

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, 2011

OR

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

For the transition period from to

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

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. Yuanqin (Terence) Chen**

**Chief Financial 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

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:

**None**

(Title of Class)

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, 2011

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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**  
**TABLE OF CONTENTS**

INTRODUCTION	4
FORWARD-LOOKING STATEMENTS	5
<b>PART I.</b>	
ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS 7
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE 7
ITEM 3.	KEY INFORMATION 7
	A. Selected Financial Data 7
	B. Capitalization and Indebtedness 8
	C. Reasons for the Offer and Use of Proceeds 8
	D. Risk Factors 9
ITEM 4.	INFORMATION ON THE COMPANY 35
	A. History and Development of the Company 35
	B. Business Overview 42
	C. Organizational Structure 65
	D. Property, Plant and Equipment 65
ITEM 4A.	UNRESOLVED STAFF COMMENTS 65
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS 66
	A. Operating Results 66
	B. Liquidity and Capital Resources 78
	C. Research and Development 80
	D. Trend Information 80
	E. Off-Balance Sheet Commitments and Arrangements 80
	F. Tabular Disclosure of Contractual Obligations 80
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES 81
	A. Directors and Senior Management 81
	B. Compensation 84
	C. Board Practices 84
	D. Employees 87
	E. Share Ownership 88
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS 89
	A. Major Shareholders 89
	B. Related Party Transactions 89
	C. Interests of Experts and Counsel 92
ITEM 8.	FINANCIAL INFORMATION 92
	A. Consolidated Statements and Other Financial Information 92
	B. Significant Changes 93
ITEM 9.	THE OFFER AND LISTING 94
	A. Offering and listing details 94
	B. Plan of Distribution 94
	C. Markets 94
	D. Selling Shareholders 94
	E. Dilution 94
	F. Expenses of the Issue 94
ITEM 10.	ADDITIONAL INFORMATION 94
	A. Share capital 94
	B. Memorandum and Articles of Association 95
	C. Material Contracts 95
	D. Exchange Controls 95
	E. Taxation 95
	F. Dividends and Paying Agents 102

	G. Statement by Experts	102
	H. Documents on Display	102
	I. Subsidiaries Information	103
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	103
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES	104

#### PART II.

ITEM 13.	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES	106
ITEM 14.	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS	106
ITEM 15.	CONTROLS AND PROCEDURES	106
ITEM 16A.	AUDIT COMMITTEE FINANCIAL EXPERT	106
ITEM 16B.	CODE OF ETHICS	106
ITEM 16C.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	107
ITEM 16D.	EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES	107
ITEM 16E.	PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS	107
ITEM 16F.	CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT	107
ITEM 16G.	CORPORATE GOVERNANCE	107

#### PART III.

ITEM 17.	FINANCIAL STATEMENTS	108
ITEM 18.	FINANCIAL STATEMENTS	108
ITEM 19.	EXHIBITS	108

#### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

EX-1.1	AMENDED AND RESTATED ARTICLES OF ASSOCIATION OF THE REGISTRANT
EX-1.2	CERTIFICATE OF INCORPORATION OF CHINA NEW BORUN CORPORATION
EX-2.1	FORM OF AMERICAN DEPOSITARY RECEIPT
EX-2.2	SPECIMEN CERTIFICATE FOR ORDINARY SHARES
EX-2.3	DEPOSIT AGREEMENT AMONG CHINA NEW BORUN CORPORATION, THE DEPOSITARY AND OWNERS AND HOLDERS OF AMERICAN DEPOSITARY SHARES ISSUED THEREUNDER, DATED JUNE 10, 2010
EX-2.4	SHAREHOLDERS AGREEMENT, DATED MARCH 31, 2010, BY AND AMONG CHINA NEW BORUN CORPORATION, KING RIVER HOLDING LIMITED, STAR ELITE, EARNSTAR AND TDR ADVISORS
EX-2.5	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.
EX-4.1	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
EX-4.2	SHARE EXCHANGE AGREEMENT, DATED MARCH 15, 2010, BY AND AMONG CHINA NEW BORUN CORPORATION, MRS. SHAN JUNQIN, GOLDEN DIRECTION LIMITED AND CHINA HIGH ENTERPRISES LIMITED
EX-4.3	MORTGAGE CONTRACT, DATED ON OR ABOUT NOVEMBER 4, 2011, BY AND BETWEEN DAQING BORUN BIOTECHNOLOGY CO., LTD. AND THE AGRICULTURAL DEVELOPMENT BANK OF CHINA
EX-4.4	FORM OF INDEPENDENT DIRECTOR AGREEMENT
EX-4.5	FORM OF INDEMNIFICATION AGREEMENT
EX-4.6	COUNTER SECURITY PLEDGE AGREEMENT, DATED JULY 1, 2011, BY AND BETWEEN DAQING BORUN BIOTECHNOLOGY CO., LTD. AND THE ZHONG LV CREDIT GUARANTEE CO., LTD.
EX-4.7	COUTNER-GUARANTEED (MORTGAGE) AGREEMENTS, DATED JULY 1, 2011, BY AND BETWEEN DAQING BORUN BIOTECHNOLOGY CO., LTD. AND THE ZHONG LV CREDIT GUARANTEE CO., LTD.
EX-4.8	COMMODITY FINANCING PLEDGE SUPERVISION AGREEMENT, DATED APRIL 15, 2011, BY AND AMONG INDUSTRIAL AND COMMERCIAL BANK OF CHINA CO., LTD. DAQING BRANCH, DAQING BORUN BIOTECHNOLOGY CO., LTD. AND CHINA NATIONAL FOREIGN TRADE TRANSPORTATION (GROUP) HEILONGJIANG CO., LTD.

EX-8.1	SUBSIDIARIES OF REGISTRANT
EX-12.1	CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
EX-12.2	CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002
EX-13.1	CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
EX-13.2	CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
EX-15.1	CONSENT OF BDO CHINA SHU LUN PAN CERTIFIED PUBLIC ACCOUNTANTS LLP
EX-15.2	CONSENT OF BDO CHINA DAHUA CPA CO., LTD.

## 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 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; and
- “we,” “us,” “our Company,” “our” and “New Borun” are to China New Borun Corporation and its consolidated subsidiaries.

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 6.3009 to \$1.00 as published by the People’s Bank of China on December 31, 2011. 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 audited consolidated statements of operations data for each of the years ended December 31, 2009, 2010 and 2011, and the audited balance sheet data as of December 31, 2010 and 2011 are derived from our audited consolidated financial statements, which are included elsewhere in this annual report. The selected historical consolidated statement of operations data for the years ended December 31, 2007 and 2008 and the selected historical consolidated balance sheet data as of December 31, 2007, 2008 and 2009 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), and have been audited by BDO China Shu Lun Pan Certified Public Accountants LLP, an independent registered public accounting firm. Our historical results for any period are not necessarily indicative of results to be expected in any future period.

**Selected Consolidated Statement of Operations Data:**

	Year ended December 31,					
	2007	2008	2009	2010	2011	2011
	RMB	RMB	RMB	RMB	RMB	\$
<b>Revenues</b>	487,305,927	615,881,195	1,060,493,812	1,713,924,878	2,685,223,409	426,165,057
<b>Cost of goods sold</b>	387,729,613	493,847,780	811,865,247	1,308,303,166	2,175,060,342	345,198,359
<b>Gross profit</b>	99,576,314	122,033,415	248,628,565	405,621,712	510,163,067	80,966,698
<b>Selling, general and administrative expenses</b>	10,057,899	12,928,345	22,547,881	45,716,043	59,061,056	9,373,432
<b>Operating income</b>	89,518,415	109,105,070	226,080,684	359,905,669	451,102,011	71,593,266
<b>Other expenses</b>	2,237,334	5,333,952	3,408,024	12,216,600	32,912,857	5,223,517
<b>Income before income taxes</b>	87,281,081	103,771,118	222,672,660	347,689,069	418,189,154	66,369,749
Income tax expense	28,557,072	26,640,990	56,262,029	88,264,738	105,194,680	16,695,183
<b>Net income</b>	58,724,009	77,130,128	166,410,631	259,424,331	312,994,474	49,674,566
Amortization of preference share discount	—	(42,000,000)	—	—	—	—
Participation in undistributed earnings by preference shareholders	—	(7,026,026)	(42,868,951)	(27,744,622)	—	—
Net income attributable to ordinary shareholders	58,724,009	28,104,102	123,541,680	231,679,709	312,994,474	49,674,566
<b>Earnings per share<sup>(1)</sup></b>						
Basic and diluted	3.96	1.89	8.32	11.07	12.17	1.93
<b>Weighted average ordinary shares outstanding:</b>						
Basic and diluted	14,847,811	14,847,811	14,847,811	20,927,117	25,725,000	25,725,000

(1) All share and per share data have been presented to give retrospective effect to our reorganization as described in Item 4.A., “Information on the Company — History and Development of the Company.” For the purpose of calculating basic and diluted earnings per ordinary share, the number of ordinary shares used in the calculation reflects the issuance of ordinary shares as if the reorganization took place as of the beginning of the earliest period presented and assumes that all issued and outstanding Class A, Class B and Class C convertible preference shares have been fully converted into ordinary shares.

**Selected Consolidated Balance Sheet Data:**

	December 31,					
	2007	2008	2009	2010	2011	2011
	RMB	RMB	RMB	RMB	RMB	\$
Total current assets	127,129,510	104,986,070	251,807,507	647,739,510	770,487,271	122,282,098
Total assets	265,622,975	476,114,001	765,860,621	1,762,905,212	1,972,753,262	313,090,711
Total liabilities	126,784,933	180,134,221	249,651,232	746,377,285	643,321,591	102,099,953
Total shareholders' equity	138,838,042	295,979,780	516,209,389	1,016,527,927	1,329,431,671	210,990,758

**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 6.3009 to USD 1.00 as published by the People's Bank of China on December 31, 2011. 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. The exchange rate of Renminbi per U.S. dollar as published by the People's Bank of China was RMB6.3035 to \$1.00 as of April 5, 2012.

Period	Exchange Rate			
	Period End	Average <sup>(1)</sup>	Low	High
	(RMB per \$1.00)			
Year ended December 31,				
2007	7.3046	7.5969	7.8074	7.3046
2008	6.8346	6.9267	7.1853	6.8183
2009	6.8282	6.8317	6.8420	6.8272
2010	6.6227	6.7668	6.8280	6.6227
2011	6.3009	6.4445	6.5891	6.3009
Most recent six months				
October 2011	6.3233	6.3566	6.3762	6.3233
November 2011	6.3482	6.3408	6.3587	6.3165
December 2011	6.3009	6.3281	6.3421	6.3009
January 2012	6.3115	6.3168	6.3306	6.3001
February 2012	6.2919	6.3000	6.3116	6.2919
March 2012	6.2932	6.3072	6.3359	6.2840
April 2012 (through April 5)	6.3035	6.3035	6.3035	6.3035

(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 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. Due to the rapid growth of market demand, we believe market demand for edible alcohol is likely to exceed production capacity in the PRC in the next few years. We have planned our expansion assuming a reduction in market supply based on the national industry policies to close “backward” smaller manufacturers with a production capacity of less than 30,000 tons per year (see Item 4.B, “Information on the Company — Business Overview — Regulation”), the halt in approvals for new corn deep-processing production capacities in principle, and the growth in demand for edible alcohol driven by the PRC Chinese *baijiu* industry. If supply of edible alcohol in the PRC is not in fact reduced or if the PRC government began to approve new production capacities or there is no, or little, growth in demand for edible alcohol as we have expected, we may encounter difficulties in selling our increased production capacity, which would materially and adversely affect our business, financial condition and results of operations.

Our Shouguang and Daqing facilities have signed pre-sales contracts and letters of intent with major customers worth a total of approximately 90% of our total edible alcohol production capacity for the year ending December 31, 2012 that provide for minimum purchases equal to an aggregate of 340,000 tons of edible alcohol. However, these sales are made through monthly purchase orders similar to those placed by our other customers (see Item 4.B, “Information on the Company — Business Overview — Our Customers and Methods of Distribution of Our Products”). Purchase orders are typically placed on a monthly basis, and we take such orders into account when we formulate our overall operation plans. We project demand for our products based on rolling projections from our customers and customer inventory levels. The varying sales and purchasing cycles of our customers, however, make it difficult for us to accurately forecast future demand for our products. Our inability to accurately predict and to timely meet demand, or the failure of our 2012 contract purchasers to take up their contracted volume of our products, could materially and adversely affect our business, financial condition and results of operations.

***Our inability to expand or to manage the expansion of our production capacity and growth could materially adversely affect our business, financial condition and results of operations, and result in a loss of business opportunities.***

We plan to continue to expand our production capacity at our Daqing facility. However, we may be unsuccessful in the timely or cost-efficient expansion of our production capacity. This project and others may not be constructed on the anticipated timetable or within budget. Any material delay in completing these projects, or any substantial increase in costs or quality issues in connection with these projects, could materially and adversely affect our business, financial condition and results of operations, and result in a loss of business opportunities.

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

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

***Rising prices of our raw materials could yield lower margins for our products if we are unable to pass such rising prices on to our customers, which could reduce our profitability and have a material adverse effect on our business.***

The key raw materials used in the production of our products are corn and coal. Changes in the prices for these raw materials would significantly affect our cost of goods sold. In general, rising prices of corn and coal will produce lower profit margins for us if we are unable to pass such rising costs on to our customers. Whether we can pass such rising costs on to our customers depends on a variety of factors, including 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, 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, 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. Furthermore, our extended inability to obtain and process corn of the required quality would also reduce our annual production.

If we experience a shortage in the supply of corn in the future, irrespective of quality, our production capacities and results of operations would be materially and adversely affected. We intend to source corn for at least five months' demand in the non-harvest season of 2012 through framework agreements with local granaries in Heilongjiang Province (where we believe corn prices are the lowest in Northeastern China). According to such framework agreements, we engage the granaries to purchase corn from local farmers in order to satisfy corn requirements of our Shouguang and Daqing facilities during the non-harvest season in 2012. The granaries also store the corn for us and obtain loans from the Agricultural Development Bank ("ADB"), to carry out the purchase of corn on our behalf (see Item 4.B, "Information on the Company — Business Overview — Our Competitive Strengths - Corn Sourcing Arrangements"). If we lose any of these significant sources of corn through crop failure or through the failure by the granaries or the ADB to abide by the material terms of our sourcing arrangements, we would be required to purchase corn at less favorable prices which could adversely affect our profit margins. Also, there is no guarantee that we will realize savings through our sourcing arrangements since we are liable for the interest payments on the bank loans between the granaries and ADB and other charges by the granaries like transportation costs and storage costs. We may also have difficulty finding alternative sources of corn on satisfactory terms in a timely manner, or at all, which could cause us not to operate at full capacity. Identifying and accessing alternative sources may increase our costs and extended lack of raw materials will reduce production capacity which would have a materially adverse effect on our financial performance.

We rely on a steady supply of coal to power our production facilities. If we experience a shortage of coal, our business could be adversely affected. We currently have relationships with nine 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 fluctuates significantly, in order to protect the interests of farmers. In practice, the PRC government will periodically purchase a large amount of corn from farmers and set the price for the corn purchased by the government, resulting in effective guidance of the market price by the PRC government. 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 11<sup>th</sup> Five-Year Plan (2006-2010), the amount of corn used for deep-processing cannot exceed 26% of the total corn consumption as stated in the Guidance Opinion on Promoting of the Healthy Development of Corn Deep-Processing Industry announced by the PRC government. According to the 12<sup>th</sup> Five-Year Plan, the Chinese government will continue 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 Chinese government has ceased in principle approving applications for building new corn deep-processing capacity. 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.

***We have not obtained power generation permits for our coal-fired power-generating systems, which could result in the forfeiture of income and the imposition of fines.***

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

***Interruptions with our coal-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”). In addition, we are in the process of undertaking construction project approval procedures, environmental impact assessments and completion acceptance procedures for our Shouguang and Daqing power-generating systems. In the event that we fail to obtain approvals from competent government agencies for the construction of our power-generating systems, we may be required to shut down our power-generating systems and be subject to punishment. If 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. Specifically, we do not have contractual rights or any other license to use the railways and rail station that transport our products from our Daqing facility. If for any reason we should lose the use of these facilities, we may not be able to find sufficient alternative methods of transport for products from our Daqing facility in a timely manner, or at all. 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 in new provinces and regions may not be successful.***

We plan 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 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 edible alcohol producers with established experience or presence in the geographical areas in which we plan to enter and from other edible alcohol producers with similar target customers. In addition, expansion of sales into new markets in new provinces will require the 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 for edible alcohol and government regulation may also be different in other provinces. Our failure to manage our planned expansion of sales into new provinces may have a material adverse effect on our business, financial condition and results of operations and we may not have the same degree of success in other provinces that we have had so far to date, or at all.

***Our production activities are 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, 2009, 2010 and 2011, there was no single customer from which we generated more than 10% of total sales for any of our products, we do rely on our relationships with certain customers, mainly *baijiu* distilleries, with which we have entered into 12- to 36-month sales contracts for the sale of an aggregate 340,000 tons, or pre-sales contracts, worth a total of approximately 90% of our total edible alcohol production capacity of 380,000 tons in 2012. Additionally, during the years ended December 31, 2009, 2010 and 2011, aggregate sales to our five largest customers represented 23.4%, 16.6% and 17.4% of our sales, respectively. If our relationships with our top customers terminate, or if our relationships with those customers with which we entered into sales contracts terminate, or if such customers decide not to abide by the sales agreements and fail to purchase our products thereunder, or if we are unable to renew our agreements to supply our products with such customers in 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 manufacturing 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, which may distract our management, may not result in the benefits we had anticipated and may have unknown risks and liabilities associated with them.***

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

***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. We expect these rules and regulations to increase our legal and financial compliance costs and to make some corporate activities more time-consuming and costly. For example, as a result of becoming a public company, we have 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 have difficulty establishing adequate management, legal and financial controls in the PRC, and the failure to establish such controls could have a material adverse effect on our business and the price of our ADSs.***

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

***We may be exposed to potential risks relating to our internal 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. 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.

In connection with the audit of our financial statements as of and for the years ended December 31 2007, 2008 and 2009 our auditors identified four "reportable conditions" as that term is defined under standards established by the Public Company Accounting Oversight Board ("PCAOB"), in our internal accounting controls. These reportable conditions, which do not qualify as material weakness, related to our lack of a computerized financial accounting information system to record and process our financial transactions, a need to improve the timely recording and processing of our business transactions, lack of formal documentation to document and validate that management has performed periodic financial analysis and failure to set up and carry out the budget and management control in the overall operation systematically. We have made improvements in light of the above reportable conditions by deploying a computerized financial accounting system to do the book-keeping, recording and processing business transactions in a timely manner, setting up procedures to make annual and monthly budget and perform periodic financial analysis.

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.***

The global financial markets have experienced significant disruptions since 2008 and the effect of the crisis has persisted through 2009 and 2010, and to a lesser extent in 2011. China's economy has also faced challenges. To the extent that there have been improvements in some areas, it is uncertain whether such recovery is sustainable. 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, Mr. Jinmiao Wang. If one or more of our executive officers are unable or unwilling to continue in their present positions, we might not be able to replace them easily or at all. In addition, we do not have any key person insurance on the lives of such individuals and the loss of any of their services could materially and adversely affect us.

If any of our executive officers joins a competitor or forms a competing company, we may lose know-how, key professionals and staff members as well as 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 56.4% 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 in certain PRC loan agreements entered into by Shandong Borun Industrial Co., Ltd, or Shandong Borun, and Daqing Borun restrict our ability to engage in or enter into a variety of transactions, which may cause disruption in our business operations and have a material adverse effect on our business operations.***

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

Our lenders have rights that include the following:

- restricting us from using the loan 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; and
- restricting us from undertaking major investment, asset transfer, leasing, pledging or mortgaging its assets without obtaining prior approval of the lender.

As of December 31, 2011, a short-term bank loan of RMB10,000,000 (\$1,587,075) from Agricultural Development Bank of China were secured by our equipment with total carrying value of RMB46,339,787 (\$7,354,471). A short-term bank loan of RMB70,000,000 (\$11,109,524) from Agricultural Development Bank of China and a short-term loan of RMB30,000,000 (\$4,761,225) from Longjiang Commercial Bank were secured by third-party guarantors, pursuant to these loan agreements, we granted security interest in its buildings and land-use rights to the third-party guarantors with total carrying values of RMB8,454,748 (\$1,341,832) and RMB14,570,866 (\$2,312,506), respectively. The remaining short term loans from Agricultural Development Bank of China amounting to RMB52,500,000 (\$8,332,143) were credit loan and all the short-term loans of RMB132,500,000 (\$21,028,742) from Agricultural Development Bank of China were secured by the Chief Executive Officer, Mr. Jinmiao Wang simultaneously. A short-term bank loan of RMB28,000,000 (\$4,443,810) from Industrial & Commercial Bank of China were secured by our accounts receivables amount to RMB29,196,300 (\$4,633,671). A short-term bank loan of RMB20,000,000 (\$3,174,150) from Industrial & Commercial Bank of China were secured by the raw materials amount to RMB35,389,200 (\$5,616,531). A short-term bank loan of RMB65,000,000 (\$10,315,987) from Longjiang Bank and a short-term loan of RMB70,000,000 (\$11,109,524) from China Construction Bank were secured by our subsidiary Shandong Borun Industry Co., Ltd. The remaining short-term bank borrowings of RMB163,200,000 (\$25,901,062) were secured by third party guarantees.

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

***Our operating results for a particular period could fall below our expectations or the expectations of investors or research analysts, resulting in a decrease in the price of our ADSs.***

Our operating results may vary significantly from period to period as a result of factors beyond our control, such as the recent slowdown in China's economic growth caused in part by the recent severe global crisis in the financial services and credit markets, and may be difficult to predict for any given period. Our past results may not be indicative of our future performance. 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.

## 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 Chinese government exerts substantial influence over the manner in which we must conduct our business activities.***

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

Our ability to operate in China may be harmed by changes in its laws and regulations, including those relating to taxation, production permits, import and export tariffs, environmental regulations, land use rights, property and other matters. Except as 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.

While the Chinese economy has grown significantly in the past three decades, the growth has been uneven geographically, among various sectors of the economy and during different periods. We cannot assure you that the Chinese economy will continue to grow or to do so at the pace that has prevailed in recent years, or that if there is growth, such growth will be steady and uniform. In addition, if there is a slowdown, such slowdown could have a negative effect on our business. For example, the Chinese economy experienced high inflation in the second half of 2007 and the first half of 2008. China's consumer price index increased by 7.0% during the nine months ended September 30, 2008 as compared to the year ended December 31, 2007. To combat inflation and prevent the economy from overheating, the PRC government adopted a number of tightening macroeconomic measures and monetary policies. Due in part to the impact of the global crisis in financial services and credit markets and other factors, the growth rate of China's gross domestic product as measured against the same period of the previous year decreased to 7.1% in the first half of 2009, down from 10.4% in the first half of 2008. Beginning in September 2008, among other measures, the PRC government began to loosen macroeconomic measures and monetary policies, including reducing interest rates and decreasing the statutory reserve rates for banks. In addition, in November 2008 the PRC government announced an economic stimulus package in the amount of \$586 billion. However, since 2010, the PBOC has begun to increase the statutory reserve ratio and interest rate in response to rapid domestic growth, which may have a negative impact on the stability of China's economy. It is unclear whether the PRC economic policies will be effective in sustaining stable economic growth in the future.

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

***We may become subject to People's Republic of China 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 newly enacted PRC Enterprise Income Tax Law and the implementation regulations thereunder (which we collectively refer to as the "EIT Law") 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. Currently, 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 and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, the preemption of local regulations by national laws, or the overturn of local government's decisions by the higher level government. 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 some time 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 People's Bank of China in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the U.S. dollar was largely stable until July 2005. On July 21, 2005, People's Bank of China revalued RMB by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of RMB appreciated by 2% on that day. The China central bank allowed the official RMB exchange rate to float against a basket of foreign currencies, and the RMB has further appreciated significantly against the U.S. dollar. In July 2008, the China central bank established a narrow band within which the RMB could fluctuate against these currencies, the practical effect of which has been to re-peg the RMB to the U.S. dollar. 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 PRC government has allowed the Renminbi to appreciate slowly against the U.S. dollar again. 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 and its implementation rules. The policy announced in this notice 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. In the case of an SPV which was established, and which acquired a related domestic company or assets, before the implementation date of Circular 75, a retroactive SAFE registration was required to have been completed before March 31, 2006. In addition, any PRC resident that is a shareholder of an SPV is required to amend its SAFE registration within 30 days after any major change in the share capital of the offshore special purpose company without any roundtrip investment being made, such as any increase or decrease of capital, stock right assignment or exchange, merger or division, investment with long term stock rights or credits or provision of guaranty to a foreign party. Failure to comply with the requirements of Circular 75 may result in fines and other penalties under PRC laws for evasion of applicable foreign exchange restrictions. Any such failure could also result in the SPV's PRC affiliates being impeded or prevented from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the SPV.

We understand that none of our shareholders prior to our public offering was a PRC citizen. Our PRC counsel advises that none of these shareholders is subject to the requirement of the SAFE registration under Circular 75.

However, due to the vagueness and uncertainty as to how the SAFE regulations are interpreted and implemented and the possible amendments or changes to the SAFE regulations, we cannot provide any assurance that our current 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 People's Bank of China 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 March 28, 2007, SAFE issued the "Operating Procedures for Administration of Domestic Individuals Participating in the Employee Stock Ownership Plan or Stock Option Plan of An Overseas Listed Company, also known as "Circular 78." For any equity compensation plan which is so covered and is adopted by a non-PRC listed company after April 6, 2007, Circular 78 requires all participants who are PRC citizens to register with and obtain approvals from SAFE prior to their participation in the plan. .

In addition, Circular 78 also requires PRC citizens within three months after the issuance of Circular 78 to register with SAFE and make the necessary applications and filings if they participated in an overseas listed company's covered equity compensation plan prior to April 6, 2007. We 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. Circular 78 may require PRC citizens who receive option grants to register with SAFE. We believe the registration and approval requirements contemplated in Circular 78 will be burdensome and time-consuming. If it is determined that any of our equity compensation plans 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, 2011, we carried up to RMB1,592.0 million (\$252.7 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 dividends, trade and service-related foreign exchange transactions, but not under the "capital account," which includes foreign direct investment and loans.

Currently, WGC may purchase foreign exchange for settlement of “current account transactions,” including payment of dividends to us. WGC may also retain foreign exchange in its current account, subject to a ceiling approved by 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.

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 approved by 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 “New M&A Rules”), which became effective on September 8, 2006 and was amended on June 22, 2009. The New M&A Rules purport, among other things, to require offshore special purpose vehicles, or SPVs, that are (i) formed for the purpose of overseas listing of the equity interests of PRC companies via acquisition and (ii) are controlled directly or indirectly by PRC companies and/or PRC individuals, to obtain the approval of the CSRC prior to the listing and trading of their securities on overseas stock exchanges. On September 21, 2006, pursuant to the New M&A Rules and other PRC laws, the CSRC published on its official website relevant guidance with respect to the listing and trading of PRC domestic enterprises’ securities on overseas stock exchanges (the “Related Clarifications”), including a list of application materials regarding the listing on overseas stock exchange by SPVs. Based on our understanding of current PRC laws and as advised by our PRC counsel, we were and are not required to obtain the approval of CSRC under the New M&A Rules in connection with 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 New M&A Rules.

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

The New M&A Rules also established additional procedures and requirements that are expected to make merger and acquisition activities by foreign investors more time-consuming and complex, including requirements in some instances that the Ministry of Commerce be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise that owns well-known trademarks or China's traditional brands. In addition, PRC national security review rules which became effective on September 1, 2011 require acquisitions by foreign investors of PRC companies engaged in military related or certain other industries that are crucial to national security 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 New 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 and 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 PRC Enterprise Income Tax 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 PRC Enterprise Income Tax Law, which became effective on January 1, 2008, an enterprise established outside the PRC with "de facto management bodies" within the PRC should be considered a "resident enterprise" and is generally subject to a uniform 25% enterprise income tax rate on its worldwide income. Under the implementation regulations to the Enterprise Income Tax 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 certain PRC-invested enterprises will be classified as PRC resident enterprises if the following are located or resident in the PRC: senior management personnel and departments that are responsible for daily production, operation and management; financial and personnel decision making bodies; key properties, accounting books, the company seal, and minutes of board meetings and shareholders' meetings; and half or more of the senior management or directors having voting rights.

Given that our Cayman holding company is incorporated and controlled by PRC individuals 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 PRC individuals 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 sourced from within the PRC, although procedures for the payment of such taxes do not exist and it is not clear whether or how the PRC government might enforce such taxes against persons who are not residents of 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.

***We rely on dividends and other distributions on equity paid by our subsidiaries for our cash needs.***

We are a holding company organized under the laws of the Cayman Islands, and we conduct all of our operations through our operating subsidiaries in the PRC. We rely on dividends and other distributions on equity paid by our PRC subsidiaries for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to serve any debt we may incur and to pay our operating expenses. Current regulations in the PRC such as the Wholly-Foreign Owned Enterprise Law (1986), as amended, and the Wholly-Foreign Owned Enterprise Law Implementing Rules (1990), as amended and the Company Law of the PRC (2005), permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. According to the laws mentioned above and the articles of association of our PRC subsidiaries, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on the PRC accounting standards and regulations each year to its statutory reserve, until the balance in the reserve reaches 50% of the registered capital of the company. Funds in the reserve are not distributable to us in forms of cash dividends, loans or advances. In addition, if our PRC subsidiaries incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us, which in turn will adversely affect our available cash.

***Dividends payable by us to our non-PRC resident shareholders may become subject to taxes under PRC tax laws.***

The New Income Tax Law and the Implementation Rules provide that (1) if the enterprise that distributes the dividends is domiciled in the PRC, or (2) if capital gains are realized from the transfer of equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income, and PRC income tax at the rate of up to 10% is applicable to such dividends or capital gains payable to overseas investors that are “non-resident enterprises.” If we are considered a PRC-resident enterprise for tax purposes, any dividends distributed by us to our non-PRC resident shareholders as well as gains realized by such shareholders from the transfer of our shares may be regarded as China-sourced income and, as a result, may be subject to PRC withholding tax at the rate of up to 10%, depending on the provisions of any tax treaty between the PRC and the jurisdiction in which the non-PRC resident 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 uncertainty from the Circular on Strengthening the Administration of Enterprise Income Tax on Non-resident Enterprises’ Share Transfer (“Circular 698”) released in December 2009 by SAT with retroactive effect from January 1, 2008.***

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

There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise remain unclear. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Circular 698 may be determined by the tax authorities to be applicable to our private equity financing transactions where non-resident shareholders were involved, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. Since Circular 698 has retroactive effect from January 1, 2008, we cannot assure you our reorganization will not be subject to examination by the PRC Subsidiaries’ tax authorities and any direct or indirect transfer of our equity interests in our PRC subsidiaries via our overseas holding companies will not be subject to a withholding tax of 10%.

