,000 will be due on January 4, 2019. The amount of RMB40,000,000 will be due on January 28, 2019. The amount of RMB10,000,000 will be due on June 7, 2019. The amount of RMB20,000,000 will be due on June 13, 2019. The amount of RMB20,000,000 will be due on July 15, 2019. The amount of RMB40,000,000 will be due on August 15, 2019. The amount of RMB20,000,000 will be due on September 12, 2019. The amount of RMB30,000,000 will be due on October 10, 2019. The amount of RMB20,000,000 will be due on October 11, 2019. The amount of RMB30,000,000 will be due on October 26, 2019. The amount of RMB10,000,000 will be due on November 5, 2019. The amount of RMB40,000,000 will be due on November 9, 2019. All borrowings under the loan agreements are guaranteed by third party companies. The interest rate is 4.35%. The amount of RMB33,319,295 will be due on September 28, 2019. The borrowings under this loan agreement is guaranteed by Mr. Jingmiao Wang, the CEO of the Company, and Shandong Borun. The interest rate is 5.0025%

During the year ended December 31, 2018, we obtained the following loans from Construction Bank of China. The amount of RMB30,000,000 will be due on February 11, 2019. The amount of RMB25,000,000 will be due on March 6, 2019. The amount of RMB20,000,000 will be due on March 15, 2019. The amount of RMB19,827,421 will be due on March 16, 2019. The amount of RMB20,000,000 will be due on April 12, 2019. The amount of RMB25,000,000 will be due on April 21, 2019. The amount of RMB20,000,000 will be due on May 9, 2019. The amount of RMB37,100,000 will be due on December 29, 2019. All borrowings under the loan agreements were guaranteed by Shandong Borun, Wang Jinmiao, the CEO of the Company, and his family members. We also pledged our fixed assets as collateral. The annual interest rate ranges from 4.785% to 5.655%.

During the year ended December 31, 2018, the amount of RMB129,000,000 from CITIC Bank will be due on October 15, 2019. The borrowing under the loan agreement was guaranteed by Shandong Borun, Mr. Jinmiao Wang, the CEO of the Company, and two third-party companies. The interest rate is 5.8725%.

During the year ended December 31, 2018, the amount of RMB49,000,000 from Daqing Rural Commercial Bank was originally due on September 7, 2018 with annual interest rate of 3.50%. In 2018, we renewed the loan and the new due date is August 17, 2019. The new interest rate is 2.917%. The loan is guaranteed by a third party guarantee company. Daiqing Borun provided the counter guarantee for this company which is pledged by property, plant and equipment and land use rights and by Shandong Borun, our CEO, two natural persons and three third-party companies simultaneously.

These facilities contain no specific renewal terms or, unless expressly provided for therein, any requirement for the maintenance of financial covenants. We have historically and successfully negotiated the renewal of certain facilities shortly before they mature. 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 a 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 and long-term loans. Proceeds from these bank loans were used for working capital needs.

On January 29, 2013, our subsidiary, Shandong Borun successfully registered its plan to issue private placement bonds with an aggregate principal amount of RMB500.0 million (\$72.7 million) with the Shanghai Stock Exchange, the PRC (the “Registered Plan”). Under the Registered Plan, Shandong Borun would initially issue three-year fixed-rate private placement bonds with a principal amount of RMB350.0 million (\$50.9 million) on the date of registration, and thereafter, had the option to issue a second tranche of private placement bonds within six months from the date of registration with a principal amount of RMB150.0 million (\$21.8 million). The bonds were fully settled during the year ended December 31, 2016. The proceeds from issuance of the Bonds were used for purposes of our working capital and capital expenditures.

On November 2, 2016, our subsidiary, Shandong Borun has issued private placement bonds with a principal amount of RMB300.0 million (\$43.6 million) that were registered with the Shanghai Stock Exchange. The proceeds from the issuance of the bonds were used purposes for our working capital and capital expenditures. The bonds were issued at face value of RMB100 (\$15) each, bear a fixed annual interest rate of 6.5%, with maturity on November 2, 2021, and RMB 100.0 million (\$14.5 million) should be repaid at the end of each of the third, fourth and fifth year life of the bonds. RMB300.0 million (\$43.6 million) was outstanding as of December 31, 2018.

### ***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 manufacturing facilities, and purchase of land use rights and restricted bank deposits. Net cash used in investing activities amounted to: (1) RMB0.1 million (\$0.02 million) in the year ended December 31, 2016, mainly related to payment for maintenance our production facilities of RMB3.6 million (\$0.5 million) and the proceeds from disposal of the foam insulation equipment of RMB3.7 million (\$0.5 million). (2) RMB1 million (\$0.2 million) in the year ended December 31, 2017, mainly related to the payment for our maintenance on the production facilities of RMB1.0 million (\$0.2 million). (3) RMB7.6 million (\$1.1 million) in the year ended December 31, 2018, mainly represented the proceeds from disposal of property, plant and equipment.

**Future Capital Requirements**—We had cash on hand of RMB795.3 million (\$115.6 million), RMB728.3 million (\$105.9 million) and RMB624.2 million (\$90.8 million) on December 31, 2016, 2017 and 2018, respectively. Based on the current market conditions, we expect to incur capital expenditures ranging from RMB50.0 million (\$7.3 million) to RMB100.0 million (\$14.5 million) for 2019, which related primarily to the replacement of our damaged production lines due to the heavy rains and flooding in Shouguang facility. We expect to fund the planned expenditures, including our working capital requirements, through cash generated from operations, borrowings through bank loans, and the proceeds from issuances of equity or debt instruments and we believe such cash generated from these activities will be sufficient for our planned expenditures including our working capital requirements.

### **C. Research and Development**

We spent approximately RMB1,066,400 (\$155,038), RMB1,608,400 (\$233,836) and RMB1,761,200 (\$256,051), during the fiscal years ended December 31, 2016, 2017 and 2018, respectively, on Company-sponsored research and development activities, including, without limitation, all activities in respect of our in-house developed Borun wet process.

### **D. Trend Information**

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2018 to December 31, 2018 that are reasonably likely to have a material adverse effect on our revenues, income, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial conditions.

### **E. Off-Balance Sheet Commitments and Arrangements**

We were the guarantor for certain third parties for their short-term bank loans amounting to RMB562.6 million (\$81.8 million) that matured within one year. Except for such guarantees, 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.

**F. Tabular Disclosure of Contractual Obligations**

The following table sets forth our contractual obligations as of December 31, 2018:

	Total	Payment Due By Period				
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
			(RMB in millions)			
Bonds payable	339.0	100.0	132.5	106.5	—	
Short-term debt	731.4	731.4	—	—	—	
<b>Total:</b>	<b>1,070.4</b>	<b>831.4</b>	<b>132.5</b>	<b>106.5</b>	<b>—</b>	

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management**

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

Name	Age	Position(s)
Jinmiao Wang	48	Chief Executive Officer and Chairman of the Board
Jijuan Wang	31	Chief Financial Officer
Hengxiu Song	47	Chief Operations Officer, General Manager of Shandong Borun Industrial Co., Ltd. and Director
Wei Qi	58	Chief Technology Officer
Shunliang Hu	52	General Manager of Daqing Borun Biotechnology Co., Ltd.
Shufeng Jia	39	Independent Director
Xisheng Lu	68	Independent Director
Binbin Jiang	44	Independent Director

Unless otherwise indicated, the business address of each director and executive officer is Bohai Industrial Park (Yangkou Town), Shouguang, Shandong 262715, China.



## **Biographies of Officers and Directors**

### **Mr. Jinmiao Wang, 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, General Manager of Shandong Borun Industrial Co., Ltd. and Director**

Mr. Song has served as our chief operations officer since 2010 and served as the general manager of Shandong Borun Industrial Co., Ltd. since 2011. He has also served as the director of administration of Shandong Borun since April 2005. From April 2010 to November 2010 and from June 2011 to present, Mr. Song has served as director. 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.

### **Mrs. Shufeng Jia, Independent Director**

Mrs. Shufeng Jia has served as our independent director since January 2019. She has served as finance manager of Shandong Molong Petroleum Machinery Co., Ltd. since from November 2001 to December 2012. Since January 2013, she has served as the finance director of Shandong Land Biological Technology Co., Ltd. Mrs Jia has earned a bachelor degree in Finance from Qingdao University of Science and Technology.

### **Mr. Xisheng Lu, Independent Director**

Mr. Xisheng Lu has served as our independent director since January 2013. He has served as Chairman and Factory Director of Jin Long Distillery Factory in Qionglai City, Sichuan Province, China since 1991. From 1976 to 1990, he served as Factory Director of the First Liquor Making Branch Factory of Qionglai Sugar & Liquor Factory, the predecessor of Jin Long Distillery Factory. In 2002, Mr. Lu was elected as a standing director of the Alcoholic Drinks (*baijiu*) Association of Sichuan Province and an editor of the Sichuan Province Alcoholic Drinks (*baijiu*) Magazine. In 2007, Mr. Lu received the certificate of National Senior Alcoholic Drinks (*ba jiu*) maker. Mr. Lu is a Senior Engineer in the making of *baijiu* with nearly 40 years' experience in the *baijiu* industry.

**Mr. Binbin Jiang, Independent Director**

Mr. Jiang has served as our independent director since June 2010. Since July 1997, he has served as the general secretary of Shandong Alcohol Industry Association, a member of the Technology Committee of the China Alcoholic Drinks Industry Association, Alcohol Branch, 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.

**Mrs. Jijuan Wang, Chief Financial Officer**

Mrs. Wang has served as our chief financial officer since July 2018. Since June 2007, she has joined Shandong Borun and served as our chief accountant. Since 2014, she has served as the finance controller for China New Borun. Mrs. Wang earned a Bachelor's degree with a major in Accounting from Weifang University in Shandong.

**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. Shunliang Hu, General Manager of Daqing Borun Biotechnology Co., Ltd.**

Mr. Hu has served as the general manager of Daqing Borun Biotechnology Co., Ltd. since January 2014. He served as the administrative deputy general manager of Daqing Borun Biotechnology Co., Ltd. from September 2011 to December 2013. Before that, Mr. Hu served as deputy general manager of Chengming Co., Ltd. in Heilongjiang Province. Mr. Hu obtained a bachelor's degree in Thermal Power Engineering from Shandong Industrial University.

## **B. Compensation**

### **Compensation of Directors and Executive Officers**

In 2018, the aggregate cash compensation to our executive officers and directors was RMB2,200,000 (\$319,846).

### **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 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 their employment, any of our confidential information, technological secrets, commercial secrets or 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.

## C. Board Practices

### Board of Directors

Our board of directors is currently comprised of five directors, including three independent board members. Jinmiao Wang, Hengxiu Song, Xishenglu and Binbin Jiang was re-elected and Shufeng Jia was elected at our 2018 annual meeting of shareholders, which was held on December 28, 2018, to hold office until our next annual meeting of shareholders. Jinmiao Wang, Hengxiu Song and Binbin Jiang have served on our board since 2010, although Mr. Song stepped down from the Board during the period November 2010 to June 2011. Xisheng Lu has served on our board since January 2013. Shufeng Jia has served on our board since January 2019.

None of our directors have any contractual arrangements with us or any of our subsidiaries providing for benefits upon termination of employment.

A director is not required to hold any shares in our Company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he or she has a material interest, provided that the director has made the appropriate declaration of interest in the contract, proposed contract or arrangement. The directors may exercise all the powers of our Company to borrow money, mortgage its undertaking, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of our Company or any third party. We have established three committees of the board of directors:

- the audit committee;
- the compensation committee; and
- the corporate governance and nominating committee.

We have adopted a charter for each committee to comply with the Sarbanes-Oxley Act and NYSE corporate governance rules. The charters of each of the committees are available on our website, [www.chinaneborun.com](http://www.chinaneborun.com). We have also adopted corporate governance guidelines to assist the board in the exercise of its responsibilities, which is available on our website at [www.chinaneborun.com](http://www.chinaneborun.com). Each committee's members and functions are described below.

### Board Committees

#### Audit Committee

Our audit committee consists of Shufeng Jia, Xisheng Lu 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. Shufeng Jia is 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 oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is 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 consists of Shufeng Jia, Xisheng Lu and Binbin Jiang, each of whom satisfy the “independence” tests of Section 303A.02 of the NYSE Listed Company Manual. Binbin Jiang is the chairman of our compensation committee. Our compensation committee assists 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 are not prohibited from direct involvement in determining their own compensation. The compensation committee is 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 consists of Shufeng Jia, Xisheng Lu and Binbin Jiang, each of whom satisfy the “independence” tests of Section 303A.02 of the NYSE Listed Company Manual. Xisheng Lu is the chairman of our corporate governance and nominating committee. The corporate governance and nominating committee assists 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 is 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.

## 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 register of members.

#### **D. Employees**

As of the date of this annual report, our Shouguang facility had 652 full-time employees and our Daqing facility had 457 full-time employees for a total of 1,109 full-time employees, which is comprised of 855 manufacturing staff, 230 management and administrative personnel, and the rest, 24 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-owned 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 plan to construct such housing in the 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 fines arising from such delinquent payments. Total contributions to such funds were approximately RMB10.4 million (\$1.5 million), RMB11.3 million (\$1.6 million) and RMB13.4 million (\$2.0 million) for the years ended December 31, 2016, 2017 and 2018, 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, 2018, we paid RMB229,578 (\$33,377) and RMB6,640,166 (\$965,376) for group casualty insurance and pension insurance, respectively.

#### **E. Share Ownership**

The following table sets forth information with respect to the beneficial ownership, within the meaning of Rule 13d-3 under the Exchange Act, of our ordinary shares, as of May 15, 2019, by each of our directors and executive officers, and each person known to us to own beneficially more than 5% of our ordinary shares.

Beneficial ownership includes voting or investment power with respect to securities. Except as indicated below, and subject to applicable community property laws, the persons named in the table below have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. Percentage of ordinary shares beneficially owned by each person is based on 25,725,000 ordinary shares outstanding as of March 7, 2010. All ordinary shares owned by such person, including ordinary shares underlying share options and warrants that are exercisable within 60 days after March 7, 2010 are deemed to be outstanding and beneficially owned by that person for the purpose of computing the percentage ownership of that person, but are not considered outstanding for the purpose of computing the percentage ownership of any other person.

	Shares Beneficially Owned	
	Number	%
<b>Directors and Executive Officers:</b>		
Jinmiao Wang, President, CEO and Chairman of the Board	—	—
Yuanqin Chen, Chief Financial Officer	—	—
Wei Qi, Chief Technology Officer	—	—
Hengxiu Song, Chief Operations Officer, General Manager of Shandong Borun and Director	—	—
Shunliang Hu, General Manager of Daqing Borun	—	—
Binbin Jiang, Independent Director	—	—
Wen Jiang, Independent Director	—	—
Xisheng Lu, Independent Director	—	—
<b>All directors and executive officers as a group (8 persons):</b>	—	—
<b>Principal Shareholders:</b>		
King River Holding Limited <sup>(1)</sup>	14,297,377	55.58%

<sup>(1)</sup> King River Holding Limited is a British Virgin Islands company which is 100% controlled and owned by Mrs. Wang, the mother of our 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. Wang 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.

None of our shareholders has different voting rights from other shareholders. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our Company.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

Please refer to Item 6.E, “Directors, Senior Management and Employees — Share Ownership.”



**B. Related Party Transactions.**

***Reorganization of Shandong Borun into China High***

Shandong Borun, our predecessor company which has been controlled by Mr. Wang and his father since Shandong Borun's incorporation in the PRC in December 2000, underwent a corporate reorganization between September and December 2008 for the purpose of facilitating investments into Shandong Borun by unrelated off-shore (non-PRC) private equity investors.

In September 2008, Golden Direction, a British Virgin Islands limited liability company beneficially owned by Mrs. Wang, a member of the Wang Family, acquired China High, a Hong Kong holding company, from an unrelated party, whereby Golden Direction acquired the sole share of capital (an ordinary share) and in October 2008, China High issued an additional 7,999 ordinary shares to Golden Direction in preparation of the reorganization. In October 2008, China High acquired all of the equity interests of WGC, a PRC limited liability company, from an unrelated party for cash consideration of \$160,000.

In December 2008, WGC acquired 100% of the equity interests in Shandong Borun. The cash consideration paid by WGC for Shandong Borun was equivalent not to the fair market value of Shandong Borun, but rather to the registered capital of Shandong Borun, or RMB76,500,000 (\$11,121,902). Such acquisition was approved by the PRC governmental authorities and no member of the Wang Family or any other party received any compensation or any return on investment in connection with the reorganization. The result of this reorganization was to maintain Wang Family control of Shandong Borun, while creating a corporate structure which allowed offshore foreign investment in our Company in compliance with PRC law.

The 2008 reorganization enabled us to raise capital through the issuance of China High capital stock to our three previously unrelated private equity investors, including (a) Star Elite, which had made its investment in October 2008, (b) Earnstar, which had made its investment in June 2009 and (c) TDR, which had made its investment in September 2009. These initial investments of approximately \$18 million made by Star Elite, Earnstar and TDR between October 2008 and September 2009 were made at arms' length after a series of negotiations and performance of due diligence, and the per share value of capital stock in China High issued in connection with each investment was based on the price to earnings ratio at the time of issuance which reflected the fair market value of our business. Prior to Star Elite's investment in October 2008, Golden Direction was the sole shareholder of China High since September 2008.

***Reorganization of China High into New Borun***

Effective as of March 31, 2010, our Hong Kong holding company China High and its controlling shareholder Golden Direction, a company beneficially owned by Mrs. Wang, a member of the Wang Family, underwent a corporate reorganization with China High's minority shareholders Star Elite, Earnstar and TDR (further details of which are set out below) for purposes of listing our securities on a national securities exchange in the United States as a foreign private issuer and for other tax reasons. No member of the Wang Family or any other party received any compensation or any return on investment in connection with the reorganization.

In connection with such reorganization, Mrs. Wang, a member of the Wang Family, incorporated our company in the Cayman Islands on December 21, 2009 as a result of which Mrs. Wang ultimately received the sole initial subscriber share of our company. On March 9, 2010, Mrs. Wang transferred such sole share to King River, a British Virgin Islands company owned and controlled by Mrs. Wang.

By resolution of the shareholders passed on March 12, 2010, the authorized share capital of our company was converted from shares having a par value of \$1.00 to shares having a par value of \$0.001. As a consequence of this variation of share capital, the initial subscriber share (with a par value of \$1.00) held by King River was repurchased by our company, and one new share (with a par value of \$0.001) was issued by our company to King River.

On March 15, 2010 we signed, and effective as of March 31, 2010 we consummated, a share exchange agreement with Golden Direction and King River, whereby we acquired 100% of the voting share capital of Golden Direction from King River in exchange for the issuance by us to King River of an additional 14,847,810 ordinary shares. Such additional shares were issued to King River on March 17, 2010, following which King River held 14,847,811 ordinary shares, representing 100% of our issued share capital. As of the consummation of the share exchange pursuant to the share exchange agreement, Golden Direction became our wholly owned subsidiary and Golden Direction held approximately 74.24% of the voting capital of China High.

On February 28, 2010 our company and Golden Direction signed, and effective as of March 31, 2010 our company and Golden Direction consummated, a second share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing that exchange, we issued (i) 3,711,952 of our Class A convertible preference shares, which were automatically convertible into 3,711,952 of our ordinary shares upon the closing of the initial public offering, to Star Elite, one of our private equity investors which is wholly owned by Ms. Ping Chen, (ii) 1,065,330 shares of our Class B convertible preference shares, which were automatically convertible into 1,065,330 ordinary shares upon the closing of the initial public offering, to Earnstar, one of our private equity investors which is wholly owned by Ms. Yibin Wei, who became our director effective April 23, 2010 in connection with the exchange and (iii) 374,907 shares of our Class C convertible preference shares, which were automatically convertible into 374,907 ordinary shares upon the closing of the initial public offering to TDR, one of our private equity investors which is wholly owned by Mr. Ruiping Wang, who became our director effective April 23, 2010 in connection with the exchange.

Such reorganization did not result in any change in control as the previous shareholders of China High received their pro rata ownership percentages in our company upon the completion of the reorganization.

### ***Reorganization of Shandong Borun and merger of WGC into Shandong Borun***

As of November 15, 2012, WGC has merged with and into Shandong Borun and Shandong Borun has been reorganized into a wholly owned subsidiary of China High.

### ***Shareholders Agreement***

In connection with and as contemplated by the exchange agreement described in the paragraph above, we entered into a shareholders agreement, effective as of March 31, 2010, with Star Elite, Earnstar, TDR and King River, which sets forth the preference rights held by each of Star Elite, Earnstar and TDR in our company. The shareholders agreement provided for the automatic conversion of each Class A, B and C preference share into our ordinary shares, and each of the preference shareholders agreed to waive all conditions in the shareholders agreement so that all of their preference shares automatically converted into ordinary shares upon the closing of our initial public offering, which was consummated on June 16, 2010. Therefore, all Class A, B and C preference shares have been fully converted into ordinary shares.

The shareholders agreement further provided that Star Elite, Earnstar and TDR would, upon the closing of a qualified public offering (which includes the initial public offering), retain the right to nominate one director candidate at the next annual meeting of our shareholders, which was held in December 2010, however such nominating right did not guarantee that such director candidate would be elected to serve as a director.

Furthermore, Earnstar and TDR (for purposes of this subsection only, a “Holder” or collectively as “Holders”) retain Form F-3 registration rights, which shall terminate five years following the closing of our initial public offering unless terminated sooner upon the earlier of (i) the completion of a Liquidation Event (as defined in the shareholders agreement) and (ii) as to either Holder, when all Registrable Securities (as defined in the shareholders agreement) held by such Holder could be sold without restriction under Rule 144 within a 90 day period.

Upon receipt of a written request to effect a registration on Form F-3 in accordance with the terms of the shareholders agreement, our Company shall be obligated to effect, as soon as practicable, such registration and all such qualifications and compliances as may be so requested, together with all or such portion of the Registrable Securities of any other Holder entitled to join in such request in accordance with the terms of the shareholders agreement. However, we are not obligated to effect any registration:

- if Form F-3 is not available for such offering by the Holder(s),
- if the Holder(s), 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,

- 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 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(s); provided that we shall not register any of its other shares during such 60 day period,
- 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 the Holder(s) have been excluded (with respect to all or any portion of the Registrable Securities the Holder(s) requested be included in such registration) or
- 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 deemed not to be “demand” registrations and except as otherwise provided in the shareholders agreement, there shall be no limit on the number of times the Holder(s) may request registration of Registrable Securities.

All registration expenses incurred in connection with any registration (but excluding certain Selling Expenses set forth in the shareholders agreement) shall be borne by us. The shareholders agreement also includes standard indemnification provisions. If we are obligated to file a registration statement, we are obligated to use our best efforts to cause such registration statement to become effective, and, upon the request of the Holder(s) 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, until the distribution contemplated in the registration statement has been completed; provided, however, that such 90 day period shall be extended under certain circumstances as set forth in the shareholders agreement.

Without the prior written consent of the Holder(s) of a majority in interest of the Registrable Securities then outstanding, we have covenanted and agreed that we shall not grant 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 our 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.

#### ***Additional Related Party Transactions***

There was no related party transactions in the fiscal year ended December 31, 2018.

#### **C. Interests of Experts and Counsel**

Not applicable.

## ITEM 8. FINANCIAL INFORMATION

### A. Consolidated Statements and Other Financial Information.

We have appended consolidated financial statements filed as part of this annual report. See Item 18, “Financial Statements.”

#### Legal Proceedings

See Item 4, “Information on the Company — Business Overview — Legal Proceedings.”

#### 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.

We did not declare any dividends in 2016, 2017 and 2018. 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 Item 3.D, “Key Information — Risk Factors — Risks Related To Operating 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 corporate 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 Item 3.D, "Key Information — Risk Factors — Risks Related To Operating In China — *Dividends payable by us to our non-PRC resident shareholders may become subject to taxes under 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 holds 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 Item 3.D, "Key Information — Risk Factors — Risks Related To Operating 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 Item 10. E, "Additional Information — 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. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

## **B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

## **ITEM 9. THE OFFER AND LISTING.**

### **A. Offering and listing details**

#### **Price Range of Our ADSs**

Our ADSs, each representing one of our ordinary shares, have been listed on the NYSE since June 11, 2010. The following table provides the high and low trading prices for our ADSs on the NYSE for the periods indicated. On May 10, 2019, the closing sale price of our ADSs as reported on the NYSE was \$0.82 per ADS.

	Sale Price	
	High	Low
<b>Annual High and Low</b>		
2017	\$ 1.74	\$ 0.97
<b>2018 Quarterly High and Low</b>		
First Quarter 2017	\$ 1.42	\$ 0.97
Second Quarter 2017	\$ 1.74	\$ 1.12
Third Quarter 2017	\$ 1.45	\$ 1.18
Fourth Quarter 2017	\$ 1.53	\$ 1.19
First Quarter 2018	\$ 1.57	\$ 1.23
Second Quarter 2018	\$ 1.42	\$ 1.11
Third Quarter 2018	\$ 1.26	\$ 1.03
Fourth Quarter 2018	\$ 1.36	\$ 0.63
<b>Monthly High and Low</b>		
October 2018	\$ 1.36	\$ 1.05
November 2018	\$ 1.13	\$ 0.91
December 2018	\$ 0.98	\$ 0.63
January 2019	\$ 0.90	\$ 0.63
February 2019	\$ 0.92	\$ 0.80
March 2019	\$ 0.98	\$ 0.69
April 2019	\$ 0.93	\$ 0.82

**B. Plan of Distribution**

Not applicable.

**C. Markets**

See Item 9.A above.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION.**

**A. Share capital**

Not applicable.

**B. Memorandum and Articles of Association**

We incorporate by reference into this annual report the description of our amended and restated articles of association contained in our F-1 registration statement (File No. 333-166312) originally filed with the Securities and Exchange Commission on April 27, 2010, as amended. For further information regarding our amended and restated articles of association, share capital and the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, see the section titled “Description of Share Capital” in our registration statement on Form F-1 (File No. 333-166312).

**C. Material Contracts**

We have not entered into any material contracts other than in the ordinary course of business, except for the material contracts described below and those described in Item 4, “Information on the Company” and in Item 7, “Major Shareholders and Related Party Transactions” or elsewhere in this annual report on Form 20-F.



## **D. Exchange Controls**

See Item 4.B, “Information on the Company — Business Overview — PRC Government Regulations — Regulation of Foreign Currency Exchange and Dividend Distribution” and “—Regulation of Foreign Exchange in Certain Onshore and Offshore Transactions.”

## **E. Taxation**

*The following discussion 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 annual report, all of which are subject to change. This discussion 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.*

### **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. There are no other taxes likely to be material to our company levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within the jurisdiction of, the Cayman Islands. The Cayman Islands are not party to any double-tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

### **People’s Republic of China Taxation**

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 uncertainty exists regarding the interpretation and implementation of the PRC Enterprise Income Tax Law and its implementation rules and it is uncertain whether we will be deemed a PRC resident enterprise. 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, 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 Taxation**

This section describes the material U.S. federal income tax considerations of the ownership and disposition of ADSs. This discussion does not address any aspect of U.S. federal gift or estate tax, or the state, local or non-U.S. tax consequences of an investment in ADSs. This discussion applies to holders who hold and beneficially own ADSs as capital assets for tax purposes. This discussion does not apply to you if you are a member of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for securities holdings;
- banks or other financial institutions;
- regulated investment companies;
- real estate investment trusts;
- insurance companies;
- tax-exempt organizations;
- persons that hold our ADSs as part of a hedge, straddle, constructive sale, conversion transaction or other integrated investment;
- U.S. Holders (as defined below) whose functional currency for tax purposes is not the U.S. dollar;
- persons liable for alternative minimum tax; or
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares (including our ordinary shares and our ADSs) entitled to vote.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (which we refer to in this discussion as the “Code”), its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this discussion relies on our assumptions regarding the value of our shares and the nature of our business over time. Finally, this discussion is based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

**You should consult your own tax advisor concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of our ADSs, as well as the consequences to you arising under the laws of any other taxing jurisdiction, including the PRC.**

For purposes of the U.S. federal income tax discussion below, you are a “U.S. Holder” if you beneficially own our ADSs and are:

- a citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation, or other entity taxable as a corporation, that was created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect to be treated as a U.S. person.