***Our certificates, permits and licenses related to our operations are subject to governmental control and renewal, and failure to obtain such certificates, permits and licenses or their renewals will cause all or part of our operations to be terminated.***

Our operations require licenses, permits and in some cases renewals of these licenses and permits from various governmental authorities within the PRC. Our ability to obtain, sustain or renew such licenses and permits on acceptable terms 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 can be revoked and the land users forced to vacate at any time when redevelopment of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent. Each of our two facilities rely on these land use rights as the cornerstone of their operations, and the loss of such rights would have a material adverse effect on our 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 New Labor Contract Law, which became effective on January 1, 2008. The New Labor Contract Law imposes greater liabilities on employers and significantly affects the cost of an employer’s decision to reduce its workforce. Further, it requires certain terminations be based upon seniority and not merit. In the event we decide to significantly change or decrease our workforce, the New Labor Contract Law could adversely affect our ability to enact such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

***Our failure to fully comply with PRC labor laws exposes us to potential liability.***

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

***Future inflation in China may inhibit our ability to conduct business in China.***

In recent years, the Chinese economy has experienced periods of rapid expansion and high rates of inflation. Rapid economic growth can lead to growth in the money supply and rising inflation. If prices for our products rise at a rate that is insufficient to compensate for the rise in the costs of supplies, it may have an adverse effect on profitability. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action, which could inhibit economic activity in China, and thereby harm the market for our products.

***We face risks related to health epidemics.***

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

***We face risks related to natural disasters, terrorist attacks or other events in China that may affect usage of public transportation which, in turn could have a material adverse effect on our business and results of operations.***

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

**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 may become a passive foreign investment company, or PFIC, 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, including goodwill, we do not believe we were considered to be a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2011, and we do not expect to become a PFIC for our taxable year ending December 31, 2012 or thereafter, although there can be no assurance in this regard. In general, we will be a PFIC for any taxable year in which at least 75% of our gross income is “passive income,” 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. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our income or asset composition. Although we expect to continue to conduct our operations in a manner that will not cause us to become a PFIC, because we have valued our goodwill based on the market value of our ordinary shares and ADSs, a decrease in the price of our ordinary shares or ADSs may result in our becoming a PFIC. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the proceeds of any debt issuance or other capital we may raise in the future. If 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. Holders will not be eligible for the reduced rates of taxation applicable to “qualified dividends” received from us in taxable years beginning prior to January 1, 2013, 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, if 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 to you that would result 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 depositary. However, the depositary 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 depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary 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*

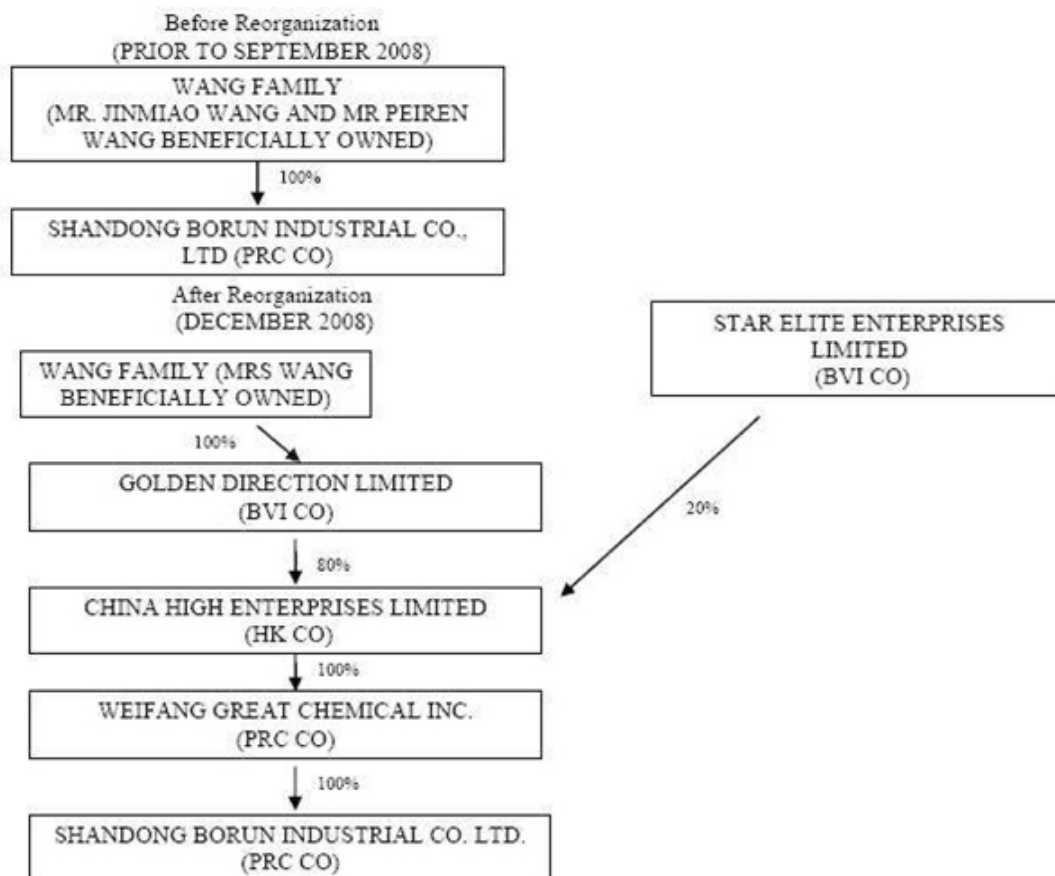
Shandong Borun, our predecessor company which had been controlled by our CEO Mr. Jinmiao Wang (“Mr. Wang”) and his father, Mr. Peiren Wang (together with Mr. Wang and Mrs. Shan Junqin (“Mrs. Wang”), the “Wang family”), since the incorporation of Shandong Borun, in December 2000, underwent a corporate 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 (\$12,141,122.7). 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 \$18 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). See footnote 11 to our audited financial statements included in this annual report.

#### 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 (\$22,060,340.6) 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 million (\$17.5 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 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.

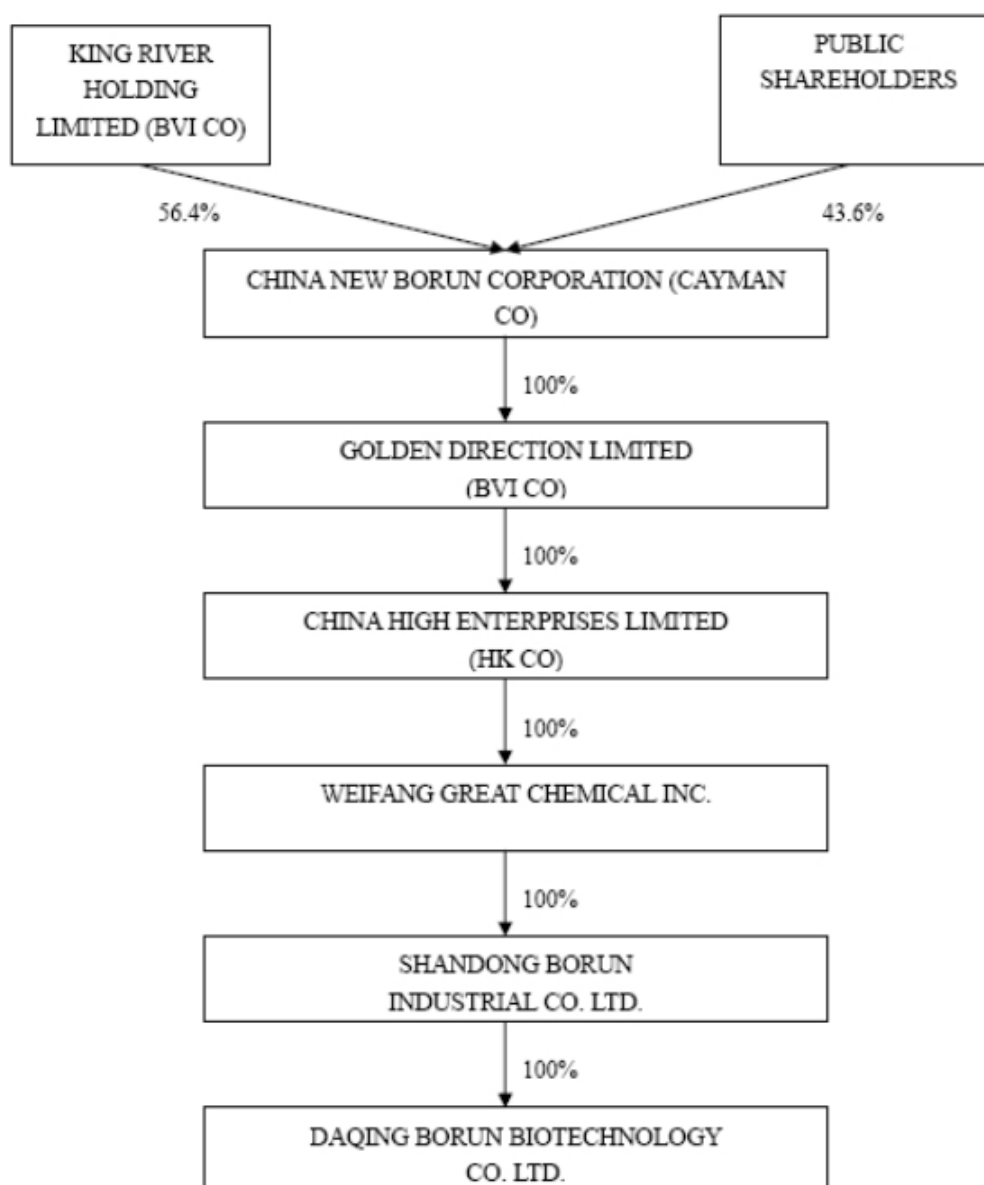
On February 28, 2010 New Borun and Golden Direction signed, and effective as of March 31, 2010 New Borun and Golden Direction consummated, a second share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. Upon closing that exchange, New Borun issued (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.

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



Our corporate structure is as follows



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

Between June 2008 and September 2009, we:

- acquired Daqing Borun, resulting in a 206% increase in our production licenses, from the 160,000 tons/year license to produce edible alcohol held at the Shouguang facility, to a total of 490,000 tons/year from the two facilities after the acquisition. We believe this increase is even more significant in light of the PRC government's policy of eliminating "backward" production capacities—consolidating the market by forcing the closure of smaller producers and refusing to approve the construction of new corn deep processing plants (see "Regulation of Our Industry—Industry Policy");
- expanded our actual production capacity at Shouguang and Daqing to 220,000 tons/year facilities (see "Business Overview—Our Products and Primary Markets—Edible Alcohol");
- completed the approval process of our corporate reorganization of Shandong Borun into China High in December 2008, which eliminated a regulatory risk present in our business at the time of the October 2008 Star Elite investment and ensured our ability to take on further foreign capital, improved liquidity for existing investors and would eventually facilitate our growth through our initial public offering;

- maintained high utilization levels for our production facilities;
- successfully ramped up our new or acquired production lines;
- found customers for 100% of our then-current production; and
- maintained our gross margins during the financial crisis, in part by deriving increased revenue from the sale of increased levels of by-products resulting from improvement of the Borun wet process (see “Operating and Financial Review and Prospects”).

Between September 2009 and December 31, 2010, we:

- secured sales of 90% of our 260,000 tons of edible alcohol production capacity for 2010 by entering into letters of intent with existing and new customers in the fourth quarter of 2009 and the first quarter of 2010, and to in fact sell 100% of our production in the fourth quarter of 2009 and the first quarter of 2010 (see “Business Overview—Our Customers and Methods of Distribution of Our Products”);
- shifted our product mix in the second half of 2009 from producing and selling solely Grade C edible alcohol to producing and selling Grade B edible alcohol as well, which commands higher prices and yields higher gross profit margins (see “Operating and Financial Review and Prospects—Expansion of Our Product Mix and Sales Network”);
- improved our production yields for edible alcohol, DDGS feed and corn germ as a result of improvements in our production techniques (see our results of operations in “Operating and Financial Review and Prospects”);
- installed our 100,000 tons/year capacity liquid carbon dioxide production facility, which was completed in July 2010;
- controlled the supply and cost of corn, the key raw material to our operations, by obtaining corn procurement contracts with granaries in Heilongjiang Province (see “Business Overview—Our Competitive Strengths—Corn Sourcing Arrangements”); and
- completed our initial public offering of 5,725,000 ADSs on June 16, 2010
- used the net proceeds from our initial public offering, in addition to our cash generated from our operations and bank loans, to expand the production capacity of the Daqing facility through construction of Phase III.

Between January 1, 2011 and December 31, 2011, we:

- completed the construction of Phase III of our Daqing facility in January 2011, with annual edible alcohol production of 120,000 tons, and brought it to full capacity utilization in the second quarter of 2011. As a result, we estimate that we became the second largest edible alcohol producer in China, based on current production capacity (see “Business Overview- Overview”);
- completed the installation of our crude corn oil processing facilities in both Shouguang and Daqing facilities, in September 2011 and March 2011, respectively. With the completion of these projects, we were able to deep-process corn germ into crude corn oil and thus eliminated the production and sales of corn germ;
- completed the installation of our liquid carbon dioxide production facility at Shouguang with 40,000 tons per annum capacity in August 2011; and
- shifted our product mix by upgrading our edible alcohol production at Daqing facility to Grade A edible alcohol with annual capacity of 50,000 tons. We completed the installation and started producing and selling Grade A edible alcohol in August 2011.

### ***Capital Expenditures***

Our capital expenditures were RMB 213.4 million, RMB 570.0 million and RMB 303.1 million (US\$ 48.1 million) in 2009, 2010 and 2011, respectively, which related primarily to purchase property, plant and equipment for expansion of our Shouguang and Daqing edible alcohol facilities, crude corn oil projects at Shouguang and Daqing facilities and the liquid carbon dioxide project at our Shouguang facility. Based on the current market conditions, we expect to incur capital expenditures ranging from RMB 250.0 million (US\$ 39.7 million) to RMB 350.0 million (US\$ 55.5 million) for 2012, which will be used primary for the expansion of our production facility to shift our product mix.

### ***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, Umland House, Grand Cayman, KY1-1104, Cayman Islands.

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

## 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 eliminated 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.

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 183,565.81 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). Our Daqing facility occupies a site area of 219,156 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 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.

With the completion of Phase III of our Daqing facility, we believe we have become the second largest edible alcohol producer in China, based on current 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, from 2009, we entered into framework agreements with local granaries in Heilongjiang Province to purchase corn on our behalf from local farmers during the harvest season and to store the corn for delivery. Such supply contracts provide us access to corn at prices which we believe have historically been below the spot market price in the off season and times of high price volatility due to crop failures and other factors. We believe these arrangements will substantially satisfy our corn consumption at our Shouguang and Daqing facilities during the non-harvest season. We pay 10% of the corn purchase price up front to the granaries and in some cases the Agricultural Development Bank funds the balance of the purchase price for the granaries. The agreements stipulate the amount of corn the local granaries have to purchase on our behalf and we make our purchase request to the local granaries in stages, stating the amount and purchase price determined with reference to the then prevailing market prices of purchasing directly from the farmers. The corn is stored by the granary until we request delivery. We have entered into framework agreements with 11 granaries in Heilongjiang Province to supply corn required for at least five months' production requirements at our Shouguang facility and Daqing facilities in 2012.

From 2009 to 2011 our revenue grew from RMB 1,060.5 million (\$ 168.3 million) to RMB 2,685.2 million (\$426.2 million), representing a CAGR of 59.1%. In the same period, our net income grew from RMB166.4 million (\$26.4 million) to RMB313.0 million (\$49.7 million), representing a CAGR of 37.1%.

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

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

We believe we were one of the largest corn-based edible alcohol producers in the PRC in terms of production capacity and production output of edible alcohol in 2010, and we estimate that we are currently the second largest producer of edible alcohol in China, based on current production capacity. 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 in responding to the expected growing market demand for edible alcohol.

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

We have entered into framework agreements with local granaries in Heilongjiang Province, where corn prices are the lowest in the northeastern region in China, to engage them to purchase corn on our behalf from local farmers during the harvest season and store them for delivery to substantially satisfy our corn requirements for our Shouguang and Daqing facilities during the non-harvest season in 2012. We intend to continue with these arrangements in the future and we believe they will enable us to minimize our corn consumption costs and secure a sufficient corn supply through purchasing earlier in the year for the non-harvest season. Accordingly, we believe this arrangement enhances our price competitiveness.

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

Our management team includes our founder, Mr. Jinmiao Wang, who has been engaged in the production of corn-based edible alcohol in the PRC since 2004. Such experience has enhanced Mr. Wang's knowledge and understanding of the corn processing industry and laid the foundation for his development of our edible alcohol business. We believe 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 high margin edible alcohol, as well as increase the profitability of our by-products. We have 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've 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. We intend to improve product mix continuously.

### ***Customer Diversification***

We currently sell our corn-based edible alcohol largely to local distilleries of medium to high quality *baijiu* in Shandong Province and Heilongjiang Province. We plan to expand our sales to other provinces to diversify our customer base. We intend to further expand our sales of edible alcohol to 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 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 in 2011 as we significantly increase the volume of edible alcohol sales to this region. We started selling edible alcohol in Anhui and Jiangsu provinces in 2010 and we continued to expand our business in those regions in 2011.

In addition to the expansion of our customer base to distilleries of *baijiu* in different provinces, we also plan to expand to customers in different industries by selling more Grades A and B edible alcohol to large chemical and pharmaceutical companies.

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 Expansion of Production Capacity—Construction of Phase IV of our Daqing Facility***

Currently, we have total production capacity of 380,000 tons of corn-based edible alcohol per annum (consisting of 50,000 tons of Grade A edible alcohol, 230,000 tons of Grade B edible alcohol and 100,000 tons of Grade C edible alcohol) while we are permitted to build facilities to produce up to 490,000 tons of edible alcohol under our current production licenses. The 120,000 ton Grade B edible alcohol Phase III at our Daqing facility has commenced commercial production in January 2011, financed by the net proceeds from the initial public offering and our cash generated from our operations and bank loans. Our Grade A edible alcohol project, which is located at our Daqing facility, has a designed capacity of 50,000 tons per year and is currently producing approximately 4,000 tons per month. We intend to construct Phase IV at our Daqing facility in the future to bring the total production capacity of the Company to 490,000 tons of edible alcohol per annum. It is our intention that our future facilities will produce Grade A and Grade B edible alcohol which currently have higher gross profit margins than Grade C edible alcohol. We also plan to construct another liquid carbon dioxide production line of 200,000 tons capacity at our Daqing facility. However, we have not finalized the plan or entered into any agreements for the construction of such facility.

### ***Opportunistic Acquisitions***

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

By becoming one of the few listed edible alcohol producers in China with an efficient and environmental-friendly corn processing technology, we believe we will become one of the key consolidators in the edible alcohol industry. With our recent successful experience of acquiring the Daqing facility, we are confident in our ability to carry out similar acquisitions in China efficiently and effectively.

### ***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 on our current success, we intend to continue to invest in research and development, especially in process technology, to improve our products and sustain our competitive edge.

## **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, corn germ and liquid carbon dioxide as by-products. In March 2011, we completed our crude corn oil facility in our Daqing facility and began to deep-process corn germ into crude corn oil. This eliminated corn germ production in our Daqing facility. In July 2011, with the completion of our crude corn oil facility in our Shouguang facility and began producing and selling crude corn oil instead of corn germ. Based on our production record during the year ended December 31, 2011, approximately 3.04 tons of corn produced 1.0 ton of edible alcohol, 0.80 ton of DDGS feed, 0.74 ton of liquid carbon dioxide and 0.08 ton of crude corn oil.

### **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, 2009, 2010 and 2011, sales of edible alcohol accounted for 68.7%, 69.8% and 71.5% 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 (20,000 tons) 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, 2009, 2010 and 2011, the sale of edible alcohol to distilleries of *baijiu* contributed to 79.6%, 88.4% and 70.5% 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, 2009, 2010 and 2011, revenue generated from the sale of edible alcohol to the chemical industry contributed 13.1%, 8.4% and 28.6% 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, 2009, 2010 and 2011, 6.1% , 2.0% and 0.2% 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, 2009, 2010 and 2011 was approximately RMB4,008 (\$636.1), RMB4,730 (\$750.7) and RMB5,574 (\$884.6), 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, 2009, 2010 and 2011, sales of DDGS feed contributed to 21.3%, 17.2% and 17.5% of our revenues, respectively. The average selling price of our DDGS feed per ton for each of the years ended December 31, 2009, 2010 and 2011 was approximately RMB1,794 (\$284.7), RMB1,734 (\$275.2) and RMB1,693 (\$268.7), respectively.

### ***Corn Germ***

Corn germ is a food product which is created through the process of isolating the embryo buds in corn by removing the outer covering and starch. Corn germ contains the most useful nutrients in the corn kernel. Corn germ is rich in a variety of vitamins and nutrient contents including vitamin E, magnesium and calcium. Corn germ generally has a longer shelf life and contains higher levels of some nutrients than wheat germ. Corn germ contains rich oil content and can also be used for producing corn germ oil, which is already consumed in western countries for its vitamin A and E content and has been growing in popularity in China in recent years. In 2011, we completed the installation of the crude corn oil facilities in both our Daqing and Shouguang facilities, and we began producing crude corn oil by deep-processing corn germ into crude corn oil. We have eliminated the production and sale of corn germ from September 2011.

The main market for our corn germ is comprised of sales to corn oil-producing enterprises. During the years ended December 31, 2009, 2010 and 2011, sales of corn germ contributed to 9.7%, 11.5% and 3.5% of our total revenues, respectively. The average selling price of our corn germ per ton for each of the years ended December 31, 2009, 2010 and 2011 was approximately RMB2,816 (\$446.9), RMB3,352 (\$532.0) and RMB3,544 (\$562.5), 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. For the year ended December 31, 2011, the sales of crude corn oil contributed 5.3% of our revenue. The sales volume of crude corn oil was approximately 17,700 tons at a price per ton of RMB7,999 (\$1,269.5).

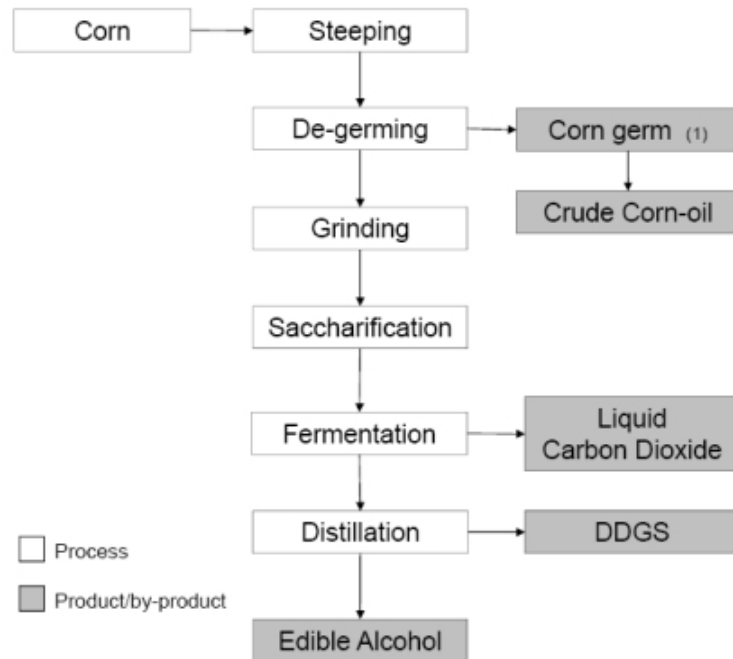
### ***Liquid Carbon Dioxide***

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. The production of one ton of edible alcohol generates approximately 0.84 tons of waste carbon dioxide. During the years ended December 31, 2010 and 2011, sales of liquid carbon dioxide contributed to 1.5% and 2.2% of our revenues, respectively. The average selling price of our liquid carbon dioxide per ton for each of the years ended December 31, 2010 and 2011 was approximately RMB525 (\$83.3) and RMB 517 (\$82.1). Our liquid carbon dioxide production lines not only generate revenue but also serve to reduce air pollution by recycling carbon dioxide.

We will consider constructing another liquid carbon dioxide production line with the capacity of 200,000 tons at our Daqing facility in the future. We estimate that the total investment for this project is approximately RMB200 million (\$31.7 million). However, we have not finalized the plan or entered into any agreements for the construction at such facility.

## Our Production Technology

Our production technology 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.

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(1) We eliminated corn germ production and sales from September of 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 from coal burning, wastewater and generate carbon dioxide and methane in our production process. The wastewater produced is subject to applicable national and local discharge limits.

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

We have pollution control system in relation to our wastewater discharge installed in all of our production plants. These systems are connected directly to local environmental bureaus so that the local environmental bureaus can monitor whether our wastewater discharge is up to the relevant environmental standard. Except as otherwise disclosed in this 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 RMB201,600 (\$31,995.4), RMB611,200 (\$97,002.0) and RMB432,300 (\$68,609.2) during the years ended December 31, 2009, 2010 and 2011, 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 ten kilometers from the Yangkou Port, which is located in the northern part of the city of Shouguang, Shandong Province, at the mouth of Xiaqinghe River on the southwest coast of Laizhou Bay of the Bohai Sea in eastern China. The facility occupies an area of 1,975,902 square feet (approximately 183,565.81 square meters) and employs 625 Company-trained employees. There are direct routes from the Yangkou Port to Japan, Korea, Singapore, Hong Kong, Macau and other countries and regions. The Bohai Sea Rim Economic Circle, where the port is situated, is one of the most active regions in China's economy.

At our Shouguang facility, we have two production lines in which the first production line was completed in 2006 to produce Grade C edible alcohol with a designed capacity of 60,000 tons per annum while the second production line was completed in August 2009 to produce Grade B edible alcohol with a designed capacity of 80,000 tons per annum. Currently, annual production capacity of our Shouguang facility is 160,000 tons of edible alcohol. 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 square meters) and employs 644 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.

The following table summarizes the actual production level for each of our products during the years ended December 31, 2009, 2010 and 2011:

	Year ended December 31,		
	2009	2010 (tons)	2011
Edible alcohol	185,549	252,727	345,179
DDGS feed	127,540	169,506	275,616
Corn germ	36,386	58,771	26,742
Liquid carbon dioxide	—	50,442	114,488
Crude corn oil	—	—	17,686

#### ***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 65.4% of our edible alcohol to 38 customers mainly in Shandong and Heilongjiang provinces.

Historically, our customers placed purchase orders with us on a regular basis. In the fourth quarter of 2011 and January 2012, we entered into pre-sales agreements and letters of intent for our edible alcohol with certain key customers, who have plans to purchase approximately 90% of our total production capacity in 2012. According to the pre-sales agreements and letters of intent, we will be required to produce edible alcohol with specific standards of quality on a pre-determined schedule and to deliver the products at prevailing market prices.

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. And we've successfully developed customers in Anhui, Jiangsu, Hebei, Jilin and Liaoning provinces.

During the years ended December 31, 2009, 2010 and 2011, there was no single customer from which we generated more than 10% of total sales for any of our products.

Most of our orders for edible alcohol are made by customers who arrange to come to our facilities to pick up their orders at our facilities. However, we do deliver to approximately 20% of our edible alcohol customers who will be liable for the shipping costs under agreed special arrangements. For DDGS feed, corn germ, crude corn oil and liquid carbon dioxide, 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 40 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 37 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. Due to the strong local demand for edible alcohol in Shandong Province and Heilongjiang Province, above 65% of our products manufactured at our Shouguang and Daqing facilities was sold in the local market. We've expand our sales of edible alcohol to customers in Sichuan, Anhui, Jiangsu, Hebei, Jilin and Liaoning provinces as a strategy to diversify our customer base geographically. We expect to sell more edible alcohol to provinces other than Shandong Province and Heilongjiang Province in the future.

We 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 40 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

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

Beginning in November 2009, we entered into framework agreements with local granaries in Heilongjiang Province, where corn prices are the lowest in the Northeastern region of China, to engage them to purchase corn for us from local farmers during the harvest season and store them for delivery to substantially satisfy the corn requirements of our Shouguang facility and Daqing facility during the non-harvest season. Such supply contracts provide us access to corn at prices which we believe have historically been below the spot market price in the off season and times of high price volatility due to crop failures and other factors. We intend to satisfy our corn consumption at our Shouguang and Daqing facilities through these arrangements. We have entered into framework agreements with eleven granaries in Heilongjiang Province to supply corn in total for at least a five-month production requirement to our Shouguang facility and Daqing facilities in 2012.

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

Although the local granaries purchase corn on our behalf, they hold title to the corn until we take delivery under the framework agreements. We have employees at the local granaries to supervise the purchase, processing and storing of the corn purchased by the local granaries on our behalf. This helps us to secure the execution of the contracts.

We are required to pay the local granaries a fixed fee of RMB124 (\$19.7) per ton of corn for executing the purchase on our behalf, drying the corn to our required standard and storing the corn, among other services. 50% of this fee is payable when we request the purchase of corn and the remaining 50% when we complete the purchase. We are also responsible for the transportation cost of delivering the corn from the local granaries to our facilities.

We generally maintain an inventory of about half a month's corn requirement at our Shouguang facility and Daqing facility. During the years ended December 31, 2009, 2010 and 2011, corn accounted for approximately 82.8%, 84.7% and 86.3% 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, 2009, 2010 and 2011, coal accounted for approximately 9.6%, 9.0% and 7.5% 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 we are now also under application for other trademarks.

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 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 four Land Use Right Certificates covering an area of approximately 1,975,902.3 square feet (183,565.81 square meters) and 28 Property Ownership Certificates covering a construction area of approximately 377,489 square feet (35,070 square meters). For our Daqing facility, we have three Land Use Right Certificates covering an area of approximately 2,358,978 square feet (219,156 square meters) and 15 Property Ownership Certificates covering a construction area of approximately 356,885.15 feet (33,155.44 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, 2011, were approximately RMB371.5 million (\$59.0 million) on our property and facilities, approximately RMB1,125.6 million (\$178.6 million) on our machinery and approximately RMB95.0 million (\$15.1 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 625 full-time employees and our Daqing facility had 644 full-time employees for a total of 1,269 full time employees, which is comprised of 979 manufacturing staff, 253 management and administrative personnel, and 37 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. Total contributions to such funds were approximately RMB2.0 million (\$0.3 million), RMB6.2 million (\$1.0 million) and RMB10.5 million (\$1.7 million) for the years ended December 31, 2009, 2010 and 2011, 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, 2011, we have paid RMB77,000 (\$12,220) and RMB3,329,000 (\$528,413) 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 WGC, 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 industry policies, laws, regulations, rules and extensive government regulatory policies.

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

### **Material 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 inception and, on November 1, 2003, the Shouguang Administration for Industry and Commerce extended the business term of Shandong Borun to November 1, 2033. On July 9, 2008, the Daqing Administration for Industry and Commerce (Datong Branch) granted Daqing Borun the right to operate with no business term limitation.