If a partnership or other pass-through entity holds our ADSs, the tax treatment of the holder will generally depend on the status of the partner or other owner and the activities of the partnership or other pass-through entity. If you hold our ADSs through a partnership or other pass-through entity, you should consult your tax advisor as to the consequences of owning or disposing of such ADSs.

### ***U.S. Holders***

This discussion applies only to U.S. Holders. If you are not a U.S. Holder, please refer to the discussion below under “Non-U.S. Holders.”

### ***Ownership of ADSs***

A U.S. Holder of our ADSs generally will be treated as the owner of the underlying ordinary shares that are represented by such ADSs for U.S. federal income tax purposes. Accordingly, deposits or withdrawals of ordinary shares for such ADSs will not be subject to U.S. federal income tax. The remainder of this discussion assumes that a U.S. Holder holds our ADSs and has not withdrawn any ordinary shares from the depository.

*Effect of Uncertainty Relating to PRC Taxation*

As described above under “People’s Republic of China Taxation,” there is uncertainty as to whether we might be subject to tax as a PRC “resident enterprise.” As a result, it is not certain whether we would be subject to PRC enterprise tax and whether distributions our subsidiaries make to us, or we make to you, might be subject to PRC withholding taxes. Additionally, if we are treated as a PRC “resident enterprise,” it is not certain whether a U.S. Holder of our ADSs would be eligible for the benefits of the income tax treaty between the United States and the People’s Republic of China (the “Treaty”). Whether and how these uncertainties are resolved may materially affect the U.S. federal income tax consequences of holding our ADSs.

*Dividends on ADSs*

If you are a U.S. Holder of our ADSs in a taxable year in which are a PFIC (and any subsequent taxable years), this section generally may not apply to you — instead, see “Passive Foreign Investment Company” below. Otherwise, generally, if we make distributions on our ADSs, the U.S. dollar gross amount of any distributions (including amounts withheld to reflect withholding taxes by the PRC or any other foreign jurisdiction) you receive on our ADSs will generally be treated as dividend income if the distributions are made from our current or accumulated earnings and profits, calculated according to U.S. federal income tax principles. We do not intend to calculate our earnings and profits according to U.S. federal income tax principles and, as a result, you generally will be required to treat all distributions on our ADSs as dividends for U.S. federal income tax purposes.

Dividends will generally be subject to U.S. federal income tax as ordinary income on the day you or the Depository actually or constructively receive such income. However, if you are an individual U.S. Holder and have held your ADSs for a sufficient period of time, distributions on our ADSs treated as dividends generally will constitute “qualified dividend income” and as a result will be taxed at preferential rates, as long as we are treated as a “qualified foreign corporation.” A foreign corporation is treated as a qualified foreign corporation for this purpose with respect to shares (including ADSs backed by such shares) that are readily tradable on an established securities market in the United States. We expect our ADSs to continue to be readily tradable on the New York Stock Exchange or another established securities market in the United States, and as a result we expect to be a qualified foreign corporation for this purpose. 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 (as discussed above under “People’s Republic of China Taxation”), we may be eligible for the benefits of the Treaty 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, generally would constitute qualified dividend income. 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 Code Section 163(d)(4) will not be eligible for these reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends where the person receiving the dividends is obligated to make related payments with respect to positions in substantially similar or related property, even if the minimum holding period has been met. Distributions on our ADSs will not be eligible for the “dividends-received deduction” available to corporate U.S. holders.

*Foreign Tax Credit Considerations*

Dividends on our ADSs generally will constitute income derived from non-U.S. sources and as “passive income” for U.S. foreign tax credit limitation purposes, although in certain special circumstances you might be required to treat dividends on our ADSs as “general income” for these purposes. If we are deemed by the PRC tax authorities to be a “resident enterprise” (as described above under the heading “People’s Republic of China Taxation”), we might be required to withhold and pay over to the PRC withholding tax on distributions that we make to you, in which case you may be able to claim a U.S. foreign tax credit for such taxes withheld, subject to the limitations on the availability of the foreign tax credit in your circumstances. If, however, the PRC taxes are either imposed on us directly (and not as a withholding tax on distributions to you), or required to be withheld on distributions to us by our subsidiaries rather than on distributions from us to you, generally you would not be able to claim a foreign tax credit for such PRC taxes, although a U.S. domestic corporation that owns 10% or more of our outstanding voting stock, at the time we make distributions, may be eligible for an indirect tax credit for PRC enterprise tax that we are required to pay on our PRC taxable income, provided other conditions are met. Additionally, if you are eligible for the benefits of the Treaty, you generally would be able to claim a foreign tax credit only for PRC tax withheld up to the maximum rate on dividends specified in the Treaty. As discussed above, the application of the relevant PRC tax laws is not clear, and as a result the availability of any U.S. foreign tax credit resulting from holding our ADSs is uncertain. **The rules governing the availability of foreign tax credits are extremely complex and may vary based on your individual circumstances. You should consult your own adviser as to the availability of a foreign tax credit in your individual circumstances.**

*Sales and other dispositions of ADSs*

If you are a U.S. Holder of our ADSs in a taxable year in which are a PFIC (and any subsequent taxable years), this section generally may not apply to you — instead, see “Passive Foreign Investment Company” below. Otherwise, generally, when you sell or otherwise dispose of our ADSs, you generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on such sale or other disposition and your adjusted tax basis in our ADSs, both as determined in U.S. dollars. Your adjusted tax basis will generally equal the amount you paid for our ADSs. Any gain or loss you recognize will be long-term capital gain or loss if your holding period in our ADSs is more than one year at the time of disposition. If you are an individual U.S. Holder, any such long-term capital gain will be taxed at preferential rates. Your ability to deduct capital losses will be subject to various limitations.

Any gain or loss recognized generally will be treated as derived from U.S. sources for U.S. foreign tax credit limitation purposes; however, as discussed above under “People’s Republic of China Taxation,” if the PRC tax authorities were to assert that any gains recognized were subject to PRC tax and you were eligible for the benefits of the Treaty, such gains or losses might be resourced under the Treaty to the PRC, and as a result treated as derived from non-U.S. sources for U.S. foreign tax credit purposes. Please see above under “People’s Republic of China Taxation,” “Effect of Uncertainties Relating to PRC Taxation” and “Foreign Tax Credit Considerations” for further discussions of the uncertainties relating to PRC taxation and the effect of such uncertainty on U.S. Holders.

*Passive Foreign Investment Company*

Based on the composition of our income and valuation of our assets, we believe we were a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2018, and we may be a PFIC for our taxable year ending December 31, 2019 or thereafter, although there can be no assurance in either 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 directly or indirectly own at least 25% (by value) of the stock of another corporation (including, for example, our principal operating subsidiaries), for purposes of the PFIC tests we will be treated as owning our proportionate share of such other corporation's assets and receiving our proportionate share of such other corporation's income.

The determination of whether we are a PFIC is made annually. The composition of our income and assets will be affected by how, and how quickly, we spend the proceeds of any debt issuance or other capital we may raise in the future. 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 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 for this purpose any pledge) of our 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 in our 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 in our 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 U.S. Holders will not be eligible for the reduced rates of taxation on any dividends received from us as "qualified dividend income" (described above under "Dividends on ADSs"), if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year, regardless of whether we are otherwise a qualified foreign corporation.

You will be required to file Internal Revenue Service Form 8621 if you recognize gain on the sale of PFIC stock, receive a distribution from a PFIC, or make a QEF or mark-to-market election with respect to a PFIC. If we are classified as a PFIC, a U.S. Holder of our ADSs also 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 make a QEF or mark-to-market election with respect to such PFIC. If we are a PFIC for any taxable year during which you hold our ADSs and any of our non-U.S. subsidiaries is also a PFIC, you 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, including the New York Stock Exchange. Under current law, the mark-to-market election may be available to holders of our ADSs because our ADSs are listed on the New York Stock Exchange, although there can be no assurance that our ADSs will be “regularly traded” for purposes of the mark-to-market election. 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 our ADSs that you hold at the end of the year over your adjusted tax basis in such ADSs. You would be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in our 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 a mark-to-market election, any gain you recognize upon the sale or other disposition of our 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 our 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 our ADSs cease to be 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.

Assuming we are or were 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 U.S. federal income tax consequences of holding our ADSs if we are considered a PFIC in any taxable year.**

*Medicare Contribution Tax on Unearned Income*

An additional United States tax of 3.8% is imposed on the “net investment income” of certain United States citizens and resident aliens and on the undistributed “net investment income” of certain estates and trusts. Among other items, “net investment income” generally would include dividends on, and capital gains from the sale, retirement or other taxable disposition of our ADSs. You should consult your own tax advisor concerning the effect, if any, of this tax on holding our ADSs in your particular circumstances.

***Non-U.S. Holders***

If you beneficially own our ADSs and are not a United States person for U.S. federal income tax purposes (a “Non-U.S. Holder”), you generally will not be subject to U.S. federal income tax or withholding on dividends received from us with respect to ADSs unless that income is considered effectively connected with your conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADSs, such dividends are attributable to a permanent establishment that you maintain in the United States. You generally will not be subject to U.S. federal income tax, including withholding tax, on any gain realized upon the sale or exchange of ADSs, unless:

- that gain is effectively connected with the conduct of a U.S. trade or business and, if an applicable income tax treaty so requires as a condition for you to be subject to U.S. federal income tax with respect to income from your ADSs, such gain is attributable to a permanent establishment that you maintain in the United States; or
- you are a nonresident alien individual and are present in the United States for at least 183 days in the taxable year of the sale or other disposition and either (1) your gain is attributable to an office or other fixed place of business that you maintain in the United States or (2) you have a tax home in the United States.

If you are engaged in a U.S. trade or business, unless an applicable tax treaty provides otherwise, the income you receive on our ADSs, including dividends and the gain from the disposition of our ADSs, that is effectively connected with the conduct of that trade or business will be subject to the rules applicable to U.S. Holders discussed above. In addition, if you are a corporation, you may be subject to an additional branch profits tax at a rate of 30% or any lower rate under an applicable tax treaty.

***U.S. Information Reporting and Backup Withholding Rules***

In general, dividend payments with respect to our ADSs and the proceeds received on the sale or other disposition of such ADSs may be subject to information reporting to the Internal Revenue Service and to backup withholding (currently imposed at a rate of 28%). Backup withholding will not apply, however, if you (1) come within certain exempt categories and, when required, can demonstrate that fact or (2) provide a taxpayer identification number, certify that you have not lost your exemption from backup withholding and otherwise comply with the applicable backup withholding rules. To establish your status as an exempt person, you will generally be required to provide certification on an IRS Form W-9, W-8BEN or W-8ECI, as applicable in your particular circumstances. Backup withholding is not an additional tax. Rather, any amounts withheld from payments to you under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, provide that you timely furnish the required information to the IRS.



***Disclosure of Information with respect to Foreign Financial Assets***

Certain U.S. individuals who hold any interest in “specified foreign financial assets,” including our ADSs, during such holder’s taxable year must attach to their U.S. tax return for such year certain information with respect to each asset if the aggregate value of all of such assets exceeds \$50,000 (or a higher dollar amount prescribed by the Internal Revenue Service). For this purpose, a “specified foreign financial asset” includes any depository, custodial or other financial account maintained by a foreign financial institution, and certain assets that are not held in an account maintained by a financial institution, including any stock or security issued by a person other than a U.S. person. A taxpayer subject to these rules who fails to furnish the required information is subject to a penalty of \$10,000, and an additional penalty may apply if the failure continues for more than 90 days after the taxpayer is notified of such failure by the Internal Revenue Service; however, these penalties may be avoided if the taxpayer demonstrates a reasonable cause for the failure to comply. An accuracy-related penalty of 40% is imposed for an underpayment of tax that is attributable to an “undisclosed foreign financial asset understatement,” which for this purpose is the portion of the understatement for any taxable year that is attributable to any transaction involving an “undisclosed foreign financial asset,” including any asset that is subject to the information reporting requirements of this legislation, which would include our ADSs if the dollar threshold described above were satisfied.

The rules described in the preceding paragraph also extend the applicable statute of limitations for assessment of U.S. federal income taxes to six years if there is an omission of gross income in excess of \$5,000 and the omission of gross income is attributable to a foreign financial asset as to which reporting is required under the rules described in this section (or would be so required if the requirement for reporting specified foreign financial assets were applied without regard to the dollar threshold specified therein and without regard to certain exceptions that may be specified by the Internal Revenue Service). In addition, the statute of limitations will be suspended if a taxpayer fails to timely provide information with respect to specified foreign financial assets required to be reported or fails to timely provide the annual information reports required for holders of PFIC stock, including PFIC stock for which a QEF election is made. The amendments to the applicable statute of limitations described in this paragraph apply to U.S. federal income tax returns filed after March 18, 2010, as well as to such returns filed on or before such date if the applicable statute of limitations (determined without regard to these amendments) for assessment of taxes has not expired as of such date. **You should consult your own tax advisor concerning any obligation you may have to furnish information to the Internal Revenue Service as a result of holding our ADSs.**

**HOLDERS OF OUR ADSs SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF PRC AND UNITED STATES FEDERAL INCOME TAX LAWS IN THEIR INDIVIDUAL CIRCUMSTANCES, AS WELL AS ANY TAX CONSEQUENCES RESULTING FROM PURCHASING, HOLDING OR DISPOSING OF OUR ADSs, INCLUDING THE APPLICABILITY AND EFFECT OF THE TAX LAWS OF ANY STATE, LOCAL OR OTHER FOREIGN JURISDICTION, AND ANY ESTATE, GIFT AND INHERITANCE LAWS.**

**F. Dividends and Paying Agents**

Not applicable.

**G. Statement by Experts.**

Not applicable.

**H. Documents on Display**

We have previously filed with the Securities and Exchange Commission our registration statements (File No. 333-166312) on Form F-1, as amended.

We have filed this annual report on Form 20-F with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Statements made in this annual report as to the contents of any document referred to are not necessarily complete. With respect to each such document filed as an exhibit to this annual report, reference is made to the exhibit for a more complete description of the matter involved, and each such statement shall be deemed qualified in its entirety by such reference.

We are subject to the informational requirements of the Exchange Act and file reports and other information with the Securities and Exchange Commission. Reports and other information which we filed with the Securities and Exchange Commission, including this annual report on Form 20-F, may be inspected and copied at the public reference room of the Securities and Exchange Commission at 450 Fifth Street N.W. Washington D.C. 20549.

You can also obtain copies of this annual report on Form 20-F by mail from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. Additionally, copies of this material may be obtained from the Securities and Exchange Commission's Internet site at <http://www.sec.gov>. The Commission's telephone number is 1-800-SEC-0330.

**I. Subsidiaries Information**

Please refer to Item 4.C, "Information on the Company — Organizational Structure."

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

We are exposed to various types of market risks, including changes in interest rates, commodity price, foreign exchange rates and inflation in the normal course of business.

#### **Interest Rate Risk**

**Borrowings and Bonds**—Our significant interest-bearing financial liabilities are borrowings and bonds.

As of December 31, 2018 all balance of borrowings consists of short-term borrowings and short-term portion of long-term borrowings which will mature at various dates within the year ending December 31, 2019 and do not expose us to interest rate risk. Our interest rate risk arises primarily from long-term borrowings and bonds. Our bonds were issued at fixed rates and expose us to fair value and interest rate risk which will mature at fiscal year 2021.

Other than the above, other financial assets and liabilities do not carry material interest rate risk.

#### **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 2.1% in 2018 compared with 2017.

#### **Credit Risk**

Since commencing our operations in 2000, we have not had to write off bad debts. In addition, we have relatively 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 2% per day and the PBOC 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 0.4% in 2014, an appreciation of approximately 5.4% in 2017 and appreciation of 2.4% in 2018, 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 we maintain our consolidated financial statements in Renminbi, 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.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

*Fees and Charges Incurred by ADS Holder*

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; and
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars;

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.

#### *Fees and Payments by Depositary*

Our depositary, The Bank of New York Mellon, has agreed to reimburse us for certain expenses we incur that are related to establishment and maintenance of the ADS program, including investor relations expenses and exchange application and listing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amounts of fees the depositary collects from investors. For the year ended December 31, 2018, we did not receive any amount from the depositary as reimbursement for our expenses incurred in connection with the establishment and maintenance of the ADS program.

**PART II.**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

The rights of securities holders have not been materially modified.

We completed our initial public offering of 5,725,000 ordinary shares, in the form of 5,725,000 ADSs on June 16, 2010 at a price of \$7.00 per ADS. The aggregate price of the initial public offering amount registered and sold was approximately \$40.1 million, of which we received net proceeds, before expenses, of \$37.3 million. Piper Jaffray & Co. was the underwriter for the initial public offering. As of December 31, 2012, we had used all the net proceeds to complete the construction of Phase III at our Daqing facility.

**ITEM 15. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15 (e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our management has concluded that, as of December 31, 2018, our disclosure controls and procedures were ineffective because of the material weakness described below under “Management’s Annual Report on Internal Control over Financial Reporting.” We have undertaken the remedial steps to address the material weaknesses in our disclosure controls and procedures as set forth below under “Management’s Plan for Remediation of Material Weaknesses.”

**Management’s Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such item is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, for our company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements in accordance with U.S. GAAP and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company’s assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that a company’s receipts and expenditures are being made only in accordance with authorizations of a company’s management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company’s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has conducted an assessment, including testing of the design and the effectiveness of our internal control over financial reporting as of December 31, 2018. In making its assessment, management used the criteria in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Based on this assessment, management identified a material weakness in our internal control over financial statement closing process, and as a result, concluded that our internal control over financial reporting was not effective as of December 31, 2018. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness identified primarily related to the lack of sufficient qualified financial reporting and accounting personnel to properly address complex accounting issues under U.S. GAAP and timely to report and review our consolidated financial statements and related disclosures to fulfill U.S. GAAP and the Securities and Exchange Commission’s financial reporting requirements, as resulted from our high staff turnover rate in the fiscal year 2018.

We plan to fully remediate the above issue in 2019 by recruiting personnel who possess expertise in this aspect. However, we cannot be certain that this measure will resolve our control deficiency, and, if we fail to timely achieve and maintain the adequacy of our internal controls, we may continue to be unable to conclude that we have effective internal controls over financial reporting.

Moreover, effective internal controls over financial reporting are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the market price of our ADSs.

#### **Attestation Report of Independent Registered Public Accounting Firm**

We are a non-accelerated filer under the rules of the Securities and Exchange Commission. Accordingly, we are not required to include in this annual report an attestation report of our independent registered public accounting firm.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Wen Jiang, one of our independent directors and the chairman of our audit committee, is an audit committee financial expert, as defined in Item 16A of Form 20-F, and that such person is also “independent,” as defined in Rule 10A-3 under the Exchange Act. For more information about Wen Jiang, see Item 6., “Directors, Senior Management and Employees — Directors and Senior Management.”

#### **ITEM 16B. CODE OF ETHICS**

Our board of directors has adopted a code of ethics that is applicable to all of our senior executive and financial officers. Our code of ethics is publicly available on our website ([www.chinanewborun.com](http://www.chinanewborun.com)). We hereby undertake to provide to any person, without charge, a copy of our code of business conduct and ethics within ten working days after we receive such person’s written request.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by WWC for the fiscal year ended December 31, 2017 and 2018 and BDO for fiscal years ended December 31, 2017.

	Year ended December 31,		
	2017 (RMB)	2018 (RMB)	2018 (\$)
Audit fees	2,595,000	982,637	142,860
Audit-related fees	—	—	—
Tax fees	—	—	—
All other fees	—	—	—

Audit fees are fees for professional services rendered by our independent registered public accounting firms for the audits of our consolidated financial statements and for the agreed-upon procedures of interim consolidated financial information included in quarterly earnings releases, for the fiscal years ended December 31, 2017 and 2018.

The policy of our audit committee is to pre-approve all auditing services and permitted non-audit services to be performed for us by our independent auditor, including the fees and terms thereof (subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the audit committee or our board of directors prior to the completion of the audit).

We established our audit committee after the completion of our initial public offering in June 2010. All fees set forth in the table above were pre-approved by either our board of directors, prior to the establishment of our audit committee, or our audit committee.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

None.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Effective April 24, 2018, we have engaged WWC as our new independent auditor and dismissed BDO as our independent auditor. The decision to engage WWC and dismiss BDO as our independent auditor was approved by the Audit Committee of the Company after a thorough evaluation and with the concurrence of the Company's Board of Directors on April 24, 2018.

The audit reports of BDO regarding the Company's financial statements as of and for two most recent fiscal years ended December 31, 2015 and 2016 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. In connection with the audits of the Company's financial statements for the each of the two most recent fiscal years ended December 31, 2015 and 2016, and through the date of this current report, there were: (i) no disagreements between our company and BDO on any matters of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of BDO, would have caused BDO to make reference to the subject matter of the disagreement in their reports on our financial statements for such years, and (ii) no "reportable events" as defined under Item 16F of Form 20-F, except that prior to its dismissal, BDO and the Company were still in the process of performing procedures to conclude the audit of the Company's financial statements as of and for the fiscal year ended December 31, 2017. The Company dismissed BDO prior to concluding the audit and prior to BDO issuing any audit report on the Company's financial statements. The Company has authorized BDO to respond fully to the inquiries of WWC concerning the outstanding audit matters.

During the Company's two most recent fiscal years ended December 31, 2015 and 2016, and through the date of this current report, the Company did not consult with WWC regarding either (i) the application of accounting principles to a specific transaction, either completed or proposed or (ii) the type of audit opinion that may be rendered by WWC on the Company's financial statements. Neither a written report nor oral advice was provided by WWC to the Company that was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue. The Company has not consulted with WWC regarding any matter that was either the subject of a disagreement or a "reportable event," each as defined under Item 16F of Form 20-F.

We have provided BDO a copy of the disclosures and has requested that BDO furnish us with a letter addressed to the Securities and Exchange Commission stating whether or not BDO agrees with the statements. A copy of the letter dated April 24, 2018 furnished by BDO in response to that request is filed as Exhibit 99.1 to a Form 6-K filed to the SEC on April 24, 2018.



**ITEM 16G. CORPORATE GOVERNANCE**

We have followed and intend to continue to follow the applicable corporate governance standards of the NYSE.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable

**PART III**

**ITEM 17. FINANCIAL STATEMENTS.**

We have provided financial statements pursuant to Item 18.

**ITEM 18. FINANCIAL STATEMENTS.**

The consolidated financial statements of our Company and subsidiaries are included at the end of this Annual Report.

**ITEM 19. EXHIBITS.**

<b>Exhibit Number</b>	<b>Description</b>
1.1	<a href="#">Amended and Restated Articles of Association of the Registrant<sup>(1)</sup></a>
1.2	<a href="#">Certificate of Incorporation of China New Borun Corporation<sup>(1)</sup></a>
2.1	<a href="#">Form of American Depositary Receipt<sup>(1)</sup></a>
2.2	<a href="#">Specimen Certificate for Ordinary Shares<sup>(1)</sup></a>
2.3	<a href="#">Deposit Agreement among China New Borun Corporation, the Depository and owners and holders of American Depositary Shares issued thereunder, dated June 10, 2010<sup>(2)</sup></a>
2.4	<a href="#">Shareholders Agreement, dated March 31, 2010, by and among China New Borun Corporation, King River Holding Limited, Star Elite, Earnstar and TDR Advisors<sup>(1)</sup></a>
2.5	<a href="#">Amendment to Shareholders Agreement, dated June 8, 2010, by and among China New Borun Corporation, King River Holding Limited, Earnstar Holding Limited and TDR Advisors, Inc.<sup>(1)</sup></a>
4.1	<a href="#">Share Exchange Agreement, dated February 28, 2010, by and among China New Borun Corporation, Golden Direction Limited, Star Elite, Earnstar, TDR Advisors and China High Enterprises Limited<sup>(1)</sup></a>
4.2	<a href="#">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<sup>(1)</sup></a>

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4.3	<a href="#">Form of Independent Director Agreement<sup>(1)</sup></a>
4.4	<a href="#">Form of Indemnification Agreement<sup>(1)</sup></a>
8.1	<a href="#">Subsidiaries of Registrant</a>
12.1	<a href="#">Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2	<a href="#">Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1	<a href="#">Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2	<a href="#">Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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<sup>(1)</sup> Previously filed with the Registrant's registration statement on Form F-1 and F-1/A (File No. 333- 166312).

<sup>(2)</sup> Previously filed with the Registrant's annual report on Form 20-F filed on March 16, 2011 (File No. 001-34754).

**SIGNATURE**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: May 15, 2019

**CHINA NEW BORUN CORPORATION**

/s/ Jinmiao Wang

**Name:** Jinmiao Wang

**Title:** Chairman and Chief Executive Officer

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To: The Board of Directors and Stockholders of  
China New Borun Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of China New Borun Corporation (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ WWC, P.C.  
WWC, P.C.  
Certified Public Accountants

San Mateo, California  
May 15, 2019

We have served as the Company's auditor since April 24, 2018

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in RMB unless otherwise stated)

	As of December 31,		
	2017 (RMB)	2018 (RMB)	2018 (\$)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	728,249,297	624,211,652	90,750,611
Trade accounts receivable, net of allowance for doubtful accounts of RMB nil and RMB nil (\$ nil), as of December 31, 2017 and 2018, respectively (note 4)	509,737,390	126,998,338	18,463,572
Inventories (note 5)	434,185,431	1,441,293,500	209,541,532
Advance to suppliers (note 6)	562,196,185	224,554	32,647
Other receivables (note 7)	66,391,456	191,944,065	27,905,665
Prepaid expenses	2,781,503	5,476,967	796,265
<b>Total current assets</b>	<b>2,303,541,262</b>	<b>2,390,149,076</b>	<b>347,490,292</b>
Property, plant and equipment, net (note 8)	766,055,948	601,930,062	87,511,216
Land use rights, net (note 9)	127,627,629	123,941,714	18,019,187
<b>Total assets</b>	<b>3,197,224,839</b>	<b>3,116,020,852</b>	<b>453,020,695</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade accounts payable	36,890,637	10,167,408	1,478,181
Accrued expenses and other payables (note 10)	54,770,180	41,693,201	6,061,539
Income taxes payable	66,717,710	30,377,905	4,416,472
Short-term borrowings (note 11)	698,667,011	731,446,715	106,340,912
Bonds payable — current portion	—	100,000,000	14,538,436
<b>Total current liabilities</b>	<b>857,045,538</b>	<b>913,685,229</b>	<b>132,835,540</b>
Bonds payable, outstanding principal amount of RMB300,000,000 (\$43,615,301), bearing fixed annual interest rate of 6.5%, with maturity on November 2, 2021 (less unamortized debt issuance costs based on imputed interest rate of 6.75% of RMB5,419,012 and RMB4,005,357 (\$582,316) as of December 31, 2017 and 2018, respectively) (note 12)	294,580,988	195,994,643	28,494,555
<b>Total liabilities</b>	<b>1,151,626,526</b>	<b>1,109,679,872</b>	<b>161,330,095</b>
<b>Commitments and contingencies (note 15)</b>			