WGC and its subsidiaries (Shandong Borun and Daqing Borun) can only conduct business within their registered business scopes, which appear on each of their business licenses. WGC's license permits us to produce and sell calcium chloride; wholesale saccharifying enzyme and amylase; and purchase and sell edible alcohol, corn germ, DDGS feed and related equipments and trade of grain. Shandong Borun's license includes production and sale of edible ethanol, xanthan gum, corn oil, glacial acetic acid, chemical products (exclusive of dangerous chemicals), the purchase of foodstuffs and the import and export of goods within the scope allowed by the PRC. Daqing Borun's license includes production and sale (export) of edible alcohol and auxiliary materials in corn-processing, purchasing, processing and sale of foodstuffs. Any further amendment to the scope of our business will require additional applications and government approval or registration.

## **Industry Policy**

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

On June 3, 2007, the State Council issued a “Notification on the Issuing of the Comprehensive Work Plan on Saving Energy and Reducing Emission” which stipulated the increasing elimination of “backward” production capacities in paper-making, alcohol, monosodium glutamate and citric acid industries. Alcohol manufacturers with “backward” production technologies and equipment, and those smaller manufacturers having a production capacity less than 30,000 tons per year of edible alcohol would thereafter be eliminated from competing in the alcohol industry during the 11<sup>th</sup> Five-Year Plan period (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. Additionally, the “Notification on the Planning of Eliminating Backward Production Capacity in Paper-Making, Alcohol, Monosodium Glutamate and Citric Acid Industries” jointly issued by NDRC and State Environmental Protection Administration on October 22, 2007, provided a yearly target for elimination of 1.6 million tons of such “backward” production capacity in the alcohol industry, i.e., 101,000 tons for 2006, 400,000 tons for 2007, 444,000 tons for 2008, 355,000 tons for 2009 and 300,000 tons for 2010. According to a notice issued by the National Development and Reform Commission, 945,000 tons of backward production capacity in the alcohol industry had already been eliminated by the end of 2008.

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. However, seeing the great increase of alcohol export may endanger local supply, the government again dropped the export rebate rate to zero in 2010.

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 National Development and Reform Commission in September 2007, the amount of corn used for “deep-processing” cannot exceed 26% of the total corn consumption in the 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. New applications for corn deep-processing projects will not be approved in principle. The examination of renovation and expansion projects of existing corn deep-processing facilities shall be strengthened. 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 28.0% of total corn consumption was used for corn deep-processing in 2010, 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 Chinese government is expected to apply in the next few years.

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

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

### ***Feed Production***

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

### ***Environmental Regulations***

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

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

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

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

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

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

The Work Safety Law of the PRC, 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 then was amended on August 27, 2009. 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 came into force on the same date. According to the RWSL, an enterprise engaging in the production of hazardous chemicals must apply for a work safety license before production.

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

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

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

The Regulation on Safety Administration of Dangerous Chemicals was promulgated by the State Council on January 26, 2002, and took effect on March 15, 2002. This regulation sets forth general requirements for the production and operation of certain chemicals that are considered dangerous and listed in the Dangerous Chemicals Catalogue. The Regulation on Safety Administration of Dangerous Chemicals was further supplemented and elaborated by subsequent regulations and rules. The State Administration of Work Safety of the PRC, or the SAWS, and other relevant state government authorities determine and from time to time adjust the chemicals included in the Dangerous Chemicals Catalogue. Under the PRC laws, the production, operation, storage, transportation of chemicals in the Dangerous Chemicals Catalogue and the industrial use of such chemicals require specific regulatory approval, licenses and permits. In addition, in order to strengthen the supervision and regulation of the safe operation and production of chemicals in the Dangerous Chemicals Catalogue, on October 8, 2002, the Commerce and Trade Committee of the PRC issued the Administration Rules for the Registration of Dangerous Chemicals, according to which the enterprises should, within six months of the publication of the Dangerous Chemicals Catalogue, complete registration for the production and storage of dangerous chemicals. On the same date, the Commerce and Trade Committee of the PRC also issued the Administration Rules for the Operation License of Dangerous Chemicals, according to which, an Operation License is required for the operation and sale of dangerous chemicals. Both administrative rules took effect on November 15, 2002. Pursuant to these regulations, the producers of chemicals in the Dangerous Chemicals Catalogue will need to meet certain production safety requirements and pass a safety inspection conducted by the relevant government authorities. In addition, such producers will need to obtain the relevant work safety license prior to production.

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

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

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

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

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

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

### *Patent Enforcement*

When a patent infringement dispute arises, the patent holder or an interested party who believes the patent is being infringed may either file a civil lawsuit or file a complaint with the relevant authorities in charge of the patent administration. A PRC court may grant the patent holder's or the interested party's request for a preliminary injunction before or during the legal proceeding. Damages for infringement are calculated as either (1) the loss suffered by the patent holder or the interested party due to the infringement or (2) the benefit gained by the infringer from the infringement. If it is difficult to ascertain damages in this manner, damages may be determined by using a reasonable multiple of the license fee under a contractual license. Typically, a patent holder in the PRC has the burden of proving that the patent is being infringed. However, if the holder of a production process patent alleges infringement of such patent, the alleged infringing party which produces the same kind of products has the burden of proving that there has been no infringement.

### *Compulsory Licensing*

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

### *International Patent Treaties*

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

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

### ***Foreign Exchange Regulation***

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

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



Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration on Financing and Round-Trip Investment Through Offshore Special Purpose Vehicles by Domestic Residents, or the SAFE Circular No. 75, issued on October 21, 2005, (i) a PRC resident must register with the local SAFE branch before establishing or controlling an overseas special purpose vehicle, or SPV, for the purpose of obtaining overseas equity financing using the assets of or equity interests in a domestic enterprise; (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an SPV, or engages in overseas financing after contributing assets or equity interests into an SPV, such PRC resident must register his or her interest in the SPV and any subsequent change thereto with the local SAFE branch; and (iii) when the SPV undergoes a material event, such as a change in share capital, merger and acquisition, share transfer or exchange, spin-off or long-term equity and debt investment, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local SAFE branch.

We understand that none of our shareholders is a PRC citizen. Our PRC counsel advises that none of our shareholders is subject to the requirement of the SAFE registration under Circular 75. However, due to the vagueness and uncertainty as to how the SAFE regulations are interpreted and implemented and the possible amendments or changes of the SAFE regulations, we cannot provide any assurance that our current shareholders who may spend 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 and effective as of January 1, 2006, Wholly Foreign Owned Enterprise Law (1986), as amended in 2000, Implementation Rules of Wholly Foreign Owned Enterprise Law (1990), as amended in 2001, Chinese-Foreign Joint Venture Law (1979), as amended in 2001, and Implementation Regulation of Chinese-Foreign Joint Venture Law (1983), as amended in 2001. Under these laws and regulations, each of our PRC subsidiaries, including WFOEs, joint venture enterprise and domestic companies in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each of our PRC subsidiaries, including WFOEs, joint venture enterprise and domestic companies, is required to set aside at least 10.0% of its after-tax profit based on PRC accounting standards each year to its general reserves or statutory capital reserve fund until the accumulative amount of such reserve reaches 50.0% of its respective registered capital. These reserves are not distributable as cash dividends. Furthermore, each of our WFOEs and joint venture enterprises in China is also required to allocate a portion of its after-tax profits, as determined by its board of directors, to its staff welfare and bonus funds, which may not be distributed as cash dividends.

#### ***Tax***

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

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

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

Pursuant to the Arrangement between the Mainland and the Hong Kong SAR for the Avoidance of Double Taxation and Tax Evasion on Income (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 should: (1) be an enterprise subject to taxation on dividends in accordance to such tax arrangement; (2) directly own the required percentage in all equity interests and voting rights in such Chinese residents company; (3) within anytime in the 12 consecutive months prior to receiving such dividends, directly own such percentage in the Chinese resident company.

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

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

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

On August 8, 2006, six PRC regulatory agencies, including the Chinese Securities Regulatory Commission, or CSRC, promulgated the New M&A Rules to more effectively regulate foreign investment in PRC domestic enterprises. The New M&A Rules took effect on September 8, 2006. The New 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 New M&A Rules is currently unclear. However, our PRC counsel has advised us that based on their understanding of the current PRC laws, rules and regulations and the New M&A Rules, the New 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 New M&A Rules.

Our PRC counsel has further advised us that their opinions summarized above are subject to the timing and content of any new laws, rules and regulations or clear implementations and interpretations from the CSRC in any form relating to the New M&A 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**

None.

## 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 People’s Republic of China based on tons of edible alcohol produced. Our edible alcohol products are primarily sold as an ingredient to producers of *baijiu* who further blend our products into finished products sold under various brand names throughout China. “*Baijiu*” is a grain-based alcoholic beverage, generally made from corn, wheat or barley, clear in color, with alcohol content ranging from 18% to 68%. *Baijiu* is sold throughout China in retail stores, bars, banquet halls, restaurants and other locations where alcoholic beverages are typically consumed. *Baijiu* is consumed in almost all the occasions in China where alcoholic beverage is desirable, from daily residential consumption, gatherings of family and friends, business and social occasions, to the Chinese Spring Festival celebrations. In China, consumption of *baijiu* is generally associated with a higher standard of living, 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, 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 privately-owned corn-based edible alcohol producer operating in Shandong Province and Heilongjiang Province. Our Daqing facility is licensed to build up to 330,000 tons of production capacity of edible alcohol. Based on our knowledge of our industry, we believe we will be the largest producer of corn-based edible alcohol in China, in terms of current known production capacity following complete development of the Daqing facility.

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

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

### **Expansion of Production Capacity**

Our production capacity of edible alcohol has increased by 46.2% to 380,000 tons from 260,000 tons since the commencement of commercial production of our Phase III Daqing facility in January 2011. While the PRC edible alcohol market is characterized by total production capacity exceeding market demand, we have operated our facilities at full capacity since 2007, and to date have not experienced any difficulty in selling 100% of our production even as we expanded production capacity. When increasing production capacity, we have obtained orders from existing and new customers to take up our increased production. We have fully utilized our new capacity at Phase III Daqing facility in 2011.

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

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

Our revenues are primarily derived from sales of edible alcohol. Industry demand for edible alcohol is increasing rapidly and as a result, we have operated at full capacity since 2007. We believe *baijiu* is meeting with strong demand as a result of continuous growth in China's per capita disposable income and, accompanied with a gradual recovery of the chemical industry from the global financial crisis, the demand for edible alcohol in China is expected to grow in 2012 and in the near future,

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.

The annualized average price of edible alcohol will be under some pressure in the short run, however, we believe that edible alcohol is an industry with a government imposed total maximum supply and the *baijiu* industry continues to demand for more edible alcohol, thus the average price of edible alcohol will recover eventually in the long run. We anticipate the future fluctuation in demand for and price of edible alcohol will have a significant impact on our financial performance.

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

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

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

Historically, the price of corn is lower during harvest season and higher in non-harvest season. To stabilize and lower our cost of corn, we started to enter into framework agreements with local granaries in Heilongjiang Province from 2009. Such supply contracts provide us access to corn at prices which we believe have historically been below the spot market price in the off season and times of high price volatility due to crop failures and other factors. These arrangements allow us to purchase corn at a lower price during the harvest season and to transport the corn to our facility to meet our production needs during the non-harvest season. We pay 10% of our purchase amounts as security deposits to these granaries, which in some cases then obtain loans from the ADB to purchase corn according to our requests. We will then request that the granaries deliver their corn during the non-harvest season to satisfy our corn consumption needs in our Shouguang and Daqing facilities. We pay the granaries a storage fee and the interest for the loans they obtained from the ADB. We believe our sourcing arrangements with the Heilongjiang granaries historically have lowered our overall price of corn; however, we cannot be certain that corn prices will not drop significantly in the non-harvest season, which could result in our corn supply arrangements effectively increasing our corn costs.

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

We have our own sales team to market our products, and we do not sell our products through any distributors 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 and Anhui provinces and intend to enlarge our strategic position in Sichuan Province. 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. In addition, we 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.

## **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, corn germ, liquid carbon dioxide and crude corn oil.

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 86.3% and 7.5% of our cost of goods sold in the year ended December 31, 2011, 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. We expect our cost of goods sold, including our raw materials costs, to increase significantly as our manufacturing capacity expands and as prices for raw materials continue to increase.

### ***Gross Profit***

Our gross profit consists of revenues less cost of goods sold. Our gross profit margin is mainly affected by production efficiency, pricing conditions, volume of sales, raw material cost and also temporary market conditions. We achieved gross profit margin of 23.4%, 23.7% and 19.0% for the years ended December 31, 2009, 2010 and 2011, 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 2011, the cost of corn, our principal input cost, rose sharply during the year, outpacing edible alcohol prices and put pressure on our gross margins. As we continue to see strong demand for edible alcohol, together with our continued gains in production efficiencies, corn sourcing arrangement and capacity, we believe that we will be well positioned to continue to prosper in a cost-rising environment.

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

- Our raw material prices are expected to continue to increase;
- Increasing labor costs; and

- Stricter control over the alcohol industry by the PRC Government, which would likely cause additional costs to be incurred in the future in order to comply with the stricter requirements.

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

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

### ***Operating Expenses***

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

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

Our selling expenses consist primarily of sales employee salaries, travelling and other business development expenses and other miscellaneous items. We expect that our selling expenses will increase as we enlarge our strategic position in Sichuan Province.

#### ***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 borrowings from banks which mature at various dates within the year.

#### ***Income Taxes***

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

In accordance with the relevant tax laws and regulations of Hong Kong, a company, irrespective of its incorporation place, is subject to tax on all profits arising in or derived from Hong Kong. No tax is levied on profits arising abroad, even if they are remitted to or through Hong Kong. Therefore, our subsidiary, China High, was not subject to profits tax for the years ended December 31, 2009, 2010 and 2011 as it has no business in Hong Kong and all the profits were derived from its direct and indirect subsidiaries in the PRC. The profits tax rate for the year 2011 was 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, Daqing Borun and WGC for the year of 2009, 2010 and 2011. There was no income tax incentive to our PRC entities from the local government in the years ended December 31, 2009, 2010 and 2011.

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

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

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). The consolidated financial statements include the financial statements of the 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 operate and manage our business as a single segment. As we primarily generate our revenues from customers in the PRC, no geographical segments are presented.

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

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

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

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

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

#### ***Inventories***

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

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

Property, plant and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. 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 and reflected in the consolidated statements of income.

### **Income Taxes**

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

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

### **Recently Issued Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which is a new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning January 1, 2012. Currently, we evaluated the effect of ASU 2011-05 on its financial statements and has concluded that it would have no material impact on our consolidated financial statements.

ASU 2011-05 was modified by the issuance of ASU 2011-12 - *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* in December 2011, which indefinitely deferred certain provisions of ASU 2011-05, including the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This amendment is effective for both annual and interim financial statements beginning after December 15, 2011. We believe that the adoption of ASU 2011-12 will not have any material impact on our consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820)", which provided clarifications for Topic 820 and also included instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurement has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP, and is effective during interim and annual periods beginning after December 15, 2011 for public entities. Early application by public entities is not permitted, and the adoption of ASU 2011-04 is not expected to have a material impact on our consolidated financial position or results of operations.

In December 2011, the FASB issued ASU 2011-11 - *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective presentation for all comparative periods presented is required. The adoption of ASU 2011-11 is not expected to have material impact on our 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,			
	2009	2010	2011	2011
	RMB	RMB	RMB	\$
<b>Revenues</b>	1,060,493,812	1,713,924,878	2,685,223,409	426,165,057
<b>Cost of goods sold</b>	811,865,247	1,308,303,166	2,175,060,342	345,198,359
<b>Gross profit</b>	248,628,565	405,621,712	510,163,067	80,966,698
<b>Selling, general and administrative expenses</b>	22,547,881	45,716,043	59,061,056	9,373,432
<b>Operating income</b>	226,080,684	359,905,669	451,102,011	71,593,266
<b>Other expenses</b>	3,408,024	12,216,600	32,912,857	5,223,517
<b>Income before income taxes</b>	222,672,660	347,689,069	418,189,154	66,369,749
Income tax expense	56,262,029	88,264,738	105,194,680	16,695,183
<b>Net income</b>	166,410,631	259,424,331	312,994,474	49,674,566

	Year ended December 31,		
	2009	2010	2011
<b>Revenues</b>	100.0%	100.0%	100.0%
<b>Cost of goods sold</b>	76.6%	76.3%	81.0%
<b>Gross profit</b>	23.4%	23.7%	19.0%
<b>Selling, general and administrative expenses</b>	2.1%	2.7%	2.2%
<b>Operating income</b>	21.3%	21.0%	16.8%
<b>Other expenses</b>	0.3%	0.7%	1.2%
<b>Income before income taxes</b>	21.0%	20.3%	15.6%
Income tax expense	5.3%	5.2%	3.9%
<b>Net income</b>	15.7%	15.1%	11.7%

Revenues for the years ended December 31, 2009, 2010 and 2011 were comprised of the following:

	Year ended December 31,			
	2009	2010	2011	2011
	RMB	RMB	RMB	\$
<b>Revenue by amount</b>				
Edible alcohol	728,765,152	1,195,460,544	1,918,733,862	304,517,428
DDGS feed	225,927,391	293,951,823	470,507,927	74,673,130
Corn Germ	102,298,397	196,981,771	95,003,117	15,077,706
Liquid carbon dioxide	—	26,477,642	59,536,423	9,448,876
Crude corn oil	—	—	141,442,080	22,447,917
Others	3,502,872	1,053,098	—	—
<b>Total</b>	<b>1,060,493,812</b>	<b>1,713,924,878</b>	<b>2,685,223,409</b>	<b>426,165,057</b>
<b>Revenue by %</b>				
Edible alcohol	68.7%	69.7%	71.5%	71.5%
DDGS feed	21.3%	17.2%	17.5%	17.5%
Corn Germ	9.7%	11.5%	3.5%	3.5%
Liquid carbon dioxide	—	1.5%	2.2%	2.2%
Crude corn oil	—	—	5.3%	5.3%
Others	0.3%	0.1%	—	—
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

#### Results of Operations for the Year Ended December 31, 2010 Compared to the Year Ended December 31, 2011

##### Revenues

Revenues increased by RMB971.3 million (\$154.2 million), or 56.7%, to RMB2,685.2 million (\$426.2 million) in the year ended December 31, 2011 from RMB1,713.9 million (\$272.0 million) in the year ended December 31, 2010. The increase was primarily due to the following:

- An increase in edible alcohol sales by approximately RMB723.3 million (\$114.8 million), or 60.5%, from RMB1,195.5 million (\$189.7 million) in the year ended December 31, 2010 to RMB1,918.7 million (\$304.5 million) in the year ended December 31, 2011 primarily due to the opening of Daqing Phase III facilities in the year of 2011 as well as the increase in the sales price of edible alcohol. We sold approximately 252,700 tons of edible alcohol in the year ended December 31, 2010 compared to approximately 344,200 tons in the year ended December 31, 2011, representing an increase of 91,500 tons or 36.2%. Operating at full capacity, our actual production for the year ended December 31, 2010 was 251,700 tons of edible alcohol, as compared to 345,200 tons for the year ended December 31, 2011 for an increase of 93,500 tons, or 37.1%. The weighted average sales price of edible alcohol was approximately RMB4,730 (\$750.7) per ton for the year ended December 31, 2010 compared to RMB5,574 (\$884.7) per ton in the year ended December 31, 2011, which resulted in an increase in weighted average sales price of RMB844 (\$134.0) per ton, or 17.8%. The increase was driven by the combination of the increase of corn price, strong market demand for edible alcohol and our production and sale of higher-priced Grade A edible alcohol.
- An increase in DDGS feed sales by approximately RMB176.6 million (\$28.0 million), or 60.1%, from RMB294.0 million (\$46.7 million) for the year ended December 31, 2010 to RMB470.5 million (\$74.7 million) for the year ended December 31, 2011, due to the increase in sales volume and partly offset by a decrease in sales price per ton. We sold approximately 169,500 tons of DDGS feed in the year ended December 31, 2010 compared to approximately 278,000 tons in the year ended December 31, 2011, representing an increase in sales of 108,500 tons, or 64.0%. The sales volume increase was mainly due to (i) increased overall production due to the opening of the Daqing Phase III facilities and (ii) implementation of crude corn oil production at our Daqing and Shouguang facilities. The production of crude corn oil by-product results in increased DDGS feed produced per ton of corn processed. The weighted average sales price of DDGS feed was approximately RMB1,734 (\$275.2) per ton for DDGS feed sales for the year ended December 31, 2010, compared to RMB1,693 (\$268.7) per ton in the year ended December 31, 2011, representing a decrease in weighted average sales price of RMB41 (\$6.5) per ton, or 2.4%.

- A decrease in corn germ sales by approximately RMB102.0 million (\$16.2 million), or 51.8%, from RMB197.0 million (\$31.3 million) for the year ended December 31, 2010 to RMB95.0 million (\$15.1 million) for the year ended December 31, 2011, due to a decrease in sales volume being partly offset by an increase in sales price. We sold approximately 58,800 tons of corn germ in the year ended December 31, 2010 compared to approximately 26,800 tons in the year ended December 31, 2011, representing a decrease in sales of 32,000 tons, or 54.4%. The decrease in sales volume is primarily due to the installation of our crude corn oil processing equipment in our Daqing and Shouguang facilities during 2011. As a result, we began to deep-process corn germ into crude corn oil, which eliminated corn germ production and sales from September of 2011. The weighted average sales price of corn germ was approximately RMB3,352 (\$532.0) per ton for corn germ sales for the year ended December 31, 2010, compared to RMB3,544 (\$562.5) per ton in the year ended December 31, 2011, representing an increase in weighted average sales price of RMB192 (\$30.5) per ton, or 5.7%. The increase in sales price of corn germ was mainly due to the strong demand for the product.
- An increase in liquid carbon dioxide sales by approximately RMB 33.0 million (\$5.2 million), or 124.9%, from RMB 26.5 million (\$4.2 million) for the year ended December 31, 2010 to RMB 59.5 million (\$9.4 million) for the year ended December 31, 2011, mainly due to an increase in production volume. We commenced sales of liquid carbon dioxide in July 2010 and realized process improvements through the year, resulting in actual production for the year ended December 31, 2010 of 51,100 tons. We produced 114,500 tons for the year ended December 31, 2011, representing an increase of 63,400 tons of liquid carbon dioxide, or 124.1%, over the prior year. We sold approximately 50,400 tons of liquid carbon dioxide for the year ended December 31, 2010 compared to approximately 115,100 tons in the year ended December 31, 2011, representing an increase in sales volume of 64,700 tons, or 128.4%. The weighted average sales price of liquid carbon dioxide was approximately RMB525 (\$83.3) per ton for the year ended December 31, 2010, in line with the weighted average sale price of RMB 517 (\$82.1) per ton in the year ended December 31, 2011.
- An increase in crude corn oil sales, a new by-product, from nil in the year ended December 31, 2010 to RMB 141.4 million (\$22.4 million) in the year ended December 31, 2011 due to the commencement of production and sales of crude corn oil at our Daqing facility in March 2011 and at our Shouguang facility in September 2011. The sales volume was approximately 17,700 tons and the weighted average sales price was RMB 7,999 (\$1,269.5) per ton for the year ended December 31, 2011.

### **Gross Profit**

Gross profit increased by RMB104.5 million (\$16.6 million), or 25.8%, to RMB510.2 million (\$81.0 million), or 19.0% of revenues, for the year ended December 31, 2011, from RMB405.6 million (\$64.4 million), or 23.7% of revenues, for the year ended December 31, 2010 mainly due to the combined effect of the increase in revenue by RMB 971.3 million (\$ 154.2 million) being offset by an increase in cost of sales of RMB 866.8 million (\$137.6 million). The increase in cost of sales is mainly due to the increased corn price and the increased production capacity in 2011.

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

Selling, general and administrative expenses increased by RMB13.3 million (\$2.1 million), or 29.2%, to RMB59.1 million (\$9.4 million), for the year ended December 31, 2011, from RMB45.7 million (\$7.3 million), for the year ended December 31, 2010. The increase was primarily due to the following:

- Selling expenses increased 77.2% from RMB3.0 million (\$0.5 million) in the year ended December 31, 2010 to RMB5.3 million (\$0.8 million) in the year ended December 31, 2011, primarily for expenses for increased sales force and promotional activities to new customers after completion of the Phase III Daqing facility in 2011.

- General and administrative expenses increased by RMB11.1 million (\$1.7 million), or 25.8%, from RMB42.7 million (\$6.8 million) in the year ended December 31, 2010 to RMB53.8 million (\$8.5 million) in the year ended December 31, 2011, primarily due to an increase in administrative staff costs, professional fees and other expenses in connection with maintaining our status as a publicly-traded company and expanded operations.

#### **Other Expenses**

Other expenses were RMB12.2 million (\$1.9 million), primarily consisting of interest expense of RMB12.6 million (\$2.0 million) and interest income of RMB0.6 million (\$0.1 million) for the year ended December 31, 2010 compared to RMB 32.9 million (\$ 5.2 million) other expense for the year ended December 31, 2011, which primarily consisted of interest expense of RMB34.1 million (\$5.4 million) and interest income of RMB 1.2 million (\$0.2 million). Interest expense increased from RMB12.6 million (\$2.0 million) for the year ended December 31, 2010 to RMB34.1 million (\$5.4 million) for the year ended December 31, 2011 primarily due to an increase in bank borrowings outstanding from RMB143.2 million (\$22.7 million) as of December 31, 2009 to RMB498.0 million (\$79.0 million) as of December 31, 2010 and to RMB508.7 million (\$80.7 million) as of December 31, 2011, and an increase in the weighted average interest rate of our short-term borrowings in the year ended December 31, 2011 as compared to the year ended December 31, 2010.

#### **Income Tax Expense**

We recorded RMB105.2 million (\$16.7 million) income tax expenses in the year ended December 31, 2011, compared to income tax expense of RMB88.3 million (\$14.0 million) in the year ended December 31, 2010. Since the effective tax rate remained relatively stable, the increase is consistent with the increase of our income before income tax expenses.

### **Results of Operations for the Year Ended December 31, 2009 Compared to the Year Ended December 31, 2010**

#### **Revenues**

Revenues increased by RMB653.4 million (\$103.7 million), or 61.6%, to RMB1,713.9 million (\$272.0 million) in the year ended December 31, 2010 from RMB1,060.5 million (\$168.3 million) in the year ended December 31, 2009. The increase was primarily due to the following:

- An increase in edible alcohol sales by approximately RMB466.7 million (\$74.0 million), or 64.0%, from RMB728.8 million (\$115.7 million) in the year ended December 31, 2009 to RMB1,195.5 million (\$189.7 million) in the year ended December 31, 2010 primarily due to the full operation of Phase II of our Shouguang facility and Phase II of the Daqing facility in the whole year of 2010 as well as the increase in the sales price of edible alcohol. Our sale of edible alcohol increased by 70,900 tons or 39.0%, from approximately 181,800 tons in the year ended December 31, 2009 to approximately 252,700 tons in the year ended December 31, 2010. Operating at full capacity, our actual production of edible alcohol increased by 66,200 tons, or 35.7%, from 185,500 tons for the year ended December 31, 2009 to 251,700 tons for the year ended December 31, 2010. The weighted average sales price of edible alcohol increased by RMB722 (\$114.6) per ton, or 18.0%, from approximately RMB4,008 (\$636.1) per ton in the year ended December 31, 2009 to RMB4,730 (\$750.7) per ton in the year ended December 31, 2010. The increase was driven by the combination of the increase of corn price and strong demand for edible alcohol and also the shift of our product mix as we sold more higher-priced Grade B edible alcohol.
- An increase in DDGS feed sales by approximately RMB68.1 million (\$10.8 million), or 30.1%, from RMB225.9 million (\$35.9million) for the year ended December 31, 2009 to RMB294.0 million (\$46.7 million) for the year ended December 31, 2010, due to the increase in production capacity described above, partly offset by a decrease in sales price per ton. Our sale of DDGS feed increased by 43,600 tons, or 34.6%, from approximately 125,900 tons in the year ended December 31, 2009 to approximately 169,500 tons in the year ended December 31, 2010. The weighted average sales price of DDGS feed decreased by RMB60 (\$9.5) per ton, or 3.3%, from approximately RMB1,794 (\$284.7) per ton in the year ended December 31, 2009 to RMB1,734 (\$275.2) per ton in the year ended December 31, 2010.

- An increase in corn germ sales by approximately RMB94.7 million (\$15.1 million), or 92.6%, from RMB102.3 million (\$16.2 million) for the year ended December 31, 2009 to RMB197.0 million (\$31.3 million) for the year ended December 31, 2010 due to increases in production capacity and sales price. Our sale of corn germ increased by 22,500 tons, or 62.0%, from approximately 36,300 tons in the year ended December 31, 2009 to approximately 58,800 tons in the year ended December 31, 2010. The weighted average sales price of corn germ increased by RMB536 (\$85.1) per ton, or 19.0%, from approximately RMB2,816 (\$447.0) per ton for the year ended December 31, 2009 to RMB3,352 (\$532.0) per ton in the year ended December 31, 2010. The increase in sales volume was primarily due to the expansion of our production capacity in 2010 described above and improvements in production yield. The increase in sales price of corn germ was mainly due to the strong demand for the product.
- An increase in liquid carbon dioxide sales, a new by-product, from nil in the year ended December 31, 2009 to RMB26.5 million (\$4.2 million) in the year ended December 31, 2010 occurred due to the commencement of sales of liquid carbon dioxide in July 2010. We sold approximately 50,400 tons for the year ended December 31, 2010. Operating at full capacity, our actual production for the year ended December 31, 2010 was 51,100 tons for the year ended December 31, 2010. The weighted average sales price of liquid carbon dioxide was approximately RMB525 (\$83.3) per ton for the year ended December 31, 2010.

### **Gross Profit**

Gross profit increased by RMB157.0 million (\$24.9 million), or 63.1%, to RMB405.6 million (\$64.4 million), or 23.7% of revenues, for the year ended December 31, 2010, from RMB248.6 million (\$39.5 million), or 23.4% of revenues, for the year ended December 31, 2009. The increase was primarily due to the following:

- Increase in revenues by RMB653.4 million (\$103.7 million), or 61.6%, to RMB1,713.9 million (\$272.0 million) in the year ended December 31, 2010, from RMB1,060.5 million (\$168.3 million) in the year ended December 31, 2009.
- The commencement of sales of our additional by-product produced in our manufacturing process, liquid carbon dioxide, which had higher margin than other products.

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

Selling, general and administrative expenses increased by RMB23.2 million (\$3.7 million), or 102.8%, to RMB45.7 million (\$7.3 million), for the year ended December 31, 2010, from RMB22.5 million (\$3.6 million), for the year ended December 31, 2009. The increase was primarily due to the following:

- Selling expenses increased 25.8% from RMB2.4 million (\$0.4 million) in the year ended December 31, 2009 to RMB3.0 million (\$0.5 million) in the year ended December 31, 2010, primarily as a result of expenses for increased sales force and promotional activities to new customers after completion of both Phase II at the Shouguang facility and Phase II at the Daqing facility in August of 2009.

- General and administrative expenses increased by RMB22.5 million (\$3.6 million), or 111.8%, from RMB20.2 million (\$3.2 million) in the year ended December 31, 2009 to RMB42.7 million (\$6.8 million) in the year ended December 31, 2010, primarily due to an increase in administrative staff costs, professional fees and other expenses in connection with our obligations to comply with the reporting requirements under the Exchange Act and other requirements under the Sarbanes-Oxley Act, as well as expanded operations at the Daqing and Shouguang facilities.