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

	<u>2017</u>	<u>As of December 31,</u>	
	<u>(RMB)</u>	<u>2018</u>	<u>2018</u>
		<u>(RMB)</u>	<u>(\$)</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)</b>			
<b>Shareholders' equity</b>			
Ordinary share—par value of RMB0.0068259; 25,725,000 shares authorized, issued and outstanding as of December 31, 2017 and 2018, respectively	175,596	175,596	25,725
Additional paid-in capital	468,132,187	468,132,187	68,059,098
Retained earnings—appropriated (note 2)	171,207,400	175,864,784	25,567,986
Retained earnings—unappropriated	1,406,583,669	1,362,711,200	198,116,895
Accumulated other comprehensive loss	(500,539)	(542,787)	(79,104)
<b>Total shareholders' equity</b>	<u>2,045,598,313</u>	<u>2,006,340,980</u>	<u>291,690,600</u>
<b>Total liabilities and shareholders' equity</b>	<u>3,197,224,839</u>	<u>3,116,020,852</u>	<u>453,020,695</u>

See accompanying notes to consolidated financial statements.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(Amounts in RMB unless otherwise stated)

	Year Ended December 31,			
	2016 (RMB)	2017 (RMB)	2018 (RMB)	2018 (\$)
Revenues	2,132,680,185	2,140,871,979	1,803,881,198	262,256,112
Cost of goods sold	1,950,614,338	1,907,898,919	1,662,560,180	241,710,246
Gross profit	182,065,847	232,973,060	141,321,018	20,545,866
Operating expenses (income), net:				
Selling	4,164,703	3,657,645	3,523,809	512,307
General and administrative	48,413,749	49,015,721	52,935,840	7,696,043
Government subsidy	—	(117,216,600)	—	—
Others, net	(4,086,154)	(104,649)	(993,917)	(144,500)
Impairment losses of property, plant and equipment	—	—	49,995,656	7,268,586
Total operating expenses(income), net	48,492,298	(64,647,883)	105,461,388	15,332,436
<b>Income from operations</b>	133,573,549	297,620,943	35,859,630	5,213,429
Interest income	4,043,903	4,154,446	3,830,674	556,920
Interest expense	(52,669,508)	(66,125,464)	(62,382,917)	(9,069,499)
<b>Income (loss) before income tax expenses</b>	84,947,944	235,649,925	(22,692,613)	(3,299,150)
Income tax (credit) expenses (note 14)				
Current	19,481,789	58,912,481	16,522,472	2,402,109
Deferred	1,755,197	—	—	—
Income tax expenses	21,236,986	58,912,481	16,522,472	2,402,109
<b>Net income (loss) attributable to ordinary shareholders</b>	63,710,958	176,737,444	(39,215,085)	(5,701,259)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(59,426)	61,376	(42,248)	(6,142)
<b>Other comprehensive income (loss)</b>	(59,426)	61,376	(42,248)	(6,142)
<b>Total comprehensive income attributable to ordinary shareholders</b>	63,651,532	176,798,820	(39,257,333)	(5,707,401)
<b>Earnings (loss) per share (note 2):</b>				
Basic and Diluted	2.48	6.87	(1.52)	(0.22)
<b>Weighted average ordinary shares outstanding (note 2):</b>				
Basic and diluted	25,725,000	25,725,000	25,725,000	25,725,000

See accompanying notes to consolidated financial statements.



**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Amounts in RMB unless otherwise stated)

	Ordinary Share		Additional Paid-in Capital Amount (RMB)	Retained Earnings— Appropriated Amount (RMB)	Retained Earnings— Unappropriated Amount (RMB)	Accumulated Other Comprehensive Loss Amount (RMB)	Total Shareholders' Equity Amount (RMB)
	Shares	Amount (RMB)					
<b>Balance as of January 1, 2016</b>	25,725,000	175,596	468,132,187	147,162,560	1,190,180,107	(502,489)	1,805,147,961
Net income for the year	—	—	—	—	63,710,958	—	63,710,958
Transfer to statutory reserves	—	—	—	6,371,096	(6,371,096)	—	—
Foreign currency translation adjustment	—	—	—	—	—	(59,426)	(59,426)
<b>Balance as of December 31, 2016</b>	25,725,000	175,596	468,132,187	153,533,656	1,247,519,969	(561,915)	1,868,799,493
Net income for the year	—	—	—	—	176,737,444	—	176,737,444
Transfer to statutory reserves	—	—	—	17,673,744	(17,673,744)	—	—
Foreign currency translation adjustment	—	—	—	—	—	61,376	61,376
<b>Balance as of December 31, 2017</b>	25,725,000	175,596	468,132,187	171,207,400	1,406,583,669	(500,539)	2,045,598,313
Net loss for the year	—	—	—	—	(39,215,085)	—	(39,215,085)
Transfer to statutory reserves	—	—	—	4,657,384	(4,657,384)	—	—
Foreign currency translation adjustment	—	—	—	—	—	(42,248)	(42,248)
<b>Balance as of December 31, 2018</b>	25,725,000	175,596	468,132,187	175,864,784	1,362,711,200	(542,787)	2,006,340,980
<b>Balance as of December 31, 2018 (\$)</b>	25,725,000	25,725	68,059,098	25,567,986	198,116,895	(79,104)	291,690,600

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,			
	2016 (RMB)	2017 (RMB)	2018 (RMB)	2018 (\$)
Net income/(loss)	63,710,958	176,737,444	(39,215,085)	(5,701,259)
Adjustments to reconcile net income to net cash provided by operating activities:				
Interest income on held-to-maturity debt securities	(1,587,889)	—	—	—
Impairment loss of property, plant and equipment	—	—	49,995,656	7,268,586
Gain on disposal of property, plant and equipment	(3,743,590)	—	—	—
Deferred income taxes	1,755,197	—	—	—
Depreciation	115,744,856	112,816,310	106,515,229	15,485,648
Amortization expense	4,828,862	2,832,576	3,685,914	535,874
Amortized debt issuance costs associated to the bonds	672,831	1,411,537	1,413,655	205,523
Changes in operating assets and liabilities:				
Trade accounts receivable	99,898,697	(94,115,818)	323,448,304	47,024,324
Inventories	(163,787,747)	168,443,408	(1,007,108,069)	(146,417,761)
Prepaid expenses and other current assets	87,668,833	(300,755,630)	559,239,834	81,304,725
Trade accounts payable	1,351,129	13,247,376	(26,723,230)	(3,885,140)
Accrued expenses and other payables	(32,647,208)	5,219,296	(74,165,333)	(10,782,480)
Income tax payable	(13,932,965)	54,475,346	(42,932,879)	(6,241,769)
<b>Net cash provided by/ (used in) operating activities</b>	<b>159,931,964</b>	<b>140,311,845</b>	<b>(145,846,004)</b>	<b>(21,203,729)</b>
<b>Cash flows from investing activities:</b>				
Restricted bank deposits	—	—	—	—
Purchases of property, plant and equipment and construction in progress	(3,592,397)	(950,000)	—	—
Purchases of held-to-maturity debt securities	—	—	—	—
Proceeds from disposal of property, plant and equipment	3,743,590	—	7,615,000	1,107,102
<b>Net cash provided by/ (used in) investing activities</b>	<b>151,193</b>	<b>(950,000)</b>	<b>7,615,000</b>	<b>1,107,102</b>

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

	Year Ended December 31,			
	2016 (RMB)	2017 (RMB)	2018 (RMB)	2018 (\$)
<b>Cash flows from financing activities:</b>				
Proceeds from borrowings	961,870,000	880,867,011	34,193,359	4,971,180
Repayments of borrowings	(893,900,000)	(1,087,370,000)	—	—
Settlement of bonds	(221,279,238)	—	—	—
Proceeds from the issuance of bonds, net of debt issuance costs paid	292,924,529	—	—	—
<b>Net cash provided by/(used in) financing activities</b>	<b>139,615,291</b>	<b>(206,502,989)</b>	<b>34,193,359</b>	<b>4,971,180</b>
Effect of foreign currency exchange translation	10	61,376	(36,333)	(5,282)
Net increase/(decrease) in cash	299,698,458	(67,079,768)	(104,037,645)	(15,125,447)
Cash—beginning of year	495,630,607	795,329,065	728,249,297	105,876,058
<b>Cash—end of year</b>	<b>795,329,065</b>	<b>728,249,297</b>	<b>624,211,652</b>	<b>90,750,611</b>
<b>Supplemental disclosure of cash flow information:</b>				
Cash paid for income taxes	33,414,753	4,437,138	16,522,472	2,402,109
Cash paid for interest	76,584,346	64,796,999	62,382,917	9,069,499
<b>Non-cash investing activities:</b>				
Accrued fixed asset purchases	—	1,936,729	—	—
Offsetting other payables to the debt securities issuer for the principal amounts of held-to-maturity debt securities to be received upon matured	98,720,762	—	—	—
<b>Non-cash financing activities:</b>				
Offsetting other receivables from the bonds holder upon the settlement of bonds	98,720,762	—	—	—

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”), Shandong Borun Industrial Co., Ltd. (“Shandong Borun”) and Daqing Borun Biotechnology Co., Ltd (“Daqing Borun”). New Borun, Golden Direction, China High, Shandong Borun and Daqing Borun are collectively referred to as the “Company”.

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.

Weifang Great Chemical, Inc. (“WGC”) was established as a limited liability company on March 21, 2001 in China’s Shandong Province under the laws of the People’s Republic of China (“PRC”). For restructuring and reorganization purposes, pursuant to an equity interest acquisition agreement, China High acquired all of the equity interests of WGC on September 30, 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 has been accounted for 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 the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805-50-15-6, “*Business Combinations*”.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

**1. Description of Business (Continued)**

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 FASB ASC Topic 805, “Business Combinations”. Anxin Tongwei began production of edible alcohol in 2005; however, due to operation and financing problems, 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 date, Anxin Tongwei had been idle for more than one year, with no management personnel or production, employees or revenue. Accordingly, under FASB ABC Topic 805, 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, we spent more than a year and approximately RMB110 million in facility improvements, including improvements to machinery and equipment, in order to replace the previous owner’s “dry” method manufacturing process with our in-house developed Borun Wet Process and we also changed the name of Anxin Tongwei to Daqing Borun Biotechnology Co., Ltd. (since we regard “corn deep-processing” as a part of the biotechnology field, we named it accordingly).

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 has been 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 Topic 805-50-15-6. 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. On November 15, 2012, WGC merged into Shandong Borun, as a result of the merger WGC is deregistered and China High obtained 100% direct control over Shandong Borun.

During the year ended December 31, 2016, the Company has disposed all long-lived assets of foam insulation business segment and exited the business accordingly. The income (loss) before income tax expenses of foam insulation business segment for the years ended December 31, 2015 and 2016 were RMB(6,891,333) and RMB810,840, respectively, which represented (4%) and 1% to the Company’s consolidated income before income tax expenses for the years ended December 31, 2015 and 2016, respectively. The disposal of foam insulation business does not represent a strategic shift that had a major effect on our operations and financial results. As such, the disposal of long-lived assets of foam insulation business segment have not been reported in discontinued operations as required by FASB ASC Topic 205-20, “*Presentation of Financial Statements—Discontinued Operations*” in the consolidated financial statements for the periods presented.

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 chemical products. The Company also produces Distillers Dried Grains with Solubles high-protein feed (“DDGS Feed”), liquid carbon dioxide and crude corn oil as by-products of edible alcohol production. The Company’s chemical products are chlorinated polyethylene (“CPE”) and 2-Acrylamido-2-methylpropane sulfonic acid (“AMPS”) that are widely used in a broad range of industries. The Company operates and manages its business as two reportable segments: “Corn-base edible alcohol and its by-products” and “Chemical products”. The “Chemical products” segment comprises of AMPS, CPE and foam insulation (disposed during the year ended December 31, 2016).

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

**2. Summary of Significant Accounting Policies**

***Principles of Consolidation and Presentation***

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The consolidated financial statements include the financial statements of the New Borun, Golden Direction, China High, Shandong Borun and Daqing Borun. All significant inter-company transactions and balances have been eliminated upon consolidation.

***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 FASB ASC Topic 830, “*Foreign Currency Matters*”, 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 U.S. dollar into RMB are recorded in shareholders’ equity as part of accumulated other comprehensive income.

***Convenience Translation into United States Dollar Amounts***

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 RMB 6.87832 to one Dollar (\$), which is published by OANDA. 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 and presentation of consolidated financial statements in conformity with U.S. GAAP 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.

***Cash***

Cash includes cash on hand, and cash accounts and interest-bearing savings accounts in the financial institutions.

**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)**

### ***Accounts Receivable***

Accounts receivable are carried at the amounts invoiced to customers less allowance for doubtful accounts, if any. When applicable, the Company estimates an allowance based on a review of the payment history of individual customers and future expectations of economic conditions of those customers. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

### ***Inventories***

Inventories are stated at the lower of cost or net realizable value. The cost of a general inventory item is determined using the weighted average method. Net realizable value is the estimated selling price, in the ordinary course of business, less estimated costs to complete and dispose. 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. From November 2013, the Company initiated a “bill and hold” arrangement with the granaries whereby the Company took the possession of the corn upon purchase and storage of the corn by the granaries. Purchased corn are recognized as inventories when the significant risks and rewards of ownership are considered to be transferred to the Company upon full payment of the corn price made to the granaries and the quantity and quality of the purchased corn had been inspected and acknowledged by the Company.

### ***Property, Plant, and Equipment***

Property, plant and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. 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

Maintenance and repairs are charged directly to expense as incurred, whereas improvements and renewals are generally capitalized in their respective property accounts. When an item is retired or otherwise disposed of, the cost and applicable accumulated depreciation are removed and the resulting gain or loss is recognized in the consolidated statements of income and comprehensive income.

### ***Land Use Rights***

According to the laws of the PRC, land is owned by the state or rural collective economic organizations 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.

**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)**

***Intangible Assets***

Intangible assets include production license for use in the production and distribution of edible alcohol and is accounted for under FASB ASC Topic 350-30, “*General Intangibles Other Than Goodwill*”. The current production license for use in the production and distribution of edible alcohol is renewed in October 2016 with an additional five years. The production license renewal is normally subject to inspection and renewed every five years with a small renewal application fee cost. Based on the Company’s historical experience in producing and distributing edible alcohol, the Company does not expect to incur significant cost to renew its production license nor does it expect any material modifications to the existing terms of the production license, or any difficulties in renewing the 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. The intangible assets have been fully amortized during the year ended December 31, 2016.

***Valuation of Long-Lived Assets***

The Company, in accordance with FASB ASC Topic 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. Recoverability is determined by comparing projected undiscounted cash flows associated with such assets to the related carrying value.

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 records impairment losses of RMB nil, RMB nil and RMB 49,995,656 for the years ended December 31, 2016, 2017 and 2018, respectively.



**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)**

### ***Value added tax***

All the subsidiaries of the Company in the PRC are subject to value added tax (“VAT”) imposed by the Government of the PRC on its purchase and sales of goods, its purchase of property, plant and equipment and the freight expenses being incurred. The output VAT is charged to customers who purchase goods from the Company and debited to trade accounts receivable and credited to VAT payable — output VAT. The input VAT is incurred when the Company purchases goods and property, plant and equipment from its vendors and the freight expenses being incurred. The input VAT incurred is debited to VAT recoverable or VAT payable — input VAT and credited to payables accounts or cash and cash equivalent. VAT payable is computed on a monthly basis and payable in the following month based on the difference between the amount of output VAT and input VAT as of month-end. The applicable VAT rate is ranged from 0% to 17% in general, depending on the types of products purchased and sold. If the amount of validated input VAT being aroused by purchasing goods and property, plant, equipment and the freight expenses incurred exceeds that of output VAT for sales of goods during the month, the debit VAT payable balance as of month-end will be carried forward to be creditable against future collection of output VAT in the following months, and will be reclassified as VAT recoverable under other receivables. In addition, input VAT is off-the-price and not included in the cost of inventory.

According to Cai Shui [2012] No. 38 issued by the PRC State Administration of Taxation, since July 2012, the input VAT paid for purchase of corns can only be offset against the output VAT when the required conditions are being fulfilled and validated by the PRC Taxing Authority, otherwise, the input VAT paid will be temporarily recorded as VAT recoverable under other receivables. As of December 31, 2017 and 2018, VAT recoverable consisted of input VAT paid for purchase of corn but not yet validated by the PRC Taxing Authority of RMB45,179,459 and RMB 176,873,571 (\$25,714,651), respectively.

According to Cai Kuai [2013] No. 36, sales taxes and surcharges has been replaced with value-added taxes effective from May 1, 2016.

### ***Revenue Recognition***

We recognize revenue in accordance with FASB ASC Topic 606, “*Revenue from Contracts with Customers*”. We recognize revenues when persuasive evidence of an arrangement exists, the price is fixed or determinable, no other significant obligations of the Company exist, 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.

Revenues presented on the consolidated statements of income and comprehensive income are net of sales taxes and surcharges.

### ***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, 2016, 2017 and 2018.

***Advertising Expenses***

Costs associated with advertising are expensed as incurred. The Company did not incur any advertising expenses for the years ended December 31, 2016, 2017 and 2018.

***Shipping and Handling Costs***

The Company records all charges to customers for outbound shipping and handling as revenue. All corresponding shipping and handling costs are classified as cost of goods sold for the years ended December 31, 2016, 2017 and 2018.

***Allowance for Doubtful Accounts***

The Company regularly monitors and assesses the risk of not collecting amounts owed to the Company by customers. This evaluation is based upon a variety of factors including: an analysis of amounts current and past due along with relevant history and facts particular to the customer. Based upon the results of this analysis, the Company did not have an allowance for doubtful accounts for this risk.

***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 for the mandated defined contribution plan under the vested benefit obligations approach based on the guidance of FASB ASC Topic 715, "Compensation—Retirement Benefits".

The total amounts for such employee benefits, which were expensed, were RMB10,016,774, RMB 11,558,233, and RMB13,394,085 (\$1,947,290) for the years ended December 31, 2016, 2017 and 2018, respectively.

**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)**

***Borrowing cost***

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalized as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalized. All other borrowing costs are recognized in interest expenses in the statement of income and comprehensive income in the period in which they are incurred. For the years ended December 31, 2016, 2017 and 2018, no interests were capitalized as borrowing cost in property, plant and equipment.

***Government Subsidies***

The Company's subsidiaries in China receive government subsidies from local Chinese government agencies in accordance with relevant Chinese government policies. The government subsidies received are recorded as part of other income or accounted for by reductions of expenses, if the subsidies received are earmarked to compensate a specific expense, such as research and development expense or interest expenses. Unearned government subsidies received are deferred for recognition until the criteria for such recognition could be met. For the years ended December 31, 2016, 2017 and 2018, the government subsidies received and recorded as other income were RMB nil, RMB 117,216,600, and RMB nil, respectively. All of the subsidies received was for the purpose of compensating the Company's corn procurement. No government subsidy was accounted for by reduction of expense during the years December 31, 2016, 2017 and 2018.

***Income Taxes***

The Company follows FASB ASC Topic 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.

**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)**

***Income Taxes (continued)***

The Company has adopted FASB ASC Topic 740-10-25 since 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 performed self-assessment and the Company's liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by taxing authorities. Audit periods remain open for review until the statute of limitations has passed, which in the PRC is usually 5 years. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the Company's liability for income taxes. Any such adjustment could be material to the Company's results of operations for any given quarterly or annual period based, in part, upon the results of operations for the given period. As of December 31, 2017 and 2018, the management of the Company considered that the Company had no additional liabilities for uncertain tax positions affecting its consolidated financial position and results of operations or cash flows, and will continue to evaluate for any uncertain position in the future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the years ended December 31, 2016, 2017 and 2018, respectively. The Company's tax positions related to open tax years are subject to examination by the relevant tax authorities and the major one is the China Tax Authority.

***Comprehensive Income (Loss)***

The Company presents comprehensive income (loss) in accordance with FASB ASC Topic 220, "Comprehensive Income". FASB ASC Topic 220 states that all items that are required to be recognized under accounting standards as components of comprehensive income (loss) be reported net of taxes in the consolidated statements of income and comprehensive income. The components of comprehensive income were the net income for the years, the foreign currency translation adjustments and the unrealized holding gain (loss) or any reclassification adjustment of available-for-sale securities.

***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 subsidiaries' 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.

**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)**

***Appropriated Retained Earnings (continued)***

Reserves include statutory surplus reserves and discretionary reserves. Statutory surplus reserves can be used to offset the accumulated 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 appropriation of reserves of both Shandong Borun and Daqing Borun is 10% of the net income after income tax expenses. For the years ended December 31, 2016, 2017 and 2018, the Company made the transfers to this reserve fund in the amounts of RMB6,371,096, RMB17,673,744 and RMB4,657,384 (\$677,111), respectively, separately presented as "Retained earnings—appropriated" in the balance sheets.

***Dividends***

The Company provides discretionary dividend payments based on the approval of the Company's Board of Directors. The Board of Directors of the Company had not proposed any dividend payment for the years ended December 31, 2016, 2017 and 2018.

***Earnings Per Share***

Earnings per share is calculated in accordance with FASB ASC Topic 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. Diluted earnings per share is computed using the more dilutive of (a) the two-class method or (b) the if-converted method. Diluted earnings per 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.

The following table sets forth the computation of basic and diluted earnings per share for the years indicated:

	Year Ended December 31,			
	2016 (RMB)	2017 (RMB)	2018 (RMB)	2018 (\$)
<b>Numerator:</b>				
Net income/(loss), representing undistributed earnings available to ordinary shareholder—basic and diluted	63,710,958	176,737,444	(39,215,085)	(5,701,259)
<b>Denominator:</b>				
Weighted average number ordinary shares outstanding—basic and diluted	25,725,000	25,725,000	25,725,000	25,725,000
<b>Earnings per share:</b>				
Basic and diluted	2.48	6.87	(1.52)	(0.22)

**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)**

***Operating Risk***

***Concentrations of Credit Risk***

***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. As of December 31, 2017 and 2018, there was no individual trade accounts receivable amounted over 10% of the total balance.

***Revenues***—Substantially, all of the Company’s revenues are derived from sales of edible alcohol and its by-products, including DDGS Feed, liquid carbon dioxide and crude corn oil and the Company’s chemical products CPE and AMPS 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. None of the individual customers contributed over 10% of the total revenue for the years ended December 31, 2016, 2017 and 2018. Additionally, the Company derives substantially all of its revenue from sales in Northeast China.

***Purchases*** - The Company had a concentration of risk for its supply of its primary raw material, corn, which used in the production of edible alcohol. The granary located in Daqing, Heilongjiang as described in the accounting policy for “Inventories” above, supplied 25.0% of the Company’s purchases of corn in 2018.

***Interest Rate Risk***

***Borrowings and Bonds***—The Company’s significant interest-bearing financial liabilities are borrowings and bonds.

As of December 31, 2018, all balance of borrowing are short-term borrowings which will be matured at various dates within the year ending December 31, 2019 and do not expose the Company to interest rate risk. The Company’s interest rate risk arises primarily from bonds. The Company’s bonds were issued at fixed rates on November 2, 2016 and expose the Company to fair value and interest rate risk which will be matured at fiscal year 2021.

The interest rates profile and terms of repayment of the Company’s bonds payable at the end of the reporting periods are disclosed in note 12, to the consolidated financial statements.

Other than the above, other financial assets and liabilities do not have material interest rate risk.

***Liquidity Risk***

The Company’s working capital is sufficient to meet our present requirements. The Company may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. In the long-term, the Company intends to rely primarily on cash flows from operations and additional borrowings from the financial institutions in order to meet the Company’s anticipated cash needs. If the anticipated cash flow is insufficient to meet the requirements, the Company’s may also seek to issue additional equity, debt or equity-linked securities.

**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)**

***Country Risk***

The Company has significant investments in the PRC. The operating results of the Company may be adversely affected by changes in the political and social conditions in the PRC and by changes in Chinese government policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods taxation, pricing and supply of corns and coals, among other things. There can be no assurance; however, those changes in political and other conditions will not result in any adverse impact.

***Recently Issued Accounting Pronouncements***

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires a lessee to record a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments, on the balance sheet for all leases with terms longer than 12 months, as well as the disclosure of key information about leasing arrangements. ASU 2016-02 requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term. ASU 2016-02 requires classification of all cash payments within operating activities in the statement of cash flows. Disclosures are required to provide the amount, timing and uncertainty of cash flows arising from leases. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. This ASU will be effective for the Company on January 1, 2019. We will adopt ASU 2016-02 on January 1, 2019.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this Update affect any entity that is required to apply the provisions of Topic 220, Income Statement — Reporting Comprehensive Income, and has items of other comprehensive income for which the related tax effects are presented in other comprehensive income as required by GAAP. The amendments in this Update are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this Update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company does not believe the adoption of this ASU would have a material effect on 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**

FASB ASC Topic 820, “*Fair Value Measurements*”, 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.

FASB ASC Topic 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. FASB ASC Topic 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 has adopted FASB ASC Topic 820 since 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). FASB ASC Topic 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company has not adopted FASB ASC Topic 820 for nonfinancial assets and nonfinancial liabilities, as these items are not recognized at fair value on a recurring basis.

Disclosures of fair value information about financial instruments (whether or not recognized in the balance sheets), for which it is practicable to estimate that value, are required each reporting periods in addition to any financial instruments carried at fair value on a recurring basis as prescribed by FASB ASC Topic 825, “*Financial Instruments*”. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows.



**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

### 3. Fair Value Measurements (Continued)

#### Fair value measured or disclosed on a recurring basis

The fair value of financial items of the Company for disclosure purpose including cash, other receivables, advance to suppliers, accrued expenses and other payables and short-term borrowings, approximate their carrying value due to their short-term nature. The Company's investment (held-to-maturity debt securities) is disclosed using significant other observable inputs (Level 2), because it does not have regular market pricing. Liabilities of the Company for fair value disclosure purpose within Level 2 include long-term borrowings from financial institutions and bonds payable. Their carrying amounts are reasonable approximates of their fair value at the end of the reporting period due to all the long-term debts carry interest rates which approximate rates currently offered by the financial institutions for similar debt instruments of comparable maturities. The Company did not have any financial instruments measured or disclosed at fair value using Level 3 as of December 31, 2017 and 2018.

#### Fair value measured on a non-recurring basis

The Company reviews long-lived assets for impairment annually or more frequently if events or changes in circumstances indicate the possibility of impairment. For the continuing operations, long-lived assets are measured at fair value on a nonrecurring basis when there is an indicator of impairment, and they are recorded at fair value only when impairment is recognized. For discontinued operations, long-lived assets are measured at the lower of carrying amount or fair value less cost to sell. The fair value of these assets were determined using models with significant unobservable inputs which were classified as Level 3 inputs, primarily the discounted future cash flow. In determining the fair value, The Company used projections of cash flows directly associated with, and which are expected to arise as a direct result of, the use and eventual disposition of the assets. This approach required significant judgments including the Company's projected net cash flows, which were derived using the most recent available estimate for the reporting unit containing the assets tested. Several key assumptions included periods of operation, projections of product pricing, production levels, product costs, market supply and demand, and inflation.