### Other Expenses

Other expenses were RMB12.2 million (\$1.9 million), primarily consisting of interest expense of RMB12.6 million (\$2.0 million) and interest income of RMB0.6 million (\$0.1 million) for the year ended December 31, 2010 compared to interest expense of RMB10.0 million (\$1.6 million) and other income of RMB6.2 million (\$1.0 million) primarily related to subsidy income received from the local government as incentives to renovate our production technology and income from disposal of obsolescent motor vehicles and outdated facilities for the year ended December 31, 2009. Interest expense increased from RMB10.0 million (\$1.6 million) for the year ended December 31, 2009 to RMB12.6 million (\$2.0 million) for the year ended December 31, 2010 primarily due to an increase in bank borrowings outstanding from RMB89.7 million (\$14.2 million) as of December 31, 2008 to RMB143.2 million (\$22.7 million) as of December 31, 2009 and to RMB498 million (\$79.0 million) as of December 31, 2010 and offset by a decrease in the weighted average interest rate of our short-term borrowings in the year ended December 31, 2010 compared to the year ended December 31, 2009.

### Income Tax Expense

We recorded RMB88.3 million (\$14.0 million) income tax expenses in the year ended December 31, 2010, compared to income tax expense of RMB56.3 million (\$8.9 million) in the year ended December 31, 2009. Since the effective tax rate remained relatively stable, the increase is consistent with the increase of our income before income tax expenses.

### B. Liquidity and Capital Resources

Cash generated from our business is our primary source of liquidity. As of December 31, 2009, December 31, 2010, December 31, 2011, we had approximately RMB105.8 million (\$16.8 million), RMB341.0 million (\$54.1 million) and RMB223.9 million (\$35.5 million), respectively, in cash. In June 2010, we completed our initial public offering of ADSs, which resulted in net proceeds, before expenses, of \$37.3 million. Our cash represents cash on hand and in banks. We require cash to fund our ongoing business needs, particularly salary and benefits and costs and expenses of raw materials. Other cash needs include primarily the working capital for our daily operations and manufacturing activities, the purchase of equipment for our manufacturing facilities and expenditures related to the expansion of our manufacturing facilities.

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

	Year-ended December 31,			
	2009	2010	2011	2011
	RMB	RMB	RMB	\$
Net cash provided by operating activities	190,939,423	194,334,643	175,340,867	\$ 27,827,908
Net cash used in investing activities	(213,352,205)	(569,954,350)	(303,083,944)	(48,101,691)
Net cash provided by financing activities	107,558,796	610,900,772	10,700,000	1,698,170
Effect of foreign currency exchange translation	(239,818)	(81,518)	(65,787)	(10,440)
Net increase (decrease) in cash	84,906,196	235,199,547	(117,108,864)	\$ (18,586,053)



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

Net cash provided by operating activities was RMB190.9 million (\$30.3 million), RMB194.3 million (\$30.8 million) and RMB175.3 million (\$27.8 million) for the years ended December 31, 2009, 2010 and 2011, respectively. The decrease in cash provided by operating activities for the year ended December 31, 2011 compared to the year ended December 31, 2010 was primarily due to an increase in net income, non-cash expenses and accrued expenses and other payables, a decreased inventory balance and increased balance of income tax payable, all being offset by a decrease in operating cash flow due to increased accounts receivable balance, increased prepaid expenses and other current assets and decreased balance of trade accounts payable. The increase in cash provided by operating activities for the year ended December 31, 2010 compared to the year ended December 31, 2009 was primarily due to an increase in net income, non-cash expenses and accrued expenses and other payables, offset by a decrease in operating cash flow due to an increased inventory balance, increased accounts receivable balance, increased prepaid expenses and other current assets and decreased balance of trade accounts payable and income tax payable.

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

**Financing Activities**—Net cash provided by financing activities was RMB107.6 million (\$17.1 million), RMB610.9 million (\$97.0 million) and RMB10.7 million (\$1.7 million) for the years ended December 31, 2009, 2010 and 2011, respectively. For the year ended December 31, 2009, net cash provided consisted of proceeds from issuances of convertible preference shares of RMB54.1 million (\$8.6 million) and net borrowings under short-term borrowings of RMB53.5 million (\$8.5 million). For the year ended December 31, 2010, net cash provided consisted of proceeds from issuances of ADSs of RMB256.1 million (\$40.6 million) and net borrowings under short-term borrowings of RMB354.8 million (\$56.3 million). For the year ended December 31, 2011, net cash provided consisted of net borrowing under short-term borrowings of RMB10.7 million (\$1.7 million).

**Financing Agreement**—As of December 31, 2009, 2010 and 2011, we had approximately RMB143.2 million (\$22.7 million), RMB498.0 million (\$79.0 million) and RMB508.7 million (\$80.7 million) outstanding short-term borrowings, bearing weighted average interest rates at 8.19%, 6.69% and 6.88% per annum, respectively, for the years ended December 31, 2009, 2010 and 2011. As of December 31, 2011, a short-term bank loan of RMB10,000,000 (\$1,587,075) from Agricultural Development Bank of China was secured by our equipments. A short-term bank loan of RMB70,000,000(\$11,109,524) from Agricultural Development Bank of China and a short-term loan of RMB30,000,000(\$4,761,225) from Longjiang Commercial Bank was secured by third-party guarantors, pursuant to these loan agreements, we granted security interest in our buildings and land-use rights to the third-party guarantors. The remaining short term loans from Agricultural Development Bank of China amounting to RMB52,500,000(\$8,332,143) were credit loans and all the short-term loans of RMB132,500,000(\$21,028,742) from Agricultural Development Bank of China were secured by our Chief Executive Officer, Mr. Jinmiao Wang simultaneously. A short-term bank loan of RMB28,000,000(\$4,443,810) from Industrial & Commercial Bank of China was secured by our accounts receivable amount to RMB29,196,300 (\$4,633,671). A short-term bank loan of RMB20,000,000(\$3,174,150) from Industrial & Commercial Bank of China was secured by the raw materials. A short-term bank loan of RMB65,000,000 (\$10,315,987) from Longjiang Bank and a short-term loan of RMB70,000,000(\$11,109,524) from China Construction Bank were secured by our subsidiary Shandong Borun Industry Co.,Ltd. The remaining short-term bank borrowings of RMB163,200,000(\$25,901,062) were secured by third party guarantees.

Our short-term borrowings mature at various dates within one year. These facilities contain no specific renewal terms or any requirement for the maintenance of financial covenants. We have historically been able to pay off the loans on the due dates and borrow again from the same banks. We have been making this type of loan arrangement since 2006. As we expanded our business, our borrowing capacity also increased over the years. This type of financing is very similar to a revolving line of credit and is 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 loans.

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

**Investing Activities**—Net cash used in investing activities largely reflects capital expenditures made in connection with the expansion and upgrade of our manufacturing facilities, and purchase of land use rights. Net cash used in investing activities amounted to (1) RMB213.4 million (\$33.9 million) in the year ended December 31, 2009 mainly related to purchases of property, plant and equipment for Phase II at our Shouguang and Daqing facilities of RMB175.5 million (\$27.9 million) and cash used to purchase our Daqing facility of RMB45.8 million (\$7.3 million), offset by proceeds from disposal of outdated production facilities, (2) RMB570.0 million (\$90.5million) in the year ended December 31, 2010 mainly related to payment for construction of Daqing Phase III facility and our liquid carbon dioxide project at our Shouguang facility of RMB537.6 (\$85.3 million), and cash used to purchase certain land use rights of RMB32.4 million (\$5.2 million), and (3) RMB303.1 million (\$48.1 million) in the year ended December 31, 2011 mainly related to payment for construction of the liquid carbon dioxide improvement project and crude corn oil project at our Shouguang facility of RMB154.6 million (\$24.5 million), and the payment for completing our Daqing Phase III facility of RMB148.5 million (\$23.6 million).

**Future Capital Requirements**—We had cash on hand of RMB105.8 million (\$16.8 million), RMB341.0 million (\$54.1 million) and RMB223.9 million (\$35.5 million) on December 31, 2009, 2010 and 2011, respectively. We expect our capital expenditures over the next several years to increase as we execute our expansion plan to further improve our existing facilities and acquire new facilities. Our primary planned capital expenditures for fiscal year 2012 are for expansion of our production facility to shift our product mix. We expect our capital expenditures in 2012 to be ranged from approximately RMB 250.0 million (US\$ 39.7 million) to RMB 350.0 million (US\$ 55.5 million). We expect to fund the planned expenditures, including our working capital requirements, through cash generated from operations, borrowings through short-term loans, and the proceeds from issuances 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 RMB201,600 (\$31,995.4), RMB611,200 (\$97,002.0) and RMB432,300 (\$68,609.2), during the fiscal years ended December 31, 2009, 2010 and 2011, 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, 2012 to December 31, 2012 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 its RMB406.2 million (\$64.5 million) short-term bank loans that matured within one year. We guaranteed for the granaries' bank loans amount to RMB304.2 million (\$48.3million), and the remaining bank loans we guaranteed of RMB102.0 million (\$16.2million) was agreed to after the borrower had provided guarantee to us of short-term bank loans of RMB133.2 million (\$21.1 million). Except for such guarantee, 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, 2011:

	Payment Due By Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
			(RMB in millions)		
Capital commitment	10.5	10.5	—	—	—
Purchase obligation for corn	841.5	841.5	—	—	—
Short-term debt	508.7	508.7	—	—	—
Long-term debt	—	—	—	—	—
Total:	1,360.7	1,360.7	—	—	—

## 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	41	Chief Executive Officer and Chairman of the Board
Bing Yu	35	Chief Strategy Officer
Yuanqin Chen	28	Chief Financial Officer
Hengxiu Song	40	Chief Operations Officer, General Manager of Shandong Borun Industrial Co., Ltd. and Director
Wei Qi	52	Chief Technology Officer
Yunsheng Wang	50	General Manager of Daqing Borun Biotechnology Co., Ltd.
Raymond S. Chadwick	60	Independent Director
Lucy Guo	38	Independent Director
Binbin Jiang	37	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.

**Mr. Raymond S. Chadwick, Independent Director**

Mr. Chadwick has served as our independent director since June 2010. Mr. Chadwick has also served as President & Chief Executive Officer of Diageo Chateau & Estate Wines, the wine division of Diageo, the world's leading premium drinks business, beginning in 2001, when he assumed responsibility for the integrated wine operations of Guinness UDV North America and Seagram Chateau & Estate Wines. On July 1, 2009, Mr. Chadwick stepped down from that role after 35 years of overall service, but continues to serve as a member of the Board of Directors of Diageo Chateau & Estate Wines. Previously, Mr. Chadwick served as Executive Vice President and Chief Financial Officer of the Seagram Chateau & Estate Wines Company, where his responsibilities included the overall direction of the finance function, long range and strategic planning, international sales, business development, information services, and environmental affairs. Mr. Chadwick served concurrently as Managing Director of Barton & Guestier, S.A., and had functional responsibility for the finance function at the Seagram Beverage Company. Mr. Chadwick first joined Seagram in 1974 and worked in a variety of roles, including market research, sales and finance. He also spent time in London in an international marketing role for Brown-Forman. Mr. Chadwick served as integration leader when The Seagram Classics Wine Company and Seagram Chateau and Estate Wines Company were merged in 1996. He served as co-integration leader during the merger of Diageo and Seagram wine operations in 2001, which led to the formation of Diageo Chateau & Estate Wines. Mr. Chadwick received his Bachelor of Arts and Master of Arts degrees from the University of Virginia, as well as an M.B.A. from the University of Chicago. He also studied in France, including a year in Bordeaux on a Fulbright scholarship. He currently serves as Chairman of the Board of Wine Institute, and as a Director of the Napa Valley Vintners. He also serves on the Advisory Board of Klein Foods, Inc. and on the Board of the Sonoma State University Wine Business Management Program.

**Ms. Lucy Guo, Independent Director**

Ms. Guo has served as our independent director since June 2010. Since August 2009, Ms. Guo has served as an equity research analyst at Ziff Brothers Investments, L.L.C. From April 2005 to August 2009, Ms. Guo served as a director in the Private Equity Group of Mergers & Acquisitions Transaction Services at KPMG LLP in Chicago, IL, where she advised private equity firms and strategic buyers on their domestic and cross-border deals in the U.S., Europe and Asia-Pacific region. Prior to joining KPMG, she served as a senior associate at PricewaterhouseCoopers LLP in Philadelphia, PA, where she advised a diversified group of publicly held and private companies with a range of financial advisory services including audits, SEC filing requirements for initial public offerings, debt offerings, private placements and implementation of Sarbanes-Oxley Section 404 requirements. Ms. Guo received her Bachelor of Economics with a major in Investment Management from the Central University of Finance and Economics in China, as well as an M.B.A. from the University of Miami. Ms. Guo is a CFA Charter holder since 2003 and a CPA licensed in the state of Illinois and Pennsylvania. She is also a member of CFA Institute and a member of American Institute of Certified Public Accountants.

**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.

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

Ms. Yu has served as our chief strategy officer since January 2012. Since 2010, she served as our chief financial officer and has served as our chief financial officer of Shandong Borun since October 2009. From June 2007 to September 2009, Ms. Yu served as the executive director of Brainzoom Business Consulting Co., Ltd., a business and financial consulting services company in China. From March 2006 to May 2007, Ms. Yu served as the corporate financial director of Cellon International Holdings Corporation in Shenzhen, China. Prior to that, Ms. Yu worked at Arthur Andersen & Co. and as a manager of Assurance and Business Advisory at PricewaterhouseCoopers in Shenzhen. Ms. Yu earned a bachelor's degree in Accounting from the Central University of Finance and Economics in Beijing, China. Ms. Yu is a Certified Internal Auditor, a member of the Chinese Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

**Mr. Yuanqin Chen, Chief Financial Officer**

Mr. Chen has served as our chief financial officer since January 2012. Since August 2010, he has served as our vice-president for finance and financial reporting manager. Prior to that, Mr. Chen worked at KPMG Huazhen in Shanghai, from July 2006 to July 2010, where he performed statutory and Sarbanes-Oxley-Act-related internal control audit, annual audit and reporting, and audit for initial public offerings for various companies listed on the New York Stock Exchange, Hong Kong Stock Exchange, and Shanghai Stock Exchange. Mr. Chen earned a Bachelor's degree with a major in Business Administration from Shanghai International Studies University and a Bachelor's degree in Economics from Fudan University in China.

**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. Yunsheng Wang, General Manager of Daqing Borun Biotechnology Co., Ltd.**

Mr. Wang has served as the general manager of Daqing Borun Biotechnology Co., Ltd. since June 2011. He served as the administrative deputy general manager of Daqing Borun Biotechnology Co., Ltd. from July 2008 to May 2011. Mr. Wang served as Thermoelectricity Engineer of Shandong Borun Industrial Co., Ltd. from March 2008 to June 2008. Mr. Wang obtained a bachelor's degree in Thermal Power Engineering from Xi'an Jiaotong University.

## **B. Compensation**

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

In 2011, the aggregate cash compensation to our executive officers and directors was RMB 3,692,000 (\$586,000).

### **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. Each of our directors was elected at our 2011 annual meeting of shareholders, which was held on December 29, 2011, to hold office until our next annual meeting of shareholders, which we currently expect will be held in December 2012. Each of our directors has served on our board since 2010, although Mr. Song stepped down from the Board during the period November 2010 to June 2011.

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 Raymond S. Chadwick, Lucy Guo and Binbin Jiang, each of whom satisfy the "independence" tests of Section 303A.02 of the NYSE Listed Company Manual and Rule 10A-3 promulgated under the United States Securities Exchange Act of 1934, as amended, or the Exchange Act. Lucy Guo 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 Raymond S. Chadwick, Lucy Guo and Binbin Jiang, each of whom satisfy the “independence” tests of Section 303A.02 of the NYSE Listed Company Manual. Binbin Jiang 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 Raymond S. Chadwick, Lucy Guo and Binbin Jiang, each of whom satisfy the “independence” tests of Section 303A.02 of the NYSE Listed Company Manual. Raymond S. Chadwick 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 625 full-time employees and our Daqing facility had 644 full-time employees for a total of 1,269 full time employees, which is comprised of 979 manufacturing staff, 253 management and administrative personnel, and the rest, 37 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 RMB2.0 million (\$0.3 million), RMB6.2 million (\$1.0 million) and RMB10.5 million (\$1.7 million) for the years ended December 31, 2009, 2010 and 2011, 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, 2011, we have paid RMB77,000 (\$12,220) and RMB3,330,000 (\$528,496) 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 April 6, 2012, 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	—	—
Bing Yu, Chief Strategy Officer	—	—
Yuanqin Chen, Chief Financial Officer	—	—
Wei Qi, Chief Technology Officer	—	—
Hengxiu Song, Chief Operations Officer, General Manager of Shandong Borun and Director	—	—
Yunsheng Wang, General Manager of Daqing Borun	—	—
Binbin Jiang, Independent Director	—	—
Raymond S. Chadwick, Independent Director	—	—
Lucy Guo, Independent Director	—	—
<b>All directors and executive officers as a group (9 persons):</b>	—	—
<b>Principal Shareholders:</b>		
King River Holding Limited <sup>(1)</sup>	14,499,770	56.36%
Star Elite Enterprises Limited <sup>(2)</sup>	1,740,887	6.77%

(1) 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.

(2) Ms. Ping Chen owns 100% of the issued and outstanding shares of capital stock of Star Elite, is the sole director of Star Elite and has sole voting and investment control over the shares held by Star Elite. The business address of Star Elite is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.

None of our shareholders has different voting rights from other shareholders. 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 (\$12,141,122.7). 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.

#### ***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, the 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 the Company which are senior to, or on a parity with, those granted to the Holders of Registrable Securities. A complete description of such registration rights are set forth on Exhibit C to the shareholders agreement.

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

There were no related party transactions in the fiscal year ended December 31, 2011.

#### **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 2009, 2010 and 2011. 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 April 2, 2012, the closing sale price of our ADSs as reported on the NYSE was \$3.14 per ADS.

	Sale Price	
	High	Low
<b>Annual High and Low</b>		
2010 (from June 11, 2010)	\$ 18.55	\$ 4.93
2011	\$ 14.29	\$ 2.94
<b>Quarterly High and Low</b>		
Second Quarter 2011 (from June 11, 2010)	\$ 7.00	\$ 6.23
Third Quarter 2010	\$ 11.07	\$ 4.93
Fourth Quarter 2010	\$ 18.55	\$ 10.33
First Quarter 2011	\$ 14.29	\$ 10.05
Second Quarter 2011	\$ 11.51	\$ 3.92
Third Quarter 2011	\$ 7.91	\$ 3.05
Fourth Quarter 2011	\$ 4.59	\$ 2.94
<b>Monthly High and Low</b>		
October 2011	\$ 4.59	\$ 2.94
November 2011	\$ 4.38	\$ 3.15
December 2011	\$ 3.57	\$ 3.13
January 2012	\$ 4.77	\$ 3.28
February 2012	\$ 4.52	\$ 3.32
March 2012	\$ 3.44	\$ 2.77
April 2012 (through April 2, 2012)	\$ 3.14	\$ 3.14

**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.

We obtained a short-term bank loan of RMB10,000,000 (\$1,587,075) from Agricultural Development Bank of China and a short-term bank loan of RMB20,000,000 (\$3,174,150) from Industrial & Commercial Bank of China which were secured by our equipment and raw material with total carrying value of RMB46,339,787 (\$7,354,471) and RMB 35,389,200 (\$5,616,531), respectively.

We also obtained a short-term bank loan of RMB70,000,000 (\$11,109,524) from Agricultural Development Bank of China and a short-term loan of RMB30,000,000 (\$4,761,225) from Longjiang Commercial Bank which were secured by third-party guarantors, pursuant to these loan agreements, we granted security interest in its buildings and land-use rights to the third-party guarantors with total carrying values of RMB8,454,748 (\$1,341,832) and RMB14,570,866 (\$2,312,506), respectively.

The mortgage and the counter-guarantee mortgage agreements are effective so long as the loans referenced above are outstanding. If we do not pay the loans on time, then the China People’s Court may seize the property. We have the duty to maintain the property and its value. If the property is damaged or destroyed, we must timely notify the banks and the guarantors, and they may collect the insurance proceeds. After signing these contract, we were required to purchase and did purchase insurance on the collateral and the banks and guarantors were to be named the primary beneficiary of the insurance. They have the right to the collateral if we do not pay on time, become bankrupt or lose our business license. They may proceed with their right through negotiation with us or through the Court. We shall not transfer the collateral to a third party without the prior written notice to and consent from the banks and the guarantors. We must also notify them on all material changes to our business.

## **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 PRC Enterprise Income Tax Law, or the EIT Law, and the implementation regulations for the EIT Law issued by the PRC State Council, became effective as of January 1, 2008. The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered “resident enterprises” and are generally subject to the uniform 25% enterprise income tax rate as to their worldwide income. Under the implementation regulations for the EIT Law issued by the PRC State Council, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Currently 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 foreign 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;
- 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 depositary 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 flow-through entity. If you hold our ADSs through a partnership, 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*

Subject to the “Passive Foreign Investment Company Considerations” discussion below, 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 made before January 1, 2013 and treated as dividends generally will constitute “qualified dividend income” and as a result will be taxed at a maximum 15% rate, 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 general 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 may be eligible for an indirect tax credit for PRC enterprise tax that we are required to pay on our PRC taxable income, at the time we make distributions, 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*

Subject to the discussion below under “Passive Foreign Investment Company Considerations,” 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 amounts 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, under current law 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 our use of the proceeds of our initial public offering and on the projected composition of our income and valuation of our assets, including goodwill, we do not believe we were considered to be a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes for our taxable year ended December 31, 2011, and we do not expect to become a PFIC for our taxable year ending December 31, 2012 or thereafter, although there can be no assurance in this regard.

In general, we will be a PFIC for any taxable year in which at least 75% of our gross income is passive income or at least 50% of the value of our assets (based on an average of the quarterly values) is attributable to assets that produce or are held for the production of passive income. For this purpose, passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we 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 must be made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our income or asset composition. Although we expect to continue to conduct our operations in a manner that will not cause us to become a PFIC, because we have valued our goodwill based on the market value of our ordinary shares and ADSs, a decrease in the price of our ordinary shares or ADSs may result in our becoming a PFIC. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the 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 in taxable years beginning prior to January 1, 2013 (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 an effective 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.

If we are or were to become a PFIC, the rules described above could be avoided if you elected to treat us as a “qualified electing fund” under Section 1295 of the Code. However, this option would not be available to you because we do not intend to comply with the requirements necessary to permit you to make this election.

**You are urged to consult your tax advisors concerning the 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*

Legislation enacted in 2010 requires certain U.S. Holders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, dividends on and capital gains from the sale, retirement or other taxable disposition of our ADSs for taxable years beginning after December 31, 2012. You should consult your own tax advisor concerning the effect, if any, of this legislation on holding your ordinary shares or 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**

Legislation enacted in 2010 requires that 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 reporting requirements and penalties described in this paragraph apply to taxable years beginning after March 18, 2010.

The legislation described in the preceding paragraph also extends 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 legislation 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***

We are exposed to interest rate risk due primarily to our short-term borrowings. As of December 31, 2011, we had a bank loan of RMB 70.0 million (\$11.1 million) from China Construction Bank, the interest rate of which was fixed. The interest rates for all other short-term bank loans were subject to periodic adjustment in accordance with interest rates published by the People's Bank of China. The basic interest rate is subject to adjustment by PBOC from time to time. The current basic interest rate published by PBOC is 6.56%. We monitor interest rates in conjunction with our cash requirements to determine the appropriate level of debt balances relative to other sources of funds. We do not use any derivative financial instruments to manage interest rate risks.

##### ***Inflation***

In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China, the change in Consumer Price Index in China increased by 5.4% in 2011 compared with 2010.

##### ***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 0.5% per day and the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate. This change in policy has resulted in an appreciation of the RMB against the U.S. dollar of approximately 0.1%, 3.0% and 4.9% in 2009, 2010 and 2011, 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;
- expenses of the depositary in connection with the conversion of foreign currency into U.S. dollars; and

We will pay all other charges and expenses of the depositary and any agent of the depositary (except the custodian) pursuant to agreements from time to time between us and the depositary. The fees described above may be amended from time to time.

The depositary collects its fees for issuance and cancellation of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions, or by directly billing investors, or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide services to any holder until the fees and expenses owing by such holder for those services are paid.

#### *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, 2011, we received \$231,750 (gross amount before tax) 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, 2011, 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 on that evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

#### 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, 2011. In making its assessment, management used the criteria in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2011.

#### 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.

### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Lucy Guo, 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 Lucy Guo, 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.chinaneborun.com](http://www.chinaneborun.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 BDO China Dahua CPA Co., Ltd. (formerly BDO China Li Xin Dahua Co., Ltd.) in 2010 and 2009 and BDO China Shu Lun Pan Certified Public Accountants LLP, our independent registered public accounting firms, for the periods indicated.

	Year ended December 31,			
	2009	2010	2011	
	(RMB)	(RMB)	(RMB)	(US\$)
Audit fees	—	2,251,718	2,520,000	399,943
Audit-related fees	—	—	—	—
Tax fees	—	—	—	—
All other fees <sup>(1)</sup>	2,000,000	1,529,816	—	—

<sup>(1)</sup> All other fees means the aggregate fees rendered in connection with our initial public offering in 2010.

<sup>(2)</sup> All audit fees in 2010 were paid to BDO Dahua.

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**

On June 30, 2011, we were notified that the personnel of Division Four of BDO China Dahua CPA Co. Ltd. (formerly BDO Li Xin Dahua CPA Co., Ltd.) ("BDO Dahua") in Shenzhen, Guangdong, our previous independent registered accountant, would be joining BDO China Shu Lun Pan Certified Public Accountants LLP ("BDO China Shu Lun Pan"), another BDO international member firm headquartered in Shanghai, effective June 30, 2011. Accordingly, in order to retain our existing audit team and minimize disruption, we dismissed BDO Dahua and engaged BDO China Shu Lun Pan as our independent registered public accounting firm. This change does not disrupt or alter the composition of the existing audit team working with our company.

The audit reports of BDO Dahua regarding our financial statements as of and for the fiscal years ended December 31, 2010 and 2009 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.

The decision to dismiss BDO Dahua and engage BDO China Shu Lun Pan was approved by our Audit Committee on July 6, 2011.

During our two most recent fiscal years ended December 31, 2010 and 2009, and through the date of appointment of BDO China Shu Lun Pan as the independent registered public accounting firm, we did not consult with BDO China Shu Lun Pan 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 BDO China Shu Lun Pan on our financial statements. Neither a written report nor oral advice was provided by BDO China Shu Lun Pan to us that was an important factor considered by us in reaching a decision as to any accounting, auditing or financial reporting issue. We have not consulted with BDO China Shu Lun Pan regarding any matter that was either the subject of a disagreement or a "reportable event," each as defined under this Item 16F.

In connection with the audits of our financial statements for the each of the fiscal years ended December 31, 2010 and 2009, and through the date of termination of BDO Dahua as our independent accountant, there were: (i) no disagreements between our company and BDO Dahua 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 Dahua, would have caused BDO Dahua 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 this Item 16F.

We have provided BDO Dahua a copy of the disclosures in the Current Report Form 6-K filed with the SEC dated July 6, 2011 and has requested that BDO Dahua furnish us with a letter addressed to the SEC stating whether or not BDO Dahua agrees with the statements disclosed in the Form 6-K. A copy of the letter dated July 6, 2011 furnished by BDO Dahua in response to that request is filed as Exhibit 16.1 to the Form 6-K dated July 6, 2011.

We also provided BDO China Shu Lun Pan a copy of the disclosures in the Current Report Form 6-K and provided BDO China Shu Lun Pan with the opportunity to furnish a letter addressed to the SEC containing any new information, clarification of our expression of our views, or the respects in which BDO China Shu Lun Pan does not agree with the statements made by us therein.

The appointment of BDO China Shu Lun Pan Certified Public Accountants LLP as our independent auditor for the fiscal year ending December 31, 2011 was ratified, confirmed, approved and adopted in our Annual General Meeting held on December 29, 2011.

**ITEM 16G. CORPORATE GOVERNANCE**

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

### PART III

#### ITEM 17. FINANCIAL STATEMENTS.

We have elected to provide financial statements pursuant to Item 18.

#### ITEM 18. FINANCIAL STATEMENTS.

Our consolidated financial statements are included at the end of this annual report.

#### ITEM 19. EXHIBITS.

Exhibit Number	Description
1.1	Amended and Restated Articles of Association of the Registrant <sup>(1)</sup>
1.2	Certificate of Incorporation of China New Borun Corporation <sup>(1)</sup>
2.1	Form of American Depositary Receipt <sup>(1)</sup>
2.2	Specimen Certificate for Ordinary Shares <sup>(1)</sup>
2.3	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>
2.4	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>
2.5	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>
4.1	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>
4.2	Share Exchange Agreement, dated March 15, 2010, by and among China New Borun Corporation, Mrs. Shan Junqin, Golden Direction Limited and China High Enterprises Limited <sup>(1)</sup>
4.3	Mortgage Contract, dated on or about November 4, 2011, by and between Daqing Borun and the Agricultural Development Bank of China
4.4	Form of Independent Director Agreement <sup>(1)</sup>
4.5	Form of Indemnification Agreement <sup>(1)</sup>
4.6	Counter Security Pledge Agreement, dated July 1, 2011, by and between Daqing Borun Biotechnology Co., Ltd. and the Zhong Lv Credit Guarantee Co., Ltd.
4.7	Counter-Guarantee (Mortgage) Agreement, dated July 1, 2011, by and between Daqing Born Biotechnology Co., Ltd., and the Zhong Lv Credit Guarangee Co., Ltd.
4.8	Commodity Financing Pledge Supervision Agreement, dated April 15, 2011, by and among Industrial & Commercial Bank of China Co., Ltd. Daqing Branch, Daqing Borun Biotechnology Co., Ltd. and China National Foreign Trade Transportation (Group) Heilongjiang Co., Ltd.
8.1	Subsidiaries of Registrant <sup>(1)</sup>
12.1	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of BDO China Shu Lun Pan Certified Public Accountants LLP.
15.2	Consent of BDO China Dahua CPA Co., Ltd.

<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: April 6, 2012

**CHINA NEW BORUN CORPORATION**

/s/ Jinmiao Wang

**Name :** Jinmiao Wang

**Title :** Chairman and Chief Executive Officer

# CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

## Contents

<b>Report of Independent Registered Public Accounting Firm</b>	
December 31, 2009, 2010 and 2011	F-2-F-3
<b>Audited Consolidated Financial Statements</b>	
Consolidated Balance Sheets	F-4
Consolidated Statements of Income and Comprehensive Income	F-5
Consolidated Statements of Shareholders' Equity	F-6
Consolidated Statements of Cash Flows	F-7
<b>Notes to Consolidated Financial Statements</b>	F-8-F-26

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of  
China New Borun Corporation

We have audited the accompanying consolidated balance sheet of China New Borun Corporation and its subsidiaries (the “Company”) as of December 31, 2011 and the related consolidated statement of income and comprehensive income, shareholders’ equity, and cash flows of the year then ended, all expressed in Renminbi. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2011, and the results of its operations and its cash flows for year then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO China Shu Lun Pan Certified Public Accountants LLP  
Shenzhen, the People’s Republic of China  
April 6, 2012

## Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders  
China New Borun Corporation  
Shandong, People's Republic of China

We have audited the accompanying consolidated balance sheet of China New Borun Corporation as of December 31, 2010 and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the two years ended December 31, 2010 and 2009, all expressed in Renminbi. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China New Borun Corporation at December 31, 2010, and the results of its operations and its cash flows for the years ended December 31, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO China Dahua CPA Co., Ltd. (Formerly known as BDO China Li Xin Da Hua CPA Co., Ltd.)

Shenzhen, People's Republic of China  
March 16, 2011

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

(Amounts in RMB unless otherwise stated)

	2010	2011	2011 (Unaudited)
	(RMB)	(RMB)	(\$)
<b>Assets</b>			
Cash	340,984,614	223,875,750	35,530,758
Trade accounts receivable, net of allowance for doubtful accounts of nil and nil, respectively	128,480,503	300,023,348	47,615,951
Inventories	96,942,787	86,205,820	13,681,509
Advance to suppliers	46,113,552	143,742,755	22,813,051
Other receivables	33,904,486	12,682,305	2,012,777
Prepaid expenses	1,313,568	3,957,293	628,052
Total current assets	647,739,510	770,487,271	122,282,098
Property, plant and equipment, net	1,035,304,235	1,127,381,307	178,923,853
Land use rights, net	58,733,967	57,583,427	9,138,921
Intangible assets, net	21,127,500	17,301,257	2,745,839
Total assets	1,762,905,212	1,972,753,262	313,090,711
<b>Liabilities and Shareholders' Equity</b>			
Trade accounts payable	29,222,634	13,200,118	2,094,958
Accrued expenses and other payables	199,446,777	86,945,695	13,798,933
Income taxes payable	19,707,874	34,475,778	5,471,564
Short-term borrowings	498,000,000	508,700,000	80,734,498
Total current liabilities	746,377,285	643,321,591	102,099,953
Total liabilities	746,377,285	643,321,591	102,099,953
Commitments and Contingencies	—	—	—
<b>Shareholders' equity</b>			
Ordinary share—par value of RMB0.0068259; 25,725,000 shares authorized, issued and outstanding	175,596	175,596	25,725
Additional paid-in capital	468,132,187	468,132,187	74,296,083
Retained earnings—appropriated	67,794,324	99,586,852	15,805,179
Retained earnings—unappropriated	480,808,808	762,010,754	120,936,811
Accumulated other comprehensive income (loss)	(382,988)	(473,718)	(73,040)
Total shareholders' equity	1,016,527,927	1,329,431,671	210,990,758
Total liabilities and shareholders' equity	1,762,905,212	1,972,753,262	313,090,711

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,			
	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Revenues	1,060,493,812	1,713,924,878	2,685,223,409	426,165,057
Cost of goods sold	811,865,247	1,308,303,166	2,175,060,342	345,198,359
Gross profit	248,628,565	405,621,712	510,163,067	80,966,698
<b>Operating expenses:</b>				
Selling	2,370,530	2,981,049	5,281,112	838,152
General and administrative	20,177,351	42,734,994	53,779,944	8,535,280
Total operating expenses	22,547,881	45,716,043	59,061,056	9,373,432
Operating income	226,080,684	359,905,669	451,102,011	71,593,266
<b>Other (income) expenses:</b>				
Interest income	(362,507)	(646,231)	(1,169,183)	(185,558)
Interest expense	9,961,785	12,608,465	34,114,359	5,414,204
Others, net	(6,191,254)	254,366	(32,319)	(5,129)
Total other expense, net	3,408,024	12,216,600	32,912,857	5,223,517
Income before income taxes	222,672,660	347,689,069	418,189,154	66,369,749
Income tax expense	56,262,029	88,264,738	105,194,680	16,695,183
Net income	166,410,631	259,424,331	312,994,474	49,674,566
Other Comprehensive Income:				
Foreign currency translation adjustment	(239,818)	(154,780)	(90,730)	(14,400)
<b>Total Comprehensive Income</b>	166,170,813	259,269,551	312,903,744	49,660,166
Participation in undistributed earnings by preference shareholders	(42,868,951)	(27,744,622)	—	—
Net income attributable to ordinary shareholders	123,541,680	231,679,709	312,994,474	49,674,566
<b>Earnings per share:</b>				
Basic and Diluted	8.32	11.07	12.17	1.93
<b>Weighted average ordinary shares outstanding:</b>				
Basic and diluted	14,847,811	20,927,117	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)**

	Class A Convertible Preference Share		Class B Convertible Preference Share		Class C Convertible Preference Share		Ordinary Share		Additional Paid-in Capital Amount	Subscription Receivables Amount	Appropriated Retained Earnings Amount	Unappropriated Retained Earnings Amount	Accumulated Other Comprehensive Income (Loss) Amount	Total Shareholders' Equity Amount
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
<b>Balance as of January 1, 2009</b>	3,711,952	25	—	—	—	—	14,847,811	101,350	173,200,000	(101,375)	27,991,612	94,776,558	11,610	295,979,780
Capital contribution-ordinary shares shareholder	—	—	—	—	—	—	—	—	(94,313)	101,350	—	—	—	7,037
Capital contribution-preference shares shareholder	—	—	—	—	—	—	—	—	1,734	25	—	—	—	1,759
Issuance of preference shares	—	—	1,065,330	7	374,907	3	—	—	54,049,990	—	—	—	—	54,050,000
Net income	—	—	—	—	—	—	—	—	—	—	—	166,410,631	—	166,410,631
Transfer to statutory reserves	—	—	—	—	—	—	—	—	—	—	13,323,291	(13,323,291)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	(239,818)	(239,818)
<b>Balance as of December 31, 2009</b>	3,711,952	25	1,065,330	7	374,907	3	14,847,811	101,350	227,157,411	—	41,314,903	247,863,898	(228,208)	516,209,389
Issuance of ordinary shares shareholder	—	—	—	—	—	—	5,725,000	39,078	241,009,909	—	—	—	—	241,048,987
Transfer of preference shares	(3,711,952)	(25)	(1,065,330)	(7)	(374,907)	(3)	5,152,189	35,168	(35,133)	—	—	—	—	—
Net income	—	—	—	—	—	—	—	—	—	—	—	259,424,331	—	259,424,331
Transfer to statutory reserves	—	—	—	—	—	—	—	—	—	—	26,479,421	(26,479,421)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	(154,780)	(154,780)
<b>Balance as of December 31, 2010</b>	—	—	—	—	—	—	25,725,000	175,596	468,132,187	—	67,794,324	480,808,808	(382,988)	1,016,527,927
Net income	—	—	—	—	—	—	—	—	—	—	—	312,994,474	—	312,994,474
Transfer to statutory reserves	—	—	—	—	—	—	—	—	—	—	31,792,528	(31,792,528)	—	—
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	—	—	—	—	(90,730)	(90,730)
<b>Balance as of December 31, 2011</b>	—	—	—	—	—	—	25,725,000	175,596	468,132,187	—	99,586,852	762,010,754	(473,718)	1,329,431,671
<b>Balance as of December 31, 2011 (\$)</b> <b>(unaudited)</b>	—	—	—	—	—	—	25,725,000	25,725	74,296,083	—	15,805,179	120,936,811	(73,040)	210,990,758

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,			
	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Net income	166,410,631	259,424,331	312,994,474	49,674,566
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation	23,849,605	46,108,118	83,808,331	13,301,010
Amortization expense	4,497,143	4,599,015	4,976,783	789,853
Loss (gain) from disposal of production equipment	(3,991,554)	—	—	—
Deferred income taxes	1,640,997	—	—	—
Changes in operating assets and liabilities:				
Trade accounts receivable	(32,663,705)	(57,082,888)	(171,542,845)	(27,225,134)
Inventories	(13,815,364)	(47,857,728)	10,736,967	1,704,037
Prepaid expenses and other current assets	(9,123,426)	(71,194,527)	(79,050,747)	(12,545,946)
Trade accounts payable	13,840,970	(12,528,255)	(16,022,516)	(2,542,893)
Accrued expenses and other payables	17,885,628	83,175,504	14,672,516	2,328,638
Income tax payable	23,816,458	(10,308,927)	14,767,904	2,343,777
Amounts due to related party	(1,407,960)	—	—	—
Net cash provided by operating activities	190,939,423	194,334,643	175,340,867	27,827,908
<b>Cash flows from investing activities:</b>				
Purchases of property, plant and equipment	(175,502,478)	(537,568,350)	(303,083,944)	(48,101,691)
Asset acquisition	(45,815,984)	—	—	—
Purchases of land use rights	—	(32,386,000)	—	—
Proceeds from sale of equipment and land use right	7,966,257	—	—	—
Net cash used in investing activities	(213,352,205)	(569,954,350)	(303,083,944)	(48,101,691)
<b>Cash flows from financing activities:</b>				
Capital contribution	—	256,100,772	—	—
Receipt from subscription receivable	8,796	—	—	—
Proceeds from issuances of convertible preference shares	54,050,000	—	—	—
Short-term borrowings (payments), net	53,500,000	354,800,000	10,700,000	1,698,170
Net cash provided by financing activities	107,558,796	610,900,772	10,700,000	1,698,170
Effect of foreign currency exchange translation	(239,818)	(81,518)	(65,787)	(10,440)
Net increase (decrease) in cash	84,906,196	235,199,547	(117,108,864)	(18,586,053)
Cash—beginning of year	20,878,871	105,785,067	340,984,614	54,116,811
Cash—end of year	105,785,067	340,984,614	223,875,750	35,530,758
<b>Supplemental disclosure of cash flow information:</b>				
Income taxes	56,262,029	98,573,665	90,426,776	14,351,406
Interest	9,961,785	12,608,465	34,114,359	5,414,204
<b>Non-cash investing activities:</b>				
Accrued fixed asset purchases	7,697,900	81,865,371	37,639,864	5,973,728
Disposal of production equipment	(3,991,554)	—	—	—

See accompanying notes to consolidated financial statements.



## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in RMB unless otherwise stated)

#### 1. Description of business

The accompanying consolidated financial statements include the financial statements of China New Borun Corporation ("New Borun"), Golden Direction Limited ("Golden Direction"), China High Enterprises Limited ("China High"), Weifang Great Chemical, Inc. ("WGC"), Shandong Borun Industrial Co., Ltd. ("Shandong Borun") and Daqing Borun Biotechnology Co., Ltd ("Daqing Borun"). New Borun, Golden Direction, China High, WGC, 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.

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 Standard Codification ("ASC") 805-50-15-6, "Business Combinations."

On July 9, 2008, Shandong Borun acquired all of the equity interests in Daqing Borun, a company formerly called Daqing Anxin Tongwei Alcohol Manufacturing Co., Ltd. (Anxin Tongwei), a limited liability company established under the laws of the PRC on September 20, 2004 in Daqing city, Heilongjiang Province, China. The total purchase price of RMB139,000,000 was allocated based on the estimated fair values of the assets acquired and liabilities assumed at the date of purchase in accordance with ASC 805, Business Combinations. Anxin Tongwei began production of edible alcohol in 2005; 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 Emerging Issues Task Force ("EITF") 98-3, since the acquired set of assets exclude several key items (employees, processes and customers), the Company concluded that the acquired set of assets does not constitute a business and, as a result, accounted for the transaction as an asset acquisition. Subsequent to the acquisition, we spent more than a year and approximately RMB110million (\$17.5 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..

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

#### 1. Description of business (Continued)

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 805-50-15-6, "Business Combinations." Accordingly, the transaction is treated as a recapitalization or reorganization of China High and the assets and liabilities and the historical operations that are reflected in the financial statements are those of China High and its subsidiaries and are recorded at the historical cost basis. New Borun, Golden Direction and China High are holding companies. Financial statements and financial information presented for prior years have been retrospectively adjusted to furnish comparative information for periods during which Golden Direction, China High, WGC and Shandong Borun were under common control.

The Company develops and operates its business through Shandong Borun and Daqing Borun. The Company is principally engaged in manufacture and distribution of edible alcohol and its by-products, including Distillers Dried Grains with Solubles high-protein feed ("DDGS Feed"), corn germ, liquid carbon dioxide and crude corn oil in the PRC.

#### 2. Summary of significant accounting policies

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

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

##### *Segment Reporting*

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

**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)**

***Foreign Currency Translation***

The Company's financial statements are presented in Chinese Renminbi ("RMB"), which is the Company's reporting currency. The functional currency of the Company's subsidiary in Hong Kong is the U.S. dollar while the functional currency of the Company's subsidiaries in the PRC is RMB.

In accordance with ASC 830, 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 (Unaudited)***

The Company reports its financial statements using the RMB. The Dollar amounts disclosed in the accompanying financial statements are presented solely for the convenience of the reader, and have been converted at the rate of RMB6.3009 to one Dollar (\$), which is published by the People's Bank of China on December 31, 2011. Such translations should not be construed as representations that the RMB amounts represent, have been, or could be, converted into, \$ at that or any other rate.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

***Revenue Recognition***

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

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

***Cost of Goods Sold***

The Company's cost of goods sold includes product costs, shipping and handling costs, and costs related to inventory adjustments from time to time. 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, 2009, 2010 and 2011.

**Advertising Expenses**

Costs associated with advertising are expensed as incurred. The Company did not incur any advertising expenses for the years ended December 31, 2009, 2010 and 2011.

**Shipping and Handling Costs**

The Company records all charges for outbound shipping and handling as revenue. All corresponding shipping and handling costs are classified as cost of goods sold.

**Comprehensive Income (Loss)**

The Company presents comprehensive income (loss) in accordance with ASC Topic 220, *Comprehensive Income*. ASC Topic 220 states that all items that are required to be recognized under accounting standards as components of comprehensive income (loss) be reported in the consolidated financial statements. The components of comprehensive income were the net income for the years and the foreign currency translation adjustments.

**Inventories**

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

**Property, Plant, and Equipment**

Property, plant and equipment are recorded at cost. Significant additions or improvements extending useful lives of assets are capitalized. 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 and reflected in the consolidated statements of 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 ASC 350-30, General Intangibles Other Than Goodwill. The current production license for use in the production and distribution of edible alcohol renewed in October 2011 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. The remaining useful life of the production license is estimated as 5.7 years to the expiration date of next renewed license. Amortization expense is calculated on a straight-line basis over the useful life of the production license which include additional five-year expected renewal period.

***Impairment of Long-Lived Assets***

The Company, in accordance with ASC 360, Property, Plant and Equipment, reviews for impairment of long-lived assets and certain identifiable intangibles whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. 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 performed impairment of long-lived assets test and no impairment losses were deemed required and as a result, the Company did not record any impairment losses for the years ended December 31, 2009, 2010 and 2011.

***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 ASC 715, Compensation—Retirement Benefits.

The total amounts for such employee benefits which were expensed were RMB2,016,583, RMB6,242,539 and RMB10,533,795 (\$1,671,792) for the years ended December 31, 2009, 2010 and 2011, respectively.

***Appropriated Retained Earnings***

The income of the Company's PRC subsidiaries is distributable to their shareholder after transfer to reserves as required by relevant PRC laws and regulations and the subsidiary's Articles of Association. As stipulated by the relevant laws and regulations in the PRC, these PRC subsidiaries are required to maintain reserves which are non-distributable to shareholders. Appropriations to the reserves are approved by the respective boards of directors.

## 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)

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 appropriations of reserves of WGC, Shandong Borun and Daqing Borun are 10%, 10% and 10%, respectively, of the net profit after taxation. For the years ended December 31, 2009, 2010 and 2011, the Company made transfers to this reserve fund in the amounts of RMB13,323,291, RMB26,479,421 and RMB31,792,528(\$5,045,712), respectively.

##### **Dividends**

The Company provides discretionary dividend payments based on the Company's Board of Director's approval. The Board of Director's of the Company had not approved any dividend payment as of December 31, 2009, 2010 and 2011.

##### **Income Taxes**

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

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

##### **Earning per share**

Earnings per share is calculated in accordance with ASC 260, "Earnings Per Share." Basic earnings per share is computed by dividing income attributable to holders of ordinary shares by the weighted average number of ordinary shares outstanding during the period. The Two-Class Method prescribed under EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," is used to calculate earnings per share data for preference shares that are participating securities. The preference shareholders participate in undistributed earnings with ordinary shareholders. The preference shareholder is entitled to receive dividends, when declared, on a basis equivalent to holders of ordinary shares. The holder is also entitled to undistributed earnings proportionate to its ownership interest. Undistributed earnings for a period are allocated to the preference shareholder based on its contractual participation rights to share in those current earnings as if all of the earnings for the period had been distributed.

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)

Diluted income per share is computed using the more dilutive of (a) the two-class method or (b) the if-converted method. Diluted earnings per ordinary share also reflects the potential dilution that could occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. There are no other dilutive securities besides the preference shares for any of the years presented. Earnings per share is calculated on an as-if converted basis with the same results as earnings per share calculated using the Two-Class Method for all periods presented.

	2009	Year Ended December 31,		2011
	(RMB)	2010	2011	(Unaudited)
	(RMB)	(RMB)	(RMB)	(\$)
Net income	166,410,631	259,424,331	312,994,474	49,674,566
Undistributed earnings available to ordinary and preference shareholders	166,410,631	259,424,331	312,994,474	49,674,566
Participation in undistributed earnings by preference shareholder	(42,868,951)	(27,744,622)	—	—
Undistributed earnings available to ordinary shareholder	123,541,680	231,679,709	312,994,474	49,674,566
<b>Numerator:</b>				
Numerator for basic and diluted earnings per share	123,541,680	231,679,709	312,994,474	\$ 49,674,566
<b>Denominator:</b>				
Weighted average number ordinary shares outstanding—basic and diluted	14,847,811	20,927,117	25,725,000	25,725,000
<b>Earnings per share:</b>				
Basic and diluted	8.32	11.07	12.17	\$ 1.93

Upon the Company completed its initial public offering (the "IPO") on June 11, 2010, the Company has no preference shares since all of the Class A, B and C convertible preference shares were automatically converted into 5,152,189 ordinary shares.

**Concentrations of Credit Risk and Risk Factors**

**Trade Accounts Receivable**—Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers dispersed across diverse markets and generally short payment terms. Credit is extended based on an evaluation of the customer's financial condition and collateral generally is not required. The Company evaluates the collectability of accounts receivable based on a combination of factors. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations subsequent to the original sale, the Company will record a specific allowance against amounts due, and thereby reduce the net recognized receivable to the amount the Company reasonably believes will be collected.

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)

**Revenues**—Substantially all of the Company's revenues are derived from sales of edible alcohol and its by-products, including DDGS Feed, corn germ, liquid carbon dioxide and crude corn oil in PRC. Any significant decline in market acceptance of the Company's products or in the financial condition of our existing customers could impair our ability to operate effectively.

**Recently Issued Accounting Pronouncements**

In June 2011, the FASB issued Accounting Standards Update ("ASU") 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, which is a new guidance on the presentation of comprehensive income that will require a company to present components of net income and other comprehensive income in one continuous statement or in two separate, but consecutive statements. There are no changes to the components that are recognized in net income or other comprehensive income under current GAAP. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with early adoption permitted. It is applicable to the Company's fiscal year beginning January 1, 2012. Currently, the Company evaluated the effect of ASU 2011-05 on its financial statements and has concluded that it would have no material impact on the Company's consolidated financial statements.

ASU 2011-05 was modified by the issuance of ASU 2011-12 - *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* in December 2011, which indefinitely deferred certain provisions of ASU 2011-05, including the requirement to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. This amendment is effective for both annual and interim financial statements beginning after December 15, 2011. The Company believes that its adoption of ASU 2011-12 will not have any material impact on its consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820)", which provided clarifications for Topic 820 and also included instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurement has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP, and is effective during interim and annual periods beginning after December 15, 2011 for public entities. Early application by public entities is not permitted, and the adoption of ASU 2011-04 is not expected to have a material impact on the Company's consolidated financial position or results of operations.



**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in RMB unless otherwise stated)**

**2. Summary of significant accounting policies (Continued)**

In December 2011, the FASB issued ASU 2011-11 - *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards ("IFRS"). This ASU is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. Retrospective presentation for all comparative periods presented is required. Its adoption of ASU 2011-11 is not expected to have material impact on its consolidated financial statements.

## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

#### 3. Fair value measurements

ASC 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC 820 establishes three levels of inputs that may be used to measure fair value:

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company holds. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2—Valuation based on quoted prices in markets that are not active for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company adopted ASC 820, Fair Value Measurements and Disclosures, on January 1, 2008 for all financial assets and liabilities and nonfinancial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis (at least annually). ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company has not adopted ASC 820 for nonfinancial assets and nonfinancial liabilities, as these items are not recognized at fair value on a recurring basis. The adoption of ASC 820 for all financial assets and liabilities did not have any impact on the Company's consolidated financial statements and the Company does not expect to have any impact on the Company's consolidated financial statements if ASC 820 for nonfinancial assets and liabilities is adopted.

Financial instruments include cash, accounts receivable, prepayments and other receivables, short-term borrowings from banks, accounts payable, accrued expenses and other payables. The carrying amounts of cash, accounts receivable, prepayments and other receivables, short-term loans, accounts payable, accrued expenses and other payables approximate their fair value due to the short-term maturities of these instruments.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in RMB unless otherwise stated)

**4. Trade accounts receivable, net**

Trade accounts receivable at end of years presented consisted of the following:

	2010	2011	2011 (Unaudited)
	(RMB)	(RMB)	(\$)
Trade accounts receivable	128,480,503	300,023,348	\$ 47,615,951
Less: Allowance for doubtful accounts	—	—	—
Trade accounts receivable, net	128,480,503	300,023,348	\$ 47,615,951

As of December 31, 2011, trade accounts receivables of RMB29,196,300 (\$4,633,671 ) were pledged as collateral for bank loans.

**5. Inventories**

Inventories consisted of the following:

	2010	2011	2011 (Unaudited)
	(RMB)	(RMB)	(\$)
Raw materials	77,051,711	64,898,313	\$ 10,299,848
Work-in-process	3,322,509	815,487	129,424
Finished goods	16,568,567	20,492,020	3,252,237
Total inventories	96,942,787	86,205,820	\$ 13,681,509

The Company did not have any inventory reserve as of December 31, 2010 and 2011. As of December 31, 2011, certain raw materials with an aggregate carrying value of RMB35,389,200 (\$5,616,531) were pledged as collateral for bank loans.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in RMB unless otherwise stated)

**6. Property, plant and equipment, net**

Property, plant and equipment consisted of the following:

	2010	2011	2011 (Unaudited)
	(RMB)	(RMB)	(\$)
Buildings and improvements	166,593,566	365,052,501	\$ 57,936,565
Machinery	408,208,210	812,517,546	128,952,617
Office equipment and furnishing	1,420,720	1,406,173	223,170
Motor vehicles	4,151,519	4,650,975	738,144
Construction in progress	551,444,472	124,076,695	19,691,901
Total	1,131,818,487	1,307,703,890	207,542,397
Accumulated depreciation	(96,514,252)	(180,322,583)	(28,618,544)
Property, plant, and equipment, net	1,035,304,235	1,127,381,307	\$ 178,923,853

Certain buildings with an aggregate carrying value of RMB8,454,748 (\$1,341,832) and certain equipment with an aggregate carrying value of RMB46,339,787(\$7,354,471) were pledged as collateral for bank loans as of December 31, 2011.

The depreciation expenses for the years ended December 31, 2009, 2010 and 2011 were RMB23,849,605 , RMB46,108,118 and RMB 83,808,331(\$13,301,010), respectively.

**7. Land use rights, net**

Land use rights consisted of the following:

	2010	2011	2011 (Unaudited)
	(RMB)	(RMB)	(\$)
Land use right	60,630,886	60,630,886	\$ 9,622,576
Accumulated amortization	(1,896,919)	(3,047,459)	(483,655)
Land use rights, net	58,733,967	57,583,427	\$ 9,138,921

As of December 31, 2011, certain land use rights with an aggregate carrying value of RMB14,570,866(\$2,312,506) were pledged as collateral for short-term bank loans.

The amortization expenses for the years ended December 31, 2009, 2010 and 2011 were RMB670,900, RMB772,772 and RMB1,150,540 (\$182,599), respectively.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in RMB unless otherwise stated)

**7. Land use rights, net (Continued)**

Future amortization of land use rights is as follows:

Years Ending December 31,	(RMB) Amount
2012	1,210,695
2013	1,210,695
2014	1,210,695
2015	1,210,695
2016	1,210,695
Thereafter	51,529,952
Total	57,583,427

**8. Intangible assets, net**

Intangible assets consisted of the following:

	2010 (RMB)	2011 (RMB)	2011 (Unaudited) (\$)
Production license	28,779,986	28,779,986	\$ 4,567,599
Accumulated amortization	(7,652,486)	(11,478,729)	(1,821,760)
Intangible assets, net	21,127,500	17,301,257	\$ 2,745,839

The amortization expenses for the years ended December 31, 2009, 2010 and 2011 were RMB3,826,243, RMB3,826,243 and RMB3,826,243 (\$607,254), respectively.

Future amortization of intangible assets is as follows:

Years Ending December 31,	(RMB) Amount
2012	3,826,243
2013	3,826,243
2014	3,826,243
2015	3,826,243
2016	1,996,285
Total	17,301,257

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in RMB unless otherwise stated)

**9. Short-term borrowings**

Short-term borrowings consisted of the following:

	2010		2011	
	Rate	Bal. (RMB)	Rate	Bal. (RMB)
				Bal. (\$)
<b>Shandong Borun</b>				
<b>From Financial institutions</b>				
Industrial & Commercial Bank of China	5.31-6.672%	103,500,000	6.10%	28,000,000
Agricultural Bank of China	5.31-6.90%	139,500,000	5.81-6.90%	163,200,000
<b>Sub-total</b>		<b>243,000,000</b>	-	<b>191,200,000</b>
<b>Daqing Borun:</b>				
<b>From Financial institutions</b>				
Longjiang Commercial Bank	6.63-7.23%	95,000,000	8.53-9.18%	95,000,000
China Construction Bank	5.56%	30,000,000	6.06%	70,000,000
Agricultural Development Bank of China	5.31-5.56%	130,000,000	6.31-6.56%	132,500,000
Industrial & Commercial Bank of China	-	-	6.94%	20,000,000
<b>Sub-total</b>		<b>255,000,000</b>		<b>317,500,000</b>
<b>Total</b>		<b>498,000,000</b>		<b>508,700,000</b>

As of December 31, 2011, a short-term bank loan of RMB10,000,000 (\$1,587,075) from Agricultural Development Bank of China were secured by the Company's equipment with total carrying value of RMB46,339,787 (\$7,354,471). A short-term bank loan of RMB70,000,000(\$11,109,524) from Agricultural Development Bank of China and a short-term loan of RMB30,000,000(\$4,761,225) from Longjiang Commercial Bank were secured by third-party guarantors, pursuant to these loan agreements, the Company granted security interest in its buildings and land-use rights to the third-party guarantors with total carrying values of RMB8,454,748 (\$1,341,832) and RMB14,570,866 (\$2,312,506), respectively. The remaining short term loans from Agricultural Development Bank of China amounting to RMB52,500,000(\$8,332,143) were credit loan and all the short-term loans of RMB132,500,000(\$21,028,742) from Agricultural Development Bank of China were secured by the Chief Executive Officer, Mr. Jinmiao Wang simultaneously. A short-term bank loan of RMB28,000,000(\$4,443,810) from Industrial & Commercial Bank of China were secured by the Company's accounts receivables amount to RMB29,196,300 (\$4,633,671). A short-term bank loan of RMB20,000,000(\$3,174,150) from Industrial & Commercial Bank of China were secured by the raw materials amount to RMB35,389,200(\$5,616,531). A short-term bank loan of RMB65,000,000(\$10,315,987) from Longjiang Bank and a short-term loan of RMB70,000,000(\$11,109,524) from China Construction Bank were secured by the Company's subsidiary Shandong Borun Industry Co.,Ltd. The remaining short-term bank borrowings of RMB163,200,000(\$25,901,062) were secured by third party guarantees.

Except of interest rate for short-term bank loan of RMB70,000,000 (\$11,109,524) from China Construction Bank is fixed, interest rates for all other short-term bank loans are subject to be adjusted periodically in accordance with interest rate published by the People's Bank of China

All of the above short-term loans are fixed term loans with a period of 12 months or less. Interest is payable on a monthly or quarterly basis. All short-term loans mature at various dates within one year. These facilities contain no specific renewal terms or any requirement for the maintenance of financial covenants. The Company has traditionally and successfully negotiated the renewal of certain facilities shortly before they mature.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Amounts in RMB unless otherwise stated)

**10. Accrued expenses and other payables**

Accrued expenses consisted of the following:

	2010	2011	2011 (Unaudited)
	(RMB)	(RMB)	(\$)
Payroll and welfare payable	8,093,318	13,256,796	\$ 2,103,953
VAT and other tax payables	27,531,976	29,906,387	4,746,368
Other payables and accruals	4,282,981	6,142,648	974,884
Purchase fixed assets payables	159,538,502	37,639,864	5,973,728
<b>Total</b>	<b>199,446,777</b>	<b>86,945,695</b>	<b>\$ 13,798,933</b>

**11. Shareholders' equity**

For the purpose of reorganization ("Reorganization"), the Company consummated a series share exchange agreements in the first quarter of 2010. Effective as of March 15, 2010, New Borun consummated a share exchange agreement with Golden Direction Limited whereby New Borun acquired 100% of the voting capital stock of Golden Direction in exchange for the issuance by New Borun to King River Holding Limited ("King River"), a British Virgin Islands company which is 100% controlled and owned by Mrs. Shan Junqin, a member of the Wang Family, of 14,847,810 additional ordinary shares. As of the date of that agreement Golden Direction (1) became a wholly owned subsidiary of New Borun and (2) holds approximately 74.24% of the voting capital stock of China High.

Effective as of February 28, 2010, New Borun and Golden Direction consummated a share exchange agreement whereby Golden Direction acquired the remaining 25.76% (approximate) of China High. All the exiting preference shareholders of China High exchanged all their respective shares of China High for shares of the Company. The rights of the preference shares issued by the Company are the same as those originally issued by China High. Pursuant to the exchange, New Borun issued (i) 3,711.952 of its Class A convertible preference shares, which are automatically convertible into 3,711,952 of its ordinary shares upon the closing of the IPO, to one of China High's private equity investors, Star Elite Enterprises Limited, or Star Elite, a British Virgin Islands company, (ii) 1,065.330 shares of its Class B convertible preference shares, which are automatically convertible into 1,065,330 ordinary shares upon the closing of IPO, to one of China High's private equity investors, Earnstar Holding Limited, or Earnstar, a British Virgin Islands company and (iii) 374.907 shares of its Class C convertible preference shares, which are automatically convertible into 374,907 ordinary shares upon the closing of IPO, to one of China High's private equity investors, TDR Advisors Inc., or TDR, a British Virgin Islands company. Upon the consummation of this exchange, Golden Direction continues to be a wholly-owned subsidiary of New Borun and China High became a wholly owned subsidiary of Golden Direction.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in RMB unless otherwise stated)**

**11. Shareholders' equity (Continued)**

All share and per share data before December 31, 2009, the effective date of the Company's reorganization, are presented to give retroactive effect to the reorganization described above.