### 4. Trade Accounts Receivable, Net

Trade receivable consists of receivables resulting from sales of products during the normal course of business. Trade accounts receivable at end of years presented consisted of the following:

	<u>As of December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2018</u>
	<u>(RMB)</u>	<u>(RMB)</u>	<u>(\$)</u>
Trade accounts receivable	509,737,390	126,998,338	18,463,572
Less: Allowance for doubtful accounts	—	—	—
<b>Total trade accounts receivable, net</b>	<b><u>509,737,390</u></b>	<b><u>126,998,338</u></b>	<b><u>18,463,572</u></b>

As of December 31, 2017 and 2018, no trade accounts receivables were pledged as collateral for borrowings from financial institutions.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

## 5. Inventories

Inventories consisted of the following:

	As of December 31,		
	2017	2018	2018
	(RMB)	(RMB)	(\$)
Raw materials	414,172,830	1,387,287,531	201,689,909
Work-in-process	2,681,530	1,764,835	256,579
Finished goods	17,331,071	52,241,134	7,595,044
Total inventories	<u>434,185,431</u>	<u>1,441,293,500</u>	<u>209,541,532</u>

The Company did not set up any inventory reserve as of December 31, 2017 and 2018. As of December 31, 2017 and 2018, no raw materials were pledged as collateral for borrowings from financial institutions.

## 6. Advance to Suppliers

Advances to suppliers consisted of the following:

	As of December 31,		
	2017	2018	2018
	(RMB)	(RMB)	(\$)
Advance to granaries (note (i))	559,300,277	—	—
Others	2,895,908	224,554	32,647
Total advance to suppliers	<u>562,196,185</u>	<u>224,554</u>	<u>32,647</u>

Note (i): Advance to granaries represents corn cost paid but related materials and services have not been provided to the Company.

## 7. Other Receivables

Other receivables consisted of the following:

	As of December 31,		
	2017	2018	2018
	(RMB)	(RMB)	(\$)
VAT recoverable (note (i))	45,434,459	176,873,571	25,714,651
Deposit for loan guarantee	17,900,000	15,000,000	2,180,765
Others	3,056,997	70,494	10,249
Total other receivables	<u>66,391,456</u>	<u>191,944,065</u>	<u>27,905,665</u>

Note (i): As of December 31, 2017 and 2018, VAT recoverable mainly consisted of input VAT paid for purchase of corns but not yet validated by the PRC Taxing Authority of RMB45,434,459 and 176,873,571 (\$25,714,651), respectively.

Note (ii): The deposit for loan guarantee is a financial instrument. Based on its maturity is within one operating period, the Company believes its carrying value approximates fair value.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

**8. Property, Plant and Equipment, Net**

Property, plant and equipment, net, consisted of the following:

	As of December 31,		
	2017 (RMB)	2018 (RMB)	2018 (\$)
Buildings and improvements	655,923,713	653,961,713	95,075,805
Machinery	943,742,391	888,973,826	129,242,890
Office equipment and furnishing	1,468,593	1,468,593	213,510
Motor vehicles	1,715,958	1,496,611	217,584
Total cost	1,602,850,655	1,545,900,743	224,749,789
Total accumulated depreciation	(838,181,436)	(955,605,318)	(138,930,067)
Construction in progress	1,386,729	11,634,637	1,691,494
Total property, plant, and equipment, net	<u>766,055,948</u>	<u>601,930,062</u>	<u>87,511,216</u>

The buildings, machinery, equipment, and motor vehicles in Shandong and Daqing were pledged as collateral for borrowings from the financial institutions as of December 31, 2017 and 2018. For the years ended December 31, 2016, 2017 and 2018, no interests were capitalized as borrowing cost in property, plant and equipment. For the years ended December 31, 2016, 2017, and 2018, impairment loss of RMB nil, RMB nil, and RMB49,995,656 (\$7,268,586) was charged to accumulated depreciation, respectively.

The depreciation expenses for the years ended December 31, 2016, 2017 and 2018 were RMB119,717,245, RMB115,744,856 and RMB 112,816,310 (\$17,265,512), respectively.

Construction in progress refers to mainly the new production facilities under construction.

**9. Land Use Rights, Net**

Land use rights consisted of the following:

	As of December 31,		
	2017 (RMB)	2018 (RMB)	2018 (\$)
Land use rights at cost	144,726,756	144,045,981	20,942,033
Accumulated amortization	(17,099,127)	(20,104,267)	(2,922,846)
Total land use rights, net	<u>127,627,629</u>	<u>123,941,714</u>	<u>\$ 18,019,187</u>

As of December 31, 2017 and 2018, certain land use rights with an aggregate carrying value of RMB10,076,146 and RMB 9,827,352(\$1,428,743), respectively, were pledged as collateral for borrowings from the financial institutions.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

**9. Land Use Rights, Net (Continued)**

The amortization expenses for the years ended December 31, 2016, 2017 and 2018 were RMB2,832,578, RMB2,832,577 and RMB2,832,576 (\$433,500), respectively. No provision for impairment loss has been charged for the years ended December 31, 2016, 2017 and 2018.

Future amortization of land use rights is as follows:

<u>Years Ending December 31,</u>	<u>(RMB)</u> <u>Amount</u>
2019	2,832,576
2020	2,832,576
2021	2,832,576
2022	2,832,576
2023	2,832,576
Thereafter	109,778,834
Total	<u>123,941,714</u>

**10. Accrued Expenses and Other Payables**

Accrued expenses and other payables consisted of the following:

	<u>As of December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2018</u>
	<u>(RMB)</u>	<u>(RMB)</u>	<u>(\$)</u>
Payroll and welfare payables	22,288,807	15,695,733	2,281,914
VAT and other tax payables	28,569,804	23,081,723	3,355,722
Other payables and accruals	3,911,569	2,915,745	423,903
Total accrued expenses and other payables	<u>54,770,180</u>	<u>41,693,201</u>	<u>6,061,539</u>

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

**11. Borrowings**

Borrowings consisted of the following:

	December 31,		
	2017 RMB	2018 RMB	2018 \$
· Agricultural Bank of China			
All borrowings under the loan agreements were guaranteed by third party companies. These loans have been repaid as of December 31, 2018. The interest rate is 4.35%.	320,000,000	—	—
· Agricultural Bank of China			
The amount of RMB43,200,000 will be due on January 4, 2019. The amount of RMB40,000,000 will be due on January 28, 2019. The amount of RMB10,000,000 will be due on June 7, 2019. The amount of RMB20,000,000 will be due on June 13, 2019. The amount of RMB20,000,000 will be due on July 15, 2019. The amount of RMB40,000,000 will be due on August 15, 2019. The amount of RMB20,000,000 will be due on September 12, 2019. The amount of RMB30,000,000 will be due on October 10, 2019. The amount of RMB20,000,000 will be due on October 11, 2019. The amount of RMB30,000,000 will be due on October 26, 2019. The amount of RMB10,000,000 will be due on November 5, 2019. The amount of RMB40,000,000 will be due on November 9, 2019. All borrowings under the loan agreements are guaranteed by third party companies. The interest rate is 4.35%.	—	323,200,000	46,988,225
· Agricultural Bank of China			
The amount of RMB33,319,295 will be due on September 28, 2019. The borrowings under this loan agreement is guaranteed by Mr. Wang, Jingmiao, the CEO of the Company, and Shandong Borun. The interest rate is 5.0025%.	—	33,319,295	4,844,104
· Construction Bank of China			
The amount of RMB114,972,579 was repaid during the year of 2018. The amount of RMB84,427,421 was renewed and will be payable in 2019. All borrowings under the loan agreements were guaranteed by Shandong Borun, Mr. Jinmiao Wang, the CEO of the Company, and his family members. The Company also pledged its fixed assets as collateral. The interest rate is 5.22%.	199,800,000	—	—
· Construction Bank of China			
The amount of RMB30,000,000 will be due on February 11, 2019. The amount of RMB25,000,000 will be due on March 6, 2019. The amount of RMB20,000,000 will be due on March 15, 2019. The amount of RMB19,827,421 will be due on March 16, 2019. The amount of RMB20,000,000 will be due on April 12, 2019. The amount of RMB25,000,000 will be due on April 21, 2019. The amount of RMB20,000,000 will be due on May 9, 2019. The amount of RMB37,100,000 will be due on December 29, 2019.			
All borrowings under the loan agreements were guaranteed by Shandong Borun, Wang Jinmiao, the CEO of the Company, and his family members. The Company also pledged its fixed assets as collateral. The annual interest rate ranges from 4.785% to 5.655%.	—	196,927,421	28,630,167
· CITIC Bank			
This loan was repaid in 2018. The borrowing under the loan agreement was guaranteed by Shandong Borun, Wang Jinmiao, the CEO of the Company, and two third-party companies. The interest rate is 5.655%.	129,867,011	—	—
· CITIC Bank			
The amount of RMB129,000,000 will be due on October 15, 2019. The borrowing under the loan agreement was guaranteed by Shandong Borun, Wang Jinmiao, the CEO of the Company, and two third-party companies. The interest rate is 5.8725%.	—	129,000,000	18,754,582
· Daqing Rural Commercial Bank			
The amount of RMB49,000,000 was originally due on September 7, 2018 with annual interest rate of 3.50%. In 2018, the Company renewed the loan and the new due date is August 17, 2019. The new interest rate is 2.917% per month. The loan is guaranteed by a third party guarantee company. Daiqing Borun provided the counter guarantee for this company which is pledged by property, plant and equipment and land use rights and by Shandong Borun, the Company's CEO, two natural persons and three third-party companies simultaneously.	49,000,000	49,000,000	7,123,834
Total	698,667,011	731,446,715	106,340,912

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

Interest expense related to borrowings amounted to RMB44,696,999 (\$6,840,470) and RMB40,427,287 (\$5,877,495) for the years ended December 31, 2017 and 2018, respectively.

**12. Bonds Payable**

On November 2, 2016, the Company's subsidiary, Shandong Borun has issued a private placement bonds (the "Bonds") with a principal amount of RMB300,000,000 (\$43,615,301) that registered with the Shanghai Stock Exchange. The proceeds from the issuance of the Bonds were used in the purpose for the Company's working capital and capital expenditures. The Bonds were issued at face value of RMB100 (\$14) each, bear a fixed annual interest rate of 6.5%, with maturity on November 2, 2021, and RMB 100,000,000 (\$14,538,434) would be repaid at the end of each of the third, fourth and fifth year life of the Bonds.

The imputed interest rate in connection with the Bonds was 6.75%. Interests of the Bonds charged to the consolidated statement of income for the year ended December 31, 2016, 2017, and 2018 was RMB 2,865,835, RMB 20,263,965, and RMB 21,955,630 (\$3,192,005), respectively. The Company has prepaid interests of RMB3,000,000 (\$432,464) at the time of the issuance of the Bonds on November 2, 2016. As of December 31, 2016, 2017 and 2018, the prepaid interest of RMB 134,165 and RMB 781,737 and RMB 181,737 (\$26,422), respectively, was outstanding and recorded as prepaid expense under current assets.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

## **12. Bonds Payable (Continued)**

Debt issuance costs associated to the Bonds of RMB7,075,472 (\$1,028,663) represented cost incurred for professional services from the sponsors and other various parties, which was net of “Bonds payable in connection with Bonds” in the balance sheets. The amortized debt issuance costs of the Bonds based on imputed interest rate of 6.75% for the years ended December 31, 2016, 2017 and 2018 were RMB 244,923, RMB 1,411,537, and RMB 1,413,655 (\$205,523), respectively, which was recorded as “Interest expense” in the statements of income and comprehensive income. As of December 31, 2016, 2017 and 2018, unamortized debt issuance costs associated to the Bonds was RMB 6,830,549, RMB 5,419,012, and RMB 4,005,357 (\$582,316), respectively.

As of December 31, 2016, 2017, and 2018 non-current bonds payable less unamortized debt issuance costs was RMB 293,169,451, RMB 294,580,988, and RMB 195,994,643 (\$28,494,556), respectively. RMB 100,000,000 (\$14,538,434) has been classified as bonds payable current portion for the amount due within one operating period.

## **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 statements of income and comprehensive income 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 invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. Shandong Borun is 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 a statutory common reserve of 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. Daqing Borun was 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, capital surplus and statutory reserves of the Company’s PRC subsidiaries as determined pursuant to the PRC accounting standards and regulations, totaling approximately RMB1,371,710,109 and RMB 1,377,388,085 (\$200,250,684) as of December 31, 2017 and 2018, respectively.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

#### 14. Income Tax Expenses

New Borun incorporated in Cayman Islands and Golden Direction incorporated in the British Virgin Islands are at statutory tax rate of nil, China High was incorporated in Hong Kong Special Administrative Region is at statutory tax rate of 16.5%. Shandong Borun and Daqing Borun are PRC operating companies and are subject to PRC Enterprise Income Tax ("EIT"). Pursuant to the PRC Enterprise Income Tax Law, Enterprise Income Tax is generally imposed at a statutory rate of 25%.

Pursuant to PRC EIT, the PRC subsidiaries of China New Borun are obligated to withhold income tax on dividends paid-out to non-resident, for earnings retained after January 1, 2008. The applicable tax rate is 5% or 10% on the dividends paid-out. As the PRC subsidiaries are wholly or majority owned by the U.S. holding entity, the Company anticipates no cash dividends in the foreseeable futures, and all earnings will be used to re-invest in the PRC subsidiaries. Accordingly, no withholding income tax was accrued.

The income tax expenses consisted of taxes on income from operations plus changes in deferred taxes for the reporting periods presented:

	Year Ended December 31,			
	2016	2017	2018	2018
	(RMB)	(RMB)	(RMB)	(\$)
Current	19,481,789	58,912,481	16,522,472	2,402,109
Deferred	1,755,197	—	—	—
Income tax expenses	<u>21,236,986</u>	<u>58,912,481</u>	<u>16,522,472</u>	<u>2,402,109</u>

Reconciliation between total income tax expenses and the amount computed by applying the statutory income tax rate to income before income tax expenses is for the reporting periods presented as follows:

	Year Ended December 31,		
	2016	2017	2018
Statutory rate	25.00%	25.00%	25.00%
Expenses not deductible	—%	—%	—%
Effective tax rate	<u>25.00%</u>	<u>25.00%</u>	<u>25.00%</u>



**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

**15. Commitments and Contingencies**

***Commitments***

As of December 31, 2017 and 2018, capital commitment for purchase of property, plant and equipment were RMB 11,200,000 and RMB nil, respectively.