On June 11, 2010, the Company completed its IPO and issued 5,725,000 American Depositary Shares ("ADSs"), representing 5,725,000 ordinary shares. Meanwhile, the Class A, B and C convertible preference shares were automatically converted into 5,152,189 ordinary shares. As of December 31, 2011, the total ordinary shares of the Company were 25,725,000.

**Convertible preference share.** On or about October 10, 2008, China High issued 2,000 Class A convertible preference share ("SEE Preference A Share") to Star Elite with a par value of RMB0.88 in exchange for RMB1,759 preference share subscription receivable and RMB70,000,000 cash. The terms of the SEE Preference A Share are as follows:

**Voting, Liquidity and Ownership Rights**—The holder is entitled to the number of votes and ownership shares equal to the number of ordinary share. The preference shareholder is entitled to vote on all matters submitted to a vote of shareholders. The holder has the same liquidity rights as the common shareholder.

**Conversion Rights**—The holder is entitled to convert SEE Preference A Share to ordinary share anytime.

**Dividends**—The holder is entitled to receive dividends, when declared, on an as-converted basis. The holder is also entitled to undistributed earnings proportionate to its ownership interest.

**Additional Shares Rights**—The holder is entitled to receive additional ordinary shares from other ordinary shareholders if China High does not meet the minimum net income requirement based on an agreed upon formula in the Class A convertible preference share agreement. Such shares are not to be issued by the Company but a transfer of ordinary share from current ordinary share shareholders to the holder of Class A convertible preference share which is a transaction outside the Company level.

On or about June 12, 2009, China High authorized and issued 563 Class B convertible preference share ("Earnstar Preference Share") to Earnstar with par value RMB0.88 in exchange for RMB40,000,000 cash. On September 22, 2009, China High authorized and issued an additional 202 Class C convertible preference share ("TDR Preference Share") to TDR in exchange for RMB14,050,000 cash. An additional 11 Earnstar Preference Shares was authorized and issued to Earnstar in no consideration as result of anti-dilution. The Class B convertible preference share and Class C convertible preference share have the same terms as Class A convertible preference share with exception to minimum net income requirement whereas such requirement threshold is different.

The Company recognized a beneficial conversion feature discount on the Class A convertible preference share at its intrinsic value, which was the fair value of the ordinary share at the commitment date for the Class A convertible preference share investment, less the effective conversion price but limited to the RMB70,000,000 of proceeds received from the sale in accordance with ASC 470-20, Debt with Conversion and Other Options. The Company recognized RMB42,000,000 beneficial conversion feature as an increase in additional paid-in capital in the accompanying consolidated balance sheets on the date of issuance of the Class A convertible preference share since these shares were convertible to ordinary share at the issuance date. The fair value of the Company's Class A convertible preference share, Class B convertible preference share and Class C convertible preference share was valued by an independent valuation firm. Based on the fair value valuation performed, the fair value of Class A convertible preference share was approximately RMB56,000 per share and was issued at RMB35,000 per share at the date of issuance. The approximated fair value for Class B convertible preference share and Class C convertible preference share was approximately RMB71,000 and RMB69,000, respectively.



## CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

#### 11. Shareholders' equity (Continued)

In accordance with ASC 470-20, Debt with Conversion and Other Options, the Company amortized the convertible preference share discount of RMB42,000,000 which was recorded as a reduction of net income attributable to common shareholder resulting from recognition of the embedded beneficial conversion feature of the SEE Preference Shares on the date of issuance because Class A convertible preference share were not mandatorily redeemable and are immediately convertible into ordinary share.

Upon the Company completed its initial public offering (the "IPO") on June 11, 2010, the Company has no preference shares since all of the Class A, B and C convertible preference shares were automatically converted into 5,152,189 ordinary shares.

#### 12. Restricted net assets

The Company's ability to pay dividends is primarily dependent on the Company receiving distributions of funds from its subsidiaries. Relevant PRC statutory laws and regulations permit payments of dividends by the Company's PRC subsidiaries only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. The results of operations reflected in the financial statements prepared in accordance with U.S. GAAP differ from those reflected in the statutory financial statements of the Company's subsidiaries.

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, a foreign invested enterprise established in the PRC is required to provide certain statutory reserves, namely general reserve fund, the enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in the enterprise's PRC statutory accounts. A wholly owned foreign invested enterprise is required to allocate at least 10% of its annual after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital based on the enterprise's PRC statutory accounts. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors for all foreign invested enterprises. The aforementioned reserves can only be used for specific purposes and are not distributable as cash dividends. WGC was established as a wholly-owned foreign invested enterprise and therefore are subject to the above mandated restrictions on distributable profits.

Additionally, in accordance with the Company Law of the PRC, a domestic enterprise is required to provide 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. Shandong Borun and Daqing Borun were established as domestic invested enterprises and therefore are subject to the above mandated restrictions on distributable profits.

As a result of these PRC laws and regulations that require annual appropriations of 10% of after-tax income to be set aside prior to payment of dividends as general reserve fund, the Company's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company.

Amounts restricted include paid-in capital and statutory reserve funds of the Company's PRC subsidiaries as determined pursuant to the PRC accounting standards and regulations, totaling approximately RMB145,618,626 and RMB177,411,154(\$28,156,478) as of December 31, 2010 and 2011 respectively.

CHINA NEW BORUN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Amounts in RMB unless otherwise stated)

13. Income taxes

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's 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. Pursuant to the PRC Enterprise Income Tax Law, Enterprise Income Tax is generally imposed at a statutory rate of 25%.

The following table represents the Company's effective tax rate reconciliation for the periods presented:

	Year Ended December 31,		
	2009	2010	2011
Statutory tax rate	25%	25%	25%
Expenses not deductible	0.27%	0.39%	0.15%
Income not subject to tax	—	—	—
Effective tax rate	25.27%	25.39%	25.15%

The provision for income taxes consists of taxes on income from operations plus changes in deferred taxes for the periods presented:

	Year Ended December 31,			
	2009	2010	2011	2011
	(RMB)	(RMB)	(RMB)	(Unaudited) (\$)
Current tax expenses	54,621,032	88,264,738	105,194,680	\$ 16,695,183
Deferred tax benefits	1,640,997	—	—	—
Income tax expense	56,262,029	88,264,738	105,194,680	\$ 16,695,183

Pursuant to PRC Enterprise Income Tax Law ("EIT"), the PRC subsidiaries of China New Borun is obligated to withhold income tax on dividends paid-out to the U.S. entity, a foreign entity, and non-resident, for earnings retained after January 1, 2008. 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 Company has adopted ASC Topic 740-10-05, *Income Taxes*. To date, the adoption of this interpretation has not impacted the Company's financial position, results of operations, or cash flows. 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, 2011, management considered that the Company had no 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 future. There are no estimated interest costs and penalties provided in the Company's consolidated financial statements for the years ended December 31, 2009, 2010 and 2011, 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.

**CHINA NEW BORUN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Amounts in RMB unless otherwise stated)**

**14. Commitments and contingencies**

As of December 31, 2010 and 2011, capital commitment for purchase of property, plant and equipment were RMB25,120,000 and RMB10,500,702(\$1,666,540) respectively.

The Company did not have any significant lease commitment as of December 31, 2010 and 2011.

As of December 31, 2010 and 2011, purchase obligations for corn were RMB 535,310,000 and RMB 841,465,000(\$133,546,795), respectively.

As of December 31, 2011, the Company was not any party to any legal proceedings or threatened legal proceedings, the adverse outcome of which, individually or in the aggregate, it believes would have a material adverse effect on its business, financial condition and results of operations.

As of December 31, 2011, the Company guaranteed the short-term bank loans amount to RMB406,200,000 (\$64,466,981) for third parties as a guarantor, thereinto, the Company guaranteed the granaries' bank loans amounting to RMB304,200,000(\$48,278,817) , the remaining bank loans was guaranteed for the reciprocal guarantors.

**THE MORTGAGE CONTRACT**

AGRICULTURAL DEVELOPMENT BANK OF CHINA

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**Mortgagor (in full): Daqing Borun Biotechnology Co., Ltd**

Business License Number: 230606100202956

Legal Representative (Main Responsible Officer): Wang Jinmiao

Address: Jubao Village, Zhusan Township, Datong District, Daqing

Postal code: 163515

Bank of Basic Deposit Account and Account Number: Daqing Datong Branch of Longjiang Bank Corporation with the Account No. 020120218000105

Tel and Fax: 0459-6989708

**Mortgagee (in full): Daqing Branch of Agricultural Development Bank of China**

Legal Representative (Main Responsible Officer): Wang Weidong

Address: West to Beisa District Procuratorate, Jianshe Road, Hi-tech Zone District, Daqing City, Hei Longjiang Province

Postal code: 163316

Tel and Fax: 0459-6297106

In order to ensure the obligations of debtor under the Working Capital Loan Contract (hereinafter referred to as "Principal Contract") (Contract No: 23060500-2011 (Qing Ying) Zi No. 0034), which was entered into between Daqing BoRun Biotechnology Co., Ltd. and the pledgee on November 4, 2011, to be fully performed, and in order to protect the realization of the creditor's right of the pledgee, the pledger is willing to provide pledge security to the pledgee. To clarify the two parties' rights and obligations, pursuant to the Contract Law of the People's Republic of China, Security Law of the People's Republic of China and other relevant laws and regulations, the two parties enter into this contract for the two parties to conform on the basis of equity, free will and amicable negotiation.

**Article 1 Type and Amount of the Secured Principal Creditor's Right**

The secured principal creditor's right under this contract is the creditor's right arising from the debtor's business operation prescribed under the Principal Contract with the creditor. The type of prescribed business under the Principal Contract is corn purchase loan for leading processing enterprise, and the amount of the principal amount is RMB 10 million.

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**Article 2 Term for the Debtor to Perform Obligations**

Term for the debtor to perform obligations is nine months, commencing from November 9, 2011 and ending on August 8, 2012. If the actual term to perform obligations under the Principal Contract is different from this provision, the stipulation of Principal Contract shall prevail.

**Article 3 Security Scope**

3.1 The scope to be secured hereunder shall include the principal, interest, compound interest, default interest, liquidated damages, damage awards and expenses incurred due to the realization of credit by the creditor and all other sums, including but not limited to expenses or fees of litigation, arbitration, property preservation, assessment, auction, execution, transfer and agency.

**Article 4 Mortgage Property**

4.1 The Mortgagor, of its own free will, mortgages to the Mortgagee all the properties listed in the Mortgage List hereunder, which shall constitute integral parts hereof.

4.2 The agreed value of the mortgage properties under the Mortgage List shall not be regarded as the assessment basis when such mortgage properties are disposed and shall not constitute any constraint on the mortgagee regarding the enforcement of the mortgage right. The final value of the mortgage properties shall be subject to the net income of the actual disposal of the mortgage properties when such mortgage right is realized.

**Article 5 Effectiveness of the Mortgage Right**

The effectiveness of the mortgage right hereunder shall govern the ancillary components, accessory rights, subrogated rights, affiliated things, compounds, processed things, fructus and insurance benefit, compensation, damages arising from any damage, loss, levy or requisition to the mortgage property.

**Article 6 Mortgage Registration**

6.1 Should the mortgage properties hereunder be subject to the mortgage registration in accordance with laws and regulations, the Mortgagor shall, within fifteen (15) days after the execution of this Mortgage Contract, go to the competent authorities to handle the mortgage registration along together with the Mortgagee.

6.2 In case that the two parties hereto voluntarily are willing to procure the mortgage registration, the Mortgagor shall, within fifteen (15) days after the execution of this Mortgage Contract, go to the competent authorities to procure the mortgage registration along together with the Mortgagee.

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6.3 Where any changes occur to the items under the mortgage registration and such changes are subject to the registration of alteration, the Mortgagor shall, within fifteen (15) days after the alteration of the items under mortgage registration, go to the competent authorities to handle the mortgage registration of alteration along together with the Mortgagee.

## **Article 7 Occupation and Keeping of the Mortgaged Property**

7.1 The certificates of mortgage rights hereunder, the original copies of the mortgage registration documentation and other materials relating to the mortgaged properties shall be kept by the Mortgagee after confirmation by the Mortgagor and Mortgagee. The mortgagee shall keep such certificates and documents of mortgage rights appropriately. If, due to the improper care, such certificates and documents of mortgage rights are damaged or lost, the post-registration fees shall be borne by the Mortgagee.

7.2 The Mortgagor shall keep the mortgaged properties properly and maintain the mortgage properties intact, and shall accept supervision and inspection of the Mortgagee at any time.

7.3 Without the prior written consent of the Mortgagee, the Mortgagor shall not donate, alienate, lease, re-mortgage, pledge or otherwise dispose of the Mortgaged properties hereunder by any means. Where a mortgagor alienates, upon the prior written consent of the mortgagee, the mortgaged properties, the money generated from such alienation shall be used to pay off debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously.

7.4 In case the mortgaged properties are damaged or lost, the Mortgagor shall promptly take measures so as to prevent the expansion of the losses thereof and shall, at the same time, notice the Mortgagee. The insurance benefits and compensatory payment arising from or in connection with such losses shall be used to pay off principal debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously.

7.5 In case the value of the mortgaged properties reduces, the Mortgagor shall resume such mortgaged properties to the original value status or provide the necessary guarantee equal to the reduced value upon the confirmation of the Mortgagee. In case any such request of the Mortgagee is refused, the Mortgagee shall be entitled to exercise the mortgage right in advance. In case there are still losses after the excise of the mortgage right in advance, the Mortgagor shall undertake the compensation liabilities. Should the Mortgagor be indemnified against the losses in relation to the reduced value of the mortgaged properties, the Mortgagor shall provide security to the Mortgagee within the extent of the indemnity that it has thus obtained. The part of the mortgaged properties that have not reduced shall still constitute the security of the Principal Contract.

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7.6 In the event that the mortgaged properties are expropriated as the needs of the state construction, the compensation thereof obtained by the Mortgagor shall be used to pay off debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously. In the event the compensation is in the form of land exchange, the Mortgagor shall cause the exchanged land to be subordinate mortgage property for benefit of principal credit hereof, and proceed mortgage registration in a timely manner; if the value of mortgage property is insufficient to cover the principal credit, additional security shall be added to cover the principal credit sufficiently.

#### **Article 8 Mortgage Insurance**

8.1 The mortgagor shall, within fifteen (15) days after the execution of this contract, go to relevant insurance institutions to make the mortgaged properties, which are considered by the Mortgagee as necessary and have access to the property insurance, covered by the property insurance in favor of the Mortgagee as the first beneficiary subject to the requirements of the Mortgagee with respect to the insurance type and amount. The period of the insurance shall not be shorter than of the performance period of this contract and the insurance amount shall not less than the principal and interest of the loan under the Principal Contract.

8.2 The mortgagor shall deliver to the Mortgagee the original copies of the insurance policies, which shall not include the provisions that constrain the rights and benefits of the Mortgagee.

8.3 The Mortgagor shall not cancel or otherwise terminate the insurance for any reason during the period of this contract. In case the Mortgagor cancels or otherwise terminates the insurance, the Mortgagee shall be entitled on their behalf to purchase the insurance with all cost thus incurred to be borne by the Mortgagor.

8.4 During the period of this contract, if insurance accidents occur to the mortgaged properties, the insurance compensation thereof obtained by the Mortgagor shall be used to pay off debts to the Mortgagee in advance or be deposited to a bank account designated by the Mortgagee with the purpose of assuring the performance of the obligations under the Principal Contract continuously.

#### **Article 9 Enforcement of Mortgage Right**

9.1 Upon the expiration of the duration of the debts under the Principal Contract, or in case the credits secured by the maximum mortgage is confirmed, or when the Mortgagee requires to pay-off the credits under the Principal Contract in advance, should the Debtor fail to pay-off the principal and interest as well as all other expenses, the Mortgagee shall be entitled to auction or sell the mortgaged properties and be paid back first through the payment arising from such activities, or, through the consultation with the Mortgagor, realize its rights through converting the mortgaged properties into money. In case that the parties hereof fail to reach consensus regarding the realization of mortgage right, then the Mortgagee may suit to the people's court for auction or sale of the Mortgage Properties.

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9.2 When and if the Principal Contract is terminated by the Mortgagee in accordance with the provisions therein or laws and regulations or the Mortgagee withdraws the principal credit in advance, subject to negotiation, the Mortgagee may enjoy the priority to be repaid from the auction or sale of the mortgaged properties or get repaid through converting the mortgaged properties into money. In case that the parties hereof fail to reach consensus regarding the realization of mortgage right, then the Mortgagee may sue to the people's court for auction or sale of the Mortgage Properties.

9.3 The part of payment incurred due to the disposition of the mortgaged properties hereunder exceeding the principal and interest and all other relevant expenses shall be attributed to the Mortgagee.

9.4 When the Mortgagee disposes the mortgaged properties hereunder the Mortgagor shall offer proper cooperation and shall not set any obstacle.

#### **Article 10 Representations and Warranties of the Mortgagor**

10.1 The Mortgagor understands and agrees any and all provisions hereof and, of its own will, provides the security for the Debtor. All the declaration of intention hereunder is true.

10.2 The Mortgagor is the complete, valid and legal owner of the mortgaged properties hereunder or the authorized business operator by the government and no any dispute regarding the ownership or the rights of business operation exists upon the mortgaged properties. The mortgaged properties is not co-owned property or is co-owned property but consent of co-owners has been obtained for purpose of mortgage issue hereof. Such properties are free to be mortgaged in compliance with laws and regulations without being subject to any limitations, upon which no such circumstances as cancellation from use, detention, custody, tax or construction cost in default or other circumstances that may impact the realization of the mortgage right of the Mortgagee exist. The Mortgaged Properties are not subject to any lease or part of or all the Mortgaged Properties are subject to lease, but the lessee has been informed of the mortgage issue hereof and the supporting documents evidencing that the lessee undertakes to terminate the lease free of any consideration when and if the Mortgagee exercise its mortgage right hereunder; further, the detailed information of the lease shall be reported to the Lender.

10.3 Should the Principal Contract be the Bank Acceptance Agreement, the Mortgagor undertakes that any disputes arising from or in connection with the bills or otherwise disputes occurring to the Debtor, the holder of the acceptance bills, endorser or other relevant persons shall not jeopardize the security liabilities borne by the Mortgagor to the Mortgagee in compliance with this contract.

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10.4 The Mortgagor shall notice the Mortgagee in writing in the event the following issues occur:

10.4.1 In case that there are modifications with respect to the business operation system, including but not limited to contracting mechanism, lease, joint operation, merger, separation, joint stock enterprise reform, cooperation with foreign investors and so on, or business scope or registered capital modifications, shareholding changes, the Mortgagor shall notice the Mortgagee at least fifty (50) days in advance.

10.4.2 In case that there are significant economic disputes or disputes with respect to the ownership or preservation measures upon the mortgaged properties, bankruptcy, business close, dissolution, business cancellation and reorganization, cancellation of business license or changes of address, telephones and legal representatives, the Mortgagor shall notice the Mortgagee within five (5) days since the occurrence of the aforementioned issues.

10.4.3 In case that there is any change to the land use purpose after the land use right is mortgaged, the Mortgagor shall inform the Mortgagee 30 days in advance.

10.5 Provided that the issues referred in Article 11.4 or some other issues occur to the Mortgagor during the valid period of this Contract, the Mortgagor shall undertake the security liabilities hereunder continuously.

10.6 During the validity term hereof and before the principal credit secured by the maximum mortgage is determined, if the Mortgagee legally transfer part of the principal credit, the Mortgagor shall continue to undertake maximum mortgage liability to the extent hereunder. In case that the Mortgagee legally transfer the principal credit together with the maximum mortgage right, the Mortgagor shall undertake to acknowledge and confirm it.

10.7 In the event that the Debtor fails to perform the obligations, regardless of whether the Mortgagee possesses other security rights upon the credits under the Principal Contract, the Mortgagee shall be entitled to require the Mortgagor to bear the security obligations to the extent of the security hereunder.

10.8 Without written consent of the Mortgagee, the Mortgagor shall not set up any mortgage, lien in any form upon the Mortgaged Properties, shall not lease, transfer or gift the Mortgaged Properties to any third party and shall hold the Mortgaged Property harmless free from any damage. In case that the mortgage right suffers or potentially will suffer the damages incurred from any other third party, the Mortgagor shall notice immediately or assist the Mortgagee to avoid such damages.

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10.9 Should the agreement regarding the modification of this contract be reached between the Mortgagor and the Mortgagee, except for the extension of this contract, the increase of the principal credit, increase of interest rate or change of currency, the Mortgagor shall still be liable for the security obligations within the extent of the obligations hereunder without being subject to the agreement of the Mortgagee.

10.10 All the relevant expenses hereunder, including but not limited to fees of legal counsel, identification, notarization, assessment, registration, transfer, custody or litigation shall be borne by the Mortgagor.

#### **Article 11 Default Liabilities**

11.1 Once this contract comes into effective, both parties hereunder shall perform such liabilities as agreed under this contract. Any party, which fails to perform such liabilities hereof or perform such liabilities incompletely as agreed under this contract, shall bear the liabilities for breach of this contract.

11.2 The Mortgagor shall indemnify the Mortgagee for all the economic losses incurred due to its false representations or breach of any warrants declared by the Mortgagor in the Article 11 or make any disposal of the Mortgaged Property without written consent from the Mortgagee, or failure to or decline to procure mortgage property insurance or mortgage registration or other actions that may prejudice the Mortgagee to realize the mortgage right.

11.3 In the event that this contract becomes invalid not due to any fault of the Mortgagee, the Mortgagor shall indemnify all the economic loss to the extent of security scope as agreed hereof.

#### **Article 12 Effectiveness, Modification, and Termination of Contract**

12.1 This contract shall enter into effective on the date when both parties sign and stamp on it. Should the mortgage registration is required in compliance with laws and regulations or provisions hereof, the mortgage right becomes valid upon the completion of mortgage registration.

12.2 Any invalidity or unenforceability of any article hereof shall not prejudice the validity and unenforceability as well as the effectiveness of the entire contract.

12.3 Upon the effectiveness of this contract, except as otherwise provided, neither the Mortgagor nor the Mortgagee could modify or terminate this contract without the prior consent of the other party. Provided that the modifications or the termination of this contract is needed, the notice shall be delivered in writing and the written agreements in respect thereof shall be reached upon consensus through the negotiation between two parties.

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**Article 13 Resolution of Disputes**

13.1 Any disputes arising out of, or in connection with the execution of this contract shall be settled through the consultations between two parties; where the agreements fail to be reached through such consultation, such disputes shall be settled through the following ways as provided under Article 14.1.1:

13.1.1 Instituting a legal proceeding to the People's court located at the premise of the Mortgagee.

13.1.2 Submitting to [ ] commission of arbitration with the arbitration premise at [ ] in accordance with the arbitration rules at that time.

**Article 14 Miscellaneous**

14.1 [ ].

14.2 [ ]

14.3 [ ]

**Article 15 Supplementary**

15.1 Except as otherwise provided hereunder, all the notices between the Mortgagor and Mortgagee shall be delivered in writing. Upon any of the telexes and telegrams are sent, or the postal letters are delivered to the post offices by the Mortgagee to the Mortgagor, such telexes, telegrams and postal letters shall be deemed as reached by the Mortgagor.

15.2 The appendix hereto shall constitute integral parts hereof and shall be as valid and effective as this contract.

15.3 The contract is executed in triplicate, one (1) for the Mortgagor, one (1) for the mortgagee and one (1) for Datong District Industry and Commerce Bureau..Each counterpart has equally authentic.

**Article 16 Special Instructions**

The Mortgagee has reminded the Mortgagor of understanding the provisions hereunder comprehensively and accurately and made explanations regarding the relevant provisions according to the requirements of the Mortgagor. There is no any discrepancy in connection with the understanding of the provisions hereof between the two parties.

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The Mortgagor (seal)

The Mortgagee (seal)

Legal Representative (Main Responsible Officer) or Authorized Agent:

Legal Representative (Main Responsible Officer) Authorized Agent:

Date: November 4, 2011

Date: November 4, 2011

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The following mortgages have been checked and confirmed by both mortgagor and mortgagee.

This list is an appendix of *Mortgage Agreement*, [No. 23060500-2011 Qing Ying (di) Zi 0014]

### Mortgage List

Name of Mortgage	Specification Model	Quantity and Unit	Quality and Status	Location(Deposit, Storage and Using Unit)	Ownership Certificate, Serial Number and Issuance Unit)	Original Value	Assessed Value	Co-owner	Situation for previous mortgage	Insurance Policy		Note
										No.	Validity Period	
Balance Tower	PH135	1 set	good	Daqing Borun Biotechnology Co., Ltd. (□□□□□□□□□□□□)	Daqing Borun Biotechnology Co., Ltd.	32,779.49	32,451.70	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
DTC Evapo-separated Machine	DTC250	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,454,589.74	1,440,043.84	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Air-lock Valve	BFQ30	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	36,876.92	36,508.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

High Pressure Positive Blower	9-19-4.5 A	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	10,243.59	10,141.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Wet Collector	PJS120	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	53,266.67	52,734.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
First Steam-flash Generator	SFX130	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	12,292.32	12,169.40	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
The Second Steam-flash Generator	ZFQ400	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	114,728.22	113,580.94	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Second Steam-flash Generator	SFX100	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	8,194.87	8,112.92	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

Butterfly Stripper	DQT800	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	120,874.36	119,665.62	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Oil-Oil Heat Exchanger	HRY20	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	36,876.92	36,508.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Crude oil box	MYX120	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	6,146.15	6,084.69	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Evapo-separated, Analytic Condenser	WLN150	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	430,230.77	425,928.46	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Storage Bin	CLX80	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	18,438.46	18,254.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08



Air-lock Valve	BFQ250	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	24,584.62	24,338.77	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
1#Embedded Scraper	MC25	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	61,461.54	60,846.92	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
1#Sealant	LSM35	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	26,633.33	26,367.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Receiving Hopper	RLD60	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	4,097.44	4,056.47	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Rotocel Extractor	JPS650	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,536,538.46	1,521,173.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Disk Feeder	YLQ120	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	53,266.67	52,734.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08

Wet Dreg Embedded Scaper	MC25	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	65,558.97	64,903.38	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
2# Sealant	LSM35	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	26,633.33	26,367.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Catcher	XL50-D80	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	8,194.87	8,112.92	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Embedded Scaper with Extraction of Dreg	MC25	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	61,461.54	60,846.92	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

Safety Oilcan	AG180	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	30,730.77	30,423.46	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Cyclone Hydraulic Separators	XY-D13	3 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	26,633.33	26,367.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
1#Mixed Oilcan	GH160	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	18,438.46	18,254.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
2#Mixed Oilcan	GH160	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	18,438.46	18,254.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
The First Long Tube Evaporator	ZFQ120	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	368,769.23	365,081.54	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
First, Second Vapour Condenser	WLN250	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	717,051.28	709,880.77	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

Gas Condenser	WLN80	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	245,846.15	243,387.69	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Lixiviated Equilibrium Condenser	WLN80	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	245,846.15	243,387.69	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Purifier Combination	FSG200*600	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	307,307.69	304,234.61	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Big Spray Tank	HPG70	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	10,243.59	10,141.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Cooking Kettle	ZG120	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	59,412.82	58,818.69	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

Paraffin Absorbing Tower	XST40	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	79,900.00	79,101.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Paraffin Analytic Tower	JXT40	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	92,192.31	91,270.39	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Paraffin Oil-Oil Heat Exchanger	11.0-C20-10/10	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	28,682.05	28,395.23	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Paraffin Cooler	11.0-C40-10/18	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	57,374.36	56,800.62	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Paraffin Heater	JRJ10	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	16,389.74	16,225.84	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08

Paraffin Storage Tank	LCG120	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Biotechnology Co., Ltd.	10,243.59	10,141.15	Daqing Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08
1# Vapor Distributor	FQB273	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Biotechnology Co., Ltd.	10,243.59	10,141.15	Daqing Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08
2# Vapor Distributor	FQB219	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Biotechnology Co., Ltd.	8,194.87	8,112.92	Daqing Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08
3# Vapor Distributor	FQB219	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Biotechnology Co., Ltd.	8,194.87	8,112.92	Daqing Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08
Maize Germ Pre-presser		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Biotechnology Co., Ltd.	2,905,982.91	2,615,384.62	Daqing Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08

Oil Press	YZ390160KW*2	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,364,102.56	1,227,692.30	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Germ Mill	YPD800×1500	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,213,675.21	1,092,307.69	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Corn Pulverization and Conveyer Equipment		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	3,555,555.56	3,200,000.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Sliding Board Conveyer Equipment		2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	3,675,213.68	3,307,692.31	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Turbine Oil Filter	TY-50	1set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	25,641.03	25,384.62	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08

Spiral-plate Heat Exchanger		15 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	6,410,256.41	5,769,230.77	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Circulating Water Cooler	NZF-500	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	410,256.41	406,153.85	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Fermentor Side Mixer		44 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,504,273.51	1,353,846.16	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Waste Mash Tank Side Mixer		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	21,367.52	21,153.84	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Clear Liquid Tank side Mixer		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	23,931.62	23,692.30	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Saccharifying Tank Vertical Mixer		2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	56,410.16	55,846.16	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	



Liquefaction Vertical Tank Mixer		2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	62,393.16	61,769.23	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Liquefaction Vertical Tank Mixer		2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	58,119.66	57,538.46	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Worm Air Compressor and Corollary Equipments		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,354,700.85	1,219,230.77	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Circulating Water Cooler	GNZF-2500	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,709,401.71	1,538,461.54	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Valveless Filter	SWL-300	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	410,256.41	406,153.85	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

Medicine Fetching Device	LHD-0.5*2	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	444,444.44	440,000.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
Submersible Pump	2000QJ-50-91	12 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	48,205.13	47,723.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
Submersible Pump	2000QJ-50-78	6 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	21,025.64	20,815.38	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
Fermentation Circulating Pump	SWL-300	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	256,410.26	253,846.16	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
Jet Liquefier	LHD-0.5*2	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	85,470.09	84,615.39	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	

Oil Press	YZ390	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	682,051.28	675,230.77	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
Fluoroplastic Centrifugal Pump	Y15kw-2	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	14,358.97	14,215.38	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
Fluoroplastic Centrifugal Pump	Y11kw-2	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	13,846.15	13,707.69	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
Gear Fuel Supply Pump	2CY-60/2.8-1	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	16,752.14	16,584.62	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	
General Air-distributing Cylinder	φ800*4300v	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	11,965.81	11,846.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	80101201123060000010	2011.11.09-2012.08.08	

Air-distributing Cylinder	φ600*4160v	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	7,350.43	7,276.93	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Air-distributing Cylinder	φ600*3900v	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	19,658.12	19,461.51	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Air Reservoir	φ2400*3670v	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	30,444.44	30,140.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Air Reservoir	φ2800*4000v	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	42,512.82	42,087.69	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Double-screw Compressor	UD180-7B	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	5,299.15	5,246.16	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

Double-screw Compressor	UD110-7B	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,452.99	1,269.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Water Removal Filter	UF600-V	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,292.31	1,269.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Dust Removal Filter	UF600-A	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,292.31	1,266.46	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Oil Removal Filter	UF600-B	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,292.31	1,279.39	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Refrigerated Type Compressed Air Dryer	DSA-650	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	2,564.10	2,538.46	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Water Removal Filter	UF210-V	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,529.91	1,514.61	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08

Dust Removal Filter	UF210-A	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,529.91	1,514.61	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Oil Removal Filter	UF210-B	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,538.46	1,523.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Refrigerated Type Compressed Air Dryer	DSA-210	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	1,538.46	1,523.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Air Reservoir	C-3.0/0.8	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	2,222.22	2,200.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Air Reservoir	C-6.0/0.8	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	2,564.10	2,512.82	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08

Cooler Tower	400t/h	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	94,017.09	93,076.92	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Cooler Tower	BNZF3-400	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	64,102.56	63,461.53	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Sewage Pump	IH150-125-315	2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	34,188.03	33,846.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Alcohol Pump	IH150-125-250A	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	64,102.56	63,461.53	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Hot-water Pump	ISR100-65-250	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	3,418.80	3,384.61	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	

Horizontal Spiral Centrifuge	LWD430B	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	3,957,264.96	3,561,538.46	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Horizontal Spiral Centrifuge	LW430B-1	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	791,452.99	783,538.46	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Packaging Scale		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	628,205.13	621,923.08	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Vibratory Screen Disintegrator		2 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	338,119.66	327,976.07	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	
Horizontal Cooler	SDHCD10	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	940,170.94	930,769.23	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08	



Horizontal Cooler	SDHCD08	1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	629,914.53	623,615.38	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Drying Tower		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	6,059,829.06	5,453,846.15	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08
Steel Warehouse		1 set	good	Daqing Borun Biotechnology Co., Ltd.	Daqing Borun Biotechnology Co., Ltd.	4,111,111.11	3,700,000.00	Daqing Borun Biotechnology Co., Ltd.	not mortgaged	801012011230600000010	2011.11.09-2012.08.08

Mortgagor (Seal)

Legal Representative or

Authorized Representative ( the name is not clear in the original text)

(Sealed by) Daqing Borun Biotechnology Co., Ltd.

November 4,2011

Mortgagee(Seal)

Legal Representative or

Authorized Representative : Wang Weidong

(Sealed by) Agricultural Development Bank of China, Daqing Branch

November 4,2011

Contract No. Zhong Lv Bao Zhi Zi 2011 No. 009-2

## Counter Security Pledge Contract

Pledger (Party A): Daqing Borun Biotechnology Co., Ltd.

Pledgee (Party B): Zhong Lv Credit Guarantee Co., Ltd.

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Pledger: **Daqing Borun Biotechnology Co., Ltd.** (hereinafter referred to as “Party A”)

Address: Jubao Village, Zhusan County, Datong District, Daqing Municipality, Heilongjiang Province

Legal representative: WANG Jinmiao

Contact phone number: 0536-54556688

Fax:

Pledgee: **Zhong Lv Credit Guarantee Co., Ltd.** (hereinafter referred to as “Party B”)

Address: Floor 10, No. 2 Chaoyangmen North Avenue, Dongcheng District, Beijing Municipality

Legal representative: WEI Zhenming

Contact phone number: 010-6551 1601

Fax: 010-6551 1606

Whereas Party B has entered into a Trust Security Contract (Contract No.: Zhong Lv Wei Bao Zi 2011 No. 009) (hereinafter referred to as “Security Contract”) with Daqing BoRun Biotechnology Co., Ltd. (hereinafter referred to as “Principal Debtor”);

Whereas Party B has entered into a Guarantee Contract (Contract No. 23060500-2011 Qing Ying (Bao) Zi No. 0010) (hereinafter referred to as “Guarantee Contract”) with Agricultural Development Bank of China, Daqing Branch (hereinafter referred to “Principal Creditor”). Under the Guarantee Contract, Party B provides security for a loan of short-term working capital for industry leading enterprises at the amount of RMB 50 million under a Loan Agreement between the Principal Debtor and the Principal Creditor (Contract No: 23060500-2011 (Qing Ying) Zi No. 0012)(hereinafter referred to as “Principal Contract”).

In order to secure the realization of Party B’s security creditor’s rights, Party A hereby provides a pledge as counter security. To clarify the two parties’ rights and obligations, based on General Principles of the Civil Law, Contract Law of the People’s Republic of China, Security Law of the People’s Republic of China, Property Law and related laws, regulations and judicial interpretations, Party A and Party B enter this contract through consultation.

The “Pledge” in this contract refers to pledge of movables and pledge of rights under the Security Law; “Pledged Assets” refers to movable properties and rights (vouchers) that are permitted to be pledged under the Security Law.

#### Article 1 Party A’s Presentations and Covenants

- 1.1 Party A has the legal qualification of Pledger pursuant to laws and regulations.
- 1.2 Party A is willing to provide Pledge of stock of corn of 20,000 tons, to which Daqing BoRun Biotechnology Co., Ltd. enjoys proprietary rights or disposing rights, as counter security, and obtain registration. Pledged Assets are specified in the List of Pledged Assets (as attached) under this contract, which constitutes an integral part of this contract. This contract expresses the authentic intents of the parties. In case of any circumstances that Party B bears security liabilities and exercises recourse right to the Principal Debtor, Party A will bear counter security liabilities by the Pledged Assets to protect Party B's interests according to laws.
- 1.3 The Pledged Assets under this contract are permitted by laws to be used for Pledge, so that Party B's pledge rights are ensured to be realized smoothly.
- 1.4 Party B enjoys priority right of compensation to the Pledged Assets under this contract according to laws; in addition, if Party A pledges its entire equity interests, Party A shall also bear the compensation liabilities with all the assets owned by it (regardless of location).
- 1.5 Party A's execution of this contract complies with relevant laws, regulations and its internal rules; Party A's Pledge of the Pledged Assets under this contract has obtained internal consent of Party A and approval from relevant governmental authorities.
- 1.6 Party A shall obtain the consent on the foregoing Pledge issue from the shareholders' meeting (board of directors) of the Principal Debtor within five working days after this contract's execution, meanwhile go through registration formalities with relevant governmental authorities or deliver the Pledged Assets to Party B's possession, and deliver certificate of rights to Party B's custody.

## Article 2 Scope of Counter Security Pledge

- 2.1 The principal, interests, penalty interests (overdue interests), compound interests, compensations for losses, liquidated damages of debtor, expenses of pledging assets and expenses incurred to the Principal Creditor for realizing creditor's rights etc., which shall be borne by Party B to the Principal Creditor according to the Security Contract as security liabilities, as well as repaid money use fee which shall be paid by the Principal Debtor to Party B. Repaid money use fee shall be calculated on the basis of all debts repaid by Party B at the rate of 0.05% per day since the repayment day.
- 2.2 Security fee, overdue interests, other expenses etc. under the Security Contract;
- 2.3 After Party B repays the amount under the Principal Contract for the Principal Debtor, interests, penalty interests, liquidated damages, compensations for losses and other expenses (including but not limited to attorney's fee, litigation (arbitration) fee, travel and accommodation cost, investigation fee, appraisal fee, evaluation fee, translation fee, subsidy for witness etc.) incurred by Party B when exercising recourse right with relevant debtors;

2.4 Expenses arising from Party B realizing the pledge right under this contract, including but not limited to: litigation fee, arbitration fee, property preservation fee, attorney's fee, evaluation fee, auction fee, enforcement fee, agency fee, notary fee, consultation fee, travel and accommodation cost, investigation fee, appraisal fee, translation fee and subsidy for witness etc.

### Article 3 Delivery of Pledged Assets

3.1 Pledged Assets under this contract shall be delivered by Party A to Party B's custody simultaneously with execution of this contract. Party A shall expressly inform Party B of any flaw of the Pledged Assets. If Party A fails to deliver the Pledged Assets at the prescribed time and therefore causes losses to Party B, Party A shall undertake compensation liabilities.

3.2 If the Pledger provides Pledge by properties it indirectly possesses, the pledge contract is deemed delivered when a written notice is delivered to the possessor. If the possessor still disposes of the Pledged Assets according to the Pledger's direction after the possessor receives the notice of pledge, such behavior is invalid.

3.3 In case of discrepancy between the prescribed Pledged Assets and the actually delivered Pledged Assets, this contract only becomes effective when all prescribed Pledged Assets are delivered.

3.4 Pledge right of movables effects to the accessory things and statutory fruits. Accessory things must be delivered to Party B simultaneously.

3.5 If the Pledge is provided by money order, cheque, promissory note or company's bond, they are only be able to be delivered after endorsed by the Pledger and Pledgee with the sign of "Pledge".

### Article 4 Agreements on Pledged Assets

4.1 Please refer to the List of Pledged Assets for details of the Pledged Assets.

4.2 The value of Pledged Assets agreed upon by the two parties at the execution of this contract shall not be the basis of evaluation when Party B disposing of such Pledged Assets and shall not impose any restriction on Party B's exercise of the pledge right.

4.3 Party A shall provide Party B certification documents indicating that the Pledged Assets are legally owned by Party A or under Party A's rightful disposition.

4.4 If Party A provides the pledge of charging rights to Party B, Party A shall open a charging account for special fund and special usage at a bank designated by Party B before the execution of this contract. All charges shall be remitted to such account. After Party B obtains the recourse right to Party A, it has the right to be compensated in priority from the whole fund in such account. Please refer to article 13 of this contract "Other Issues Agreed upon by the Two Parties" for details.

4.5 After the Principal Debtor fully repays the principal debt and Party B's security liabilities are relieved, Party B shall timely return the Pledged Assets and other related materials to Party A, or release the supervision and management to the charging account.

4.6 Where laws and regulations stipulate or the two parties agree that registration of pledge is required, the two parties shall go through the registration formalities of pledge with relevant local pledge registration authorities within 15 days after this contract's execution.

4.7 In case of any change to the registered items of pledge and modification registration is legally required; the two parties shall go through modification registration formalities with relevant local pledge registration authorities within 15 days after the change of registered items.

#### Article 5 Insurance

5.1 Within 15 days after this contract's execution, Party A shall obtain property insurances of fundamental and additional risks for the Pledged Assets from related insurance company; insurance period shall not be shorter than the duration of counter security; insurance amount shall not be lower than the evaluation of Pledged Assets; the insurant shall be Party B and the insurance policy shall be kept by Party B.

5.2 If Party B can not be made insurant, it shall be indicated in the insurance policy that Party B shall collect the insurance compensation in case of insurance claim, and no provision in the insurance policy could restrict Party B's rights and benefits.

5.3 During the term of this contract, Party A shall not suspend or terminate the insurance policy for any reason.

5.4 During the term of this contract, in case of any insurance accident happened to the Pledged Assets, the insurance compensation shall be used for prior repayment to Party B, and Party B may use it for prior repayment to the Principal Creditor, or keep it as security fund, or use it to restore the value of the Pledged Assets.

#### Article 6 Realization of the Pledge Right

6.1 If the Principal Debtor fails to repay the principal, interests and other related expenses to the Principal Creditor according to the Principal Contract, upon Party B's partial or full repayment for the Principal Debtor of the foregoing amount to the Principal Creditor, Party B has the right to realize the right of pledge and dispose of the Pledged Assets for compensation to the amount repaid by Party B.

6.2 When realizing the right of pledge, Party B has the right to, according to laws, use the Pledged Assets in discount to set off the debt or sell the Pledged Assets at an auction or otherwise in order to be compensated in priority from the selling proceeds, or directly become compensated in priority from the fund of the special charging account.

6.3 Where Party A provides the Pledge by the charging right, Party A may ordinarily dispose of the fund of the charging account. In case of the Principal Debtor's failure to repay pursuant to contract, Party B will control the charging account and Party A may dispose of the fund of the charging account only after obtaining Party B's written permit. If the Principal Debtor fails to repay the loan and Party B undertakes security liabilities to the Principal Creditor, Party B has the right to forbid Party A's disposition of the fund of the charging account and to apply for property preservation to the charging account according to laws.

6.4 When Party B disposes of the Pledged Assets pursuant to this contract, Party A shall provide cooperation and shall not pose any obstacles

6.5 Before Party B recovers the full repaid amount from the Principal Debtor, Party B constantly enjoys the pledge right and Party A is constantly imposed the security liabilities of pledge.

#### Article 7 Prior Repayment or Escrow

7.1 In case of any change due to objective circumstances, the Pledged Assets shall be reasonably and timely treated pursuant to the following provisions in order to ensure the maximization of the Pledged Assets' values. The following circumstances are included but not limited to:

7.1.1 Where value of the Pledged Assets may be impaired because of the nature of the Pledged Assets (except for natural impairment), Party A has the obligation to provide security corresponding to the impaired value, otherwise Party B has the right to dispose of the Pledged Assets in order to make prior repayment for the secured creditor's right or make it in third party's escrow. Escrow expenses shall be borne by Party A.

7.1.2 During the term of the contract, if Party A needs to transfer the pledged rights (including charging right), Party B's written consent is required, and the obtained proceeds of transfer and license shall be used to make prior repayment for the secured creditor's right or make it in third party's escrow. Escrow expenses shall be borne by Party A.

7.2 Unless otherwise specifically agreed by the two parties, the foregoing escrow organ shall be a notary organ designated by Party B.

#### Article 8 Party A's Right and Obligation

8.1 To bear related expenses and expenditure under this contract, including but not limited to the expenses for attorney's service, property insurance, appraisal, evaluation, registration, ownership transfer, safekeeping, escrow and litigation.

8.2 If any of the following circumstances occur to Party A, it is obliged to inform Party B in writing 30 days beforehand:

j change of operation mechanism, such as contracting, lease, joint venture, merger, split-up, cooperation with foreign investors etc;

k change of business scope and registered capital, change of the nature of legal person;

l involving economic disputes and litigations;

m disputes relating to the Pledged Assets;

n suspension, dissolution, rectification, legal person qualification or business operation permit being cancelled;

o change of domicile, telephone, legal representative etc.

8.3 Party A agrees that in the duration of counter security, Principal Creditor or Party B may transfer the creditor's right to third party without prior written consent of Party A, and Party A shall continue to bear security liabilities of pledge within the original scope of pledge.

8.4 After the execution of this contract, in case company change circumstances such as merger and split-up occur to Party B, Party A shall continue to bear security liabilities to the assignee of this contract's rights by the Pledged Assets within the original scope of pledge.

#### Article 9 Party B's Rights and Obligations

9.1 In case of the occurrence of any item within the scope of pledge under Article 3 of this contract, Party B has the right to dispose of the Pledged Assets under this contract.

9.2 Party B has the right to request assistance from Party A lest the pledge right is impaired by any third party.

9.3 After fully repaying the debts within the scope of pledge under this contract with the proceeds from Party B's disposition of the Pledged Assets, remaining proceeds (if any) shall be returned to Party A.

9.4 In the duration of the pledge right, upon the Pledger's consent, Party B may reasonably use the Pledged Assets. In case the Pledged Assets is damaged because of Party B's improper use, Party B shall bear corresponding compensation liabilities.

#### Article 10 Liabilities for Breach of Contract

10.1 In case of this contract's ineffectiveness or other consequence due to Party A's fault, Party A shall pay liquidated damages at the amount of 10% of the secured amount actually borne by Party B at the mature date of the Principal Contract. In addition, in case of any loss incurred by Party B because of the repayment for Party A, Party A shall bear all compensation liabilities.



10.2 Both Party A and Party B shall perform the obligations under the contract. If any party fails to fully or partially perform the obligations under this contract, such party shall bear corresponding breaching liabilities and compensate any loss of the other party arising therefrom.

10.3 In case of any of the following circumstances, Party B has the right to refuse to execute the Guarantee Contract for the Principal Creditor or to unilaterally terminate the Guarantee Contract, and all legal liabilities arising therefrom shall be borne by Party A:

j Party A fails to deliver the Pledged Assets to Party B pursuant to the contract;

k Party A fails to open a charging account for special fund and special usage and maintain the agreed balance of the account pursuant to the contract;

l Party A's pledge of the foregoing Pledged Assets fails to obtain the approval from relevant governmental authorities and therefore this contract fails to become effective;

m this contract fails to become effective because pledge registration can not be obtained.

#### Article 11 Effectiveness of the Contract

11.1 This contract becomes effective on the date when the Pledged Assets is delivered to Party B with the two parties' signatures and official seals.

11.2 If approval and registration formalities are required to be gone through by relevant laws and regulations, this contract shall become effective on the date when the approval is obtained from relevant governmental authorities and pledge registration is completed with relevant pledge registration organ.

#### Article 12 Dispute Resolution

12.1 The execution, effectiveness, interpretation, performance and dispute resolution of this contract are governed by the laws of the people's republic of china.

12.2 Disputes between Party A and Party B arising from the performance of this contract shall be resolved through the two parties' negotiation; if the negotiation fails to resolve the dispute, a lawsuit shall be filed with the people's court of Party B's location.

#### Article 13 Other Issues Agreed upon by the Two Parties

13.1 In case Party A fails to perform or fully perform security liabilities, Party B may apply for enforcement according to laws.

13.2 \_\_\_\_\_ / \_\_\_\_\_

13.3 \_\_\_\_\_ / \_\_\_\_\_

Article 14 Schedules

14.1 Schedules of this contract are an integral part of this contract and have the same legal effect to this contract.

14.2 Schedules of this contract include: nList of Pledged Assets; nResolution of Shareholders' Meeting (Board of Directors); nCertification of Equity Interests;

oOthers \_\_\_\_\_ / \_\_\_\_\_

Article 15 Miscellaneous

14.1 This contract is executed in three counterparts. Party A, Party B and registration authorities will hold each one of them. The counterparts of the contract have the same legal effect.

Article 16 Special Attention

Party B has requested for Party A's attention to make full and accurate understanding of the meaning and legal consequence of each provision of this contract, and has explained corresponding provisions at the request of Party A. The two parties do not have disagreement on the understanding of the provisions of this contract. If Party A is a natural person who has spouse, Party A's pledge shall obtain consent from its spouse, who has fully learned about and understand all the provisions of this contract.

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Official Seal of Party A (Pledger):

Legal Representative (signature):

(Or Authorized Agent)

Official Seal of Party B (Pledgee):

Legal Representative (signature):

(Or Authorized Agent)

July 1, 2011

Under the Counter Security Pledge Contract (Contract No. Zhong Lv Bao Zhi Zi 2011 No. 009-2):

List of Pledged Assets

Unit: RMB10000

No.	Name of Pledged Assets	Model	Unit	Quantity	Status of Pledged Assets	No. of Right's Voucher	Original Value of Pledged Assets	Determined Value of Pledged Assets	Remark
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1	Stock of corn of Daqing BoRun Biotechnology Co., Ltd.		Ton	20000					
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2	Aggregate Amount:	_____	_____	_____	_____	_____	_____	_____	_____
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Pledger (official seal):

Pledgee (official seal):

Legal Representative (signature):

Legal Representative (signature):

(Or Authorized Agent)

(Or Authorized Agent)

July 1, 2011

July 1, 2011

**No.: Zhong Lv Bao Di Zi 2011 [009-2]**

**Counter-Guarantee (Mortgage) Agreement**

**Mortgagor (Party A): Daqing Borun Biotechnology Co., Ltd.**

**Mortgagee (Party B): Zhong Lv Credit Guarantee Co., Ltd.**

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## Counter-Guarantee (Mortgage/Pledge) Agreement

**Mortgagor (Party A): Daqing Borun Biotechnology Co., Ltd.**

**Mortgagee (Party B): Zhong Lv Credit Guarantee Co., Ltd.**

To secure the realization of the short-term loan for the cereals & oils of the leading enterprises in the agribusiness, equal to RMB 50 million, which is applied by Daqing Borun Biotechnology Co., Ltd. ("**the Debtor**") with Daqing Branch of Agricultural Development Bank of China ("**the Creditor**") during the period from July 1, 2011 to June 30, 2012, and in the mean time to secure Party B's exercise of right of recourse, as well as according to the "Entrustment Agreement on Guarantee" (No.: Zhong Lv Wei Bao Zi 2011[009]) signed between the Debtor and Zhong Lv Credit Guarantee Co., Ltd., Party A is willing to provide a counter-guarantee (mortgage) to Party B, therefore, the Parties enter into this Counter-guarantee Agreement ("**this Agreement**") via equal negotiations.

### 1. Coverage of the (Mortgage) Counter-guarantee Provided by Party A

- (1) The counter-guarantee shall secure all the debts that Party B shall pay off on behalf of the Debtor (including the principal, interest, penalty interest, compound interest, damages, liquidated damages payable by the Debtor, the property mortgage expense, the expenses for realizing the Creditor's rights, etc.) as well as the occupancy fee for the compensatory fund which is payable by the Debtor to Party B. The occupancy fee for the compensatory fund shall be calculated at 1%/day of all the debts which are paid off by Party B on the Debtor's behalf from the repayment date on the Debtor's behalf.
  - (2) The counter-guarantee shall secure all the liquidated damages, damages, attorney fees, guarantee fees and other fees payable by the Debtor to Party B under the "Entrustment Agreement on Guarantee".
  - (3) The counter-guarantee shall secure all the fees for realizing Party B's mortgage right, including but not limited to the litigation fee, arbitration fee, property preservation fee, attorney fee, appraisal fee, auction fee, enforcement fee, agent fee, notarization fee, consultation fee, travel expenses, etc.
2. Party A mortgages the properties which it has the right to dispose of. The mortgaged properties are listed in the "List of Mortgaged Properties" attached herein, which is an integral part of this Agreement.
-

3. Party A covenants that:
    - (1) It has the legal ownership or disposal right to its mortgaged properties;
    - (2) During the mortgage period, Party A shall well keep the mortgaged properties, shall be responsible for the repair and maintenance work, and shall ensure the mortgaged properties safe and sound. If Party B requires learning about relevant information of the mortgaged properties, in which, Party A shall give full assistances.
    - (3) From the effectiveness date of this Agreement, Party A shall deliver the title certificate of the following mortgaged properties to Party B for its keeping (unless otherwise provided by the law):
      - (a) 10 pieces of building of the company, with total areas of 12,757.12 square meters (see the "List of Mortgaged Properties").
      - (b)
      - (c)
    - (4) If Party B requires purchasing insurance for certain mortgaged properties, Party A shall handle and complete the insurance formalities before the effectiveness of this Agreement and shall ensure to renew the insurance policy upon the expiration.
    - (5) Party A shall be responsible for handling the appraisal, notarization, insurance, authentication, registration, transportation, keeping and other relevant issues under this Agreement and bear all related fees.
  4. During the mortgage period, if Party A has any activity causing the value of the mortgaged properties decreases, Party A shall mortgage additional properties or additionally provide other effective guarantee to Party B which is/are equal to the decreased value within 15 days after the value of the mortgaged properties decreases.
  5. During the mortgage period, if mortgaged properties have any damage which is covered by the insurance, or if any third party has any activity causing the value of the mortgaged properties decreases, any insurance compensation or damages shall be used to prepay the loan principal or shall be deposited to Party B's designated account.
  6. During the mortgage period, if Party A intends to lease the mortgaged properties, it shall obtain Party B's written approval.
  7. During the mortgage period, upon Party B's written approval, Party A may transfer the mortgaged properties and the proceed therefrom shall be disposed of according to Option 1 as provided below:
-

- (1) Deposit it to Party B's designated account and Party A shall not make use of it during the mortgage period;
- (2) Party A agrees to use it to prepay the loan upon.

8. If Party A has any of the following events, it shall promptly notify Party B:

- (1) Its operation mode changes, such as implementing contracting, leasing, affiliation, merger (acquisition), split-up, shareholding reform, joint venture (cooperation) with foreign investment, etc.
- (2) Involve in litigations in connection with material economic disputes;
- (3) There is any dispute to the mortgaged right;
- (4) Bankruptcy, out of business, dissolution, being called for business suspension for rectification, with its business license or other licenses or qualification revoked or canceled;
- (5) There is any change to the legal representative, legal address and telephone number of the enterprise.

If any event provided in (1) above occurs, Party A shall notify Party B 30 days in advance; and for other events listed above, Party A shall notify Party B within 3 days after its occurrence.

9. If Party A breaches Article 4, 5, 7 or 8 and causes damages to Party B, of which, Party A shall be liable for the compensation.

10. If the loan is early recalled according to relevant provisions of the Loan Agreement signed between the Debtor and the Creditor (Bank), the creditor's rights under the Loan Agreement are not fully realized and Party B has to repay the debts on the Debtor's behalf, then Party B is entitled to early dispose of the mortgaged properties to recover its losses.

11. Upon the expiration of the performance term under the Loan Agreement, if the Debtor fails to pay off all the debts and Party B has to repay the debts on the Debtor's behalf, then Party B is entitled to realize its mortgage right and to get compensation by converting the mortgaged properties into money or seek preferential payments from the proceeds from the auction or sales of the mortgaged properties concerned.

## **12. Effectiveness**

- (1) This Agreement shall come into effect upon being signed and stamped by the Parties and shall end until all the secured debts are paid off.
  - (2) This Agreement shall be independent from the Primary Agreement and shall not be invalidated by the invalidity of the Primary Agreement. If the Primary Agreement becomes invalid, then the Mortgagor shall undertake joint and several liabilities to pay off the debts arising from the Debtor's repayment/payment of the loan principal, interest and other compensations under the Primary Agreement.
-



### 13. Dispute Settlement

Any disputes arising from the performance of this Agreement may be solved via mutual negotiation. If no agreement on the dispute settlement is reached, then such dispute shall be handled according to Option (1) and (3) as provided below:

- (1) File a lawsuit with the people's court where Party B is located
- (2) Submit the dispute to Beijing Arbitration Committee for arbitration (in Beijing) in accordance with its applicable arbitral rules at the time of the submission. The arbitral award is final and shall be binding on the Parties.
- (3) If Party B files a law suit, the attorney fee which shall be calculated at 10% of the amount secured by Party B for the Debtor, shall be borne by Party A.
- (4) During the litigation or arbitration period, other provisions under this Agreement which are not related to the dispute shall be performed as well.

14. **Special Agreement:** If Party A fails to perform its guarantee liability or fails to fully perform its guarantee liability, then Party A is willing to accept the enforcement according to the law.

15. This Agreement has 3 original copies for Party A and Party B and Registration Authority to hold one, which shall have the same legal effect.

**Party A (Company Stamp): Daqing Borun Biotechnology Co., Ltd.**

Legal Representative:

Authorized Representative: Cui Xingjian

**Party B (Company Stamp): Zhong Lv Credit Guarantee Co., Ltd.**

Legal Representative:

Authorized Representative: Wang Yong

Date: July 1, 2011

Place for Execution:

Enclosed: "List of Mortgaged Properties" and other Annexes

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**Under the Counter-Guarantee (Mortgage/Pledge) Agreement ( Zhong Lv Bao Di Zi 2011 [009-2] ):**

**List of Mortgaged Properties**

Unit: RMB 10,000

No.	Name of the Mortgaged Properties	Owner	Unit (m2)	Area	Number of the Title Certificate	Legal Address	Value of the Mortgaged Properties	Mortgaged Amount for Other Creditor's Rights	Remark
1	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	474.58	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 352399	Jubao Village, Zhusan Town, Datong District			
2	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	2106.08	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 352402	Jubao Village, Zhusan Town, Datong District			
3	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	580.02	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 352408	Jubao Village, Zhusan Town, Datong District			
4	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	1771.35	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 352411	Jubao Village, Zhusan Town, Datong District			
5	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	254.04	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 376588	Jubao Village, Zhusan Town, Datong District			
6	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	391.03	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 376606	Jubao Village, Zhusan Town, Datong District			
7	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	958.01	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 376591	Jubao Village, Zhusan Town, Datong District			
8	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	1077.07	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 376587	Jubao Village, Zhusan Town, Datong District			
9	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	3729.80	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 376616	Jubao Village, Zhusan Town, Datong District			
10	House Property	Daqing Borun Biotechnology Co., Ltd.	(m2)	1415.14	Qing Fang Quan Zheng Da Tong Qu Zi Di NA 376595	Jubao Village, Zhusan Town, Datong District			
Total Amount:				1275 7.12					

**Mortgagor (Company Stamp): Daqing Borun Biotechnology Co., Ltd.**  
 Legal Representative:  
 Authorized Representative: Cui Xingjian

**Mortgagee (Company Stamp): Zhong Lv Credit Guarantee Co., Ltd.**  
 Legal Representative:  
 Authorized Representative: Wang Yong  
 Date: July 1, 2011

No.: Zhong Lv Bao Di Zi 2011 [009-3]

Counter-Guarantee (Mortgage) Agreement

Mortgagor (Party A): Daqing Borun Biotechnology Co., Ltd.

Mortgagee (Party B): Zhong Lv Credit Guarantee Co., Ltd.

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## Counter-Guarantee (Mortgage/Pledge) Agreement

**Mortgagor (Party A): Daqing Borun Biotechnology Co., Ltd.**

**Mortgagee (Party B): Zhong Lv Credit Guarantee Co., Ltd.**

To secure the realization of the working capital loan of the leading enterprises in the agribusiness, equal to RMB 50 million, which is applied by Daqing Borun Biotechnology Co., Ltd. ("**the Debtor**") with Daqing Branch of Agricultural Development Bank of China ("**the Creditor**") during the period from July 1, 2011 to June 30, 2012, and in the mean time to secure Party B's exercise of right of recourse, as well as according to the "Entrustment Agreement on Guarantee" (No.: Zhong Lv Wei Bao Zi 2011(009)) signed between the Debtor and Zhong Lv Credit Guarantee Co., Ltd., Party A is willing to provide a counter-guarantee (mortgage) to Party B, therefore, the Parties enter into this Counter-guarantee Agreement ("**this Agreement**") via equal negotiations.