The Company did not have any significant lease commitment as of December 31, 2017 and 2018.

***Guarantees and Indemnities***

The Company was a party to enter into contracts to indemnify third parties for certain liabilities, and as of December 31, 2017 and 2018, the Company guaranteed the third parties' borrowings from the financial institutions amounting to RMB 844,200,000 and RMB562,550,000 (\$81,785,959), respectively, as a guarantor. In most cases, the Company cannot estimate the potential amount of future payments under these indemnities until events arise that would result in a liability under the indemnities. The Company believes that the liabilities for potential future payments of these guarantees and indemnities are not probable.

**16. Segment Information**

The Company currently operates and manages its business as two reportable segments: "Corn-base edible alcohol and its by-products" and "Chemical products". The Company's reportable segments are strategic business units that require different technology and marketing strategies and offer different products and services. The Company's chief operating decision maker, the Chief Executive Officer, receives and reviews the results of the operations of each separate segment, assesses and manages their performance and makes decisions. Most of the businesses were established as a unit, and the management at the time of the establishment was retained. Following the disposal of "Foam insulation" production line during the year ended December 31, 2016 and introduction of AMPS product line during the year ended December 31, 2017, certain prior year's amounts have been reclassified to conform to current year presentations of "Chemical products" segment. There was no change to previously reported segment totals and consolidated totals information.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

**16. Segment Information (Continued)**

Contributions of the major activities, profitability information and asset information of the Company's reportable segments for the years ended December 31, 2016, 2017 and 2018 are as follows:

	Year ended December 31,								
	2016			2017			2018		
	Net sales	Inter-segment sales	Profit (loss) before tax	Net sales	Inter-segment sales	Profit (loss) before tax	Net sales	Inter-segment sales	Profit (loss) before tax
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
<b>Segment:</b>									
Corn-base edible alcohol and its by-products	2,034,302,643	—	79,446,037	2,031,865,359	—	79,446,037	1,280,313,234	—	(16,108,554)
Chemical products	98,377,542	—	5,501,907	109,006,620	—	5,501,907	523,567,964	—	(6,584,059)
<b>Segment total</b>	<u>2,132,680,185</u>	<u>—</u>	<u>84,947,944</u>	<u>2,140,871,979</u>	<u>—</u>	<u>84,947,944</u>	<u>1,803,881,198</u>	<u>—</u>	<u>(22,692,613)</u>
<b>Reconciliation to consolidated totals:</b>									
Sales eliminations	—	—	—	—	—	—	—	—	—
<b>Consolidated totals:</b>									
<b>Revenues</b>	<u>2,132,680,185</u>	<u>—</u>		<u>2,140,871,979</u>	<u>—</u>		<u>1,803,881,198</u>	<u>—</u>	
<b>Revenues (\$)</b>							<u>262,256,112</u>	<u>—</u>	
<b>Income before income taxes</b>			<u>84,947,944</u>			<u>235,649,925</u>			<u>(22,692,613)</u>
<b>Income before income taxes (\$)</b>									<u>(3,299,150)</u>

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

**16. Segment Information (Continued)**

	Year ended December 31,								
	2016			2017			2018		
Segment:	Interest income (RMB)	Interest expense (RMB)	Income tax expense (RMB)	Interest Income (RMB)	Interest expense (RMB)	Income tax expense (RMB)	Interest Income (RMB)	Interest expense (RMB)	Income tax expense (RMB)
Corn-base edible alcohol and its by-products	4,043,903	52,669,508	17,524,049	4,154,446	66,125,464	56,120,900	3,830,674	62,382,917	7,303,298
Chemical products	—	—	3,712,937	—	—	2,791,581	—	—	9,219,174
<b>Consolidated total</b>	<u>4,043,903</u>	<u>52,669,508</u>	<u>21,236,986</u>	<u>4,154,446</u>	<u>66,125,464</u>	<u>58,912,481</u>	<u>3,830,674</u>	<u>62,382,917</u>	<u>16,522,472</u>
<b>Consolidated total (\$)</b>							<u>556,920</u>	<u>9,069,499</u>	<u>2,402,109</u>

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

**16. Segment Information (Continued)**

	As of and Year ended December 31,									
	2016			2017			2018			
	Identifiable assets (RMB)	Capital expenditure (RMB)	Depreciation and amortization (RMB)	Identifiable assets (RMB)	Capital expenditure (RMB)	Depreciation and amortization (RMB)	Identifiable assets (RMB)	Capital expenditure (RMB)	Depreciation and amortization (RMB)	
<b>Segment:</b>										
Corn-base edible alcohol and its by-products	2,871,332,164	—	105,774,948	2,919,052,502	2,631,729	98,816,218	2,902,982,823	—	95,966,036	
Chemical products	279,306,560	3,592,397	14,798,770	278,172,337	—	16,832,668	213,038,029	—	14,235,107	
<b>Segment totals</b>	<u>3,150,638,724</u>	<u>3,592,397</u>	<u>120,573,718</u>	<u>3,197,224,839</u>	<u>2,631,729</u>	<u>115,648,886</u>	<u>3,116,020,852</u>	<u>—</u>	<u>110,201,143</u>	
<b>Reconciliation to consolidated totals:</b>										
Elimination of receivables from intersegments	—	—	—	—	—	—	—	—	—	
<b>Consolidated totals</b>	<u><u>3,150,638,724</u></u>	<u><u>3,592,397</u></u>	<u><u>120,573,718</u></u>	<u><u>3,197,224,839</u></u>	<u><u>2,631,729</u></u>	<u><u>115,648,886</u></u>	<u><u>3,116,020,852</u></u>	<u><u>—</u></u>	<u><u>110,201,143</u></u>	
<b>Consolidated totals (\$)</b>							<u><u>453,020,695</u></u>			<u><u>16,021,522</u></u>

As we primarily generate our revenues from customers in the PRC, and all of our sales and all of our identifiable assets are located in the PRC, no geographical segments are presented.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

**17. Condensed Financial Information of New Borun**

The condensed financial statements of New Borun (the “Registrant”) have been prepared in accordance with U.S. GAAP. Under the PRC laws and regulations, the Registrant’s subsidiaries registered in the PRC are restricted in their ability to transfer certain of their net assets to the Registrant in the form of dividend payments, loans or advances. The amounts restricted include paid-in capital, capital surplus and statutory reserves, as determined pursuant to PRC generally accepted accounting principles.

The condensed financial information of the Registrant represents as follows:

**CONDENSED BALANCE SHEETS**

	<b>As of December 31,</b>		
	<u>2017</u> <u>(RMB)</u>	<u>2018</u> <u>(RMB)</u>	<u>2018</u> <u>(\$)</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash	137	—	—
Amounts due from subsidiaries	244,532,160	244,532,160	35,551,151
<b>Total current assets</b>	<u>244,532,297</u>	<u>244,532,160</u>	<u>35,551,151</u>
Investments in subsidiaries	1,801,071,015	1,801,071,015	261,847,555
<b>Total assets</b>	<u><u>2,045,603,312</u></u>	<u><u>2,045,603,175</u></u>	<u><u>297,398,707</u></u>
<b>LIABILITIES AND SHAREHOLDERS’ EQUITY</b>			
<b>Current liabilities</b>			
Accrued expenses and other payables	4,999	5,250	763
<b>Total current liabilities and total liabilities</b>	<u>4,999</u>	<u>5,250</u>	<u>763</u>
<b>Total shareholders’ equity</b>	<u>2,045,598,313</u>	<u>2,045,597,925</u>	<u>297,397,943</u>
<b>Total liabilities and shareholders’ equity</b>	<u><u>2,045,603,312</u></u>	<u><u>2,045,603,175</u></u>	<u><u>297,398,707</u></u>

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(Amounts in RMB unless otherwise stated)

**17. Condensed Financial Information of New Borun (Continued)**

**CONDENSED STATEMENTS OF INCOME**

	Year Ended December 31,			
	2016 (RMB)	2017 (RMB)	2018 (RMB)	2018 (\$)
<b>Operating expenses:</b>				
General and administrative	—	—	144	21
<b>Loss from operations</b>	—	—	—	—
<b>Other income:</b>				
Interest income	—	—	—	—
Equity in earnings of subsidiaries	63,710,958	176,737,444	(39,215,085)	(5,701,259)
<b>Income before income tax expense</b>	63,710,958	176,737,444	(39,215,085)	(5,701,259)
Income tax expense	—	—	—	—
<b>Net income</b>	63,710,958	176,737,444	(39,215,085)	(5,701,259)

**CONDENSED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,			
	2016 (RMB)	2017 (RMB)	2018 (RMB)	2018 (\$)
<b>Net cash provided by operating activities</b>	—	(9)	107	15
<b>Net cash provided by investing activities</b>	—	—	—	—
<b>Net cash provided by financing activities</b>	—	—	—	—
<b>Effect of exchange rate changes on cash and cash equivalents</b>	10	—	(244)	(36)
Net increase/(decrease) in cash	10	(9)	(137)	(21)
Cash—beginning of year	136	146	137	21
<b>Cash—end of year</b>	146	137	—	—

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(Amounts in RMB unless otherwise stated)**

**17. Condensed Financial Information of New Borun (Continued)**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

***Basis of Presentation***

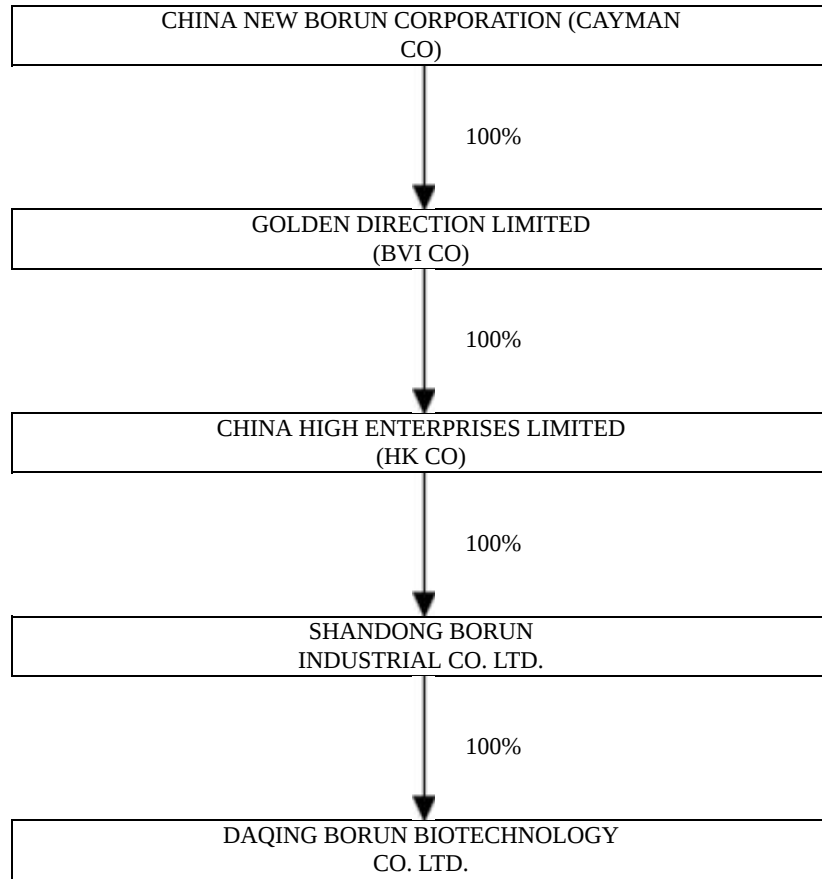
The condensed financial information has been prepared using the same accounting policies as set out in the Company's consolidated financial statements except that the Registrant has used equity method to account for its investments in subsidiaries.

***Investments in subsidiaries***

The Registrant records its investments in its subsidiaries under the equity method of accounting as prescribed in FASB ASC Topic 323, "*Investment—Equity Method and Joint Ventures*". The Registrant's investments in subsidiaries are stated at cost plus its equity interest in undistributed earnings of subsidiaries less impairment loss, if any, since inception, and are presented on the Registrant's balance sheets as "Investments in subsidiaries" and share of the subsidiaries' income or loss as "Equity in earnings (loss) of subsidiaries", on the Registrant's statements of income and comprehensive income.

The Company's subsidiaries did not distribute any dividend to the Registrant for the years ended December 31, 2016, 2017, and 2018.

Subsidiaries of Registrant





## CERTIFICATION

I, Jinmiao Wang, certify that:

1. I have reviewed this annual report on Form 20-F of China New Borun Corporation (the “**Company**”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 15, 2019

/s/ Jinmiao Wang

**Name :** Jinmiao Wang

**Title :** Chairman and Chief Executive Officer

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## CERTIFICATION

I, Jijuan Wang, certify that:

1. I have reviewed this annual report on Form 20-F of China New Borun Corporation (the “**Company**”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) for the Company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the Company’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: May 15, 2019

/s/ Jijuan Wang

**Name :** Jijuan Wang

**Title :** Chief Financial Officer

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**CERTIFICATION**

In connection with the Annual Report of China New Borun Corporation (the “**Company**”) on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “**Report**”), I, Jinmiao Wang, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2019

/s/ Jinmiao Wang

**Name :** Jinmiao Wang

**Title :** Chairman and Chief Executive Officer

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**CERTIFICATION**

In connection with the Annual Report of China New Borun Corporation (the “**Company**”) on Form 20-F for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “**Report**”), I, Jijuan Wang, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2019

/s/ Jijuan Wang

**Name :** Jijuan Wang

**Title :** Chief Financial Officer

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