### 1. Coverage of the (Mortgage) Counter-guarantee Provided by Party A

- (1) The counter-guarantee shall secure all the debts that Party B shall pay off on behalf of the Debtor (including the principal, interest, penalty interest, compound interest, damages, liquidated damages payable by the Debtor, the property mortgage expense, the expenses for realizing the Creditor's rights, etc.) as well as the occupancy fee for the compensatory fund which is payable by the Debtor to Party B. The occupancy fee for the compensatory fund shall be calculated at 1%/day of all the debts which are paid off by Party B on the Debtor's behalf from the repayment date on the Debtor's behalf.
  - (2) The counter-guarantee shall secure all the liquidated damages, damages, attorney fees, guarantee fees and other fees payable by the Debtor to Party B under the "Entrustment Agreement on Guarantee".
  - (3) The counter-guarantee shall secure all the fees for realizing Party B's mortgage right, including but not limited to the litigation fee, arbitration fee, property preservation fee, attorney fee, appraisal fee, auction fee, enforcement fee, agent fee, notarization fee, consultation fee, travel expenses, etc.
2. Party A mortgages the properties which it has the right to dispose of. The mortgaged properties are listed in the "List of Mortgaged Properties" attached herein, which is an integral part of this Agreement.
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3. Party A covenants that:
    - (1) It has the legal ownership or disposal right to its mortgaged properties;
    - (2) During the mortgage period, Party A shall well keep the mortgaged properties, shall be responsible for the repair and maintenance work, and shall ensure the mortgaged properties safe and sound. If Party B requires learning about relevant information of the mortgaged properties, in which, Party A shall give full assistances.
    - (3) From the effectiveness date of this Agreement, Party A shall deliver the title certificate of the following mortgaged properties to Party B for its keeping (unless otherwise provided by the law):
      - (a) A piece of land of the company, with total building areas of 61,432.8 square meters (see the "List of Mortgaged Properties").
    - (4) If Party B requires purchasing insurance for certain mortgaged properties, Party A shall handle and complete the insurance formalities before the effectiveness of this Agreement and shall ensure to renew the insurance policy upon the expiration.
    - (5) Party A shall be responsible for handling the appraisal, notarization, insurance, authentication, registration, transportation, keeping and other relevant issues under this Agreement and bear all related fees.
  4. During the mortgage period, if Party A has any activity causing the value of the mortgaged properties decreases, Party A shall mortgage additional properties or additionally provide other effective guarantee to Party B which is/are equal to the decreased value within 15 days after the value of the mortgaged properties decreases.
  5. During the mortgage period, if mortgaged properties have any damage which is covered by the insurance, or if any third party has any activity causing the value of the mortgaged properties decreases, any insurance compensation or damages shall be used to prepay the loan principal or shall be deposited to Party B's designated account.
  6. During the mortgage period, if Party A intends to lease the mortgaged properties, it shall obtain Party B's written approval.
  7. During the mortgage period, upon Party B's written approval, Party A may
-

transfer the mortgaged properties and the proceed therefrom shall be disposed of according to Option 1 as provided below:

- (1) Deposit it to Party B's designated account and Party A shall not make use of it during the mortgage period;
- (2) Party A agrees to use it to prepay the loan upon.

8. If Party A has any of the following events, it shall promptly notify Party B:

- (1) Its operation mode changes, such as implementing contracting, leasing, affiliation, merger (acquisition), split-up, shareholding reform, joint venture (cooperation) with foreign investment, etc.
- (2) Involve in litigations in connection with material economic disputes;
- (3) There is any dispute to the mortgaged right;
- (4) Bankruptcy, out of business, dissolution, being called for business suspension for rectification, with its business license or other licenses or qualification revoked or canceled;
- (5) There is any change to the legal representative, legal address and telephone number of the enterprise.

If any event provided in (1) above occurs, Party A shall notify Party B 30 days in advance; and for other events listed above, Party A shall notify Party B within 3 days after its occurrence.

9. If Party A breaches Article 4, 5, 7 or 8 and causes damages to Party B, of which, Party A shall be liable for the compensation.

10. If the loan is early recalled according to relevant provisions of the Loan Agreement signed between the Debtor and the Creditor (Bank), the creditor's rights under the Loan Agreement are not fully realized and Party B has to repay the debts on the Debtor's behalf, then Party B is entitled to early dispose of the mortgaged properties to recover its losses.

11. Upon the expiration of the performance term under the Loan Agreement, if the Debtor fails to pay off all the debts and Party B has to repay the debts on the Debtor's behalf, then Party B is entitled to realize its mortgage right and to get compensation by converting the mortgaged properties into money or seek preferential payments from the proceeds from the auction or sales of the mortgaged properties concerned.

## **12. Effectiveness**

- (1) This Agreement shall come into effect upon being signed and stamped by the Parties and shall end until all the secured debts are paid off.
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- (2) This Agreement shall be independent from the Primary Agreement and shall not be invalidated by the invalidity of the Primary Agreement. If the Primary Agreement becomes invalid, then the Mortgagor shall undertake joint and several liabilities to pay off the debts arising from the Debtor's repayment/payment of the loan principal, interest and other compensations under the Primary Agreement.

### 13. Dispute Settlement

Any disputes arising from the performance of this Agreement may be solved via mutual negotiation. If no agreement on the dispute settlement is reached, then such dispute shall be handled according to Option (1) and (3) as provided below:

- (1) File a lawsuit with the people's court where Party B is located
  - (2) Submit the dispute to Beijing Arbitration Committee for arbitration (in Beijing) in accordance with its applicable arbitral rules at the time of the submission. The arbitral award is final and shall be binding on the Parties.
  - (3) If Party B files a law suit, all the attorney fee incurred shall be borne by Party A.
  - (4) During the litigation or arbitration period, other provisions under this Agreement which are not related to the dispute shall be performed as well.
14. **Special Agreement:** If Party A fails to perform its guarantee liability or fails to fully perform its guarantee liability, then Party A is willing to accept the enforcement according to the law.
15. This Agreement has 3 original copies for Party A and Party B and Registration Authority, which shall have the same legal effect.

**Party A (Company Stamp): Daqing Borun Biotechnology Co., Ltd.**

Legal Representative:

Authorized Representative: Cui Xingjian

**Party B (Company Stamp): Zhong Lv Credit Guarantee Co., Ltd.**

Legal Representative:

Authorized Representative: Wang Yong

Date: July 1, 2011

Place for Execution:

Enclosed: "List of Mortgaged Properties" and other Annexes

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Under the Counter-Guarantee (Mortgage/Pledge) Agreement ( Zhong Lv Bao Di Zi 2011 [009-3] . ):

**List of Mortgaged Properties**

Unit: RMB 10,000

No.	Name of the Mortgaged Properties	Owner	Unit (m2)	Area	Number of the Title Certificate	Address where the Real Estate is located	Value of the Mortgaged Properties	Mortgaged Amount for Other Creditor's Rights	Remark
1	Land	Daqing Borun Biotechnology Co., Ltd.	(m2)	61432.8	Daqing Guo Yong (2009) No. 06-01244	Jubao Village, Zhusan Town, Datong District			

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Agreement No.: Year 2011 Dongjianzi No. 011

**Commodity Financing Pledge Supervision Agreement**  
(For rolling pledge)

INDUSTRIAL AND COMMERCIAL BANK OF CHINA CO., LTD.  
CHINA NATIONAL FOREIGN TRADE TRANSPORTATION (GROUP)  
CORPORATION

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**Party A (pledgee): Industrial and Commercial Bank of China Co., Ltd. Daqing Branch**

Address: No. 37, Dongfeng Road Saertu District, Daqing

**Party B (pledgor): Daqing Borun Biotechnology Co., Ltd.**

Domicile (address): Jubao Village, Zhusan County, Daqing City, Heilongjiang Province

**Party C (supervisor): China National Foreign Trade Transportation (Group) Heilongjiang Co., Ltd.**

Address: No. 42, Hengshan Road, Nangang District, Haerbin City

**WHEREAS:**

Party A and Party B have signed the No.006 Qingzhizi Year 2011 “Commodity Financing Pledge Contract” (hereinafter referred to as “Pledge Contract”). In order to ensure the performance of the Pledge Contract and the guaranteed Master Contract, Party B agrees that the goods it has ownership over are pledged to Party A, Party A and Party B agree that the pledged property is entrusted to Party C for supervision and Party C agrees to accept Party A’s entrustment and supervise the pledged property as per Party A’s instructions.

In accordance with the “Contract Law of the People’s Republic of China”, “Guaranty Law of the People’s Republic of China” and other related laws and regulations, Party A, Party B and Party C, abiding by the principle of credibility and mutual benefit and through friendly negotiations, hereby enter into this Agreement so as to define their respective rights and obligations, on and subject to the terms and conditions as set forth below.

**Article 1 Legal Relations**

1.1 During supervision term, Party A is a pledgee, Party B is a pledgor and Party C serves as an agent of Party A to supervise the pledged property. The supervision mentioned under this Agreement means that Party C serves as an agent of Party A to possess the pledged property and performs the responsibility for supervising pledged property according to the provisions of this Agreement.

**Article 2 Pledged Property**

2.1 Pledged property is object of pledge, i.e. the goods provided by Party B to Party A as guaranty of pledge according to the provisions of the Pledge Contract signed by Party A and Party B and delivered to Party C for storage and supervision. The name, specifications & model, manufacturer (place of origin), quantity, weight and place of storage of pledged property are subject to the list of pledged property issued by Party C according to Article 4 below.

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2.2 Party B shall ensure that the name, specifications, model, manufacturer (place of origin), quantity, quality, package, number of packages and mark of the pledged property is consistent with the provisions as agreed upon with Party A as well as the goods declared and delivered to Party C. Party B shall be legally responsible for the truthfulness of all the foregoing facts.

2.3 Party B shall guarantee that it has the ownership and full right of disposal over pledged property. Party B shall provide relevant ownership and quality certificates to Party A and Party C.

2.4 Party B shall guarantee that all documents relating to pledged property submitted by it to Party A and Party C are true and valid.

2.5 Party A or Party C is entitled to engage a qualified inspection institution to inspect the pledged property before the transfer of possession of pledged property, with inspection expenses to be borne by Party B. Party B shall render active assistance.

2.6 Transfer of possession of pledged property means that Party A and Party B issue the "Type, Price and Minimum Requirement Notice of Pledged Property (Pledge Notice)" (whose format is set forth in Annex 2-2-1) to Party C according to the provisions of the Commodity Financing Pledge Contract and Party C checks the goods delivered by Party B as well as Party B's existing inventories according to the contents in the notice. If checking results show that the goods delivered by Party B or its actual inventories are consistent with the records of the "Types, Price and Minimum Requirement Notice of Pledged Property (Pledge Notice)", Party C accepts Party B's goods and transfer of possession of pledged property is fulfilled; otherwise, Party C shall not accept the goods.

2.7 Upon completion of transfer of possession, Party C shall issue the "List of Pledged Property" (whose format is set forth in Annex 2-2-2) to Party A. Pledged property is subject to the "List of Pledged Property". If the "Commodity Financing Pledge Contract" or "List of Pledged Property" has indefinite provisions on pledged property, or agreed-upon pledged property is inconsistent with actually handed-over pledged property, actually delivered pledged property shall prevail. If the three parties have no other written provisions, Party C will check the goods delivered by Party B through surface examination, appearance inspection and document examination.

2.8 During supervision term, whether Party B picks up or replaces goods, the pledged property in stock shall meet the requirements of the "Types, Price and Minimum Requirement Notice of Pledged Property (Pledge Notice)". The minimum value of inventories is equal to unit price multiply by quantity (or weight) of pledged property. The unit price of pledged property is subject to Party A's written notice.

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2.9 When Party C issues the “List of Pledged Property”, it shall provide the goods location identification diagram to Party A.

2.10 Where Party C has managed such goods for Party B before, Party B’s former inventory voucher (if any) and other documents (if any) shall be taken back and cancelled when Party C issues the “List of Pledged Property” to Party A.

**Article 3 Supervision Term**

3.1 Supervision term is a period of time when Party C serves as agent of Party A to possess the pledged property and undertakes the supervision responsibility to Party A.

3.2 When Party C, according to Article 2.6 hereof, receives the goods delivered by Party B according to this Agreement and transfer of possession is completed, supervision term begins.

3.3 Supervision term terminates when Party C discharges the goods to Party B according to the provisions of this Agreement.

3.4 When Party C receives the “Notice of Discharging Supervision of Pledge” from Party A, Party C’s supervision responsibility is discharged.

**Article 4 Supervision of Pledged Property**

4.1 During supervision term, Party C shall appropriately and cautiously deal with the pledged property under supervision in accordance with the Contract Law and other relevant laws and regulations.

4.2 In the event that there is any special requirement for the custody of pledged property, Party B shall give a prior written notice to Party C.

4.3 During supervision term, when the situations that may affect Party A’s rights and interests occur (e.g. shortage, damage, destruction, deterioration, loss, etc of pledged property)for whatsoever reason, Party C shall notify Party A within 24 hours and take appropriate emergency measures.

4.4 During supervision term, where a state authority of competent jurisdiction requests Party C to assist in freezing, sequestering or disposing of pledged property or a fourth party other than the three parties claims any right with respect to pledged property, Party C shall forthwith inform Party A and Party B.

4.5 During supervision term, Party C shall accept the queries of pledged property and relevant documents by Party A as well as the inspection of pledged property by Party A. Party C shall render necessary assistance. But the expenses thus incurred to Party C shall be borne by Party B.

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4.6 During supervision term, Party C shall establish pledged property registration statistics system, regularly check pledged property and the types, count the quantity, inspect packaging and identification and record the inbound and outbound times and quantities, whereabouts and status of pledged property.

4.7 During supervision term, Party C shall manage pledged property according to the goods location identification diagram and separate Party B's pledged goods from the goods of other customers. When pledged property is relocated, Party C shall timely update goods location identification diagram.

4.8 During supervision term, Party C shall permit the pick-up or replacement of goods by Party B according to Party A's written instructions and the provisions of this Agreement.

4.9 During supervision term, Party C shall set up complete inbound and outbound registration records, register and check pledged property (including inbound and outbound pledged property) and guarantee that the minimum value of the pledged property after pick-up and replacement meets the requirement in Article 2.8 above.

4.10 Party C shall send the inbound and outbound information and inventory information of the pledged property under its supervision to Party A by fax (designated fax number: 0459-4626889) or email (designated email address: dqgsywb@163.com) before 10a.m. on each working day and make data backup. When supervision personnel change, Party C shall timely inform Party A.

4.11 Party C shall set up pledge labels (whose format is set forth in Annex 2-2-6) for relevant pledged property by affixing pledge labels or setting up signs. Whether Party C sets up pledge identifications for pledged property according to the provisions of this article does not affect the effectiveness of pledge. Even if Party C does not set up pledge identifications on pledged property, relevant pledge shall also be effective.

#### **Article 5 Pick-up of Pledged Property**

5.1 Where the actual price of pledged property exceeds the minimum value required by Party A and Party B picks up or replaces the excess portion, Party B can directly handle pick-up or replacement with Party C without needing to pay additional security deposit. Party C shall handle the procedure in full accordance with the provisions of this Agreement and guarantee that the value of the pledged property under the possession and supervision of Party C after pick-up or replacement is not lower than the minimum value of pledged property as prescribed in the "Type Price and Minimum Requirement Notice of Pledged Property (Pledge Notice)".

5.2 When the actual value of pledged property is equal to the minimum value required by Party A, Party B shall make an application for pick-up to Party A in advance and pay additional security deposit (i.e. payment against redemption) or deliver the pledged property conformable to the requirements of the "Type, Price and Minimum Requirement Notice of Pledged Property" to Party A in advance, which are handed over to Party C for possession and supervision (i.e. goods against goods). With Party A's consent, Party B can handle pick-up with Party C depending on the "Goods Pick-up Notice" (whose format is set forth in Annex 2-2-4) issued by Party A.

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5.3 When the actual value of pledged property is equal to the minimum value of pledged property, the “Goods Pick-up Notice” issued by Party A is the only valid voucher whereby Party B (including Party B’s designee, the same as below) handles the pick-up and outbound operation of pledged property. Without the “Goods Pick-up Notice” issued by Party A, Party B shall not pick up goods and Party C shall not handle Party B’s pick-up.

5.4 The minimum value of pledged property in the foregoing articles applies to the provisions in Article 2.8 hereof.

5.5 The valid signature and seal on the “Goods Pick-up Notice” issued by Party A are reserved signature and seal plus designee’s personal signature. Format of specimen seal is set forth in Annex 2-2-5. Without the personal signature and specimen seal of the person designated by Party A, pledged property shall not be sent out of warehouse. Where Party C handles pick-up for Party B in violation of the above provision, Party C shall bear the corresponding compensation liability.

5.6 After Party A issues the “Goods Pick-up Notice”, it shall provide the original or fax copy to Party C. If Party A sends the “Goods Pick-up Notice” by fax, the fax number designated by Party A for the sending of this document is 0459-4626889 . Upon receipt of the fax copy of the “Goods Pick-up Notice”, Party C shall check seal, signature and fax number and then the handling person signs it and faxes it back to the fax number designated by Party A and informs Party A’s designee \_\_\_\_\_ by telephone (telephone number: 0459-4626889 ). Upon receipt of the signed fax copy, Party A’s person shall sign it and fax it back to the fax number designated by Party C. Then, Party B can handle the release of goods. Where Party A sends the “Goods Pick-up Notice” by fax, Party A shall provide the original to Party C within five (5) workdays thereafter. Upon receipt of the “Goods Pick-up Notice” from Party A, Party C shall immediately handle accounting treatment of Party B’s inventories at Party C, reduce the quantity of the pledged property under the possession and supervision of Party C and increase the quantity of Party B’s non-pledged goods. When Party B picks up goods from Party C, Party C shall deliver the goods whose pledge is discharged to Party B. Party C shall not deliver to Party B the remaining goods under Party C’s possession and supervision, whose pledge is not discharged.

5.7 After Party C handles pick-up for Party B based on the “Goods Pick-up Notice” from Party A, Party C shall issue the “Goods Pick-up Notice Receipt” (set forth in Annex 2-2-4) and send it to Party A.

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## **Article 6 Price of Pledged Property**

6.1 The price of pledged property is determined according to the prices as listed in the “Types, Price and Minimum Requirement Notice of Pledged Property (Pledge Notice)” and the “Price Adjustment Notice of Pledged Property” (set forth in Annex 2-2-7) sent by Party A and Party B to Party C. Party A is entitled to make corresponding adjustments based on the change of market price and the provisions of this Agreement.

6.2 Party C is not liable for all consequences caused to Party B by Party A’s price adjustment.

## **Article 7 Exercise of Right of Pledge**

7.1 The method of Party A’s exercise of right of pledge is to issue Party C the pick-up notice indicating Party A as the person of picking up goods.

7.2 When Party A exercises right of pledge according to the Pledge Contract, Party C shall render necessary coordination and assistance for Party A.

7.3 Party C can assist Party A in exercising right of pledge without giving a prior notice to Party B or obtaining Party B’s consent. Party C undertakes no responsibility towards Party B.

## **Article 8 Expenses and Methods of Payment**

8.1 Party A, Party B and Party C agree that the expenses arising from the warehousing and custody of pledged property, such as supervision expenses, warehousing expenses, freight and miscellaneous charges, loading and unloading expenses, inspection expenses and stamp tax, are borne by Party B.

8.2 When Party C issues the Warehouse Receipt Special for Personal Property Pledge, it is deemed that Party A, Party B and Party C agree upon the expenses recorded in relevant pledge notice as well as their methods of payment.

8.3 Party B shall deposit supervision and other expenses with an amount of RMB 140,000 into the pledged property supervision expense account designated by Party C at Party A (account No.: \_\_\_\_\_) before Party A and Party B issue the “Pledge Notice” to Party C.

8.4 Party C draws the actual supervision expenses and other expenses on a monthly basis. After this Supervision Agreement terminates, Party C shall refund the positive balance of the supervision expenses pre-deposited by Party B within three days. Party A will make bank transfer as per Party C’s instructions.

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8.5 Where Party B fails to pay relevant expenses according to the provisions of this Agreement, Party C shall give a written notice to Party A and Party B.

8.6 As for all expenses payable by Party B to Party C, Party C has the priority of compensation when Party A exercises right of pledge.

**Article 9 Lien**

9.1 Before fully receiving the relevant expenses as set out in Article 8 hereof, Party C has the lien on pledged property.

**Article 10 Insurance**

10.1 Party B shall insure pledged property with the insurer acceptable to Party A. The type, amount and term of insurance shall meet Party A's requirements. The first beneficiary shall be Party A and the original of insurance policy shall be kept by Party A.

10.2 When an insurance accident occurs, Party B and Party C shall assist the insurance company in handling accident investigation and settlement of claim.

**Article 11 Special Provisions**

11.1 Any two parties of Party A, Party B and Party C shall not refuse to perform the obligations under this Agreement by signing an agreement or a contract.

11.2 Other provisions as agreed upon by three parties (where the provisions of this article conflict with the other terms of this Agreement, the latter shall prevail.)

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**Article 12 Correspondence and Contact**

12.1 All notices, confirmations and other relevant documents required under this Agreement shall be delivered to the recipient in the form of originals (unless otherwise agreed upon herein).

12.2 If conditions permit, electronic data documents may be sent with the consent of the parties concerned.

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### **Article 13 Defaulting Liability**

13.1 Where losses are caused to Party A and Party B for Party C's following reasons, Party C shall be liable for compensating for the losses of goods, provided, however, that Party A has the priority of compensation with respect to its actual losses:

13.1.1 During supervision term, except for any event of force majeure, pledged property is damaged, destroyed or lost, deteriorates, is in shortage or contaminated due to Party C's undue performance of its custody responsibility;

13.1.2 Party C fails to discharge goods according to the provisions of this Agreement;

13.1.3 For Party C's reasons, limitations or prohibitions on the warehouse where pledged property is stored and warehoused are set by any judicial body or competent institution;

13.1.4 In violation of the provisions in Article 4.3 hereof, Party C fails to timely inform Party A and Party B or fails to take appropriate emergency measures;

13.1.5 Other situations in which Party C's violations of this Agreement cause losses to Party A and Party B.

13.2 Where losses are caused to Party A and Party C for Party B's following reasons, Party B shall be liable for all compensations:

13.2.1 Pledged property is mixed with flammable, explosive, leakage-prone, poisonous and perishable goods, which damage warehoused goods or warehouse or result in personal injury;

13.2.2 Party B fails to insure pledged property in time. During supervision term, pledged property is damaged, destroyed or lost, deteriorates, is in shortage or contaminated owing to force majeure events;

13.2.3 Party B fails to package the pledged property in accordance with state or professional standards and regulations;

13.2.4 For Party B's reasons, limitations or prohibitions on pledged property are set by the judicial body, the government or any other competent institution;

13.2.5 Other situations in which Party B's violations of this Agreement cause losses to Party A and Party C.

13.3 Where Party A is in breach of this Agreement, thus causing losses to Party B and Party C, Party A shall be liable for compensating for the actual losses of Party B and Party C.

### **Article 14 Effect of Agreement**

14.1 No matter whether this Agreement is terminated or invalidated, once Party C issues the list of pledged property according to Article 2.6 hereof and the supervision of the goods under this list of pledged property is not discharged, the pledged property under the list of pledged property shall continue to apply to this Agreement.

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14.2 Where all or part of the Master Contract, Pledge Contract and other relevant formal contracts or auxiliary documents signed by and between Party A and Party B are held to be invalid by the judicial body, the validity of this Agreement shall not be thus affected.

14.3 Should any provision of this Agreement be held to be invalid by the judicial body, this invalid provision shall not affect the validity of other provisions and whole agreement.

#### **Article 15 Settlement of Disputes**

15.1 Any dispute arising from this Agreement shall be settled through the way in Item 1 below. During dispute settlement, both parties shall continue to perform this Agreement except for the provisions in dispute.

(1) Bring a lawsuit with the court of competent jurisdiction in the place where Party C is located;

(2) Submit to \_\_\_\_\_ / \_\_\_\_\_ Arbitration Commission for arbitration in accordance with its arbitration rules then in effect. Arbitral award shall be final and binding upon both parties.

#### **Article 16 Miscellaneous**

16.1 The annexes attached hereto are an integral part of this Agreement.

Annex 2-2-1 Type, Price and Minimum Requirement Notice of Pledged Property (Pledge Notice)

Annex 2-2-2 List of Pledged Property (Pledge Confirmation Receipt)

Annex 2-2-3 Goods Pick-up Application

Annex 2-2-4 Goods Pick-up Notice (including Goods Pick-up Notice Receipt)

Annex 2-2-5 Specimen Seal

Annex 2-2-6 Pledge Label

Annex 2-2-7 Price Adjustment Notice of Pledged Property

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16.2 This Contract is becomes effective after it is signed by the legal representative/ responsible person or authorized signatory of each party and chopped with the company seal of each party.

16.2 This Contract is executed in three 3 originals, with each party hereto holding one 1 original. All originals have the same legal effect.

**Party A (seal): Industrial and Commercial Bank of China Co., Ltd. Daqing Branch**

Legal representative/responsible person or authorized signatory (signature): /s/ [ ]

**Party B (seal): Daqing Borun Biotechnology Co., Ltd.**

Legal representative/responsible person or authorized signatory (signature): /s/ [ ]

**Party C (seal): China National Foreign Trade Transportation (Group) Heilongjiang Co., Ltd.**

Legal representative/responsible person or authorized signatory (signature): /s/ [ ]

April 10, 2011 on Haerbin

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**Commodity Financing Pledge Supervision Supplementary Agreement**

**Party A (pledgee): Industrial and Commercial Bank of China Co., Ltd. Daqing Branch**

Address: No. 37, Dongfeng Road Saertu District, Daqing

**Party B (pledgor): Daqing Borun Biotechnology Co., Ltd.**

Domicile (address): Jubao Village, Zhusan County, Daqing City, Heilongjiang Province

**Party C (supervisor): China National Foreign Trade Transportation (Group) Heilongjiang Co., Ltd.**

Address: No. 42, Hengshan Road, Nangang District, Haerbin City

1. Party A shall assist the bank to supervise the pledgor to carry out the daily administrative works and ensure that the storage of the pledged property can satisfy the requirement of storage. Whereas a problem is found, it shall be reported to pledgee immediately.
2. The pledgor shall take out the insurance policy, in which the pledgee shall be the first beneficiary.
3. Party B shall responsible for the damage of the pledged property, such as burning, deterioration, wet damage, mildew, which can not be attributed to nature of the pledged property or supervisor.

**Party A (seal): Industrial and Commercial Bank of China Co., Ltd. Daqing Branch**

Legal representative/responsible person or authorized signatory (signature): /s/ [ ]

**Party B (seal): Daqing Borun Biotechnology Co., Ltd.**

Legal representative/responsible person or authorized signatory (signature): /s/ [ ]

**Party C (seal): China National Foreign Trade Transportation (Group) Heilongjiang Co., Ltd.**

Legal representative/responsible person or authorized signatory (signature): /s/ [ ]

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**Type, Price and Minimum Requirement Notice of Pledged Property (Pledge Notice)**

China National Foreign Trade Transportation (Group) Heilongjiang Co., Ltd (supervisor of storage)

According to the Commodity Financing Pledge Supervision Agreement executed by and between Daqing Borun Biotechnology Co., Ltd and Industrial and Commercial Bank of China Co., Ltd. Daqing Branch, with No. Year 2011 Dongjianzi No. 011, the pledgor hereby pledges the following goods to (please refer to the table for the detailed information) pledgee.

Name of Goods	Specifications & Model	Manufacturer (place of origin)	Quantity (unit: ton)	Weight (unit: ton)	Price	Amount	Whether the goods is in the warehouse	Notice
corn			20000	20000	1524 Yuan/ ton	30,480,000 Yuan	Yes	

The fact of pledge and situation of pledged property are hereby reported to your company. Please supervise the pledged property and perform the obligations of your company strictly under the Commodity Financing Pledge Supervision Agreement executed by and among pledgee, pledgor, and your company, with the No. Year 2011 Dongjianzi No. 011.

The pledged property of Daqing Borun Biotechnology Co., Ltd shall satisfy the requirement as following from beginning to end of the term of pledge. Please examine and implement.

Category Requirements for Pledged Property	Requirement for the Structure Ratio of Pledged Property	Time Limit for the Manufacture of Pledged Property	Limitation on the Surplus Value of Pledged Property
Solid Food			30,480,000 Yuan

**Pledgee:** Industrial and Commercial Bank of China Co., Ltd. Daqing Branch  
(reserved seal and personal signature) /s/ [ ]  
April 15, 2011

**Pledgor:** Daqing Borun Biotechnology Co., Ltd.  
(reserved seal and personal signature) /s/ [ ]  
April 15, 2011

According to the agreement of three parties, expenses arising from the warehousing and custody of pledged property, such as supervision expenses, warehousing expenses, freight and miscellaneous charges, loading and unloading expenses, inspection expenses and stamp tax are borne by pledgor. The method for the collection and payment of fee is \_\_\_\_\_

**Pledgor:** Daqing Borun Biotechnology Co., Ltd.

Legal representative/responsible person or authorized signatory (signature)

/s/ [ ]

April 15, 2011

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To: Industrial and Commercial Bank of China Co., Ltd. Daqing Branch

According to the Commodity Financing Pledge Supervision Agreement with No. Year 2011 Dongjianzi No. 011, the effective format of reserved seal for all the documents, notices, bills (except the execution of agreement) executed and delivered by our party under this agreement:

1

The authorized person to execute all the documents, notices, bills executed and delivered by our party under this agreement is 1. Tian Jingzhen; the format of specimen of signature is /s/ [Tian Jingzhen], or 2. \_\_\_\_\_, the format of specimen of signature is 田敬真 ..

Please keep this format of specimen seal properly, and examine it during the procedure of operation of work and verify it through the phone:

Number of Phone: 0452-6186560

Number of Fax Designed: 0452-6186565

Contact Person: Li Yubing 13136616388

(Supervisor's Seal and the signature of Legal representative/responsible person or authorized person)

/s/ [ ]

April 15, 2011

Notice: This Annex is executed in three (3) originals, with pledgor, bank, and supervisor hereto holding one original respectively.

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**CERTIFICATIONS**

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: April 6, 2012

/s/ Jinmiao Wang

**Name :** Jinmiao Wang

**Title :** Chairman and Chief Executive Officer



**CERTIFICATIONS**

I, Yuanqin (Terence) Chen, 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: April 6, 2012

/s/ Yuanqin (Terence) Chen

**Name :** Yuanqin (Terence) Chen

**Title :** Chief Financial Officer

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**CERTIFICATIONS**

In connection with the Annual Report of China New Borun Corporation (the "Company") on Form 20-F for the year ended December 31, 2011 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: April 6, 2012

/s/ Jinmiao Wang

**Name :** Jinmiao Wang

**Title :** Chairman and Chief Executive Officer

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**CERTIFICATIONS**

In connection with the Annual Report of China New Borun Corporation (the "Company") on Form 20-F for the year ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Yuanqin (Terence) Chen, 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: April 6, 2012

/s/ Yuanqin (Terence) Chen

**Name :** Yuanqin (Terence) Chen

**Title :** Chief Financial Officer

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Consent of Independent Registered Public Accounting Firm

China New Borun Corporation  
Shandong, China

We hereby consent to the incorporation by reference in Registration Statement on Form F-1 (File No. 333-166312) of our report dated April 6, 2012, relating to the consolidated financial statements of China New Borun Corporation appearing in the Company's Annual Report on Form 20-F for the year ended December 31, 2011.

/s/ BDO China Shu Lun Pan Certified Public Accountants LLP

Shenzhen, P.R. China  
April 6, 2012

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Consent of Independent Registered Public Accounting Firm

China New Borun Corporation  
Shandong, China

We hereby consent to the incorporation by reference in Registration Statement on Form F-1 (File No. 333-166312) of our report dated March 16, 2011, relating to the consolidated financial statements of China New Borun Corporation appearing in the Company's Annual Report on Form 20-F for the year ended December 31, 2011.

/s/ BDO China Dahua CPA Co., Ltd. (Formerly known as BDO China Li Xin Da Hua CPA Co., Ltd.)

Shenzhen, P.R. China  
April 6, 2012

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